

ANNUAL REPORT - 1976

Hiram Walker-Gooderham & Worts Limited



HIRAM WALKER & SONS
LIMITED.

DISTILLERS
AND BOTTLERS IN CHARGE.

UNIVERSITY

Hiram Walker-Gooderham & Worts Limited

Walkerville, Ontario, Canada, incorporated December 31, 1926, under the laws of Canada

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at the Head Office of Hiram Walker-Gooderham & Worts Limited, Walkerville, Ontario at 2:30 P.M. December 10, 1976. Those Shareholders who are unable to attend the meeting are urged to mail in their proxies.

HEAD OFFICE

2072 Riverside Drive East, Walkerville, Ontario

AUDITORS

Price Waterhouse & Co.

TRANSFER AGENTS

National Trust Company Limited, Toronto, Montreal, Calgary and Vancouver
Banker's Trust Company, New York

REGISTRARS

Canada Permanent Trust Co., Toronto, Montreal, Calgary and Vancouver
Morgan Guaranty Trust Co. of New York, New York

STOCK EXCHANGE LISTINGS

Toronto, Montreal, Vancouver and New York

10-K AVAILABILITY

The Company files a Form 10-K Annual Report with the United States Securities and Exchange Commission. A copy of this report will be made available without charge to interested Shareholders upon written request to the Secretary, Hiram Walker-Gooderham & Worts Limited, P.O. Box 518, Walkerville, Ontario, Canada, N8Y 4S5.



Financial Highlights



August 31

(United States currency, except as noted)

For the year:	<u>1976</u>	<u>1975</u>
Sales	\$875.0 million	\$864.1 million
Net income	\$ 55.3 million	\$ 50.6 million
Per share	\$3.21	\$2.94
Dividends paid	\$ 26.0 million	\$ 28.3 million
Per share—Class A	\$1.50*	\$1.65*
—Class B (after 15% tax)	\$1.27½*	\$1.40¼*
 At the year-end:		
Shareholders' equity	\$576.2 million	\$546.8 million
Per share	\$33.43	\$31.73
Inventories	\$496.6 million	\$519.9 million
Property, plant and equipment at depreciated book value	\$177.9 million	\$184.4 million
Working capital	\$518.6 million	\$425.2 million
Total assets	\$912.4 million	\$913.2 million

* Canadian currency

Report of Directors



To the Shareholders:

Your directors are pleased to report the results of the Company's operations for the 1976 fiscal year together with the accompanying consolidated financial statements. As in prior years, the consolidated financial statements and other amounts stated in the report are expressed in United States currency unless otherwise noted.

Sales and Earnings

Sales for the year amounted to \$875 million compared with \$864 million in 1975, an increase of 1.3%. Net earnings increased to \$55.3 million or \$3.21 per share from \$50.6 million or \$2.94 per share in the prior year. The improvement in earnings of 9.2% resulted from a combination of higher case sales, and increased prices offset in part by higher costs. In addition, there were reductions in interest expense and foreign currency adjustments.

A more detailed discussion of the financial results will be found on the accompanying pages of the financial report.

Market Trends

Sales of distilled spirits in the United States increased moderately during the year, and the substitution of other product categories in place of American domestic whiskies continued. These trends are reflected in the continuing popularity of vodka, gin, rum and tequila. Cordials and liqueurs, Canadian and scotch whiskies imported in bulk and bottled in the United States also gained. The trading down from premium priced products which was characteristic of the recent recession is still in evidence. Scotch whisky continued to exhibit good growth in International markets and sales of distilled spirits in general increased in Canada.

Outlook

The Company hopes for continued growth in its 1977 fiscal year in the International market and in Canada, both of which are strong markets today. In the United States your Company has an excellent line of domestic and imported cordials and specialties and expects to take full advantage of the opportunities for growth in

these products. Since competitive market pressures are expected to limit price increases, margins on the Company's products may be adversely affected by higher costs which are prevalent in today's economies throughout the world. Your Company has been successful in controlling costs wherever possible and will make every effort to continue to do so.

In order to identify and benefit from the opportunities for growth, the Company is placing greater emphasis in its marketing approach on the increasing demands of the consumer for a variety of products. This subject is discussed more fully in the section Comments on Operations.

Challenges to Business

Apart from the problems created by continually rising costs of labour and materials and the high cost of borrowing, business today faces many other challenges including slow economic growth, proliferation of governmental laws and regulations and the cost of abiding by them, political uncertainty in many countries where we have assets or do business, and lastly, but not least, the many challenges to the profit motive in the enterprise system.

The Company's Fiftieth Anniversary


Hiram Walker & Sons Limited originated in Walkerville in 1858 and Gooderham & Worts Limited originated in Toronto in 1832. These two companies were put together and the present company in which you hold shares, Hiram Walker-Gooderham & Worts Limited, was incorporated on December 31, 1926, so that it will celebrate its fiftieth anniversary on December 31, 1976. In honour of that occasion we have prepared, and we enclose, a fiftieth anniversary memento entitled "Good Taste", which gives something of the history of the Company, the way it was in 1926, and information on our products, including the serving of them in recipes.

We hope you will read and preserve this booklet. If you would like more copies we will be glad to send them to you.

Appreciation

Your directors wish to express their appreciation to the Shareholders, employees and customers who have contributed to another successful year for your Company.

By Order of the Board of Directors


President

Walkerville, Ontario
October 22, 1976

Directors

F. Campbell Cope, Q.C.
*Partner in the law firm of
Ogilvy, Cope, Porteous, Montgomery,
Renault, Clarke & Kirkpatrick*

Richard E. Cross
*Counsel to the law firm of
Cross, Wrock, Miller & Vieson*

A. E. Downing
Vice President

Charles T. Fisher III
President of National Bank of Detroit

H. Clifford Hatch
President

Joseph Jeffery, O.B.E., Q.C.
*Partner in the law firm of
Jeffery & Jeffery*

Paul J. G. Kidd, Q.C.
Senior Vice President and Secretary

Allen T. Lambert
*Chairman and Chief Executive Officer
The Toronto-Dominion Bank*

Jack Musick
*Retired; formerly President of
Hiram Walker Incorporated, a subsidiary*

John T. Sapienza
*Partner in the law firm of
Covington & Burling*

Robert C. Scrivener
*Chairman and Chief Executive Officer
Northern Telecom Limited*

