ANNUAL REPORT - 1978

Hiram Walker-Gooderham & Worts Limited

Hiram Walker-Gooderham & Worts Limited

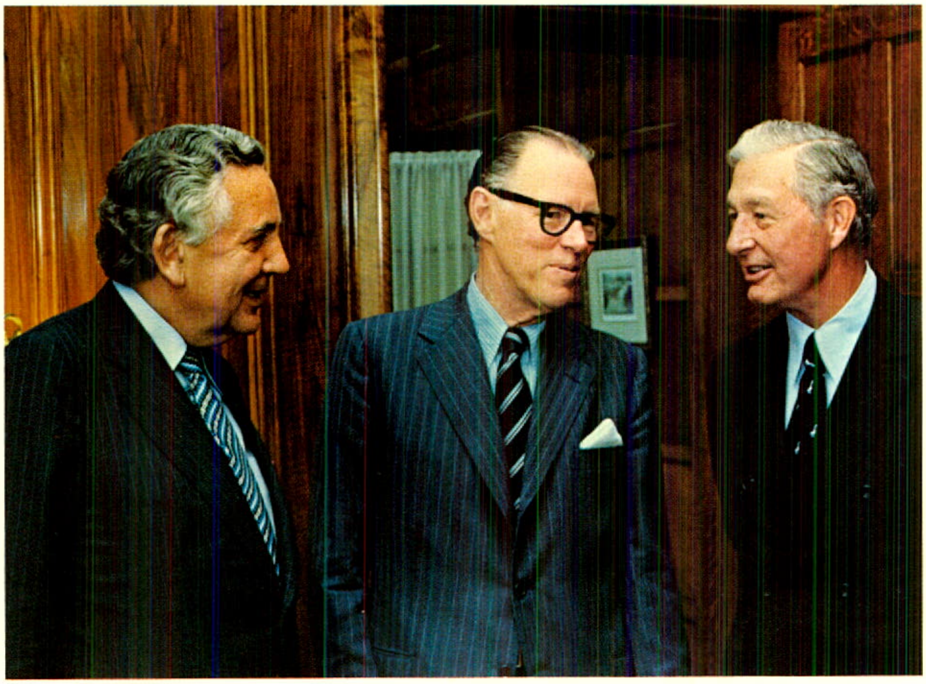
Walkerville, Ontario, Canada, incorporated December 31, 1926, under the laws of Canada

Financial Highlights

United States currency, except as noted

	August 31	
	1978	1977
	(Thousands, except per share amounts)	
For the year:		
Sales	**$1,014,390**	$875,133
Net income	**73,849**	59,855
At the year-end:		
Shareholders' equity	**$ 657,500**	$610,000
Inventories	**551,040**	509,077
Land, buildings and equipment, net	**174,856**	176,780
Working capital	**573,285**	560,833
Total assets	**1,048,014**	959,154
Per share amounts:		
Net income	**$4.29**	$3.47
Shareholders' equity	**$38.22**	$35.42
Dividends per share (Canadian currency)		
Class A	**$1.65**	$1.50
Class B	**$1.65**	$1.32¾
Ratios:		
Return on average shareholders' equity	**11.7%**	10.1%
Net income to sales	**7.3%**	6.8%

Board of Directors



(left to right)

Allen T. Lambert
Director and former Chairman of The Toronto-Dominion Bank

H. Clifford Hatch
President of the Company

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

Thomas Snelham
Retired, formerly Senior Vice President of the Company

Charles T. Fisher III
President of National Bank of Detroit

Paul J. G. Kidd, Q.C.
Retired, formerly Senior Vice President of the Company

Robert J. Tebbs
Senior Vice President of the Company

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

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

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

Edmond G. Odette
President of Eastern Construction Company Limited

A. E. Downing
Senior Vice President of the Company

Corporate Data

Officers

H. Clifford Hatch *President*	A. E. Downing *Senior Vice President*	Robert J. Tebbs *Senior Vice President*
J. D. N. Ford *Vice President*	A. R. McCallum *Vice President and Treasurer*	R. M. Kippen *Secretary*
Robert E. Taylor *Comptroller*	Edgar T. Slater *Assistant Treasurer*	Andrew Szabo *Assistant Secretary*

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. on December 8, 1978. 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
Morgan Guaranty Trust Company of New York, New York

Registrars

Canada Permanent Trust Company, Toronto, Montreal, Calgary and Vancouver
Morgan Guaranty Trust Company 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, Walkerville-Box 2518, Windsor, Ontario, Canada N8Y 4S5.

Report of Directors

To the Shareholders:

Your directors are pleased to present this report on the results of the Company's operations for the 1978 fiscal year together with the accompanying financial statements. As in prior years, the consolidated financial statements and other dollar amounts are expressed in United States currency unless otherwise noted.

