ALLIED DOMECQ

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Annual Report and Accounts

A new era for Allied Domecq



Fiscal 1999 has been a year of significant achievement for Allied Domecq. Through extensive restructuring we have returned some £2.7 billion of value to shareholders and have emerged as a tightly focused international brand-led business.

The opportunities to improve the performance of the business are significant. We are committed to delivering these improvements which will markedly strengthen our position in any future industry consolidation, thereby further enhancing the return to shareholders.

www.allieddomecqplc.com

Financial Highlights

	Growth %
Turnover increased to £2,408 million	+2
Trading profit* increased to £443 million	+3
Spirits & Wine underlying trading profit* increased to £369 million	+4
Core four spirits brand volumes increased	+8
Quick Service Restaurants trading profit* increased to £53 million	+26

*Continuing businesses at constant currency before exceptional items. Underlying Spirits & Wine growth excludes the impact of the US destock (£7 million) and lower bulk spirit profits (£8 million).

Allied Domecq in its new form has considerable operating strengths. We can see clear scope to add value by further improving business performance and we are determined to do so.

The year has seen the birth of a new Allied Domecq. The sale of the UK Retail business was finalised after the accounting year end and therefore these figures include UK Retail profits and assets. New Allied Domecq is now in being; the share price was adjusted at the beginning of September to reflect the demerger and we are experiencing the considerable benefits of being a more focused group.

At the outset of disposing of the UK Retail assets, in order to avoid a tax burden which would have rendered the transaction uneconomic, the board decided to undertake the disposal through the prolonged and complicated reduction of capital process. We also sought to try to obtain for shareholders as much ongoing advantage as possible from the synergies in merging our UK Retail assets with those of another party. These two decisions made it difficult to accommodate alternative bidders. In the event, however, the board was able to achieve its basic objectives and the shareholders received directly a very satisfactory price, the group was effectively demerged and the liabilities accruing to the new Allied Domecq as a result of the sale were able to be satisfactorily defined.

With the reshaping of Allied Domecq, Tony Hales, Stephen Alexander and Ramon Mora-Figueroa have left the board and Graham Hetherington and Richard Turner have been welcomed to it. I am glad to have this opportunity of paying warm tribute to the contributions each of the departing directors made to Allied Domecq, particularly to Tony Hales for his eight years as Chief Executive.

Philip Bowman, as Tony Hales' successor, inherits a group which has built up some momentum and has many opportunities for development. Philip's skills and drive, strongly evident since he joined us as Finance Director at the end of 1998, have already had a considerable impact which augurs well for the new Allied Domecq.

In the last three years the Spirits & Wine operations have made much progress in clarifying strategy, reigniting the growth of key brands and tackling costs and capital employed. However, much remains to be done and will be done. It is certainly a challenge to grow the volume of leading brands consistently year after year and this must be the overriding objective. We shall also strive to continue the process of cost reduction in the business and to improve returns on capital.

Allied Domecq in its new form has considerable operating strengths. We can see clear scope to add value by further improving business performance and we are determined to do so.

Sir Christopher Hogg
Chairman

We have delivered substantial value to shareholders by returning the proceeds of the sale of the UK Retail business. Now we will accelerate the pace of change and the process of business improvement over the next twelve months, to generate further value for all our shareholders.

The structure of the group was substantially changed during the year. In January we disposed of Cantrell & Cochrane for £519 million and used the proceeds to reduce short-term debt. Shortly after the year end we completed what was effectively a demerger of the UK Retail business followed by its sale to a consortium of Punch Taverns and Bass. The net proceeds of approximately £2.7 billion were returned to shareholders in a tax effective manner creating the new Allied Domecq as a focused international brand-led business.

The businesses that now comprise the new Allied Domecq made good progress during the year despite the inevitable distraction of the protracted disposal process referred to above. We have a clear strategy to improve the performance of these operations and have taken steps to accelerate the implementation of this strategy.

In Spirits & Wine, the continued focus of direct brand marketing behind core brand market combinations has sustained the expansion of volumes, underlying profits and cash flow growth in the major regions of Europe and the Americas. Greater marketing emphasis and sophisticated customer management techniques are key drivers of this growth which will be reinforced by cost cutting and tighter management of the supply chain.

In Quick Service Restaurants, Dunkin' Donuts continues to outperform the industry in the USA with same store sales growth of 6 per cent last year. Togo's has been expanded and traded successfully while significant progress has been made to improve the Baskin-Robbins value proposition and convert this to a true franchise business. The international business was returned to profit in the second half of the year through aggressive restructuring and management changes.

UK Retail profits fell by 13 per cent as a result of difficult trading conditions. It reflects well on those working in the UK Retail business that performance did not deteriorate further during the disposal process.

Outlook Positive trends continued in the first two months of the new financial year. The restructuring of corporate departments and imminent closure of the Portland Place head office, following the disposal of the UK Retail business, have generated significant savings and the simplification of the business portfolio will provide further cost reduction opportunities. Continued focus of marketing expenditure and improved advertising effectiveness will drive further growth in the volumes of key brands and increase the opportunity for enhanced earnings and sustainable reinvestment in key brand market combinations.

We are actively seeking opportunities to improve the return on our existing assets and to enhance our position as the number two global spirits and wine company. These may include improving our geographic distribution (as highlighted by the recent agreement with Jinro in Korea), building on the strengths of our existing distribution infrastructure and developing our international wine business. There are significant opportunities for improving the performance of the business and management is focused on delivering these improvements. Achieving these objectives will strengthen the company's position and therefore the return to shareholders in any future industry consolidation.

Continuing Businesses

Spirits & Wine

- Underlying trading profit up 4 per cent: Europe up 10 per cent, Americas up 5 per cent
- Core four brand volumes up 8 per cent, marketing spending up 3 per cent, net brand contribution up 10 per cent
- Prices up 1 per cent to 2 per cent
- Cases per production employee up 7 per cent

(Volumes are sales to third parties unless otherwise specified)

Spirits & Wine turnover increased by 2 per cent and trading profits, before exceptional items and at constant exchange, were level at £369 million. Performance benefited from a sharper focus of our marketing spend, delivering on our commitment to concentrate on those brands and markets with above average growth potential. A reduction in profits from bulk sales of matured spirits and action to reduce wholesaler stocks in the US impacted trading profit by £8 million and £7 million respectively. Adjusting for these non-recurring items and the disposal of Cantrell & Cochrane, underlying trading profit at constant exchange increased by 4 per cent from £354 million to £369 million.

Total direct brand marketing (DBM) on continuing businesses was slightly below that reported last year at £275 million primarily due to reduced spend relating to agency brands now discontinued. The amount allocated to the core four brands increased by 3 per cent to £132 million. These brands increased volume by 8 per cent in aggregate, led by further strong performances from Sauza up 24 per cent and Kahlua up 14 per cent. Global volumes for Ballantine's and Beefeater were broadly in line with the previous year. Greater focus on the core four brands increased their net brand contribution by 10 per cent year on year.

Price increases of 1 per cent to 2 per cent were achieved.

Europe Underlying profits grew by 10 per cent to £124 million despite the adverse impact (£7 million year on year) of the foreign exchange movement on product costs, and the impacts of the Russian economic crisis and the Balkan conflict. This progress, building on two consecutive years of strong growth, has been driven by improvements in price and mix. European growth was led by Spain but supported by increases in all major Western European markets.

We have continued to invest DBM spend strongly behind core brands in key markets. Regional DBM increased by 5 per cent on the core four brands and by 3 per cent overall. This increase was reinforced by improvements in customer management and has led to share gains for a number of key brand market combinations, most notably Ballantine's and Beefeater in Spain. There were also gains for Ballantine's in Italy, where the new campaign, 'It's what's inside that counts', was first aired in May. We plan to inject even more marketing spend behind Ballantine's in the current year as this campaign is launched in additional markets.

Ballantine's volumes continued to grow strongly in a stable European whisky market with Western Europe up 6 per cent, led by Spain, up 10 per cent. Central & Eastern Europe was down 12 per cent but nonetheless we increased whisky market share from 22 per cent to 26 per cent. Total Ballantine's growth for the region was 4 per cent. Beefeater volumes were flat due to Central & Eastern Europe but grew by 8 per cent in Spain.

Our comprehensive owned distribution gives us the ability to implement Europe-wide strategies effectively and constitutes a significant potential attraction to trading partners. Established key account management teams for pan-European agreements are now proving to be a source of real competitive edge in a market place increasingly characterised by retail consolidation.

Americas Underlying trading profits for the Americas as a whole rose by 5 per cent supported by the favourable impact (£6 million year on year) of the foreign exchange movement on product costs. This result was achieved despite a significant decline in Latin America. Underlying profits in the core North American markets were up 10 per cent (up 6 per cent excluding the favourable foreign exchange benefit). Regional DBM increased by 3 per cent on the core four brands but was

Our comprehensive owned distribution gives us the ability to implement Europe-wide strategies effectively and constitutes a significant potential attraction to trading partners.

down by 2 per cent overall, reflecting reduced activity in Latin American markets.

In the US, underlying growth has again been driven by brand focus which has resulted in a core four brands' shipments volume increase of 14 per cent in aggregate, led by Sauza, up 23 per cent and Kahlua, up 16 per cent. Total portfolio volumes were 6 per cent higher. Canadian Club, Courvoisier and Beefeater declined by 8 per cent, 10 per cent and 6 per cent respectively, due in part to management action to destock the supply chain. Maker's Mark continued its growth and was up 11 per cent.

We continued to improve efficiency within the US supply chain and have reported volume increases despite the decision to destock the US trade by a net 160,000 cases of spirits during the second half of the year. Core four brands' depletions were 16 per cent higher with both Kahlua and Sauza depletions up 21 per cent year on year. Over two years, core four brands' depletions have grown by 13 per cent per annum compound.

The effectiveness of the US business has been significantly upgraded by consolidating spirits sales into priority and alliance brand teams based in one location, by the adoption of best practice marketing spend allocation techniques and by tighter supply chain management. Implementation of our distributor and retailer strategies continues to yield brand performance gains.

In Latin America, Brazil, our largest market, performed in line with last year despite adverse economic conditions. But results from other markets, notably Argentina, were significantly lower.

Mexico Trading profits were only 6 per cent lower after an improved second half performance. Total volumes were 7 per cent down year on year, mainly as a result of the decision not to repeat last year's Presidencola promotion. Growth of Azteca de Oro, up 33 per cent, Sauza, up 30 per cent and Kahlua, up 6 per cent, was offset by declines in Presidente of 29 per cent and Don Pedro of 4 per cent. New products such as Baraima Black, a super premium white rum, and Anejo Los Reyes, a brandy based spirit, have been launched. Crop conditions will limit the supply for tequila production of agave cactus, the price of which has increased substantially over recent months. So far, it is too early to predict accurately future supply trends but we and the industry are monitoring the situation closely. We will restrict the supply of low margin tequila, e.g. Giro, whilst continuing to pursue our successful strategy of developing our premium tequilas.

Rest of the World In Asia Pacific, profits grew by 3 per cent signalling that, whilst economic recovery has been patchy, volume performance in some markets is returning to pre-crisis levels. Overall volumes were well ahead with strong performances by Ballantine's, particularly in Korea, where sales more than doubled. The recent agreement to enter into a joint venture with Jinro in Korea means that Allied Domecq will be in a strong position in a priority Asian market. Completion of this transaction is anticipated in late December.

In Japan, overall volumes were 6 per cent ahead through the joint venture with Suntory, although tough conditions in the on-premise trade and a significant decline in the cognac market have negatively impacted profit by 14 per cent through adverse mix. Fundador grew volume in the Philippines by 31 per cent. Reorganisations of the joint ventures in Australia and New Zealand will improve brand focus.

Initial experience of the cessation of intra-EU duty free trade confirms our earlier estimates that the year-on-year effect on trading profit in the current year will be circa £7 million. The scale of the operation has been reduced to protect financial performance.

Productivity within our operating units is up 7 per cent, measured by cases per production employee. Courvoisier restructuring is now complete making us the most efficient industry operator and we have embarked on further improvements in Scotland with the ongoing objective of creating a single integrated operation.

Wine We are a top ten player in the growing international wine market. Last year, shipments totalled some seven million

The effectiveness of the US business has been significantly upgraded by consolidating spirits sales teams in one location, by the adoption of best practice marketing techniques and by tighter supply chain management.

cases, including 2 million cases of fortified wines. We are particularly strong in the premium Californian wine business where we reported a 25 per cent increase in profits. This was driven by our premium and super premium wines, benefiting from category growth of 11 per cent and 21 per cent respectively. Clos du Bois alone sold over one million cases, up 24 per cent on the previous year.

An investment programme in the Californian wineries will see capacity increase by 60 per cent over the next two years.

Quick Service Restaurants

- Trading profit up 26 per cent: US up 14 per cent, International up 57 per cent
- Distribution points up 2 per cent to 9,992

US trading profits increased by 14 per cent from £49 million to £56 million. This strong growth was led by Dunkin' Donuts which continued to outperform the market with same store sales growth of 6 per cent. Baskin-Robbins' same store volumes were broadly flat year on year with sales value declines offset by reduced costs. Baskin-Robbins is proving particularly attractive in combination with Togo's but the achievement of full benefits from this opportunity requires improvements to the Baskin-Robbins total brand offering. A programme to revitalise the brand's US appeal both to franchisees and consumers has been launched and is built on the provision of greater value and variety in order to increase customer traffic and franchisee commitment.

The international business, which was restructured in the first half, has reported a small profit in the second half. Costs have been reduced, the management structure streamlined and, under its new management, future development will be focused on a reduced number of key markets.

Other Interests The group's 25 per cent interest in Britannia Soft Drinks was not sold to Punch Taverns as part of the UK Retail disposal, as was originally intended. Britannia's profits were in line with the previous year, our share being £8 million. We are pursuing options to exit this shareholding on appropriate terms. The conditional disposal of our 50 per cent interest in Panrico, announced in March, is expected to complete in the first half of the current financial year. Panrico's results before restructuring costs were ahead of last year with our share of profits at £13 million compared with £11 million.

Discontinued Businesses UK Retail profits fell by 13 per cent to £204 million in the year. Managed pub profits fell by 17 per cent but leased houses increased profits by 8 per cent, despite 3 per cent fewer outlets. Profits before restructuring costs from off-licence interests at £7 million were £6 million lower. The Cantrell & Cochrane contribution in the four months prior to its disposal was £24 million.

Objectives To grow the volume of leading brands consistently year on year must be an overriding objective. In parallel, we must continue the process of cost reduction in the business and improve returns on capital. We have a clear strategy to improve the performance of all our operations and we have taken steps to accelerate its implementation. There are significant opportunities both to improve the performance of the existing asset base and to build on our position as the number 2 global spirits and wine company. Management is focused on delivering these improvements.