Thomas Snelham
Senior Vice President

Officers

H. Clifford Hatch
President

Paul J. G. Kidd, Q.C.
Senior Vice President and Secretary

Thomas Snelham
Senior Vice President

A. E. Downing
Vice President

J. D. N. Ford
Vice President

Robert J. Tebbs
Vice President

A. R. McCallum
Treasurer

James H. Shaw
Comptroller

Richard M. Kippen
Assistant Secretary

Comments on Operations



United States

Operations in the United States this past year were highlighted by further growth in sales of domestic cordials and fruit flavoured brandies, Courvoisier cognac and imported cordials. Sales of our premium Canadian and scotch whiskies, Canadian Club and Ballantine's, declined marginally, reflecting the market trend of trading down to lower priced brands in the recent economic recession. Sales of U.S. domestic blended and bourbon whiskies continued to decline consistent with the decreasing popularity of such products. During 1976 case sales in the United States market accounted for about 58% of total Company sales compared to 60% in 1975.

In response to the growth in the market for tequila, the Company introduced a new brand—Two Fingers—which is named after a legendary Mexican character who used to drive up from Mexico in the 1930s to sell his tequila from the back of his truck throughout the western United States. Acceptance of this product in the few markets tested, primarily in the southwestern United States, has been favourable.

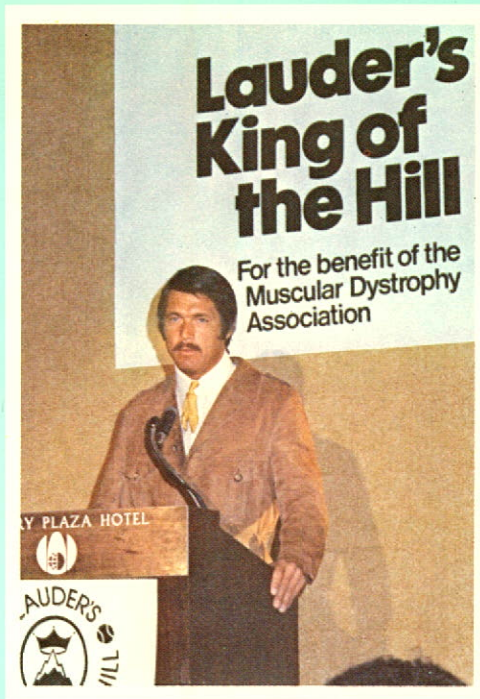
We believe that Hiram Walker again had the largest selling line of cordials in the United States in 1976. To meet the continuing consumer demand for new cordial taste treats, Hiram Walker introduced the thirtieth member of its cordials family—Swiss Chocolate Almond. This cordial has proved especially popular for the preparation of tasty desserts and the mixing of delicious cocktails. Marketing promotions for the product include recipe booklets containing mixing instructions for over 20 different drinks, such as the Gretel and Mont Blanc pictured on this page.

Our successful line of imported liqueurs was further strengthened by the addition of an Italian liqueur named Sciarada (Sha-ra-da). This exotic liqueur is made from a citrus based secret formula and has a unique, crisp flavour not found in any other liqueur. Sciarada's light, clean taste makes it a fine anytime drink which we expect will please the North American consumer.



One of our entries in the "bottled in U.S." scotch market is Lauder's Scotch. During the year an innovative and exciting marketing program was undertaken, not only to promote sales of this product but also to raise a minimum of \$1 million for the benefit of the Muscular Dystrophy Association.

Briefly, Hiram Walker Incorporated, through its Lauder's Scotch brand, has joined forces with eight top stars of the entertainment world — Chad Everett, Charlton Heston, Chris Connelly, Lloyd Bridges, Desi Arnaz, Jr., Bill Cosby, Rob Reiner and James Franciscus — to stage a series of 31 pro-celebrity tennis matches throughout the United States. The eight stars, teamed with their professional partners, will be competing for over \$100,000 in prize money. The final match in August of 1977 will determine the Lauder's King of the Hill Championship Team. All prize and production money is being provided by Lauder's Scotch and all proceeds from the tournaments are being donated to the Muscular Dystrophy Association. The official presentation of the tournament proceeds will be made to Jerry Lewis on the 1977 Muscular Dystrophy Association Labor Day Telethon.



Top left: Chad Everett addressing campaign kickoff luncheon.

Top right: Charlton Heston and Lloyd Bridges in action.

Centre (left to right): Desi Arnaz Jr., Chris Connelly, Rob Reiner, Lloyd Bridges and Charlton Heston during visit to our head office at Walkerville.

Right: Lauder's Scotch—Our "bottled-in-U.S." scotch brand which is the sponsor of the tournaments.





Above: A view of the expansion of facilities currently in progress at Kilmalid, Scotland.

Left: The company's world renowned scotch whisky—Ballantine's.

Below: Other international brands of scotch whisky marketed by the company.



International

Sales of Ballantine's Scotch to the world markets outside North America continued to grow in 1976. The markets in Europe, principally Italy, France, Holland and Greece, and the Far East showed the best sales gains. Our other international scotch brands, Old Smuggler, Lauder's, Grand Macnish and Ambassador, also increased in volume. Case sales of the international division represented 24% of the Company's total sales this year.

In order to meet the projected growth in the scotch whisky markets of the world, we are currently expanding and improving our plant and equipment at Kilmalid, Scotland. This construction program, which is expected to cost about \$15 million, will increase capacity and improve the efficiency of the operation. These new facilities will include an improved bulk whisky handling system similar to the ones in operation at our Walkerville and Okanagan plants in Canada. One of our company engineers in Walkerville, Mr. George Thornton, received a Governor General of Canada Award of Merit for engineering design excellence for this system and is currently in Scotland overseeing the installation. Completion is scheduled for March of 1977.

Canada

Sales of Company products in the Canadian markets continued to grow in 1976 and Canadian Club and Hiram Walker's Special Old were again the Company's best

Selected Products Marketed in Canada

performing brands. The provinces of British Columbia, Alberta and Ontario were the geographic areas in which the best sales gains were achieved, although part of the sales increase in British Columbia was attributable to the non-availability of a competitor's products. Sales in Canada represented 18% of total Company sales in 1976 and 1975.

