

Standard Brands Limited Annual Report 1978



1979

Fifty Years Ago

Standard Brands Limited celebrates its 50th Anniversary as a Canadian company in 1979. It was formed in 1929 through the amalgamation of three long established companies whose products were household words in Canada: The Fleischmann Company, The Chase & Sanborn Company and the E. W. Gillett Company. At the time of incorporation total sales volume was \$7,000,000 and the number of employees was fewer than 500. It was the beginning of a successful future.



1978

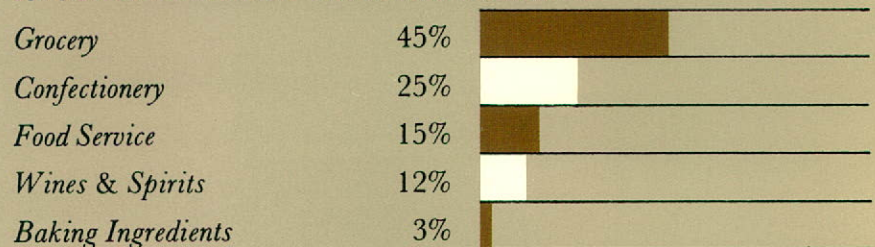
The Year in Brief

For the 12th consecutive year, Standard Brands Limited achieved record sales and earnings. Consolidated net sales of \$363 million represent a 12% increase over 1977. Net income of \$13 million rose 8% over last year. Each of the Company's five operating divisions contributed, with strong growth performance.

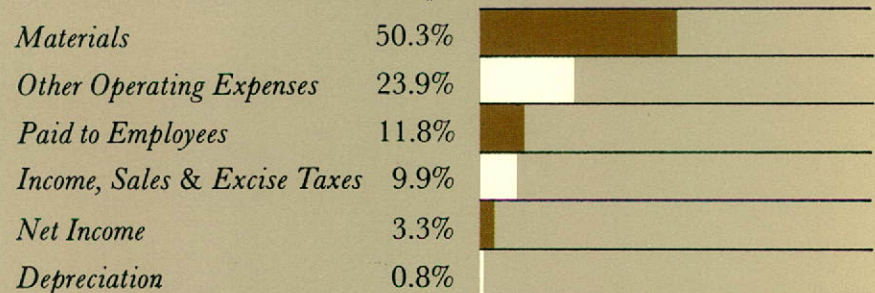
This excellent record in 1978 was due to the Company's strong brand franchises, diversity of product offerings and the responsiveness to the Company's goals by our employees from coast to coast.

	<u>1978</u>	<u>1977</u>
	Thousands of Dollars	
Net Sales	363,535	323,996
Net Income	13,171	12,157
Working Capital	67,974	57,299
Capital Expenditures	9,371	6,864
Long Term Debt	30,508	31,234
Shareholders' Equity	115,374	103,203

1978 NET SALES BY PRODUCT GROUP



DISTRIBUTION OF SALES \$



The President's Report

It was another excellent year for Standard Brands Limited, with record achievements in sales and earnings.

During 1978, sales rose 12% to a new record of \$363 million. Net income rose 8% to a total of \$13.2 million, another record figure. We continued to upgrade and expand our manufacturing and distribution facilities with a capital investment of \$9.4 million, up 37% over 1977.

It was a trying year for industry because of the phasing out of A.I.B. controls, continuing inflation, and erosion of the Canadian dollar in world money markets. Each of these factors severely tested Canadian business in general, and our commodity-sensitive businesses in particular. The fact that we enjoyed our 12th consecutive record-breaking year can be attributed to sound marketing and manufacturing programs in support of the

Company's popular brand-name franchises.

Consumer Foods Shows Leadership

It was another record sales year for our Consumer Foods Division. Fleischmann's Corn Oil Margarine continued to outpace industry growth as Canada's most popular premium margarine. Blue Bonnet Margarine gained increased market share backed by major marketing support. Together, these two brands improved our position as the country's leading manufacturer of margarines.

The Division also continued its market leadership in baking ingredients with Chipits, Magic Baking Powder and Fleischmann's Yeast. Strong growth was recorded in roasted coffee with Chase & Sanborn virtually doubling its market share during the year. New Chase & Sanborn Instant Coffee was introduced late in the year with results



John R. MacDonald, President and Chief Executive Officer, Standard Brands Limited.

exceeding all expectations. In cooking oils, Planters Peanut Oil continued to lead in its premium market segment.

Pet Foods Strengthens Position

In one of the fastest growing segments of the retail food industry, Dr. Ballard's pet foods made significant market share and sales gains in 1978. In luxury cat foods, Miss Mew became the segment leader. This performance further strengthened our position as the nation's leading supplier of pet foods.

Dr. Ballard's involvement continued with the Canadian Veterinary Medical Association. Dr. Ballard's is still the only C.V.M.A. certified brand in Canada. All of our Dr. Ballard's canned and dry dog foods bear the official seal of approval.

Wines & Spirits Outpaces Industry

In the relatively static domestic spirits market, and the growing domestic wine market, the Com-

pany's Wines and Spirits division achieved record volumes in 1978, considerably outpacing industry growth.

The Spirits Group recorded sales advances on all major brands led by Silk Tassel Canadian Whisky and McGuinness Vodka. We continued our leadership in domestic liqueurs with the successful introduction of two new flavours, Chocolate Almond and Coconut Rum. Liqueurs are the fastest growing segment of the spirits market.

Calona Wines recorded sales advances on all major brands with our award-winning Sommet Blanc and Sommet Rouge table wines enjoying another significant sales year. Sales growth was also registered on imported product lines distributed through McGuinness Agencies and Acadian Agencies.

Confectionery Builds on Newness

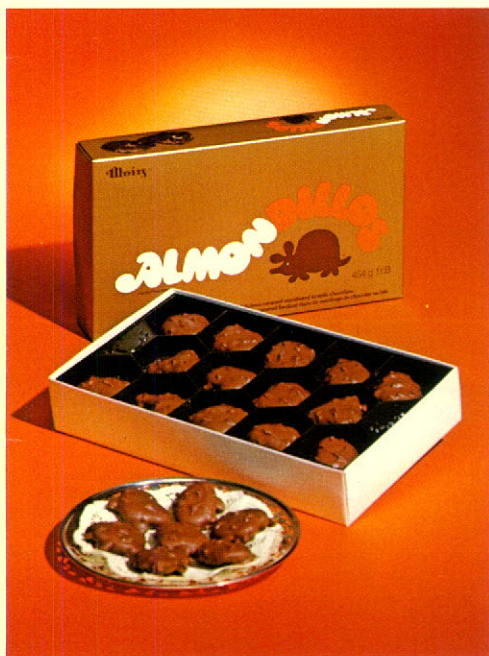
1978 was a year of newness for

Lowney's Limited, our confectionery and snack foods division. A major program of new product introductions and product relaunches met with excellent trade and consumer response.