I am committed to making our company leaner and more responsive in everything we do – allowing us to seize a real competitive edge by being able to react quickly and effectively to changing market and customer conditions. This will include the acceleration of internal decision making and prioritising processes and the exchange of best practice across the globe. We will continue to train and develop our best people, and increasingly foster an entrepreneurial culture within the company.

Philip Bowman
Chief Executive

To grow the volume of leading brands consistently year on year must be an overriding objective. In parallel, we must continue the process of cost reduction in the business and improve returns on capital.

Turnover and trading profit at constant exchange rates for the continuing businesses have increased by 2 per cent and 3 per cent respectively.

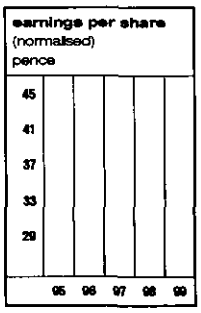
Profits and Earnings Trading profits before exceptionals for the group reduced from £721 million in 1998 to £671 million, including a full year of profits for the UK Retail business which fell by £31 million to £204 million. Turnover and trading profit at constant exchange rates for the continuing businesses (excluding the UK Retail business and Cantrell & Cochrane) have increased by 2 per cent and 3 per cent respectively.

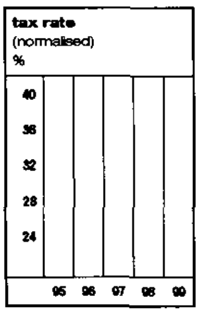
Profit before tax and exceptional items reduced from £615 million in 1998 to £579 million; after exceptional items the reduction was from £455 million to £221 million. Normalised earnings per share were 40.4p, a reduction of 3 per cent against 1998 driven by the dilutive effect of the disposal of Cantrell & Cochrane and the fall in profits from the UK Retail business.

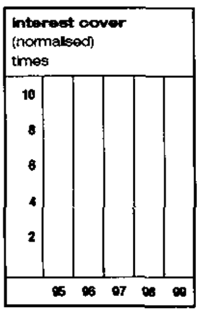
The normalised tax charge for the year, which reflects the write-back of ACT that had previously been written off, fell by £10 million to £150 million. The normalised tax rate remains at 26 per cent and we anticipate that this rate will be sustainable for the current year.

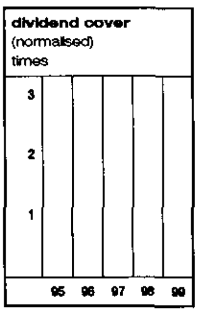
Exceptional Items The group's profit and loss account reflects a net exceptional charge for the year of £358 million before tax. An exceptional profit of £189 million on the disposal of Cantrell & Cochrane was offset by £547 million of exceptional charges comprising £35 million on the redemption of loan stock, £237 million on the repayment of debenture stock, £27 million Year 2000 and EMU costs, £45 million UK Retail disposal costs, £37 million relating to surplus properties, £59 million asset write-downs, £67 million restructuring and other costs, £22 million losses on disposals and £18 million restructuring costs in associated and joint venture undertakings.

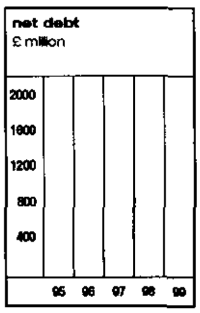
Dividends An interim dividend of 15.00p per share (1998: 9.73p) was paid on 1 April 1999, as a Foreign Income Dividend. As previously announced, no final dividend will be paid for the year to 31 August 1999. Dividend cover (normalised) for the year was 2.7 times. Future dividend payments will be determined by reference to a dividend cover target of approximately 2.5 times with the interim and final distributions representing approximately 40 per cent and 60 per cent respectively of the annual total.

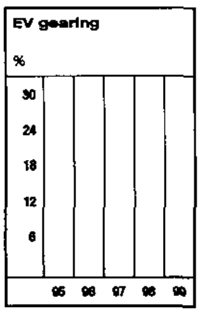












It is currently proposed to declare the next interim dividend in May 2000 at the time of the Interim Results, with payment on 1 September 2000.

Cash Flow Operating cash flow (net of fixed assets) was £449 million (1998: £565 million), of which continuing businesses (Spirits & Wine and QSR) generated an operating cash flow in the period of £346 million (1998: £335 million). Overall, despite the £272 million outflow for the premia on redemption of debentures and loan stock, net debt reduced from £1,401 million to £1,315 million, due in part to disposal proceeds from the £519 million sale of Cantrell & Cochrane, £112 million of cash receipts from the exercise of employee share options and the strong operating cash flow.

Treasury 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 up to 18 months using a combination of forward foreign exchange contracts and purchased foreign exchange options.

Our balance sheet can be significantly affected by currency translation movements. Our policy is to match foreign currency borrowings 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.

Exposures to interest rate fluctuations on borrowings and deposits are managed by using interest rate swaps and purchased interest rate options. Group policy is 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 1999 EV gearing was 18 per cent, when measuring debt as a percentage of market capitalisation plus debt.

During the year we continued the restructuring of the balance sheet by repaying the £200 million Convertible Bond, the $400 million Guaranteed Notes and the £350 million Debenture. These early repayments were funded from a seven year DEM 500 million eurobond issued from a newly established $2 billion medium-term note facility, a £1 billion five year syndicated loan facility and an £800 million extendable-term loan facility. As a result of the restructuring, the weighted average interest rate has been reduced from 7 per cent to approximately 5 per cent. In February 1999, the £9 million preference shares were repaid.

Year 2000 The board continues to take the matter of Year 2000 very seriously. It remains committed to ensuring that, as far as is practicable, the programme it set up some time ago, which is running to plan, will minimise the group's vulnerability to Year 2000 risks. Despite our rigorous programme of work, it is in the nature of the Year 2000 problem that absolute assurance of compliance cannot be given.

The group's overall cost of achieving compliance remains in line with the estimates that we provided at the half-year. However, the estimate has been reduced from £40 million to £30 million, following the disposal of the UK Retail business. Of the £30 million, £21 million had been spent to 31 August 1999.

Graham Hetherington
Finance Director

Sir Christopher Hogg Non-Executive Chairman
Appointed non-executive deputy chairman of Allied Domecq in 1995 and non-executive chairman in 1996. Also non-executive chairman of Reuters Group and a non-executive director of SmithKline Beecham. Aged 63.

Philip Bowman Chief Executive
Joined the group on 30 November 1998 as an executive director. Appointed finance director on 12 January 1999 and chief executive of Allied Domecq Spirits & Wine on 25 May 1999. He was appointed chief executive of Allied Domecq on 3 August 1999. He is also non-executive chairman of Liberty and a non-executive director of British Sky Broadcasting Group. Aged 46.

Donald H Brydon
Joined the group as a non-executive director in 1997 and is chairman of the Allied Domecq pension trusts. He is the senior non-executive director of Allied Domecq. He is also chairman and chief executive of AXA Investment Managers. Aged 54.

Sir Ross Buckland
Joined the group as a non-executive director in 1998. He is chief executive of Unigate, and a director of the National Australia Bank Europe. Aged 56.

Graham C Hetherington
Joined the group in 1991 as finance director of Lyons Bakeries (UK). Appointed finance director, Customer Services and Planning of Allied Domecq Spirits & Wine in 1995 and senior vice president finance, The Americas, Allied Domecq Spirits & Wine in 1997. He was appointed finance director of Allied Domecq Spirits & Wine in 1998 and became a director of Allied Domecq on 2 June 1999; he was appointed group finance director on 3 August 1999. Aged 40.

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). Aged 56.

David Malpas
Joined the group as a non-executive director in 1997. He retired as managing director of Tesco in 1997. He is a non-executive director of Liberty and chairman of Dresdner Income Growth Investment Trust. Aged 59.

George F McCarthy
Joined the group as a director of Allied Domecq Spirits & Wine in 1993 and appointed a director of Allied Domecq in 1995. He is president, The Americas, Allied Domecq Spirits & Wine. Aged 62.

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. Also a non-executive director of Thomson Travel Group. Aged 51.

Richard G Turner
Joined the group in 1982. Appointed president, Customer Services and Planning of Allied Domecq Spirits & Wine in 1995. Appointed a director of Allied Domecq on 2 June 1999 and became president, Customer Services and Planning, Allied Domecq on 3 August 1999. Aged 50.

David S Mitchell Secretary

Statement of Directors' Responsibilities

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.

Principal Board Committees

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, financial control and foreign currency/interest rate risk management 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, to consider matters connected with human resources policies and to consider candidates for appointment to the board.

Executive Committee

The board has transferred the responsibilities of the former Group Executive Committee to a new committee of the board with effect from 25 October 1999. This committee comprises mainly the executive directors.

The responsibilities of this 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 providing leadership of management development.

We have audited the financial statements on pages 11 to 34. We have also examined the amounts disclosed relating to emoluments, share options, long-term incentive scheme interests and directors' pension entitlements which form part of the report of the remuneration committee on pages 40 to 47.

Respective Responsibilities of Directors and Auditor The directors are responsible for preparing the Annual Report including, as described on page 9, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, 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 company is not disclosed.

We review whether the statement on pages 48 and 49 reflects the company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's governance procedures or its internal controls.

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 implication for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit Opinion 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.

Opinion 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 1999 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc, Registered Auditor
Chartered Accountants London, 15 November 1999

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Basis of Accounting The accounts are prepared under the historical cost convention, modified by the revaluation of certain properties, and comply with applicable UK accounting standards. The accounts adopt Financial Reporting Standards (FRS) 10 and 12, which did not require a restatement of prior years' results.

Consolidation The group accounts consolidate the accounts of the company and its interests in subsidiaries. Interests in associates and joint ventures are equity accounted. During the year there was a capital reorganisation that required a new parent company for the group (refer to note 21). This has been accounted for using merger accounting principles.

In cases where the accounts of overseas undertakings are prepared on bases inconsistent with group accounting policies, appropriate adjustments are made to conform with the bases adopted in the UK.

Goodwill arising on businesses acquired up to 31 August 1998 has been written off directly against reserves, but written back to the profit and loss account if the business is sold. Following the introduction of FRS 10, goodwill arising on acquisitions after 31 August 1998 is being capitalised and amortised over their estimated useful economic lives. Goodwill previously eliminated against reserves has not been reinstated.

Post Employment Benefits Pension and post retirement medical benefit costs are charged to the 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.

Depreciation No depreciation is provided on land, or on licensed and certain other properties, which are freehold or held on lease for a term exceeding 100 years unexpired. It is the group's policy to maintain the licensed estate in such condition that the value of the estate is not impaired by the passage of time. As a consequence, any element of depreciation would, in the opinion of the directors, be immaterial. Deficits arising on the revaluation of properties to below historical cost are charged to the profit and loss account. Industrial buildings are depreciated over 50 years or remaining life, if less. Leaseholds with less than 100 years unexpired are depreciated over the remaining term of the lease. Other fixed assets are depreciated on a straight line basis at the following annual rates:

Plant and machinery	5% to 15%
Other equipment	5% to 25%
Commercial vehicles and motor cars	15% to 20%

Disposal of Properties The profit or loss on disposal of properties is the difference between the net realisation and the net book value, including revaluations. Adjustments to book value occasioned by revaluations whilst in group ownership, previously taken to revaluation reserve, are brought back to profit and loss account reserve on disposal and are not included in the profit for the financial year.

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.

Research and Development Expenditure
Expenditure on research and development activities, including brand development, is written off as incurred.

Stocks Stocks are valued at the lower of cost and net realisable value on bases appropriate to the various companies of the group. Cost comprises purchase price or direct production cost together with customs and excise duties and manufacturing overheads as appropriate.

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 asset will crystallise.

Foreign Currencies The profits of overseas undertakings are translated at weighted average exchange rates each month. The closing balance sheets of overseas undertakings and foreign currency assets and liabilities are translated at year end rates. Exchange differences arising from the restatement of opening balance sheets and profits for the year of overseas undertakings to closing rates are dealt with through reserves net of differences on related currency debt. The most significant translation rates to £1 are:

	Average rate for the year		Closing rate	
	1999	1998	**31 August 1999**	31 August 1998
United States dollar	**1.63**	1.65	**1.61**	1.66
Canadian dollar	**2.46**	2.37	**2.40**	2.62
Mexican peso	**15.96**	13.91	**15.08**	16.66
Spanish peseta	**246**	250	**253**	252
Japanese yen	**196**	216	**176**	238
Euro	**1.47**	n/a	**1.52**	n/a

Group Profit and Loss Account

Year to 31 August 1999

		Year to 31 August 1999			Year to 31 August 1998		
	Note	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Continuing operations		2,408	–	2,408	2,398	–	2,398
Discontinued operations		1,695	–	1,695	1,910	–	1,910
Group turnover and share of turnover of joint venture undertaking	1	4,103	–	4,103	4,308	–	4,308
Less: share of turnover of joint venture – discontinued operation		(624)	–	(624)	–	–	–
Turnover		3,479	–	3,479	4,308	–	4,308
Operating costs	3	(2,838)	(235)	(3,073)	(3,609)	(87)	(3,696)
Continuing operations		420	(220)	200	415	(12)	403
Discontinued operations		221	(15)	206	284	(75)	209
Operating profit		641	(235)	406	699	(87)	612
Share of profits of joint venture undertaking – discontinued operation	14	7	(14)	(7)	–	–	–
Share of profits of associated undertakings	13	23	(4)	19	22	–	22
Trading profit	1	671	(253)	418	721	(87)	634
Profit/(loss) on sale of businesses in continuing and discontinued operations	5	–	179	179	–	(20)	(20)
Loss on disposal of fixed assets in continuing and discontinued operations	5	–	(12)	(12)	–	(17)	(17)
Profit on ordinary activities before finance charges		671	(86)	585	721	(124)	597
Finance charges	6	(92)	(272)	(364)	(106)	(36)	(142)
Profit on ordinary activities before taxation		579	(358)	221	615	(160)	455
Taxation	7	(150)	11	(139)	(160)	–	(160)
Profit on ordinary activities after taxation		429	(347)	82	455	(160)	295
Minority interests – equity	23	(6)	–	(6)	(18)	–	(18)
– non-equity	23	–	–	–	(2)	–	(2)
Preference dividends		–	–	–	(1)	–	(1)
Profit earned for ordinary shareholders for the year		423	(347)	76	434	(160)	274
Ordinary dividends	9			(157)			(266)
Retained (loss)/profit	22			(81)			8
Earnings per ordinary share: basic and fully diluted	8			7.3p			26.3p
normalised (before exceptional items)	8	40.4p			41.7p		

