

ALLIED DOMECCQ PLC
Form 20-F
February 28, 2003

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE
SECURITIES EXCHANGE ACT OF 1934**

or

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the fiscal year ended 31 August 2002

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

ALLIED DOMECCQ PLC

(Exact name of registrant as specified in its charter)

England and Wales

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

Title of each class

Name of each exchange on which registered

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

New York Stock Exchange*

New York Stock Exchange

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

None

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

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

None

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

1,106,570,314 ordinary shares

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

Yes No

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

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Introduction

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

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

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

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

Currency and Currency Translation

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

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

Industry Data

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

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

Trademarks

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

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

Presentation of Financial Information

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

Cautionary Statement Regarding Forward-Looking Information

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

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

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PART I

Item 1. Identity of Directors, Senior Management and Advisors

Directors and Senior Management

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

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

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

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

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

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

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UK GAAP Information

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

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Year ended 31 August

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

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As at 31 August

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

US GAAP Information

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

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

Notes:

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

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

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Year ended 31 August (restated)

(million, except for per share)

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

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

Dividends

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

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

represents a beneficial interest in four

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

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

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

Note:

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

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

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

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

Exchange Rate Information

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

not the rates we have used

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

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

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

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

Note:

(1) Through 24 February 2003.

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

Exchange Controls and Other Limitations Affecting Security Holders

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

Risk Factors

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We have acquired a number of businesses and brands in the last three years and have incurred an amount of additional debt to finance them. As at 31 August 2002, our net debt was £2,578 million, an increase of £724 million from 31 August 2001. The ability of these acquired businesses to make