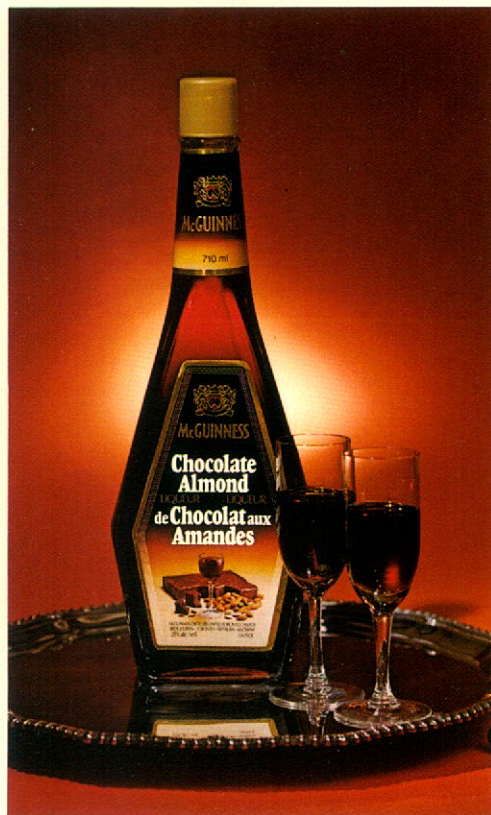
Sales of the new, larger size Oh Henry! bar doubled, strengthening its position as leader in its category. Moirs Pot of Gold Box Chocolates was relaunched with improved formulation and distinctive new packaging. Its sales success affirmed the Division's leadership in the manufacturing of box chocolates.

Late in the year the Division introduced Almondillos, a delicious new almond, caramel, and milk chocolate product. Many other products were repackaged and relaunched with excellent response.

In snack foods, Planters continued its national leadership position in the Canadian nut market. Three new Planters products were success-



Almonds, caramel and milk chocolate go together in new Almondillos. Delicious.



One of the two new liqueurs in McGuinness' industry-leading line.



New improved Chase & Sanborn Instant Coffee successfully introduced.

fully introduced during the year; Tavern Nuts, Sesame Nut Mix and Dry Roast Unsalted.

Baking Ingredients Continues Growth

In 1978, The Fleischmann Company performance was highlighted by the introduction of two new products nationally: Baker's Margarine and Diamalt II dry malt for bakers.

Throughout 1978, an intensive program of facility upgrading continued at the LaSalle, Quebec plant. As one of the founding companies of Standard Brands Limited, The Fleischmann Industrial Company is Canada's oldest and largest yeast manufacturer. And it continues to be growth-oriented.

Record Year for Food Service

During the year, The Food Service Division established record sales levels, further improving its leadership position in the industry. Significant progress was made in

broadening the Division's product line. Major sales gains were made in Blue Bonnet Margarine, Fleischmann's Corn Oil Margarine and Planters Peanut Oil. The Division's main strength continues to be in beverages, notably coffee, with such brands as Chase & Sanborn, Club and Melrose.

New Responsibilities Assigned

During the year, Edwin J. Korhonen, formerly Vice President, Operations, was appointed President, Lowney's Limited. He was succeeded by J. Boyce Donaldson, formerly Vice President, Manufacturing.

We are Well-Positioned for Growth

As we enter our 50th Anniversary Year, Standard Brands Limited can look back on a half-century of significant accomplishment as a vital force on the Canadian economic scene. We can also look forward to continued success based on manufacturing, distribution and

marketing strengths established over the years in a highly competitive industry.

The Company will continue to direct its efforts in 1979 and into the future with strong dedication to human resources, and consumer wants and needs. At year-end, more than 3000 women and men were employed by the Company across Canada. We thank them for their major contribution to the Company's success. The Board of Standard Brands Limited expresses its appreciation to all those involved in helping the Company accomplish another record year.



John R. MacDonald
President and Chief Executive Officer

John R. MacDonald, President and Chief Executive Officer, Standard Brands Limited and Martin F. C. Emmett, President, International Standard Brands Incorporated.



"We are pleased to announce that on March 22, 1979, Standard Brands Limited completed the acquisition of Dickson's Food Services Ltd. This successful Vancouver based company effectively complements our existing Food Service operations in Eastern and Central Canada. The acquisition reflects a commitment to the development and expansion of our involvement in this fast growing segment of the Canadian food industry."

*The best results
begin with the
best ingredients.*

Consumer Foods



Blue Bonnet
MARGARINE
Blue Bonnet
QUATRE MATONNETS

MAGIC
BAKING
POWDER
NET WT. 4.54 OZ.

Chipits
SEMI-SWEET CHOCOLATE CHIPS
GRAINS DE CHOCOLAT MI-SUCRE
REAL CHOCOLATE - VERITABLE CHOCOLAT

Consumer Foods

Consumer Foods
builds brand
franchises!

The Consumer Foods Division enjoyed another record sales year in 1978, building both market share and volume within a relatively flat retail grocery industry. This success reflects the strength, growing consumer acceptance, and preference for the brand names that represent our four basic major business groups: Margarines & Oils, Beverages, Baking Aids and Desserts.

In 1978 each of these business groups contributed to the Division's strong performance.



Canada's first choice in baking ingredients.

Fleischmann's Corn Oil Margarine, the Division's number one product, led the way, once again outpacing total industry growth and strengthening its position as Canada's most popular premium margarine brand. Blue Bonnet soft margarine was reformulated to increase consumer taste appeal, repackaged and relaunched with a major new marketing program. We were rewarded by a strong consumer response and increased market share for the brand. The success of Blue Bonnet and Fleischmann's improved our strong presence as Canada's largest marketer of margarine.

This kind of leadership was also displayed by Planters Peanut Oil. This premium cooking oil continued to be the number one brand in its market segment. Further growth is indicated by the consumer trend to usage of specialty cooking items such as woks and fondues.

The combination of new packaging designed to increase in-store shelf impact and the adoption of a new marketing strategy contributed to revitalizing sales of Chase & Sanborn roasted coffee, and virtually doubling the brand's market share during the year. This success led to the reformulation, repackaging and relaunch of new Chase & Sanborn Instant Coffee late in the

year. Initial trade and consumer response exceeded all expectations.

