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ALLIED DOMECQ

"Allied Domecq is about **brands** and **people**"

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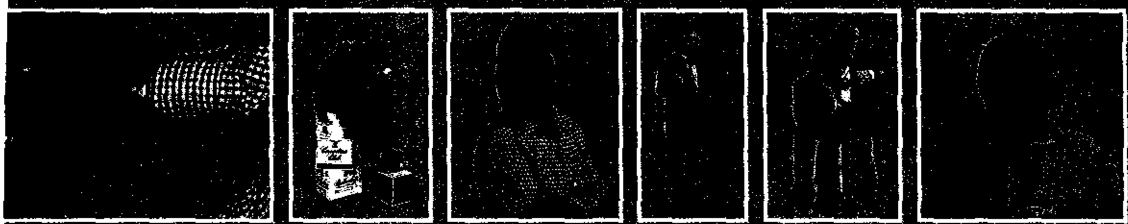
Summary Financial Statement 2000

Allied Domecq is a dynami

We operate globally in the businesses of Spirits & Wine and Quick Service Restaurants



Financial highlights

	2000	[illegible]	[illegible]
[illegible]	£487m	[illegible]	[illegible]
[illegible]	£404m	[illegible]	[illegible]
[illegible]	27.4p	[illegible]	[illegible]
[illegible]	£2,297m	[illegible]	[illegible]
[illegible]	£301m	[illegible]	[illegible]
[illegible]	9.3%	[illegible]	[illegible]

This summary financial statement does not contain sufficient information to allow as full an understanding of the results of the group and state of affairs of the company or of the group as is provided by the full annual report and accounts. Any shareholder requiring more detailed information has the right to obtain, free of charge, a copy of the full annual report and accounts by writing to Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA and may elect to continue to do so for future financial years.

marketing-led brands company

The first year of the "new" Allied Domecq has produced encouraging results. Under Philip Bowman's leadership a strong forward momentum has been established. In consequence, most key measures of performance throughout the business indicate a marked and continuing improvement. High morale, confidence and teamwork are widely evident. Complacency is not.

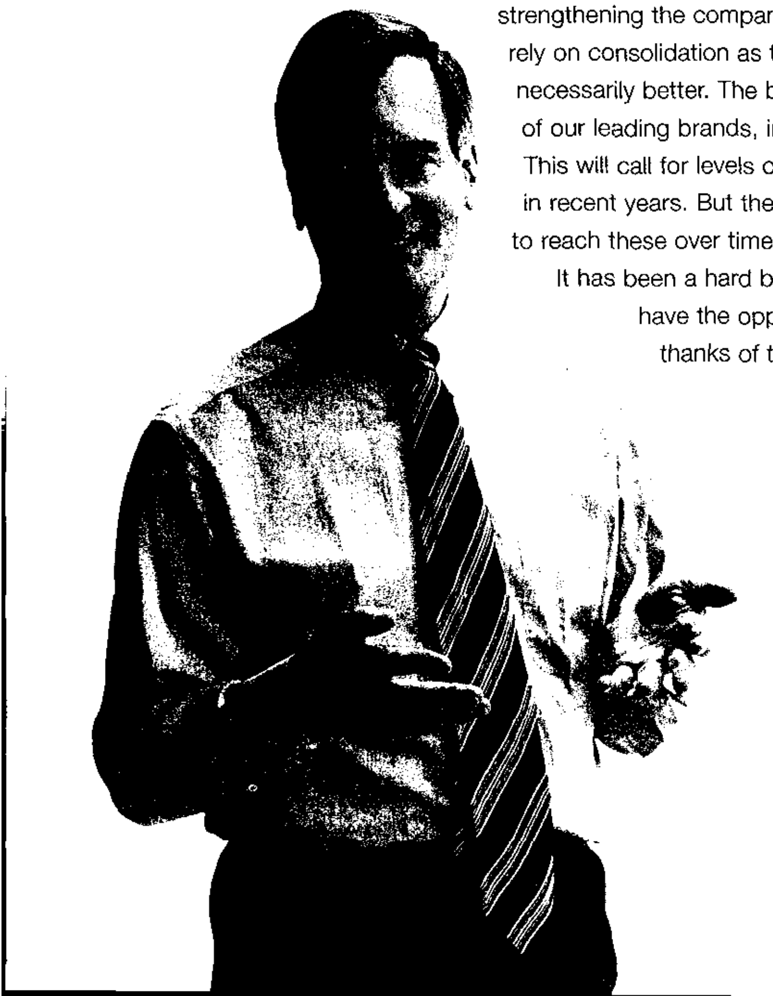
Profits before tax increased by 16 per cent. This was despite adverse factors, in particular the severity of the agave shortage which materially curtailed sales of Sauza tequila, one of the company's four main brands. Turnover was up 9 per cent and normalised earnings per share up 13 per cent. The cash flow of the business was strong, both absolutely and as a percentage of trading profits. The after tax return on investment improved over last year by a full percentage point to 9.3 per cent.

At the time of writing this, the destiny of Seagram's wines and spirits business has yet to be determined. Whatever the outcome, we are confident that there is a very sound future for Allied Domecq. The board's primary objective is to continue to grow earnings at a double digit rate. Consolidation in the wines and spirits industry will certainly play a part in this to a greater or lesser extent, since there are undoubted savings and benefits to be obtained from strengthening the company's brand portfolio. We know, however, that we cannot rely on consolidation as the primary means of expanding earnings. Bigger is not necessarily better. The best way of achieving growth is to expand the volume sales of our leading brands, including those in the Quick Service Restaurants business. This will call for levels of skill and consistency well beyond what has been achieved in recent years. But the streamlining of the company has given us the opportunity to reach these over time and we are confident of doing so.

It has been a hard but rewarding year for everyone in the business. I am glad to have the opportunity of paying tribute to their efforts and conveying the thanks of the board.

Chris Hogg x Chris Hogg CAH x

Sir Christopher Hogg
Chairman



Our brands and our people are at the core of all we do. In previous years, our Annual Report has focused exclusively on our brands; this year we focus on both.

It has been a year of both challenge and excitement as we have set out to kindle a more entrepreneurial spirit within the company and become a dynamic marketing-led brands business following the disposal of the UK Retail assets. My objective is simple – a commitment to being the best at what we do. To achieve this goal, we are creating a more proactive organisation that shares best practice globally but operates with pace and local autonomy in day-to-day business decision-making. Cultural change within the company has begun but we still have a long road ahead before we can be considered best of class in our industry.

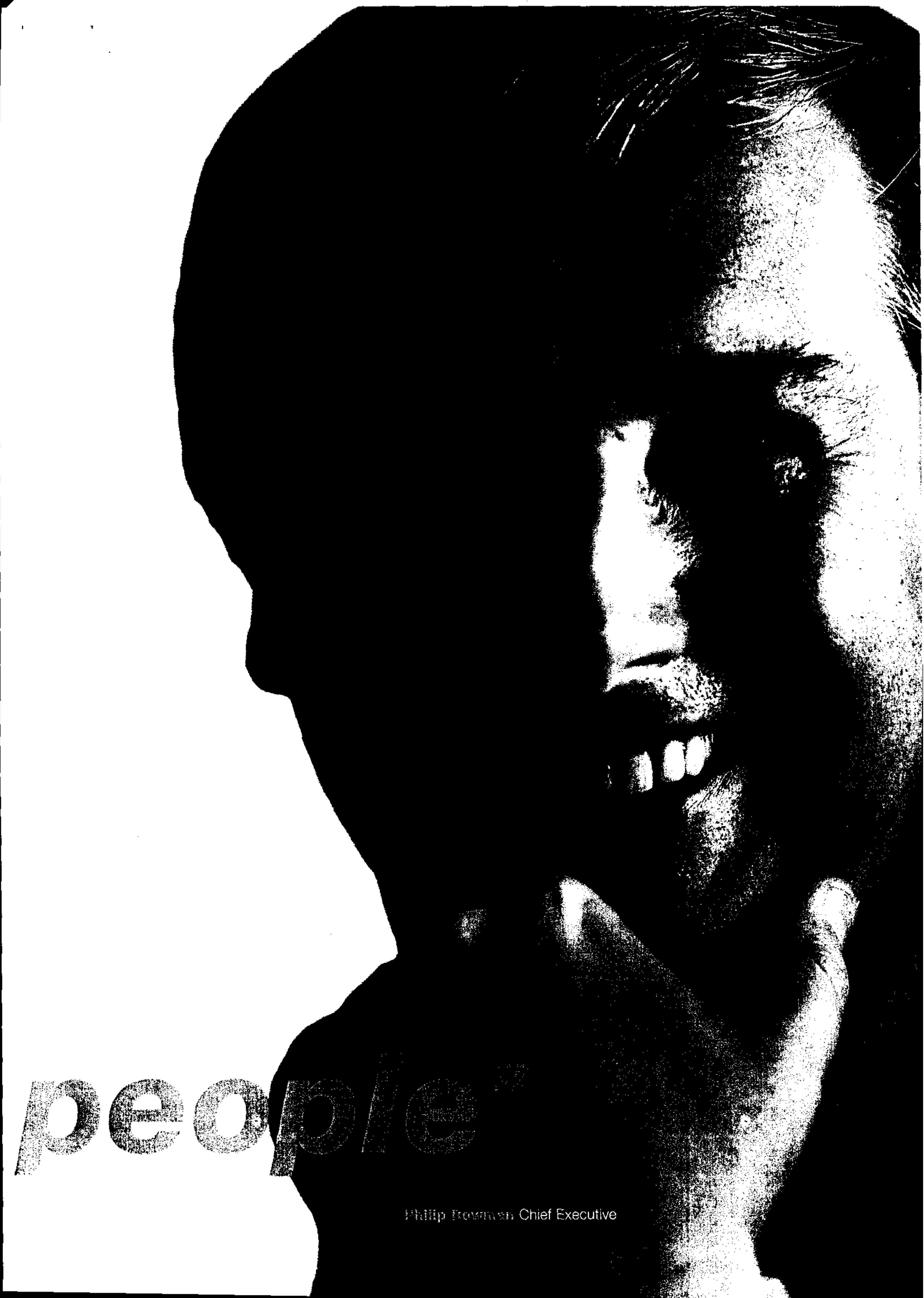
We have a clear strategy to deliver improved business performance. We have prioritised five key areas:

- Focusing on brands to build profitable growth;
- Building brands by working together on customer and consumer oriented skills;
- Working efficiently;
- Accelerating the pace of innovation; and
- Focusing the business.

The results of these actions by our people are reflected in our results and we report progress against these areas in this annual report.

Looking ahead, we see significant opportunities, particularly in the USA, to improve further the performance of our existing business. In parallel, now that we have largely completed the disposal of non-core assets, additional resource will be applied to strengthening our portfolio of spirits and wine brands by way of acquisition or joint venture. Whilst industry consolidation appears significantly more likely than it did to most commentators only 12 months ago, our commitment to participate in this process will be tempered by our determination to create value for our shareholders from any transaction.

“Allied Domecq is about brands an



Philip Bowman Chief Executive

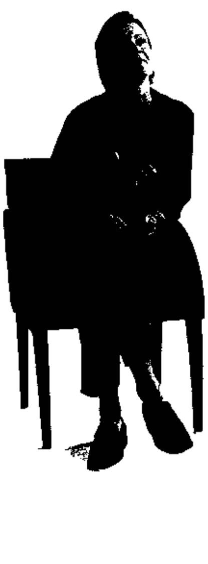
Operating and financial review

This has been a year of significant change for the group with major restructuring and refocusing of the business. Against this background of change, we are delivering our objective to grow the profitable volume of leading brands whilst continuing the process of cost reduction across the business. We set out this year to continue the rapid and effective implementation of our strategy to enhance the performance of all our operations. We have sought to become leaner and more responsive – to speed up decision making and to push accountability out into the business. This is enabling us to be more competitive and to respond more quickly to our customers and changing market conditions. Our approach is supported by the development of our management capabilities, the implementation of a new reward strategy and the increased spread of best practice around the world. We are also seizing the significant opportunities to improve the performance of our asset base to raise returns on capital.

Our strategy is delivering real results with an increase in normalised earnings per share of 13 per cent to 27.4p. Trading profit on an ongoing basis is £487m, an increase of 13 per cent and comparable profit before tax is up 16 per cent to £404m. Regional management performance at constant actual foreign exchange rates is reviewed below.

The directors are recommending a final dividend of 7.0p per share giving a total for the year of 11.0p per share. This is broadly in line with our policy for dividend cover to be approximately 2.5 times and will enable us to retain sufficient cash flow to finance both investment in brands and expansion of the business.

The launch of Ballantine's Malt in France took this traditionally "elitist" category in a whole new direction. "We wanted the brand to have a strong identity," Anne Dewavrin explains. "All of our marketing and point of sale activities have positioned the new malt as welcoming, convivial and accessible to blended whisky drinkers."

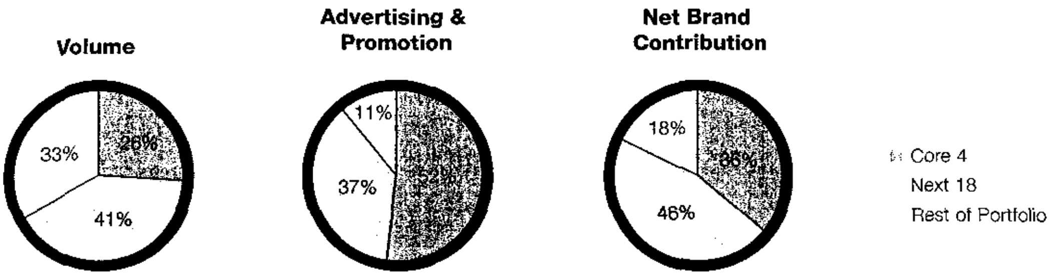


Spirits & Wine

- Trading profit up 13 per cent to £414m
- Turnover up 9 per cent to £2,297m
- Advertising and promotion up 9 per cent to £301m

Spirits & Wine trading profit is up 13 per cent on last year to £414m with turnover increased by 9 per cent to £2,297m. This year's gross margin is improved by 10 per cent or £99m which has been driven through increased volume (£28m), including the benefit in Asia following the Jinro Ballantines acquisition; net price increases (£36m), particularly in Mexico, central and eastern Europe and Spain; and mix improvements in Europe and America (£35m). Mix improvement has been driven by growth of our core brands and the removal of some agency brands in Europe while the Americas' mix has benefited from the discontinuation of Giro tequila.

Advertising and promotion spend for the year is up £24m to £301m, at constant exchange rates, with most of the increase behind our Core 4 brands – particularly Ballantine's and Kahlúa. Despite a 14 per cent increase in marketing investment, the net brand contribution from the Core 4 brands increased by 7 per cent as a result of a 10 per cent increase in gross margins. Ballantine's volumes grew 8 per cent, continuing to perform well



within key markets in Europe and Asia. Kahlúa volumes grew 9 per cent and maintains its leading position in the imported cordials and liqueurs category. Beefeater continues to consolidate its position in Spain as the leading premium brand. Sauza volumes fell 19 per cent as a result of the industry-wide shortage of the key raw material, agave. Our next 18 brands in the portfolio (including Imperial, a whisky acquired as part of Jinro Ballantines) benefited from a 3 per cent growth in volume and a 13 per cent improvement in gross margin while net brand contribution grew by 17 per cent. Net brand contribution grew by 7 per cent in the rest of the portfolio despite a 2 per cent decline in volumes.

Europe

Profits grew by 10 per cent to £141m which represents the third successive year of double digit growth in the region. Total volumes were up 3 per cent with the Core 4 brand volumes up 8 per cent – particularly Ballantine's Finest (up 8 per cent) and Beefeater (up 10 per cent). Teacher's in the UK also performed strongly with volumes up 4 per cent. European performance continues to benefit from the effects of price and mix. We are continuing our strategy of focusing our brand investment behind our core brands: overall brand investment grew by 7 per cent but with a 23 per cent increase behind the Core 4 – particularly Ballantine's. Ballantine's has now significantly outperformed the whisky category each year since 1995 and has clearly established a growth momentum in Europe.

The first half performance for central and eastern Europe benefited from a one-off foreign exchange benefit of £2m which has been eliminated in the full year. After taking into account this foreign exchange movement, underlying first half growth for the total European region would have been 11 per cent contributing to the full year growth of 10 per cent.

The anticipated profit impact of the abolition of European duty free has been substantially less than originally forecast. This is a result of proactive involvement with our customers to ensure continued brand visibility and distribution in the new duty paid travel shop environment.

Kim Manley joined Allied Domecq in September 2000 as chief marketing officer to lead our marketing and brand building initiatives.

Americas

Trading profits in the region are up 21 per cent to £174m. This is due to a favourable product mix in North America, particularly from Kahlúa, Courvoisier, Sauza and Maker's Mark. US shipments were slightly below depletions from our distributors. The trends in the main USA market remain positive with overall spirits sales continuing to grow. A further significant contributor to the profit improvement has been the performance of the wine business which has achieved price and volume increases.

We have also driven our programme of change through major management restructuring in the region. Todd Martin was appointed president of Allied Domecq Spirits & Wine, North America on 1 March 2000, having been our global marketing director for two years. In addition, we have strengthened the US senior management team and supported it

Operating and financial review

Antonio Ariza is responsible for our Spirits & Wine business in Mexico and Latin America.

with key appointments from the European and corporate management teams to support the pace of global best practice transfer. Our better focused and simpler regional structure will allow us to accelerate performance.

The Latin American business has returned to profit largely as a result of improvements in Brazil. This is in spite of poor trading conditions in Argentina, which remains depressed with a weak economic outlook following recent tax increases.

Mexico

Trading profits were down 2 per cent to £41m owing to the impact of the increased costs of agave, a raw material for tequila, and reduced sales of Sauza tequila in the Mexico market.

We are managing the overall impact of the agave shortage by:

- concentrating on enhancing the premium and more profitable mix of Sauza in all markets;
- implementing price increases in all markets, particularly the USA and Mexico which account for 87 per cent of tequila volumes;
- accelerating our earlier decision to exit lower margin tequila brands such as Giro in the USA; and
- investing in substantial plantings of the agave cactus, along with improving the yield from the raw material.

Mexico has absorbed £12m of additional cost relating to the impact of the agave pricing on exported tequila. We are encouraged that the cost of agave is now showing signs of stabilising.

Other parts of the Mexican business have performed strongly with Don Pedro and Presidente volumes up 5 per cent and net brand contribution up over 50 per cent.

Asia Pacific

We have achieved organic profit growth of 45 per cent to £29m: this has been driven by strong results in most markets – particularly Korea and the Philippines. Korea's growth has been supported by our investment with Jinro in Jinro Ballantines. Jinro Ballantines' trading profit was £11m for the six months to 31 August 2000, increasing our trading profit for the region to £40m. The investment in Jinro Ballantines enhanced Allied Domecq's earnings by £3m year on year. Jinro Ballantines has had a successful start with Imperial's position as number one premium whisky supported by increased advertising and promotion.

Trading profit in the Philippines has improved this year as a result of strong growth from Fundador. Japan is ahead this year through initiatives which have improved pricing and effectiveness of advertising and promotion.

Wine

Our global wine business continues to perform well with a 4 per cent increase in volumes and a 10 per cent increase in net brand contribution. We are continuing to extend our reach into premium branded wines in the USA and Spain, which represent around 67 per cent of our wine portfolio's net brand contribution. Our Spanish wines' net brand contribution grew by 49 per cent, taking advantage of the trend towards higher quality categories, particularly wines with Denominación de Origen. Our Rioja business includes the high quality brand Marques de Arienzo which has increased volumes in Spain by 10 per cent despite a significant price increase of 21 per cent during the year.

Our Californian wine brands benefited from a 15 per cent growth in volumes resulting in increased market share and a 17 per cent improvement in net brand contribution. We launched the Callaway Coastal range this summer: this marked an expansion for the Callaway Winery which is already southern California's largest wine producer. In addition to shifting the source of the grapes to the central coastal regions of the state, we have developed a new packaging and advertising campaign.

We are investing in our Californian wineries through a $22m project to double capacity at Clos du Bois; this project is now 90 per cent complete. We believe that there are further opportunities for value generating investment in wines, both behind our existing portfolio and through acquisitions.

Cost base and supply chain

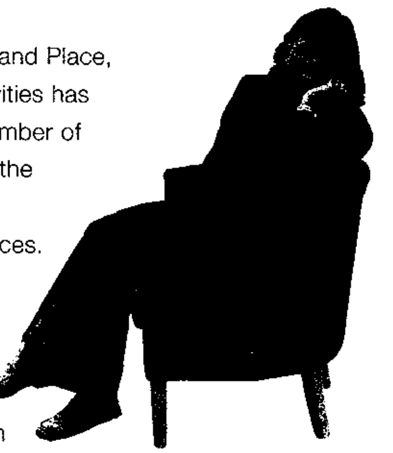
We have continued to concentrate on management of our supply chain and by the end of December 2000 we will have implemented global market ordering systems in all major markets. Adopting this approach has already facilitated an underlying 5 per cent reduction in finished goods inventories.

We are investing £15m in reorganising our operations in Scotland with the integration of all bottling and support functions on a single site in Dumbarton. This project is on budget and due to be completed on schedule in December 2000.

Our review of the corporate centre, including the closure of our offices in Portland Place, has generated cost savings of £11m. A further review of global overheads and activities has been completed resulting in the identification and implementation of a significant number of initiatives designed to reduce costs and significantly improve our capability to grow the business in the future. These include integrating some of our sales forces; reducing corporate overheads in our regional offices and outsourcing of some non-core services. The initial year on year financial benefit from cost savings in 2000/01 will be approximately £7m.

Underlying productivity (measured as cases produced per employee) for Spirits & Wine is up 2 per cent after taking into account the reduction in Sauza volumes associated with the agave shortage; utilisation of "Year 2000" stocks which

Implementing our travel retail strategy to minimise the impact of the abolition of duty free in the EU has been a key focus for Saira-Jayne Hamilton, account manager in our Duty Free team.



Operating and financial review

were created to mitigate any production problems associated with the millennium bug; and the impact of last year's US destock which affected the beginning of this year.

Quick Service Restaurants

- Trading profit up 14 per cent to £64m
- Turnaround in the International business to a £6m profit
- System-wide sales growth of 8 per cent

A strong performance from our Dunkin' Donuts and Togo's brands, along with the turnaround of the international business have offset an £8m year on year adverse impact of the repositioning of the Baskin-Robbins brand in the USA. The revitalisation of the Baskin-Robbins total brand offering will result in a shift from profits driven by margins on ice cream manufacturing to profits driven by franchise royalties. It will also deliver a better alignment between the interests of the franchisees and the company. The roll-out phase of the programme is complete with around three quarters of qualified franchisees participating. Participating stores are showing a positive sales trend. There has been a 1 per cent overall improvement in same store sales growth for the year.

Non-participating stores must qualify to convert at the end of their contract or their franchise will lapse. As a result of the restructuring, there has been a 2 per cent reduction in the number of Baskin-Robbins distribution points.

Dunkin' Donuts continues to perform strongly with same store sales growth of 7 per cent and a 3 per cent growth in distribution points. Our sandwich business, Togo's, is also performing well with same store sales growth up 5 per cent. The number of distribution points increased by 17 per cent.

We have continued to implement our combination stores strategy which brings benefits of scale and revenue opportunities to our franchisees. The number of combination stores increased by 19 per cent over the year to over 500.

Jack Shafer heads up our Quick Service Restaurants business which represents 13 per cent of Allied Domecq's trading profit.

Employees

These good results are a tribute to the dedication of our staff, who have delivered results despite significant change and uncertainty. We are proud of our people and their performance. Reflecting the new Allied Domecq character, with its strong, forward-looking brand values and market focus, our approach to people strategy has been reviewed and revised. Specific effort has been dedicated to the issues of talent development and reward and recognition in a performance-driven culture.

Rewarding Change, the new compensation and benefits strategy, is the first of these initiatives to be launched. The programme takes a stretching global performance framework and implements benefit structures targeted to particular market requirements. This new approach ensures that we clearly link performance with reward and creates the right kind of

Ian Jamieson, group HR director, has led the initiative to align our incentives and rewards system with our business objectives.

environment in which to drive the success of our people and our business. Relevant training and support for career development is encouraged at all levels and the group strives to help employees expand their skills and experience in order to realise their full potential.

Environmental and social responsibilities

This year we published our first environmental report that sets out our environmental policy and how we are implementing our environmental management systems worldwide. A key activity over the next few years will be to increase the number of our operations that have an environmental management system certified to the International Standard ISO 14001. This will provide the framework for our efforts and enhance the group's overall performance. Currently, 17 of our operations are now accredited with ISO 14001 compared with only two last year.

Allied Domecq continues to support a wide range of charitable and community-based projects worldwide. Following the restructuring of the group last year, the company is establishing a new global framework for its ongoing corporate social investment.

We are proud of our brands, which we believe play a positive role in society by providing enjoyment, employment and wealth. We take our responsibility to all our consumers seriously and have clear policies for the advertising, marketing and promotion of our brands. We work closely with organisations involved in developing alcohol policy and research and in informing the public about the responsible consumption of alcohol. These include the UK Portman Group, the Amsterdam Group in Europe, The Century Council in the USA and the International Centre for Alcohol Policies.

Non-core and discontinued businesses

Unless otherwise stated, profits and earnings exclude the impact of discontinued operations which are UK Retail, Panrico and, for the previous year, Cantrell & Cochrane.

Trading profit includes £4m for UK Retail, being the profit between 31 August 1999 and the date of its disposal, 6 September 1999. As a result of this disposal, net assets in the group have reduced by £2,294m including £129m paid directly to Punch.

The group disposed of its 50 per cent interest in Panrico on 30 March 2000 in line with the agreement announced last year. The group's share of Panrico's profits to the date of disposal was £9m compared to £13m for the year ended 31 August 1999.

John Bull pubs were divested on 22 December 1999 with no material trading profit impact this year or last.

We still retain our 25 per cent interest in Britannia Soft Drinks, which was not sold to Punch as part of the UK Retail disposal. The group's share of Britannia's profits for the year was £9m (1999: £8m). We continue to pursue options to dispose of this shareholding on appropriate terms.

Cash flow

Operating cash net of fixed assets from continuing businesses was £408m (1999: £346m). Net debt reduced by £63m during the year from £1,315m to £1,252m, the main outflows being the payment of £129m to Punch (arising from the sale of UK Retail) and the £103m investment in the Jinro Ballantines business.

Taxation

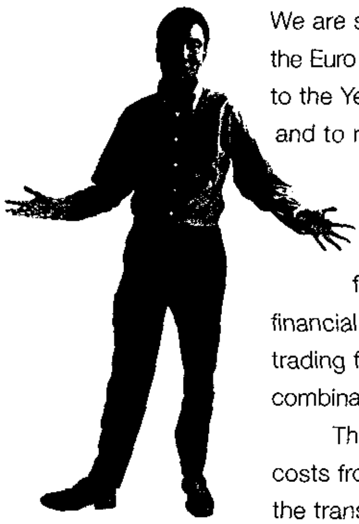
Gianluca Bianchi, managing director, Italy, has no doubts about what is behind our success in Italy. "There are two main reasons – we have a better knowledge of the marketplace than ever before thanks to systems like Galileo and better distribution and improved stock management – enabling us to put the right consumer strategies in place."

The normalised tax rate has been maintained at 26 per cent through our continued efforts to plan appropriately for our tax liabilities around the world. The cash impact of tax for the year was a net inflow of £21m arising principally because of the recovery of £78m advance corporation tax on foreign income dividends. Our expectation is the rate for the current year will not exceed 26 per cent.

Governments across Europe continue to discriminate against the spirits industry by taxing spirits more heavily than other beverage alcohol such as beer and wine. The UK is no different where the excise structure is the result of an amalgam of policy decisions reaching back to the last century. Discriminatory taxes impose a tax burden on a bottle of scotch of around 60 per cent to 70 per cent compared with only about 30 per cent for wine and beer. We are encouraged by the three consecutive UK Budget freezes which we hope will be extended to remove this discrimination against spirits progressively.