Sales and Earnings

In the past fiscal year your Company reached the billion dollar sales level for the first time by achieving sales of $1,014 million, a 15.9% increase over last year's sales of $875 million. Net earnings improved to $73.8 million ($4.29 per share), a gain of 23.4% from $59.9 million a year ago ($3.47 per share).

In general, higher sales volumes of our more profitable products coupled with price increases in many markets were the major factors in the improvement to sales and earnings. In addition, it is believed that there has been some build-up in customers' inventories of certain products. Higher costs and operating expenses and adverse foreign currency adjustments served to moderate these gains.

Further discussion of the operating results may be found in the following pages of this annual report.

Market Comments

In the United States, consumption of distilled spirits increased moderately over the prior year with premium brands in most categories enjoying increased popularity. White goods, cordials and specialties again outpaced the market while domestic American straight and blended whiskies remained unchanged after declining for a number of years. Imported Canadian and premium Scotch whiskies also registered advances in line with general market trends. The market in Canada generally mirrored the U.S. trend toward white goods and liqueurs, while the total market consumption of all distilled spirits remained relatively flat. In international markets, Scotch whisky sales continued to improve. For a discussion on how your Company fared in these markets, please refer to the Comments on Operations section of this report.

Market conditions in 1979 are generally expected to be little different from 1978. Our plan is to emphasize our premium brands and focus our marketing investments in those segments where growth opportunities exist.

Dividends (Canadian currency)

In the past fiscal year quarterly dividends of 35 cents per share plus an extra dividend of 25 cents per share were paid for a total of $1.65 per share. As you know, in September of 1978 your directors increased the regular quarterly dividend to 40 cents per share and also declared an extra dividend of 30 cents per share.

Investments

During the year your Company invested $45 million in acquiring approximately a 12% interest in the Bacardi group of companies. Bacardi is international in scope and is a significant factor in the white goods segment of the market where we do not have strong representation. Subsequent to the year-end, our partly-owned subsidiary, Corby Distilleries Limited, made an offer to acquire Meagher's Distillery Limited for $13.5 million. Meagher's is a Canadian company particularly strong in domestic liqueurs, imported wines and spirits. Your Company continues to evaluate investment opportunities both within and outside of the distilling industry.

Directors and Senior Officers

The year 1978 marked the retirement of two senior vice presidents, Paul J. G. Kidd, Q.C. and Thomas Snelham. These two gentlemen distinguished themselves during their service of 41 and 31 years, respectively, and played an integral part in the growth of the Company over those years.

F. Campbell Cope, Q.C., having reached the retirement age for Board members, retired on August 31, 1978. Mr. Cope joined the Board in 1969 and has served the Company and its shareholders well through his dutiful attention to their affairs. We are grateful for the insights and knowledge he provided and his experience and wise counsel will be missed.

Edmond G. Odette was appointed by the Board of Directors at their September 8, 1978 meeting to fill the vacancy. Mr. Odette is president of Eastern Construction Company Limited and serves on the board of directors of a number of public companies.

Appreciation

Your directors wish to express their appreciation to the many customers, shareholders and employees who played such an important part in making this the most successful year in the Company's history.

By Order of the Board of Directors,

H. Clifford Hatch

President

Walkerville, Ontario
October 18, 1978

R. W. Stevens, President, Hiram Walker Incorporated

J. F. Murphy, President, W. A. Taylor & Company

T. H. Abker, President, Maidstone Wine & Spirits Inc.

Comments on Operations

United States Market

Hiram Walker Incorporated

Hiram Walker Incorporated, the company responsible for the marketing of brands manufactured at our United States and Canadian production facilities, enjoyed its best sales volume since 1975. Canadian Club, which was promoted using an intensified "Hide-A-Case" adventure campaign featuring the selection of North American sites for the location of hidden cases, experienced a return to satisfactory growth in sales.

Sales of Hiram Walker cordials reached record levels. An important factor in this growth was the development and introduction of two new cordial flavours—Amaretto and Strawberry. Our plan is to add new flavours to our line each year. Two new introductions are scheduled for the coming year.

W. A. Taylor & Company

This company, which markets imported specialties, completed a successful year. Sales of cordials and specialties, particularly imported liqueurs, continued to show a growth rate greater than distilled spirits as a whole. W. A. Taylor took full advantage of this trend with Drambuie, Tia Maria, Courvoisier Cognac and other prestigious specialties.

Old Smuggler Scotch (bottled in the United States) was re-positioned in a lower price category early in the year. Consumer response has been encouraging.

Maidstone Wine & Spirits Inc.

Maidstone Wine & Spirits Inc. is responsible for marketing a line of imported products consisting of Kahlúa Liqueur, Salignac Cognac, Grand Macnish Scotch and Arandas Tequila.

Maidstone's key brand, Kahlúa, is imported from Mexico and has enjoyed substantial sales growth in virtually all markets for several years. While major acceptance has been from the 25 - 44 year age group, generally considered the trendsetters in our industry, Kahlúa has enjoyed tremendous support from all consumers.