In Baking Aids, Fleischmann's Yeast, Magic Baking Powder and Chipits Baking Chips continued as the leading brands in their markets, reflecting the strength and consumer preference for these established brand names.

Improved flavour technology contributed to the strong regional and market share advances of Royal brand gelatins and puddings. Royal Cheesecake, a specialty No Bake dessert, continued to gain consumer trial and acceptance, successfully establishing leadership in a new and growing market segment.



A family of beverages with new consumer appeal.

Royal Desserts add a flavourful finale to meals.

The quality names in peanut oil and margarines.

The Division continued its close involvement with amateur sport and physical fitness as a part of an on-going basic business philosophy. This also provides exposure for Fleischmann's Egg Beaters and Fleischmann's Corn Oil Margarine, our two products most closely allied with fitness in the consumer's mind.

For 1979, Consumer Foods will continue to grow by building on both established and new brand franchises. The fact that the founding brand names of Standard Brands Limited—Fleischmann's, Chase & Sanborn, and Gillett, continue to be active, viable and contributing in 1978 is a clear indication of the Division's ability to sustain its historical growth rate.

*Discussing an upcoming consumer foods program are:
(left to right): Larry Lord, Ed. Fraser and Knut Brundtland.*



*At Dr. Ballard's,
we like looking
after your pets.*

Pet Foods



Pet Foods

Pet Foods
continues leadership
position!

Dr. Ballard's and Jean Demers Inc., the Pet Food components of the Standard Brands Food Company, registered significant market share and sales gains in 1978. In luxury cat foods, Miss Mew became the clear-cut segment leader, further strengthening our position as Canada's largest marketer of pet foods.

Dr. Ballard's continued its major involvement with the Canadian Veterinary Medical Association by emphasizing the C.V.M.A. Certification Program in advertising and packaging. Dr. Ballard's is still the only C.V.M.A. certified brand in Canada. All of our canned and dry dog foods bear the official seal of approval.

The pet food market is one of the fastest growing segments of

Dr. Ballard's pet foods offer pet owners a wide choice of nutritional products for cats and dogs.



the retail food industry. Pet ownership is outpacing human population growth. Today in Canada, every third household owns a dog, and one out of four, a cat.

Dr. Ballard's is well-positioned to grow in this market with overall industry leadership and a strong market share in canned products. Dr. Ballard's is the only domestic processor with its own can making facility. This is a significant advantage in an industry faced with major cost increases in animal protein and cereals, as well as rising costs in tinplate.

For 1979, Divisional strategy calls for a further strengthening of our position in the marketplace through continuing emphasis on improving the nutritional standards of pet foods, extending promotional programs directed at pet owners, expanding retail distribution of new and existing flavours and varieties and by capitalizing on export opportunities.

All Dr. Ballard's canned and dry dog foods bear the official Canadian Veterinary Medical Association Certified Seal of Approval...the only brand so certified.



Pet Foods

Bruce Wood and Rick Thompson examine facility improvement plans for Dr. Ballard's.



*A favourite guest
on tasteful occasions.*

Confectionery



Confectionery

Confectionery – a year of newness

In 1978, Lowney's Limited, our confectionery and snack foods division, embarked on a major program of new product introductions and product relaunches. The Division's number 1 bar, Oh Henry! was introduced early in the year in a larger size with all new packaging and improved taste appeal. Sales of the brand doubled, strengthening its market position as the leading bar in its category. Packaging was updated on other key bars such as Cherry Blossom, Glossettes, and Eatmore to improve eye appeal, shelf life

Planters, Canada's most popular premium nut brand.



*Lowney's bars take
on a fresh new taste
and eye appeal.*



and consumer acceptance.

Moirs Pot of Gold box chocolates, the flagship of the line, was relaunched with improved formulation, more of those centres preferred by consumers and contemporary new packaging. Major sales increases further strengthened the Division's position as the country's leading manufacturer of box chocolates.

Late in the year the Division introduced Almondillos, a delicious new confection blend of almonds and caramel covered with chocolate. Initial trade acceptance and consumer response was gratifying and encouraging.

In snack foods, Planters strong sales performance during the year solidified its national leadership position within the Canadian nut market. Responding to consumer demand for lower priced specialty nut snacks, new products were developed and introduced under the Planters brand name. All three, Tavern Nuts, Sesame Nut Mix, and Dry Roast Unsalted, achieved excellent distribution and consumer acceptance. Our Pinetree and Beaver nut brands continued to maintain their strong regional positions.

It is expected that cost pressures in 1978, caused by rising

commodity prices on tree nuts, cocoa and cocoa butter, will continue throughout 1979. This will require continuing aggressive cost improvement programs by the Division.

For 1979, the Division strategy calls for a consolidation of the gains made in 1978 and major upgrading of manufacturing facilities at the Planters Toronto plant, and of the chocolate refining process at Lowney's Sherbrooke plant.



A family of taste treats for young and old.

Oh Henry! All-new taste and size in 1978. The #1 bar in its category.

Canada's largest manufacturer of box chocolates with a variety of taste choices.

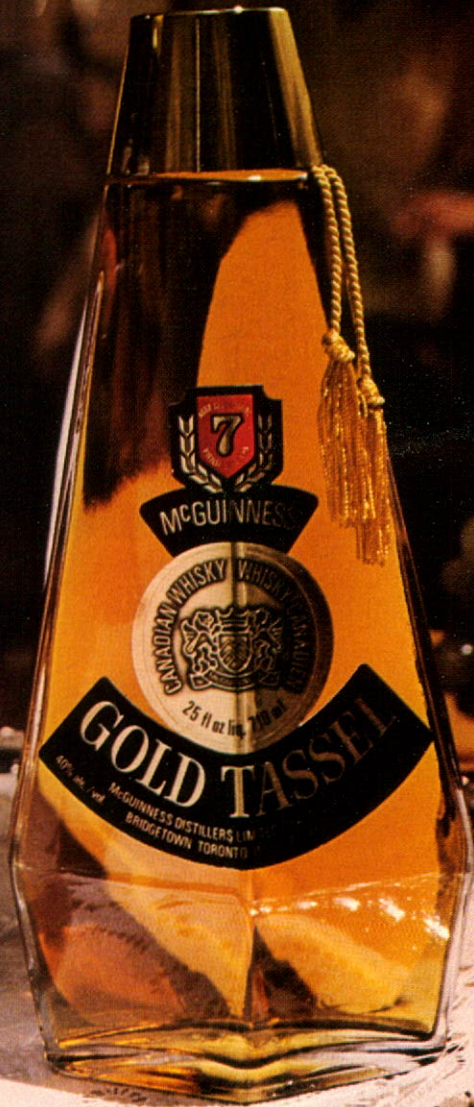
Confectionery

*Divisional marketing strategies are discussed by:
(left to right): Roger Pinney, Ray Verdon, Billy Sherman and John Timson.*



*Two of the many
ways we help you
say welcome.*

Wines & Spirits



Wines & Spirits

Wines & Spirits outpaces industry

Operating within a highly competitive and closely regulated industry, the Company's Wines & Spirits Division enjoyed a growth year in all operational areas.

