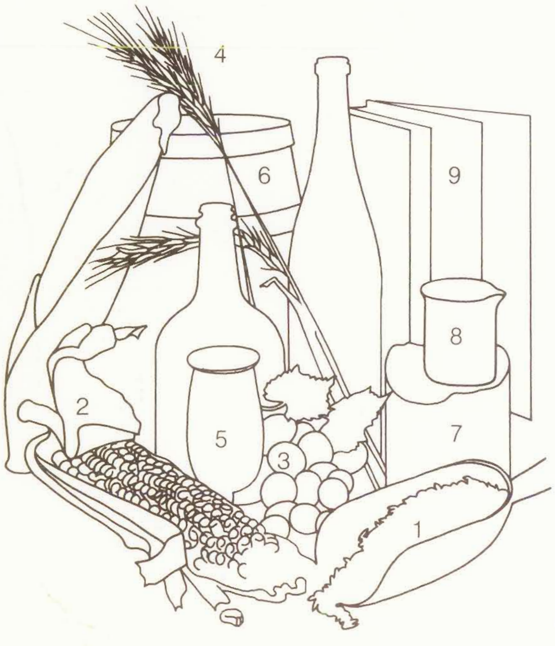
The Seagram Company Ltd. Annual Report 1975

The cover of this year's Annual Report shows some of the basic ingredients and tools used in Seagram's spirits and wine production and oil and gas operations.

1 Barley
2 Corn
3 Grapes
4 Rye
5 Spirits taster's glass
6 Barrel used for maturing spirits
7 Core sample taken in exploration for hydrocarbons
8 Crude oil
9 Seismic section used in locating likely prospects for hydrocarbons

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The Texas Pacific Oil Company has made significant progress since its acquisition by Seagram in 1963, developing important production and reserves and exploring both in North America and offshore. Toward future growth, it is exploring in Africa, Asia, the Middle East, and Europe. In 1975, oil and gas operations made their first significant contribution to revenues, 12.6 percent of the corporate total and 20.8 percent of operating income.

Sources of Revenue and Operating Income

In 1975, Seagram's sales of spirits and wine outpaced those of the industry as a whole. Seagram produces and markets, virtually worldwide, a complete line of whiskies, gins, vodkas, rums, brandies and other spirits. The depth and diversity of this product line has long been a significant factor in the Company's sales performance and was again in 1975. Since 1950, Seagram has also been a major marketer and producer of quality wines throughout the world. Some of the prestigious labels under Seagram's banner are: Barton & Guestier; Paul Masson; Christian Brothers; Julius Kayser & Co.; the French champagnes of G. H. Mumm & Cie, Perrier-Jouët and Heidsieck Monopole; Italian wines of Ricasoli and Bersano. Together, spirits and wine sales, exclusive of excise taxes, accounted for 87.4 percent of the Company's revenues in 1975, and the category contributed 79.2 percent of operating income.

Report of the Directors to the Shareholders

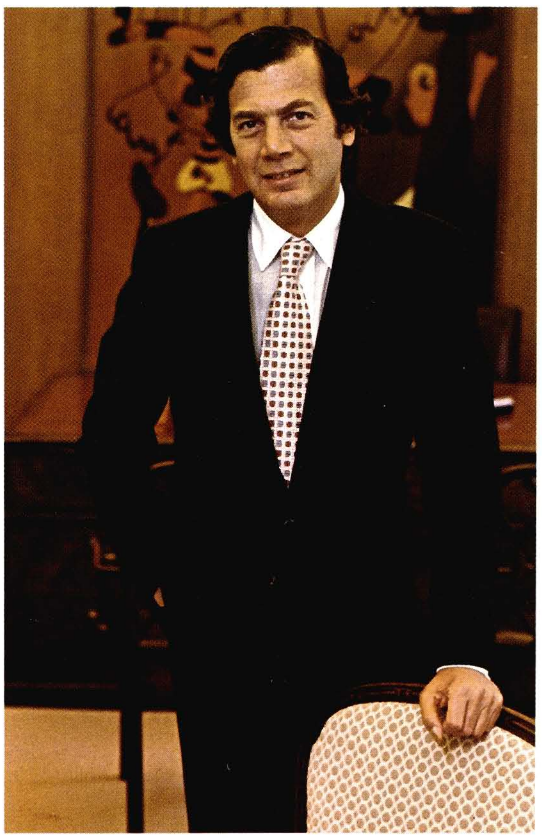
Your directors report that net income for the year ended July 31, 1975 was $74,120,000, compared with $81,575,000 for the previous year. Earnings per share were $2.11 in 1975, compared with $2.33 in 1974. All amounts are stated in United States currency unless otherwise noted.

Consolidated net sales hit a record high, increasing 4.9 percent to $1.9 billion.

The decline in net income was attributable to a measurable slowdown in demand for spirits and wine stemming from the worldwide recession, the worst in over three decades, as well as the effect of inflation on our business, particularly in the United Kingdom. These factors offset the first major contribution to earnings from our oil and gas operations.

Operating income before interest expense and income taxes was $183,164,000, an increase of 5.6 percent.

With the retirement of the Glanville Production Payment in December, 1974, oil and gas operations became a significant contributor to the Company's earnings. For fiscal 1975, operating income from oil and gas operations was $38,122,000 or 20.8 percent of the total for the Company. This compares with a contribution of 7.1 percent in 1974. Operating income derived from both our major lines of business for the last five years is shown in the Financial Report, beginning on page 29.



Edgar M. Bronfman, Chairman and Chief Executive Officer, in his New York office.

Interest expense for 1975 was $69.5 million, compared with $48.4 million in 1974. The $21.1 million increase reflects mainly the amount of borrowing required to finance the Company's continued growth in working capital and new facilities for its expanding spirits and wine business, as well as continuing high interest rates.

Dividends amounted to 80¢ Canadian per share in fiscal 1975, compared to 77.5¢ Canadian per share in 1974.