Exceptional items

The profit and loss account includes a net profit on goodwill and exceptional items of £2m before tax. This includes profits on disposals of fixed assets (£46m) and businesses (£13m) less costs of restructuring (£46m), project costs (£8m) for Year 2000 compliance and the introduction of the Euro and a £3m charge for amortisation of goodwill arising on acquisitions. We are successfully converting our systems to operate in the Euro and are increasingly trading in the Euro with our partners. In addition, we experienced no difficulties with our systems in relation to the Year 2000. The restructuring costs have been incurred to achieve cost savings and to reorganise the business to meet our future operating requirements.



Treasury operations

The group treasury operates as a centralised service managing interest rate and foreign exchange risk and financing. The board agrees and reviews policies and financial instruments for risk management. We operate a prudent hedging policy. Business trading flows are netted by currency and hedged forward for up to 18 months using a combination of forward exchange contracts and purchased foreign exchange options.

The group has a natural hedge to the impact of fluctuations of the Euro on transaction costs from selling into and out of Euroland. The impact of foreign exchange movements on the translation of profits has been broadly neutral with the reduction in profits resulting from

Ben Sear leads the innovation activity which can turn a good idea into a profitable reality. Ben and his team are driving new products to market faster and more effectively.

the depreciation of the Euro being offset by increased profits reflecting the strengthening of the US dollar and Mexican peso.

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.

The amount of risk to any one counterparty is restricted according to credit rating. We continually monitor our exposure to our counterparties and their credit rating.

Exposures to interest rate fluctuations on borrowings and deposits are managed by using interest rate swaps and purchased interest rate options. It is our policy to keep between 50 per cent and 70 per cent of net debt at fixed rates of interest with a target of 60 per cent.

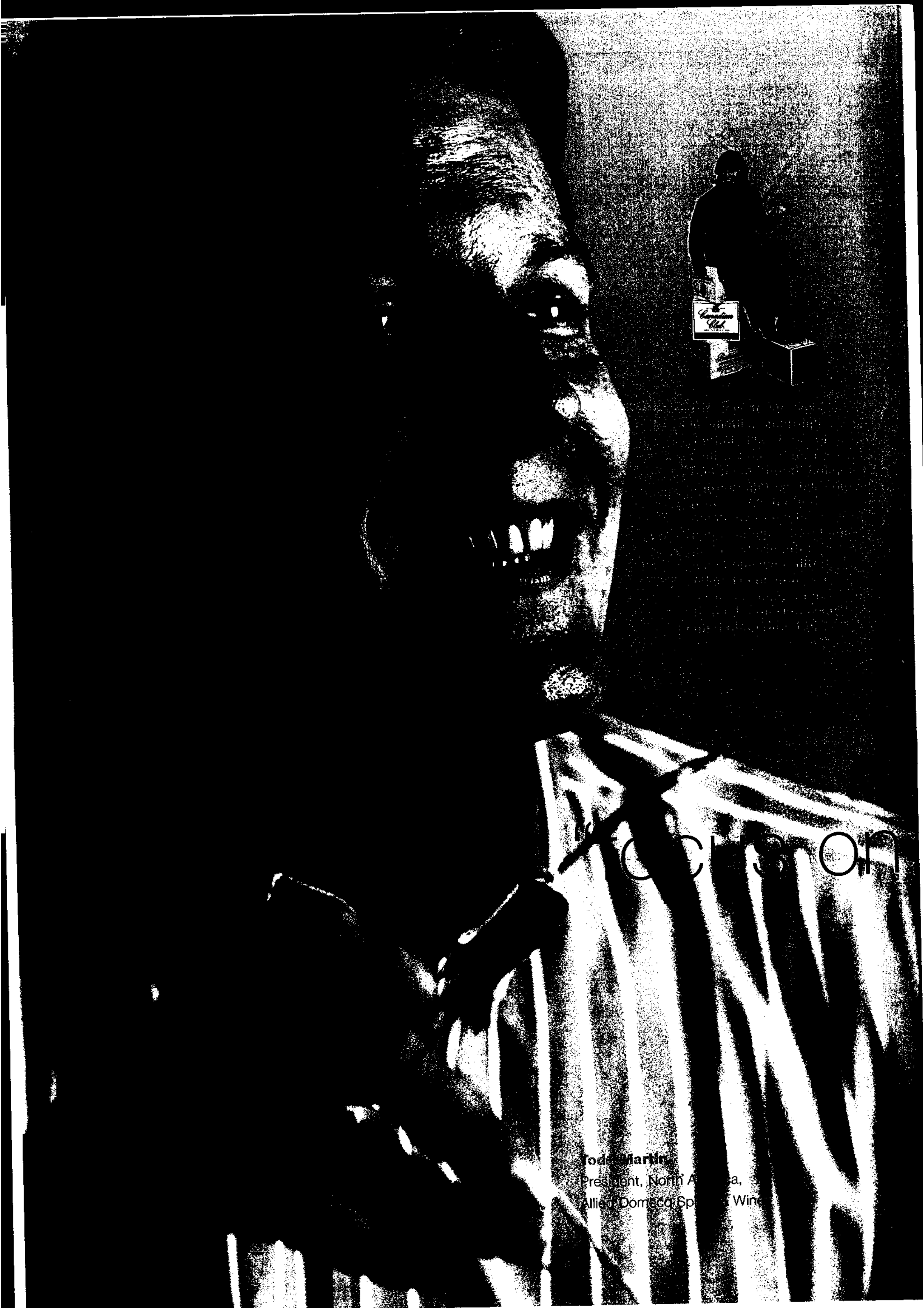
At 31 August 2000, EV gearing (debt as a percentage of market capitalisation plus debt) was 27 per cent, compared with 33 per cent at 29 February 2000.

During the year, our extendable-term loan facility was reduced to £566m and we exercised our option to extend the facility for a further 18 months. The weighted average interest rate for the year was approximately 5.2 per cent.

Outlook

The performance of the business in the first eight weeks of the new financial year is in line with our expectations. It is clear that industry consolidation is significantly more likely than most commentators believed 12 months ago. Our commitment to participate in this process will be tempered by our determination to create value for our shareholders from any transaction.

To capitalise on tequila's explosive move into the American mainstream, a new marketing campaign for Sauza positioned the brand as *"The Better Tequila Experience"*. Global marketing director, Yann de Rochefort, and US marketing director, Avery Schmeisser, created the campaign.



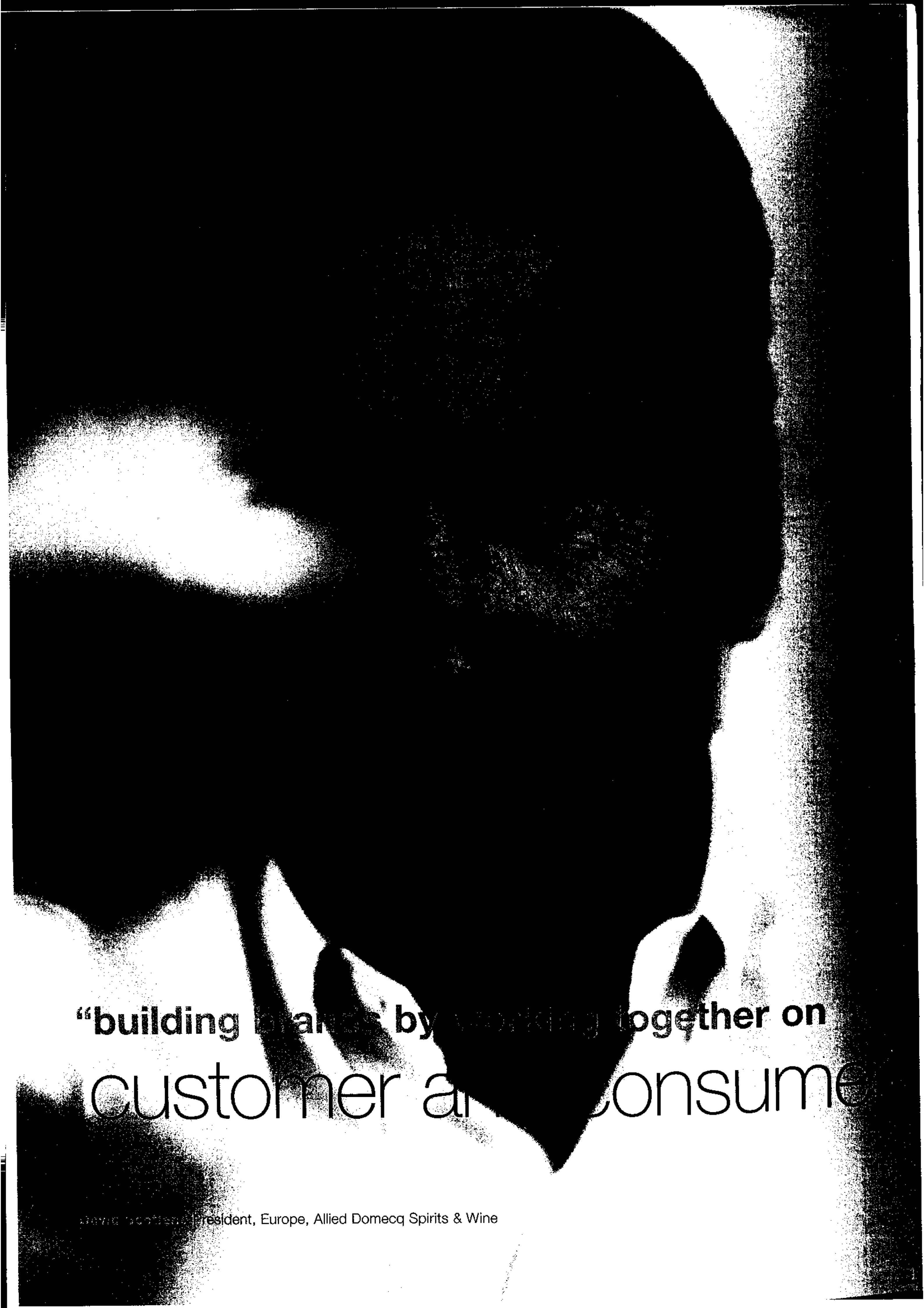
Todd Martin,
President, North America,
Allied Domecq Spirits & Wine

Dynamic premium brands such as Ballantine's, Kahlúa, Sauza, Maker's Mark and Beefeater are already a powerful profit engine for Allied Domecq in the short term and are a clear value driver for the future. The past year has seen further focus and increased investment to accelerate growth of these 'grow now' brands. With brands in this category already accounting for over 50 per cent of brand contribution and achieving well above average profit margins, this approach makes compelling business sense in driving profitable growth and competitive advantage for the future. [illegible] *making spirits hip again* and with very good reason, because Allied Domecq is uniquely placed to achieve profitable growth through brands targeted at the key 'legal drinking age to 29' market, without losing the loyalty of its traditional consumer base. An enormous amount of energy and resources have been invested to rejuvenate and refresh the whole consumer 'experience' of our brands, whether spirits, wines or foods. We continue to refine the intimate consumer understanding and insight that is essential to any brand-led business. [illegible]

[illegible]

driving profitable brand growth"

The Kahlúa [illegible] advertising slogan [illegible] marketing director [illegible] fastest growing spirit brands in the world [illegible]


“building brands by working together on
customer a[illegible] consume[illegible]
[illegible] President, Europe, Allied Domecq Spirits & Wine

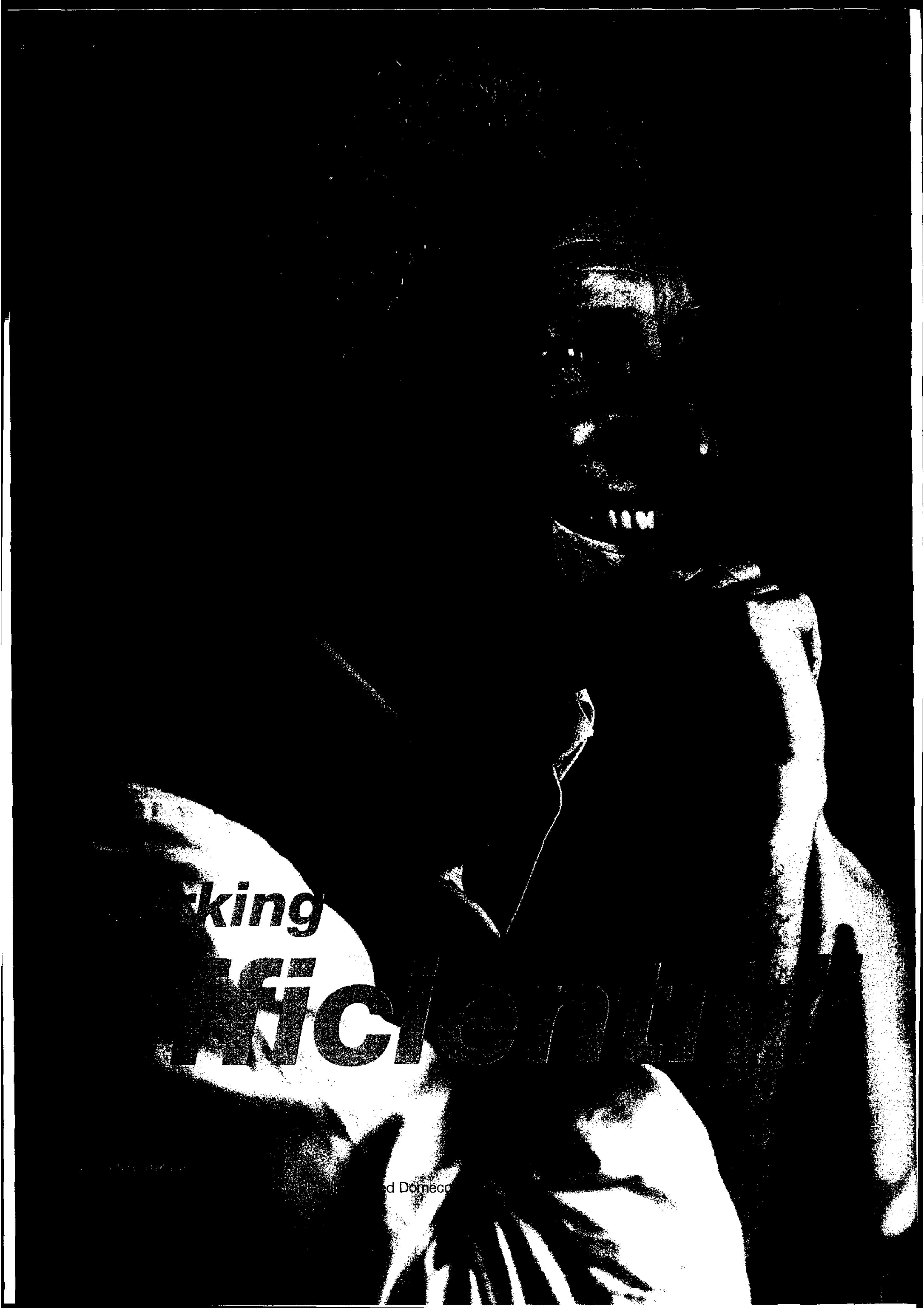
Ballantine's is a *market leader in* Romania *and has* performed well this year. Roberto Roccatti, managing director for Romania explains, "This is a volatile *market and we have to stay sharp because what's* relevant today will be out of date in three months time. Our systems and databases give us a great *advantage. No one knows more about this market* than us and we have used our understanding to increase efficiency and reduce costs."

ng real value from our marketing investment and helping our customers to sell our brands is critical the success of Allied Domecq. To succeed we need the best sales and marketing tools available and be using them brilliantly and consistently across the business. During this year we have reviewed the ngths *and weaknesses of our approach and sought to spread best practice globally.* For example, European business has led the way in rigorous analytical techniques such as detailed marketing stment analysis, sales uplift and price elasticity models. We have leading edge retail customer nagement tools which are among the best available in top fast-moving consumer goods companies. nd marketing directed at the final consumer is a growing strength in our North American operations cluding the most advanced brand equity evaluation. We are taking the best of all these approaches and plementing them internationally. The results of our regions working so closely together on these itical consumer and customer techniques can already be seen in the growth of our key brands in their most significant markets. We have a sales and marketing package which is fact-based, relying on etailed market feedback and the most modern consumer insights.

"Our focus is on meeting the needs of customers across the globe as effectively as possible," says Simon Cross, sales director Europe. "We've had very positive feedback from customers on initiatives such as dedicated customer teams, service consistency and knowledge sharing. We are increasingly applying these skills on a global basis."

riented skills

Paul Block, general manager, equity brands USA and Janet *Oak, vice president, marketing services, are heading up a* company-wide initiative designed to drive growth through implementing best practice in spirits and wine marketing and *learning from leading edge techniques used by luxury goods,* fashion and fast-moving consumer goods companies.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Steve Smith, finance & operations, Spirits & Wine in North America, is leading the charge to ensure that each and every company resource is efficiently allocated. Steve joined the North America team in March 2000 after a two year stint in Spain, exemplifying management's belief in building strong teams by exchanging talent and best practice across the company.

A whole range of new initiatives at the Hiram Walker bottling plant have not only reduced costs but also greatly improved morale and efficiency. Regina Blalack, plant manager, feels that "Simplifying shift patterns, redefining roles and setting high standards has created an environment in which people not only know what they have to do, but also why they have to do it and what impact their performance will have on overall productivity."

John Corrigan, commercial director and team have been working on Scotland's first fully integrated bottling, manufacturing and office complex in the scotch whisky industry at Dumbarton. The project is supporting a new way of working and generating cost savings.

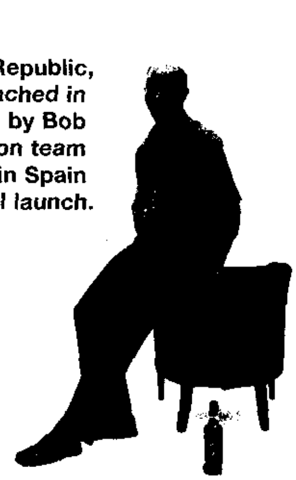
We have further enhanced the efficiency of our operations through capital investment and continuous improvement programmes. Quality and customer service are key areas of focus. We encourage ongoing improvement through cross functional team working stressing clear accountability in operational issues and the involvement of everyone. We are investing in training and developing our people to improve skills to meet the increasing demands of our customers. Our progress is evaluated through external benchmarking. We look to achieve step changes in the efficiency of our operations through capital investment. We are close to completing a major site integration of our scotch whisky operations at Dumbarton in Scotland and we have commenced a project to increase significantly capacity at Maker's Mark in Kentucky. Our goal is to minimise the impact of our operations on the environment and we are increasing the number of our operations which now have their environmental management systems certified to ISO 14001. Another important initiative for the year has been the development of our global supply chain management capability. The objective is to achieve excellent customer service, accurately understanding and predicting customer and consumer demand, to improve cost effectiveness and to reduce capital employed in our operations. The initiative encourages cross functional work across all parts of the supply chain.

“accelerating the pace of

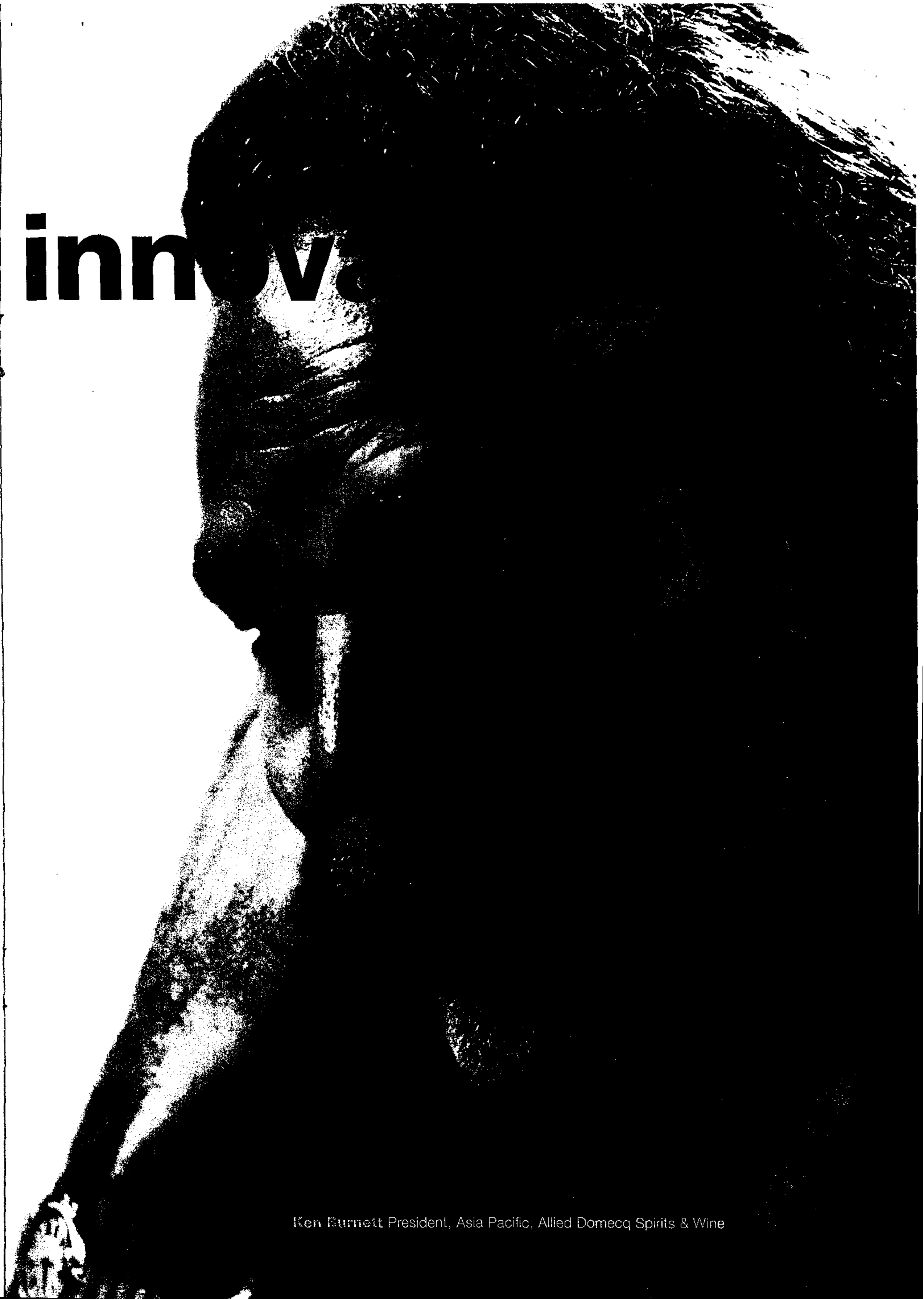
Allison Wallach has led an initiative to streamline the process of taking an idea from inception to launch. The benefits of the “concept to customer” project comes from having a clear approach for all three QSR brands which brings synergies without stifling creativity or compromising quality.

Innovation must be an important contributor **to driving future revenue and profit growth. As a consequence, we are elevating the role of innovation in the business and are looking for new ways to place innovation at the heart of all we do. We are changing the way we work so we can be more entrepreneurial, more responsive to changing consumer demands and markets and more focused on delivering products quickly to market. This is being achieved through introducing high quality people to our innovation team and increasing our investment in innovation. We have established a plan with targets and clear accountabilities. We are also developing stronger links between our innovation team and our markets to create a team approach. Our Quick Service Restaurants business has excelled at innovation and we are actively transferring best practice between QSR and Spirits & Wine. Alongside this we are implementing robust measures so we can monitor the returns from our investment. We are shifting the focus of our innovation work to products which are completely new to world and new ready to drink combinations whilst still maintaining the development of new packaging and the creation of new line extensions to existing brands.**

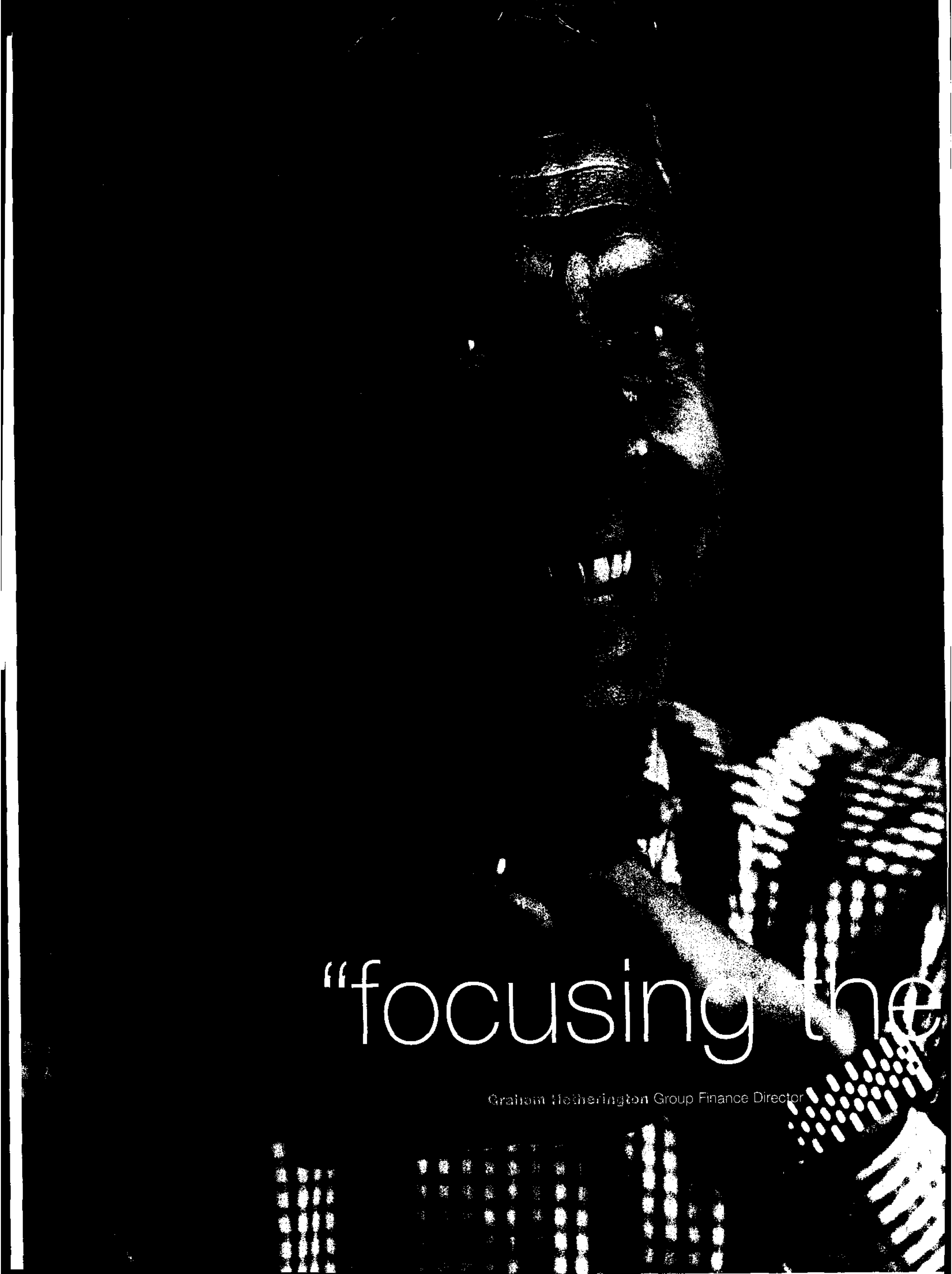
Gavanes, a golden rum from the Dominican Republic, is a brand new product which has been launched in Madrid as a test market. Its launch, led by Bob Fowkes, is a great example of the innovation team working closely with the marketing people in Spain with both teams committed to its successful launch.



Nowhere has our innovation focus been more evident than with two successful Kahlúa line extensions – Kahlúa drinks-to-go and ready-to-drink cocktails. Developed in the USA by Cynthia Keating and her team, the new products have captured a substantial franchise by capitalising on consumers’ desire for convenience.



Ken Burnett President, Asia Pacific, Allied Domecq Spirits & Wine



“focusing the

Graham Hetherington Group Finance Director

We have focused more tightly on our two branded business areas in three key ways.

business”

Board of directors

Sir Christopher Hogg Non-Executive Chairman
Appointed non-executive deputy chairman of Allied Domecq in 1995 and non-executive chairman in 1996. He is also non-executive chairman of Reuters Group and a non-executive director of SmithKline Beecham and of Air Liquide. Aged 64.