International Market

Courvoisier Limited

The largest market for cognac, the United Kingdom, improved slightly in the past year and Courvoisier's share was maintained. The United States, another very important market, continued to show good progress in spite of heavy competition and high prices resulting from a very high duty structure. Good sales growth was realized in France and the Far East, but in Canada, where the Courvoisier brand is well established, there was a small decline. World-wide sales of cognac are now at an all-time high.

Hiram Walker (International) S.A.

Hiram Walker (International) S.A. is responsible for marketing the brands of Hiram Walker-Gooderham & Worts Limited in over 200 countries throughout the world. Despite the problems encountered during the past year, such as world-wide currency fluctuations, competitive practices, and import duties and quotas, Hiram Walker (International) achieved another record year.

Traditionally, the largest sales volume has been in the Scotch whisky category where our market share has shown steady increases. This is especially true for Ballantine's Scotch which is among the leaders in almost every European country and in other areas of the world as well. Similarly, Canadian Club has maintained its solid acceptance in the Canadian whisky category in international markets.

Canadian Market

Hiram Walker & Sons Limited

In Canada we experienced a small decline in the total sales volume of domestically-produced products, particularly in our lower- and medium-priced whiskies.

A small increase was again recorded for Canadian Club which continues as the leader in its category. Imported brands, such as Ballantine's Scotch, Kahlúa, Drambuie and Cointreau, have again recorded satisfactory increases. The domestic liqueur line was enlarged with the addition of Swiss Chocolate Almond which was well received in the market.

F. Megard, General Sales Manager, Courvoisier Limited

L. A. Bardsley, President, Hiram Walker (International) S.A.

C. J. New, Executive Vice President, Hiram Walker & Sons Limited

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 under Investments below.

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 translating the accounts the following principles have been applied:

Current assets, except maturing inventories, and current liabilities at exchange rates on August 31; maturing inventories and all other assets and liabilities at historical exchange rates.

Income and expenses at average exchange rates for the year, except for matured whiskies and cognac entering into cost of products sold and depreciation which are at historical rates.

The foreign exchange translation gains and losses are included in 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. Effective March 1, 1976 the Company ceased to consolidate the operations of the Argentine subsidiary because of unsettled economic conditions in that country and is now carrying this investment at $13 million, its equity in the subsidiary's net assets at that date; income is recognized only to the extent of dividends received.

Investments in 50%-owned companies are carried at the Company's equity in their net assets and the Company's share of their net income, or loss, is included in income.

Land, buildings and equipment

Land, buildings and equipment are carried at cost. The Company generally uses 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

Other assets consist principally of purchased intangibles which are 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 trusteed 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 reinvested 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.

Consolidated Statement of Income and Retained Earnings

Expressed in thousands of United States dollars

	Year ended August 31	
	1978	1977
Sales	**$1,014,390**	$875,133
Dividends and interest on investments	**7,753**	8,364
Other income	**6,177**	5,914
	1,028,320	889,411
Cost and Expenses:		
Cost of products sold	**650,118**	565,202
Selling and general expenses	**196,431**	175,776
Interest on long-term indebtedness	**4,624**	4,773
Other interest	**8,111**	9,272
Depreciation	**15,554**	14,359
	874,838	769,382
Income before income taxes, foreign currency adjustments and minority interest	**153,482**	120,029
Provision for income taxes:		
Current	**63,476**	57,524
Deferred	**13,394**	5,062
	76,870	62,586
Income before foreign currency adjustments and minority interest	**76,612**	57,443
Foreign currency translation gain (loss)	**(1,055)**	4,134
Minority interest in earnings of subsidiaries	**(1,708)**	(1,722)
Net Income	**73,849**	59,855
Retained Earnings:		
At beginning of year	**596,917**	562,829
	670,766	622,684
Dividends paid	**25,758**	25,767
At end of year	**$ 645,008**	$596,917
Earnings and Dividends per share		
Net income	**$4.29**	$3.47
Dividends paid (Canadian currency):		
Class A	**$1.65**	$1.50
Class B	**$1.65**	$1.32¾

The Summary of Significant Accounting Policies and Notes to Financial Statements are part of these statements.

Consolidated Balance Sheet

Expressed in thousands of United States dollars

Assets

	August 31 1978	1977
Current Assets:		
Cash	**$ 16,830**	$ 15,738
Short-term investments, at cost (approximates market value)	**49,159**	86,470
Accounts receivable	**156,711**	127,688
Inventories	**551,040**	509,077
Prepaid expenses	**18,962**	14,183
Total current assets	**792,702**	753,156
Investments	**77,629**	26,146
Land, Buildings and Equipment	**361,583**	350,397
Less depreciation	**186,727**	173,617
	174,856	176,780
Other Assets	**2,827**	3,072
	$1,048,014	$959,154

The Summary of Significant Accounting Policies and Notes to Financial Statements are part of these statements.