Group Balance Sheet

At 31 August 1999

	Note	31 August 1999 £m	31 August 1998 £m
Fixed assets			
Intangible assets	10	**12**	–
Tangible assets	11	**2,613**	2,621
Investments and loans	12	**67**	99
Less: non-recourse finance		**(37)**	(52)
		30	47
Associated undertakings	13	**130**	133
Joint venture undertaking – share of gross assets	14	**246**	242
– share of gross liabilities		**(115)**	(97)
		131	145
Total fixed assets		**2,916**	2,946
Current assets			
Stocks	15	**877**	874
Debtors due within one year	16	**689**	783
Debtors due after more than one year	16	**273**	263
Cash at bank and in hand		**236**	117
Creditors (due within one year)			
Short-term borrowings	19	**(771)**	(660)
Dividends	17	**–**	(163)
Other creditors	17	**(928)**	(1,061)
Net current assets		**376**	153
Total assets less current liabilities		**3,292**	3,099
Creditors (due after one year)			
Loan capital	19	**(780)**	(858)
Other creditors	17	**(40)**	(32)
Provisions for liabilities and charges	18	**(173)**	(142)
Net assets		**2,299**	2,067
Capital and reserves (attributable to equity and non-equity interests)			
Called up share capital	22	**3,470**	270
Share premium account	22	**26**	537
Merger reserve	22	**(2,586)**	–
		910	807
Revaluation reserve	22	**960**	976
Profit and loss account	22	**403**	245
Shareholders' funds		**2,273**	2,028
Minority interests – equity	23	**24**	31
– non-equity	23	**2**	8
		2,299	2,067

Approved by a committee of the board on 15 November 1999 and signed on its behalf by:

Chris Hogg

Sir Christopher Hogg Chairman

Graham C. H

Graham Hetherington Director

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Group Cash Flow Statement

Year to 31 August 1999

	Note	Year to 31 August 1999 Continuing £m	Discontinued £m	Total £m	Year to 31 August 1998 Total £m
Net cash inflow from operating activities	25	**349**	**202**	**551**	670
Dividends received from associated undertakings		**12**	**–**	**12**	12
Interest received		**10**	**–**	**10**	6
Interest paid		**(125)**	**–**	**(125)**	(111)
Premium on redemption of debentures		**(237)**	**–**	**(237)**	(36)
Premium on redemption of loan stock		**(35)**	**–**	**(35)**	–
Dividends paid to minority shareholders		**(4)**	**–**	**(4)**	(98)
Returns on investments and servicing of finance		**(391)**	**–**	**(391)**	(239)
UK taxation		**(13)**	**(45)**	**(58)**	(69)
Overseas taxation		**(103)**	**–**	**(103)**	(72)
Taxation paid		**(116)**	**(45)**	**(161)**	(141)
Purchase of tangible fixed assets		**(75)**	**(133)**	**(208)**	(221)
Sale of tangible fixed assets		**24**	**33**	**57**	74
Net decrease in trade investments		**1**	**–**	**1**	–
Net (increase)/decrease in franchise loans		**(1)**	**–**	**(1)**	2
Capital expenditure and financial investment		**(51)**	**(100)**	**(151)**	(145)
Purchase of subsidiary undertakings		**(14)**	**–**	**(14)**	(160)
Purchase of associated and joint venture undertakings		**(2)**	**(7)**	**(9)**	(3)
Sale of subsidiary undertakings		**430**	**–**	**430**	(57)
Cash and overdrafts disposed of with subsidiary undertakings		**48**	**–**	**48**	(7)
Sale of associated undertakings		**21**	**–**	**21**	1
Acquisitions and disposals		**483**	**(7)**	**476**	(226)
Equity dividends paid		**(320)**	**–**	**(320)**	(258)
Cash (outflow)/inflow before use of liquid resources and financing		**(34)**	**50**	**16**	(327)
Management of liquid resources				**(52)**	77
Issue of ordinary share capital				**112**	25
Redemption of preference shares				**(11)**	–
Net (decrease)/increase in borrowings				**(318)**	152
Financing				**(217)**	177
Decrease in cash in the year	27			**(253)**	(73)

Group Statement of Total Recognised Gains and Losses

Year to 31 August 1999

	Year to 31 August 1999 £m	Year to 31 August 1998 £m
Profit earned for ordinary and preference shareholders for the year	**76**	275
Increase in valuation of licensed estate	**–**	71
Currency translation differences on foreign currency net investments	**4**	(56)
Total recognised gains and losses for the year	**80**	290

Group Note of Historical Cost Profits and Losses

Year to 31 August 1999

	Year to 31 August 1999 £m	Year to 31 August 1998 £m
Profit on ordinary activities before taxation	**221**	455
Realisation of property revaluation gains of prior years	**16**	50
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	**2**	1
Historical cost profit on ordinary activities before taxation	**239**	506
Historical cost (loss)/profit retained for the year after taxation, minority interests and dividends	**(63)**	59

Group Reconciliation of Movements in Shareholders' Funds

Year to 31 August 1999

	Year to 31 August 1999 £m	Year to 31 August 1998 £m
Shareholders' funds at the beginning of the year	**2,028**	2,136
Total recognised gains and losses for the year	**80**	290
Dividends (ordinary and preference)	**(157)**	(267)
Ordinary share capital issued (net of costs)	**112**	25
Preference share capital redemption	**(9)**	–
Goodwill written back on disposals	**219**	20
Goodwill written off	**–**	(176)
Net movement in shareholders' funds	**245**	(108)
Shareholders' funds at the end of the year	**2,273**	2,028

Parent Company Balance Sheet

As at 31 August 1999

	Note	31 August 1999 £m
Fixed assets – investment in subsidiary undertaking	12	**6,489**
Amounts owed to subsidiary undertaking	17	**(573)**
Net assets		**5,916**
Capital and reserves (attributable to equity interests)		
Called up share capital	22	**3,470**
Share premium account	22	**26**
Merger reserve	22	**2,420**
Profit and loss account	22	**–**
Shareholders' funds		**5,916**

Approved by a committee of the board on 15 November 1999 and signed on its behalf by:

Chris Hogg

Sir Christopher Hogg Chairman

Graham Hetherington Director

Capital reorganisation

All disclosures relating to the parent company show the state of affairs of the new parent, Allied Domecq PLC, which was incorporated on 11 May 1999 to facilitate the disposal of the UK Retail business (refer to note 21). Accordingly, there are no comparatives for the year ended 31 August 1998.

Profits of the parent company

Under the provisions of the Companies Act 1985, a separate profit and loss account for the parent company is not presented. There were no profits or losses arising in the period since incorporation up to 31 August 1999.

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1. Activity analysis	Continuing: Spirits & Wine £m	Continuing: QSR £m	Continuing: Other £m	**Total continuing £m**	Discontinued: UK Retail £m	Discontinued: Cantrell & Cochrane £m	**Total group £m**
Year to 31 August 1999							
Turnover (including share of joint venture undertaking)	2,110	298	–	**2,408**	1,565	130	**4,103**
Trading profit before exceptional items	369	53	21	**443**	204	24	**671**
Exceptional items	(172)	(48)	(4)	**(224)**	(27)	(2)	**(253)**
Trading profit after exceptional items	197	5	17	**219**	177	22	**418**
(Loss)/profit on sale of businesses	(10)	–	–	**(10)**	–	189	**179**
(Loss)/profit on disposal of fixed assets	(3)	(14)	–	**(17)**	5	–	**(12)**
Profit before finance charges	184	(9)	17	**192**	182	211	**585**
Finance charges – net interest							**(92)**
– loan and debenture repayment premia							**(272)**
Profit on ordinary activities before taxation							**221**
Assets employed	1,396	102	99	**1,597**	2,158	–	**3,755**
Average numbers employed	8,542	2,803	–	**11,345**	28,730	420	**40,495**
Year to 31 August 1998							
Turnover	2,103	295	–	**2,398**	1,595	315	**4,308**
Trading profit before exceptional items	376	42	19	**437**	235	49	**721**
Exceptional items	–	(12)	–	**(12)**	(75)	–	**(87)**
Trading profit after exceptional items	376	30	19	**425**	160	49	**634**
Loss on sale of businesses	–	–	–	**–**	(20)	–	**(20)**
Profit/(loss) on disposal of fixed assets	4	(12)	(2)	**(10)**	(7)	–	**(17)**
Profit before finance charges	380	18	17	**415**	133	49	**597**
Finance charges – net interest							**(106)**
– debenture repayment premium							**(36)**
Profit on ordinary activities before taxation							**455**
Assets employed	1,376	122	81	**1,579**	2,135	105	**3,819**
Average numbers employed	9,053	2,695	12	**11,760**	36,459	1,490	**49,709**

Finance charges are dealt with centrally, recognising the group's role and responsibility in allocating financial resources to the sectors.

The comparatives have been restated to reflect discontinued operations.

Assets employed are before deducting net debt of £1,315m (1998: £1,401m), tax payable of £141m (1998: £188m) and dividends payable of nil (1998: £163m) to give net assets of £2,299m (1998: £2,067m).

Other continuing operations principally comprise the group's 50% interest in Panrico and 25% interest in Britannia Soft Drinks.

2. Geographical analysis		United Kingdom £m	Rest of Europe £m	USA £m	Canada £m	Mexico £m	Rest of World £m	Total £m
By country of operation								
Year to 31 August 1999								
Turnover	– continuing operations	**612**	**853**	**948**	**115**	**314**	**110**	**2,952**
	– discontinued operations	**1,589**	**118**	**–**	**–**	**–**	**–**	**1,707**
		2,201	**971**	**948**	**115**	**314**	**110**	**4,659**
	– to group companies							**(556)**
	– external							**4,103**
Trading profit	– continuing operations	**109**	**115**	**141**	**29**	**45**	**4**	**443**
	– exceptional items in continuing operations	**(140)**	**(7)**	**(24)**	**–**	**–**	**(53)**	**(224)**
	– discontinued operations	**204**	**24**	**–**	**–**	**–**	**–**	**228**
	– exceptional items in discontinued operations	**(27)**	**(2)**	**–**	**–**	**–**	**–**	**(29)**
		146	**130**	**117**	**29**	**45**	**(49)**	**418**
Profits less losses on sale of businesses in continuing and discontinued operations		**179**	**–**	**–**	**–**	**–**	**–**	**179**
Profit/(loss) on disposal of fixed assets in continuing and discontinued operations		**4**	**(2)**	**(7)**	**–**	**–**	**(7)**	**(12)**
Profit/(loss) before finance charges		**329**	**128**	**110**	**29**	**45**	**(56)**	**585**
Assets employed		**2,590**	**484**	**341**	**119**	**121**	**100**	**3,755**
Year to 31 August 1998								
Turnover	– continuing operations	639	847	902	148	326	127	2,989
	– discontinued operations	1,653	279	–	–	–	–	1,932
		2,292	1,126	902	148	326	127	4,921
	– to group companies							(613)
	– external							4,308
Trading profit	– continuing operations	91	121	137	34	49	5	437
	– exceptional items in continuing operations	–	(12)	–	–	–	–	(12)
	– discontinued operations	237	47	–	–	–	–	284
	– exceptional items in discontinued operations	(75)	–	–	–	–	–	(75)
		253	156	137	34	49	5	634
Loss on sale of businesses in discontinued operations		(20)	–	–	–	–	–	(20)
(Loss)/profit on disposal of fixed assets in continuing and discontinued operations		(11)	(2)	(4)	–	4	(4)	(17)
Profit before finance charges		222	154	133	34	53	1	597
Assets employed		2,593	566	336	103	96	125	3,819

Export sales from the United Kingdom were £509m (1998: £363m) including £404m (1998: £248m) sales to group companies.

Turnover and trading profit include the group's share of the joint venture undertaking.

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

2. Geographical analysis (continued)	United Kingdom £m	Rest of Europe £m	USA £m	Canada £m	Mexico £m	Rest of World £m	Total £m
By country of destination							
Year to 31 August 1999							
Turnover – continuing operations	**273**	**730**	**824**	**83**	**285**	**213**	**2,408**
– discontinued operations	**1,593**	**98**	**2**	**1**	**–**	**1**	**1,695**
	1,866	**828**	**826**	**84**	**285**	**214**	**4,103**
Trading profit – continuing operations	**71**	**133**	**158**	**19**	**31**	**31**	**443**
– exceptional items in continuing operations	**(140)**	**(7)**	**(24)**	**–**	**–**	**(53)**	**(224)**
– discontinued operations	**206**	**18**	**3**	**–**	**–**	**1**	**228**
– exceptional items in discontinued operations	**(27)**	**(2)**	**–**	**–**	**–**	**–**	**(29)**
	110	**142**	**137**	**19**	**31**	**(21)**	**418**
Year to 31 August 1998							
Turnover – continuing operations	277	692	799	86	300	244	2,398
– discontinued operations	1,660	239	5	2	–	4	1,910
	1,937	931	804	88	300	248	4,308
Trading profit – continuing operations	68	118	152	17	41	41	437
– exceptional items in continuing operations	–	(12)	–	–	–	–	(12)
– discontinued operations	240	35	5	1	1	2	284
– exceptional items in discontinued operations	(75)	–	–	–	–	–	(75)
	233	141	157	18	42	43	634

Turnover excludes sales to group companies.

Turnover and trading profit include the group's share of the joint venture undertaking.

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

3. Operating costs	Note	Continuing £m	Discontinued £m	Year to 31 August 1999 £m	Year to 31 August 1998 £m
Change in stocks of finished goods and work in progress		**(25)**	**5**	**(20)**	15
Own work capitalised		**–**	**(3)**	**(3)**	(1)
Raw materials and consumables		**609**	**304**	**913**	1,518
Customs and excise duties paid		**488**	**17**	**505**	514
Staff costs	4	**299**	**226**	**525**	603
Depreciation	11	**49**	**52**	**101**	112
Provision for write-down of fixed assets	5	**59**	**–**	**59**	87
Exceptional costs	5	**161**	**15**	**176**	–
Other operating costs		**518**	**234**	**752**	770
Research and development costs		**1**	**–**	**1**	4
Operating leases – hire of equipment		**10**	**–**	**10**	10
– property rents		**34**	**15**	**49**	59
Payments to auditors – fees for audit		**2**	**–**	**2**	3
– other payments to primary auditor		**3**	**–**	**3**	2
		2,208	**865**	**3,073**	3,696

1998 operating costs of £3,696m above include £1,700m in respect of discontinued operations.

Parent company audit fee was nil.