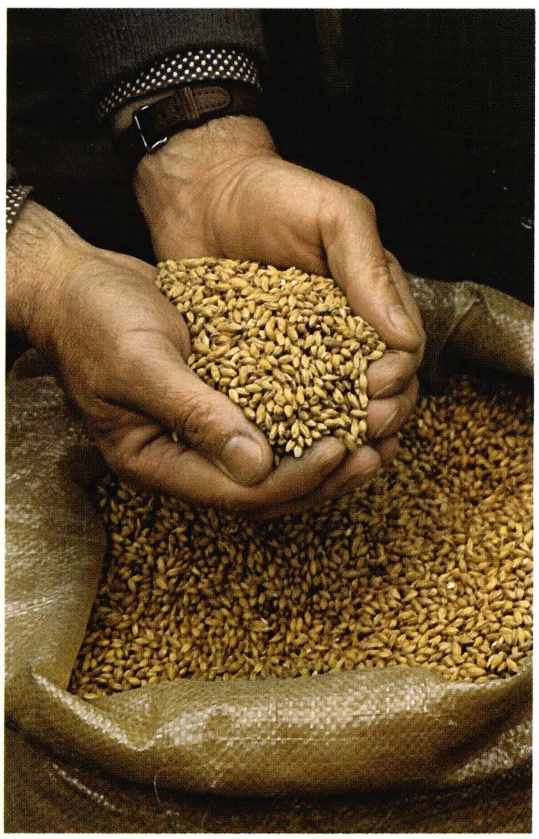
The twelve months corresponding to our 1975 fiscal year were the worst for the world economy since World War II, in terms of both unemployment and inflation. As one would expect, these conditions caused substantial changes in consumer purchasing patterns, accelerating certain existing trends and retarding others. Sales trends were generally up for less expensive product categories such as gin and vodka and down for the more expensive categories of aged whiskies. Whisky imported for bottling in the United States, which enjoys an appreciable tax advantage, continued to show good growth; but sales of most bottled imports for the industry were flat or declined moderately from 1974.

In the North American market, preliminary estimates of distilled spirits sales for the industry indicate an increase of only 1.5 percent during the fiscal year ending July 31, 1975. This rate of increase is substantially below the historical rate of growth for the industry.

Disruption in worldwide wine markets was also pronounced, although improvement was noticeable in some Seagram products in the fourth quarter.

The Company now has operating subsidiaries and affiliates in 21 overseas countries producing and marketing distilled spirits and wine, as shown on the fold-out map at the front of this report. Internationally, results were down in the aggregate in our spirits and wine operations, reflecting the deterioration in several key national economies.

Costs continued to escalate sharply both in North America and inter-



Seagram products have always been made from the finest raw materials. The cost of this barley has increased approximately 60 percent over the last two years.

nationally. Labour costs continued to rise, reflecting the very high rate of inflation in the United Kingdom. The cost of corn, the Company's most important raw material, rose 25 percent, and the cost of other important supplies, such as glass and sugar, also increased substantially. Within the last few months, however, the rate of increase of costs associated with the Company's products has slowed.

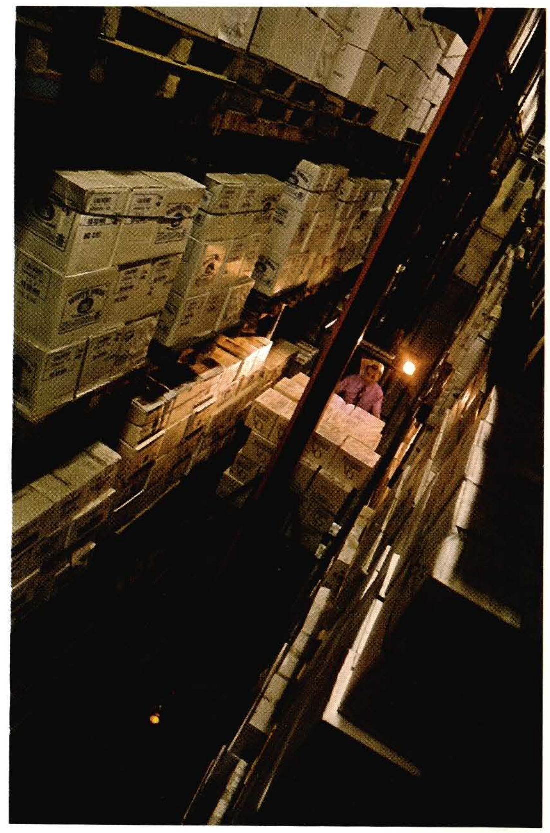
For The Seagram Company Ltd., sales in North America increased more than the industry in the major categories. Profit contribution from spirits and wine overall was about equal to a year ago.

In the United States, the world's largest market for distilled spirits, the Company has increased its share of market over the last decade in six of eight important product categories and maintained its leading position in the other two. Seagram's VO continues to be the largest selling brand imported into the U.S. as well as the largest selling Canadian whisky worldwide. And, for the 28th consecutive year, Seagram's Seven Crown was the largest selling brand of any type of spirits in the United States. In Canada, Seagram's Five Star last year became the first brand to ship one million cases in a twelve-month period.

Vodkas, gins, rums and tequila all registered outstanding performances in fiscal 1975, as did whiskies imported for bottling in the U.S. We are pleased to report that all of our brands in these fast-growing categories increased or maintained their share of market.

Our vodka brands grew at a rate about double that of the United States vodka market. Wolfschmidt shipped nearly 1.5 million cases, and for the first time, Crown Russe shipped more than a million cases. Nikolai in the U.S. and Bolshoi in Canada continued their dramatic growth.

Sales of our four major gins increased by 16 percent over last year, compared with an industry gain of 5 percent. Sales of our leading gin, Seagram's Extra Dry, now exceed 1.5 million cases a year. Our rums also had very



Continuing investments in inventories and facilities, such as this distribution center in Dunstable, England, are essential to the Company's future growth.

Wolfschmidt, here being bottled at Lawrenceburg, Indiana, is growing twice as fast as the booming U.S. vodka market.

good results. Ronrico, our largest seller, is growing approximately twice as fast as its category.