Hiram Walker-Gooderham & Worts Limited

AND SUBSIDIARIES

Expressed in thousands of United States dollars

Liabilities and Shareholders' Equity

	August 31 1978	August 31 1977
Current Liabilities:		
Loans and notes payable	**$ 83,640**	$ 86,839
Federal excise taxes	**13,829**	13,305
Income and other taxes	**52,095**	40,444
Accounts payable and accrued liabilities	**69,853**	51,735
Total current liabilities	**219,417**	192,323
Long-Term Indebtedness	**49,524**	49,524
Deferred Income Taxes	**101,529**	88,135
Minority Interest	**20,044**	19,172
Shareholders' Equity:		
Common shares, without par value	**17,330**	17,330
Retained earnings	**645,008**	596,917
	662,338	614,247
Deduct: Common shares held by Trustees and subsidiary company, at cost (1978—174,453 shares; 1977—153,313 shares)	**4,838**	4,247
	657,500	610,000
	$1,048,014	$959,154

Approved by the Board

H. Clifford Hatch, Director

A. E. Downing, Director

Consolidated Statement of Changes in Financial Position

Expressed in thousands of United States dollars

	Year ended August 31	
	1978	1977
Financial Resources were provided by:		
Net income	**$ 73,849**	$ 59,855
Items not requiring outlay of working capital:		
Depreciation	**15,554**	14,359
Amortization of cost in excess of net assets of company acquired (reflected as reduction of other income)	**—**	1,050
Minority interest in earnings of subsidiaries	**1,708**	1,722
Deferred income taxes	**13,394**	5,062
Working capital provided from operations	**104,505**	82,048
Financial Resources were used for:		
Payment of dividends	**25,758**	25,767
Expenditures for land, buildings and equipment less disposals	**13,630**	13,215
Investment in Bacardi companies	**45,406**	—
Other investments	**6,077**	46
Other items	**1,182**	831
	92,053	39,859
Increase in Working Capital	**12,452**	42,189
Working Capital:		
At beginning of year	**560,833**	518,644
At end of year	**$573,285**	$560,833
Changes in Working Capital Components		
Increase (decrease) in principal current assets—		
Cash and short-term investments	**$ (36,219)**	$ 53,930
Accounts receivable	**29,023**	(17,239)
Inventories	**41,963**	12,490
(Increase) decrease in principal current liabilities—		
Loans and notes payable	**3,199**	11,313
Accounts payable and accrued liabilities	**(18,118)**	(9,987)
Income and other taxes	**(11,651)**	(6,769)
Other items	**4,255**	(1,549)
Increase in working capital	**$ 12,452**	$ 42,189

The Summary of Significant Accounting Policies and Notes to Financial Statements are part of these statements.

Notes to Financial Statements

1. Inventories

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

	August 31 1978	August 31 1977
	(Thousands of dollars)	
Raw materials and supplies	$ 41,177	$ 34,209
Maturing whiskies and cognac	428,451	418,438
Finished goods	81,412	56,430
	$551,040	$509,077

2. Land, Buildings and Equipment

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

	August 31, 1978			August 31, 1977
	Cost	Depreciation	Net	Net
		(Thousands of dollars)		
Land	$ 7,364	$ —	$ 7,364	$ 7,359
Buildings	177,425	71,679	105,746	107,779
Equipment	174,527	115,048	59,479	59,273
Construction in progress	2,267	—	2,267	2,369
	$361,583	$186,727	$174,856	$176,780

3. Loans and Notes Payable

Loans and notes payable consist of:

	August 31 1978	August 31 1977
	(Thousands of dollars)	
Bank loans	$ 49,049	$ 35,912
Commercial notes	34,591	50,927
	$ 83,640	$ 86,839
Average annual borrowings	$ 88,026	$106,285
Average annual interest rate	8.8%	8.7%
Maximum amount outstanding at any month-end	$ 92,000	$108,000

At August 31, 1978 the average interest rate on short-term borrowings was 9.6% (Canada and the United States—8.9%, other countries—10.5%). Through its subsidiaries the Company has unsecured lines of credit totalling $78 million in Canada and the United States and $97 million in other countries, with interest at prime or most favourable local rates. At August 31, 1978 the unused portion of these lines was $126 million. In addition, the Company has available a $65 million bank line of credit to support its commercial note borrowings.

The Company has a long-term agreement with a third party to provide a loan of $25 million to its operating subsidiary in the United Kingdom, in exchange for a loan made by the Company elsewhere. Such loans are considered to be intercompany in nature and, accordingly, are offset in consolidation.

4. Long-Term Indebtedness

Long-term indebtedness consists of unsecured debentures in Canadian currency of $20 million bearing interest at 9⅞% per annum, and in United States currency of $30 million bearing interest at 9½% per annum. Both series of debentures mature on December 15, 1980.