4. Staff costs	Full-Time UK £m	Full-Time Others £m	Part-Time UK £m	Part-Time Others £m	**Year to 31 August 1999 Total £m**	Year to 31 August 1998 Total £m
Remuneration	197	208	63	6	**474**	540
Social security	17	27	2	1	**47**	52
Pension schemes – UK	2	–	–	–	**2**	5
– others	–	1	–	–	**1**	4
Post retirement medical benefits	–	1	–	–	**1**	2
	216	237	65	7	**525**	603
Average numbers employed **1999**	**11,343**	**8,511**	**19,734**	**907**	**40,495**	
1998	13,683	9,895	25,445	686		49,709

Pension schemes

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 £222m (1998: £205m) are included in debtors (note 16).

The assets and liabilities of the UK schemes are reviewed regularly by an actuary. The latest full actuarial assessment was carried out as at April 1997 and a 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 and pensions and dividend yield on equity investments. It is assumed that future investment returns will be 7.75% (1998: 8.75%) per annum, remuneration increases will be 5.25% (1998: 6.25%) per annum, guaranteed pension increases will be 3% (1998: 4%) per annum and the long-term net yield on UK equities will be 3.23% (1998: 3.23%) per annum. With low inflation and long term market rates, the economic outlook indicates that this downward revision of the main actuarial assumptions is appropriate. 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.

Outside the UK the most material schemes are in the United States and Canada. Actuarial calculations for accounting purposes were carried out as at 31 August 1998. The key assumptions as at 31 August 1998 were that annual investment return would exceed annual remuneration increases by 2% in the US plans and 2.5% in the Canadian plans. The market value of the North American scheme assets as at that date was £292m, which was sufficient to cover 129% of the benefits that have accrued to members after allowing for the expected future increases in remuneration.

5. Exceptional items	Continuing £m	Discontinued £m	Year to 31 August 1999 £m	Continuing £m	Discontinued £m	Year to 31 August 1998 £m
Year 2000 and EMU costs	**(18)**	**(9)**	**(27)**	–	–	–
Surplus property provisions	**(37)**	**–**	**(37)**	–	–	–
Asset write-downs	**(59)**	**–**	**(59)**	(12)	–	(12)
UK Retail disposal costs	**(45)**	**–**	**(45)**	–	–	–
Restructuring and other costs	**(61)**	**(6)**	**(67)**	–	–	–
Licensed property write-downs	**–**	**–**	**–**	–	(75)	(75)
Operating costs	**(220)**	**(15)**	**(235)**	(12)	(75)	(87)
Costs in joint venture and associated undertakings	**(4)**	**(14)**	**(18)**	–	–	–
Profit/(loss) on sale of businesses						
Disposal of Cantrell & Cochrane	**–**	**189**	**189**	–	–	–
Other disposals	**(10)**	**–**	**(10)**	–	(20)	(20)
(Loss)/profit on disposal of fixed assets	**(17)**	**5**	**(12)**	(10)	(7)	(17)
Finance charges						
Premium on redemption of loan stock	**(35)**	**–**	**(35)**	–	–	–
Premium on redemption of debentures	**(237)**	**–**	**(237)**	(36)	–	(36)
Exceptional items before taxation	**(523)**	**165**	**(358)**	(58)	(102)	(160)
Taxation	**8**	**3**	**11**	–	–	–
Exceptional items after taxation	**(515)**	**168**	**(347)**	(58)	(102)	(160)

6. Finance charges	Year to 31 August 1999 £m	Year to 31 August 1998 £m
Interest on bank loans, overdrafts and other loans repayable wholly within five years	**76**	58
Interest on other loans	**33**	62
Less: deposit and other interest receivable	**(17)**	(14)
	92	106
Premium on redemption of debentures (see note 5)	**237**	36
Premium on redemption of loan capital (see note 5)	**35**	–
	364	142

7. Taxation

	Year to 31 August 1999 £m	Year to 31 August 1998 £m
The charge for taxation on the profit for the year comprises:		
United Kingdom taxation		
Corporation tax at 31% (1998: 31%)	**141**	208
Advance corporation tax written back	**(31)**	(29)
Deferred taxation	**13**	8
Double taxation relief	**(67)**	(131)
	56	56
Overseas taxation		
Corporation tax	**89**	91
Deferred taxation	**(13)**	6
Taxation on attributable profit of associated and joint venture undertakings	**7**	7
	139	160

After adjusting for tax relief on exceptional items of £11m (1998: nil), the normalised taxation charge is £150m (1998: £160m).

8. Earnings per share

Basic earnings per share of 7.3p (1998: 26.3p) has been calculated on earnings of £76m (1998: £274m), divided by the average number of ordinary shares in issue during the year of 1,047m (1998: 1,042m).

Diluted earnings per share has been calculated on earnings of £76m (1998: £274m) and, after including the effect of all dilutive potential ordinary shares, the average number of shares is 1,047m (1998: 1,044m).

To show earnings per share on a consistent basis, normalised earnings per share of 40.4p (1998: 41.7p) has been calculated by adding back the post tax and minorities effect of exceptional items (note 5) giving normalised earnings of £423m (1998: £434m).

9. Ordinary dividends

	Year to 31 August 1999 £m	Year to 31 August 1998 £m	Year to 31 August 1999 p	Year to 31 August 1998 p
Interim	**157**	103	**15.00**	9.73
Final	**–**	163	**–**	15.60
	157	266	**15.00**	25.33

All dividends were paid as Foreign Income Dividends.

10. Intangible assets: goodwill

	1999 £m
At the beginning of the year	**–**
Additions	**12**
Amortisation charged in the year	**–**
At the end of the year	**12**

11. Tangible assets – net balances	At valuation £m	At cost £m	Depreciation £m	1999 Net balances £m	1998 Net balances £m
Production and other properties					
Freehold properties	9	360	(124)	245	279
Long lease properties	–	4	(1)	3	16
Short lease properties	–	49	(25)	24	21
	9	413	(150)	272	316
Plant and machinery	–	277	(160)	117	136
Vehicles, casks and sundry equipment	–	296	(188)	108	110
	9	986	(498)	497	562
Licensed properties					
Freehold properties – not depreciated	1,669	60	–	1,729	1,685
Long lease properties – depreciated	51	8	(1)	58	60
– not depreciated	42	7	–	49	45
Short lease properties – depreciated	73	11	(7)	77	68
	1,835	86	(8)	1,913	1,858
Furniture, fittings and equipment	–	370	(167)	203	201
	1,835	456	(175)	2,116	2,059
1999 total	1,844	1,442	(673)	2,613	
1998 total	1,864	1,466	(709)		2,621
Revalued mainly on the basis of open market value for existing use in:					
1984	9				
1998	1,835				
	1,844				

The original cost of the assets carried at valuation totals £884m; if these assets had not been revalued the depreciation charge for the year would have been £2m lower at £99m.

Tangible assets – movements in the year	Production and other properties: Cost or Valuation £m	Production and other properties: Depreciation £m	Plant & machinery: Cost or valuation £m	Plant & machinery: Depreciation £m	Vehicles, casks and sundry equipment: Cost or valuation £m	Vehicles, casks and sundry equipment: Depreciation £m	Net balances £m
At the beginning of the year	468	(152)	338	(202)	288	(178)	562
Currency translation adjustment	11	(3)	4	(1)	3	(1)	13
	479	(155)	342	(203)	291	(179)	575
Additions	19	–	33	–	35	–	87
Transfers	(1)	1	(6)	4	5	(5)	(2)
Disposals	(48)	10	(25)	20	(25)	5	(63)
Disposal of businesses	(27)	5	(67)	37	(10)	18	(44)
Depreciation	–	(11)	–	(18)	–	(27)	(56)
At the end of the year	**422**	**(150)**	**277**	**(160)**	**296**	**(188)**	**497**

	Licensed properties: Cost or valuation £m	Licensed properties: Depreciation £m	Furniture, fittings and equipment: Cost or valuation £m	Furniture, fittings and equipment: Depreciation £m	Net balances £m
At the beginning of the year	1,858	–	378	(177)	2,059
Additions	80	–	44	–	124
Transfers	1	–	1	–	2
Disposals	(18)	–	(53)	47	(24)
Disposal of businesses	–	–	–	–	–
Depreciation	–	(8)	–	(37)	(45)
At the end of the year	**1,921**	**(8)**	**370**	**(167)**	**2,116**

Capitalised interest of £3m (1998: £3m) is included in the net balance at 31 August 1999.

12. Investments and loans	Investments Listed £m	Investments Unlisted £m	Loans Franchise £m	Loans Trade £m	1999 Total £m	1998 Total £m
Group						
At the beginning of the year	4	30	60	5	**99**	123
Less: non-recourse financing	–	–	(52)	–	**(52)**	(58)
Net balance	4	30	8	5	**47**	65
Currency translation adjustment	–	–	–	–	**–**	(4)
	4	30	8	5	**47**	61
Additions	2	–	–	8	**10**	7
Disposals, provisions and transfers	(4)	(16)	(1)	(6)	**(27)**	(21)
At the end of the year at market or directors' valuation	**2**	**14**	**7**	**7**	**30**	47
Income for the year					**–**	–

At 31 August 1999, £37m of non-recourse financing was included within franchise loans.

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

Included within listed investments is £1m (1998: £3m) in respect of a holding of 208,548 (1998: 753,496) ordinary shares of 25p each of the company, held by trustees of the long-term incentive scheme and the trustees of the executive share option scheme. Prior to the group reorganisation which took place to facilitate the disposal of the UK Retail business, certain options granted within the option schemes were exercised, following the waiving of performance conditions. The balance of shares held within the trust was cancelled and shares in the new parent company were issued, in accordance with the group restructuring set out in note 21. These shares are held within the trust, pending the grant of new options within the schemes.

Parent company – investment in subsidiary undertaking	£m
At the beginning of the year	**–**
Additions	**6,489**
At the end of the year	**6,489**

13. Associated undertakings	Cost £m	Unlisted companies share of reserves £m	Listed companies share of reserves £m	Loans £m	1999 Total £m	1998 Total £m
At the beginning of the year	72	42	11	8	**133**	142
Currency translation adjustment	2	–	3	–	**5**	(9)
Additions	2	–	–	–	**2**	3
Disposals, provisions and transfers	(18)	9	–	(1)	**(10)**	(7)
Share of retained profit for the year	–	–	–	–	**–**	4
At the end of the year at market or directors' valuation	**58**	**51**	**14**	**7**	**130**	133
Share of profits before taxation					**19**	22
Dividends received					**12**	12

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.

14. Joint venture undertaking (50% share in First Quench Retailing Limited)	1999 £m	1998 £m
Share of assets		
Share of fixed assets	**97**	107
Share of current assets	**136**	122
	233	229
Share of liabilities		
Liabilities due within one year	**(109)**	(84)
Liabilities due after more than one year	**(6)**	(13)
	(115)	(97)
Share of net assets	**118**	132
Loan	**13**	13
Total	**131**	145

The 50% share of joint venture undertaking losses, after restructuring costs, before taxation was £7m (1998: nil).

Details of principal subsidiary, associated and joint venture undertakings are shown on pages 50 and 51 which form part of these accounts.

15. Stocks	1999 £m	1998 £m
Raw materials and consumables	**27**	40
In-process products	**668**	649
Finished products	**163**	163
Bottles, cases and pallets	**19**	22
	877	874

16. Debtors	1999 Total £m	1999 Due in more than one year £m	1998 Total £m	1998 Due in more than one year £m
Trade debtors	**456**	**1**	473	–
Amounts owed by associated and joint venture undertakings	**3**	**–**	13	–
Prepaid pension costs	**222**	**222**	205	200
Advance corporation tax recoverable on foreign income dividends	**80**	**39**	105	41
Other debtors	**135**	**4**	157	22
Prepayments and accrued income	**66**	**7**	93	–
	962	**273**	1,046	263

17. Creditors	Group 1999 £m	Group 1998 £m	Parent company 1999 £m
Amounts falling due within one year			
Trade creditors	**186**	225	**–**
Bills payable	**14**	10	**–**
Amounts owed to subsidiary undertaking	**–**	–	**573**
Amounts owed to associated and joint venture undertakings	**–**	20	**–**
Deferred purchase consideration	**–**	1	**–**
Other creditors	**256**	278	**–**
Social security	**14**	14	**–**
Taxation	**186**	255	**–**
Accruals and deferred income	**272**	258	**–**
Proposed dividend	**–**	163	**–**
	928	1,224	**573**
Amounts falling due after more than one year			
Other creditors	**32**	23	**–**
Accruals and deferred income	**8**	9	**–**
	40	32	**–**

18. Provisions for liabilities and charges	Post retirement medical benefits £m	Reorganisation and restructuring £m	Surplus properties £m	Acquisition £m	Deferred taxation £m	Total provisions £m
At the beginning of the year	90	–	–	14	38	142
Currency translation adjustment	1	–	–	–	(1)	–
Charged during the year	(4)	–	–	(14)	–	(18)
Disposal of businesses	–	–	–	–	(2)	(2)
Profit and loss account	1	30	20	–	–	51
At the end of the year	**88**	**30**	**20**	**–**	**35**	**173**

A provision of £30m has been recognised relating to restructuring costs, which have been included within operating costs as an exceptional charge for the year ended 31 August 1999. It is expected that these costs will be incurred in the next financial year.

A provision of £20m has been recognised relating to surplus property costs, which have been included within operating costs as an exceptional charge for the year ended 31 August 1999. It is expected that this provision will be utilised over the terms of the leases.

Deferred taxation	Amount provided 1999 £m	Full potential liability 1999 £m	Amount provided 1998 £m	Full potential liability 1998 £m
Timing differences	**35**	**91**	38	89

No amounts are included above for potential tax liabilities which might arise in the event of disposal of properties revalued in the books or for capital gains deferred under the terms of Section 152, Taxation of Chargeable Gains Act 1992 or 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 in these respects is remote.

19. Loan capital and other borrowings	Redemption date	1999 £m	1998 £m
Debenture stock and secured loans			
9¾%	2019	–	338
Secured loans	–	–	5
		–	343
Unsecured loans			
Sterling bonds (10.625%)	1999	–	150
Term loan facility*#	2001	**590**	–
Revolving credit facility*#	2004	–	199
DEM500m notes (4.75%)*	2005	**165**	–
US$400m guaranteed senior notes (9.39% and 9.59%)*	2001 and 2006	–	240
Guaranteed convertible subordinated bonds (6¾%)*	2008	–	197
Other guaranteed loans*	–	**133**	64
Other loans	–	**16**	16
Total		**904**	1,209
Less amounts repayable within one year		**(124)**	(351)
Loan capital stated in balance sheet		**780**	858
Bank overdrafts and short-term borrowings		**771**	660
Total debt		**1,551**	1,518

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

\# During the year, a £400m syndicated facility was cancelled and two new facilities, an £800m term loan facility and a £1,000m 5 year revolving credit facility, were set up.