Philip Bowman Chief Executive
Joined the group in November 1998 as an executive director and was appointed chief executive in August 1999. He is also a non-executive director of British Sky Broadcasting Group and was formerly an executive director of Bass and chairman of Liberty. Aged 47.

Donald H Brydon
Joined the group as a non-executive director in 1997 and is chairman of Allied Domecq pension trusts. He is the senior non-executive director of Allied Domecq. He is a non-executive director of Nycomed Amersham and also chairman and chief executive of AXA Investment Managers. Aged 55.

Sir Ross Buckland
Joined the group as a non-executive director in 1998. He is chief executive of Uniq (formerly Unigate) and a director of the National Australia Bank Europe. Aged 57.

Graham C Hetherington
Joined the group in 1991 as finance director of Lyons Bakeries (UK). Joined Allied Domecq Spirits & Wine in 1995 and was appointed finance director of Allied Domecq Spirits & Wine in 1998. He became a director of Allied Domecq in June 1999 and was appointed group finance director in August 1999. Aged 41.

Peter A Jacobs
Joined the group as a non-executive director in 1998. He retired as chief executive of BUPA in 1998 and as chairman of Hillsdown Holdings in July 1999. He is also chairman of Healthcall Group and LA Fitness and a non-executive director of Bank Leumi (UK) and of Virtual Communities Inc. Aged 57.

David Malpas
Joined the group as a non-executive director in 1997. He retired as managing director of Tesco in 1997. He is chairman of Dresdner Income Growth Investment Trust. Aged 60.

Todd Martin
Joined the group as global marketing director of Allied Domecq Spirits & Wine in 1998 and appointed a director of Allied Domecq on 1 March 2000. He is president, North America, Allied Domecq Spirits & Wine. Aged 45.

David Scotland
Joined the group as a director of Allied Domecq Spirits & Wine in 1992 and appointed a director of Allied Domecq in 1995. He is president, Europe, Allied Domecq Spirits & Wine. Aged 52.

Richard G Turner
Joined the group in 1982. Appointed president, Customer Services and Planning of Allied Domecq Spirits & Wine in 1995. He was appointed a director of Allied Domecq in June 1999. Aged 51.

Russell P Kelley Secretary

Directors' reports

The directors are pleased to present their directors' reports which are a summary of the information contained in the annual report and accounts for the year ended 31 August 2000.

Summary directors' report

The Chairman's statement and the Operating and financial review on page 1 and pages 4 to 11 provide a review of the business and likely future developments.

An interim dividend of 4.0p per share was paid on 1 September 2000 and the directors are pleased to recommend a final ordinary dividend of 7.0p per share, making a total for the year of 11.0p. The final dividend will be paid on 2 February 2001 to shareholders on the register on 3 January 2001. Following the suspension of the company's dividend reinvestment plan in March 1999, the ongoing provision of this facility has been reviewed and has been discontinued. Any surplus cash balances held on behalf of shareholders will be repaid shortly.

The AGM will be held on 29 January 2001 at the Hotel Inter-Continental London, One Hamilton Place, Hyde Park Corner, London W1V 0QY. Details of the business to be considered at the AGM and the notice of meeting are included in the accompanying *chairman's letter.*

The names and brief biographical details of the directors as at 30 October 2000 are given on page 22. During the year Stephen Alexander, George McCarthy and Ramon Mora-Figueroa retired from the group and Todd Martin was appointed as an executive director. In accordance with the articles of association, Philip Bowman, Sir Ross Buckland, Peter Jacobs and Todd Martin retire at the forthcoming AGM and offer themselves for election or re-election.

By order of the board
Russell P Kelley
Secretary
30 October 2000

RPK

Corporate governance

The company was in compliance throughout the financial year with the Code provisions set out in Section 1 of the Combined Code appended to the Financial Services Authority Listing Rules except that executive directors are engaged on employment contracts subject to 24 months' written notice given by either party. It is not currently proposed that the notice period for existing executive directors should be reduced. However, the remuneration committee has reviewed the current policy and has decided in principle that the company's future policy will be for new executive directors to be subject to service agreements requiring not less than 12 months' notice given by either party. If it is necessary to offer longer notice or contract periods to new executive directors recruited externally, such periods will reduce to 12 months after the initial period.

Directors' emoluments

Remuneration

Details of the remuneration of current directors for the years to 31 August 2000 and 1999 are as follows:

	Note	Basic Salary/Fees		Benefits		Performance-Related Bonuses		Total Emoluments	
		Year to 31 Aug 2000 £'000	Year to 31 Aug 1999 £'000	**Year to 31 Aug 2000 £'000**	Year to 31 Aug 1999 £'000	**Year to 31 Aug 2000 £'000**	Year to 31 Aug 1999 £'000	**Year to 31 Aug 2000 £'000**	Year to 31 Aug 1999 £'000
Executive directors:									
P Bowman	1,3,7	**743**	361	**76**	52	**507**	271	**1,326**	684
G C Hetherington	2,3,7	**244**	174	**17**	12	**278**	108	**539**	294
T D Martin (appointed 1 Mar 2000)	2,4,7	**309**	–	**35**	–	**353**	–	**697**	–
D Scotland	3,7	**316**	292	**23**	22	**302**	281	**641**	595
R G Turner	2,7	**263**	219	**13**	9	**299**	209	**575**	437
Non-executive directors:									
D H Brydon	5	**43**	43	**–**	–	**–**	–	**43**	43
Sir Ross Buckland		**28**	28	**–**	–	**–**	–	**28**	28
Sir Christopher Hogg	6	**263**	275	**–**	–	**–**	–	**263**	275
P A Jacobs		**33**	31	**–**	–	**–**	–	**33**	31
A D Malpas		**33**	33	**–**	–	**–**	–	**33**	33

1. P Bowman's salary includes a £218,400 (1999: £83,196) allowance in lieu of pension contributions and his benefits include £59,000 (1999: £39,000) accommodation costs. During the negotiations for the sale of the UK Retail business, it was agreed that the special bonus scheme based on Total Shareholder Return provided for P Bowman on his appointment should be terminated and, in consideration, a bonus of £150,000 was paid and is included in the bonus above for the year to 31 August 1999.
2. The emoluments for G C Hetherington, T D Martin and R G Turner relate to their total service as employees and directors during the year of appointment.
3. The amounts in respect of G C Hetherington and D Scotland for the period include taxable benefits of £1,321 and £6,796 respectively relating to life assurance; the amount in respect of P Bowman for the period includes a taxable benefit of £1,084 in respect of life assurance taken out by the group.
4. T D Martin's salary includes £61,851 allowance in lieu of pension contributions and his benefits include £11,140 accommodation costs.
5. D H Brydon's standard fee is £28,000. In addition, he is chairman of the Allied Domecq Pensions Trusts for which he receives a fee of £15,000 per annum.
6. Sir Christopher Hogg's fee of £275,000 per annum as non-executive chairman was reduced to £200,000 per annum with effect from 1 July 2000 and includes a non-executive director's fee of £28,000 per annum. The fee shown for the period is before deduction of £48,331 contributed by way of salary sacrifice to an individual pension arrangement.
7. The performance-related bonus figures shown above for the executive directors include the deferred and matching elements of the bonus which are shown below and will be used to purchase shares in the company. These shares will be released to the employee after three years and will be conditional, except under exceptional circumstances, on continued employment with the group.

	Deferred Amount	Matching Investment	Total
P Bowman	£91,000	£91,000	£182,000
G C Hetherington	£87,500	£87,500	£175,000
T D Martin	£108,621	£108,621	£217,242
D Scotland	£54,250	£54,250	£108,500
R G Turner	£91,000	£91,000	£182,000

Group profit and loss account

Year to 31 August 2000

	Year to 31 August 2000			Year to 31 August 1999		
	Before goodwill and *exceptional* items £m	Goodwill and *exceptional* items £m	Total £m	Before goodwill and *exceptional* items £m	Goodwill and *exceptional* items £m	Total £m
Continuing operations	**2,602**	**–**	**2,602**	2,408	–	2,408
Discontinued operations	**30**	**–**	**30**	1,695	–	1,695
Group turnover and share of turnover of joint venture undertaking	**2,632**	**–**	**2,632**	4,103	–	4,103
Less: share of turnover of joint venture – discontinued operation	**(12)**	**–**	**(12)**	(624)	–	(624)
Turnover	**2,620**	**–**	**2,620**	3,479	–	3,479
Operating costs – goodwill amortisation	**–**	**(3)**	**(3)**	–	–	–
– other	**(2,143)**	**(54)**	**(2,197)**	(2,838)	(235)	(3,073)
Continuing operations	**473**	**(57)**	**416**	420	(220)	200
Discontinued operations	**4**	**–**	**4**	221	(15)	206
Operating profit	**477**	**(57)**	**420**	641	(235)	406
Share of profits of joint venture undertaking						
– discontinued operation	**–**	**–**	**–**	7	(14)	(7)
Share of profits of associated undertakings						
– continuing operations	**14**	**–**	**14**	10	–	10
– discontinued operations	**9**	**–**	**9**	13	(4)	9
Trading profit	**500**	**(57)**	**443**	671	(253)	418
Profit on sale of businesses in continuing and *discontinued operations*	**–**	**13**	**13**	–	179	179
Profit/(loss) on disposal of fixed assets in continuing and discontinued operations	**–**	**46**	**46**	–	(12)	(12)
Profit on ordinary activities before finance charges	**500**	**2**	**502**	671	(86)	585
Finance charges	**(83)**	**–**	**(83)**	(92)	(272)	(364)
Profit on ordinary activities before taxation	**417**	**2**	**419**	579	(358)	221
Taxation	**(108)**	**15**	**(93)**	(150)	11	(139)
Profit on ordinary activities after taxation	**309**	**17**	**326**	429	(347)	82
Minority interests – equity and non-equity	**(9)**	**–**	**(9)**	(6)	–	(6)
Profit earned for ordinary shareholders for the year	***300***	**17**	**317**	423	(347)	76
Ordinary dividends			**(116)**			(157)
Retained profit/(loss)			**201**			(81)
Earnings per ordinary share:						
– basic			**29.9p**			7.3p
– diluted			**29.9p**			7.3p
– normalised (before goodwill and exceptional items and excluding discontinued operations)	**27.4p**			24.2p		

At 31 August 2000

	31 August 2000 £m	31 August 1999 £m
Fixed assets		
Intangible assets	**108**	12
Tangible assets	**517**	2,613
Investments and loans	**67**	30
Associated and joint venture undertakings	**77**	261
Total fixed assets	**769**	2,916
Current assets		
Stocks	**947**	877
Debtors due within one year	**646**	689
Debtors due after more than one year	**260**	273
Cash at bank and in hand	**112**	236
Total current assets	**1,965**	2,075
Creditors (due within one year)		
Short term borrowings	**(558)**	(771)
Other creditors	**(864)**	(928)
Total current liabilities	**(1,422)**	(1,699)
Net current assets	**543**	376
Total assets less current liabilities	**1,312**	3,292
Creditors (due after more than one year)		
Loan capital	**(806)**	*(780)*
Other creditors	**(37)**	(40)
Total creditors due after more than one year	**(843)**	(820)
Provisions for liabilities and charges	**(213)**	(173)
Net assets	**256**	2,299
Capital and reserves		
Called up share capital	**267**	3,470
Share premium account	**26**	26
Merger reserve	**(823)**	(2,586)
Revaluation reserve	**–**	960
Profit and loss account	**720**	403
Shareholders' funds – equity	***190***	2,273
Minority interests – equity and non-equity	**66**	26
	256	2,299

Approved by the board on 30 October 2000 and signed on its behalf by:

Sir Christopher Hogg, Chairman

Graham Hetherington, Director

x x x x

CAH GH

Group cash flow information

Year to 31 August 2000

Reconciliation of operating profit to net cash inflow from operating activities	Year to 31 August 2000 £m	Year to 31 August 1999 £m
Operating profit	**420**	406
Exceptional operating costs	**54**	235
Goodwill amortisation	**3**	–
Depreciation	**51**	101
Increase in stocks	**(43)**	(20)
Increase in debtors	**(97)**	(34)
Increase/(decrease) in creditors	**39**	(32)
Expenditure against provisions for: acquisition costs	**–**	(26)
reorganisation and restructuring costs	**(54)**	(68)
Other items	**(1)**	(11)
Continuing operations	**372**	349
Discontinued operations	**–**	202
Net cash inflow from operating activities	**372**	551

Operating cash net of fixed assets of continuing operations is £408m (1999: £346m).

Group cash flow statement		
Net cash inflow from operating activities	**372**	551
Dividends received from associated undertakings	**8**	12
Returns on investments and servicing of finance	**(81)**	(391)
Taxation paid	**21**	(161)
Capital expenditure and financial investment	**(11)**	(151)
Acquisitions and disposals	**(217)**	476
Equity dividends paid	**–**	(320)
Continuing operations	**92**	(34)
Discontinued operations	**–**	50
Cash inflow before use of liquid resources and financing	**92**	16
Management of liquid resources	**52**	(52)
Financing	**(68)**	(217)
Increase/(decrease) in cash in the year	**76**	(253)

Reconciliation of net cash flow to movement in net debt		
Increase/(decrease) in cash in the year	**76**	(253)
(Decrease)/increase in liquid resources	**(52)**	52
Decrease in loan capital	**68**	318
Movement in net debt resulting from cash flows	**92**	117
Non cash movements on recourse finance	**–**	(6)
Exchange adjustments	**(29)**	(25)
Movement in net debt during the year	**63**	86
Opening net debt	**(1,315)**	(1,401)
Closing net debt	**(1,252)**	(1,315)

Statement of the auditor

To the members of Allied Domecq PLC pursuant to section 251 of the Companies Act 1985

We have examined the summary directors' report and accounts on pages 23 to 27.

Respective responsibilities of directors and auditor The directors are responsible for preparing the summary financial statement. Our responsibility is to report to you our opinion on the consistency of the summary directors' report and accounts within the summary financial statement with the full annual accounts and directors' report, and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

We also read the other information contained in the summary financial statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary directors' report and accounts.

Basis of opinion We conducted our work in accordance with Bulletin 1999/6 "The auditor's statement on the summary financial statement" issued by the Auditing Practices Board. Our report on the group's full annual accounts describes the basis of our audit opinion on those accounts.

Opinion In our opinion the summary directors' report and accounts is consistent with the full annual accounts and directors' report of Allied Domecq PLC for the year to 31 August 2000 and complies with the applicable requirements of section 251 of the Companies Act 1985, and the regulations made thereunder.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
30 October 2000

30 October, 2000

KPMG Audit PLC
KPMG

Investor information

Financial Calendar

Ex dividend date for final dividend	27 December 2000	Interim results announced (provisional)	1 May 2001
Record date for final dividend	3 January 2001	Ex dividend date for interim dividend (provisional)	20 June 2001
Annual General Meeting	29 January 2001	Record date for interim dividend (provisional)	22 June 2001
Final dividend payable	2 February 2001	Interim dividend payable (provisional)	27 July 2001

Annual General Meeting The AGM of the company will be held at 11.30 am on 29 January 2001 at the Hotel Inter-Continental London, One Hamilton Place, Hyde Park Corner, London W1V 0QY. The notice of meeting is set out in the chairman's letter to shareholders.

Shareholder enquiries
UK – Registrar Enquiries relating to administrative matters should be addressed to the company's registrars at Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA. Tel: 0870 600 3984. Alternatively, individual shareholding information can be accessed at *www.shareview.co.uk*

USA – ADR administration For enquiries regarding ADRs please contact:
The Bank of New York, Shareholder Relations, PO Box 11258, Church Street Station, New York, NY 10288-1258.
Tel: 1 (888) BNY-ADRS (toll free in the USA); e-mail: *adr@bankofny.com*; Internet: *www.adrbny.com*

Company Secretary and Registered Office Other enquiries should be addressed to the Secretariat, Allied Domecq PLC, The Pavilions, Bridgwater Road, Bedminster Down, Bristol BS13 8AR. Tel: +44 (0)117 978 5000.

Environment and alcohol issues For further details about our environmental and alcohol policies and related literature, please write to: Jan Buckingham, Director of Alcohol and Social Policy, at the registered office.

Internet Corporate information, including press releases, annual reports and presentations, can be downloaded from the group's website at *www.allieddomecqplc.com*

Share price quotation Please refer to BBC Ceefax page 221, Channel 4 Teletext page 511 or the investor relations section of the group's website. Latest information is also available on Tel: 0891 222336 (calls are charged at 60p per minute at all times, including VAT).

Low cost dealing service For information, please contact Cazenove & Co., 12 Tokenhouse Yard, London EC2R 7AN.
Tel: +44 (0)20 7606 1768.

As at 31 August 2000

	Note	31 August 2000 £m	31 August 1999 £m
Fixed assets	13	**3,976**	6,489
Current assets			
Debtors	16	**5**	–
Creditors (due within one year)			
Short term borrowings	19	**(29)**	–
Other creditors	17	**(515)**	(573)
Net current liabilities		**(539)**	(573)
Net assets		**3,437**	5,916
Capital and reserves			
Called up share capital	21	**267**	3,470
Share premium account	22	**26**	26
Merger reserve	22	**2,420**	2,420
Capital reserve	22	**651**	–
Profit and loss account	22	**73**	–
Shareholders' funds – equity		**3,437**	5,916

Approved by the board on 30 October 2000 and signed on its behalf by:

Chris Hogg

Sir Christopher Hogg, Chairman

Graham Hetherington

Graham Hetherington, Director

Profits of the parent company

Under s230 (4) of the Companies Act 1985, a separate profit and loss account for the parent company is not presented. Profits for the year arising in the parent company are disclosed in note 22.

X Chris Hogg X CAH

X Graham Hetherington X GH

	Continuing				Discontinued			
	Spirits & Wine £m	QSR £m	Britannia £m	Total continuing £m	UK Retail £m	Cantrell & Cochrane £m	Panrico £m	Total £m
Year to 31 August 2000								
Turnover	**2,297**	**305**	–	**2,602**	**30**	–	–	**2,632**
Trading profit before exceptional items and goodwill	**414**	**64**	**9**	**487**	**4**	–	**9**	**500**
Goodwill amortisation	**(3)**	–	–	**(3)**	–	–	–	**(3)**
Exceptional items	**(47)**	**(7)**	–	**(54)**	–	–	–	**(54)**
Trading profit after exceptional items	**364**	**57**	**9**	**430**	**4**	–	**9**	**443**
Profit on sale of businesses	–	–	–	–	–	–	**13**	**13**
Profit/(loss) on disposal of fixed assets	**55**	**(9)**	–	**46**	–	–	–	**46**
Profit before finance charges	**419**	**48**	**9**	**476**	**4**	–	**22**	**502**
Finance charges – normalised								**(83)**
Profit on ordinary activities before taxation								**419**
Assets employed	**1,705**	**94**	**43**	**1,842**	–	–	–	**1,842**
Average numbers employed	**8,609**	**2,323**	–	**10,932**	–	–	–	**10,932**
Year to 31 August 1999								
Turnover	2,110	298	–	2,408	1,565	130	–	4,103
Trading profit before exceptional items and goodwill	369	53	8	430	204	24	13	671
Goodwill amortisation	–	–	–	–	–	–	–	–
Exceptional items	(172)	(48)	–	(220)	(27)	(2)	(4)	(253)
Trading profit after exceptional items	197	5	8	210	177	22	9	418
(Loss)/profit on sale of businesses	(10)	–	–	(10)	–	189	–	179
(Loss)/profit on disposal of fixed assets	(4)	(13)	–	(17)	5	–	–	(12)
Profit before finance charges	183	(8)	8	183	182	211	9	585
Finance charges								
– normalised								(92)
– loan and debenture repayment premia								(272)
Profit on ordinary activities before taxation								221
Assets employed	1,396	102	39	1,537	2,158	–	60	3,755
Average numbers employed	8,542	2,803	–	11,345	28,730	420	–	40,495

Profit before tax for continuing businesses is £404m (1999: £349m) being trading profit £487m (1999: £430m) less finance charges £83m (1999: £81m). The comparatives for profit before finance charges, and finance charges, have been restated to reflect discontinued operations.

Assets employed are before deducting net borrowings of £1,252m (1999: £1,315m), tax payable of £218m (1999: £141m) and dividends payable of £116m (1999: nil) to give net assets of £256m (1999: £2,299m).

		Europe £m	Americas £m	Rest of World £m	Total £m
By country of operation					
Year to 31 August 2000					
Turnover	– continuing operations	**1,484**	**1,568**	**147**	**3,199**
	– discontinued operations	**30**	**–**	**–**	**30**
		1,514	**1,568**	**147**	**3,229**
	– to group companies				**(597)**
	– external				**2,632**
Trading profit	– continuing operations	**199**	**271**	**17**	**487**
	– goodwill amortisation	**–**	**–**	**(3)**	**(3)**
	– exceptional items in continuing operations	**(39)**	**(15)**	**–**	**(54)**
	– discontinued operations	**13**	**–**	**–**	**13**
	– exceptional items in discontinued operations	**–**	**–**	**–**	**–**
		173	**256**	**14**	**443**
Profit on sale of businesses in discontinued operations		**13**	**–**	**–**	**13**
Profit/(loss) on disposal of fixed assets in continuing operations		**55**	**(9)**	**–**	**46**
Profit before finance charges		**241**	**247**	**14**	**502**
Assets employed		**937**	**739**	**166**	**1,842**
Year to 31 August 1999					
Turnover	– continuing operations	1,465	1,435	52	2,952
	– discontinued operations	1,707	–	–	1,707
		3,172	1,435	52	4,659
	– to group companies				(556)
	– external				4,103
Trading profit	– continuing operations	211	215	4	430
	– goodwill amortisation	–	–	–	–
	– exceptional items in continuing operations	(143)	(24)	(53)	(220)
	– discontinued operations	241	–	–	241
	– exceptional items in discontinued operations	(33)	–	–	(33)
		276	191	(49)	418
Profit on sale of businesses in discontinued operations		179	–	–	179
Loss on disposal of fixed assets in continuing operations		(12)	–	–	(12)
Profit before finance charges		443	191	(49)	585
Assets employed		3,074	624	57	3,755

Export sales from the United Kingdom were £604m (1999: £509m) including £482m (1999: £404m) sales to group companies.

Trading profit includes the group's share of profits of associated undertakings whose turnover is not included.

		Europe £m	Americas £m	Rest of World £m	Total £m
By country of destination					
Year to 31 August 2000					
Turnover	– continuing operations	**968**	**1,392**	**242**	**2,602**
	– discontinued operations	**30**	**–**	**–**	**30**
		998	**1,392**	**242**	**2,632**
Trading profit	– continuing operations	**193**	**251**	**43**	**487**
	– goodwill amortisation	**–**	**–**	**(3)**	**(3)**
	– exceptional items in continuing operations	**(39)**	**(15)**	**–**	**(54)**
	– discontinued operations	**13**	**–**	**–**	**13**
	– exceptional items in discontinued operations	**–**	**–**	**–**	**–**
		167	**236**	**40**	**443**
Year to 31 August 1999					
Turnover	– continuing operations	1,003	1,192	213	2,408
	– discontinued operations	1,691	3	1	1,695
		2,694	1,195	214	4,103
Trading profit	– continuing operations	191	208	31	430
	– goodwill amortisation	–	–	–	–
	– exceptional items in continuing operations	(143)	(24)	(53)	(220)
	– discontinued operations	237	3	1	241
	– exceptional items in discontinued operations	(33)	–	–	(33)
		252	187	(21)	418

Turnover excludes sales to group companies.

Trading profit includes the group's share of profits of associated undertakings whose turnover is not included.

The significant translation rates to £1:

	Average rate for the year		Closing rate	
	2000	1999	**31 August 2000**	31 August 1999
United States dollar	**1.58**	1.63	**1.45**	1.61
Canadian dollar	**2.33**	2.46	**2.15**	2.40
Mexican peso	**14.99**	15.96	**13.39**	15.08
Japanese yen	**168**	196	**155**	176
Korean won	**1,808**	2,009	**1,613**	1,898
Euro	**1.61**	1.47	**1.64**	1.52

	Full-Time		Part-Time		Year to 31 August 2000	Year to 31 August 1999
	UK £m	Other £m	UK £m	Other £m	**Total £m**	Total £m
Remuneration	65	219	1	11	**296**	474
Social security	6	23	–	1	**30**	47
Pension schemes – UK	(3)	–	–	–	**(3)**	2
– other	–	(7)	–	–	**(7)**	1
Post retirement medical benefits	1	3	–	–	**4**	1
	69	238	1	12	**320**	525
Average numbers employed						
2000 – Continuing operations	**1,745**	**8,104**	**90**	**993**	**10,932**	
1999 – Continuing operations	2,119	8,192	127	907		11,345
1999 – Discontinued operations	9,224	319	19,607	–		29,150

Directors' remuneration

The amounts relating to emoluments, share options, long term incentive scheme interests and directors' pension entitlements are disclosed within the remuneration report.

Pension schemes

Group

The group operates a number of pension schemes throughout the world. The major schemes, which cover the majority of group employees, are of the defined benefit type and the assets of the schemes are largely held in separate trustee administered funds. Prepaid costs of £247m (1999: £222m) are included in debtors (note 16).

UK

The assets and liabilities of the UK schemes are reviewed regularly by an actuary. The latest provisional assessment was carried out as at April 1999. The actuarial assessments consider assets and liabilities at the date of calculation and forecast assets and liabilities in the future according to a set of assumptions, the most important of which are the rate of return on the assets, the rates of increase in remuneration, pensions and dividend and share buy-back yield on equity investments.

It is assumed that future investment returns will be 7.75% (1999: 7.75%) per annum, remuneration increases will be 5.25% (1999: 5.25%) per annum, guaranteed pension increases will be 3% (1999: 3%) per annum and the long term net yield on UK equities will be 3.23% (1999: 3.23%) per annum.

At the date of the 1999 assessment, the market value of the assets of the UK schemes was £1,973m and the actuarial value of the assets was sufficient to cover 110% of the benefits that have accrued to members after allowing for the expected future increases in remuneration. A full triennial actuarial valuation was carried out as at April 2000, the results of which will be included for the next financial year.

North America

The group operates a number of pension schemes outside the UK of which the most material are in the United States and Canada. In most cases actuarial valuations for accounting purposes were carried out as at 31 August 1999. The key assumptions as at 31 August 1999 were that annual investment return would exceed annual remuneration increases by approximately 3% (1998: 2%) in the US schemes and 3.5% (1998: 2.5%) in the Canadian schemes. The market value of the North American scheme assets as at that date was £338m (1998: £292m), which was sufficient to cover 153% (1998: 129%) of the benefits accrued to members after allowing for future increases in remuneration.

	Note	Year to 31 August 2000 £m	Continuing £m	Discontinued £m	Year to 31 August 1999 £m
Change in stocks of finished goods and work in progress		**(43)**	(25)	5	(20)
Own work capitalised		**–**	–	(3)	(3)
Raw materials and consumables		**631**	609	304	913
Customs and excise duties paid		**545**	*488*	*17*	*505*
Staff costs	4	**320**	299	226	525
Depreciation	12	**51**	49	52	101
Goodwill amortisation		**3**	–	–	–
Provision for write-down of fixed assets	6	**6**	59	–	59
Exceptional items	6	**48**	161	15	176
Other operating charges		**579**	509	234	743
Operating leases – hire of equipment		**13**	10	–	10
– property rents		**44**	44	15	59
Payments to auditor – fees for audit		**2**	2	–	2
– other payments to auditor		**1**	3	–	3
		2,200	2,208	865	3,073

2000 operating costs include £14m in respect of discontinued operations. The parent company audit fee was nil (1999: nil).