5. 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. 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 to Canadian employees must be exercised within ten years. Options granted to United States employees prior to May 21, 1976 must be exercised within five years and subsequent options before May 21, 1981, as provided by the Tax Reform Act of 1976.

Option information for the two years ended August 31, 1978 is shown below:

	Number of shares 1978	Number of shares 1977
Options granted	—	141,600
Options exercised	2,960	—
Options lapsed	41,800	5,640

Options outstanding at August 31, 1978 were as follows:

Date of grant	Option price per share	Officers and employee directors	Total
April 1972	$43.69*	5,200	11,950
February 1973	51.94*	21,000	30,000
January 1977	26.13	4,800	46,400
January 1977	26.50*	24,800	82,440
		55,800	170,790

*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.

6. 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 on the Class B shares are the same as on Class A shares and are currently paid out of the Company's 1971 capital surplus on hand as defined by the Income Tax Act (Canada). Prior to July 15, 1977 Class B dividends were reduced by a 15% tax paid by the Company. The right to distribute tax-deferred dividends on the Class B shares terminates at the end of calendar year 1978.

Changes in the share capital of the Company for the two years ended August 31, 1978 were as follows:

	Class A	Class B
Shares issued and outstanding at August 31, 1976	16,088,149	1,287,947
Conversions (net)	(108,514)	108,514
Shares issued and outstanding at August 31, 1977	15,979,635	1,396,461
Conversions (net)	138,159	(138,159)
Shares issued and outstanding at August 31, 1978	16,117,794	1,258,302

7. Remuneration of Directors and Officers

Remuneration paid by the Company or its subsidiaries to its twelve directors and nine officers is set out below. Three of the directors are also officers of the Company.

Paid by	1978	1977
	(Thousands of dollars)	
Hiram Walker-Gooderham & Worts Limited		
As directors	$ 72	$ 75
Corby Distilleries Limited		
As directors of Corby	11	12
Other subsidiaries (none of which are incorporated under the Canada Corporations Act)		
As directors	40	43
As officers	814	855
	$937	$985

In addition, supplemental retirement allowances aggregating $210,000 are being paid to two directors who retired as senior officers during the year. Of this amount, $122,500 was paid during the year with the balance payable next year.

Employment agreements with three directors, one of whom is an officer and two of whom retired as officers during the year, provide that, subject to certain restrictions, each of the three directors will receive $25,000 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 $33,000 (1977—$64,000).

8. Pensions

Pension expense was $11,663,000 in 1978 and $8,417,000 in 1977. Recent valuations of the Company's plans by independent actuaries indicated aggregate unamortized prior service costs of approximately $14 million after deducting a special payment of $1,642,000 made in 1978.

9. Geographical Information

Information for the year ended August 31, 1978 is shown below:

	Canada and United States	Other (principally Europe)	Eliminations	Consolidated
		(Thousands of dollars)		
Net sales				
Unaffiliated customers	$810,207	$204,183	$ —	$1,014,390
Intercompany between geographical areas	1,855	44,668	(46,523)	—
	$812,062	$248,851	$(46,523)	$1,014,390
Net income	$ 52,506	$ 22,490	$ (1,147)	$ 73,849
Identifiable assets	$612,293	$491,549	$(55,828)	$1,048,014

Intercompany transfers between geographical areas are at approximate market prices.

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, 1978 and 1977 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 accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at August 31, 1978 and 1977 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles consistently applied.

Price Waterhouse & Co.
Chartered Accountants

Toronto, October 11, 1978

Financial Review

Management's Discussion and Analysis of Consolidated Summary of Operations

1978 Compared to 1977

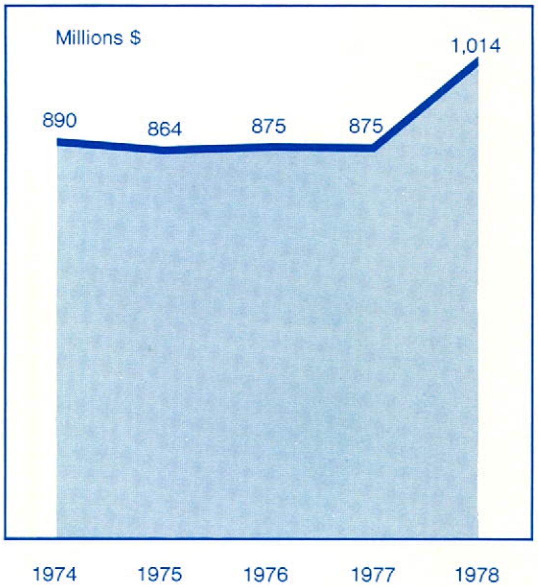
Dollar sales increased 15.9% for the year. This increase was attributable mainly to gains in volume of the Company's principal brands, Ballantine's Scotch, Canadian Club, Courvoisier Cognac, and its general line of imported liqueurs and domestic cordials. Volume increases were achieved in most countries, except Canada, under generally improved market conditions. In addition, it is believed that there has been some build-up in customers' inventories of certain products. Operating margins improved to 35.9% from 35.4%, reflecting a better sales mix and the effect of price increases implemented during the year for the main products. The strengthening of the pound sterling also had a favourable impact on margins. These factors were offset in part by generally higher product costs. Selling and operating expenses increased 11.8% due to the higher level of business, inflationary pressures and, to a lesser extent, the net effect of changes in foreign currency translation rates from the prior year. Interest expense declined primarily as a result of the reduced levels of borrowings. The decline in the effective income tax rate to 50.1% from 52.1% in 1977 was caused by translation related factors and the 3% inventory credit available in Canada this year. The currency translation losses for the year were due to the impact of a stronger French franc partially offset by the gain resulting from a weaker Canadian dollar. Net income improved by 23.4% as a result of these factors.