On 5 October 1998, the 6¾% guaranteed convertible subordinated bonds were redeemed at par.

On 11 March 1999, the 9.39% and 9.59% guaranteed senior notes were repaid, giving rise to a premium on repayment of £35m, which has been included as an exceptional item in the finance charge for the year.

On 22 June 1999 the 9¾% debenture stock was repaid, giving rise to a premium on repayment of £237m, which has been included as an exceptional item in the finance charge for the year.

Group debt totalling nil (1998: £343m) is secured, of which nil (1998: £4m) is due for repayment in less than one year.

	1999 £m	1998 £m
Repayment schedule		
More than five years	**181**	415
Between two and five years	**599**	244
Between one and two years	–	199
Loan capital due after one year	**780**	858
Due within one year	**771**	660
Total debt	**1,551**	1,518

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 1999 were £878m (1998: £896m). At 31 August 1999 the group had available undrawn committed bank facilities of £1,269m (1997: £1,056m), of which £248m mature in less than one year and £1,021m between two and five years.

20. Financial instruments

Funding

The group's treasury policies are set out in the financial review on page 7. Set out below is a year end comparison of current and book values of the 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.

	1999		1998	
	Book value £m	**Current value £m**	Book value £m	Current value £m
Cash	**6**	**6**	8	8
Investments	**230**	**230**	109	109
Short-term debt	**(771)**	**(771)**	(660)	(660)
Long-term debt	**(780)**	**(775)**	(858)	(1,060)
Total net debt	**(1,315)**	**(1,310)**	(1,401)	(1,603)
Interest swaps	**(3)**	**20**	7	5

A substantial portion of the net assets are in currencies other than sterling, with the result that the group balance sheet can be significantly affected by currency movements. Foreign currency debt hedge part of this exposure. An analysis of debt, net assets and goodwill written off to reserves as at 31 August 1999 is presented below.

	31 August 1999				31 August 1998			
	Net assets by currency of operation £m	**Goodwill by currency of operation £m**	**Net debt £m**	**Net investment £m**	Net assets by currency of operation £m	Goodwill by currency of operation £m	Net debt £m	Net investment £m
Sterling	**2,474**	**228**	**74**	**2,776**	2,310	228	(679)	1,859
US/Canadian dollar	**440**	**770**	**(664)**	**546**	407	770	(361)	816
Euro	**479**	**785**	**(664)**	**600**	497	841	(337)	1,001
Other	**221**	**608**	**(61)**	**768**	254	771	(24)	1,001
Total	**3,614**	**2,391**	**(1,315)**	**4,690**	3,468	2,610	(1,401)	4,677

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 rate debt target of 60% +/–10%. At the year end, taking account of interest rate swaps, 72% (1998: 55%) of net debt was at fixed rates of interest. Following the disposal of the UK Retail business this has reduced and is now within the group policy target. At the year end the weighted average maturity of net debt was approximately 2 years (1998: 6 years). The group had no purchased interest rate options outstanding at the year end.

20. Financial instruments (continued)

After taking account of interest rate swaps, the currency and interest rate exposure of net debt as at 31 August 1999 was:

				Fixed 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
Sterling	(74)	(74)	–	–	–
Canadian dollar	124	61	63	5.8	9
US dollar	540	167	373	5.9	6
Euro	664	150	514	4.2	6
Other	61	61	–	–	–
	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 all be cancelled at the earliest 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 US, 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 1999 was approximately 5.0% (1998: 5.6%).

Foreign exchange

The group operates a prudent hedging policy. Business trading flows are netted by currency and hedged forward for up to 12 months using a combination of forward foreign exchange contracts and purchased foreign exchange options. At the year end 80% (1998: 80%) of anticipated core currency transaction exposures for the following 12 months had been hedged.

The estimated current value of the foreign exchange 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 1999			31 August 1998		
		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	**55**	**–**	**1**	147	–	4
	– liabilities	**129**	**(1)**	**(3)**	80	(1)	(4)
Options	– assets	**–**	**–**	**–**	26	1	1
		184	**(1)**	**(2)**	253	–	1

All of the net deferred loss of £1m at 31 August 1999 (being the net of current value less book value) relates to hedges of transactions expected to occur in the year to 31 August 2000. A net loss of £3m was recognised on all foreign exchange forward contracts and options maturing in the year to 31 August 1999 (1998: nil).

At 31 August 1999, 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.

21. Share capital	Authorised 1999 £m	1998* £m	Allotted, called up and fully paid 1999 £m	1998* £m
Equity				
Ordinary shares of 25p	–	343	–	261
Ordinary shares of 325p	**3,900**		**3,470**	–
Non-equity				
Cumulative preference shares of £1				
7½%	–	4	–	4
5½%	–	5	–	5
	3,900	352	**3,470**	270

*Share capital of Allied Domecq (Holdings) PLC, formerly Allied Domecq PLC.

Disposal of the UK Retail business

The disposal of the UK Retail business was effected by means of a reduction of capital of the company under Section 135 of the Companies Act ('the Reduction'). The Reduction followed the implementation of a Scheme of Arrangement under Section 425 of the Companies Act 1985 ('the Scheme'). This principally involved the insertion of a new holding company on top of the then Allied Domecq ('old Allied Domecq') and the exchange of shares in old Allied Domecq for shares in the company.

Changes in authorised, allotted and issued ordinary share capital

Allied Domecq PLC was incorporated on 11 May 1999 as a public limited company with the name Allied Domecq 1999 PLC, which was changed to new Allied Domecq PLC ('the company') on 28 May 1999.

The authorised share capital of the company on incorporation was £50,000 divided into 200,000 shares of £0.25 each. One ordinary share was allotted and issued to each of the two subscribers to the Memorandum of Association of the Company (the 'Memorandum').

On 7 June 1999, 18 ordinary shares of £0.25 were issued at par and the authorised share capital was increased to £3,000,000,000 by the creation of 1,199,980,000 ordinary shares of £2.50 each.

On 12 July 1999, the authorised share capital was increased by £900,000,000 by the creation of two ordinary shares of £2.50, 20,000 ordinary shares of £0.75 and 276,918,460 ordinary shares of £3.25. Two ordinary shares of £0.75 were then issued at par and following this, all authorised shares in the company were consolidated into 1,200,000,000 shares of £3.25 each.

On 2 August 1999, the company acquired Allied Domecq PLC as part of the Scheme. Shares in Allied Domecq PLC were cancelled and in consideration shareholders received shares in the company, in the ratio of one share in the company for each share in Allied Domecq PLC. Allied Domecq PLC was renamed Allied Domecq (Holdings) PLC and new Allied Domecq PLC was renamed Allied Domecq PLC.

Share option schemes

Options under all employee share option schemes became exercisable on court sanction of the Scheme and will lapse if not exercised by 26 January 2000. The total number of ordinary shares issued during the year to 31 August 1999 was 22,250,155, comprising issues in respect of the exercise of options by employees under the terms of Allied Domecq PLC's share option schemes. Options under the group's long-term incentive scheme also became exercisable.

New employee share schemes have been established since 31 August 1999. Details of these schemes are summarised in the Report of the Remuneration Committee on page 41.

Unissued share capital requirements

Under the terms of the company's employee share schemes, options to subscribe for ordinary shares may be granted in respect of up to 107m shares subject to a rolling limit under which the total number of shares issued or issuable pursuant to grants of options made under all the company's share schemes during the preceding ten years may not exceed 10% of the company's issued ordinary share capital from time to time. As at 31 August 1999, 4m shares were issuable pursuant to the exercise of options granted under the company's existing and expired share schemes during the preceding ten years. These options will lapse if not exercised by 26 January 2000.

21. Share capital (continued)

Events subsequent to the balance sheet date

On 6 September 1999, the company registered a reduction of capital pursuant to 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 £3.25 to £0.25.

Preference share capital

During the year the group repurchased the 7½% cumulative preference shares and the 5½% cumulative preference shares with a total nominal value of £9m following authorisation at an extraordinary general meeting on 12 January 1999.

22. 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	270	537	–	976	245	2,028
Preference share redemption	(9)	–	–	–	–	(9)
New share capital of Allied Domecq (Holdings) PLC issued	1	35	–	–	–	36
Group reorganisation prior to disposal of UK Retail assets:						
Cancellation of shares held in Allied Domecq (Holdings) PLC	(262)	–	–	–	–	(262)
Issue of shares in Allied Domecq PLC	3,420	(572)	(2,586)	–	–	262
New share capital of Allied Domecq PLC issued	50	26	–	–	–	76
Profit earned for shareholders for the year	–	–	–	–	76	76
Revaluation reserve realised	–	–	–	(16)	16	–
Currency translation adjustment on foreign currency net investments	–	–	–	–	4	4
Dividends	–	–	–	–	(157)	(157)
Goodwill written back on disposals	–	–	–	–	219	219
At the end of the year	**3,470**	**26**	**(2,586)**	**960**	**403**	**2,273**

Goodwill (at historic exchange rates) of £2,391m arising on acquisitions up to 31 August 1998 has been written off to reserves. Following the adoption of FRS10, all goodwill arising on acquisitions during the year to 31 August 1999 has been capitalised.

Parent company	Share capital £m	Share premium account £m	Merger reserve £m	Profit and loss account £m	Total £m
Issue of shares in Allied Domecq PLC to shareholders of Allied Domecq (Holdings) PLC	3,420	–	2,420	–	5,840
New share capital issued	50	26	–	–	76
Profit earned for shareholders for the period	–	–	–	–	–
At the end of the year	**3,470**	**26**	**2,420**	**-**	**5,916**

23. Minority interests	1999 Equity £m	1999 Non-equity £m	1998 Equity £m	1998 Non-equity £m
At the beginning of the year	**31**	**8**	124	12
Currency translation adjustment	**1**	**–**	(10)	(1)
Share of profits of subsidiary undertakings	**6**	**–**	18	2
Dividends declared	**(3)**	**(1)**	(93)	(5)
Disposals	**(12)**	**–**	(2)	–
Other movements	**1**	**(5)**	(6)	–
At the end of the year	**24**	**2**	31	8

24. Disposals of subsidiary and associated undertakings	Total £m
Fixed assets	57
Stocks	34
Debtors	103
Creditors	(81)
Net borrowings less cash	(48)
Minority interests	(12)
Net profit on disposals	179
Goodwill written back	219
Sale consideration	**451**

The principal disposal in the year was Cantrell & Cochrane.

25. Reconciliation of operating profit to net cash inflow from operating activities	Year to 31 August 1999			Year to 31 August 1998
	Continuing £m	Discontinued £m	Total £m	£m
Operating profit	200	206	406	612
Exceptional operating costs	220	15	235	87
Depreciation	49	52	101	112
(Increase)/decrease in stocks	(20)	–	(20)	15
Increase in debtors	(14)	(20)	(34)	(67)
Decrease/(increase) in creditors	14	(46)	(32)	(25)
Expenditure against provisions for: acquisition	(25)	(1)	(26)	(28)
reorganisation and restructuring costs	(65)	(3)	(68)	(12)
Other items	(10)	(1)	(11)	(24)
Net cash inflow from operating activities	349	202	551	670

26. Reconciliation of net cash inflow from operating activities to free cash flow	Year to 31 August 1999			Year to 31 August 1998
	Continuing £m	Discontinued £m	Total £m	£m
Net cash inflow from operating activities	349	202	551	670
Capital expenditure net of sale of tangible assets	(51)	(100)	(151)	(147)
Acquisition/disposal provision expenditure	37	1	38	28
Net (increase)/decrease in franchise loans	(1)	–	(1)	2
Dividends received from associated undertakings	12	–	12	12
Operating cash net of fixed assets	346	103	449	565
Taxation paid	(116)	(45)	(161)	(141)
Net interest paid (excludes premia arising on repayment of debt)	(115)	–	(115)	(105)
Dividends: ordinary shareholders	(320)	–	(320)	(258)
minorities (1998 excludes £90m once-off dividends)	(4)	–	(4)	(8)
Free cash flow (before acquisitions and disposals)	(209)	58	(151)	53

27. 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	**1999 Net debt £m**	1998 Net debt £m
At the beginning of the year	117	(309)	(351)	(858)	**(1,401)**	(1,142)
Increase/(decrease) in cash	66	(319)	–	–	**(253)**	(73)
Increase/(decrease) in liquid resources	52	–	–	–	**52**	(77)
Decrease/(increase) in loan capital	–	–	227	91	**318**	(152)
Non-cash movements on recourse finance	–	(6)	–	–	**(6)**	9
Exchange adjustments	1	(13)	–	(13)	**(25)**	34
At the end of the year	**236**	**(647)**	**(124)**	**(780)**	**(1,315)**	(1,401)

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

28. Capital commitments	**1999 £m**	1998 £m
Contracted for but not provided in the accounts	**10**	22

29. Operating lease commitments	**Land and buildings 1999 £m**	**Other 1999 £m**	Land and buildings 1998 £m	Other 1998 £m
The minimum operating lease payments to be made in the year ending 31 August 2000 for leases expiring:				
Within one year	**2**	**1**	3	2
Within two to five years	**14**	**7**	10	5
After five years	**36**	**1**	36	1
	52	**9**	49	8

The parent company had no operating lease commitments.

30. Contingent liabilities	**Group 1999 £m**	Group 1998 £m	**Parent company 1999 £m**
Guarantees in respect of liabilities of subsidiary undertakings	**–**	–	**67**
Other contingent liabilities	**2**	15	**–**
	2	15	**67**

No security has been given in respect of any contingent liability.

31. Related party transactions

Transactions with associated and joint venture undertakings

All transactions with these undertakings arise in the normal course of business and details of the principal undertakings are shown on pages 50 and 51.

	Year to 31 August 1999 £m	Year to 31 August 1998 £m
Sales to associated and joint venture undertakings	**54**	40
Purchases of goods and other services	**(8)**	(13)
Marketing expenditure charged	**(15)**	(10)
Dividends received	**12**	12

	As at 31 August 1999 £m	As at 31 August 1998 £m
Loans to associated and joint venture undertakings	**26**	28
Less: provisions	**(6)**	(7)
	20	21
Net amounts due from associated and joint venture undertakings	**14**	13

Transactions with directors

Remuneration and shareholdings of directors are disclosed in the report of the remuneration committee on pages 41 to 47.

Transactions with the Allied Domecq Pension Fund

Included within other debtors is £26m receivable from the Allied Domecq Pension Fund in respect of a property under a put option exercisable at any time by Allied Domecq (Holdings) PLC.