The Spirits group of companies, comprised of McGuinness Distillers Limited, Acadian Distillers Limited, Central Canadian Distilling Corp. Ltd., and Fraser Valley Distillers, achieved record volumes in 1978 despite a relatively static domestic spirits market. Calona Wines Limited continued to capitalize on the Canadian consumer trend to

wines with significant sales growth, outpacing overall domestic wine market growth. The Division's imported product lines distributed through McGuinness Agencies and Acadian Agencies enjoyed increased consumer acceptance. Its premium brands of wines, distilled spirits, beers and ales all participated.

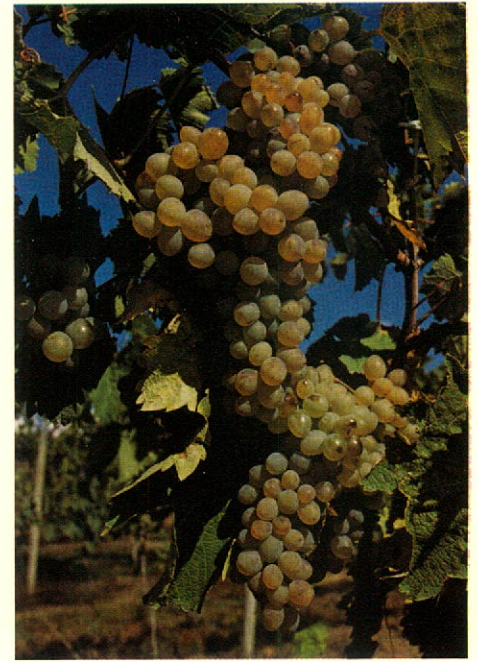
Contributing to the Division's 1978 results were the restructuring and consolidation of product lines, the adoption of an improved marketing mix and the development of a streamlined organizational structure.

The Spirits group increased its share of the total market with

Calona Wines offers award-winning taste for entertaining and meal-time pleasure.



sales advances on all major brands led by particularly strong performances in 1978 of Silk Tassel Canadian Whisky and McGuinness Vodka. In the domestic liqueur market we maintained our market leadership stance and expanded distribution with the successful introduction of two new flavours, Chocolate Almond and Coconut Rum. Liqueurs continued to be the fastest growing segment of the spirits market. The Division is well positioned to capitalize on this growth situation with its existing products and through continued new product development geared towards matching



The wines of Calona are grown from native and hybrid grapes nurtured in B.C.'s Okanagan Valley.

An elegant decanter sets Captain's Table apart.



A world of fine imported wines, spirits and ales for the connoisseur.

McGuinness liqueurs come in a host of flavours.

Wines & Spirits

consumer taste preference trends.

Calona Wines continued to demonstrate growth in all regions where the company competes. Led by the performance of award winning Sommet Blanc and Sommet Rouge table wines, all major brands recorded sales advances. The consumer acceptance of two new brands introduced in 1977—Schloss

Laderheim and Monashee Estate was established by 1978 results. Within its home province of British Columbia the winery demonstrated particularly strong growth clearly establishing Calona Wines as the market leader within the domestic wine segment.

The Wines & Spirits operations team in session. (Left to right): Peter Wood, Barrie Thomson, Bob Millar, Tom Prestage and Art Davis.



We make more than a good cup of coffee.

Food Service



Record year for Food Service

The food service business is the fastest growing segment of the Canadian food industry. It reflects the accelerating trend towards food consumption outside the home. Within this industry, the Food Service Division, comprised of Standard Brands Food Service Company, Melrose Foods Company, and Club Coffee Company, services over 4,000 restaurants as well as industrial caterers, vending operations, hotels, hospitals, the office coffee service market and other food service and retail outlets.

In 1978 the Division achieved record sales levels, strengthening its leadership position within the industry. Its main strength lies in beverage products, notably coffee, with such major brands as Chase & Sanborn, Club, Becharas, Mellowcup, Mojabo and Melrose.

A prime objective of the Division is to broaden its product line. Significant progress was made in this direction during 1978 as major sales and distribution gains were recorded on Blue Bonnet Margarine, Fleischmann's Corn Oil Margarine and Planters Peanut Oil. In the new product area, Smooth & Easy sauce and gravy maker was introduced into test market. Initial reaction to the

brand has been excellent due to its versatility and labour saving benefits.

In response to growing consumer preference for margarines, the Division introduced individual portion packs of Fleischmann's Corn Oil Margarine to the food service industry. Restaurants now can offer Canada's most popular premium margarine brand to consumers dining out. Industry acceptance to date confirms the excellent growth potential of this package size.



Wayne Newson, Earl Terris and Jack Carver plan strategy on new products for restaurant use.

Freshly baked with Canada's favourite yeast, Fleischmann's.

Baking Ingredients



Another growth year for Baking Ingredients

Again, in 1978, The Fleischmann Company recorded increased sales in supplying yeast and other ingredients to a majority of bakeries across Canada.

The Division introduced a specialized Baker's Margarine nationally. The success of this product was largely responsible for raising our industrial margarine and shortening volume to a record level by the year-end.

The Division also introduced Diamalt II, dry malt for bakers.

This was also launched on a national basis with success.

Throughout 1978 an intensive programme of upgrading facilities at the LaSalle, Quebec plant was continued. Of all the manufacturing facilities in operation at the time of Standard Brands Limited's incorporation in 1929, the newly modernized LaSalle plant is the only one still in operation. During 1978 improvements included the installation of a new water filtration and treatment system utilizing the latest technology. This modernization programme will

continue in 1979.

The Field Technical Services group was expanded during 1978 to provide our bakery customers with increased technical expertise and service in all areas of bakery production.

As one of the founding companies of Standard Brands Limited, The Fleischmann Company is Canada's oldest and largest yeast manufacturer, and is soundly positioned to maintain its market leadership position.