1977 Compared to 1976

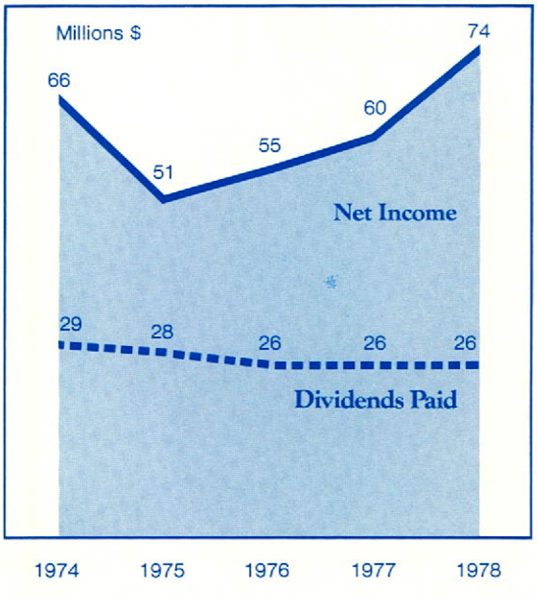
The decline in exchange rates relative to United States currency and the removal from consolidation of the Argentine subsidiary as of February 29, 1976 affects to some extent the comparability of individual income statement items in the two years.

Both dollar and unit sales were relatively unchanged from the prior year. The positive effect on sales dollars of the increased volume of premium priced products was negated by the higher quantities of products sold exclusive of excise taxes. Operating margins increased from 35.0% to 35.4%, primarily as a result of this change in sales mix. Increased operating costs, which were only partly offset by price increases in some markets, served to moderate the margin improvement. Selling and general expenses were up 5.7%, reflecting a general increase in the cost of doing business in all

Sales



Net Income



the countries in which the Company operates. Investment income increased and other interest expense declined mainly because more funds were available for short-term investments in 1977, particularly in the United States and Scotland, and borrowing levels were reduced elsewhere. Lower interest rates in most countries also contributed to the reduction in interest expense. A reduced charge for the amortization of goodwill was the major factor in the increase of other income in 1977. The effective income tax rate increased to 52.1% this year from 50.0% in 1976 due to translation related factors. After gains from foreign currency adjustments (primarily due to the changes in the value of the Canadian dollar in 1976 and 1977) and amounts related to minority interest, net income improved by 8.3%.

Working Capital

Approximately $105 million in funds was generated from operations in 1978 representing net income plus depreciation, deferred income tax increases and minority interest in earnings of subsidiaries. These funds, together with a reduction of about $37 million in short-term investments, were used to finance increased accounts receivable ($29 million) and inventories ($42 million), reflecting the higher level of business activity. These funds were also used to pay for the $45 million investment in the Bacardi group of companies, to make capital expenditures of $14 million, and to pay dividends of $26 million.

Shareholders' Equity

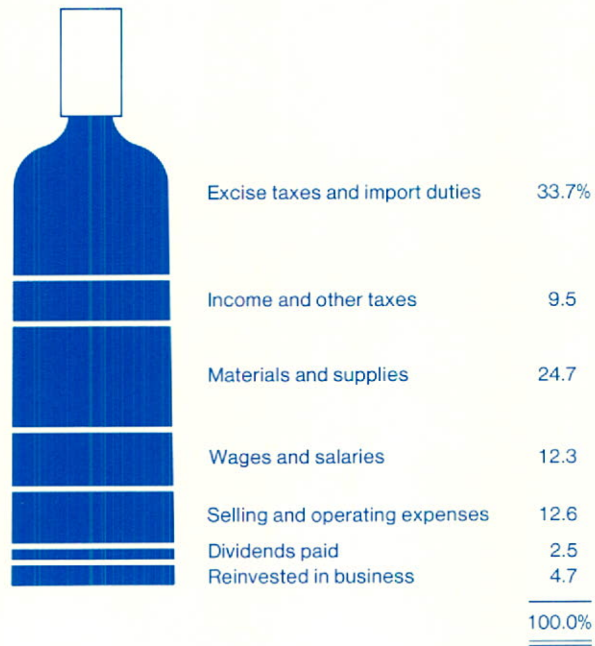
Shareholders' equity amounted to $658 million at August 31, 1978 or $38.22 per share, an increase of 7.9% from August 31, 1977 ($610 million or $35.42 per share). There were approximately 27,000 shareholders of the Company at the year-end, of which 86% were Canadian and the balance were residents of the United States and other countries.