Imported whiskies bottled in the U.S. gained strength. Passport, bottled in Scotland for the world market but in the U.S. for the local market, grew at more than double the rate for this category of scotch. Canadian Lord Calvert and Harwood, our principal bottled-in-the-U.S. Canadian whisky imports, also outpaced their growing category.

To offset the rising costs noted earlier, the Company instituted moderate price increases in the U.S. on August 1, 1974 (Canadian prices were increased a month earlier), and on February 1, 1975, the Company lowered to 80 proof most of its American whiskeys. Seagram's brands maintained or increased their share of market, although sales of blended whiskies fell behind those of a year ago, and sales of both Crown Royal and VO also declined slightly.

By taking the lead in establishing realistic price levels, our Barton & Guestier line of fine French wines was able to increase sales in the United States by about 20 percent over a year ago while the market for French wine imports generally was down 26 percent. In Canada, B&G sales growth is showing solid strength, and our Maison Secrestat operations achieved greater market penetration and increased sales.

Reflecting the continuing growth in its wine business, the Company opened the most modern distribution and wine aging facility in the world—the Paul Masson Wine Aging Cellars in San Jose, California. This 425,000-square-foot facility will improve the distribution and storage capability for both domestic and imported wines and substantially increase facilities for bottle aging.

To broaden its product lines still further, the Company is bringing out several new spirits products and wines, adding new imports, and entering into new distribution agreements.

In American wines, sales of the Paul Masson carafes continued to exceed

New products such as these introduced in 1975 continued to broaden Seagram's line and strengthen its marketing position.

projections. Paul Masson introduced five new medium-priced varietals, as well as carafe-bottled Paul Masson Sangria. Christian Brothers introduced four "Brother Timothy Selection" vintage varietals.

On completion of test marketing begun in May, James Foxe, a bottled-in-the-U.S. Canadian whisky, will be distributed nationally in the U.S. In August, we introduced Eagle Rare, a 101-proof, ten-year-old Kentucky bourbon that has been well received in the market. El Charro tequila will be introduced in the fall of 1975. Party Tyme introduced the first freeze-dried cocktail mixes, which are a significant flavour improvement over the standard powder mix.

Leroux Cordials is adding four new imports to its already extensive line. In the fast-growing cordial market, Leroux is steadily increasing its share through such new products as its highly successful chocolate-flavoured cordials.

The Company began distribution of Tuaca liqueur, already well-accepted in the California market, and signed an agreement to distribute the products of the Gold Seal Wine Company, a major New York winery with an established market position in the Eastern United States. Jameson's Irish Whiskey, which we began to distribute in 1974, showed fine progress in its first full year with us.

In Europe, results were substantially below those of last year. Continued labour problems in Scotland disrupted operations and led to a substantial profit decline which continued into the fourth quarter of fiscal 1975. Cost increases in the United Kingdom were nearly 30 percent, and labour problems, since resolved, impeded the Company's ability to fill scotch orders for the United States and other export markets. In addition, severe competition and higher taxes adversely affected the home market. Some improvement is expected in fiscal 1976. Our competition raised export and home market prices substantially in August, 1975, and we have made similar increases which will allow us to recover a portion of the cost increases.

The decline in contribution from European operations was partially offset

Chivas Regal, largest-selling deluxe scotch whisky in North America, ages for 12 years in oaken barrels built by this Glasgow cooper.

Allt A'Bhainne, a new malt distillery, under construction in the highlands of Scotland.

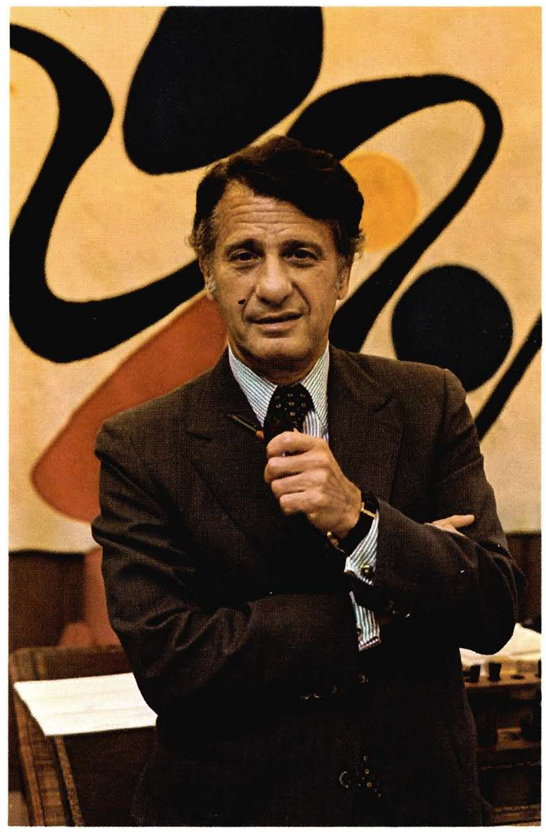
by much improved results in Latin America. Sales were substantially ahead of last year's in Argentina, Venezuela and Brazil, where our fourth quarter was particularly strong. Because of the favorable long-term outlook in Brazil, the Company is spending $5 million on the first stage of a production-facility expansion there. In the Dominican Republic, where the Company entered into a 50 percent partnership with local interests, sales have been stronger than anticipated.

Because of the increasing worldwide demand for its products, the Company in recent years has substantially increased its investment in property, plant and equipment and in the inventories necessary for rapidly growing brands. For example, we have added to our capacity for scotch malt whisky distilling through the construction of distilleries in the Braes of Glenlivet and Allt A'Bhainne, as well as increasing our warehousing capacity in Scotland to mature larger quantities of Chivas Regal, Passport, 100 Pipers and other brands. We have also invested substantial sums in oil and gas exploration. Seagram's 1975 results reflect the abnormally high rates of interest paid during the period on the debt incurred for this expansion.

The cost of money remains a management concern. Our major products typically have a long aging cycle—four to twelve years—from inception of the distilling process to final sale. Large investments in long-term assets, property, plant, equipment and inventories, are vital to growth. But these same assets and their financing are materially affected by worldwide inflation, operating and construction costs, and carrying charges on inventories.