*The Fleischmann Company operations group review a record year.
(Left to right): Norm Bennett, Jim O'Neil, Ray Bambrick and George Williams.*



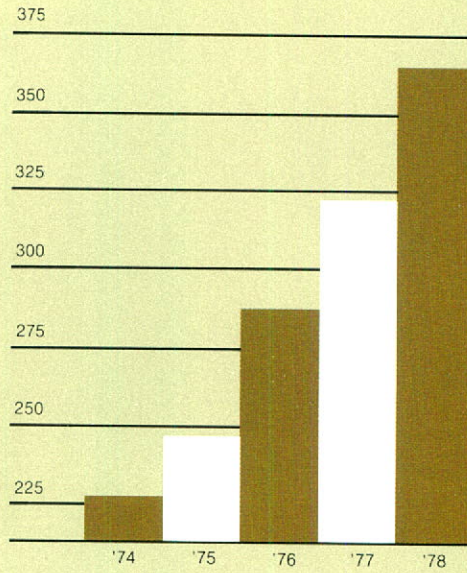
Financial Report

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Five Year Financial Review

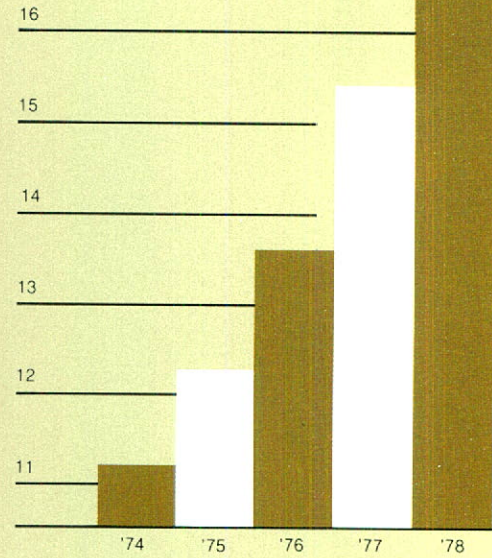
Millions of Dollars



NET SALES

Net sales reached a record level, increasing 12% over 1977 to over \$363 million. All business segments contributed to this growth which represents the 19th consecutive year of increased sales. The annual compound growth rate over the 5-year period was 14.5%.

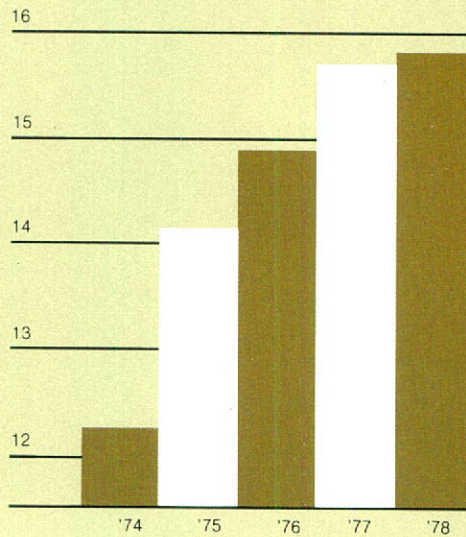
Dollars



PER CAPITA SALES

Per capita sales grew to almost \$17 in 1978, or at an average annual growth rate of 10.8% from 1974. This most favorable trend attests to the continued appeal of the Company's product lines.

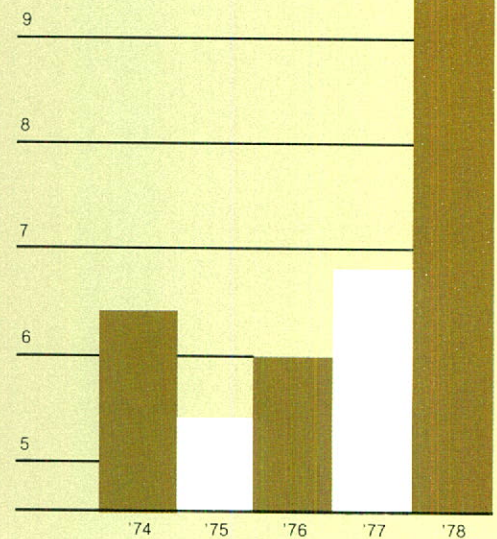
Millions of Dollars



WORKING CAPITAL PROVIDED FROM OPERATIONS

Working capital provided from the Company's operations totalled \$15.7 million in 1978. During the last five years, working capital provided from operations has increased at an annual compound rate of 6.6%. Generation of working capital from operations is the primary source of funds for reinvestment in inventories, as well as machinery and equipment to achieve future growth opportunities.

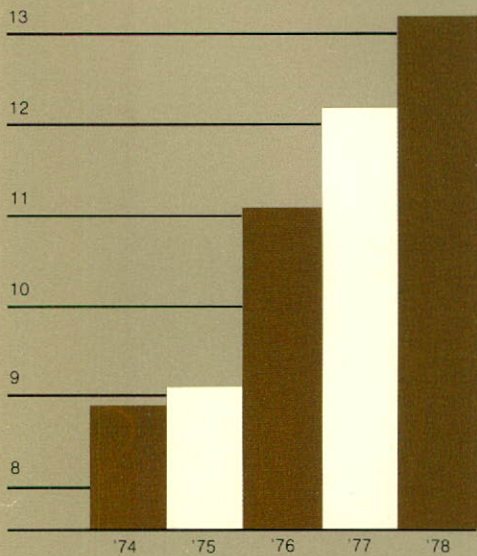
Millions of Dollars



CAPITAL EXPENDITURES

During 1978 capital expenditures rose to \$9.4 million and to a total of \$34 million over the 5-year period. These funds have been primarily directed to increasing and upgrading our manufacturing capabilities to meet future requirements as well as responding to our environmental responsibilities.

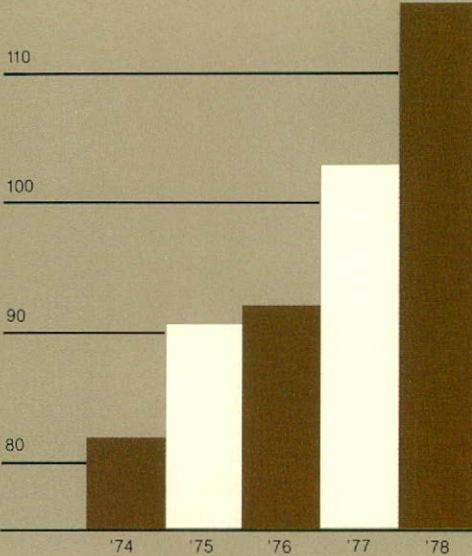
Millions of Dollars



NET INCOME

Net income totalled a record \$13.2 million during 1978 and represented the 12th consecutive annual increase. This reflects an 8.3% increase over 1977 and an average annual compound growth rate of 10.4% over the last 5 years.