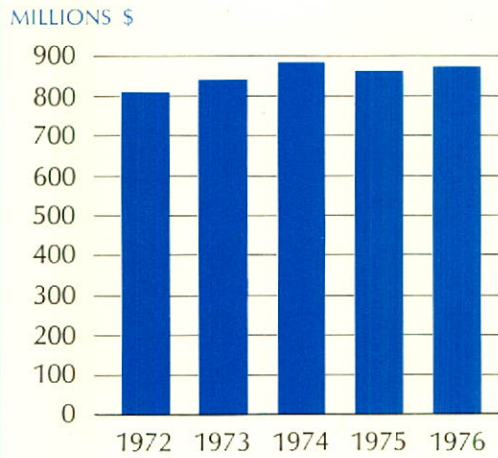
A selection of our fine Canadian products is pictured at right along with a number of the imported cordials which we market in Canada.

Organization

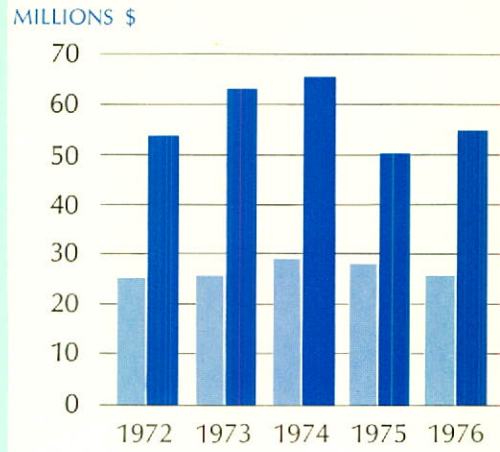
In response to changing trends in consumer preferences for distilled spirits in the United States and elsewhere, the Company has enlarged its marketing organization and increased the emphasis on market research at the consumer level. Sophisticated market research techniques are being employed to measure and evaluate the effects of changes in markets and to identify new marketing opportunities. The Company is now better equipped to measure the effectiveness of advertising and sales promotion programs and make changes, where necessary, on a timely basis. Expansion of our line of fast selling cordials and the introduction of Two Fingers tequila are two examples of the results of these efforts. We intend to closely monitor changes in market tastes and will continue to offer the consumer the high quality products expected from Hiram Walker.



Sales

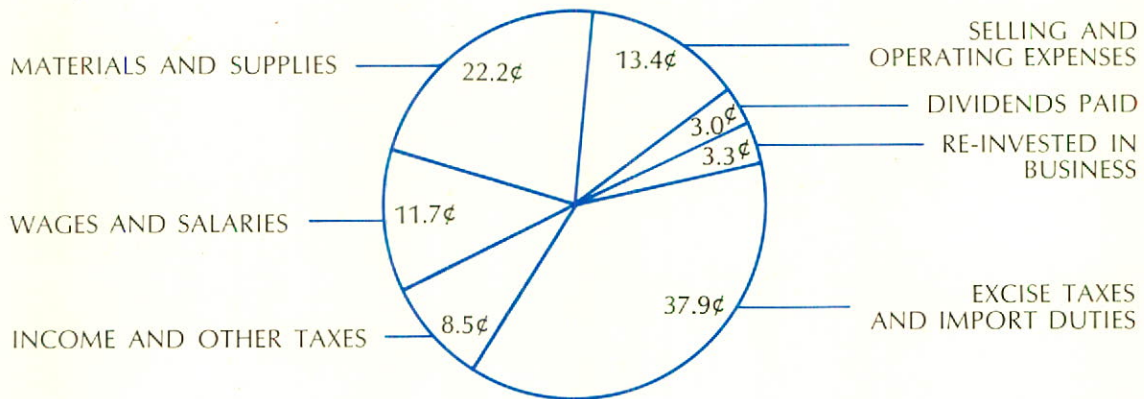


Net Income

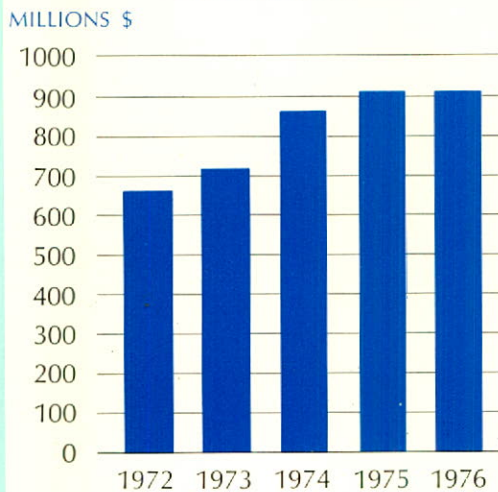


DIVIDENDS PAID
 NET INCOME

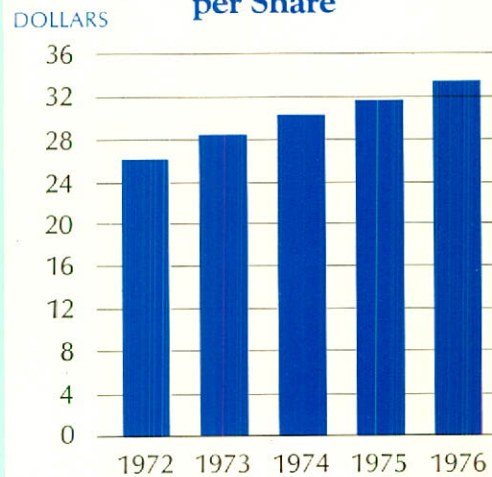
Distribution of the Sales Dollar 1976



Total Assets



Shareholders' Equity per Share



Financial Review



Income Statement

Earnings for the year 1976 were \$55.3 million or \$3.21 per share, compared to \$50.6 million or \$2.94 per share in the prior year. This 9.2% increase in earnings was due to improvement in gross profit and reductions in interest expense and foreign currency adjustments. The lower interest expense generally resulted from reduced levels of borrowings at less expensive rates. Foreign currency adjustments arise principally from the changing relationships of the currencies of Canada, France, the United Kingdom and Mexico to United States currency. These changes from one accounting period to another may cause substantial unrealized losses or gains on translation of the accounts of the Company's subsidiaries into United States dollars. The net effect of all these adjustments was a charge to operations of \$651,000 in 1976 compared with a charge of \$3.2 million in 1975.