32. Events since the balance sheet date

Disposal of the UK Retail business

On 6 September 1999 the group completed the disposal of its UK Retail business to Punch Taverns. 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 the 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. A further £54m has been paid since 6 September to Punch representing the net movements on the UK Retail business inter-company accounts between 6 February and 6 September, net of a £25m agreed reduction. Certain warranties relating to the UK Retail business have been given but these are qualified by disclosures made. Accordingly, Punch will not be able to claim against the group in relation to those matters disclosed.

Acquisition of the Jinro whisky business

On 17 September 1999 the group entered into joint venture arrangements with Jinro Limited, Korea's leading spirits distributor, in respect of Jinro's whisky business. The group has agreed to pay a cash consideration of Won141 billion (circa £75m) for a 70% share in the joint venture companies and the transaction is targeted for completion in December 1999. Additionally, the group has agreed to purchase Jinro's bulk Scotch whisky inventory held in Scotland for £25m.

Profit and loss account for the year	1995 £m	1996 £m	1997 £m	1998 £m	**1999 £m**
Continuing operations	2,722	2,623	2,506	2,398	**2,408**
Discontinued operations	3,385	2,747	1,943	1,910	**1,695**
Turnover	6,107	5,370	4,449	4,308	**4,103**
Continuing operations	519	431	421	429	**443**
Discontinued operations	296	298	294	292	**228**
Trading profit	815	729	715	721	**671**
Finance charges	(170)	(154)	(108)	(106)	**(92)**
Normalised profit before the following items:	645	575	607	615	**579**
Exceptional operating costs*	(90)	–	–	(87)	**(253)**
(Losses)/profit on sales of businesses and fixed assets*	(51)	(311)	(5)	(37)	**167**
Exceptional finance charges – debenture/loan stock repayment premia*	–	–	–	(36)	**(272)**
Profit on ordinary activities before taxation	504	264	602	455	**221**
Taxation	(245)	(174)	(170)	(160)	**(139)**
Minority interests and preference dividends	(21)	(48)	(31)	(21)	**(6)**
Profit earned for ordinary shareholders for the year	238	42	401	274	**76**
Earnings and dividends					
Earnings per ordinary share – basic	23.1p	4.1p	38.6p	26.3p	**7.3p**
– normalised	38.2p	33.1p	39.1p	41.7p	**40.4p**
Dividends per ordinary share	23.6p	23.6p	24.44p	25.33p	**15.00p**
Cover for ordinary dividends (normalised)	1.6x	1.4x	1.6x	1.65x	**2.7x**

Normalised earnings per ordinary share exclude the items marked * and the taxation thereon.

Balance sheet at year end	1995 £m	1996 £m	1997 £m	1998 £m	**1999 £m**
Assets employed					
Fixed assets	3,716	3,019	2,935	2,946	**2,916**
Net current assets excluding net borrowings	1,016	759	665	696	**911**
Creditors over one year and provisions	(346)	(242)	(186)	(174)	**(213)**
Total assets	4,386	3,536	3,414	3,468	**3,614**
Short-term borrowings less cash	(344)	(175)	(77)	(543)	**(535)**
Loan capital	(1,345)	(1,090)	(1,065)	(858)	**(780)**
Net assets	2,697	2,271	2,272	2,067	**2,299**
Financed by					
Share capital, share premium and merger reserve	758	777	783	807	**910**
Revaluation reserve	1,102	985	956	976	**960**
Profit and loss account	430	381	397	245	**403**
Minority interests	407	128	136	39	**26**
Shareholders' funds and minorities	2,697	2,271	2,272	2,067	**2,299**

Cash flow statement for the year	1995 £m	1996 £m	1997 £m	1998 £m	**1999 £m**
Operating cash flow	1,020	896	703	712	**600**
Capital expenditure	(318)	(277)	(220)	(221)	**(211)**
Proceeds from the sale of fixed assets	57	69	105	74	**60**
Operating cash net of fixed assets	759	688	588	565	**449**
Tax paid	(192)	(111)	(129)	(141)	**(161)**
Interest paid	(165)	(148)	(105)	(105)	**(115)**
Dividends paid	(290)	(222)	(250)	(266)	**(324)**
Free cash flow after dividends paid	112	207	104	53	**(151)**
Once-off dividends to minorities	–	–	–	(90)	**–**
Acquisitions	(401)	(123)	(116)	(191)	**(51)**
Disposals	706	314	48	(63)	**490**
Financing	–	–	–	(36)	**(289)**
Share capital issued	19	13	4	25	**112**
Foreign currency translation of net debt	(9)	13	83	34	**(25)**
Other items	–	–	–	9	**–**
Movement in net debt	427	424	123	(259)	**86**
Opening net debt	(2,116)	(1,689)	(1,265)	(1,142)	**(1,401)**
Closing net debt	(1,689)	(1,265)	(1,142)	(1,401)	**(1,315)**

Group highlights in Euros and US dollars

	Sterling		Euros		US Dollars	
	1999 £	1998 £	**1999 €**	1998 €	**1999 $**	1998 $
EBIT (normalised)	**671m**	721m	**1,020m**	1,096m	**1,080m**	1,161m
EBITDA (normalised)	**772m**	733m	**1,173m**	1,114m	**1,243m**	1,180m
Earnings per share (normalised)	**0.404**	0.417	**0.614**	0.634	**0.650**	0.671
Dividends per share	**0.150**	0.253	**0.228**	0.385	**0.242**	0.408
Net assets	**2,229m**	2,067m	**3,494m**	3,142m	**3,701m**	3,328m
Free cash flow after dividends paid	**(151)m**	53m	**(230)m**	81m	**(243)m**	85m

Figures stated in Euros and US dollars have been translated at the 31 August 1999 closing rates of exchange.

The financial statements have been restated below to show the group's results excluding the UK Retail business and Cantrell & Cochrane discontinued during the year to 31 August 1999.

Group profit and loss account for the year	Note	Before exceptional items £m	Exceptional items £m	1999 Total £m
Spirits & Wine		2,110	–	2,110
QSR		298	–	298
Other		–	–	–
Turnover		**2,408**	**–**	**2,408**
Spirits & Wine		369	(172)	197
QSR		53	(48)	5
Other		21	(4)	17
Trading profit		**443**	**(224)**	**219**
Loss on sale of businesses		–	(10)	(10)
Loss on sale of fixed assets		–	(17)	(17)
Profit on ordinary activities before finance charges		**443**	**(251)**	**192**
Finance charges	1	(81)	(272)	(353)
Profit on ordinary activities before taxation		**362**	**(523)**	**(161)**
Taxation		(94)	8	(86)
Minority interests and preference dividends		(5)	–	(5)
Profit earned for ordinary shareholders for the year		**263**	**(515)**	**(252)**
Normalised earnings per ordinary share (pence)		**25.1**		

Group balance sheet at 31 August 1999	Note	1999 £m
Fixed assets		654
Stock		864
Debtors		894
Creditors		(758)
Provisions		(167)
Capital employed		**1,487**
Amounts due to Punch	2	(129)
Net debt		(1,315)
Net assets		**43**

1. The finance charge for the group on a pro forma basis has been adjusted for proceeds received from the sale of discontinued operations.
2. Amounts due to Punch relate to the disposal of UK Retail in respect of Retail cash flows post 6 February 1999 (£54m) and the investment in Britannia Soft Drinks (£75m).

The parent company which is required to produce group accounts changed during the financial year by virtue of a scheme of arrangement under section 425 of the Companies Act 1985. When the scheme took effect on 2 August 1999 new Allied Domecq PLC (since renamed Allied Domecq PLC) became the parent company of the group. Before this the parent company was Allied Domecq PLC (the company now named Allied Domecq (Holdings) PLC). Accordingly, references below to 'the company' are to either Allied Domecq PLC or Allied Domecq (Holdings) PLC or both of these as appropriate (see note 21 on page 30).

Business Review and Future Developments
A review of the business and likely future developments are set out in the Chairman's Statement and the Operating and Financial Reviews on pages 1 to 7 of this report.

Main Trading Activities The group's main trading activities in the year were the production, marketing and sale of spirits and wines, the franchising of quick service restaurants and the operation of public houses.

Dividends An accelerated interim ordinary dividend of 15.0p per share was paid, as a foreign income dividend, on 1 April 1999.

Share Capital During the year the issued ordinary share capital of the company was increased by the issue of 22,250,155 ordinary shares in respect of the group's employee share schemes.

Further details are given in Note 21 on page 30.

The accompanying Chairman's letter also gives details of:
(a) *a special resolution to renew the authority of the directors to* allot unissued shares; and
(b) a special resolution to disapply statutory pre-emption rights.
(c) a special resolution to authorise the company to buy back ordinary shares representing a maximum of 10 per cent of the company's issued ordinary share capital

Employee Share Schemes Options over 413,666 ordinary shares under the Executive Share Option Scheme and 5,777,017 ordinary shares under the International Executive Share Option Scheme were granted in December 1998 to eligible employees of the group.

Options over 307,858 ordinary shares under the International Share Savings Scheme were granted in February 1999 to eligible employees of the group. These options, and all other options granted under the company's share option schemes, became exercisable on 27 July 1999, when the Court sanctioned the scheme of arrangement in connection with the sale of the UK Retail business to Punch. All options will lapse if not exercised by 26 January 2000. All grants under the company's long term incentive scheme became exercisable on the same day, subject to the remuneration committee's discretion, and all unexercised grants have lapsed. The company has established new employee share schemes which broadly replicate the old schemes.

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

Suntory Limited	3.54 per cent
AXA Sun Life Investment Management	4.12 per cent

The company is aware that there are also a number of authorised investment managers each holding three per cent or more, and less than ten per cent, of the ordinary share capital of the company but such interests have not been (and may not be required to be) notified to the company under the relevant provisions of the Companies Act.

Save for the above, the directors are unaware of any person having a disclosable interest in the issued ordinary share capital of the company.

Debt Repayment The £200 million 6.75 per cent Guaranteed Convertible Subordinated Bonds were redeemed at par on 5 October 1998. The US$400 million Guaranteed Senior Notes (9.39 and 9.59 per cent) were repaid on 11 March 1999.

The company repaid £350 million 9¾% Debenture Stock 2019 through a subsidiary undertaking on 22 June 1999. The 7½% *preference shares and the 5½% preference shares were* redeemed on 4 February 1999.

Political Contributions No UK political contributions were made during the period.

Employees Our employees play a vital role in ensuring our continuing success. At 31 August 1999, the group had some 41,000 employees of many nationalities located worldwide and operates a policy of equal opportunities for all employees. Appropriate training and career development is available at all levels and the group is committed to helping all employees to realise their potential by gaining relevant skills and experience.

Full and fair consideration is given 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 retraining will be provided.

Communications and Involvement 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.

Health, Safety and Welfare The group's health and safety policies and procedures continue to be refined, with health and safety performance and practice currently being subjected to worldwide benchmarking. This has enabled emerging centres of excellence to share their strengths and achievements throughout the group, thereby allowing clear action plans to be established. The overall goal is the accomplishment of continuous health and safety development for the group as a whole, via targeted improvements and objectives.

Share Ownership Employees are encouraged to become shareholders in the company. Grants have been made under the company's new share option schemes in November 1999 but the company has no immediate plans to make grants under the new long term incentive scheme.

Research and Development The amount spent by the group on research and development during the period was £1 million 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 and to abide by those terms provided it is satisfied the supplier provided the goods or services in accordance with the agreed terms and conditions. The company does not follow any particular code or standard on payment practice. The number of days' purchases outstanding for payment by the company at the year end was 24 days.

Directors The names and brief biographical details of the directors as at 15 November 1999 are given on page 8. During the year Tony Hales,Tony Trigg and Nigel Stapleton retired from the board. Stephen Alexander and Ramon Mora-Figueroa retired from the board on 6 September 1999. During the year Philip Bowman, Graham Hetherington and Richard Turner were appointed as executive directors. In accordance with the articles of association, Donald Brydon, Graham Hetherington, David Malpas, David Scotland and Richard Turner retire at the forthcoming AGM and offer themselves for election or re-election.

Corporate Governance During the year the group has broadly complied with the Principles of Good Governance and the Code of Best Practice, published by the London Stock Exchange as the Combined Code. The directors have followed the London Stock Exchange's transitional rules and have continued to review and report upon internal financial controls in accordance with the ICAEW's 1994 guidance. Our auditor, KPMG Audit Plc, has reviewed the directors' statement on the company's compliance to the extent required by the London Stock Exchange and their report appears on page 10.

The recently issued Turnbull Report provides further guidance on the company's obligations in order to comply with the internal control aspects of the Combined Code and becomes effective for accounting periods ending on or after 23 December 1999. Allied Domecq PLC continues to support the Combined Code and has already implemented action plans to move towards compliance with these new requirements for the year to 31 August 2000.

Citizenship Charitable contributions in the UK totalled £790,000. This amount included donations of £695,000 to the Allied Domecq Trust which itself gave some £743,000 to a variety of charitable causes. Our commitment to the community has been focused on the arts, education and the environment.

We are committed to high standards of environmental practice and have achieved ISO (International Standards Organisation) accreditation for efficient production processes at the majority of our sites. During the year our distilleries at Laphroaig, in Scotland, and Segovia, in Spain, received ISO accreditation for environmental management.

We work closely with organisations involved in developing alcohol policy and research, and informing the public about responsible consumption of alcohol. Allied Domecq is a founder member of the UK Portman Group, the Amsterdam Group in Europe, The Century Council in the USA, and ICAP, the International Center for Alcohol Policies.

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

By order of the board
David S Mitchell Secretary

15 November 1999

This report of the remuneration committee of Allied Domecq incorporates details relating to the company now called Allied Domecq (Holdings) PLC where relevant, and references to 'the company' should accordingly be understood as references to both Allied Domecq PLC and Allied Domecq (Holdings) PLC unless otherwise stated. The policy of the remuneration committee in relation to Allied Domecq is the same as the policy of Allied Domecq (Holdings) PLC. The company has complied, throughout the period under review, with Section A of the best practice provisions annexed to the London Stock Exchange 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 London Stock Exchange 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.

NOTES:

1. Details of Remuneration Full details of the remuneration packages of the directors are given on pages 43 and 44. The interests in the share capital of the company of each director including share options are shown on pages 44 to 47.

2. Salaries for Executive Directors 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 consultants and uses a group of 19 international companies with which it is appropriate to compare Allied Domecq's remuneration policies and practices. The constituent companies are 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.

3. External Appointments The remuneration committee also considers invitations for executive directors and senior managers to be appointed as non-executive directors of other leading companies. The company encourages its directors and senior managers to take up such positions subject to their being conducive to personal development, to the time spent being reasonable and there being no potential conflict of interest and to 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 or senior manager.