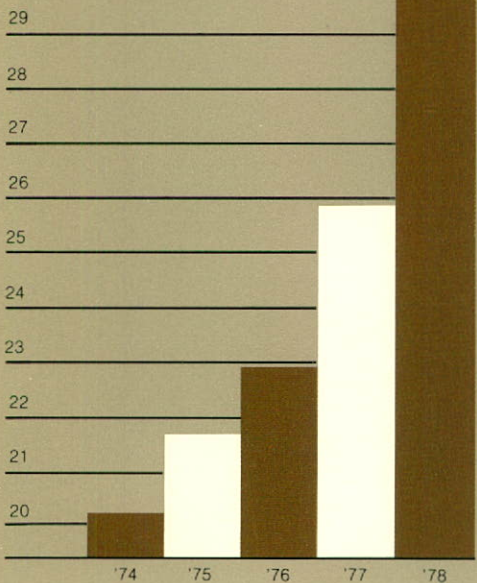
Millions of Dollars



SHAREHOLDERS' EQUITY

Shareholders' equity grew to over \$115 million in 1978, up 11.8% over 1977 and over the 5-year period increased at an average annual compound rate of 11.8%. This growth has been sustained by continuing to reinvest a substantial portion of the Company's profits in Canada. In the last five years 89% of earnings have been retained in Canada. The shareholders' investment represents the financial base upon which the Company relies to achieve its long term growth potential.

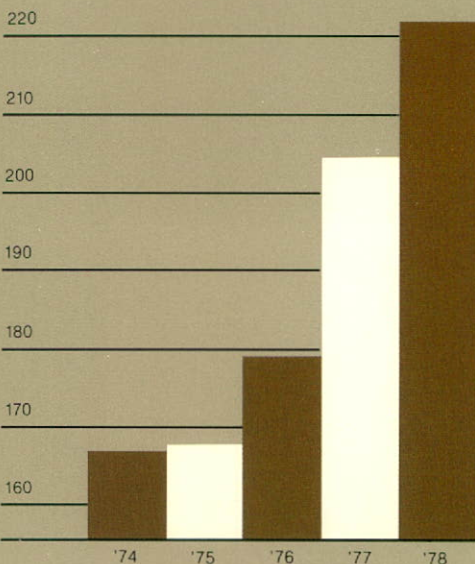
Thousands of Dollars



CAPITAL INVESTMENT PER EMPLOYEE

The Company's accumulated investment in property, plant and equipment grew to \$90.2 million in 1978. As measured per employee, the 1978 investment approximated \$30,000. This reflects the Company's commitment of capital resources in the form of production facilities to meet the growing demand for our products.

Millions of Dollars



TOTAL ASSETS

Total assets increased 8.8% to \$221.9 million, primarily attributable to a \$15.4 million growth in current assets. Over the 5-year period total assets have risen by 33% largely due to an increased working capital base. This expansion of the Company's asset position represents the cornerstone of future and sustained growth in sales and profits.

Consolidated Statement of Income & Retained Earnings

Standard Brands Limited
and Subsidiaries
for the years ended
December 31, 1978 and 1977
(in thousands of dollars)

	1978	1977
SALES	\$397,322	\$356,377
Less—sales and excise taxes	33,787	32,381
NET SALES	\$363,535	\$323,996
Cost of sales	251,082	223,073
GROSS MARGIN	\$112,453	\$100,923
Selling, administrative and other expenses	97,022	81,223
INCOME BEFORE TAXES and extraordinary item	\$ 15,431	\$ 19,700
Provision for taxes on income	5,340	7,543
INCOME BEFORE EXTRAORDINARY ITEM	\$ 10,091	\$ 12,157
Extraordinary item	3,080	—
NET INCOME	\$ 13,171	\$ 12,157
RETAINED EARNINGS, beginning of year	79,272	68,115
	\$ 92,443	\$ 80,272
Dividends paid	1,000	1,000
RETAINED EARNINGS, end of year	\$ 91,443	\$ 79,272

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Financial Position

Standard Brands Limited
and Subsidiaries
for the years ended
December 31, 1978 and 1977
(in thousands of dollars)

	1978	1977
FUNDS INTERNALLY GENERATED:		
From operations:		
Income before extraordinary item	\$10,091	\$ 12,157
Depreciation of buildings and equipment and amortization of goodwill	3,866	2,807
Deferred income taxes	1,782	705
	<u>\$15,739</u>	<u>\$ 15,669</u>
Extraordinary item	\$ 3,080	\$ -
Funds invested in working capital:		
Accounts receivable	\$ 6,233	\$ 7,309
Inventories and prepaid expenses	5,996	9,432
Accounts payable and accruals	(4,621)	(1,894)
Income and other taxes	6,339	(1,503)
Account with parent and affiliates	(595)	7,837
	<u>\$13,352</u>	<u>\$ 21,181</u>
FUNDS INTERNALLY GENERATED	<u>\$ 5,467</u>	<u>\$ (5,512)</u>
EXTERNAL USES (SOURCES) OF FUNDS:		
Additions to property, plant and equipment—net	\$ 9,005	\$ 6,511
Cost of acquisition plus working capital deficiency acquired	-	3,034
Reduction of long-term debt	690	531
Dividends	1,000	1,000
Net proceeds from new long-term debt	-	(26,753)
Recovery of other assets	(2,551)	(122)
	<u>\$ 8,144</u>	<u>\$(15,799)</u>
NET GENERATION OF FUNDS	<u>\$ (2,677)</u>	<u>\$ 10,287</u>
SHORT-TERM BORROWINGS		
(net of cash) beginning of year	<u>\$29,981</u>	<u>\$ 40,268</u>
SHORT-TERM BORROWINGS		
(net of cash) end of year	<u>\$32,658</u>	<u>\$ 29,981</u>

The accompanying notes are an integral part of these consolidated financial statements.