Replacement Cost

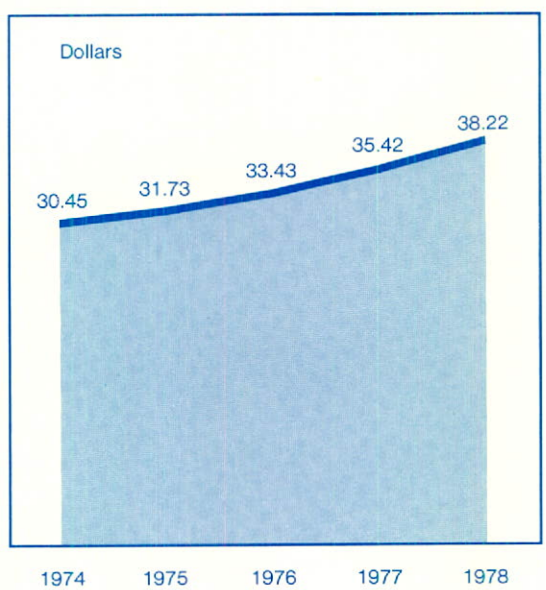
The Company's operations have been subject to varying degrees of inflation in Canada and in other countries in which it conducts its business. Replacement of buildings and equipment at current prices would require a substantially greater investment than was required at the time the assets were purchased and depreciation charges on such replacement values would be greater than reported. Inventories and cost of products sold would be similarly affected because of the long periods that whiskies and cognac must remain in storage before being bottled and sold. The Company has attempted over the years to adjust selling prices to maintain profit margins and, competitive conditions permitting, will continue to do so in the future.

Further details of the impact of inflation on replacement cost of inventories and buildings and equipment are included in the Company's Annual Report to the Securities and Exchange Commission on Form 10-K.

Distribution of 1978 Sales Dollar



Shareholders' Equity per Share



Quarterly Results, Dividends Per Share and Common Share Prices

(Unaudited)

	Quarter Ended			
	November 30	February 28	May 31	August 31
	(Thousands, except per share amounts)			
Year ended August 31, 1978				
Sales	$321,798	$212,556	$257,337	$222,699
Gross profit	102,266	85,645	85,987	90,374
Net income	25,844	13,026	16,086	18,893
Net income per share	$1.50	$0.76	$0.93	$1.10
Dividends per share * (1)	$0.60	$0.35	$0.35	$0.35
Share price ranges * (2)	$29¾ to $26¼	$31⅛ to $28½	$34 to $30⅝	$36⅜ to $31¼
Year ended August 31, 1977				
Sales	$283,878	$180,402	$216,221	$194,632
Gross profit	91,650	70,282	74,006	73,993
Net income	22,711	10,647	13,439	13,058
Net income per share	$1.32	$0.61	$0.78	$0.76
Dividends per share * (1)	$0.45	$0.35	$0.35	$0.35
Share price ranges * (2)	$30½ to $25	$29⅜ to $25	$29¼ to $24⅛	$27½ to $24⅛

* Canadian currency

(1) In 1978 dividends paid were identical on Class A and Class B shares, while in 1977 the dividends on Class B shares were less applicable taxes.

(2) Toronto Stock Exchange prices for Class A shares. Class B shares trade infrequently but market prices were similar to those for Class A shares.

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, 1978: Canadian whiskies, Scotch whiskies, liqueurs and cognac, American blended and bourbon 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 1978, 58% of the Company's products were sold in the United States, 15% in Canada and the remaining 27% in Europe and elsewhere. Products of the Argentine company are sold primarily 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.