Net sales increased to \$875 million in fiscal 1976 from \$864 million in the prior year, a 1.3% change. Unit sales increases in international markets and Canada were partially offset by decreases in quantities sold in the United States. The growth in sales dollars was further moderated due to a higher proportion of the sales being exclusive of excise taxes, lower currency translation rates and only six months' sales for the Argentine subsidiary.

Factors contributing to improvements in operating margins were the growth in sales of certain high margin products particularly in the cordial and liqueur categories, price increases for some items, and proof reductions for other products. These were partially offset by the negative influence of inflationary cost increases.

The total selling and general expenses did not increase because of lower operating costs arising from organizational changes in the United States and cost control measures implemented in 1975, lower exchange translation rates and the inclusion of only six months' expenses for the Argentine subsidiary. However, the selling and general expenses of the individual companies were affected by inflation.

Interest on long-term indebtedness appears for the

first time in 1976 as a result of the \$50 million debentures issued early in the fiscal year. Other income and charges, net, decreased in fiscal 1976 because of the \$5 million write-off of goodwill offset in part by an increase in earnings of a 50%-owned company accounted for on the equity basis.

The effective income tax rate on income before foreign currency adjustments and minority interest was 50.0% compared to 46.7% in 1975. This increase was due principally to the non-deductibility for income tax purposes of the above mentioned goodwill write-off and to translation related factors.

Working Capital

Short-term investments consist mainly of money market instruments, the realization of which will be used to finance other working capital needs. Reductions in inventories reflect a planned balancing of quantities with projected requirements and, to a lesser extent, the exclusion of the inventories of the Argentine subsidiary from this total in 1976. The decrease in loans and notes payable was due to the re-financing of short-term borrowings by the placement of \$50 million long-term debt and to a reduction in requirements.

Deferred Income Taxes

The major portion of the deferred income taxes at August 31, 1976 and the increase in this account for the year was due to tax deferrals allowed by the governments of the United Kingdom and France to assist companies in financing the rapidly increasing costs of replacing maturing inventories in the past few years. The remainder of the deferred taxes arises primarily in Canada as a result of claiming tax depreciation on fixed assets in excess of amounts recorded on the books.

Shareholders' Equity

Shareholders' equity was \$576 million at August 31, 1976 or \$33.43 per share (August 31, 1975—\$547 million or \$31.73 per share). There were approximately 29,300 shareholders of the Company at the year-end, of which about 86% were Canadian, 13% were United States residents, and 1% were from other countries.

Consolidated Statement of Income and Retained Earnings



Expressed in thousands of United States dollars

Year ended August 31

	<u>1976</u>	<u>1975</u>
Sales	\$874,955	\$864,105
Dividends and interest on investments	3,922	3,703
Other income and charges, net	2,812	5,356
	<u>881,689</u>	<u>873,164</u>
 Cost and Expenses:		
Cost of products sold	569,055	567,192
Selling and general expenses	166,255	166,575
Interest on long-term indebtedness	4,508	—
Other interest	12,015	21,117
Depreciation	14,565	14,216
	<u>766,398</u>	<u>769,100</u>
Income before deducting income taxes, foreign currency adjustments and minority interest	115,291	104,064
Provision for income taxes:		
Current	40,678	26,871
Deferred	16,913	21,769
	<u>57,591</u>	<u>48,640</u>
Income before deducting foreign currency adjustments and minority interest	57,700	55,424
Foreign currency adjustments	651	3,169
Minority interest in earnings of subsidiaries	1,766	1,608
Net Income	<u>55,283</u>	<u>50,647</u>
 Retained Earnings:		
At beginning of year	533,499	511,129
	<u>588,782</u>	<u>561,776</u>
Dividends paid (including 15% tax on Class B dividends)	25,953	28,277
At end of year	<u>\$562,829</u>	<u>\$533,499</u>
 Earnings and Dividends per share		
Net income	\$3.21	\$2.94
Dividends paid (Canadian currency):		
Class A	\$1.50	\$1.65
Class B (after 15% tax)	\$1.27½	\$1.40¼

The Notes on pages 16 to 19 are part of these statements.

Consolidated Statement of Changes in Financial Position



Expressed in thousands of United States dollars

	Year ended August 31	
	1976	1975
Financial Resources were provided by:		
Net income	\$ 55,283	\$ 50,647
Items not requiring outlay of working capital:		
Depreciation	14,565	14,216
Amortization of cost in excess of net assets of company acquired	5,084	600
Minority interest in earnings of subsidiaries	1,766	1,608
Deferred income taxes	16,913	21,769
Working capital provided from operations	93,611	88,840
Sale of debentures	49,524	—
	143,135	88,840
Financial Resources were used for:		
Payment of dividends	25,953	28,277
Expenditures for land, buildings and equipment less disposals	13,759	20,137
Other items	2,910	1,840
	42,622	50,254
	100,513	38,586
Working capital of Argentine subsidiary	7,063	—
Increase in Working Capital	93,450	38,586
Working Capital:		
At beginning of year	425,194	386,608
At end of year	\$518,644	\$425,194
Changes in Working Capital Components		
Increase (decrease) in principal current assets—		
Cash and short-term investments	\$ 11,947	\$ 16,270
Accounts receivable	9,484	2,194
Inventories	(23,309)	32,560
(Increase) decrease in principal current liabilities—		
Loans and notes payable	92,083	(17,325)
Excise taxes	8,118	8,165
Income and other taxes	(6,105)	4,224
Other items	1,232	(7,502)
Increase in working capital	\$ 93,450	\$ 38,586

The Notes on pages 16 to 19 are part of these statements.

Consolidated Balance Sheet



Expressed in thousands of United States dollars

Assets

August 31

	<u>1976</u>	<u>1975</u>
Current Assets:		
Cash	\$ 18,093	\$ 27,154
Short-term investments, at cost (approximates market value)	30,185	9,177
Accounts receivable	144,927	135,443
Inventories	496,587	519,896
Prepaid expenses	14,101	16,154
Total current assets	<u>703,893</u>	<u>707,824</u>
Investments:		
The Argentine subsidiary	13,085	—
With quoted market value (1976—\$1,188; 1975—\$1,660)	3,149	3,517
Without quoted market value	9,866	9,158
	<u>26,100</u>	<u>12,675</u>
Land, Buildings and Equipment	338,371	340,697
Less depreciation	160,447	156,322
	<u>177,924</u>	<u>184,375</u>
Other Assets	4,471	8,292
	<u>\$912,388</u>	<u>\$913,166</u>

The Notes on pages 16 to 19 are part of these statements.