In June, 1975, the Company took steps to reduce short-term borrowings through the issuance of two long-term debt securities in Canada. Two new debentures were issued by The Seagram Company Ltd.: a five-year issue for $65 million at an interest rate of 9½ percent and a twenty-year issue for $60 million at an interest rate of 10⅞ percent.

As noted earlier, Texas Pacific, the Company's wholly owned oil and gas



Jack Yogman, who in May, 1975, was promoted from Vice-President to Executive Vice-President and Chief Operating Officer.

Oil drilling operations have been stepped up dramatically in the last few years, especially offshore and internationally. They will increase further in 1976.

subsidiary, began to contribute to operating income in the last half of the year, following retirement in December, 1974, of the Glanville Production Payment through which the Company had financed the purchase of this subsidiary in 1963. Texas Pacific's potential contribution to net income, however, was reduced by the United States Tax Reduction Act of 1975, which eliminates, for tax purposes, the 22 percent depletion allowance on oil production above 2,000 barrels per day.

Because of the emerging importance of Texas Pacific to the Company, the special section of this year's Annual Report has been devoted to the development of the Texas Pacific Oil Company and its substantial involvement in today's crucial search for new oil and gas reserves. In this special section, which begins on page 12, we also discuss 1975 oil and gas discoveries offshore the Gulf Coast of the U.S. and in New Mexico. These discoveries could be of importance to Seagram.

As a company engaged in exploration for new oil and gas reserves—and as concerned citizens—we are obliged to urge that the U.S. and Canadian governments develop sound energy policies. Without such policies, these countries cannot expect discovery of sufficient new reserves to replace current production.

Our name change from Distillers Corporation-Seagrams Limited to The Seagram Company Ltd. became effective on January 20, 1975. The common stock of the Company is now listed under "Seagram" in most newspapers, and our ticker symbol is "VO."

The Board of Directors has adopted a new, mandatory retirement age of 70 for all directors. As a consequence, four directors will not stand for reelection at the Annual Meeting of Shareholders on November 13, 1975. Among those retiring will be Mr. Allan Bronfman, Vice-President, who has served 46 years as a director. Also retiring will be Mr. J. E. Frowde Seagram, grandson of Joseph E. Seagram and a director since 1945; Mr. John L. Loeb, Chairman of

Members of the proposed Executive Committee of the Board are (bottom, left to right) Edgar M. Bronfman, Charles R. Bronfman, Jack Yogman; (top, left to right) William J. Green, Alain de Gunzburg, E. Leo Kolber, Harold Fieldsteel.

the Audit Committee and a director since 1956; and the Honorable Louis P. Gélinas, also a member of the Audit Committee, who has served since 1967. The Company is deeply indebted to each of these gentlemen for their many years of dedicated service, and we are pleased that they have agreed to serve as honorary directors. In their stead, shareholders will be asked to elect four new members to the Board.

Those who will be proposed for election are: Paul G. Desmarais, Chairman and Chief Executive Officer, Power Corporation of Canada, Limited; Fred H. McNeil, Deputy Chairman and Chief Executive Officer, Bank of Montreal; Ian D. Sinclair, Chairman and Chief Executive Officer, Canadian Pacific Limited; and John L. Weinberg, Partner, Goldman, Sachs & Co.

Following its May meeting, the Board of Directors announced a realignment of senior corporate responsibilities. My office was changed to Chairman and Chief Executive Officer. Executive Vice-President Charles R. Bronfman was named President and Chairman of the proposed Executive Committee on which shareholders will vote in November. Jack Yogman, formerly Vice-President, was named Executive Vice-President and Chief Operating Officer.

In addition to the three mentioned above, the members of the proposed Executive Committee are: Harold Fieldsteel, Treasurer and Controller of the Company; E. Leo Kolber, President of Cemp Investments Ltd.; Alain de Gunzburg, Vice-Chairman—Managing Director, Banque Louis-Dreyfus; and William J. Green, Chairman, the Clevepak Corporation. Mr. Fieldsteel, who has been with the Company for 34 years, and Melvin W. Griffin, President of The House of Seagram Ltd., who has been with us for 30 years, were elected to the Board of Directors of the Company at the Annual Meeting on November 14, 1974.

In summary, the Company has strong brands in every major profitable segment of the distilled spirits and wine business, and our oil and gas operations are now contributing to profits. With the continued warm support of our employees and our customers, we face the future with confidence.

On behalf of the Board,

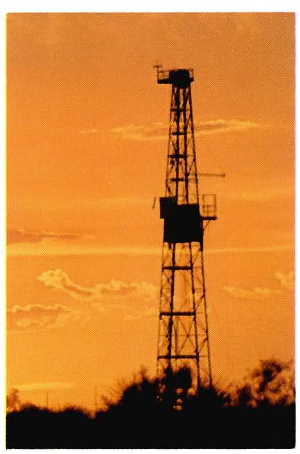
Edgar M. Bronfman

Edgar M. Bronfman
Chairman

September 23, 1975

Texas Pacific: The Quest for Energy

"...Popular belief holds that the drama of oil exploration is at the drilling site—with the relentless thunder and vibration of the big diesel engines, the intricate, dangerous ballet of the crew members changing drill bits, the grueling 24-hour-a-day pace. Drilling <u>is</u> dramatic, and the drama is heightened by unlikely settings on desert floors, in arctic gales, on ocean platforms. But the real tensions are where oil is found—in the minds of men, in the executive offices of companies like Texas Pacific, where millions of dollars and years of work are invested on the strength of what one or two men see, or think they see, on a map on the wall..."



Texas Pacific, Seagram's wholly owned oil and gas subsidiary, had its beginnings as a coal company in tiny Thurber, Texas.