Five Year Review

Fiscal years ended August 31 (Expressed in thousands of United States dollars, except per share amounts)	1978	1977	1976	1975	1974
Consolidated Summary of Operations					
Sales	**$1,014,390**	$875,133	$874,955	$864,105	$889,672
Cost of products sold	**650,118**	565,202	569,055	567,192	576,868
Selling and general expenses	**196,431**	175,776	166,255	166,575	161,177
Interest on long-term indebtedness	**4,624**	4,773	4,508	—	—
Other interest	**8,111**	9,272	12,015	21,117	15,204
Dividends and interest on investments	**7,753**	8,364	3,922	3,703	3,124
Other income	**6,177**	5,914	2,812	5,356	1,948
Provision for income taxes	**76,870**	62,586	57,591	48,640	61,464
Foreign currency gains (losses)	**(1,055)**	4,134	(651)	(3,169)	1,735
Net income	**73,849**	59,855	55,283	50,647	66,244
Average common shares outstanding (thousands)*	**17,209**	17,231	17,233	17,234	17,241
Earnings per share	**$4.29**	$3.47	$3.21	$2.94	$3.84
Dividends paid	**25,758**	25,767	25,953	28,278	28,954
Dividends paid per Class A share (Canadian currency)**	**1.65**	1.50	1.50	1.65	1.65
Other Financial Data					
Inventories	**$ 551,040**	$509,077	$496,587	$519,896	$487,337
Working capital	**573,285**	560,833	518,644	425,194	386,608
Land, buildings and equipment, net	**174,856**	176,780	177,924	184,375	178,454
Total assets	**1,048,014**	959,154	912,388	913,166	863,465
Shareholders' equity	**657,500**	610,000	576,165	546,835	524,869
Shareholders' equity per share	**38.22**	35.42	33.43	31.73	30.45
Return on average shareholders' equity	**11.7%**	10.1%	9.8%	9.5%	13.1%
Net income as a per cent of sales	**7.3%**	6.8%	6.3%	5.9%	7.4%
Estimated federal excise taxes and import duties included in cost of products sold	**342,000**	319,000	331,000	347,000	382,000

* Excludes common shares held by Trustees and subsidiary company.

** Similar dividends were paid on Class B shares less applicable taxes.

Company's Record/1934-1978

(Thousands, except per share amounts)

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	$ 3,366	$ .19	$461	$ —	$ —	$ 5,594
1935	45,353	3,166	.17	461	—	—	8,244
1936	54,729	4,796	.28	461	990	.07	10,581
1937	63,970	6,464	.35	461	1,443	.09	15,140
1938	67,201	6,285	.34	461	2,896	.17	8,577
1939	68,326	5,296	.28	534	2,896	.17	10,687
1940	78,679	6,066	.32	561	2,896	.17	13,296
1941	102,156	6,922	.37	561	2,896	.17	16,761
1942	150,492	7,124	.38	561	2,894	.17	19,994
1943	142,018	9,245	.50	561	2,886	.17	25,793
1944	167,051	7,637	.41	561	2,886	.17	29,813
1945	254,618	9,411	.51	561	2,886	.17	35,777
1946	266,846	15,785	.88	533	2,886	.17	48,143
1947	294,577	18,880	1.09	—	3,463	.20	63,559
1948	310,253	24,871	1.44	—	5,412	.32	83,018
1949	294,113	23,644	1.37	—	5,772	.34	100,890
1950	343,123	27,926	1.62	—	6,927	.40	121,889
1951	328,285	20,872	1.21	—	11,545	.67	131,217
1952	306,998	15,674	.91	—	11,478	.67	133,024
1953	337,305	19,093	1.11	—	8,849	.50	143,268
1954	339,286	20,252	1.17	—	11,094	.63	152,427
1955	341,273	19,327	1.12	—	11,822	.67	159,933
1956	370,928	21,079	1.22	—	11,637	.67	169,376
1957	396,182	22,478	1.31	—	12,031	.67	179,822
1958	384,028	21,845	1.27	—	14,507	.82	187,161
1959	412,122	23,694	1.38	—	15,598	.88	195,258
1960	440,180	25,050	1.46	—	15,685	.88	204,650
1961	449,889	26,363	1.53	—	16,031	.93	214,981
1962	469,287	27,706	1.61	—	16,347	1.00	226,340
1963	478,788	29,644	1.73	—	15,946	1.00	240,038
1964	498,174	32,173	1.87	—	17,506	1.10	248,353
1965	529,615	34,568	2.01	—	19,152	1.20	263,769
1966	565,317	38,022	2.21	—	19,194	1.20	282,596
1967	590,350	40,800	2.37	—	20,708	1.30	302,689
1968	634,299	44,267	2.57	—	20,722	1.30	318,167
1969	690,419	47,928	2.78	—	23,235	1.45	351,685
1970	715,379	48,693	2.82	—	23,492	1.45	376,886
1971	713,606	48,434†	2.81†	—	24,762	1.45	400,558
1972	805,106	54,093†‡	3.13†‡	—	25,183	1.45	436,466
1973	839,270	63,405	3.67	—	26,030	1.50	473,840
1974	889,672	66,244	3.84	—	28,954	1.65	511,129
1975	864,105	50,647	2.94	—	28,278	1.65	533,499
1976	874,955	55,283	3.21	—	25,953	1.50	562,829
1977	875,133	59,855	3.47	—	25,767	1.50	596,917
1978	1,014,390	73,849	4.29	—	25,758	1.65	645,008

* 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 applicable tax.

† After deducting extraordinary foreign exchange adjustments of $2,617 or $0.15 per share in 1971 and $2,230 or $0.13 per share in 1972.

‡ Commencing in 1972, includes all subsidiaries and the Company's share of the earnings, or losses, of 50%-owned companies.