	Year to 31 August 2000 £m	Continuing £m	Discontinued £m	Year to 31 August 1999 £m
Goodwill amortisation	**(3)**	–	–	–
Exceptional items				
Year 2000 and EMU costs	**(8)**	(18)	(9)	(27)
Surplus property provisions	**–**	(37)	–	(37)
Asset write-downs	**(6)**	(59)	–	(59)
UK Retail disposal costs	**–**	(45)	–	(45)
Restructuring and other costs	**(40)**	(61)	(6)	(67)
Operating costs	**(54)**	(220)	(15)	(235)
Costs in joint venture and associated undertakings	**–**	–	(18)	(18)
Profit/(loss) on sale of businesses	**13**	(10)	189	179
Profit/(loss) on disposal of fixed assets	**46**	(17)	5	(12)
Finance charges	**–**	(272)	–	(272)
Total exceptional items	**5**	(519)	161	(358)
Goodwill amortisation and exceptional items before taxation	**2**	(519)	161	(358)
Taxation	**15**	8	3	11
Goodwill amortisation and exceptional items after taxation	**17**	(511)	164	(347)

	Year to 31 August 2000 £m	Year to 31 August 1999 £m
Interest on bank loans, overdrafts and other loans repayable wholly within five years	**104**	76
Interest on other loans	**–**	33
Less: deposit and other interest receivable	**(21)**	(17)
Normalised	**83**	92
Exceptional items	**–**	272
Total	**83**	364

	Year to 31 August 2000 £m	Year to 31 August 1999 £m
The charge for taxation on the profit for the period comprises:		
United Kingdom taxation		
Corporation tax at 30% (1999: 31%)	**66**	141
Advance corporation tax written back	**–**	(31)
Deferred taxation	**6**	13
Double taxation relief	**(64)**	(67)
	8	56
Non United Kingdom taxation		
Corporation tax	**62**	89
Deferred taxation	**16**	(13)
Taxation on attributable profit of associated and joint venture undertakings	**7**	7
	93	139

After adjusting for tax relief on exceptional items and goodwill amortisation of £15m (1999: £11m), the normalised taxation charge is £108m (1999: £150m).

Basic earnings per share of 29.9p (1999: 7.3p) has been calculated on earnings of £317m (1999: £76m), divided by the average number of shares of 1,059m (1999: 1,047m).

Diluted earnings per share of 29.9p (1999: 7.3p) has been calculated on earnings of £317m (1999: £76m) and after including the effect of all dilutive potential ordinary shares, the average number of shares is 1,059m (1999: 1,047m).

To show earnings per share on a consistent basis, normalised earnings per share of 27.4p (1999: 24.2p) has been calculated on normalised earnings of £290m (1999: £253m) divided by the average number of shares of 1,059m (1999: 1,047m). Normalised earnings has been calculated as follows:

	Year to 31 August 2000 £m	Year to 31 August 1999 £m
Earnings as reported	**317**	76
Adjustments for discontinued operations net of tax		
Trading profits	**(10)**	(179)
Finance charges	**–**	8
Minority interests	**–**	1
Adjustment for exceptional items net of tax	**(19)**	347
Adjustment for goodwill amortisation net of tax	**2**	–
Normalised earnings	**290**	253
Average number of shares	**millions**	millions
Weighted average ordinary shares in issue during the year	**1,068**	1,047
Weighted average ordinary shares owned by the Allied Domecq employee trusts	**(9)**	–
Weighted average ordinary shares used in earnings per share calculation	**1,059**	1,047

	Year to 31 August 2000 £m	Year to 31 August 1999 £m	Year to 31 August 2000 p	Year to 31 August 1999 p
Interim	**42**	157	**4.0**	15.0
Final	**74**	–	**7.0**	–
	116	157	**11.0**	15.0

The 1999 dividend was paid as a Foreign Income Dividend. The 2000 interim dividend was paid on 1 September 2000 and the final dividend will be paid on 2 February 2001.

	31 August 2000 Total £m	31 August 1999 Total £m
Cost		
At the beginning of the year	**12**	–
Additions	**99**	12
At the end of the year	**111**	12
Amortisation		
At the beginning of the year	**–**	–
Charged in the year	**(3)**	–
At the end of the year	**(3)**	–
Net balance at the end of the year	**108**	12

Goodwill purchased during the year relates to the acquisition of 70% in Jinro Ballantines (see note 24) and is being amortised over 20 years.

Cost or valuation	Land and buildings £m	Plant and equipment £m	Total £m
At the beginning of the year	2,343	943	3,286
Currency translation adjustment	19	17	36
	2,362	960	3,322
Additions – acquisitions	2	2	4
– capital expenditure	30	57	87
Transfers	5	6	11
Disposal of UK Retail	(1,924)	(419)	(2,343)
Other disposals	(41)	(38)	(79)
At the end of the year	**434**	**568**	**1,002**
Depreciation			
At the beginning of the year	(158)	(515)	(673)
Currency translation adjustment	(7)	(6)	(13)
	(165)	(521)	(686)
Transfers	(3)	3	–
Disposal of UK Retail	10	202	212
Other disposals	20	20	40
Charge for the year	(11)	(40)	(51)
At the end of the year	**(149)**	**(336)**	**(485)**
Net Book Value at 31 August 2000	**285**	**232**	**517**
Net Book Value at 31 August 1999	2,185	428	2,613

Non-depreciated land and buildings of nil (1999: £1,778m) and capitalised interest of nil (1999: £3m) are included in the net balance at 31 August 2000.

	31 August 2000			31 August 1999		
	At valuation £m	**At cost £m**	**Net book value £m**	At valuation £m	At cost £m	Net book value £m
Freehold land and buildings	**–**	**377**	**255**	1,678	420	1,974
Long lease land and buildings	**–**	**2**	**2**	93	19	110
Short lease land and buildings	**–**	**55**	**28**	73	60	101
Total land and buildings	**–**	**434**	**285**	1,844	499	2,185

	Investments Listed £m	Investments Unlisted £m	Franchise loans £m	Loans £m	Total £m
Group					
At the beginning of the year	2	14	44	7	**67**
Less: non-recourse financing	–	–	(37)	–	**(37)**
Net balance	2	14	7	7	**30**
Currency translation adjustment	–	–	1	–	**1**
	2	14	8	7	**31**
Additions	39	–	–	–	**39**
Disposals and transfers	–	–	(2)	(1)	**(3)**
At the end of the year	41	14	42	6	**103**
Less: non-recourse financing	–	–	(36)	–	**(36)**
Net balance	**41**	**14**	**6**	**6**	**67**

The unlisted investments include a holding of 1% in Suntory Limited, incorporated in Japan.

Included within listed investments is £39m (1999: £1m) in respect of a holding of 11,804,307 (1999: 208,548) ordinary shares of 25p each of the company, held by the trustees of the group's employee trusts. The market value of these shares was £38m (1999: £1m) at 31 August 2000.

Parent company	Investment in subsidiary undertaking £m	Listed investments £m	Total £m
At the beginning of the year	6,489	–	**6,489**
Additions	–	39	**39**
Disposals	(2,552)	–	**(2,552)**
At the end of the year	**3,937**	**39**	**3,976**

	Cost £m	Associated undertakings Unlisted companies share of reserves £m	Associated undertakings Listed companies share of reserves £m	Loans £m	Joint venture undertaking £m	Total £m
At the beginning of the year	58	51	14	7	131	**261**
Currency translation adjustment	–	(3)	1	–	–	**(2)**
Disposals and transfers	(12)	(44)	–	(5)	(131)	**(192)**
Share of retained profit for the year	–	10	–	–	–	**10**
At the end of the year	**46**	**14**	**15**	**2**	**–**	**77**

The share of profits before taxation was £23m (1999: £12m) and dividends received were £8m (1999: £12m).

The joint venture undertaking formed part of the assets of UK Retail that were disposed on 6 September 1999. The group's share of the gross assets of the joint venture as at 31 August 1999 was £246m and the share of the gross liabilities was £115m.

The above figures comprise the amounts attributable to the group based on the latest accounts it has been practicable to obtain, some of which are unaudited management accounts.

	31 August 2000 £m	31 August 1999 £m
Raw materials and consumables	**27**	27
Maturing inventory	**730**	668
Finished products	**168**	163
Bottles, cases and pallets	**22**	19
	947	877

	Group 31 August 2000 £m	Group 31 August 1999 £m	Parent company 31 August 2000 £m	Parent company 31 August 1999 £m
Amounts due within one year				
Trade debtors	**492**	455	**–**	–
Advance corporation tax recoverable on foreign income dividends	**2**	41	**–**	–
Other debtors	**90**	134	**5**	–
Prepayments and accrued income	**62**	59	**–**	–
	646	689	**5**	–
Amounts due after more than one year				
Pre-paid pension costs	**247**	222	**–**	–
Advance corporation tax recoverable on foreign income dividends	**–**	39	**–**	–
Other debtors	**4**	5	**–**	–
Prepayments and accrued income	**9**	7	**–**	–
	260	273	**–**	–

	Group 31 August 2000 £m	Group 31 August 1999 £m	Parent company 31 August 2000 £m	Parent company 31 August 1999 £m
Amounts due within one year				
Trade creditors	**138**	186	**–**	–
Bills payable	**8**	14	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**397**	573
Other creditors	**257**	256	**2**	–
Social security	**7**	14	**–**	–
Taxation	**168**	186	**–**	–
Accruals and deferred income	**170**	272	**–**	–
Proposed dividend	**116**	–	**116**	–
	864	928	**515**	573
Amounts due after more than one year				
Other creditors	**29**	32	**–**	–
Accruals and deferred income	**8**	8	**–**	–
	37	40	**–**	–

	Post retirement medical benefits £m	Reorganisation and restructuring £m	Surplus properties £m	Deferred taxation £m	Total £m
At the beginning of the year	88	30	20	35	173
Currency translation adjustment	7	–	–	1	8
Utilised during the year	(3)	(25)	(4)	–	(32)
Disposal of businesses	–	–	–	(6)	(6)
Charged during the year	4	44	–	22	70
At the end of the year	**96**	**49**	**16**	**52**	**213**

The future cost of the post retirement medical benefits is assessed in accordance with independent actuarial advice.

It is expected that the majority of reorganisation and restructuring costs will be incurred in the next financial year.

The provision for surplus properties will be utilised over the terms of the leases. The current value of the contractual obligation is £16m (1999: £20m).

Deferred taxation	Amount provided 31 August 2000 £m	Full potential liability 31 August 2000 £m	Amount provided 31 August 1999 £m	Full potential liability 31 August 1999 £m
Timing differences	**52**	**67**	35	91

No amounts are provided above for potential tax liabilities which might arise in respect of the distribution of the unappropriated profits or reserves of subsidiary or associated undertakings outside the UK, since the directors are of the opinion that the likelihood of any material liability arising is remote.

[illegible]

[illegible]

	Redemption date	31 August 2000 £m	31 August 1999 £m
Unsecured loans			
*Revolving Credit Facility	2004	**67**	–
*Term Loan Facility	2001	**566**	590
*DEM500m notes (4.75%)	2005	**154**	165
*Other guaranteed loans	–	**4**	133
Other loans	–	**15**	16
Total		**806**	904
Less amounts repayable within one year		**–**	(124)
Loan capital stated in balance sheet		**806**	780
Bank overdrafts and short term borrowings		**558**	771
Total borrowings		**1,364**	1,551

*Borrowings and interest guaranteed by Allied Domecq PLC and Allied Domecq (Holdings) PLC.

The parent company has short term borrowings of £29m (1999: nil).

	31 August 2000 £m	31 August 1999 £m
Repayment schedule		
More than five years	**154**	181
Between two and five years	**81**	599
Between one and two years	**571**	–
Loan capital due after one year	**806**	780
Due within one year	**558**	771
Total debt	**1,364**	1,551

The funding policy of the group is to maintain a broad portfolio of debt, diversified by source and maturity and to maintain committed facilities sufficient to cover 130% of peak anticipated debt requirements. Total committed facilities in excess of net debt at 31 August 2000 were £778m (1999: £878m). At 31 August 2000 the group had available undrawn committed bank facilities of £1,215m (1999: £1,269m) of which £273m (1999: £248m) mature in less than one year and £942m (1999: £1,021m) between two and five years.

[illegible]. Financial instruments

The group's treasury policies are set out in the operating and financial review. Set out below is a year end comparison of the current and book values of the group's financial instruments by category. Where available, market rates have been used to determine current values. Where market rates are not available, current values have been calculated by discounting cash flows at prevailing interest and exchange rates.

	31 August 2000		31 August 1999	
	Book value £m	**Current value £m**	Book value £m	Current value £m
Cash and investments	**112**	**112**	236	236
Short term debt (including current portion of long term debt)	**(1,206)**	**(1,206)**	(1,362)	(1,362)
Long term debt	**(158)**	**(148)**	(189)	(184)
Total net debt	**(1,252)**	**(1,242)**	(1,315)	(1,310)

Interest risk management

Exposure to interest rate fluctuations on borrowings and deposits is managed by using interest rate swaps and purchased interest rate options. The group has a fixed/floating debt target of 60% +/– 10%. At the year end, taking account of interest rate swaps, 70% (1999: 72%) of net debt was at fixed rates of interest. At the year end, the weighted average maturity of net debt was approximately 1.4 years (1999: 1.8 years).

	31 August 2000		31 August 1999	
	Book value £m	Current value £m	Book value £m	Current value £m
Interest rate swaps	**2**	**34**	(3)	20

Of the deferred unrealised gain, being the net of the current value less book value, £7m (1999: £4m) relates to the financial year ending 31 August 2001 and £25m (1999: £19m) thereafter.

After taking account of interest rate swaps, the currency and interest rate exposure of net debt as at 31 August 2000 was:

	31 August 2000					31 August 1999				
			Fixed rate debt					Fixed rate debt		
	Net debt £m	Floating rate net debt £m	Fixed rate debt £m	Weighted average interest rate %	Weighted average time for which rate is fixed Years	Net debt £m	Floating rate net debt £m	Fixed rate debt £m	Weighted average interest rate %	Weighted average time for which rate is fixed Years
Sterling	**41**	**41**	–	–	–	(74)	(74)	–	–	–
Canadian dollar	**131**	**61**	**70**	**5.8**	**8**	124	61	63	5.8	9
US dollar	**465**	**51**	**414**	**5.9**	**5**	540	167	373	5.9	6
Euro	**545**	**158**	**387**	**3.8**	**5**	664	150	514	4.2	6
Other	**70**	**70**	–	–	–	61	61	–	–	–
Net borrowings	**1,252**	**381**	**871**	**5.0**	**5**	1,315	365	950	5.0	6

Some of the interest rate swaps included in the above table are cancellable at the option of the banks at various dates between 2002 and 2006. For the purposes of the above analysis it has been assumed that these swaps will be cancelled at the earliest possible date.

The floating rate debt includes bank debt bearing interest at rates based on the relevant inter bank rate and on commercial paper rates in the USA, Canada and France. These rates are fixed in advance for periods up to six months. The weighted average interest rate on floating net debt as at 31 August 2000 was 5.6% (1999: 5.0%).

Foreign exchange

The group estimates its net transaction cash flows, in its main currencies of business which are then hedged forward for up to 18 months using a combination of forward exchange contracts and purchased foreign exchange options. At the year end 87% (1999: 80%) of such currency exposures for the following 12 months had been hedged and 29% (1999: nil) had been hedged between 12 and 18 months.

The estimated current value of the foreign exchange cover forward contracts and options entered into to hedge future transaction flows is set out below based on quoted market prices where available and option pricing models.

		31 August 2000			31 August 1999		
		Nominal value of derivatives £m	Book value £m	Current value £m	Nominal value of derivatives £m	Book value £m	Current value £m
Foreign exchange forward rate contracts:	– assets	**54**	**1**	**1**	55	–	1
	– liabilities	**271**	**(2)**	**(14)**	129	(1)	(3)
Options	– assets	**1**	–	–	–	–	–
	– liabilities	**3**	–	–	–	–	–
		329	**(1)**	**(13)**	184	(1)	(2)

Of the deferred unrealised loss of £12m being the net of current value less book value, £11m (1999: £1m) relates to hedges and transactions expected to occur in the year to 31 August 2001 and £1m (1999: nil) in the following financial year. A net loss of £6m was recognised on all foreign exchange forward contracts and options maturing in the year to 31 August 2000 (1999: £3m).

At 31 August 2000, there were no material monetary assets or liabilities in currencies other than the functional currencies of group companies, having taken into account the effect of derivative financial instruments that have been used to hedge foreign currency exposure.

	Authorised		Allotted, called up and fully paid	
	31 August 2000 £m	31 August 1999 £m	**31 August 2000 £m**	31 August 1999 £m
Equity				
Ordinary shares of 325p	**–**	3,900	**–**	3,470
Ordinary shares of 25p	**300**	–	**267**	–
	300	3,900	**267**	3,470
	Authorised		**Issued**	
	million	million	**million**	million
Number of shares	**1,200**	1,200	**1,068**	1,068

Reduction in nominal value

On 6 September 1999, the company registered a reduction of capital under section 135 Companies Act 1985 in order to effect the disposal of the UK Retail business. Accordingly, the nominal value of the company's ordinary shares was reduced from 325p to 25p.

Share option schemes

During the year, new employee share option schemes have been established and options were granted over 13,178,732 shares under the schemes. Options were exercised over 29,668 shares and options over 255,406 shares lapsed during the year.

Details of the unexercised options granted under the company's employee share option schemes at 31 August 2000 were as follows:

	Date of grant	Option price (p)	Ordinary shares
SAYE Scheme 1999	3 December 1999	262.0	1,736,365
International SAYE Scheme 1999	2 June 2000	265.0	1,281,755
	2 June 2000	282.0	81,838
United States Share Purchase Plan	2 June 2000	282.0	463,228
Approved Executive Share Option Scheme 1999	5 May 2000	331.0	63,441
Executive Share Option Scheme 1999	1 November 1999	342.0	6,539,121
	16 November 1999	331.5	2,245,526
	5 May 2000	331.0	482,384
			12,893,658

The company currently satisfies the exercise of options using existing shares that are purchased in the market by the group's employee trusts. As at 31 August 2000 the group's employee trusts held 11,804,307 shares in the company all of which were the subject of options granted under the group's employee share schemes. The trustees are obliged to waive the dividends on these shares. The options exercised during the year were all satisfied by the transfer of shares to participants by the employee trusts.

Capital and reserves	Share capital £m	Share premium account £m	Merger reserve £m	Revaluation reserve £m	Profit and loss account £m	**Total £m**
Group						
At the beginning of the year	3,470	26	(2,586)	960	403	**2,273**
Capital reduction due to disposal of UK Retail business	(3,203)	–	1,763	(958)	104	**(2,294)**
Profit earned for shareholders for the year	–	–	–	–	317	**317**
Revaluation reserve realised	–	–	–	(2)	2	**–**
Currency translation differences on foreign currency net investments	–	–	–	–	7	**7**
Ordinary dividends	–	–	–	–	(116)	**(116)**
Goodwill written back on disposals	–	–	–	–	3	**3**
At the end of the year	**267**	**26**	**(823)**	**–**	**720**	**190**

Goodwill (at historic exchange rates) of £2,284m arising on acquisitions up to 31 August 1998 has been written off to reserves.

Parent Company	Share capital £m	Share premium account £m	Merger reserve £m	Capital reserve £m	Profit and loss account £m	Total £m
At the beginning of the year	3,470	26	2,420	–	–	**5,916**
Capital reduction due to disposal of UK Retail business	(3,203)	–	–	651	–	**(2,552)**
Profit earned for shareholders for the year	–	–	–	–	73	**73**
At the end of the year	**267**	**26**	**2,420**	**651**	**73**	**3,437**

	Equity £m	Non-equity £m	Total £m
At the beginning of the year	**24**	**2**	**26**
Currency translation adjustment	**6**	**–**	**6**
Share of profits of subsidiary undertakings	**8**	**1**	**9**
Dividends declared	**(3)**	**(1)**	**(4)**
Additions	**33**	**–**	**33**
Disposals	**(4)**	**–**	**(4)**
At the end of the year	**64**	**2**	**66**

	Total £m
Net assets acquired	
Fixed assets	**4**
Stocks	**29**
Debtors	**15**
Creditors	**(11)**
Minority interests	**(33)**
Goodwill	**99**
Purchase consideration	**103**

The only acquisition during the year was the purchase of 70% in Jinro Ballantines which was completed on 15 February 2000. In addition, £25m was paid for the purchase of Jinro's bulk scotch whisky inventory. There were no fair value adjustments made to the net assets acquired.

On 6 September 1999 the group completed the disposal of its UK Retail business to Punch. The ultimate consideration for the disposal was cash, with a loan note alternative, from Punch and newly issued Bass PLC shares, all passing directly to the group's shareholders. On 5 October 1999, the total consideration was paid amounting to £2,591m (based on Bass PLC share price on the London Stock Exchange).

Additionally £75m was paid to Punch on 6 September representing the value of the group's investment in Britannia which has been retained by the group as it did not form part of the disposal as was originally intended. £54m has been paid since 6 September representing the net movements on the UK Retail business inter-company accounts between 6 February and 6 September 1999.

Certain warranties relating to the UK Retail business have been given but these are qualified by disclosures made. Punch will not be able to claim against the group in relation to those matters disclosed.

	Total £m
The following assets were disposed of:	
Tangible fixed assets	**2,131**
Investments	**1**
Joint venture undertaking	**131**
Stocks	**13**
Debtors	**73**
Creditors	**(177)**
Taxation	**(32)**
Net borrowings less cash	**25**
Payments to Punch	**129**
	2,294

	Year to 31 August 2000 Total £m	Year to 31 August 1999 Total £m
Returns on investment and servicing of finance		
Interest received	**21**	10
Interest paid	**(98)**	(125)
Premium on redemption of debentures and loan stock	**–**	(272)
Dividends paid to minority shareholders	**(4)**	(4)
	(81)	(391)
Taxation paid		
UK taxation	**77**	(58)
Overseas taxation	**(56)**	(103)
	21	(161)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(87)**	(208)
Sale of tangible fixed assets	**115**	57
Net decrease in trade investments	**–**	1
Net increase in franchise loans	**–**	(1)
Purchase of ordinary share capital for employee trusts	**(39)**	–
	(11)	(151)
Acquisitions and disposals		
Purchase of subsidiary undertakings	**(103)**	(14)
Purchase of associated undertaking and joint venture undertakings	**–**	(9)
Sale of subsidiary undertakings	**–**	430
Disposal of UK Retail:		
Payment relating to UK Retail cash flows	**(54)**	–
Payment relating to investment in Britannia Soft Drinks	**(75)**	–
Disposal costs	**(33)**	–
Cash and overdrafts disposed of with subsidiary undertakings	**(25)**	48
Sale of associated undertakings	**73**	21
	(217)	476
Financing		
Issue of ordinary share capital	**–**	112
Redemption of preference shares	**–**	(11)
Redemption of long term debt	**–**	(587)
(Decrease)/increase in other debt	**(68)**	269
	(68)	(217)

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	Year to 31 August 2000 Continuing £m	Year to 31 August 1999 Continuing £m	Discontinued £m	Total £m
Net cash inflow from operating activities	**372**	349	202	551
Capital expenditure net of sale of tangible assets	**28**	(51)	(100)	(151)
Acquisition/disposal provision expenditure	–	37	1	38
Net increase in franchise loans	–	(1)	–	(1)
Dividends received from associated undertakings	**8**	12	–	12
Operating cash net of fixed assets	**408**	346	103	449
Taxation paid	**21**	(116)	(45)	(161)
Net interest paid (excludes premia arising on repayment of debt)	**(77)**	(115)	–	(115)
Dividends paid – ordinary shareholders	–	(320)	–	(320)
– minorities	**(4)**	(4)	–	(4)
Free cash flow (before acquisitions and disposals)	**348**	(209)	58	(151)

28. Net debt

	Cash at bank and in hand £m	Borrowings due within one year £m	Loan capital due within one year £m	Loan capital due after one year £m	Year to 31 August **2000 Net debt £m**	1999 Net debt £m
At the beginning of the year	236	(647)	(124)	(780)	**(1,315)**	(1,401)
(Decrease)/increase in cash	(75)	151	–	–	**76**	(253)
(Decrease)/increase in liquid resources	(52)	–	–	–	**(52)**	52
Decrease/(increase) in loan capital	–	–	115	(47)	**68**	318
Non cash movements on recourse finance	–	–	–	–	–	(6)
Exchange adjustments	3	(62)	9	21	**(29)**	(25)
At the end of the year	**112**	**(558)**	–	**(806)**	**(1,252)**	(1,315)

Liquid resources comprise short term deposits which have maturity dates of less than one year.

29. Capital commitments

	31 August 2000 £m	31 August 1999 £m
Contracted for but not provided in the accounts	**12**	10

30. Operating lease commitments

	Land and buildings 31 August 2000 £m	**Other 31 August 2000 £m**	Land and buildings 31 August 1999 £m	Other 31 August 1999 £m
The minimum operating lease payments to be made in the year ending 31 August 2001 for leases expiring:				
Within one year	**1**	**1**	2	1
Within two to five years	**20**	**4**	14	7
After five years	**19**	**1**	36	1
	40	**6**	52	9

	Group		Parent company	
	31 August 2000 £m	31 August 1999 £m	**31 August 2000 £m**	31 August 1999 £m
Guarantees in respect of liabilities of subsidiary undertakings	**–**	–	**1,256**	67
Other contingent liabilities	**1**	2	**–**	–
	1	2	**1,256**	67

No security has been given in respect of any contingent liability. Parent company guarantees have increased during the year mainly due to guarantees transferred from Allied Domecq (Holdings) PLC.

In the normal course of business, the group has a number of legal claims or potential claims against it, the outcome of which cannot at present be determined. The group has given warranties in respect of the disposal of certain of its former businesses. Provision is made in these financial statements for all liabilities which are expected to materialise.

Transactions with associated and joint venture undertakings
All transactions with these undertakings arise in the normal course of the business.

	Year to 31 August 2000 £m	Year to 31 August 1999 £m
Sales to associated and joint venture undertakings	**36**	54
Purchases of goods and other services	**(8)**	(8)
Marketing expenditure charged	**(11)**	(15)
Dividends received	**8**	12

	As at 31 August 2000 £m	As at 31 August 1999 £m
Loans to associated and joint venture undertakings	**2**	26
Less provisions	**–**	(6)
	2	20
Net amounts due from associated and joint venture undertakings	**11**	14

Transaction with the Allied Domecq Pension Fund
During the year Allied Domecq (Holdings) PLC jointly sold with the Allied Domecq UK Pension Fund a property over which the company had a put option with the Fund. The proceeds from the disposal were shared between the two parties.

Transactions with directors
Remuneration and shareholdings of directors are disclosed in the remuneration report.

Profit and loss account for the year	1996 £m	1997 £m	1998 £m	1999 £m	**2000 £m**
Continuing operations	2,623	2,506	2,398	2,408	**2,602**
Discontinued operations	2,747	1,943	1,910	1,695	**30**
Turnover	5,370	4,449	4,308	4,103	**2,632**
Continuing operations	427	421	427	430	**487**
Discontinued operations	302	294	294	241	**13**
Trading profit	729	715	721	671	**500**
Finance charges	(154)	(108)	(106)	(92)	**(83)**
Normalised profit before the following items:	575	607	615	579	**417**
Goodwill amortisation	–	–	–	–	**(3)**
Exceptional operating costs	–	–	(87)	(253)	**(54)**
Profits/(losses) on sales of businesses and fixed assets	(311)	(5)	(37)	167	**59**
Debenture/loan stock repayment premia	–	–	(36)	(272)	**–**
Profit on ordinary activities before taxation	264	602	455	221	**419**
Taxation	(174)	(170)	(160)	(139)	**(93)**
Minority interests and preference dividends	(48)	(31)	(21)	(6)	**(9)**
Earned for ordinary shareholders	42	401	274	76	**317**
Earnings and dividends					
Earnings per ordinary share – basic	4.1p	38.6p	26.3p	7.3p	**29.9p**
– ongoing normalised	13.3p	18.7p	20.8p	24.2p	**27.4p**
Dividends per ordinary share	23.60p	24.44p	25.33p	15.00p	**11.00p**
Cover for ordinary dividends (normalised)	1.4x	1.6x	1.7x	2.7x	**2.5x**

Ongoing normalised earnings per ordinary share exclude discontinued operations and the taxation thereon.