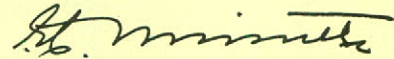
Consolidated Balance Sheet

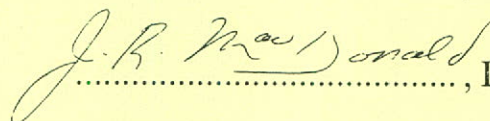
Standard Brands Limited
and Subsidiaries
December 31, 1978 and 1977
(in thousands of dollars)

ASSETS

	1978	1977
CURRENT ASSETS:		
Cash	\$ 1,901	\$ 1,249
Accounts receivable	42,382	36,149
Due from parent and affiliates	1,274	1,869
Inventories (Note 2)	80,446	75,451
Income taxes recoverable	3,020	-
Prepaid expenses	3,231	2,230
Total current assets	<u>\$132,254</u>	<u>\$116,948</u>
DEBENTURES RECEIVABLE (Note 3)	<u>\$ 1,904</u>	<u>\$ 1,954</u>
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land	\$ 1,221	\$ 1,225
Buildings	29,587	28,080
Machinery and equipment	59,396	53,910
	<u>\$ 90,204</u>	<u>\$ 83,215</u>
Less—accumulated depreciation	35,380	33,877
	<u>\$ 54,824</u>	<u>\$ 49,338</u>
OTHER ASSETS	<u>\$ -</u>	<u>\$ 2,511</u>
GOODWILL, at cost less accumulated amortization of \$2,323 in 1978 and \$1,990 in 1977	\$ 32,898	\$ 33,231
	<u>\$221,880</u>	<u>\$203,982</u>

Approved on behalf of the Board:


....., Director


....., Director

LIABILITIES AND SHAREHOLDERS' EQUITY

	1978	1977
CURRENT LIABILITIES:		
Short-term borrowings (Note 4)	\$ 34,559	\$ 31,230
Current maturities of long-term debt	928	893
Accounts payable and accrued expenses	27,434	22,848
Income and other taxes	1,359	4,678
Total current liabilities	<u>\$ 64,280</u>	<u>\$ 59,649</u>
LONG-TERM DEBT (Note 5)	<u>\$ 30,508</u>	<u>\$ 31,234</u>
DEFERRED INCOME TAXES	<u>\$ 11,573</u>	<u>\$ 9,791</u>
MINORITY INTEREST	<u>\$ 145</u>	<u>\$ 105</u>
SHAREHOLDERS' EQUITY:		
Share capital—		
Authorized—		
1,000,000 preferred shares		
100,000 common shares, no par value		
Issued and outstanding—		
77,600 common shares	\$ 23,931	\$ 23,931
Retained earnings	91,443	79,272
	<u>\$115,374</u>	<u>\$103,203</u>
	<u>\$221,880</u>	<u>\$203,982</u>

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

Standard Brands Limited and Subsidiaries
December 31, 1978 and 1977

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a) These consolidated financial statements are prepared in accordance with generally accepted accounting principles as formalized by the recommendations of the Canadian Institute of Chartered Accountants. Except for the change discussed in Note 2, these accounting principles have been applied on a consistent basis during the periods.
- b) Depreciation is charged on plant and equipment on a straight-line basis over the estimated useful lives of the assets.
- c) Goodwill acquired after September, 1970 is being amortized over a period not to exceed forty years. Goodwill acquired prior to October, 1970, is not being amortized and amounts to \$21,963,000.

2. INVENTORIES

(in thousands of dollars)

	<u>1978</u>	<u>1977</u>
Inventories are carried at the lower of cost or net realizable value and consist of:		
Finished goods	\$26,828	\$24,616
Work in process (primarily maturing spirits)	29,021	27,630
Raw materials and packing supplies	24,597	23,205
	<u>\$80,446</u>	<u>\$75,451</u>

The Company has changed its method of calculating the cost of maturing spirits to include manufacturing overhead. This change is consistent with the method used in calculating the cost of other inventories of the Company. The change was not applied retroactively and the effect was an increase in 1978 net income of \$472,000.

3. DEBENTURES RECEIVABLE

Debentures receivable represent part of the consideration received on the sale of various properties and are due mainly in 1980 and 1981.

4. SHORT-TERM BORROWINGS

As of December 31, 1978 and 1977, short-term borrowings consisted of the following:

	<u>1978</u>	<u>1977</u>
Commercial Paper outstanding and held by:		
– Standard Brands Incorporated	\$33,559	\$26,000
– Other	1,000	5,230
	<u>\$34,559</u>	<u>\$31,230</u>

5. LONG-TERM DEBT

As of December 31, 1978 and 1977, long-term debt consisted of the following:

	<u>1978</u>	<u>1977</u>
9.75% Sinking fund debentures due December 15, 1997, guaranteed by Standard Brands Incorporated, with sinking fund payments of \$1,000,000 beginning 1981.	\$25,000	\$25,000
10% Promissory note maturing in five equal successive annual instalments between 1981 and 1985.	2,000	2,000
7½% Debentures due November 1, 1987, secured by first mortgages and a first floating charge on all real and immovable property owned by a subsidiary and all property subsequently acquired, except as otherwise pledged.	1,283	1,425
Carried forward	<u>\$28,283</u>	<u>\$28,425</u>

	1978	1977
Brought forward	\$28,283	\$28,425
Other, including mortgages on certain properties carrying interest rates ranging between 6%/12%.	3,153	3,702
	\$31,436	\$32,127
Less—current maturities	928	893
	<u>\$30,508</u>	<u>\$31,234</u>

6. EXTRAORDINARY ITEM

The extraordinary item arises from the utilization of a tax loss carried forward from prior years by amalgamation of two subsidiary companies during the year 1978.

7. PENSION PLANS

The Company contributes to several pension plans, covering substantially all eligible employees. Contributions were charged to expense and amounted to \$1,138,000 in 1978 and \$968,000 in 1977, including amortization of past service costs which were not significant. Pension fund assets in each plan exceed vested benefits.

8. COMMITMENTS

- a) Rent expense under non-cancelable lease commitments totalled \$1,946,000 for the year ended December 31, 1978, and will amount to \$2,171,000 in 1979 from present commitments. Present commitments beyond 1979 amount to \$15,976,000 and extend to 1995.
- b) The Company has an agreement under which it is required to purchase distilled spirits by December 31, 1984. As of December 31, 1978, the commitment was approximately \$12,472,000.

9. OTHER INFORMATION

- a) Interest on short-term borrowings and long-term debt aggregated \$5,543,000 in 1978 and \$4,746,000 in 1977.
- b) There were 11 directors (13 in 1977) and 14 officers (15 in 1977) for the year ended December 31, 1978. Aggregate remuneration for directors (as directors) and officers (as officers) was \$84,000 (\$66,000 in 1977) and \$805,000 in 1978 (\$769,000 in 1977) respectively. There were 2 officers who were directors in 1978 (3 in 1977).
- c) The Company is wholly-owned by Standard Brands Incorporated of New York, U.S.A.

10. ANTI-INFLATION ACT

The Company was subject to the Anti-Inflation Act and related regulations up to December 31, 1978 when the controls expired. The Company was, in all material respects, in compliance with this legislation and monitored its activities to ensure continued compliance.

To the Shareholders,
Standard Brands Limited:

We have examined the consolidated balance sheet of STANDARD BRANDS LIMITED (incorporated under the Canada Corporations Act) AND SUBSIDIARIES as of December 31, 1978 and 1977, and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Standard Brands Limited and subsidiaries as of December 31, 1978 and 1977, and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a consistent basis during the periods.