Hiram Walker-Gooderham & Worts Limited
AND SUBSIDIARIES

Expressed in thousands of United States dollars

Liabilities and Shareholders' Equity

	<u>August 31</u>	
	<u>1976</u>	<u>1975</u>
Current Liabilities:		
Loans and notes payable	\$ 98,152	\$190,235
Federal excise taxes	11,674	19,792
Income and other taxes	33,675	27,570
Accounts payable and accrued liabilities	41,748	45,033
Total current liabilities	<u>185,249</u>	<u>282,630</u>
Long-Term Indebtedness	49,524	—
Deferred Income Taxes	83,073	66,159
Minority Interest	18,377	17,542
Shareholders' Equity:		
Common shares, without par value	17,330	17,330
Retained earnings	562,829	533,499
	<u>580,159</u>	<u>550,829</u>
Deduct: Common shares held by Trustees and subsidiary company, at cost (143,063 shares)	3,994	3,994
	<u>576,165</u>	<u>546,835</u>
	<u>\$912,388</u>	<u>\$913,166</u>

Approved by the Board

H. Clifford Hatch, Director

Thomas Snelham, Director

Notes to Financial Statements



(Dollar amounts in thousands)

1. Summary of Significant Accounting Policies

The Company's accounting policies, which conform with accounting principles generally accepted in Canada, are summarized below.

Consolidation policy

The consolidated financial statements include the accounts of all subsidiaries, except for the Argentine subsidiary which is accounted for as described in Note 2 to the financial statements.

Currency translation

The consolidated financial statements are expressed in United States currency because the greater part of the Company's business is conducted in that currency. In the translation of the accounts the following principles have been applied generally: inventories on hand and inventory items entering into cost of products sold, properties, accumulated depreciation and related provisions charged against income, investments, long-term indebtedness, deferred income taxes and capital stock—at historical rates of exchange; other current assets and current liabilities—at exchange rates on August 31; income and expenses, other than provisions for depreciation and inventory items entering into cost of products sold—at average exchange rates for the year. The net result of all foreign exchange translations and adjustments is included in the consolidated statement of income.

Inventories

Inventories are stated at amounts not exceeding manufactured or purchased cost. They include substantial quantities of whiskies and cognac which will remain in storage over a period of years, but which are classified as current assets in accordance with the general practice of the distilling industry.

Investments

Investments are stated at cost except for the Argentine subsidiary and 50%-owned companies. The Argentine subsidiary is carried on the basis described in Note 2 to the financial statements and 50%-owned companies

are shown at the Company's equity in their net assets and the Company's share of their net income, or loss, is included in the consolidated statement of income.

Land, buildings and equipment

Land, buildings and equipment are carried at cost. The companies generally use the straight-line method to provide depreciation over the estimated useful lives of depreciable assets at annual rates of 2 1/2% to 10% for buildings and 5% to 33 1/3% for equipment.

Other assets

This caption includes the cost in excess of net assets of companies acquired together with other purchased intangibles. During the year the amortization of the goodwill attributable to the brandy and cognac company acquired in the 1974 fiscal year was accelerated in recognition of the marginal results of its operations since acquisition. The balance of the other assets is being amortized by systematic charges to operations over an appropriate number of years.

Pension plans

The Company and its subsidiaries have many pension plans, most of which are trustee plans, and some of which are insured plans, covering the majority of their employees. It is the Company's policy to fund pension costs accrued. Unamortized prior service costs are funded by annual contributions over varying periods ranging from 15 to 30 years for the different plans.

Income taxes

No provision has been made for taxes on undistributed earnings of subsidiaries not currently available for paying dividends inasmuch as such earnings have been re-invested in the business.

Deferred income taxes are provided for all significant timing differences in reporting income and expenses for financial statement and tax purposes. The timing differences arise principally from differences in accounting and tax depreciation and special tax-deductible inventory reserves in France and the United Kingdom.

2. The Argentine

Effective March 1, 1976 the Company ceased to consolidate the operations of its wholly-owned Argentine subsidiary because of the unsettled economic conditions in that country, continuing foreign exchange restrictions and difficulties in determining realistic exchange rates for the Argentine peso. The investment in this subsidiary is now carried at the Company's equity in its net assets at February 29, 1976 which amounted to approximately \$13,000. In the future, this invest-

ment will be adjusted only for any significant decline in the underlying net equity and income will be recognized by the Company only to the extent of any cash dividends received. If operations of the Argentine subsidiary had been included in the consolidation for the six months ended August 31, 1976, the consolidated earnings for the six months and the year ended on that date would not have been materially affected.

3. Inventories

Inventories shown in the accompanying consolidated balance sheet consist of the following:

	August 31	
	1976	1975
Raw materials and supplies	\$ 31,412	\$ 36,263
Maturing whiskies and cognac	410,331	424,775
Finished goods	54,844	58,858
	<u>\$496,587</u>	<u>\$519,896</u>

4. Land, Buildings and Equipment

The amounts shown in the accompanying consolidated balance sheet are detailed below:

	August 31, 1976		August 31, 1975	
	Cost	Depreciation	Net	Net
Land	\$ 7,303	\$ —	\$ 7,303	\$ 7,665
Buildings	171,584	63,337	108,247	107,242
Equipment	158,951	97,110	61,841	65,043
Construction in progress	533	—	533	4,425
	<u>\$338,371</u>	<u>\$160,447</u>	<u>\$177,924</u>	<u>\$184,375</u>

5. Loans and Notes Payable

Loans and notes payable consist of:

	August 31	
	1976	1975
Bank loans	\$ 44,556	\$ 91,605
Commercial notes	53,596	98,630
	<u>\$ 98,152</u>	<u>\$190,235</u>
Average annual borrowings	\$130,263	\$200,000
Average annual interest rate	9.3%	10.5%
Maximum amount outstanding at any month-end	\$148,000	\$232,000

At August 31, 1976 the average interest rate on short-term borrowings was 9.8% (United States—6.9%, Canada—9.5%, and other countries—10.3%). Through its subsidiaries the Company has unsecured lines of credit

totalling \$81,000 in the United States and Canada, and \$63,000 in other countries with interest at prime or most favourable local rates. At August 31, 1976 the unused portion of these lines was \$99,000. In addition, the Company has available an unused bank line of credit of \$53,000 to support its commercial note borrowings.