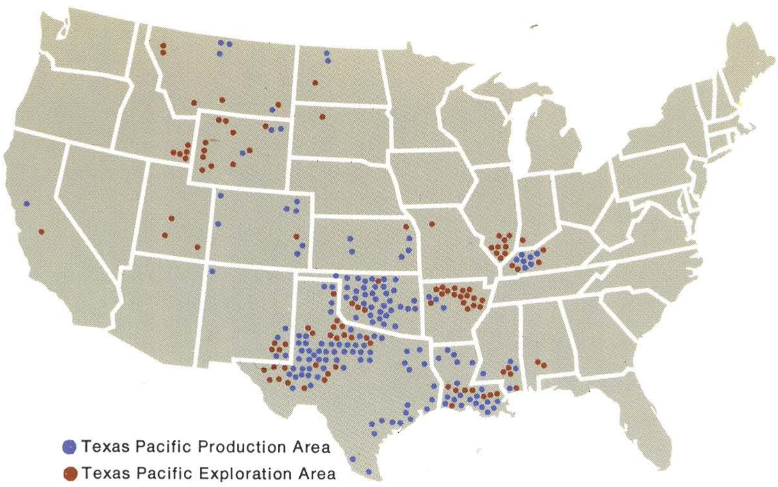
In the U.S., at the right, TP has pushed out from its Texas base and is now also producing and exploring in nineteen other states.

While another development well is drilled in West Texas' Wasson Field, the second largest producing field in the U.S., an existing well undergoes maintenance.

The Quest For Energy

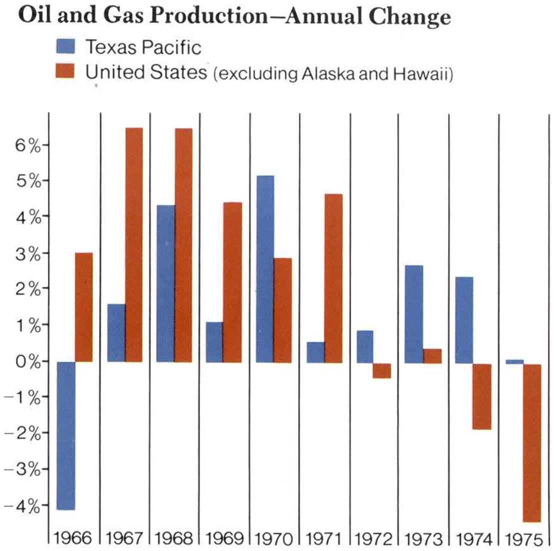
Today the world's largest producer and marketer of distilled spirits and wine is also a significant factor in the worldwide quest for energy. Seagram's little-known position in the oil business grew from diverse pioneering origins. One was in the old company town of Thurber, Texas, where, starting in 1888, an obscure coal-mining company began fueling the Texas Pacific Railroad. The other was the vision of Seagram founder Samuel Bronfman, who as early as 1950 foresaw that within the next quarter century the western world's needs for oil and gas would increase dramatically.

The child of these origins—the wholly owned Seagram subsidiary, Texas Pacific Oil Company—now operates more than 2,000 producing oil and gas wells, pumps oil at the rate of 14 million barrels a year and gas at the rate of 64 billion cubic feet. This production generated total revenues of $140 million in fiscal 1975, ranking Dallas-headquartered Texas Pacific among the top five independent producers in the U.S. TP does no refining or consumer marketing itself, but concentrates exclusively on finding, developing and producing hydrocarbons. At the end of 1975, the company had reserves calculated at 206 million barrels of crude oil and 525 billion cubic feet of gas, with active



Production wells require constant maintenance. At right, a new rod is tightened as the pumping unit is reassembled.

Oil and Gas Production—Annual Change



Over the last several years, Texas Pacific's production trend has been substantially better than the total U.S. industry's, as shown at left.

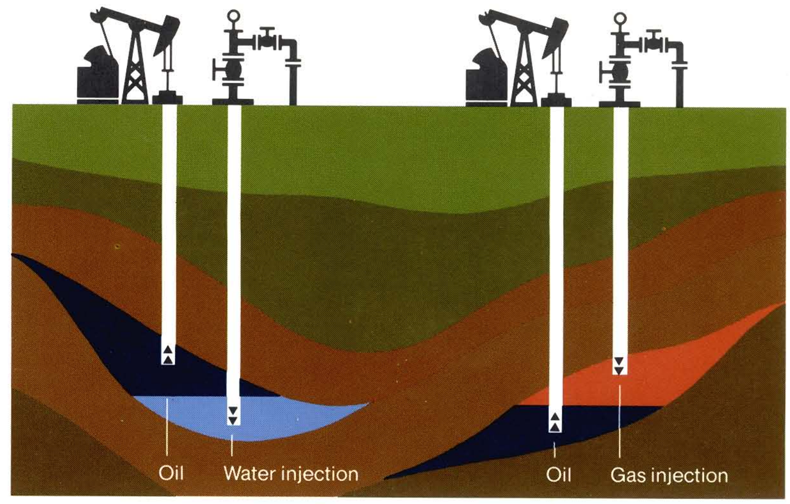
interests in exploring for new oil and gas, on land and offshore, in North America and four other continents.

The principle underlying the development of Texas Pacific was actually the same as that which built Seagram: identify an important future demand (in Seagram's case major inventories of aged whiskies for the U.S. market after Prohibition was repealed), then start building to meet it. In the case of oil, the process began in 1953, when the company's U.S. subsidiary, Joseph E. Seagram & Sons, organized its oil operation under the Frankfort Oil Co., with headquarters in Bartlesville, Oklahoma.

It soon became clear that Frankfort was too small and too thinly staffed to become either the substantial oil company Samuel Bronfman dreamed of or a significant factor in coping with the energy-short future he foresaw. It was as an investment against this future, therefore, that ten years later in 1963 Seagram acquired the assets of Texas Pacific and combined them with those of much smaller Frankfort. On the heels of a wildcat discovery in 1917 that led to the famous Ranger Field, Texas Pacific itself had long since branched out into oil, phased out of coal and left Thurber a ghost town.

The means of Texas Pacific's acquisition was both unusual and an example of the farsighted financial strategy that has brought the Company to where it is

Pumping wells require weights and counter-weights to operate. Above, a roustabout attaches a "horsehead" weight to a well pump. In mature wells, size of the "horsehead" is usually proportional to well depth.