Balance sheet at year end	1996 £m	1997 £m	1998 £m	1999 £m	**2000 £m**
Assets employed					
Fixed assets	3,019	2,935	2,946	2,916	**769**
Net current assets excluding net borrowings	759	665	696	911	**989**
Creditors over one year and provisions	(242)	(186)	(174)	(213)	**(250)**
Total assets	3,536	3,414	3,468	3,614	**1,508**
Short term borrowings less cash	(175)	(77)	(543)	(535)	**(446)**
Loan capital	(1,090)	(1,065)	(858)	(780)	**(806)**
Net assets	2,271	2,272	2,067	2,299	**256**
Financed by					
Share capital and share premium	777	783	807	3,496	**293**
Merger reserve	–	–	–	(2,586)	**(823)**
Revaluation reserve	985	956	976	960	**–**
Profit and loss account	381	397	245	403	**720**
Minority interests	128	136	39	26	**66**
Shareholders' funds and minorities	2,271	2,272	2,067	2,299	**256**

Cash flow statement for the year	1996 £m	1997 £m	1998 £m	1999 £m	**2000 £m**
Operating cash flow	896	703	712	600	**380**
Capital expenditure	(277)	(220)	(221)	(211)	**(87)**
Proceeds from sale of fixed assets	69	105	74	60	**115**
Operating cash net of fixed assets	688	588	565	449	**408**
Tax (paid)/repaid	(111)	(129)	(141)	(161)	**21**
Interest paid	(148)	(105)	(105)	(115)	**(77)**
Dividends paid – to shareholders	(213)	(242)	(258)	(320)	**–**
– to minorities	(9)	(8)	(98)	(4)	**(4)**
Free cash flow after dividends paid	207	104	(37)	(151)	**348**
Acquisitions	(123)	(116)	(191)	(51)	**(103)**
Disposals	314	48	(63)	490	**(114)**
Financing	–	–	(36)	(289)	**–**
Share capital issued/(acquired)	13	4	25	112	**(39)**
Foreign currency translation of net debt	*13*	*83*	*34*	*(25)*	**(29)**
Other items	–	–	9	–	**–**
Movement in net debt	424	123	(259)	86	**63**
Opening net debt	(1,689)	(1,265)	(1,142)	(1,401)	**(1,315)**
Closing net debt	(1,265)	(1,142)	(1,401)	(1,315)	**(1,252)**

Group highlights in the Euro and US dollar

	Sterling		Euro		US dollar	
	2000 £	1999 £	**2000 €**	1999 €	**2000 $**	1999 $
EBIT	**487m**	430m	**799m**	654m	**706m**	692m
EBITDA	**538m**	479m	**882m**	728m	**780m**	771m
Earnings per share	**0.274**	0.242	**0.449**	0.367	**0.397**	0.390
Dividends per share	**0.110**	0.150	**0.180**	0.228	**0.160**	0.242
Net assets	**256m**	2,299m	**420m**	3,494m	**371m**	3,701m
Free cash flow after dividends paid	***348m***	*(151)m*	***571m***	*(230)m*	***505m***	*(243)m*

Figures stated in the Euro and the US dollar have been translated at the 31 August closing rates of exchange for each year. 1999 figures are pro forma.

Allied Domecq Spirits & Wine Limited, Bristol

Principal subsidiaries and associates	*Country of Operation*	*Equity Interest (%)*	*Principal brands and products*
Americas			
Corby Distilleries Limited*	Canada	46.6	Lamb's rums, Canadian Club, Wiser's Deluxe, Royal Reserve whiskies
Hiram Walker & Sons Limited	Canada	100	Canadian Club, Canadian Club Classic whiskies
Wine Alliance Inc. (now trading as Allied Domecq Wines, USA)	USA	100	Atlas Peak, Clos du Bois, Callaway, William Hill California wines, Harveys
Allied Domecq Spirits & Wine USA, Inc. (now trading as Allied Domecq Spirits, USA)	USA	100	Kahlúa, Sauza, Beefeater, Courvoisier, Canadian Club, Maker's Mark
Industrias Vinicolas Pedro Domecq SA de CV**	Mexico	100	Presidente, Don Pedro, Ballantine's, Kahlúa, Tequila Sauza, Caribe Cooler, Azteca de Oro
Maker's Mark Distillery Inc.	USA	100	Maker's Mark
Europe			
Allied Domecq Spirits & Wine Deutschland GmbH	Germany	100	JACoBI '1880' VSOP German brandy, Ballantine's, Beefeater, Canadian Club, Fürst Bismarck
Allied Domecq Spirits & Wine (UK) Limited	UK	100	Beefeater, Teacher's, Harveys, Cockburn's, Courvoisier, Tia Maria
Ballantine's SA	France	100	Ballantine's, Beefeater, Long John, Courvoisier, Kahlúa
Allied Domecq Spirits & Wine (Benelux) BV	Benelux countries	100	Ballantine's, Courvoisier, Teacher's, Tia Maria, Cockburn's, Olifant Genever, La Chasse du Pape
Pedro Domecq SA	Spain	100	Carlos I, Carlos III, Fundador, Centenario, Ballantine's, Beefeater, Anis La Castellana, DYC whisky, Doble V, La Ina
Allied Distillers Limited	Scotland	100	Ballantine's, Teacher's, Long John, Glendronach, Laphroaig whiskies
James Burrough Limited	England	100	Beefeater, Crown Jewel, Lamb's rums
John Harvey BV	Spain	100	Harveys sherries
Courvoisier SA	France	100	Courvoisier 3 star, VSOP, Napoleon XO cognacs
Cockburn Smithes & Cia, SA	Portugal	100	Cockburn's ports
Asia Pacific			
Suntory Allied Limited	Japan	49.99	Ballantine's, Courvoisier, Kahlúa, Canadian Club, Beefeater
Allied Domecq Philippines Inc.	Philippines	100	Fundador, Beefeater, Ballantine's
Jinro Ballantines Company Limited	South Korea	70	Imperial
Jinro Ballantines Import Company Limited	South Korea	70	Ballantine's, Canadian Club, Courvoisier

*The group has a 51.61 per cent voting interest in this company.
** This company has a financial year end of 31 December.

	Country of Operation	Equity Interest (%)	Principal brands and products
Allied Domecq Retailing (USA)	USA	100	Baskin-Robbins ice cream, Dunkin' Donuts, Togo's Eateries (sandwiches)
Allied Domecq Retailing (International)	Worldwide outside USA	100	Baskin-Robbins ice cream, Dunkin' Donuts

The group has an investment in Britannia Soft Drinks Limited (25 per cent equity interest).

The group also has companies/investments in a number of other countries including Argentina, Australia, Austria, Brazil, Chile, China, Colombia, Croatia, Czech Republic, Denmark, Finland, Greece, Hong Kong, Hungary, Iceland, India, Italy, Jamaica, Malaysia, Norway, Poland, Russia, Singapore, Slovenia, Sweden, Switzerland, Taiwan, Thailand, Venezuela and Vietnam.

Analysis of shareholdings

The tables below show an analysis of ordinary shareholdings as at 31 August 2000:

	Holders	Percentage	Shares held	Percentage
Private holders	43,587	86.19	57,648,580	5.39
Corporate holders	7,008	13.81	1,009,921,734	94.61
	50,595	100.00	1,067,570,314	100.00
Numbers of shares held:				
1 – 10,000	48,909	96.67	58,213,508	5.45
10,001 – 50,000	855	1.69	17,978,737	1.68
50,001 – 250,000	429	0.85	54,762,309	5.13
250,001 – 1,000,000	258	0.51	126,909,761	11.89
over 1,000,000	144	0.28	809,705,999	75.85
	50,595	*100.00*	*1,067,570,314*	*100.00*

Financial Calendar

Ex dividend date for final dividend	27 December 2000
Record date for final dividend	3 January 2001
Annual General Meeting	29 January 2001
Final dividend payable	*2 February 2001*
Interim results announced (provisional)	1 May 2001
Ex dividend date for interim dividend (provisional)	20 June 2001
Record date for interim dividend (provisional)	*22 June 2001*
Interim dividend payable (provisional)	27 July 2001

Annual General Meeting The AGM of the company will be held at 11.30 am on 29 January 2001 at the Hotel Inter-Continental London, One Hamilton Place, Hyde Park Corner, London W1V 0QY. The notice of meeting is set out in the chairman's letter to shareholders.

Shareholder enquiries

UK – Registrar Enquiries relating to administrative matters should be addressed to the company's registrars at Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA. Tel: 0870 600 3984. Alternatively, individual shareholding information can be accessed at *www.shareview.co.uk*

USA – ADR administration For enquiries regarding ADRs please contact:
The Bank of New York, Shareholder Relations, PO Box 11258, Church Street Station, New York, NY 10288-1258.
Tel: 1 (888) BNY-ADRS (toll free in the USA); e-mail: *adr@bankofny.com*; Internet: *www.adrbny.com*

Company Secretary and Registered Office Other enquiries should be addressed to the Secretariat, Allied Domecq PLC, The Pavilions, Bridgwater Road, Bedminster Down, Bristol BS13 8AR. Tel: +44 (0)117 978 5000.

Institutional shareholder enquiries Institutional shareholder enquiries should be addressed to Peter Durman, Director of Investor Relations, at the registered office; Tel: +44 (0)117 978 5753; e-mail: *peter.durman@adsweu.com*

Environment and alcohol issues *For further details about our environmental and alcohol policies and related literature, please* write to: Jan Buckingham, Director of Alcohol and Social Policy, at the registered office.

Internet *Corporate information, including press releases, annual reports and presentations, can be downloaded from the group's* website at *www.allieddomecqplc.com*

Share price quotation Please refer to BBC Ceefax page 221, Channel 4 Teletext page 511 or the investor relations section of the group's website. Latest information is also available on Tel: 0891 222336 (calls are charged at 60p per minute at all times, including VAT).

Low cost dealing service For information, please contact Cazenove & Co., 12 Tokenhouse Yard, London EC2R 7AN.
Tel +44 (0)20 7606 1768.

Advertising and promotion (A&P) Expenditure on advertising and promotion of brands.

Associated undertaking An entity in which the group is able to exercise significant influence, normally by controlling more than 20 per cent of the voting rights.

BMC Brand Market Combination. For example, Ballantine's in Spain is a BMC.

Bulk sales Sales of unbottled/unbranded spirit sold in bulk to other spirits producers.

Constant actual exchange Profits or earnings where the prior year results of operations outside the UK are stated in sterling at the current year weighted average exchange rate to give a constant measure of growth year on year.

Core 4 and next 18 brands The 4 global priority brands – Ballantine's, Beefeater, Kahlúa and Sauza. After the Core 4 the next 18 brands are those that have a strong position in selected markets – Canadian Club, Centenario, Cockburn's, Courvoisier, Don Pedro, DYC, Fundador, Harveys, HW Liqueurs, Imperial, Lamb's Rum, Laphroaig, Long John, Maker's Mark, Presidente, Teacher's, Tia Maria, US Wines.

Dividend cover Earnings per share divided by dividends per share, to assess the group's ability to pay dividends.

Earnings per share (EPS) Profit for the year after tax and minority interests (Earnings) divided by the average number of shares.

EBIT Earnings Before Interest and Tax.

EBITDA Earnings Before Interest, Tax, Depreciation of tangible assets and Amortisation of intangible assets.

Exceptional items Gains or costs that are disclosed separately because they arise outside the normal business activity.

Foreign income dividend (FID) Dividends paid to shareholders out of foreign income remitted to the UK and on which no advance corporation tax credit is available to shareholders.

Franchising Business where individuals and/or corporations are provided with the rights to market a specific company's goods and/or services in a designated area for a designated fee.

Gearing – enterprise value (EV) Net debt expressed as a percentage of the total of the group's market capitalisation plus net debt.

Goodwill The difference between the price paid for an acquisition and the fair value of the assets and liabilities acquired.

Market capitalisation The price of one of the company's ordinary shares multiplied by the number of shares in issue.

Net Brand Contribution (NBC) A measure of brand profitability before overhead costs but after A&P has been allocated.

Normalised Profits or earnings before exceptional items and goodwill and excluding discontinued operations.

Punch The acquiring company of the UK Retail business.

Ready to Drink (RTD) These are drinks which are sold in a premixed format.

Reserves Mainly profits and surpluses retained within the business.

Return on investment (ROI) Trading profit after tax expressed as a percentage of the total of capital and reserves plus net debt and goodwill written off.

Same store sales Sales from established stores that have traded for at least two years and therefore the year on year comparison is not distorted by openings and closings.

Subsidiary undertaking An entity in which the group exercises a dominant influence, normally by controlling more than 50 per cent of the voting rights.

Year 2000 Computer and business system problems that might have arisen from the year 1999 changing to the year 2000.

Designed and produced by Pauffley • Photography by John McDermott • Tim Barker and Nigel Davies
Typeset by Generator • Printed by Royle Corporate Print

The paper used is [illegible] which is fully recyclable and made from pulps sourced from sustainable forests in Austria.
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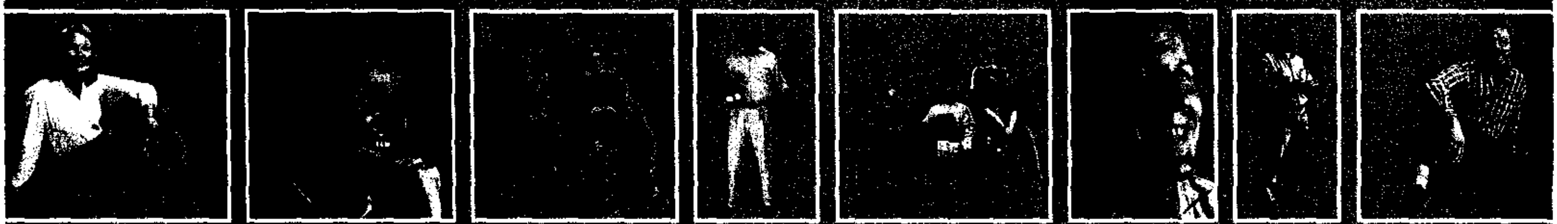
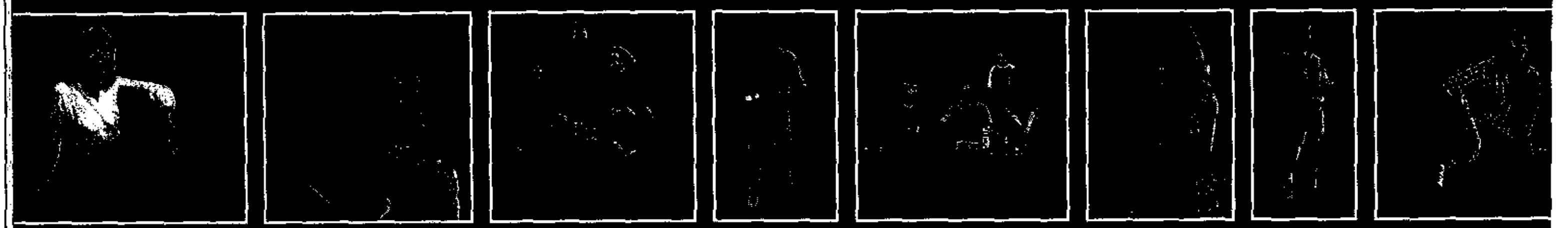


Allied Domecq PLC The Pavilions Bridgwater Road Bedminster Down Bristol BS13 8AR Registered number: 3771147
Telephone: + 44 (0)117 978 5000 *Internet:* http://www.allieddomecqplc.com



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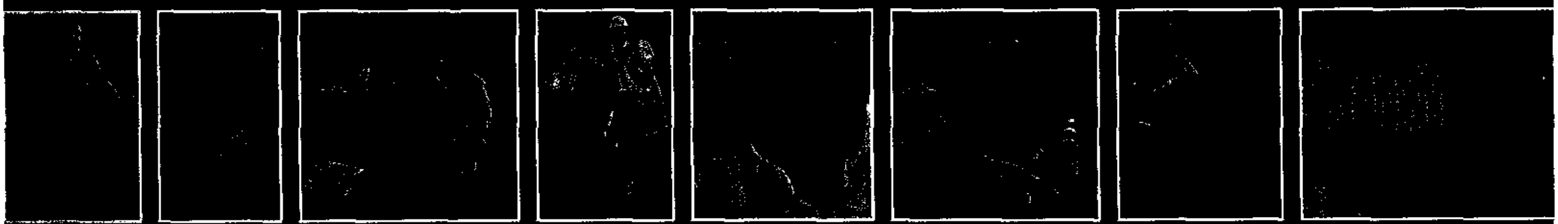
ALLIED DOMECQ



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Annual Report and Accounts 2000

Allied Domecq is a dynami

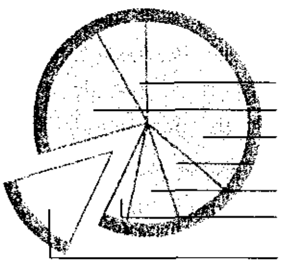
We operate globally in the businesses of Spirits & Wine and Quick Service Restaurants

marketing-led brands company

Financial highlights

	2000	1999	% growth
Trading profit	**£487m**	£430m	13
Profit before tax	**£404m**	£349m	16
Normalised earnings per share	**27.4p**	24.2p	13
Spirits & Wine turnover	**£2,297m**	£2,110m	9
Marketing investment behind Spirits & Wine brands	**£301m**	£275m	9
Return on investment	**9.3%**	8.3%	

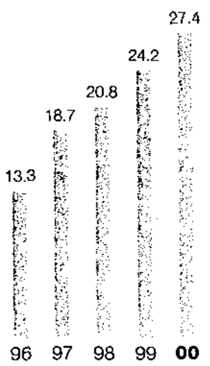
Profits and earnings exclude those of discontinued operations, see note 1 of the accounts.



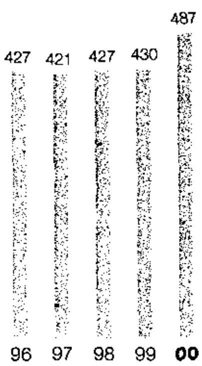
Trading profit by business area

Spirits & Wine		
UK	£39m	(8%)
Europe (excluding UK)	£102m	(21%)
Americas	£174m	(36%)
Mexico	£41m	(8%)
Asia Pacific	£40m	(8%)
Other	£18m	(4%)
QSR	£64m	(13%)
Excluding Britannia	£9m	(2%)

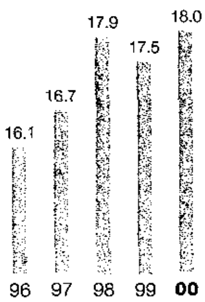
Earnings per share
pence



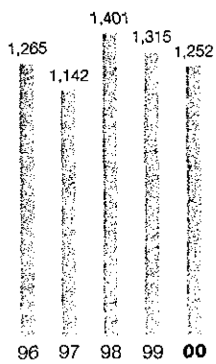
Trading profit
£m



Spirits & Wine margin
%

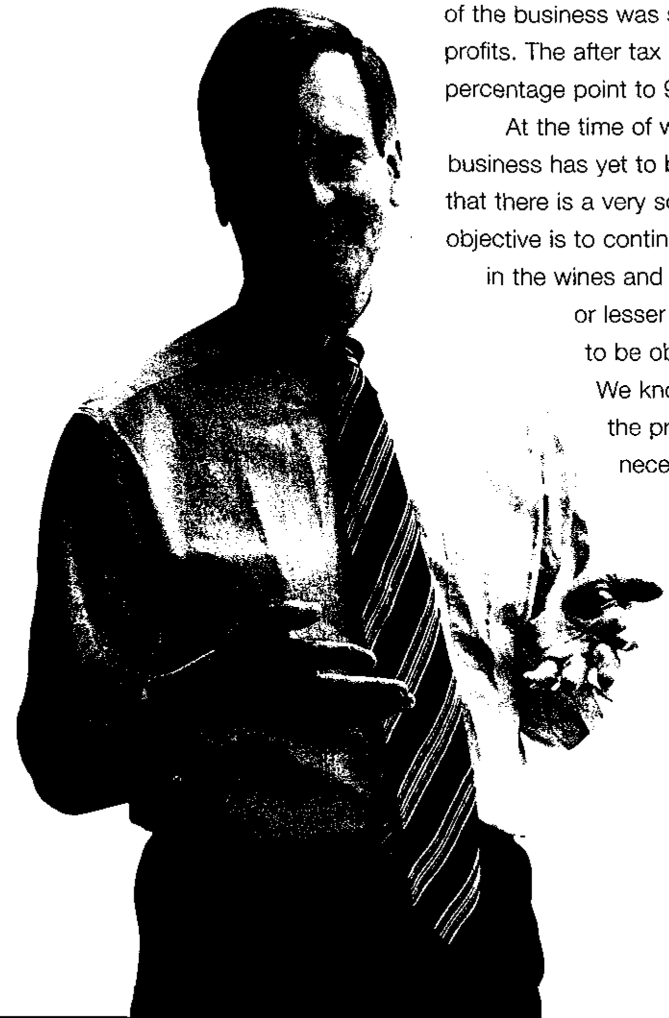


Net debt
£m



The first year of the "new
has produced

Under Philip Bowman's leadership a strong forward momentum has been established. In consequence, most key measures of performance throughout the business indicate a marked and continuing improvement. High morale, confidence and teamwork are widely evident. Complacency is not.



Profits before tax increased by 16 per cent. This was despite adverse factors, in particular the severity of the agave shortage which materially curtailed sales of Sauza tequila, one of the company's four main brands. Turnover was up 9 per cent and normalised earnings per share up 13 per cent. The cash flow of the business was strong, both absolutely and as a percentage of trading profits. The after tax return on investment improved over last year by a full percentage point to 9.3 per cent.

At the time of writing this, the destiny of Seagram's wines and spirits business has yet to be determined. Whatever the outcome, we are confident that there is a very sound future for Allied Domecq. The board's primary objective is to continue to grow earnings at a double digit rate. Consolidation in the wines and spirits industry will certainly play a part in this to a greater or lesser extent, since there are undoubted savings and benefits to be obtained from strengthening the company's brand portfolio. We know, however, that we cannot rely on consolidation as the primary means of expanding earnings. Bigger is not necessarily better. The best way of achieving growth is to

” Allied Domecq

encouraging results

A top ten player in a growing international wine market, we are now looking for further opportunities to expand our wine business. John Calmeyer has worked on the launch of Callaway Coastal, marking a major makeover for the Callaway Winery – Southern California's largest winery.

expand the volume sales of our leading brands, including those in the Quick Service Restaurants business. This will call for levels of skill and consistency well beyond what has been achieved in recent years. But the streamlining of the company has given us the opportunity to reach these over time and we are confident of doing so.

It has been a hard but rewarding year for everyone in the business. I am glad to have the opportunity of paying tribute to their efforts and conveying the thanks of the board.

Chris Hogg ×   Chris Hogg ×
CAH

Sir Christopher Hogg
Chairman

To achieve our aim of becoming a world class, marketing-led brands business, a Spirits Marketing University has been established as a centre of excellence for spirits marketing. Paul Buckley, who has led the initiative, commented: "This is already showing benefits in the form of a common set of tools and principles to ensure we all talk the same marketing language."

Our brands and our people are at the core of all we do. In previous years, our Annual Report has focused exclusively on our brands; this year we focus on both.

It has been a year of both challenge and excitement as we have set out to kindle a more entrepreneurial spirit within the company and become a dynamic marketing-led brands business following the disposal of the UK Retail assets. My objective is simple – a commitment to being the best at what we do. To achieve this goal, we are creating a more proactive organisation that shares best practice globally but operates with pace and local autonomy in day-to-day business decision-making. Cultural change within the company has begun but we still have a long road ahead before we can be considered best of class in our industry.

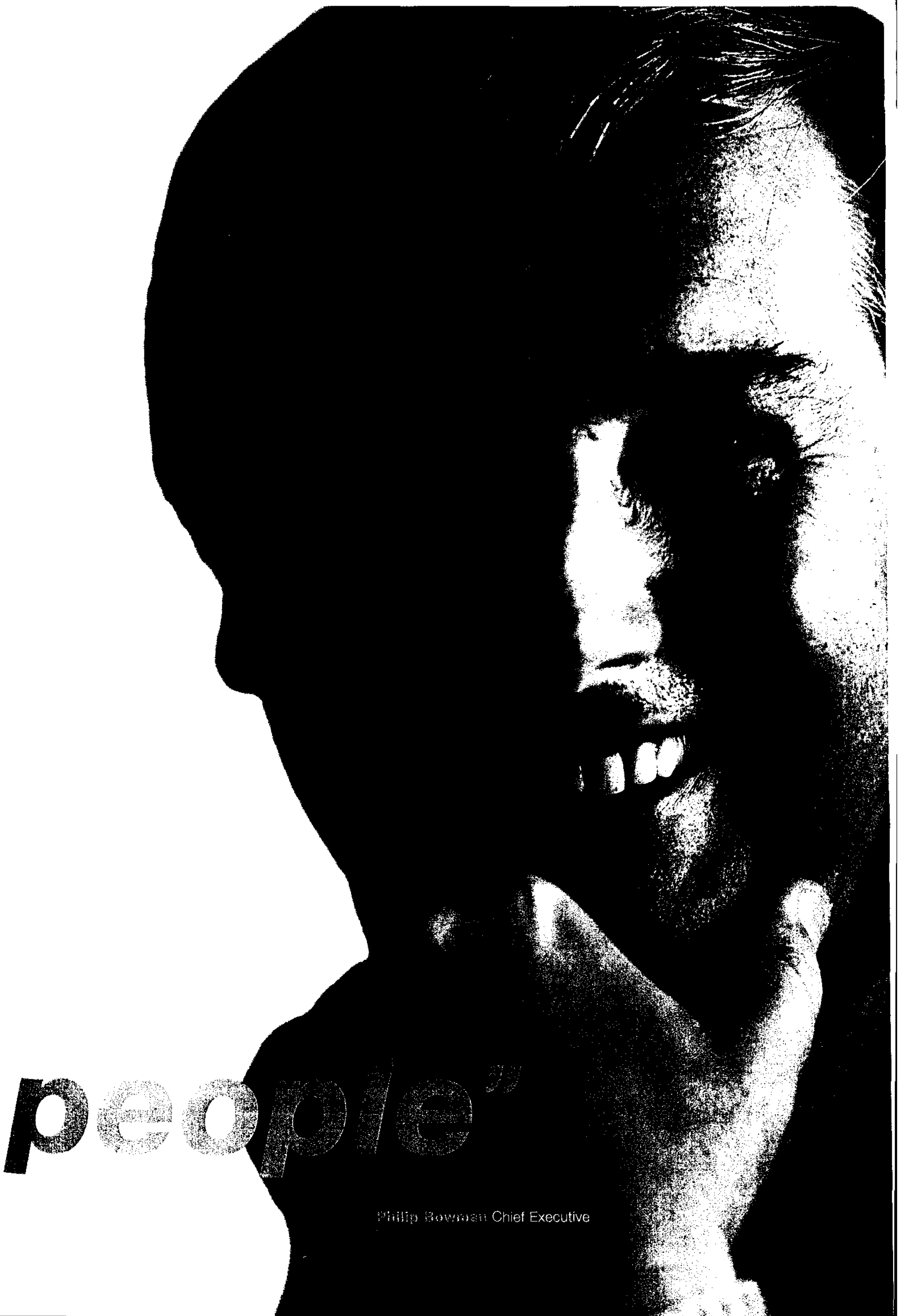
We have a clear strategy to deliver improved business performance. We have prioritised five key areas:

- Focusing on brands to build profitable growth;
- Building brands by working together on customer and consumer oriented skills;
- Working efficiently;
- Accelerating the pace of innovation; and
- Focusing the business.

The results of these actions by our people are reflected in our results and we report progress against these areas in this annual report.

Looking ahead, we see significant opportunities, particularly in the USA, to improve further the performance of our existing business. In parallel, now that we have largely completed the disposal of non-core assets, additional resource will be applied to strengthening our portfolio of spirits and wine brands by way of acquisition or joint venture. Whilst industry consolidation appears significantly more likely than it did to most commentators only 12 months ago, our commitment to participate in this process will be tempered by our determination to create value for our shareholders from any transaction.