The Company has long-term agreements with third parties to provide loans totalling approximately \$30,000 to its operating subsidiaries, principally in the United Kingdom, in exchange for loans or deposits made by the Company elsewhere. These amounts are considered to be intercompany in nature and, accordingly, are offset in consolidation.

6. Long-Term Indebtedness

On September 25, 1975 the Company placed privately with institutions unsecured debentures of Canadian \$20,000 bearing interest at 9 $\frac{7}{8}$ % per annum, and

United States \$30,000 bearing interest at 9 $\frac{1}{2}$ % per annum. Both series of debentures mature on December 15, 1980.

7. Stock Option Plan

The present stock option plan approved by the shareholders in December 1972 provides for the granting to officers and key employees of options to purchase an aggregate of 250,000 common shares at 100% of the quoted market price of the shares on the date of grant. The options must be granted within ten years from October 17, 1972 and are generally exercisable at the end of each of the first four years from the granting date at the rate of 25% per year. Options granted must be exercised within ten years by Canadian employees and within five years by United States employees. Shares required to fulfill the options granted have been purchased by trustees on the open market in Canada and the United States.

For the two years ended August 31, 1976 no options were granted or exercised and options lapsed for 5,160 shares in 1976 and 8,180 shares in 1975.

Options outstanding at August 31, 1976 were as follows:

Date of grant	Option price per share	Officers and employee directors	Total
April 1972	\$43.69*	5,700	12,450
April 1972	\$43.50	500	3,140
January 1973	\$52.75	—	5,000
February 1973	\$51.94*	21,500	31,500
February 1973	\$52.13	500	22,500
December 1973	\$50.75	5,000	5,000
		<u>33,200</u>	<u>79,590</u>

*Canadian currency

The cost of shares acquired by trustees for the options granted and the cost of those held by a subsidiary have been deducted from Shareholders' Equity in the consolidated balance sheet.

8. Common Shares

Authorized capital of the Company consists of 42,000,000 Class A shares and 21,000,000 Class B shares. The shares are inter-convertible on a share-for-share basis and the rights of each class are identical. Dividends may be declared on the Class B shares out of tax-paid undistributed surplus or 1971 capital surplus on hand. These dividends are the same as on Class A shares less 15% tax paid by the Company under the provisions of the Income Tax Act (Canada) and may have tax advantages for certain Canadian shareholders.

Changes in the share capital of the Company for the two years ended August 31, 1976 were as follows:

	Class A	Class B
Shares issued and outstanding at August 31, 1974	16,495,766	880,330
Conversions (net)	(76,218)	76,218
Shares issued and outstanding at August 31, 1975	16,419,548	956,548
Conversions (net)	(331,399)	331,399
Shares issued and outstanding at August 31, 1976	<u>16,088,149</u>	<u>1,287,947</u>

9. Remuneration of Directors and Officers

Remuneration paid by the Company or its subsidiaries to its directors and officers is set out below. Of the twelve directors, four are officers of the Company;

there are five officers of the Company who are not directors.

Paid by	1976	1975
Hiram Walker-Gooderham & Worts Limited		
As directors	\$ 69	\$ 68
Corby Distilleries Limited		
As directors of Corby	12	11
Other subsidiaries (none of which are incorporated under the Canada Corporations Act)		
As directors	50	50
As officers	793	782
As an officer of a subsidiary company	—	110
	<u>\$924</u>	<u>\$1,021</u>

Employment agreements with three directors who are also officers of the Company, provide that, subject to certain restrictions, each of the three directors will receive \$25 annually beginning with his sixty-fifth

birthday throughout his life, or for ten years, whichever is longer. The cost of annuities purchased to meet these obligations was \$66 (1975—\$67).

10. Pensions

Pension expense was \$8,175 in 1976 and \$6,746 in 1975. Recent valuations of the Company's plans by

independent actuaries indicated aggregate unamortized prior service costs of approximately \$14,000.

11. Supplementary Information

	August 31	
	1976	1975
Allowance for doubtful accounts deducted from accounts receivable in the consolidated balance sheet	\$ 4,716	\$ 4,809
Estimated excise taxes and import duties included in cost of products sold	331,000	347,000

Auditors' Report

To the Shareholders of
Hiram Walker-Gooderham & Worts Limited:

We have examined the consolidated balance sheets of Hiram Walker-Gooderham & Worts Limited and its subsidiaries as at August 31, 1976 and 1975 and the consolidated statements of income and retained earnings and of changes in financial position for the years then ended. Our examinations were made in conformity with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1976 and 1975 and the results of their operations and the changes in financial position for the years then ended, in accordance with generally accepted accounting principles consistently applied.

Toronto, October 13, 1976

Price Waterhouse & Co.
Chartered Accountants

Five Year Review



Fiscal years ended August 31
(Expressed in thousands of United States
dollars, except per share amounts)

Consolidated Summary of Operations

	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>	<u>1972</u>
Sales	\$874,955	\$864,105	\$889,672	\$839,270	\$805,106
Cost of products sold	569,055	567,192	576,868	552,351	551,882
Selling and general expenses	166,255	166,575	161,177	145,302	128,880
Interest on long-term indebtedness	4,508	—	—	—	—
Other interest	12,015	21,117	15,204	7,511	7,924
Provision for income taxes	57,591	48,640	61,464	57,624	48,072
Foreign currency adjustments	651	3,169	(1,735)	3,824	1,131
Income before extraordinary item	55,283	50,647	66,243	63,404	56,324
Extraordinary foreign currency adjustments	—	—	—	—	2,231
Net income	55,283	50,647	66,243	63,404	54,093
Average common shares outstanding (thousands)*	17,233	17,234	17,241	17,263	17,264
Earnings per share:					
Before extraordinary item	\$3.21	\$2.94	\$3.84	\$3.67	\$3.26
After extraordinary item	\$3.21	\$2.94	\$3.84	\$3.67	\$3.13
Dividends paid	25,953	28,278	28,954	26,030	25,183
Dividends paid per share:**					
Class A**	\$1.50	\$1.65	\$1.65	\$1.50	\$1.45
Class B (less 15% tax)**	\$1.27½	\$1.40¼	\$1.40¼	—	—