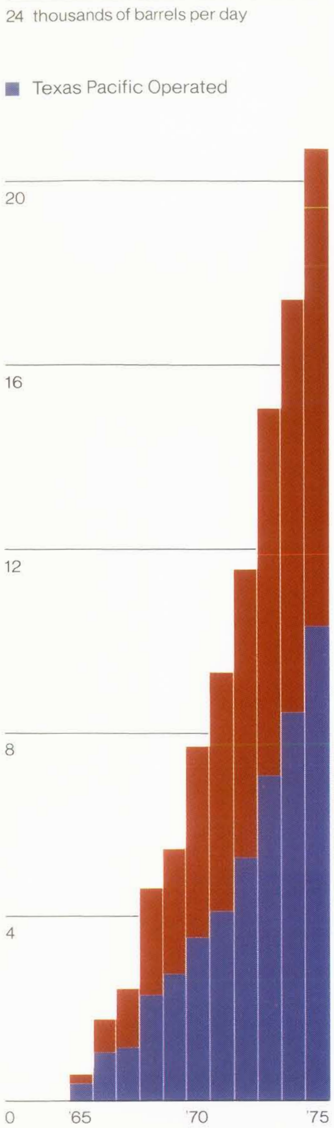
Substantial oil often remains in a reservoir after primary pumping brings up all it can. Secondary recovery techniques use water-flooding (above left), gas injection (above right), or similar methods to force the unrecovered oil to the well.

today. Seagram paid $50 million in cash for the TP properties subject to a $216-million, 5⅝ percent lien on future oil production which was held by a group of banks and insurance companies. To oil men, the "Glanville Production Payment" was the largest oil production payment in history. To Seagram it meant the opportunity to acquire substantial producing properties for limited cash at a time when depressed oil prices were less than half what they are today. While the production payment was drawing off substantial percentages of TP's revenues, Seagram's own highly profitable spirits and wine business would not need the short-term earnings contribution. And if the production payments left relatively modest amounts available for new exploration and development spending, there would still be enough to replace the oil and gas being produced for Texas Pacific's account. Higher prices resulting from increased worldwide demand could tip the balance Seagram's way.

In increasing amounts, ranging from $12 million in 1964 to the last full year's payments of $61 million in 1974, some two thirds of TP's revenues flowed into the banks and insurance companies to liquidate the production payment. During the same period, Texas Pacific was being modernized across the board, from staffing and training to the focus of production and exploration.

In the mid-1960's, Texas Pacific began to accelerate development of the

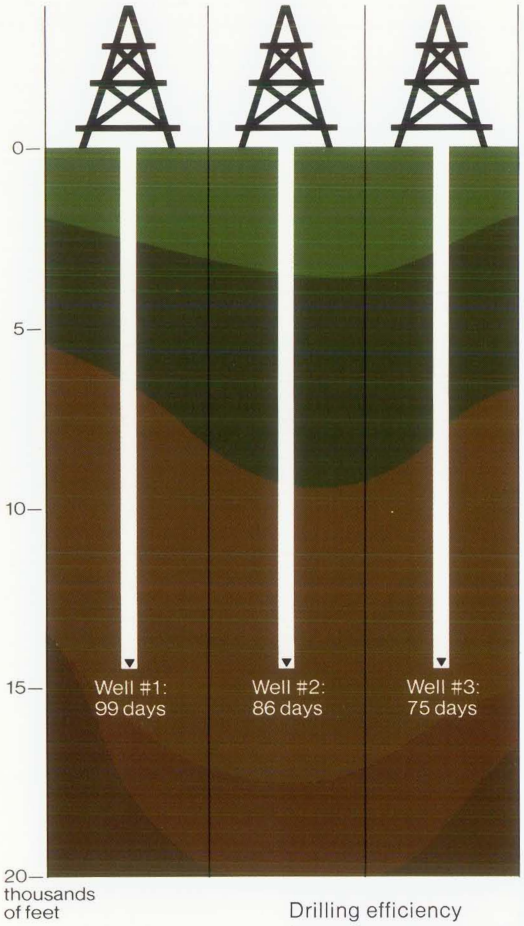
Texas Pacific Secondary Recovery Oil Production



Texas Pacific's secondary recovery skills have made it an industry leader. About 52 percent of the company's oil production came from secondary recovery projects. At left, the chart shows annual increases in secondary recovery production.

reserves it saw in the properties acquired from its predecessor company. Oil fields in their primary phase usually yield their production by flowing or simple pumping. But substantial oil remains in the ground after the primary phase is ended. To recover these remaining reserves, it is usually necessary to inject water, gas or other fluids into the reservoir to force the oil into the producing wells. A successful secondary recovery program requires a very high order of technical skills, however, and TP needed to strengthen substantially its technical staff. To join such men as Claude Dodgen, now executive vice-president for finance and administration, the company in 1965 brought in Robert M. Brackbill, now executive vice-president of production, from Shell Oil, where he had been manager of engineering. Brackbill designed a model training program to improve technical competence and bolstered decision-making capability at the field level. Upgraded staff began turning out a growing number of secondary recovery investment opportunities.

The single most impressive application of Texas Pacific's secondary recovery skills has occurred in the Bennett Ranch unit of the Wasson Field, in Yokum County, West Texas. Wasson is currently the second largest producing field in the United States, and Texas Pacific's holdings there constitute the biggest single asset the company has—in reserves, life expectancy and poten-



Drilling efficiency improves as more wells are drilled in an area. In Oklahoma's Northwest Reydon Field, the first of three wells at the same depth took 99 drilling days, the second 86, and the third 75.

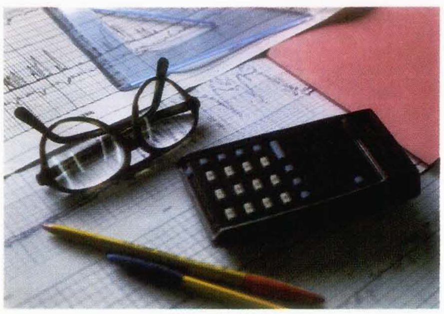
The Lacassane Gas Plant is located in a national bird sanctuary in Louisiana. Constant vigilance and continuing maintenance prevent environmental damage.