4. Fees for Non-Executive Directors
The remuneration of each of the non-executive directors is determined by the board as a whole 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.

5. Benefits Details of benefits are given on page 43.

The term 'benefits' includes the provision of a car, fuel and private health insurance. Accommodation is only provided where it is necessary for the proper execution of duties.

Benefits for G F McCarthy include spouse travel costs, tax return preparation fee, life assurance and a product sample allowance (all of which are taxable under USA law).

6. Performance-Related Bonuses Bonuses for the year under review were based on profit before tax and cash management targets and completion of key management objectives. The remuneration committee approves the targets set each year and the levels of achievement. The bonuses paid are shown in the table on page 43. A new deferred bonus scheme has been 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 will be 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 will provide for the payment to participants of up to 10 per cent of salary depending on the achievement of key management objectives; this bonus will also be matched one for one on the same basis as for the deferred bonus scheme described above.

7. Pension Entitlements With the exception of Philip Bowman, UK executive directors participate in a company funded pension scheme which will provide them, at normal retirement age of 60, with a pension of up to two thirds of their pensionable salaries, subject to Inland Revenue limits and other statutory rules. The actual proportion depends on length of service. They are also eligible for dependants' pensions and lump sum payments on death. To the extent allowable, provision for these benefits is made through the non-contributory section of the Allied Domecq Executives Pension Fund. Otherwise, provision is made by means of unapproved pension arrangements. Pension provision for George McCarthy is made through the Hiram Walker Basic and Senior Executives Retirement Plans. Philip Bowman receives an additional salary allowance in lieu of pension scheme membership. Directors' pension entitlements are shown on page 44.

The Finance Act 1989 introduced a limitation for employees joining the pension scheme after 31 May 1989 on those parts of an employee's benefits which could be funded through a tax-approved pension scheme. The benefit limits were originally set to preclude benefits in respect of pay in excess of £60,000 (now £90,600) – the 'approved maximum'. Subject to certain reservations, the company has given a promise to certain executives 'capped' in this way that their pension shall be as if the 'cap' did not apply and will itself therefore be responsible for making payment of any pension or equivalent benefit relating to pay in excess of the 'approved maximum'. D Scotland and G C Hetherington have been given such promises.

The limits imposed by the Finance Act 1989 also restricted death benefits payable from a tax-approved pension scheme and the company has therefore taken out life insurance policies for certain executives to cover those parts of the lump sums and dependants' pensions which relate to pay in excess of the 'cap'.

8. Share Options All share options became exercisable on court sanction of the scheme of arrangement relating to the sale of the UK Retail business to Punch. The tables on pages 45 and 46 give details of the options which were exercised by directors. The company has established the following new option schemes, under which the directors are eligible to be granted options:

(a) The Allied Domecq 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) The Allied Domecq 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.

(c) The Allied Domecq 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).

Options under the executive schemes are generally granted to directors annually to a value equivalent to 100 per cent of salary except under certain specific circumstances. Options will become exercisable only if the total shareholder return (change in value of the shares plus gross dividends paid, treated as reinvested) on Allied Domecq shares exceeds that of the FTSE 100 Index Total Share Return over any consecutive three year period between the dates of grant and exercise.

9. Long Term Incentive Scheme The company, prior to the scheme of arrangement relating to the sale of the UK Retail business to Punch, operated a long term incentive scheme for nominated executive directors and certain senior executives. The rules of the scheme provided that all share options became exercisable on court sanction of the scheme of arrangement, subject to the discretion of the remuneration committee. The table on page 47 shows the options which were exercised and those which have lapsed. A new long term incentive plan has been adopted, but there are no immediate plans to make grants of share options under it.

10. Service Agreements P Bowman, G C Hetherington, G F McCarthy, D Scotland and R G Turner have service agreements requiring not less than 24 months' notice of termination to be given by either party. S H Alexander and A J Hales left the board on 6 September and 31 August 1999 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.

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

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

The remuneration committee considers that the periods of notice of termination under directors' service agreements are appropriate in order to retain and recruit directors of an appropriate calibre. The committee will, however, keep this policy under review.

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.

D H Brydon, Sir Ross Buckland, P A Jacobs and A D Malpas do not have service agreements with the company; it is policy 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.

Directors' Remuneration and Interests

Remuneration

The remuneration of the directors for the years to 31 August 1999 and 1998 was as follows:

	Year to 31 August 1999 £'000	Year to 31 August 1998 £'000
Salaries and benefits	**2,770**	1,873
Performance-related bonuses	**1,446**	541
Fees to non-executive directors (excluding non-executive chairman)	**147**	160
Fee to non-executive chairman	**275**	260
Consultancy fee to non-executive director	**–**	14
Pension contributions	**707**	763
Pensions for former directors or their dependants	**139**	141
Compensation for loss of office	**1,612***	–

* The amount in respect of compensation for loss of office includes an agreed amount of £592,000 for S H Alexander (being two years salary) and an accrued amount of £1,020,000 for A J Hales (being two years salary).

	Note	**Basic Salary/Fees Year to 31 Aug 1999 £'000**	Basic Salary/Fees Year to 31 Aug 1998 £'000	**Benefits Year to 31 Aug 1999 £'000**	Benefits Year to 31 Aug 1998 £'000	**Performance-Related Bonuses Year to 31 Aug 1999 £'000**	Performance-Related Bonuses Year to 31 Aug 1998 £'000	**Total Emoluments Year to 31 Aug 1999 £'000**	Total Emoluments Year to 31 Aug 1998 £'000
Executive directors:									
S H Alexander (resigned 6 Sep 1999)	1	**291**	276	**15**	14	**172**	67	**478**	357
P Bowman (appointed 30 Nov 1998)	2	**360**	–	**50**	–	**271**	–	**681**	–
A J Hales (resigned 31 Aug 1999)	1	**497**	460	**21**	13	**262**	165	**780**	638
G C Hetherington (appointed 3 Aug 1999)	3	**174**	–	**12**	–	**108**	–	**294**	–
G F McCarthy		**314**	292	**24**	24	**95**	94	**433**	410
R Mora-Figueroa (retired 6 Sep 1999)		**75**	75	**1**	1	**–**	–	**76**	76
D Scotland	4	**288**	262	**22**	19	**281**	91	**591**	372
J A F Trigg (retired 12 Jan 1999)	5	**384**	291	**14**	13	**48**	104	**446**	408
R G Turner (appointed 3 Aug 1999)	3	**219**	–	**9**	–	**209**	–	**437**	–
Non-executive chairman:									
Sir Christopher Hogg	6	**275**	260	**–**	1	**–**	–	**275**	261
Non-executive directors:									
D H Brydon	7	**43**	28	**–**	–	**–**	–	**43**	28
Sir Ross Buckland		**28**	15	**–**	–	**–**	–	**28**	15
P A Jacobs		**31**	15	**–**	–	**–**	–	**31**	15
A D Malpas		**33**	31	**–**	–	**–**	–	**33**	31
N J Stapleton (retired 12 Jan 1999)		**12**	31	**–**	–	**–**	–	**12**	31

1 The salary figures for S H Alexander and A J Hales do not include figures for compensation for loss of office.

2 P Bowman's salary includes an £83,196 allowance in lieu of pension contributions and his benefits include £39,000 accommodation costs and £11,308 allowance in lieu of car. 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.

3 The emoluments for G C Hetherington and R G Turner relate to their total service as employees and directors during the year.

4 The amounts in respect of D Scotland for the period include a taxable benefit of £6,536 relating to life assurance as referred to in note 7 on page 41.

5 J A F Trigg retired as a director on 12 January 1999, but he continued to receive salary and benefits, including bonus, until 31 August 1999. He then received the amount of £87,290 which represented the difference between his pension to 31 July 2000 (his normal pension date) and his salary over the period to 31 July 2000.

6 Sir Christopher Hogg receives £275,000 per annum as a fee as non-executive chairman including 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 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 p.a.

Pension Entitlements

The pension entitlements of the directors were as follows:

	Increase/(decrease) in accrued pension during the year £'000	Transfer value of the increase/(decrease) in accrued pension during the year £'000	Accumulated total accrued pension at 31 August 1999 £'000
S H Alexander	13	148	163
A J Hales	31	489	328
G C Hetherington	–	4	50
G F McCarthy	15	185	78
D Scotland	13	210	67
J A F Trigg	(1)	(17)	207
R G Turner	–	2	153

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 or 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 company was not pensionable.

Directors' Interests

The beneficial interests of directors in the ordinary share capital of the company at 31 August 1999 (excluding interests under the company's share option schemes and long term incentive scheme disclosed on pages 45 to 47) were as follows:

	At 31 August 1999 Ordinary shares	At 1 September 1998 Ordinary shares
S H Alexander	**10,120**	10,046
P Bowman	**85,944**	2,693*
D H Brydon	**1,500**	1,500
Sir Ross Buckland	**1,000**	1,000
A J Hales	**154,304**	102,089
G C Hetherington	**10,986**	–*
Sir Christopher Hogg	**19,118**	13,067
P A Jacobs	**1,000**	1,000
A D Malpas	**2,153**	2,084
G F McCarthy	**23,534**	12,000
R Mora-Figueroa	**169,157**	169,085
D Scotland	**10,954**	10,613
R G Turner	**27,021**	11,382*
Total of directors' beneficial interests	**516,791**	336,559

At 31 August 1999 the Allied Domecq Employee Benefit Trust held 208,548 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 members of the class of potential beneficiaries.

* At date of appointment

P Bowman and Sir Christopher Hogg purchased a further 14,056 and 10,000 shares respectively between 1 September 1999 and 15 November 1999. No director had a non-beneficial interest in shares or stocks of the company at any time either during the year ended 31 August 1999 or between 1 September 1999 and 15 November 1999.

The following movements in options over the ordinary share capital of the company (excluding options granted under the long term incentive scheme) took place during the year.

		Number of options at 1 September 1998	Options granted during year	Options exercised during year	Options lapsed during year	Number of options at 31 August 1999	Exercise price	Market price at date of exercise	Gain made on exercise £'000	Date from which exercisable	Expiry date
S H Alexander	(a)	1,395	–	1,395	–	–	475p	565p	1	08.12.92	26.01.00
	(c)	43,262	–	–	–	43,262	570p	–	–	08.08.94	26.01.00
	(c)	11,194	–	–	–	11,194	609p	–	–	08.01.96	26.01.00
	(c)	3,491	–	–	–	3,491	631p	–	–	20.12.96	26.01.00
	(c)	21,739	–	21,739	–	–	552p	565p	3	19.12.97	26.01.00
	(b)	806	–	596	210	–	428p	559p	1	27.07.99	26.01.00
	(d)	30,087	–	30,087	–	–	516p	565p	15	18.12.98	26.01.00
	(b)	1,778	–	971	807	–	388p	559p	2	27.07.99	26.01.00
	(d)	52,812	–	52,812	–	–	427.5p	565p	73	27.07.99	26.01.00
	(b)	953	–	341	612	–	362p	559p	1	27.07.99	26.01.00
	(d)	49,671	–	49,671	–	–	533.5p	565p	16	27.07.99	26.01.00
	(b)	688	–	121	567	–	501p	559p	–	27.07.99	26.01.00
	(d)	–	55,098	55,098	–	–	510p	565p	30	27.07.99	26.01.00
Total		**217,876**	**55,098**	**212,831**	**2,196**	**57,947**			**142**		
P Bowman	(c)	–	5,882	5,882	–	–	510p	540p	2	27.07.99	26.01.00
	(d)	–	268,627	268,627	–	–	510p	561p	137	27.07.99	26.01.00
Total		**–**	**274,509**	**274,509**	**–**	**–**			**139**		
A J Hales	(a)	1,395	–	1,395	–	–	475p	565p	1	08.12.92	26.01.00
	(c)	139,207	–	–	–	139,207	570p	–	–	08.08.94	26.01.00
	(c)	29,401	–	–	–	29,401	609p	–	–	08.01.96	26.01.00
	(c)	43,427	–	–	–	43,427	569p	–	–	17.06.97	26.01.00
	(c)	29,419	–	29,419	–	–	552p	565p	4	19.12.97	26.01.00
	(d)	33,986	–	33,986	–	–	552p	565p	4	19.12.97	26.01.00
	(b)	1,289	–	972	317	–	428p	565p	1	27.07.99	26.01.00
	(d)	68,062	–	68,062	–	–	516p	565p	33	18.12.98	26.01.00
	(d)	93,848	–	93,848	–	–	427.5p	565p	129	27.07.99	26.01.00
	(d)	82,474	–	82,474	–	–	533.5p	565p	26	27.07.99	26.01.00
	(b)	2,341	–	447	1,894	–	501p	565p	–	27.07.99	26.01.00
	(d)	–	92,156	92,156	–	–	510p	565p	51	27.07.99	26.01.00
Total		**524,849**	**92,156**	**402,759**	**2,211**	**212,035**			**249**		
G C Hetherington	(b)	2,160	–	2,160	–	–	479p	565p	2	27.07.99	26.01.00
	(b)	1,612	–	1,239	373	–	428p	565p	2	27.07.99	26.01.00
	(c)	8,734	–	–	–	8,734	570p	–	–	19.12.97	26.01.00
	(c)	1,423	–	–	–	1,423	609p	–	–	19.12.97	26.01.00
	(c)	633	–	–	–	633	631p	–	–	19.12.97	26.01.00
	(c)	5,842	–	5,842	–	–	552p	565p	1	19.12.97	26.01.00
	(d)	7,267	–	7,267	–	–	516p	565p	4	18.12.98	26.01.00
	(d)	15,789	–	15,789	–	–	427.5p	565p	22	27.07.99	26.01.00
	(d)	20,000	–	20,000	–	–	533.5p	565p	6	27.07.99	26.01.00
	(d)	–	35,000	35,000	–	–	510p	565p	19	27.07.99	26.01.00
Total		**63,460**	**35,000**	**87,297**	**373**	**10,790**	**–**		**56**		