Other Financial Data

Inventories	\$496,587	\$519,896	\$487,337	\$383,783	\$343,981
Working capital	518,644	425,194	386,608	348,395	305,880
Property, plant and equipment, net	177,924	184,375	178,454	173,974	177,194
Total assets	912,388	913,166	863,465	718,152	666,751
Shareholders' equity	576,165	546,835	524,869	488,281	452,274
Shareholders' equity per share	\$33.43	\$31.73	\$30.45	\$28.31	\$26.19
Return on shareholders' equity	9.6%	9.3%	12.6%	13.0%	12.0%
Net income as a percent of sales	6.3%	5.9%	7.4%	7.6%	6.7%
Estimated federal excise taxes included in sales	331,000	347,000	382,000	379,000	388,100

* Excludes common shares held by Trustees and subsidiary company.

** Canadian currency.

Management's Discussion and Analysis of Consolidated Summary of Operations

1976 Compared to 1975

Comparison of individual items in the two years is affected by the exclusion from consolidation of the Argentine subsidiary's income statement as of February 29, 1976 (although this did not have a material effect on net income) and generally lower foreign exchange translation rates, particularly for the pound sterling. Dollar sales increased 1.3% as a result of higher unit sales and selected price increases being partially offset by a higher proportion of sales which were exclusive of excise taxes. Cost of products sold increased 0.3% as inflationary cost increases were offset in part by lower excise taxes due to selected proof reductions and a higher proportion of tax-excluded sales.

Increases in selling and general expenses were more than offset as a result of cost reduction measures undertaken in the United States, lower translation rates for foreign currency and the exclusion of the expenses of the Argentine subsidiary for six months. Interest on long-term debt resulted from the \$50 million debenture issue early in the fiscal year which was used to reduce short-term debt. Accordingly, the decrease in other interest of 43.1% was consistent with the lower levels of borrowing as well as generally reduced interest rates. The effective income tax rate increased from 46.7% to 50.0% due to the non-deductibility of goodwill write-off and translation related factors. After foreign currency adjustments (discussed in the Financial Review) and deductions for minority interest, net income increased by 9.2%.

1975 Compared to 1974

Dollar sales decreased 2.9% due to a decline in sales quantities which was mitigated somewhat by an increase in selling prices. The cost of products sold decrease of 1.6% was the net effect of the sales volume decline and a continued upward pressure on product costs. Selling and general expenses increased 3.3%, mainly because of inflationary effects on foreign operations which were partially offset by reduced expenses resulting from more stringent cost control measures in North America. Interest expense increased 38.9%, primarily due to a higher average level of borrowings. The effective rate of provision for income taxes declined from 48.1% to 46.7% consistent with a larger percentage of income being earned in jurisdictions with lower tax rates in 1975 and also the presence of a special surtax in France in 1974. After foreign exchange adjustments (discussed in the Financial Review) and amounts related to minority interests, net income declined 23.5%.

Business of the Company

Hiram Walker-Gooderham & Worts Limited is a holding company incorporated in Canada and having its executive offices in Walkerville, Ontario. Through its various subsidiaries it is primarily engaged in the manufacture and sale of only one class of product, distilled spirits. No other class of product contributes 10% or more to total sales. The following product groups, listed in order of importance, accounted for over 90% of the Company's sales in the fiscal year ended August 31, 1976: Canadian whiskies, Scotch whiskies, liqueurs and cognac, bourbon, American blended whiskies, and gin, rum and vodka.

Most of the products sold by the Company are manufactured by various subsidiaries in Canada, the United States, Scotland, France and the Argentine. In addition, the Company markets in both Canada and the United States brands produced by non-affiliated companies located principally in Europe. In fiscal 1976, 58% of the Company's products were sold in the United States, 18% in Canada and the remaining 24% in Europe and elsewhere. Products of the Argentine company are sold principally in that country.

The Company's principal operating subsidiaries are as follows:

- Hiram Walker & Sons Limited
- Corby Distilleries Limited
- Hiram Walker & Sons (Scotland) Limited*
- Hiram Walker & Sons, Inc.
- Hiram Walker Incorporated
- W. A. Taylor & Company
- Maidstone Wine & Spirits, Inc.
- Courvoisier Limited*

*Fiscal year-end of July 31 to allow timely reporting for consolidating purposes.

Quarterly Data

	Year ended August 31	
	1976	1975
Dividends Paid		
First Quarter	\$.35	\$.35
First Quarter Extra	.10	.25
Second Quarter	.35	.35
Third Quarter	.35	.35
Fourth Quarter	.35	.35
Year	<u>\$1.50</u>	<u>\$1.65</u>
Toronto Stock Exchange range of market prices		
First Quarter	\$31 ⁷ / ₈ -26 ¹ / ₄	\$39 -34 ³ / ₈
Second Quarter	33 ³ / ₈ -27 ⁷ / ₈	43 ⁵ / ₈ -34 ⁵ / ₈
Third Quarter	33 ⁵ / ₈ -29 ³ / ₈	43 ³ / ₄ -30 ⁵ / ₈
Fourth Quarter	32 ³ / ₈ -28 ³ / ₄	35 -30 ¹ / ₄
Year	<u>\$33⁵/₈-26¹/₄</u>	<u>\$43³/₄-30¹/₄</u>

Note: All of above data is for Class A common shares. Dividends for Class B shares were identical to Class A dividends less special 15% Canadian tax. Class B shares trade infrequently on the stock exchanges but market prices were similar to those for the Class A shares.