"Allied Domecq is about brands and


people”
Philip Bowman Chief Executive

Operating and financial review

The launch of Ballantine's Malt in France took this traditionally "elitist" category in a whole new direction. "We wanted the brand to have a strong identity," Anne Dewavrin explains. "All of our marketing and point of sale activities have positioned the new malt as welcoming, convivial and accessible to blended whisky drinkers."

This has been a year of significant change for the group with major restructuring and refocusing of the business. Against this background of change, we are delivering our objective to grow the profitable volume of leading brands whilst continuing the process of cost reduction across the business. We set out this year to continue the rapid and effective implementation of our strategy to enhance the performance of all our operations. We have sought to become leaner and more responsive – to speed up decision making and to push accountability out into the business. This is enabling us to be more competitive and to respond more quickly to our customers and changing market conditions. Our approach is supported by the development of our management capabilities, the implementation of a new reward strategy and the increased spread of best practice around the world. We are also seizing the significant opportunities to improve the performance of our asset base to raise returns on capital.

Our strategy is delivering real results with an increase in normalised earnings per share of 13 per cent to 27.4p. Trading profit on an ongoing basis is £487m, an increase of 13 per cent and comparable profit before tax is up 16 per cent to £404m. Regional management performance at constant actual foreign exchange rates is reviewed below.

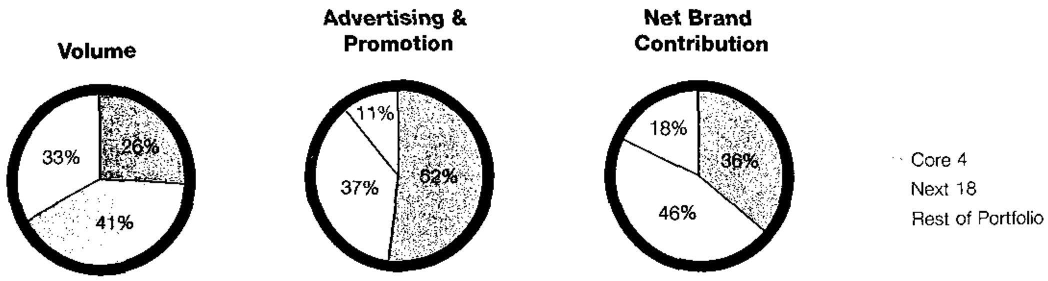
The directors are recommending a final dividend of 7.0p per share giving a total for the year of 11.0p per share. This is broadly in line with our policy for dividend cover to be approximately 2.5 times and will enable us to retain sufficient cash flow to finance both investment in brands and expansion of the business.

Spirits & Wine

- Trading profit up 13 per cent to £414m
- Turnover up 9 per cent to £2,297m
- Advertising and promotion up 9 per cent to £301m

Spirits & Wine trading profit is up 13 per cent on last year to £414m with turnover increased by 9 per cent to £2,297m. This year's gross margin is improved by 10 per cent or £99m which has been driven through increased volume (£28m), including the benefit in Asia following the Jinro Ballantines acquisition; net price increases (£36m), particularly in Mexico, central and eastern Europe and Spain; and mix improvements in Europe and America (£35m). Mix improvement has been driven by growth of our core brands and the removal of some agency brands in Europe while the Americas' mix has benefited from the discontinuation of Giro tequila.

Advertising and promotion spend for the year is up £24m to £301m, at constant exchange rates, with most of the increase behind our Core 4 brands – particularly Ballantine's and Kahlúa. Despite a 14 per cent increase in marketing investment, the net brand contribution from the Core 4 brands increased by 7 per cent as a result of a 10 per cent increase in gross margins. Ballantine's volumes grew 8 per cent, continuing to perform well



within key markets in Europe and Asia. Kahlúa volumes grew 9 per cent and maintains its leading position in the imported cordials and liqueurs category. Beefeater continues to consolidate its position in Spain as the leading premium brand. Sauza volumes fell 19 per cent as a result of the industry-wide shortage of the key raw material, agave. Our next 18 brands in the portfolio (including Imperial, a whisky acquired as part of Jinro Ballantines) benefited from a 3 per cent growth in volume and a 13 per cent improvement in gross margin while net brand contribution grew by 17 per cent. Net brand contribution grew by 7 per cent in the rest of the portfolio despite a 2 per cent decline in volumes.

Europe

Profits grew by 10 per cent to £141m which represents the third successive year of double digit growth in the region. Total volumes were up 3 per cent with the Core 4 brand volumes up 8 per cent – particularly Ballantine's Finest (up 8 per cent) and Beefeater (up 10 per cent). Teacher's in the UK also performed strongly with volumes up 4 per cent. European performance continues to benefit from the effects of price and mix. We are continuing our strategy of focusing our brand investment behind our core brands: overall brand investment grew by 7 per cent but with a 23 per cent increase behind the Core 4 – particularly Ballantine's. Ballantine's has now significantly outperformed the whisky category each year since 1995 and has clearly established a growth momentum in Europe.

The first half performance for central and eastern Europe benefited from a one-off foreign exchange benefit of £2m which has been eliminated in the full year. After taking into account this foreign exchange movement, underlying first half growth for the total European region would have been 11 per cent contributing to the full year growth of 10 per cent.

The anticipated profit impact of the abolition of European duty free has been substantially less than originally forecast. This is a result of proactive involvement with our customers to ensure continued brand visibility and distribution in the new duty paid travel shop environment.

Americas

Trading profits in the region are up 21 per cent to £174m. This is due to a favourable product mix in North America, particularly from Kahlúa, Courvoisier, Sauza and Maker's Mark. US shipments were slightly below depletions from our distributors. The trends in the main USA market remain positive with overall spirits sales continuing to grow. A further significant contributor to the profit improvement has been the performance of the wine business which has achieved price and volume increases.

We have also driven our programme of change through major management restructuring in the region. Todd Martin was appointed president of Allied Domecq Spirits & Wine, North America on 1 March 2000, having been our global marketing director for two years. In addition, we have strengthened the US senior management team and supported it

Kim Manley joined Allied Domecq in September 2000 as chief marketing officer to lead our marketing and brand building initiatives.

Antonio Ariza is responsible for our Spirits & Wine business in Mexico and Latin America.

with key appointments from the European and corporate management teams to support the pace of global best practice transfer. Our better focused and simpler regional structure will allow us to accelerate performance.

The Latin American business has returned to profit largely as a result of improvements in Brazil. This is in spite of poor trading conditions in Argentina, which remains depressed with a weak economic outlook following recent tax increases.

Mexico

Trading profits were down 2 per cent to £41m owing to the impact of the increased costs of agave, a raw material for tequila, and reduced sales of Sauza tequila in the Mexico market.

We are managing the overall impact of the agave shortage by:

- concentrating on enhancing the premium and more profitable mix of Sauza in all markets;
- implementing price increases in all markets, particularly the USA and Mexico which account for 87 per cent of tequila volumes;
- accelerating our earlier decision to exit lower margin tequila brands such as Giro in the USA; and
- investing in substantial plantings of the agave cactus, along with improving the yield from the raw material.

Mexico has absorbed £12m of additional cost relating to the impact of the agave pricing on exported tequila. We are encouraged that the cost of agave is now showing signs of stabilising.

Other parts of the Mexican business have performed strongly with Don Pedro and Presidente volumes up 5 per cent and net brand contribution up over 50 per cent.

Asia Pacific

We have achieved organic profit growth of 45 per cent to £29m: this has been driven by strong results in most markets – particularly Korea and the Philippines. Korea's growth has been supported by our investment with Jinro in Jinro Ballantines. Jinro Ballantines' trading profit was £11m for the six months to 31 August 2000, increasing our trading profit for the region to £40m. The investment in Jinro Ballantines enhanced Allied Domecq's earnings by £3m year on year. Jinro Ballantines has had a successful start with Imperial's position as number one premium whisky supported by increased advertising and promotion.

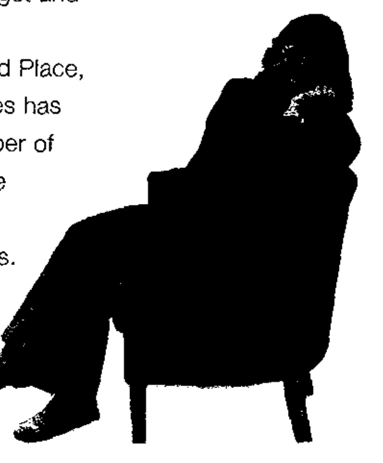
Trading profit in the Philippines has improved this year as a result of strong growth from Fundador. Japan is ahead this year through initiatives which have improved pricing and effectiveness of advertising and promotion.

Our global wine business continues to perform well with a 4 per cent increase in volumes and a 10 per cent increase in net brand contribution. We are continuing to extend our reach into premium branded wines in the USA and Spain, which represent around 67 per cent of our wine portfolio's net brand contribution. Our Spanish wines' net brand contribution grew by 49 per cent, taking advantage of the trend towards higher quality categories, particularly wines with Denominación de Origen. Our Rioja business includes the high quality brand Marques de Arienzo which has increased volumes in Spain by 10 per cent despite a significant price increase of 21 per cent during the year.

Our Californian wine brands benefited from a 15 per cent growth in volumes resulting in increased market share and a 17 per cent improvement in net brand contribution. We launched the Callaway Coastal range this summer: this marked an expansion for the Callaway Winery which is already southern California's largest wine producer. In addition to shifting the source of the grapes to the central coastal regions of the state, we have developed a new packaging and advertising campaign.

We are investing in our Californian wineries through a $22m project to double capacity at Clos du Bois; this project is now 90 per cent complete. We believe that there are further opportunities for value generating investment in wines, both behind our existing portfolio and through acquisitions.

Implementing our travel retail strategy to minimise the impact of the abolition of duty free in the EU has been a key focus for Saira-Jayne Hamilton, account manager in our Duty Free team.



Cost [illegible]

We have continued to concentrate on management of our supply chain and by the end of December 2000 we will have implemented global market ordering systems in all major markets. Adopting this approach has already facilitated an underlying 5 per cent reduction in finished goods inventories.

We are investing £15m in reorganising our operations in Scotland with the integration of all bottling and support functions on a single site in Dumbarton. This project is on budget and due to be completed on schedule in December 2000.

Our review of the corporate centre, including the closure of our offices in Portland Place, has generated cost savings of £11m. A further review of global overheads and activities has been completed resulting in the identification and implementation of a significant number of initiatives designed to reduce costs and significantly improve our capability to grow the business in the future. These include integrating some of our sales forces; reducing corporate overheads in our regional offices and outsourcing of some non-core services. The initial year on year financial benefit from cost savings in 2000/01 will be approximately £7m.

Underlying productivity (measured as cases produced per employee) for Spirits & Wine is up 2 per cent after taking into account the reduction in Sauza volumes associated with the agave shortage; utilisation of "Year 2000" stocks which

Operating and financial review

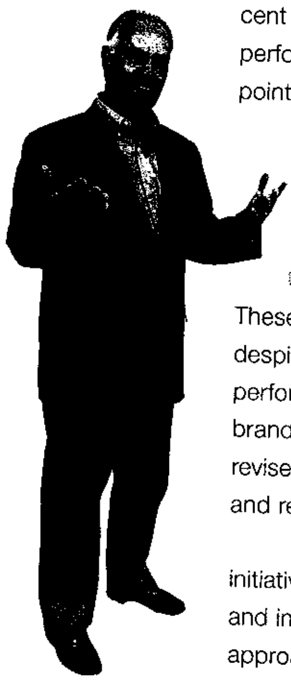
were created to mitigate any production problems associated with the millennium bug; and the impact of last year's US destock which affected the beginning of this year.

Quick Service Restaurants

- Trading profit up 14 per cent to £64m
- Turnaround in the International business to a £6m profit
- System-wide sales growth of 8 per cent

A strong performance from our Dunkin' Donuts and Togo's brands, along with the turnaround of the international business have offset an £8m year on year adverse impact of the repositioning of the Baskin-Robbins brand in the USA. The revitalisation of the Baskin-Robbins total brand offering will result in a shift from profits driven by margins on ice cream manufacturing to profits driven by franchise royalties. It will also deliver a better alignment between the interests of the franchisees and the company. The roll-out phase of the programme is complete with around three quarters of qualified franchisees participating. Participating stores are showing a positive sales trend. There has been a 1 per cent overall improvement in same store sales growth for the year.

Jack Shafer heads up our Quick Service Restaurants business which represents 13 per cent of Allied Domecq's trading profit.



Non-participating stores must qualify to convert at the end of their contract or their franchise will lapse. As a result of the restructuring, there has been a 2 per cent reduction in the number of Baskin-Robbins distribution points.

Dunkin' Donuts continues to perform strongly with same store sales growth of 7 per cent and a 3 per cent growth in distribution points. Our sandwich business, Togo's, is also performing well with same store sales growth up 5 per cent. The number of distribution points increased by 17 per cent.

We have continued to implement our combination stores strategy which brings benefits of scale and revenue opportunities to our franchisees. The number of combination stores increased by 19 per cent over the year to over 500.

Employees

These good results are a tribute to the dedication of our staff, who have delivered results despite significant change and uncertainty. We are proud of our people and their performance. Reflecting the new Allied Domecq character, with its strong, forward-looking brand values and market focus, our approach to people strategy has been reviewed and revised. Specific effort has been dedicated to the issues of talent development and reward and recognition in a performance-driven culture.

Rewarding Change, the new compensation and benefits strategy, is the first of these initiatives to be launched. The programme takes a stretching global performance framework and implements benefit structures targeted to particular market requirements. This new approach ensures that we clearly link performance with reward and creates the right kind of

Ian Jamieson, group HR director, has led the initiative to align our incentives and rewards system with our business objectives.

environment in which to drive the success of our people and our business. Relevant training and support for career development is encouraged at all levels and the group strives to help employees expand their skills and experience in order to realise their full potential.

Environmental and social responsibilities

This year we published our first environmental report that sets out our environmental policy and how we are implementing our environmental management systems worldwide. A key activity over the next few years will be to increase the number of our operations that have an environmental management system certified to the International Standard ISO 14001. This will provide the framework for our efforts and enhance the group's overall performance. Currently, 17 of our operations are now accredited with ISO 14001 compared with only two last year.

Allied Domecq continues to support a wide range of charitable and community-based projects worldwide. Following the restructuring of the group last year, the company is establishing a new global framework for its ongoing corporate social investment.

We are proud of our brands, which we believe play a positive role in society by providing enjoyment, employment and wealth. We take our responsibility to all our consumers seriously and have clear policies for the advertising, marketing and promotion of our brands. We work closely with organisations involved in developing alcohol policy and research and in informing the public about the responsible consumption of alcohol. These include the UK Portman Group, the Amsterdam Group in Europe, The Century Council in the USA and the International Centre for Alcohol Policies.

Non-core and discontinued businesses

Unless otherwise stated, profits and earnings exclude the impact of discontinued operations which are UK Retail, Panrico and, for the previous year, Cantrell & Cochrane.

Trading profit includes £4m for UK Retail, being the profit between 31 August 1999 and the date of its disposal, 6 September 1999. As a result of this disposal, net assets in the group have reduced by £2,294m including £129m paid directly to Punch.

The group disposed of its 50 per cent interest in Panrico on 30 March 2000 in line with the agreement announced last year. The group's share of Panrico's profits to the date of disposal was £9m compared to £13m for the year ended 31 August 1999.

John Bull pubs were divested on 22 December 1999 with no material trading profit impact this year or last.

We still retain our 25 per cent interest in Britannia Soft Drinks, which was not sold to Punch as part of the UK Retail disposal. The group's share of Britannia's profits for the year was £9m (1999: £8m). We continue to pursue options to dispose of this shareholding on appropriate terms.

Cash flow

Operating cash net of fixed assets from continuing businesses was £408m (1999: £346m). Net debt reduced by £63m during the year from £1,315m to £1,252m, the main outflows being the payment of £129m to Punch (arising from the sale of UK Retail) and the £103m investment in the Jinro Ballantines business.

Taxation

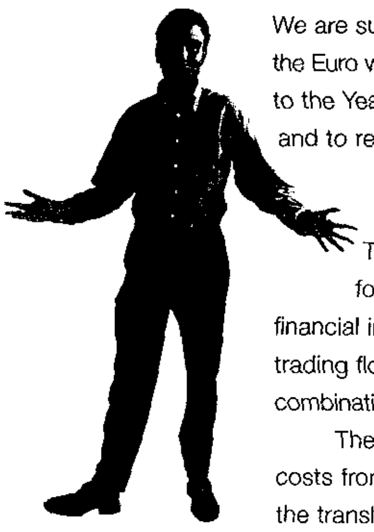
Gianluca Bianchi, managing director, Italy, has no doubts about what is behind our success in Italy. "There are two main reasons – we have a better knowledge of the marketplace than ever before thanks to systems like Galileo and better distribution and improved stock management – enabling us to put the right consumer strategies in place."

The normalised tax rate has been maintained at 26 per cent through our continued efforts to plan appropriately for our tax liabilities around the world. The cash impact of tax for the year was a net inflow of £21m arising principally because of the recovery of £78m advance corporation tax on foreign income dividends. Our expectation is the rate for the current year will not exceed 26 per cent.

Governments across Europe continue to discriminate against the spirits industry by taxing spirits more heavily than other beverage alcohol such as beer and wine. The UK is no different where the excise structure is the result of an amalgam of policy decisions reaching back to the last century. Discriminatory taxes impose a tax burden on a bottle of scotch of around 60 per cent to 70 per cent compared with only about 30 per cent for wine and beer. We are encouraged by the three consecutive UK Budget freezes which we hope will be extended to remove this discrimination against spirits progressively.

Exceptional items

The profit and loss account includes a net profit on goodwill and exceptional items of £2m before tax. This includes profits on disposals of fixed assets (£46m) and businesses (£13m) less costs of restructuring (£46m), project costs (£8m) for Year 2000 compliance and the introduction of the Euro and a £3m charge for amortisation of goodwill arising on acquisitions. We are successfully converting our systems to operate in the Euro and are increasingly trading in the Euro with our partners. In addition, we experienced no difficulties with our systems in relation to the Year 2000. The restructuring costs have been incurred to achieve cost savings and to reorganise the business to meet our future operating requirements.



Treasury operations

The group treasury operates as a centralised service managing interest rate and foreign exchange risk and financing. The board agrees and reviews policies and financial instruments for risk management. We operate a prudent hedging policy. Business trading flows are netted by currency and hedged forward for up to 18 months using a combination of forward exchange contracts and purchased foreign exchange options.

The group has a natural hedge to the impact of fluctuations of the Euro on transaction costs from selling into and out of Euroland. The impact of foreign exchange movements on the translation of profits has been broadly neutral with the reduction in profits resulting from

Ben Sear leads the innovation activity which can turn a good idea into a profitable reality. Ben and his team are driving new products to market faster and more effectively.

the depreciation of the Euro being offset by increased profits reflecting the strengthening of the US dollar and Mexican peso.

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.

The amount of risk to any one counterparty is restricted according to credit rating. We continually monitor our exposure to our counterparties and their credit rating.

Exposures to interest rate fluctuations on borrowings and deposits are managed by using interest rate swaps and purchased interest rate options. It is our policy to keep between 50 per cent and 70 per cent of net debt at fixed rates of interest with a target of 60 per cent.

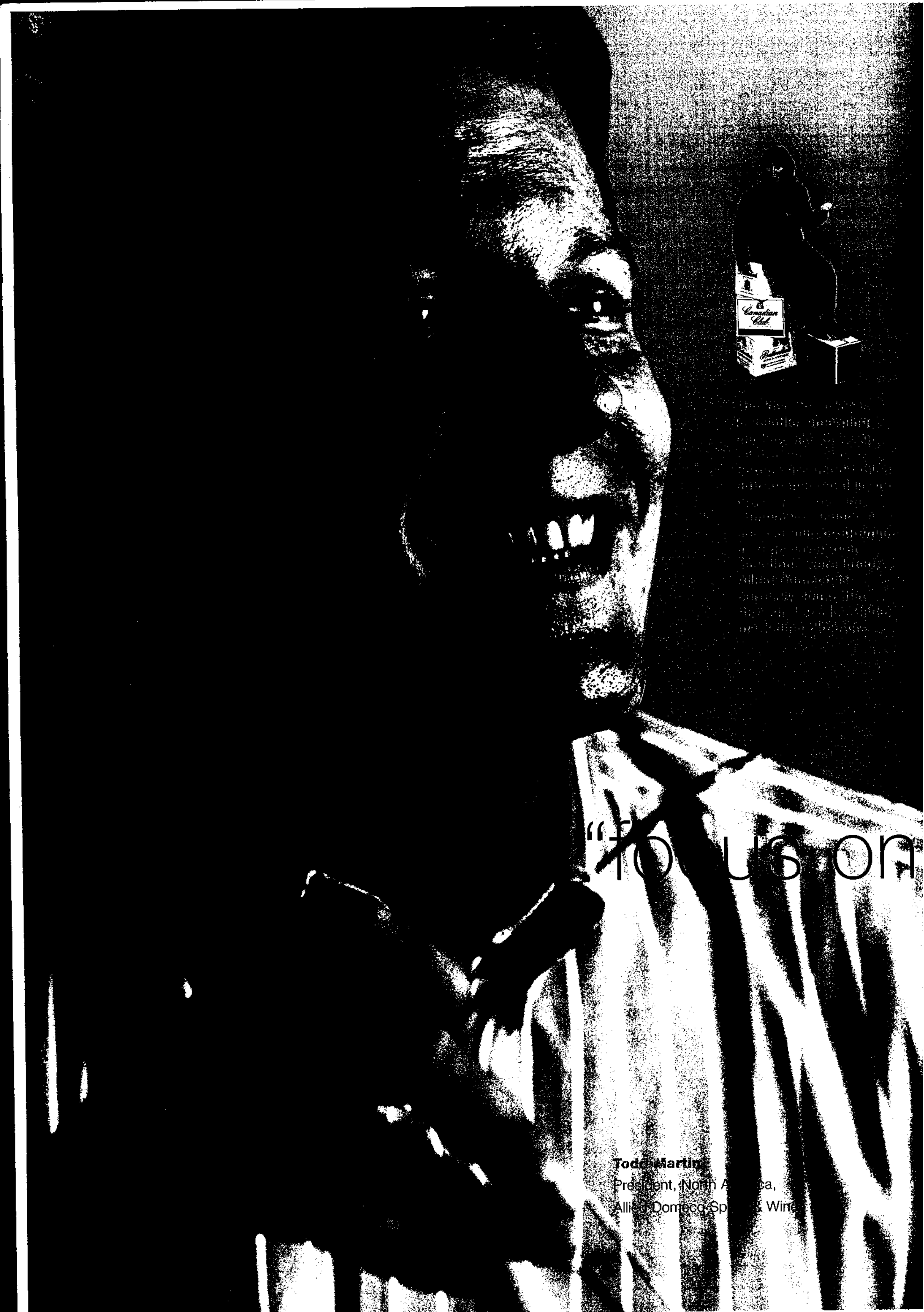
At 31 August 2000, EV gearing (debt as a percentage of market capitalisation plus debt) was 27 per cent, compared with 33 per cent at 29 February 2000.

During the year, our extendable-term loan facility was reduced to £566m and we exercised our option to extend the facility for a further 18 months. The weighted average interest rate for the year was approximately 5.2 per cent.

Outlook

The performance of the business in the first eight weeks of the new financial year is in line with our expectations. It is clear that industry consolidation is significantly more likely than most commentators believed 12 months ago. Our commitment to participate in this process will be tempered by our determination to create value for our shareholders from any transaction.

To capitalise on tequila's explosive move into the American mainstream, a new marketing campaign for Sauza positioned the brand as *"The Better Tequila Experience"*. Global marketing director, Yann de Rochefort, and US marketing director, Avery Schmeisser, created the campaign.



Todd Martin
President, North America,
Allied Domecq Spirits & Wine

Dynamic premium brands such as Ballantine's, Kahlúa, Sauza, Maker's Mark and [illegible]

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driving profitable brand growth”

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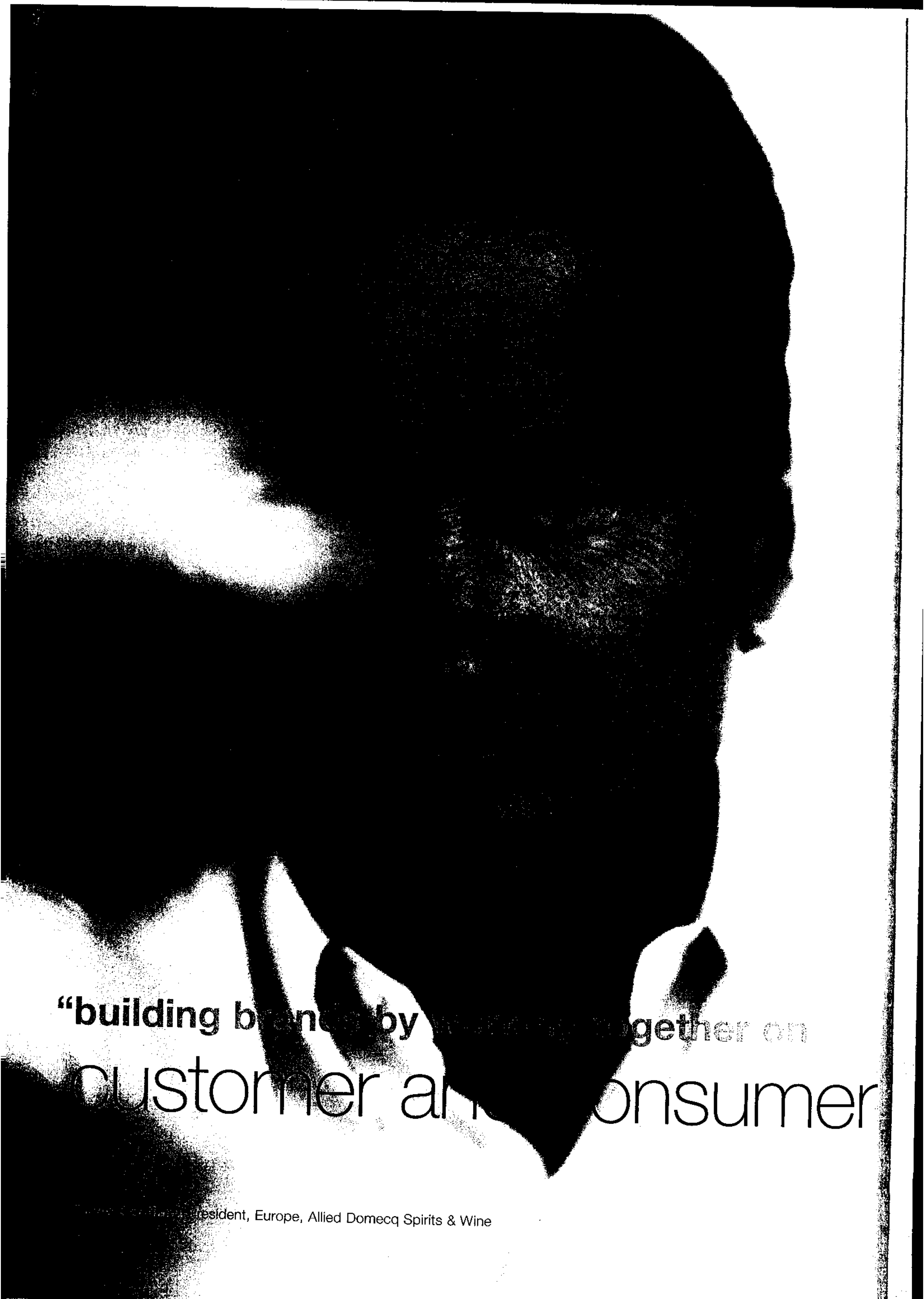


“building b[illegible] by [illegible]gether on

customer a[illegible]onsumer

[illegible]resident, Europe, Allied Domecq Spirits & Wine

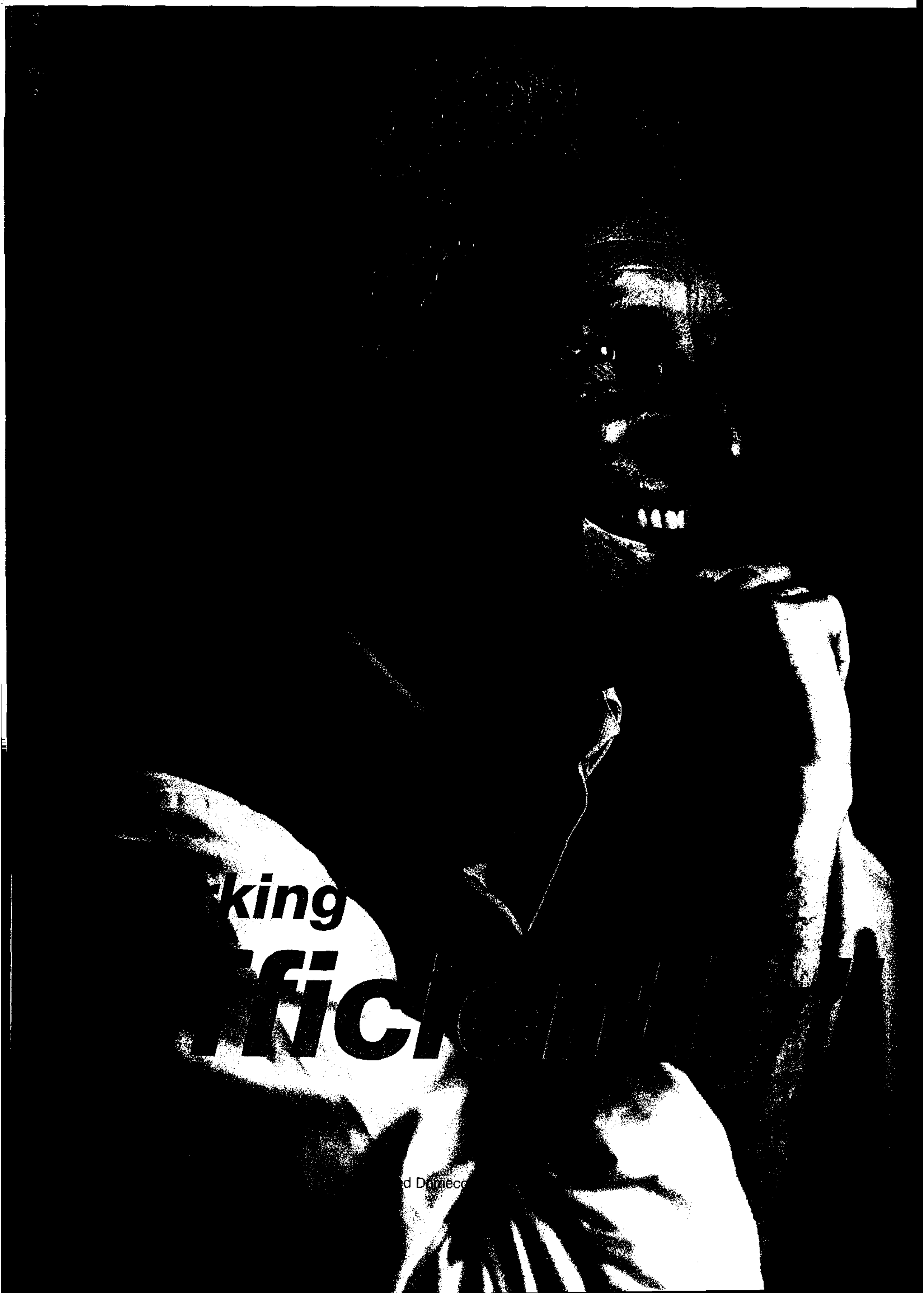
Ballantine's is a market leader in Romania and has performed well this year. Roberto Roccatti, managing director for Romania explains, "This is a volatile market and we have to stay sharp because what's relevant today will be out of date in three months time. Our systems and databases give us a great advantage. No one knows more about this market than us and we have used our understanding to increase efficiency and reduce costs."