Each offshore drilling rig has more than 200 devices to safeguard the environment.

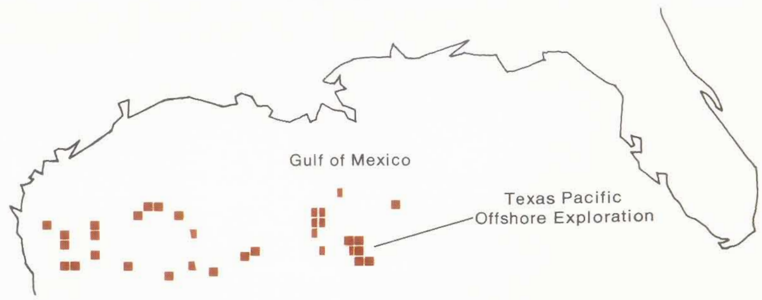
tial. Before the water-flood secondary recovery operations, the Bennett Ranch was producing only 1,640 barrels a day. Today that same unit is producing 12,000 barrels.

Advancing technology will make it possible for Texas Pacific to recover yet more oil from existing properties through secondary and tertiary methods. In the meanwhile, new reserves are being added through actively acquiring new acreage suitable for secondary recovery operations. The best example of this effort is in the Eliasville area of Stephens County, Texas. TP reexamined subsurface maps and earlier studies of the area and decided that a geological formation there offered promising secondary recovery possibilities. Moving swiftly, Texas Pacific increased its holdings from 6,000 to 18,000 acres. Illustrating development costs, this one area will involve an investment of some $60 million over a period of six to eight years. The company now participates in 173 secondary recovery units, which in 1975 produced 7.6 million barrels of secondary oil, 52 percent of the company's oil production.

There are other measures of Texas Pacific's sharply improved technical competence. One of the most significant is the increasing frequency with which other oil companies, including "the majors," are accepting Texas Pacific as the operator in joint drilling ventures, common practice in the industry as a

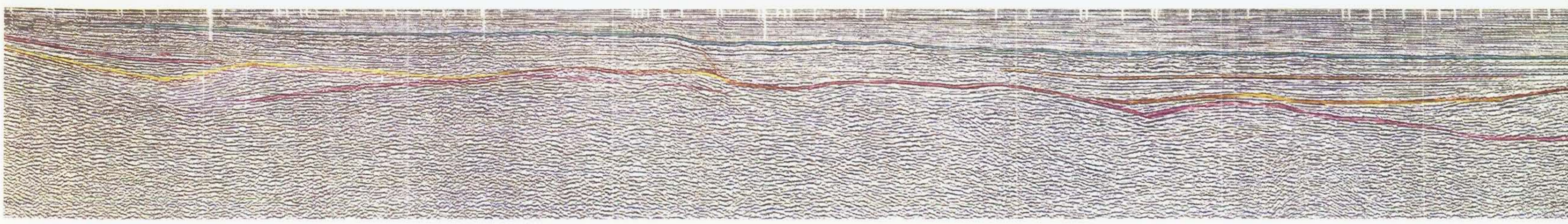


Thousands of feet of drill pipe must be held steady while another thirty feet of pipe is added and coupled tight by massive tongs. At right, some of the company's most important discoveries in recent years have been offshore Texas and Louisiana in the Gulf of Mexico.



means of sharing risks. This growing acceptance reflects TP's improved expertise, as well as the increased efficiency with which the drilling is being accomplished. Each is of growing importance in an era of soaring costs.

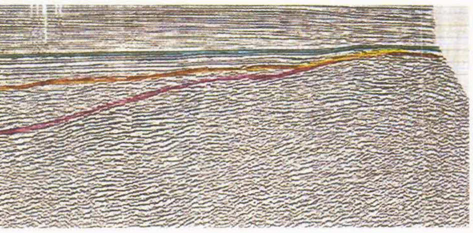
Texas Pacific's improved technical capability, building throughout the 1960's, was one impetus for a major review of strategy that took place beginning in 1970. Of even greater significance was the approach of the day, originally forecast for late 1975, when the Glanville Production Payment would be liquidated. On that date, obviously, substantially increased cash flow would be available. How would it be employed? Seagram could then satisfy itself with increased short-term profits and gradually liquidate the Texas Pacific investment. Or it could begin to divert a major percentage of this cash flow to a very substantial new investment program that would be required to at least replace, and perhaps even add to, the oil and gas reserves Texas Pacific had gradually, by plan, been depleting during the production payment period. The decision had to be made rather promptly if it was to be effective by 1975. The oil industry offers a classic example of "leads and lags"—new production must be preceded by new discoveries, which depend on exploration drilling, which must follow acreage acquisition, which must be preceded by seismic and geological evaluations, and so forth. Altogether, even moving



rapidly, the process takes a good three to five years from initial efforts to proved discoveries.

Events since 1953 had only served to strengthen management's conviction that the need for and value of new reserves would continue to grow. So, then, would Seagram's investment in the future. One of the first moves was to start gathering the skilled leadership necessary to implement the new commitment. In 1971 the company hired, first as a consultant, then as Texas Pacific's president, Howard H. Hinson, a man highly experienced in research, international exploration and production. Hinson had spent nearly 20 years with Continental Oil Company, where he had been vice-president and general manager for all foreign operations. He began recruiting other experts, including former Conoco colleague Albert Hrubetz, now executive vice-president for exploration and international, who had wide experience in exploration, production and marketing.

Working with Seagram's management, the new team formulated an exploration philosophy for the U.S. and Canada under which Texas Pacific would concentrate on exploring for major reserves in selected high-potential onshore oil areas in North America. Where the company previously relied largely on obtaining drilling prospects from other companies in these areas,



At left, a seismic section used by geophysicists to locate possible hydrocarbon deposits.