Company's Record/1934-1976

FISCAL YEAR ENDED AUG. 31	SALES	NET INCOME		DIVIDENDS			RETAINED EARNINGS AT END OF YEAR
		AMOUNT	PER SHARE*	PREFERENCE AMOUNT	COMMON AMOUNT	COMMON PER SHARE* (CANADIAN CURRENCY)	
1934	\$ 21,071,349	\$ 3,366,267	\$.19	\$461,131	\$ —	\$ —	\$ 5,594,170
1935	45,353,470	3,165,650	.17	460,818	—	—	8,244,484
1936	54,729,133	4,796,120	.28	460,818	990,000	.07	10,580,959
1937	63,969,514	6,463,633	.35	460,818	1,443,433	.09	15,140,340
1938	67,201,413	6,284,968	.34	460,818	2,896,016	.17	8,576,950
1939	68,325,810	5,295,979	.28	534,092	2,896,016	.17	10,687,311
1940	78,678,677	6,065,664	.32	560,818	2,896,016	.17	13,296,141
1941	102,156,227	6,921,970	.37	560,818	2,896,016	.17	16,761,277
1942	150,492,421	7,123,579	.38	560,818	2,893,549	.17	19,994,448
1943	142,017,948	9,245,143	.50	560,818	2,886,148	.17	25,792,625
1944	167,051,135	7,637,364	.41	560,818	2,886,148	.17	29,813,088
1945	254,618,161	9,411,300	.51	560,818	2,886,148	.17	35,777,422
1946	266,845,903	15,784,699	.88	532,777	2,886,148	.17	48,143,196
1947	294,577,355	18,879,570	1.09	—	3,463,377	.20	63,559,389
1948	310,252,924	24,870,572	1.44	—	5,411,527	.32	83,018,434
1949	294,112,700	23,643,669	1.37	—	5,772,296	.34	100,889,807
1950	343,122,732	27,925,874	1.62	—	6,926,756	.40	121,888,925
1951	328,284,523	20,872,190	1.21	—	11,544,592	.67	131,216,523
1952	306,998,430	15,674,160	.91	—	11,477,633	.67	133,023,990
1953	337,304,847	19,093,424	1.11	—	8,848,930	.50	143,268,484
1954	339,285,815	20,252,490	1.17	—	11,093,631	.63	152,427,343
1955	341,273,232	19,327,468	1.12	—	11,821,662	.67	159,933,149
1956	370,927,502	21,079,312	1.22	—	11,636,949	.67	169,375,512
1957	396,182,157	22,478,161	1.31	—	12,031,458	.67	179,822,215
1958	384,028,204	21,845,494	1.27	—	14,506,584	.82	187,161,125
1959	412,121,674	23,694,387	1.38	—	15,597,593	.88	195,257,919
1960	440,179,873	25,050,258	1.46	—	15,685,430	.88	204,649,946
1961	449,889,391	26,362,652	1.53	—	16,031,356	.93	214,981,242
1962	469,287,365	27,705,832	1.61	—	16,347,124	1.00	226,339,950
1963	478,788,327	29,643,565	1.73	—	15,945,767	1.00	240,037,748
1964	498,174,425	32,173,389	1.87	—	17,506,013	1.10	248,352,856
1965	529,614,946	34,568,348	2.01	—	19,152,431	1.20	263,768,773
1966	565,317,357	38,021,516	2.21	—	19,193,833	1.20	282,596,456
1967	590,349,891	40,799,775	2.37	—	20,707,712	1.30	302,688,519
1968	634,299,454	44,266,500	2.57	—	20,721,868	1.30	318,167,327
1969	690,419,103	47,928,264	2.78	—	23,234,824	1.45	351,685,136
1970	715,379,387	48,693,000	2.82	—	23,492,327	1.45	376,885,809
1971	713,605,842	48,433,716†	2.81†	—	24,761,650	1.45	400,557,875
1972	805,105,806	54,093,344†‡	3.13†‡	—	25,183,471	1.45	436,465,624
1973	839,269,809	63,404,605	3.67	—	26,030,265	1.50	473,839,964
1974	889,671,867	66,243,865	3.84	—	28,954,441	1.65	511,129,388
1975	864,105,039	50,647,368	2.94	—	28,277,892	1.65	533,498,864
1976	874,954,668	55,283,135	3.21	—	25,952,952	1.50	562,829,047

*Adjusted for stock splits of four for one in 1947, three for one in 1958 and two for one in 1964. Beginning in 1974 per share amounts are for Class A shares, and dividends on Class B shares are the same as for Class A, less special 15% tax.

†After deducting extraordinary foreign exchange adjustments of \$2,616,505 or \$0.15 per share in 1971 and \$2,230,381 or \$0.13 per share in 1972.

‡Restated to include all subsidiaries and the Company's share of the earnings, or losses, of 50%-owned companies.

Principal Brands Marketed



CANADA

CANADIAN WHISKIES

Canadian Club • Imperial • Hiram Walker's Gold Crest • Gooderham's Bonded Stock • Hiram Walker's Special Old • Barclay's Gold Label
Gooderham's Rich & Rare • Barclay's Royal Canadian

IMPORTED SCOTCH WHISKIES

Ballantine's • Lauder's

LONDON DRY GINS

Domestic: Hiram Walker's Crystal
Imported: Ballantine's

VODKAS

Domestic: Sköf • Hiram Walker's Crystal
Imported: Moskovskaya

UNITED STATES

IMPORTED CANADIAN WHISKIES

Canadian Club • Royal Canadian • Hiram Walker's Special Canadian • Gooderham's Rich & Rare

IMPORTED SCOTCH WHISKIES

Ballantine's • Ambassador Deluxe • Old Smuggler
Lauder's • Grand Macnish

STRAIGHT BOURBON WHISKIES

Walker's DeLuxe • Ten High • Barclay's

AMERICAN BLENDED WHISKIES

Imperial • Corby's Reserve • William Penn

TEQUILAS

Arandas • Two Fingers

BRANDY

Hiram Walker's

BRANDY

Barclay's Rare Old

RUMS

Maraca

LIQUEURS

Hiram Walker's

IMPORTED LIQUEURS

Drambuie • Kahlúa • Peter Heering
Cointreau • Sciarada

COGNACS

Courvoisier • Salignac

LONDON DRY GINS

Hiram Walker's Crystal • Booth's High & Dry • Barclay's

VODKA

Hiram Walker's Crystal

CORDIALS AND FRUIT FLAVORED BRANDIES

Hiram Walker's

COGNACS

Courvoisier • Salignac

IMPORTED LIQUEURS

Drambuie • Peter Heering • Tia Maria
Kahlúa • Sciarada

IMPORTED FINE WINES

Frederick Wildman & Sons, Limited • Sandeman