Driving real value **from our marketing investment and helping our customers to sell our brands is critical to the success of Allied Domecq. To succeed we need the best sales and marketing tools available and to be using them brilliantly and consistently across the business. During this year we have reviewed the strengths and weaknesses of our approach and sought to spread best practice globally. For example, our European business has led the way in rigorous analytical techniques such as detailed marketing investment analysis, sales uplift and price elasticity models. We have leading edge retail customer management tools which are among the best available in top fast-moving consumer goods companies. Brand marketing directed at the final consumer is a growing strength in our North American operations including the most advanced brand equity evaluation. We are taking the best of all these approaches and implementing them internationally. The results of our regions working so closely together on these critical consumer and customer techniques can already be seen in the growth of our key brands in their most significant markets. We have a sales and marketing package which is fact-based, relying on detailed market feedback and the most modern consumer insights.**

"Our focus is on meeting the needs of customers across the globe as effectively as possible," says Simon Cross, sales director Europe. "We've had very positive feedback from customers on initiatives such as dedicated customer teams, service consistency and knowledge sharing. We are increasingly applying these skills on a global basis."

oriented skills

Paul Block, general manager, equity brands USA and Janet Oak, vice president, marketing services, are heading up a company-wide initiative designed to drive growth through implementing best practice in spirits and wine marketing and learning from leading edge techniques used by luxury goods, fashion and fast-moving consumer goods companies.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Steve Smith, finance & operations, Spirits & Wine in North America, is leading the charge to ensure that each and every company resource is efficiently allocated. Steve joined the North America team in March 2000 after a two year stint in Spain, exemplifying management's belief in building strong teams by exchanging talent and best practice across the company.

A whole range of new initiatives at the Hiram Walker bottling plant have not only reduced costs but also greatly improved morale and efficiency. Regina Blalack, plant manager, feels that "Simplifying shift patterns, redefining roles and setting high standards has created an environment in which people not only know what they have to do, but also why they have to do it and what impact their performance will have on overall productivity."

John Corrigan, commercial director and team have been working on Scotland's first fully integrated bottling, manufacturing and office complex in the scotch whisky industry at Dumbarton. The project is supporting a new way of working and generating cost savings.

We have further enhanced the efficiency of our operations **through capital investment and continuous improvement programmes. Quality and customer service are key areas of focus. We encourage ongoing improvement through cross functional team working stressing clear accountability in operational issues and the involvement of everyone. We are investing in training and developing our people to improve skills to meet the increasing demands of our customers. Our progress is evaluated through external benchmarking. We look to achieve step changes in the efficiency of our operations through capital investment. We are close to completing a major site integration of our scotch whisky operations at Dumbarton in Scotland and we have commenced a project to increase significantly capacity at Maker's Mark in Kentucky. Our goal is to minimise the impact of our operations on the environment and we are increasing the number of our operations which now have their environmental management systems certified to ISO 14001. Another important initiative for the year has been the development of our global supply chain management capability. The objective is to achieve excellent customer service, accurately understanding and predicting customer and consumer demand, to improve cost effectiveness and to reduce capital employed in our operations. The initiative encourages cross functional work across all parts of the supply chain.**

"accelerating the pace of

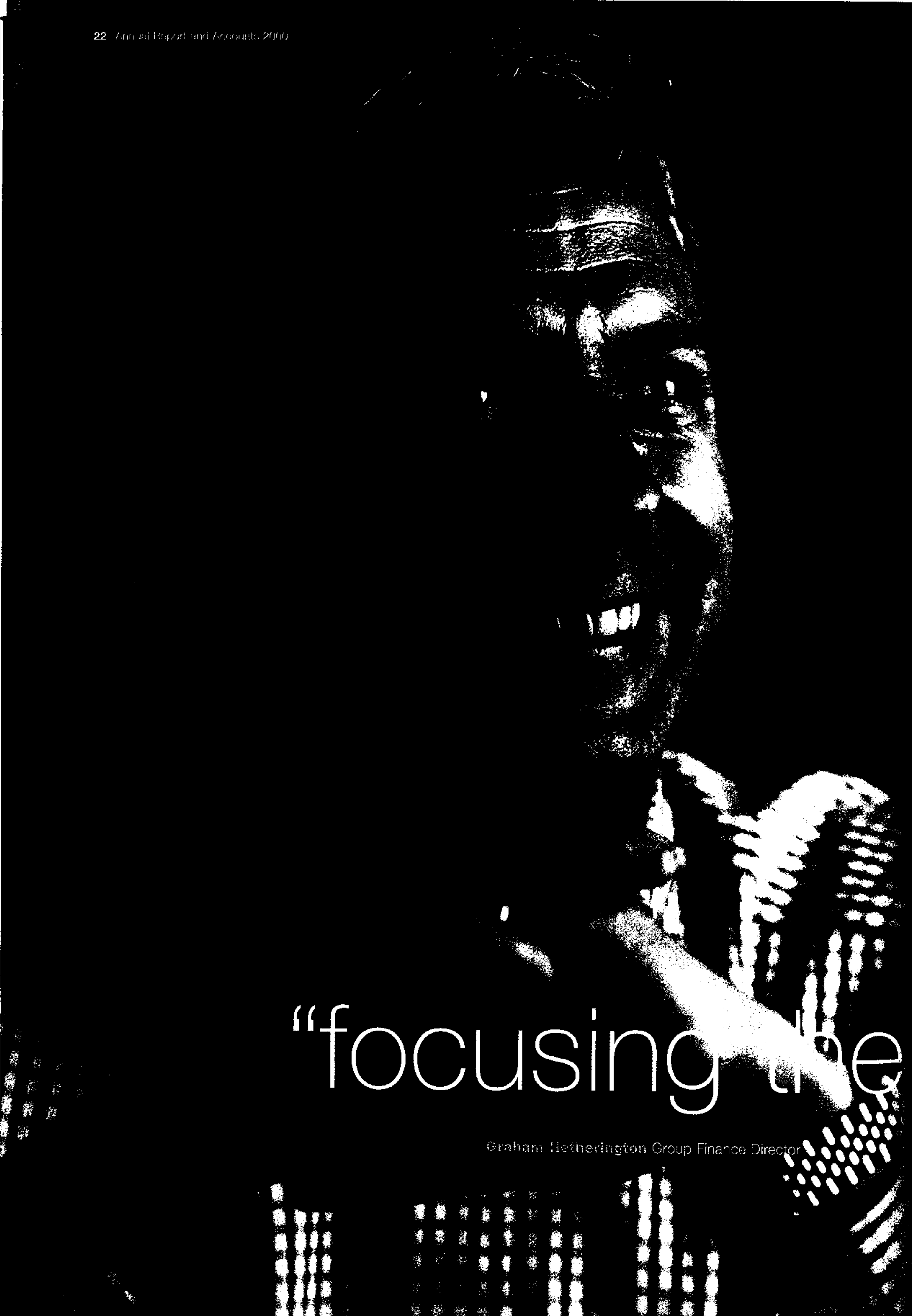
Allison Wallach has led an initiative to streamline the process of taking an idea from inception to launch. The benefits of the "concept to customer" project comes from having a clear approach for all three QSR brands which brings synergies without stifling creativity or compromising quality.

Innovation must be an important contributor **to driving future revenue and profit growth. As a consequence, we are elevating the role of innovation in the business and are looking for new ways to place innovation at the heart of all we do. We are changing the way we work so we can be more entrepreneurial, more responsive to changing consumer demands and markets and more focused on delivering products quickly to market. This is being achieved through introducing high quality people to our innovation team and increasing our investment in innovation. We have established a plan with targets and clear accountabilities. We are also developing stronger links between our innovation team and our markets to create a team approach. Our Quick Service Restaurants business has excelled at innovation and we are actively transferring best practice between QSR and Spirits & Wine. Alongside this we are implementing robust measures so we can monitor the returns from our investment. We are shifting the focus of our innovation work to products which are completely new to world and new ready to drink combinations whilst still maintaining the development of new packaging and the creation of new line extensions to existing brands.**

Gavanes, a golden rum from the Dominican Republic, is a brand new product which has been launched in Madrid as a test market. Its launch, led by Bob Fowkes, is a great example of the innovation team working closely with the marketing people in Spain with both teams committed to its successful launch.

Nowhere has our innovation focus been more evident than with two successful Kahlúa line extensions – Kahlúa drinks-to-go and ready-to-drink cocktails. Developed in the USA by Cynthia Keating and her team, the new products have captured a substantial franchise by capitalising on consumers' desire for convenience.

Ken Burnett President, Asia Pacific, Allied Domecq Spirits & Wine

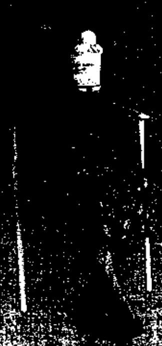


“focusing the

Graham Hetherington Group Finance Director

We have focused more tightly on our two branded business areas in three key ways.

business”



Board of directors

Sir Christopher Hogg Non-Executive Chairman
Appointed non-executive deputy chairman of Allied Domecq in 1995 and non-executive chairman in 1996. He is also non-executive chairman of Reuters Group and a non-executive director of SmithKline Beecham and of Air Liquide. Aged 64.

Philip Bowman Chief Executive
Joined the group in November 1998 as an executive director and was appointed chief executive in August 1999. He is also a non-executive director of British Sky Broadcasting Group and was formerly an executive director of Bass and chairman of Liberty. Aged 47.

Donald H Brydon
Joined the group as a non-executive director in 1997 and is chairman of Allied Domecq pension trusts. He is the senior non-executive director of Allied Domecq. He is a non-executive director of Nycomed Amersham and also chairman and chief executive of AXA Investment Managers. Aged 55.

Sir Ross Buckland
Joined the group as a non-executive director in 1998. He is chief executive of Uniq (formerly Unigate) and a director of the National Australia Bank Europe. Aged 57.

Graham C Hetherington
Joined the group in 1991 as finance director of Lyons Bakeries (UK). Joined Allied Domecq Spirits & Wine in 1995 and was appointed finance director of Allied Domecq Spirits & Wine in 1998. He became a director of Allied Domecq in June 1999 and was appointed group finance director in August 1999. Aged 41.

Peter A Jacobs
Joined the group as a non-executive director in 1998. He retired as chief executive of BUPA in 1998 and as chairman of Hillsdown Holdings in July 1999. He is also chairman of Healthcall Group and LA Fitness and a non-executive director of Bank Leumi (UK) and of Virtual Communities Inc. Aged 57.

David Malpas
Joined the group as a non-executive director in 1997. He retired as managing director of Tesco in 1997. He is chairman of Dresdner Income Growth Investment Trust. Aged 60.

Todd Martin
Joined the group as global marketing director of Allied Domecq Spirits & Wine in 1998 and appointed a director of Allied Domecq on 1 March 2000. He is president, North America, Allied Domecq Spirits & Wine. Aged 45.

David Scotland
Joined the group as a director of Allied Domecq Spirits & Wine in 1992 and appointed a director of Allied Domecq in 1995. He is president, Europe, Allied Domecq Spirits & Wine. Aged 52.

Richard G Turner
Joined the group in 1982. Appointed president, Customer Services and Planning of Allied Domecq Spirits & Wine in 1995. He was appointed a director of Allied Domecq in June 1999. Aged 51.

Russell P Kelley Secretary

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss for that year. In preparing those financial statements the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Audit committee

P A Jacobs (chairman)
D H Brydon
Sir Ross Buckland
Sir Christopher Hogg
A D Malpas

Summary terms of reference: to assist the board in exercising its responsibilities for accounting, financial reporting and financial control and to keep the work of internal and external audit under review.

Remuneration committee

A D Malpas (chairman)
D H Brydon
Sir Ross Buckland
Sir Christopher Hogg
P A Jacobs

Summary terms of reference: to set terms of employment, including remuneration for directors, and to consider candidates for appointment to the board.

Executive committee

This committee comprises mainly the executive directors.

The responsibilities of the committee include formalising group strategy, running the day-to-day operations of the group, approving projects within capital expenditure limits delegated by the main board and leading the management development process.

Directors' report

Directors' report

The directors are pleased to present their annual report and accounts for the year ended 31 August 2000.

Business review and future developments

The Chairman's statement and the Operating and financial review on pages 2 to 3 and pages 6 to 13 provide a review of the business and likely future developments.

Main trading activities

The group's main trading activities are the production, marketing and sale of spirits and wines and the franchising of quick service restaurants. The disposal of the UK Retail business was completed on 6 September 1999.

Dividends

An interim dividend of 4.0p per share was paid on 1 September 2000 and the directors are pleased to recommend a final ordinary dividend of 7.0p per share, making a total for the year of 11.0p. The final dividend will be paid on 2 February 2001 to shareholders on the register on 3 January 2001. Following the suspension of the company's dividend reinvestment plan in March 1999, the ongoing provision of this facility has been reviewed and has been discontinued. Any surplus cash balances held on behalf of shareholders will be repaid shortly.

Annual General Meeting

The AGM will be held on 29 January 2001 at the Hotel Inter-Continental London, One Hamilton Place, Hyde Park Corner, London W1V 0QY. Details of the business to be considered at the AGM and the notice of meeting are included in the accompanying chairman's letter.

Share capital

During the year the company reduced the nominal value of its ordinary shares. Further details are given in note 21 of the accounts on page 54. As at 31 August 2000 the company had authority to purchase up to 10 per cent of its ordinary shares. Shareholders' approval is being sought for the renewal of this authority at the AGM.

Substantial interests

The company has been notified of the following disclosable interests in Allied Domecq ordinary shares:

Berkshire Hathaway Inc	3.15 per cent
CGNU plc	3.22 per cent
Suntory Limited	3.54 per cent
AXA Sun Life Investment Management Limited	3.87 per cent

Employees

Allied Domecq operates a policy of equal opportunity and continues to give full and fair consideration to applications for employment made by disabled persons. Employees who become disabled will, wherever possible and practicable, be retained in employment and, where necessary, appropriate training will be provided.

Employees are encouraged to become shareholders in the company. Grants over a total of 13,178,732 shares were made to eligible employees under the company's share option schemes during the year and the SAYE Scheme was extended to employees in Canada, Mexico, Portugal, Spain and the United States.

[illegible]

Considerable emphasis is placed by the group on communications with its employees. In addition to obtaining a comprehensive range of attitudes and views from employees through employee opinion surveys, group companies involve and consult them with regard to the activities and performance of their businesses and any matters of concern to them. It is normal practice to use formal joint consultative bodies locally for one-to-one and group meetings. Allied Domecq has a European Council which acts as a major forum for Pan-European consultation and discussion.

[illegible]

Occupational health and safety management remains an integral part of the group's overall management system. Following on from a recent worldwide health and safety benchmarking programme, an improved management system is being established, designed to be fully compatible with both of the group's existing quality and environmental systems. Implementation of this new system will ultimately enable additional targeted improvements for the control of occupational health and safety risks to be achieved.

Research and development

The amount spent by the group on research and development during the year was £1m but this does not include the full cost of new product development.

Creditor payment policy

The company's policy, in relation to all of its suppliers, is to settle the terms of payment when agreeing the terms of the transaction, to ensure that suppliers are aware of the terms of payment and to abide by those terms provided it is satisfied that the goods or services were supplied in accordance with the agreed terms and conditions. The company does not follow any particular code or standard on payment practice. Creditor days have not been calculated as the company had no trade creditors at 31 August 2000. The company's invoices for goods and services are settled by subsidiaries acting as agents for the company.

Directors

The names and brief biographical details of the directors as at 30 October 2000 are given on page 24. During the year Stephen Alexander, George McCarthy and Ramon Mora-Figueroa retired from the group and Todd Martin was appointed as an executive director. In accordance with the articles of association, Philip Bowman, Sir Ross Buckland, Peter Jacobs and Todd Martin retire at the forthcoming AGM and offer themselves for election or re-election.

Political and charitable contributions

No UK political contributions were made during the year. Charitable contributions in the UK of £153,000 included donations of £80,000 to the Allied Domecq Trust which itself gave some £75,000 to a variety of charitable causes.

Auditor

KPMG Audit Plc has expressed its willingness to continue in office as auditor of the company. A resolution for the re-appointment of the auditor, at a rate of remuneration to be determined by the directors, will be proposed at the AGM.

By order of the board
Russell P Kelley
Secretary
30 October 2000

X [illegible signature] X
RPK

Directors' report

Corporate governance

Compliance

The directors of Allied Domecq PLC are committed to the high standards of corporate governance as defined in the Principles of Good Governance and the Code of Best Practice which together comprise the 1998 Combined Code. The directors are accountable to the shareholders for ensuring that these principles are understood and implemented throughout the company's operations and this statement describes the manner in which Allied Domecq PLC has applied the Principles and Provisions of the Code during the financial year.

Executive and non-executive directors

Executive directors are engaged on employment contracts subject to 24 months' written notice given by either party. Non-executive directors are appointed for three-year terms and are generally limited to six years of service. In accordance with the company's articles of association, all directors are subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than three years. The non-executive directors' fee levels are determined by the board of directors, whilst the executive directors' salary levels are determined by the remuneration committee.

The remuneration policy and the terms and conditions of service of the executive and non-executive directors appear in the remuneration report on pages 30 to 35. As stated in that report, Allied Domecq is in compliance with Schedules A and B of the Combined Code relating to remuneration.

Organisation and functions of the board and key committees

The board is responsible for the overall direction, strategy, performance and management of Allied Domecq PLC. It is comprised of five executive directors and five non-executive directors. Throughout the financial year, the roles of chairman and chief executive officer have been held separately. The chairman is a non-executive director.

The board and its committees have formal terms of reference setting out their authorities and duties.

All board members have access to the advice and services of the company secretary and, in accordance with agreed procedures, are also able to obtain independent legal advice as required at the company's expense.

On appointment, executive directors are invited to participate in an external professional programme for directors.

All of the non-executive directors bring a wide range of experience to the board and participate fully in decisions on key issues facing the group. All non-executive directors are considered by the board to be independent of management and free from any business or other relationship which could materially interfere with the exercise of independent judgement.

The board generally meets seven times a year focusing on strategic issues and financial performance. The board has a formal schedule of matters for review and decisions are communicated widely throughout the group. All board members are provided with sufficient information on a timely basis in order to ensure their ability to discharge their duties.

The Allied Domecq Spirits & Wine executive and the Quick Service Restaurants executive generally meet on a monthly basis. These groups, together with the executive committee of the board, formulate strategy and oversee day-to-day operations of the group, approve projects within capital expenditure limits delegated by the main board, and lead the management development process.

The board has not established a separate nomination committee. However, the duties normally undertaken by this committee have been delegated to the remuneration committee.

The remuneration committee is comprised of five non-executive directors responsible for determining the remuneration policy and the terms and conditions of service of the executive directors. It also reviews external appointments offered to group executives. The committee generally meets four times per year. Committee members are compensated on a fee basis for services performed and are not eligible for any share options, bonuses or pension entitlements. The committee has access to the services of independent advisors as required.

The audit committee monitors and reviews the system of financial and operational controls of the group. It also considers the group's compliance with the Combined Code and oversees the objectivity and effectiveness of the auditor. The committee is comprised of five non-executive directors. The committee can request the external auditor, executive directors and any other officers of the group to attend its meetings. Additionally, the group's internal and external auditors have direct access to the committee to raise any matters of concern. The committee receives periodic reports summarising audit issues noted and corrective actions planned and reports from the internal audit function, the external auditor and management.

As guidance for directors, the ICAEW issued *Internal Control: Guidance for Directors on the Combined Code* (the "Turnbull guidance") in September 1999. The directors have applied the transitional rules published by the London Stock Exchange on 27 September 1999 and have continued to review and report upon internal financial controls in accordance with the ICAEW's 1994 guidance on internal control and financial reporting.

The board confirms that it has established the procedures necessary to implement the Turnbull guidance for the year to 31 August 2001. As part of this process, the board has reviewed the effectiveness of the group's system of internal financial control.

Internal financial controls

The board of directors has final responsibility for the system of internal controls maintained by the group. The responsibility for establishing and operating detailed control procedures within each operating business lies with the operating board and local management. This system provides reasonable, but not absolute, assurance against material loss and includes the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with appropriate legislation, regulation and best practice, and the identification and mitigation of business risks.

Group and local management are responsible for the identification and evaluation of key risks applicable to their areas of business. These risks are assessed on a continual basis and may be associated with a variety of internal or external sources including control breakdowns, disruption in information systems, competition, natural catastrophe and regulatory requirements.

Group businesses participate in periodic strategic reviews which include consideration of long term financial projections and the evaluation of business alternatives. Operating units prepare annual budgets and three-year strategic plans; performance against plan is actively monitored both at the level of the Allied Domecq Spirits & Wine executive, the Quick Service Restaurants executive and the board, supported by regular forecasts. Forecasts and results are consolidated and presented to these groups on a regular basis.

Through these mechanisms, business performance is continually monitored, risks identified in a timely manner, their financial implications assessed, control procedures re-evaluated and corrective actions agreed and implemented.

A process of annual control self-assessment and hierarchical reporting provides for a documented and auditable trail of accountability from the local business unit to regional management to executive management. This process includes an internal controls questionnaire which is completed for all business units and reviewed by regional management. These self-assessment tools provide for successive assurances at increasingly higher levels of management and, finally, to the board.

The process and the supporting documentation are reviewed by the internal auditors for completeness, accuracy and compliance with Combined Code requirements. Planned corrective actions, where applicable, are independently monitored for timely completion.

Relations with shareholders

The board believes it is important to respond adequately to all the queries of both institutional and private shareholders. At the AGM shareholders are offered an opportunity to raise with the board and the respective committee chairmen any specific questions they have concerning the group. In addition, meetings are also held between individual directors and institutional shareholders at various times during the year. At the AGM the company indicates the number of proxy votes lodged on each resolution and the notices covering each AGM are sent to the shareholders at least 20 working days before the meeting.

Going concern

After making enquiries, the directors, at the time of approving the financial statements, have determined that there is reasonable expectation that the company and the group have adequate resources to continue operating for the foreseeable future. For this reason, the directors have adopted the going concern basis in preparing the financial statements.

Compliance with Combined Code

The company was in compliance throughout the financial year with the Code provisions set out in Section 1 of the Combined Code appended to the Financial Services Authority Listing Rules except that executive directors are engaged on employment contracts subject to 24 months' written notice given by either party. It is not currently proposed that the notice period for existing executive directors should be reduced. However, the remuneration committee has reviewed the current policy and has decided in principle that the company's future policy will be for new executive directors to be subject to service agreements requiring not less than 12 months' notice given by either party. If it is necessary to offer longer notice or contract periods to new executive directors recruited externally, such periods will reduce to 12 months after the initial period.

Our auditor, KPMG Audit Plc, has reviewed the directors' statement on the company's compliance to the extent required by the Financial Services Authority and their report appears on page 36.

Directors' report

Remuneration report

The company has complied, throughout the year under review, with Section A of the best practice provisions annexed to the Financial Services Authority Listing Rules. The role of the remuneration committee is to establish terms of employment and remuneration packages for each executive director. It also keeps under regular review the company's policies for senior management remuneration and development. In establishing its remuneration policy, the remuneration committee has given full consideration to Section B of the best practice provisions annexed to the Financial Services Authority Listing Rules. The remuneration committee seeks to encourage the enhancement of the company's performance and to ensure that directors are fairly, and responsibly, rewarded for their individual contributions. The remuneration committee consults with the chief executive, who may be invited to attend its meetings, and it has access to advice from external sources in order to determine and develop its policies.

The remuneration committee is comprised exclusively of non-executive directors and its members are:
A D Malpas (chairman)
D H Brydon
Sir Ross Buckland
Sir Christopher Hogg
P A Jacobs

Committee members are paid a basic fee relative to the amount of work undertaken but do not receive any share options, bonuses or pension entitlements.

Full details of the remuneration packages of the directors are given on pages 32 to 34. The interests of each director in the share capital of the company including share options are shown on pages 34 and 35.

Allied Domecq PLC is in the Financial Times Stock Exchange index (FTSE 100) and operates on a global scale.

In order to attract and retain management with the appropriate skills to provide shareholder value for the future, the group aims to ensure that its pay and benefit practices are competitive, that they motivate employees at all levels and that they recognise and reward high standards of performance.

Remuneration policy is kept under regular review and as part of this process the remuneration committee receives advice from external sources and benchmarks the company's remuneration policies and practices against a comparator group of companies of a size and standing similar to Allied Domecq, including both direct competitors and other businesses which trade on a worldwide basis. More particularly, Allied Domecq has to compete with this group in both recruiting and retaining management.