		Number of options at 1 September 1998	Options granted during year	Options exercised during year	Options lapsed during year	Number of options at 31 August 1999	Exercise price	Market price at date of exercise	Gain made on exercise £'000	Date from which exercisable	Expiry date
G F McCarthy	(d)	57,264	–	–	–	57,264	569p	–	–	17.06.97	26.01.00
	(d)	21,376	–	21,376	–	–	552p	557p	1	19.12.97	26.01.00
	(d)	30,087	–	30,087	–	–	516p	557p	12	18.12.98	26.01.00
	(d)	52,812	–	52,812	–	–	427.5p	557p	68	27.07.99	26.01.00
	(d)	46,860	–	46,860	–	–	533.5p	557p	11	27.07.99	26.01.00
	(d)	–	51,960	51,960	–	–	510p	557p	24	27.07.99	26.01.00
Total		**208,399**	**51,960**	**203,095**	**–**	**57,264**			**116**		
D Scotland	(c)	49,210	–	–	–	49,210	609p	–	–	08.01.96	26.01.00
	(c)	2,295	–	–	–	2,295	569p	–	–	17.06.97	26.01.00
	(c)	20,516	–	20,516	–	–	552p	565p	3	19.12.97	26.01.00
	(d)	30,087	–	30,087	–	–	516p	565p	15	18.12.98	26.01.00
	(d)	52,812	–	52,812	–	–	427.5p	565p	73	27.07.99	26.01.00
	(b)	538	–	341	197	–	362p	586p	1	27.07.99	26.01.00
	(d)	46,860	–	46,860	–	–	533.5p	565p	15	27.07.99	26.01.00
	(d)	–	51,960	51,960	–	–	510p	565p	29	27.07.99	26.01.00
Total		**202,318**	**51,960**	**202,576**	**197**	**51,505**			**136**		
J A F Trigg	(b)	806	–	619	187	–	428p	540p	1	27.07.99	26.01.00
	(a)	1,395	–	1,395	–	–	475p	565p	1	08.12.92	08.12.99
	(c)	63,117	–	–	–	63,117	570p	–	–	08.08.94	26.01.00
	(c)	33,462	–	–	–	33,462	609p	–	–	08.01.96	26.01.00
	(c)	16,037	–	–	–	16,037	569p	–	–	17.06.97	26.01.00
	(c)	16,627	–	16,627	–	–	552p	565p	2	19.12.97	26.01.00
	(d)	15,995	–	15,995	–	–	552p	565p	2	19.12.97	26.01.00
	(d)	48,449	–	48,449	–	–	516p	565p	24	18.12.98	26.01.00
	(d)	61,988	–	61,988	–	–	427.5p	565p	85	27.07.99	26.01.00
	(d)	52,483	–	52,483	–	–	533.5p	565p	17	27.07.99	26.01.00
Total		**310,359**	**–**	**197,556**	**187**	**112,616**			**132**		
R G Turner	(b)	806	–	596	210	–	428p	565p	1	27.07.99	26.01.00
	(b)	3,812	–	1,367	2,445	–	362p	565p	3	27.07.99	26.01.00
	(c)	24,809	–	–	–	24,809	570p	–	–	27.07.99	26.01.00
	(d)	1,885	–	–	–	1,885	609p	–	–	27.07.99	26.01.00
	(d)	11,829	–	–	–	11,829	631p	–	–	27.07.99	26.01.00
	(d)	5,881	–	–	–	5,881	569p	–	–	27.07.99	26.01.00
	(d)	16,666	–	16,666	–	–	552p	565p	2	27.07.99	26.01.00
	(d)	20,930	–	20,930	–	–	516p	565p	10	27.07.99	26.01.00
	(d)	29,590	–	29,590	–	–	427.5p	565p	41	27.07.99	26.01.00
	(d)	35,000	–	35,000	–	–	533.5p	565p	11	27.07.99	26.01.00
	(d)	–	35,000	35,000	–	–	510p	565p	19	27.07.99	26.01.00
Total		**151,208**	**35,000**	**139,149**	**2,655**	**44,404**			**87**		

(a) Employee Share Option (No. 2) Scheme
(b) 1991 Share Savings Scheme
(c) 1991 Executive Share Option Scheme
(d) 1991 International Executive Share Option Scheme

The aggregate value of the gain made on the exercise of share options (excluding options exercised under the long term incentive scheme) by all directors during the year was £1,057,000.

R Mora-Figueroa and non-executive directors do not hold options over the ordinary share capital of the company.

The middle market price of the ordinary shares at 31 August 1999 was 574½p and the range during the year to 31 August 1999 was 359½p to 626½p.

During the year options were exercised over the ordinary share capital of the company under the long term incentive scheme by directors as follows:

	Number of options at 1 September 1998	Options granted during year	Options exercised during year	Options lapsed	Number of options at 31 August 1999	Exercise price	Market price at date of exercise	Gain made on exercise £'000	Date from which exercisable	Expiry date
S H Alexander	14,428	–	–	14,428	–	0.1p	–	–	01.09.98	26.10.99
	22,762	–	11,534	11,228	–	0.1p	565p	65	27.07.99	26.10.99
	29,318	–	–	–	29,318	0.1p	–	–	27.07.99	26.10.99
Total	**66,508**	**–**	**11,534**	**25,656**	**29,318**			**65**		
A J Hales	32,639	–	–	32,639	–	0.1p	–	–	01.09.98	26.10.99
	44,493	–	22,545	21,948	–	0.1p	565p	127	27.07.99	26.10.99
	49,616	–	–	–	49,616	0.1p	–	–	27.07.99	26.10.99
Total	**126,748**	**–**	**22,545**	**54,587**	**49,616**			**127**		
G F McCarthy	14,428	–	–	14,428	–	0.1p	–	–	01.09.98	26.10.99
	22,762	–	11,534	11,228	–	0.1p	557p	64	27.07.99	26.10.99
	28,191	–	–	–	28,191	0.1p	–	–	27.07.99	26.10.99
Total	**65,381**	**–**	**11,534**	**25,656**	**28,191**			**64**		
D Scotland	14,428	–	–	14,428	–	0.1p	–	–	01.09.98	26.10.99
	22,762	–	11,534	11,228	–	0.1p	557p	64	27.07.99	26.10.99
	28,191	–	–	–	28,191	0.1p	–	–	27.07.99	26.10.99
Total	**65,381**	**–**	**11,534**	**25,656**	**28,191**			**64**		
J A F Trigg	23,234	–	–	23,234	–	0.1p	–	–	01.09.98	26.10.99
	27,725	–	14,048	13,677	–	0.1p	540p	76	27.07.99	26.10.99
	31,574	–	–	–	31,574	0.1p	–	–	27.07.99	26.10.99
Total	**82,533**	**–**	**14,048**	**36,911**	**31,574**			**76**		
R G Turner	10,037	–	–	10,037	–	0.1p	–	–	01.09.98	26.10.99
	14,029	–	7,108	6,921	–	0.1p	540p	38	27.07.99	26.10.99
	16,914	–	–	–	16,914	0.1p	–	–	27.07.99	26.10.99
Total	**40,980**	**–**	**7,108**	**16,958**	**16,914**			**38**		

Introduction 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 comprises the 1998 Combined Code. The directors are accountable to the shareholders for ensuring that these principles are understood and implemented throughout company 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. The non-executive directors' fee levels are determined by the full 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 40 to 42. 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 each month 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 Limited board and the Allied Domecq Spirits & Wine executive and Quick Service Restaurants executive also 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 provide leadership of management development.

Allied Domecq PLC has not appointed a separate nominations 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 meets generally 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 available 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 digests summarising audit issues noted and corrective actions planned and reports from the Group Audit Services 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 London Stock Exchange's transitional rules 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.

Nevertheless, the board confirms that it is establishing the procedures necessary to implement the Turnbull guidance to move towards compliance for the year to 31 August 2000.

Key elements of the group's system of internal financial control are as follows:

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 PLC board, supported by regular forecasts. Forecasts and results are consolidated and presented to these boards 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 and letter of assurance which are completed for all business units. These are further supported by regional and sector level letters of assurance regarding the adequacy of internal controls. These self-assessment tools and certifications throughout the group provide for successive assurances at increasingly higher levels of management and, finally, to the board.

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

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 London Stock Exchange Listing Rules except that executive directors are engaged on employment contracts subject to 24 months' written notice given by either party. The board and the remuneration committee will, however, keep this policy under review. It is not currently proposed that the notice period should be reduced. The board considers that the periods of notice of termination under directors' service agreements are appropriate in order to retain and recruit directors of an appropriate calibre.

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	Kahlua, Sauza, Beefeater, Courvoisier, Canadian Club, Maker's Mark,
Industrias Vinicolas Pedro Domecq SA de CV**	Mexico	100	Presidente, Don Pedro, Ballantine's, Kahlua, 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, Kahlua
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, Kahlua, Canadian Club, Beefeater
Allied Domecq Philippines Inc.	Philippines	100	Fundador, Beefeater, Ballantine's

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

This sector 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, The Philippines, Poland, Russia, Singapore, Slovenia, Sweden, Switzerland, Taiwan, Thailand, Venezuela and Vietnam.

Quick Service Restaurants	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, John Bull Pubs

UK Retail (sold to Punch on 6 September 1999)			
Allied Domecq Restaurants & Bars	UK	100	Big Steak Pub, Wacky Warehouse, restaurants, bars and hotels
Allied Domecq Inns	UK	100	Mr. Q's, Festival Inns & Taverns, Nicholsons, Firkin, Scruffy Murphy's, nightclubs and Vanguard Pubs & Restaurants
First Quench Retailing Limited	UK	50	Off-licences

Other interests

These comprise the group's investments in Britannia Soft Drinks Limited (25 per cent equity interest) and Panrico (50 per cent equity interest).

A full list of subsidiaries will be submitted to the Registrar of Companies with the next annual return.

Analysis of shareholdings

The tables below show an analysis of ordinary shareholdings as at 31 August 1999:

	Holders	Percentage	Shares held	Percentage
Private holders	46,753	84.20	62,742,339	5.88
Corporate holders	8,774	15.80	1,004,756,251	94.12
	55,527	100.00	1,067,498,590	100.00
Numbers of shares held:				
1 – 10,000	53,488	96.33	63,392,977	5.94
10,001 – 50,000	1,014	1.83	20,997,797	1.97
50,001 – 250,000	568	1.02	71,554,680	6.70
250,001 – 1,000,000	296	0.53	141,639,654	13.27
over 1,000,000	161	0.29	769,913,482	72.12
	55,527	100.00	1,067,498,590	100.00

AGM The AGM of the company will be held on 31 January 2000 at the Hotel Inter-Continental London, One Hamilton Place, Hyde Park Corner, London W1V 0QY. The notice of the meeting is set out in the accompanying Chairman's letter.

Registrar/Shareholder Enquiries 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: 01903 833365.

Other enquiries should be addressed to Allied Domecq PLC, The Pavilions, Bridgwater Road, Bedminster Down, Bristol BS13 8AR. Tel: 0117 978 5000.

For further details about our environmental and alcohol policies, and for copies of our social responsibility report, alcohol issues and environmental matters booklets, please write to:
Mrs Jan Buckingham, Director of Alcohol & Social Policy, at the above address.

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

United States At 31 August 1999 there were 145 holders of American Depositary Receipts (ADRs) who represented 13,557,021 shares. The ADRs, each of which is equivalent to one 25p ordinary share, are traded over the counter. The Trading Symbol is ALDCY and the CUSIP Number is 019121102.

For enquiries regarding ADRs and for copies of the Annual Report and Accounts, please contact:
ADR Department, The Bank of New York, 101 Barclay Street, 22nd Floor West, New York, NY 10286.
Tel: (1) 888 269 2377 (within USA) +1 212 815 5800 (outside USA).

Europe Allied Domecq ordinary shares are also listed outside the United Kingdom in the form of depositary receipts on the Amsterdam and Brussels stock exchanges.

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).

UK Capital Gains Tax The values of the ordinary shares for the purpose of UK capital gains tax were:

31 March 1965	62.5p
31 March 1982	85.5p

We are advised that the appropriate price of new Allied Domecq shares on 6 September 1999 – the first day on which these shares were quoted – was 358p and the value of the Punch (ADR Jersey) Limited shares was 247p. The base cost of share holdings at that date should be attributed as set out below:

Allied Domecq PLC	59.2%
Punch (ADR Jersey) Limited	40.8%

Shareholders will subsequently have exchanged their Punch shares for a combination of cash and/or loan notes and/or shares in Bass PLC. Such shareholders will need to allocate their base cost in their Punch (ADR Jersey) Limited shares between the cash, loan notes and Bass PLC shares they received. For the purpose of this allocation, we are advised that the appropriate price of the new Bass PLC shares on the first day on which they were quoted, 5 October 1999, was 775p.

Shareholder Benefits The booklet of discount vouchers, previously circulated with the Annual Report and Accounts, has been discontinued, Allied Domecq having sold to Punch Taverns the outlets through which most of these discounts were offered.

Payment of Dividends There is no final dividend payment for 1998/99 – see Financial Review on pages 6 and 7. It is currently proposed to declare the next interim dividend in May 2000, with payment on 1 September 2000.

This glossary provides a simple explanation of the terms referred to in this Annual Report and Accounts

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, as a result of the business seeking to balance both the absolute level and the aged profile of maturing spirit stocks.

Capital expenditure (capex) Money spent on tangible fixed assets such as property, plant and machinery.

Constant exchange Profits or earnings where the prior year results of overseas operations are stated in sterling at the current year rate of foreign exchange translation, to give a constant measure of growth year on year.

Core four brands Ballantine's, Beefeater, Kahlua and Sauza.

Destock When sales from US wholesalers to retail customers (depletions) are in excess of those from the group to the wholesaler (shipments). This results in a reduction in stock (inventory) levels held by the wholesale trade.

Direct brand marketing (DBM) Expenditure on advertising and promotion in the marketing of brands.

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

Earnings per share (EPS) Profit for the year after tax and minority interests divided by the average number of shares. Growth in earnings per share can be used to measure the group's financial progress.

EBIT/EBITDA Earnings Before Interest and Tax (plus Depreciation of tangible assets and Amortisation of intangible assets).

EMU Monetary Union within the European Community.

Exceptional items Income or expense items that are disclosed separately because of their size or frequency.

Foreign exchange on translation Gains and losses representing the difference between foreign currency profits converted to sterling at the current year's exchange rates compared with last year's rates.

Foreign income dividend (FID) Dividends paid to shareholders out of foreign income remitted to the UK and on which no advanced 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.

Joint venture An entity in which the group, in conjunction with other parties, controls the venture and where no one party alone can exercise control.

Market capitalisation The price of one of the company's ordinary shares multiplied by the number of shares in issue. This is the value placed on the group by the stock market.

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

Normalised Profits or earnings before exceptional items.

Organic growth Growth in profits generated from underlying business activity, as compared to growth generated by acquisitions.

Punch Taverns The acquiring company of the UK Retail business also referred to as Punch (ADR Jersey) Limited.

Reserves Mainly profits and property revaluation surpluses not distributed to shareholders.

Return on investment (ROI) Trading profit after tax expressed as a percentage of the total of capital and reserves, excluding revaluation reserves, and net debt but including 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 system problems that may arise from the change from the year 1999 to the year 2000, because they were originally written to recognise only the last two digits of each year.