Toronto, Ontario,
February 16, 1979

Arthur Andersen & Co.

Corporate Management

Standard Brands Limited delegates profit responsibilities to each operating division while retaining centralized control over areas of common concern. Specialized corporate management groups provide coordinated assistance to the Divisions without interfering in the day-to-day decision-making, so vital to the profitability of consumer-oriented businesses.



Corporate Finance (left to right):
*Lou Choffe, Peter Winstanley,
Ron Adlam and Bob Langille.*

Human Resources
*Mike Wilson and Michel Blais
(right).*





Operations (left to right):
*Dr. George Micklea, Stan Sheldon
and George Tischler.*



**Legal, Distribution &
Commodities** (left to right):
*Margo Lake, Claudio Bussandri and
Tony Newton.*

Management Committee

Seated, left to right:
H. John Greeniaus,
I. A. Kincaid,
James Paul,
John R. MacDonald.

Standing, left to right:
Simon Gulden,
Raymond F. Wright,
J. Boyce Donaldson,
Edwin J. Korhonen.



Corporate Officers

Gaetan C. Morrissette
Chairman of the Board

John R. MacDonald
President and Chief Executive Officer

J. Boyce Donaldson
Vice-President

H. John Greeniaus
Vice-President

I. A. Kincaid
Vice-President

Edwin J. Korhonen
Vice-President

James Paul
Vice-President

Raymond F. Wright
Vice-President

Simon Gulden
General Counsel and Secretary

M. Robert Langille
Comptroller

Peter F. Winstanley
Treasurer



Board of Directors



Gaetan C. Morrissette, Montreal, Quebec,
Chairman of the Board, Standard Brands Limited.



Martin F. C. Emmett, Greenwich, Connecticut,
President, International Standard Brands
Incorporated.



John R. MacDonald, Montreal, Quebec,
President and Chief Executive Officer,
Standard Brands Limited.



Ben Wosk, Vancouver, British Columbia,
President and Chief Executive Officer,
Wosk's Limited.



John Loudon, London, England,
Director, N. M. Rothschild & Sons Ltd.



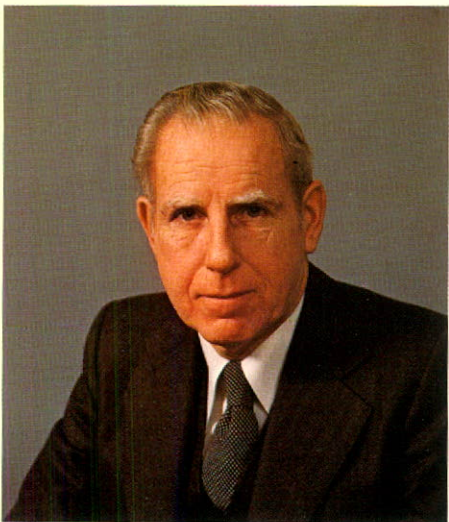
Jeannine Guillevin-Wood, Outremont, Quebec.
President, Guillevin Allied Ltée/Ltd.



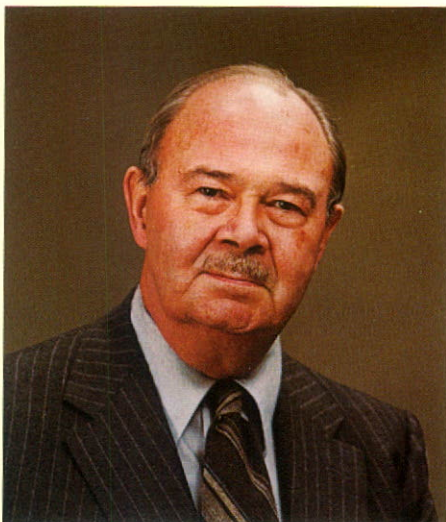
Dr. David S. R. Leighton, Banff, Alberta.
Director, The Banff Centre.



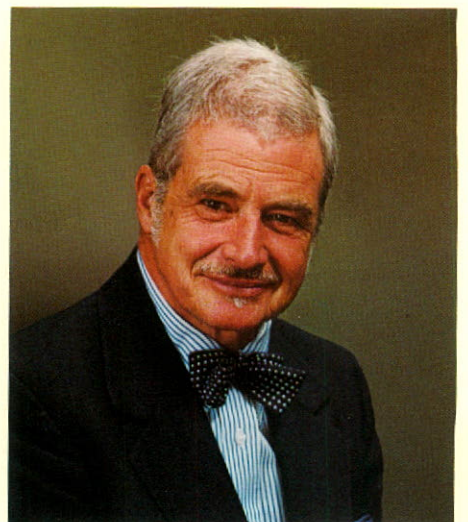
C. Richard Sharpe, Toronto, Ontario.
Vice President Merchandising,
Simpsons-Sears Limited.



Matthew S. Hannon, Q.C., Montreal, Quebec.
Partner, Ogilvy, Montgomery, Renault,
Clarke, Kirkpatrick, Hannon & Howard.



John T. Johnson, Q.C., Toronto, Ontario.
Partner, Borden & Elliot.



Frank M. Covert, O.B.E., Q.C., Halifax, Nova Scotia.
Partner, Stewart, MacKeen & Covert.

50 Years Later

Standard Brands Limited has become one of Canada's major manufacturers and marketers of consumer foods, baking ingredients, wine and distilled spirits, confectionery and snack products, pet foods and institutional products. In 1978, net sales surpassed \$360 million, and employees numbered more than 3000. As the Company approaches its 50th Anniversary, it is still young and growing.



DIRECTORY OF MANUFACTURING LOCATIONS

Nova Scotia

Bridgetown

Distilled Spirits

Dartmouth

Confectionery

Quebec

Gentilly

Pet Foods

LaSalle

*Yeast, Coffee, Tea,
Desserts and Baking
Ingredients*

Sherbrooke

Confectionery

Ontario

Don Mills

Coffee

Etobicoke

Distilled Spirits

Mississauga

Pet Foods

Scarborough

Margarines

Toronto

Nuts & Snack Products

Toronto

Pet Foods

Manitoba

St. Boniface

Pet Foods

Winnipeg

Coffee

Saskatchewan

Weyburn

Distilled Spirits

Alberta

Calgary

Margarines & Yeast

Calgary

Pet Foods

British Columbia

Kelowna

Wines & Distilled Spirits

Richmond

Consumer Food Products

Richmond

Pet Foods

Vancouver

Nuts & Snack Products

Vancouver

*Coffee & Food Service
Products*



Standard Brands
LIMITED