In determining the directors' remuneration, the committee has taken into consideration the pay levels in the comparator group, the responsibility involved in a particular job and the performance of an individual director.

The remuneration committee also considers invitations for executive directors to be appointed as non-executive directors of other leading companies. The company encourages its directors to take up such positions subject to them being conducive to personal development, the time spent being reasonable, there being no potential conflict of interest and there being generally not more than one such appointment per person. The policy relating to fees is that generally they may be retained by the director.

The remuneration of each of the non-executive directors is determined by the board within the overall limits set by the articles of association. Non-executive directors do not participate in or vote on any discussion relating to their own remuneration.

Details of benefits are given on page 33. The term "benefits" includes the provision of a car and fuel (or car allowance) and private health insurance. Accommodation is only provided where it is necessary for the proper execution of duties.

Benefits for George McCarthy (who retired on 29 February 2000) included tax return preparation fee, life assurance and a product sample allowance (all of which are taxable under USA law).

A new deferred bonus scheme was adopted for directors and certain senior executives, under which the amount of profit-related bonus payable to participants for the year to 31 August 2000 was 7 per cent of annual basic salary for every 1 per cent of real growth in the company's earnings per share, subject to a maximum of 70 per cent of basic salary. Between 25 per cent and 50 per cent of the bonus will be deferred for three years, and will be conditional, except under exceptional circumstances, on continued employment with the group. The deferred proportion will be payable in the form of shares, and there will be a matching investment by the company on the basis of one share for each share taken up by the employee. In addition, a bonus scheme has been introduced which provides for the payment to participants of up to 10 per cent of salary depending on the achievement of key management objectives. The remuneration committee approves the key management objectives each year and the levels of achievement under both bonus schemes. The bonuses paid are shown in the table on page 33.

Philip Bowman and Todd Martin do not participate in any company sponsored pension plans.

Other executive directors participate in non-contributory pension schemes which provide pensions of up to two thirds of their pensionable salaries at normal retirement age of 60. The actual proportion depends on length of service. They are also eligible for dependants' pensions and lump sum payments on death.

Benefits from the Allied Domecq Executives Pension Fund in respect of Graham Hetherington and David Scotland are limited as they have joined the scheme since 31 May 1989. Subject to certain reservations, the company has given a promise that their pension and death benefits shall be as if the limit does not apply. Death benefits in excess of those provided by the Fund are provided by insurance policies taken out by the company. The company itself is responsible for pension benefits in excess of those payable from the Fund.

Directors' pension entitlements are shown on page 34.

During the year, the company established the following new option schemes, under which the directors are eligible to be granted options:

(a) SAYE Scheme 1999 – This scheme is based on a three or five year savings contract and is open to all UK employees. Options are granted at an exercise price of not less than 80 per cent of the market value.

(b) International SAYE Scheme 1999 – This scheme is based on an 18 month, three year or five year savings contract and is open to all employees in certain jurisdictions. Options are granted at an exercise price of not less than 80 per cent of the market value.

(c) United States Share Purchase Plan – This scheme is based on an 18 month savings contract and is open to all employees in the USA. Options are granted at an exercise price of not less than 85 per cent of the market value.

(d) Inland Revenue Approved Executive Share Option Scheme 1999 – Options up to a value of £30,000 per participant may be granted at an exercise price not less than market value and under normal circumstances remain exercisable between the third and tenth anniversaries of the date of grant.

(e) Executive Share Option Scheme 1999 – Options are granted at an exercise price not less than market value and under normal circumstances remain exercisable between the third and tenth anniversaries of the date of grant (though shorter life options may be granted).

As explained in the listing particulars issued in June 1999, an initial grant over shares with a value of four times salary was made under the executive schemes to executive directors during the year. Options will become exercisable only if the Total Shareholder Return (change in value of the shares plus gross dividends paid, treated as re-invested) on Allied Domecq shares equals or exceeds that of the median Total Shareholder Return achieved by the constituents of the FTSE 100 Index over any consecutive three-year period between the dates of grant and exercise.

In line with current market practice, and in order to enable the company to operate competitively across the world, the board is seeking shareholder approval to amend the rules of the Executive Share Option Scheme 1999 to enable future grants of options in excess of one times earnings where deemed appropriate with reference to relevant market practice, role and responsibility. The board remains committed to closely aligning executives' reward with business performance and the interests of shareholders. Hence the underpinning performance conditions of the scheme will be linked to sustainable earnings growth measured over three years. Performance may be re-measured over extended periods of four and five years. If the performance condition is not then satisfied the option will lapse. Where larger grants are made, and where appropriate, it is the intention of the remuneration committee to attach supplemental performance conditions to such awards.

The table on page 35 gives details of directors' participation in these new schemes and the old schemes operated prior to the sale of the UK Retail business to Punch.

During the year the company established a new long term incentive scheme, but to date there have been no awards under this scheme.

To provide sufficient flexibility for the company to remunerate the executive group and to counter competitive pressures, it is the intention of the board to resume regular awards under the long term incentive scheme and, where appropriate, grant awards in parallel with option grants. To strengthen the ability to attract, retain and motivate the necessary executive talent, the board is seeking shareholder approval to amend the rules of the Long Term Incentive Scheme 1999 to remove the annual award limit to enable the company to make awards of greater than one times salary, as and where appropriate. It is anticipated that awards at this higher level will not be made on an automatic basis, but on a case by case basis subject to the discretion of the remuneration committee.

All awards under the long term incentive scheme will be subject to performance conditions determined by the remuneration committee at award. It is intended that any awards made over the forthcoming year will be subject to Total Shareholder Return performance over a three-year period relative to a select group of comparator companies, with no award vesting for performance below median, 40 per cent vesting at median performance and 100 per cent vesting for performance at upper quartile or above.

Philip Bowman, Graham Hetherington, Todd Martin, David Scotland and Richard Turner have service agreements requiring not less than 24 months' notice of termination to be given by either party. Stephen Alexander and George McCarthy left the group on 6 September 1999 and 29 February 2000 respectively on which dates their employment terminated. They were both employed on contracts of employment requiring not less than 24 months' notice of termination to be given by either party.

Ramon Mora-Figueroa retired on 6 September 1999. He was previously employed under a service agreement which was terminable by the group on not less than 24 months' notice.

It has been the policy for the company to appoint executive directors subject to a service agreement requiring not less than 24 months' notice given by either party.

The remuneration committee has reviewed the current policy and has decided in principle that the company's future policy will be for new executive directors to be subject to service agreements requiring not less than 12 months' notice given by either party. If it is necessary to offer longer notice or contract periods to new executive directors recruited externally, such periods will reduce to 12 months after the initial period.

Sir Christopher Hogg has a letter of appointment as non-executive chairman which requires not less than 12 months' notice of termination to be given by either party.

Donald Brydon, Sir Ross Buckland, Peter Jacobs and David Malpas do not have service agreements with the company. It is the policy of the company to appoint non-executive directors for an initial period of three years renewable for a further period of three years. The remuneration committee reviews whether there should be any further period of appointment after this six year period. These appointments are subject to election and re-election at the relevant AGM.

The remuneration of the directors for the years to 31 August 2000 and 1999 was as follows:

	Year to 31 August 2000 £'000	Year to 31 August 1999 £'000
Salaries and benefits	**2,258**	2,777
Performance-related bonuses	**1,878**	1,446
Fees to non-executive directors	**400**	422
Pension contributions	**368**	707
Pensions for former directors or their dependants	**145**	139
Compensation for loss of office	**699***	1,612

*The amount in respect of compensation for loss of office during the year to 31 August 2000 includes an agreed amount of £698,645 for G F McCarthy (being two years salary, unused vacation payment and special company contribution to Mr McCarthy's 401(k) retirement plan).

	Note	Basic Salary/Fees Year to 31 Aug 2000 £'000	Basic Salary/Fees Year to 31 Aug 1999 £'000	Benefits Year to 31 Aug 2000 £'000	Benefits Year to 31 Aug 1999 £'000	Performance-Related Bonuses Year to 31 Aug 2000 £'000	Performance-Related Bonuses Year to 31 Aug 1999 £'000	Total Emoluments Year to 31 Aug 2000 £'000	Total Emoluments Year to 31 Aug 1999 £'000
Executive directors:									
S H Alexander (resigned 6 Sep 1999)	1	**20**	291	**7**	15	**–**	172	**27**	478
P Bowman	2,4,8	**743**	361	**76**	52	**507**	271	**1,326**	684
G C Hetherington	3,4,8	**244**	174	**17**	12	**278**	108	**539**	294
G F McCarthy (retired 29 Feb 2000)	1	**163**	314	**28**	24	**139**	95	**330**	433
T D Martin (appointed 1 Mar 2000)	3,5,8	**309**	–	**35**	–	**353**	–	**697**	–
R Mora-Figueroa (retired 6 Sep 1999)		**1**	75	**–**	1	**–**	–	**1**	76
D Scotland	4,8	**316**	292	**23**	22	**302**	281	**641**	595
R G Turner	3,8	**263**	219	**13**	9	**299**	209	**575**	437
Non-executive directors:									
D H Brydon	6	**43**	43	**–**	–	**–**	–	**43**	43
Sir Ross Buckland		**28**	28	**–**	–	**–**	–	**28**	28
Sir Christopher Hogg	7	**263**	275	**–**	–	**–**	–	**263**	275
P A Jacobs		**33**	31	**–**	–	**–**	–	**33**	31
A D Malpas		**33**	33	**–**	–	**–**	–	**33**	33

1. The salary figures for S H Alexander and G F McCarthy do not include figures for compensation for loss of office.
2. P Bowman's salary includes a £218,400 (1999: £83,196) allowance in lieu of pension contributions and his benefits include £59,000 (1999: £39,000) accommodation costs. During the negotiations for the sale of the UK Retail business it was agreed that the special bonus scheme based on Total Shareholder Return provided for P Bowman on his appointment should be terminated and, in consideration, a bonus of £150,000 was paid and is included in the bonus above for the year to 31 August 1999.
3. The emoluments for G C Hetherington, T D Martin and R G Turner relate to their total service as employees and directors during the year of appointment.
4. The amounts in respect of G C Hetherington and D Scotland for the period include taxable benefits of £1,321 and £6,796 respectively relating to life assurance as referred to in note 7 on page 31; the amount in respect of P Bowman for the period includes a taxable benefit of £1,084 in respect of life assurance taken out by the group.
5. T D Martin's salary includes £61,851 allowance in lieu of pension contributions and his benefits include £11,140 accommodation costs.
6. D H Brydon's standard fee is £28,000. In addition, he is chairman of the Allied Domecq Pensions Trusts for which he receives a fee of £15,000 per annum.
7. Sir Christopher Hogg's fee of £275,000 per annum as non-executive chairman was reduced to £200,000 per annum with effect from 1 July 2000 and includes a non-executive director's fee of £28,000 per annum. The fee shown for the period is before deduction of £48,331 contributed by way of salary sacrifice to an individual pension arrangement.
8. The performance-related bonus figures shown above for the executive directors include the deferred and matching elements of the bonus which are shown below and will be used to purchase shares in the company. These shares will be released to the employee after three years and will be conditional, except under exceptional circumstances, on continued employment with the group.

	Deferred Amount	Matching Investment	Total
P Bowman	£91,000	£91,000	£182,000
G C Hetherington	£87,500	£87,500	£175,000
T D Martin	£108,621	£108,621	£217,242
D Scotland	£54,250	£54,250	£108,500
R G Turner	£91,000	£91,000	£182,000

The pension entitlements of the directors were as follows:

	Increase in accrued pension during the year £'000	**Transfer value of the increase in accrued pension during the year £'000**	**Accumulated total accrued pension entitlement at 31 August 2000 £'000**
S H Alexander	–	2	163
G C Hetherington	27	308	78
G F McCarthy	46	571	137
D Scotland	14	263	81
R G Turner	28	501	183

Notes:
1. The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. The increase in accrued pension during the year excludes any increase for inflation.
2. The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. No contractual contributions were due to have been paid by the directors during the period.
3. Members of the Allied Domecq Executives Pension Fund have the option to pay additional voluntary contributions to secure additional pension benefits. Neither the contributions nor the resulting benefits are included in the above table.
4. G F McCarthy's benefits are accrued in the Hiram Walker Basic and Senior Executives' Retirement Plan. In the absence of a transfer basis in the USA pension plans, the increase in the accrued pension for him has been valued on an immediate annuity basis using current prescribed interest and mortality assumptions.
5. R Mora-Figueroa's employment with the group was not pensionable.

The beneficial interests of directors in the ordinary share capital of the company at 31 August 2000 (excluding interests under the company's share option schemes disclosed on page 35) were as follows:

	At 31 August 2000 Ordinary Shares	At 31 August 1999 Ordinary Shares
P Bowman	**105,000**	85,944
D H Brydon	**1,500**	1,500
Sir Ross Buckland	**1,000**	1,000
G C Hetherington	**12,986**	10,986
Sir Christopher Hogg	**34,118**	19,118
P A Jacobs	**6,300**	1,000
A D Malpas	**9,921**	2,153
T D Martin	**400,000**	400,000*
D Scotland	**10,613**	10,954
R G Turner	**30,961**	27,021
Total of directors' beneficial interests	**612,399**	559,676

At 31 August 2000 the Allied Domecq employee trusts held 11,804,307 ordinary shares in the company on discretionary terms for the benefit of certain group employees. The executive directors were treated as interested in these shares in their capacity as potential beneficiaries.

*At date of appointment.

R G Turner purchased a further 169 shares between 1 September 2000 and 30 October 2000. No director had a non-beneficial interest in shares or stocks of the company at any time either during the year ended 31 August 2000 or between 1 September 2000 and 30 October 2000.

The following movements in share options took place during the year.

		Number of options at 1 September 1999 or at date of appointment	Options granted during year	Options exercised during year	Options lapsed during year	Number of options at 31 August 2000	Exercise price	Market price at date of exercise	Gain made on exercise £'000	Date from which exercisable	Expiry date
P Bowman	(d)	–	3,697	–	–	3,697	262p	–	–	01.01.03	30.06.03
	(e)	–	608,187	–	–	608,187	342p	–	–	01.11.02	31.10.09
Total		**–**	**611,884**	**–**	**–**	**611,884**					
G C Hetherington	(a)	8,734	–	–	8,734	–	570p	–	–	19.12.97	06.09.99
	(a)	1,423	–	–	1,423	–	609p	–	–	19.12.97	06.09.99
	(a)	633	–	–	633	–	631p	–	–	19.12.97	06.09.99
	(d)	–	6,440	–	–	6,440	262p	–	–	01.01.05	30.06.05
	(e)	–	263,157	–	–	263,157	342p	–	–	01.11.02	31.10.09
Total		**10,790**	**269,597**	**–**	**10,790**	**269,597**					
T D Martin	(e)	184,210	–	–	–	184,210	342p	–	–	01.11.02	31.10.09
	(e)	–	147,435	–	–	147,435	331p	–	–	05.05.03	04.05.10
Total		**184,210**	**147,435**	**–**	**–**	**331,645**					
D Scotland	(a)	49,210	–	–	49,210	–	609p	–	–	08.01.96	06.09.99
	(a)	2,295	–	–	2,295	–	569p	–	–	17.06.97	06.09.99
	(c)	28,191	–	–	28,191	–	0.1p	–	–	27.07.99	06.09.99
	(e)	–	350,877	–	–	350,877	342p	–	–	01.11.02	31.10.09
Total		**79,696**	**350,877**	**–**	**79,696**	**350,877**					
R G Turner	(a)	24,809	–	–	24,809	–	570p	–	–	27.07.99	06.09.99
	(b)	1,885	–	–	1,885	–	609p	–	–	27.07.99	06.09.99
	(b)	11,829	–	–	11,829	–	631p	–	–	27.07.99	06.09.99
	(b)	5,881	–	–	5,881	–	569p	–	–	27.07.99	06.09.99
	(c)	16,914	–	–	16,914	–	0.1p	–	–	27.07.99	06.09.99
	(d)	–	3,697	–	–	3,697	262p	–	–	01.01.03	30.06.03
	(e)	–	304,093	–	–	304,093	342p	–	–	01.11.02	31.10.09
Total		**61,318**	**307,790**	**–**	**61,318**	**307,790**					

(a) 1991 Executive Share Option Scheme
(b) 1991 International Executive Share Option Scheme
(c) Long Term Incentive Scheme
(d) SAYE Scheme 1999
(e) Executive Share Option Scheme 1999

The aggregate value of the gain made on the exercise of share options by all directors during the year was £nil.
The middle market price of the ordinary shares at 31 August 2000 was 320.0p and the range during the year to 31 August 2000 was 249.25p to 377.25p.

We have audited the financial statements on pages 37 to 58.

The directors are responsible for preparing the Annual Report. As described on page 25 this includes the responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the group is not disclosed.

We review whether the statement on pages 28 and 29 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 August 2000 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Chartered Accountants
Registered Auditor
London
30 October 2000 × 30 October, 2000

KPMG Audit PLC
×
KPMG

Accounting policies

Year to 31 August 2000

Basis of accounting

The accounts are prepared under the historical cost convention and comply with UK accounting standards. The accounts adopt Financial Reporting Standard (FRS) 15 Tangible Fixed Assets and FRS 16 Current Tax which did not require a restatement of prior years' results.

Consolidation

The group accounts consolidate the accounts of the company and its interests in subsidiary undertakings. Interests in associated and joint venture undertakings are included using the equity method of accounting.

Intangible fixed assets

Goodwill arising since 1 September 1998 is capitalised and amortised by equal annual instalments over its anticipated useful life, but not exceeding 20 years. On disposal of a business any attributable goodwill previously eliminated against reserves is included in the calculation of any gain or loss.

Tangible fixed assets

Tangible fixed assets are capitalised at cost. Depreciation is provided to write off the cost less the estimated residual value of assets by equal instalments over their estimated useful economic lives as follows: Land and buildings – the shorter of 50 years or the length of the lease; Plant and equipment – 4 to 20 years. No depreciation is provided on freehold land.

Tangible fixed assets relating to the UK Retail business were disposed of on 6 September 1999 as part of a capital reduction. These assets included properties which were subject to a revaluation. The group has adopted FRS 15 Tangible Fixed Assets from 1 September 1999 in respect of its ongoing operations. It did not do so for the UK Retail fixed assets.

Fixed asset investments

Fixed asset investments are stated at cost, less provision for any permanent diminution in value. Market value of listed investments is based on the closing middle market price on a stock exchange in the country of incorporation on the last business day of the financial year.

Turnover

Turnover represents sales to external customers (including duties but excluding sales taxes) and franchise income.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises purchase price or direct production cost together with duties and manufacturing overheads.

Deferred tax

Account is taken, on the liability basis, for the tax effect arising from all timing differences to the extent that it is probable that a liability or the recovery of an asset will crystallise.

Financial instruments

Transactions involving financial instruments are treated as follows:

i) Gains or losses arising on forward exchange contracts are taken to the profit and loss account in the same period as the underlying transaction.

ii) Net interest arising on interest rate agreements is taken to the profit and loss account over the life of the agreement.

iii) Premiums paid or received on currency options are taken to the profit and loss account when the option expires or matures.

If the underlying transaction to a hedge ceases to exist, the hedge is terminated and the profits or losses on terminations are recognised in the profit and loss account immediately. If the hedge transaction is terminated, the profits or losses on termination are held on the balance sheet and amortised over the life of the original underlying transaction.

Foreign currencies

The results of undertakings outside the UK are translated at weighted average exchange rates each month. The closing balance sheets of undertakings outside the UK are translated at year end rates. Exchange differences arising from the restatement of opening balance sheets and the results of undertakings outside the UK to closing rates are dealt with through reserves. Assets and liabilities denominated in foreign currencies are translated at year end rates, or at contracted rates where applicable, any gains or losses are taken to the profit and loss account.

Post employment benefits

Pension and post retirement medical benefit costs are charged to profit and loss account on a systematic basis over the service life of employees with the advice of actuaries using the projected unit credit method.

Year to 31 August 2000

	Note	Year to 31 August 2000 Before goodwill and exceptional items £m	Year to 31 August 2000 Goodwill and exceptional items £m	Year to 31 August 2000 Total £m	Year to 31 August 1999 Before goodwill and exceptional items £m	Year to 31 August 1999 Goodwill and exceptional items £m	Year to 31 August 1999 Total £m
Continuing operations		**2,602**	**–**	**2,602**	2,408	–	2,408
Discontinued operations		**30**	**–**	**30**	1,695	–	1,695
Group turnover and share of turnover of joint venture undertaking	1	**2,632**	**–**	**2,632**	4,103	–	4,103
Less: share of turnover of joint venture – discontinued operation		**(12)**	**–**	**(12)**	(624)	–	(624)
Turnover		**2,620**	**–**	**2,620**	3,479	–	3,479
Operating costs – goodwill amortisation	5	**–**	**(3)**	**(3)**	–	–	–
– other	5	**(2,143)**	**(54)**	**(2,197)**	(2,838)	(235)	(3,073)
Continuing operations		**473**	**(57)**	**416**	420	(220)	200
Discontinued operations		**4**	**–**	**4**	221	(15)	206
Operating profit		**477**	**(57)**	**420**	641	(235)	406
Share of profits of joint venture undertaking – discontinued operation	14	**–**	**–**	**–**	7	(14)	(7)
Share of profits of associated undertakings – continuing operations	14	**14**	**–**	**14**	10	–	10
– discontinued operations	14	**9**	**–**	**9**	13	(4)	9
Trading profit	1	**500**	**(57)**	**443**	671	(253)	418
Profit on sale of businesses in continuing and discontinued operations	6	**–**	**13**	**13**	–	179	179
Profit/(loss) on disposal of fixed assets in continuing and discontinued operations	6	**–**	**46**	**46**	–	(12)	(12)
Profit on ordinary activities before finance charges		**500**	**2**	**502**	671	(86)	585
Finance charges	7	**(83)**	**–**	**(83)**	(92)	(272)	(364)
Profit on ordinary activities before taxation		**417**	**2**	**419**	579	(358)	221
Taxation	8	**(108)**	**15**	**(93)**	(150)	11	(139)
Profit on ordinary activities after taxation		**309**	**17**	**326**	429	(347)	82
Minority interests – equity and non-equity	23	**(9)**	**–**	**(9)**	(6)	–	(6)
Profit earned for ordinary shareholders for the year		**300**	**17**	**317**	423	(347)	76
Ordinary dividends	10			**(116)**			(157)
Retained profit/(loss)	22			**201**			(81)
Earnings per ordinary share:							
– basic	9			**29.9p**			7.3p
– diluted	9			**29.9p**			7.3p
– normalised (before goodwill and exceptional items and excluding discontinued operations)	9	**27.4p**			24.2p		

At 31 August 2000

	Note	31 August 2000 £m	31 August 1999 £m
Fixed assets			
Intangible assets	11	**108**	12
Tangible assets	12	**517**	2,613
Investments and loans	13	**67**	30
Associated and joint venture undertakings	14	**77**	261
Total fixed assets		**769**	2,916
Current assets			
Stocks	15	**947**	877
Debtors due within one year	16	**646**	689
Debtors due after more than one year	16	**260**	273
Cash at bank and in hand		**112**	236
Total current assets		**1,965**	2,075
Creditors (due within one year)			
Short term borrowings	19	**(558)**	(771)
Other creditors	17	**(864)**	(928)
Total current liabilities		**(1,422)**	(1,699)
Net current assets		**543**	376
Total assets less current liabilities		**1,312**	3,292
Creditors (due after more than one year)			
Loan capital	19	**(806)**	(780)
Other creditors	17	**(37)**	(40)
Total creditors due after more than one year		**(843)**	(820)
Provisions for liabilities and charges	18	**(213)**	(173)
Net assets		**256**	2,299
Capital and reserves			
Called up share capital	21	**267**	3,470
Share premium account	22	**26**	26
Merger reserve	22	**(823)**	(2,586)
Revaluation reserve	22	**–**	960
Profit and loss account	22	**720**	403
Shareholders' funds – equity		**190**	2,273
Minority interests – equity and non-equity	23	**66**	26
		256	2,299

Approved by the board on 30 October 2000 and signed on its behalf by:

Chris Hogg

Sir Christopher Hogg, Chairman

Graham H

Graham Hetherington, Director

x Chris Hogg x CAH

x Graham H x GH

Year to 31 August 2000

Reconciliation of operating profit to net cash inflow from operating activities	Note	Year to 31 August 2000 £m	Year to 31 August 1999 £m
Operating profit		**420**	406
Exceptional operating costs		**54**	235
Goodwill amortisation		**3**	–
Depreciation		**51**	101
Increase in stocks		**(43)**	(20)
Increase in debtors		**(97)**	(34)
Increase/(decrease) in creditors		**39**	(32)
Expenditure against provisions for: acquisition costs		**–**	(26)
reorganisation and restructuring costs		**(54)**	(68)
Other items		**(1)**	(11)
Continuing operations		**372**	349
Discontinued operations		**–**	202
Net cash inflow from operating activities		**372**	551

Group cash flow statement	Note	Year to 31 August 2000 £m	Year to 31 August 1999 £m
Net cash inflow from operating activities		**372**	551
Dividends received from associated undertakings		**8**	12
Returns on investments and servicing of finance	26	**(81)**	(391)
Taxation paid	26	**21**	(161)
Capital expenditure and financial investment	26	**(11)**	(151)
Acquisitions and disposals	26	**(217)**	476
Equity dividends paid		**–**	(320)
Continuing operations		**92**	(34)
Discontinued operations		**–**	50
Cash inflow before use of liquid resources and financing		**92**	16
Management of liquid resources		**52**	(52)
Financing	26	**(68)**	(217)
Increase/(decrease) in cash in the year		**76**	(253)

Reconciliation of net cash flow to movement in net debt	Note	Year to 31 August 2000 £m	Year to 31 August 1999 £m
Increase/(decrease) in cash in the year		**76**	(253)
(Decrease)/increase in liquid resources		**(52)**	52
Decrease in loan capital		**68**	318
Movement in net debt resulting from cash flows		**92**	117
Non cash movements on recourse finance		**–**	(6)
Exchange adjustments		**(29)**	(25)
Movement in net debt during the year		**63**	86
Opening net debt		**(1,315)**	(1,401)
Closing net debt	28	**(1,252)**	(1,315)

Year to 31 August 2000

	Year to 31 August 2000 £m	Year to 31 August 1999 £m
Profit earned for ordinary shareholders for the year	**317**	76
Currency translation differences on foreign currency net investments	**7**	4
Total recognised gains and losses for the year	**324**	80

Year to 31 August 2000

	Year to 31 August 2000 £m	Year to 31 August 1999 £m
Profit on ordinary activities before taxation	**419**	221
Realisation of property revaluation gains of prior years	**2**	16
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	**–**	2
Historical cost profit on ordinary activities before taxation	**421**	239
Historical cost retained profit/(loss)	**203**	(63)

Year to 31 August 2000

	Year to 31 August 2000 £m	Year to 31 August 1999 £m
Shareholders' funds at the beginning of the year	**2,273**	2,028
Total recognised gains and losses for the year	**324**	80
Ordinary dividends	**(116)**	(157)
Ordinary share capital issued (net of costs)	**–**	112
Capital reduction due to disposal of UK Retail business	**(2,294)**	–
Preference share capital redemption	**–**	(9)
Goodwill written back on disposals	**3**	219
Net movement in shareholders' funds	**(2,083)**	245
Shareholders' funds at the end of the year	**190**	2,273

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PROFIT AND LOSS ACCOUNT

Year to 31 August 2000

	Year to 31 August 2000	Period to to 31 August 1999
	£m	£m
Administrative expenses	(14)	-
Operating loss	(14)	-
Dividend from Allied Domecq (Holdings) PLC	200	-
Profit on ordinary activities before finance charges	186	-
Finance charges	(2)	-
Profit on ordinary activities before taxation	184	-
Taxation	5	-
Profit on ordinary activities after taxation	189	-
Ordinary dividends	(116)	-
Retained profit	73	-

Approved by the board on 30 October 2000 and signed on its behalf by:

Chris Hogg

Sir Christopher Hogg
CHAIRMAN

Graham C. H

Graham Hetherington
DIRECTOR