Drilling Montgomery-Fulk #6 in the Elsinore Field near Midland, West Texas. Completed in September, 1975, it promises to be a prolific producer of natural gas.

the new policy emphasized generating prospects within the company. The resulting prospects could then be drilled either 100 percent by Texas Pacific or shared, on a leveraged basis, with other companies. Domestically, it was clear the larger reserves would more likely be found on the offshore continental shelf areas of the United States, still largely unexplored when compared with onshore. Secondary recovery methods and domestic exploration ventures would provide relatively secure and profitable growth opportunities and these would be pursued. But the company would also accept the larger risks, both political and economic, involved in international exploration. For it is overseas where the discoveries of world-ranking new reserves will probably be made.

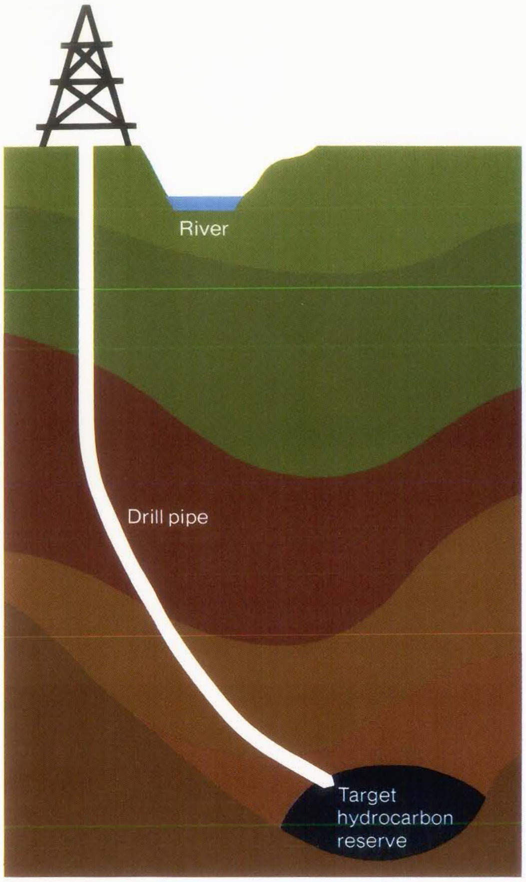
Exploration for oil and gas is inherently risky. Really major growth is usually achieved through either very large and costly acquisitions or through the discovery of a large new field of hydrocarbons. The search for very large fields carries the highest risks, and only by diversifying the search over many areas and sharing drilling costs when possible, can the risk be reduced. Still, even though the risks are great, Seagram and its Texas Pacific team believe the potential justifies accepting them.

There is an axiom in the industry, handed down over the years, which holds that "oil is found in the minds of men." Texas Pacific management

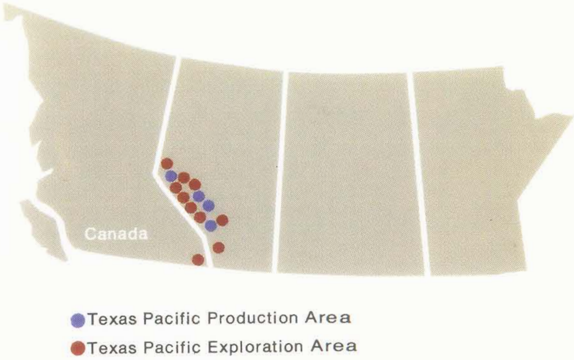
believes in this principle, and to facilitate the finding of oil, it gives the minds it employs maximum freedom to innovate, to roam in pursuit of their goal. So Texas Pacific put new emphasis on delegating authority and encouraging decision-making at the lowest appropriate levels. The staff has been kept lean. A conscious effort has been made to avoid building up the layer-upon-layer of supervision which seems to proliferate with companies' growth in the oil industry as elsewhere. As Hinson puts it, "There is no need for our people to spend time making pretty maps for headquarters. I'd rather see their working maps. They tell me more."

The basic tactic used in implementing the new company strategy is to press hard to find new near-term drillable prospects, and when they are found, to bring in other companies to share in the risk of exploration drilling. "We use our brains for money," Hinson says. "We do the geophysics and buy the acreage—we put in the talent—and then we find others who agree with our judgment and go in with us."

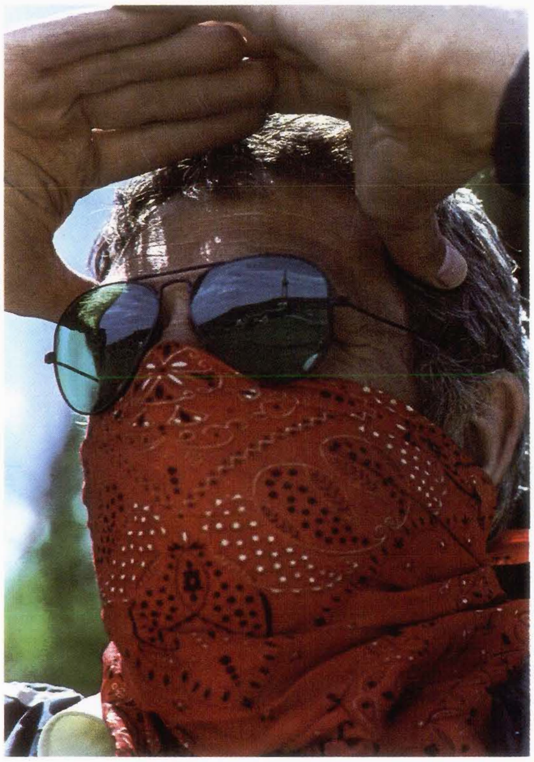
The tension and pressure that are generated by the calculated risk-taking involved in expenditures on the multimillion-dollar scale are almost palpable at Texas Pacific's headquarters in Dallas. Popular belief holds that the drama of oil exploration is at the drilling site—with the relentless thunder and vibration



Texas Pacific intensified exploration efforts in areas such as western Canada as chances of finding major new oil deposits in easily accessible U.S. fields became increasingly remote.



The rig at left is in northern Alberta, in the foothills of the Canadian Rockies. To tap the suspected hydrocarbon pool, the well will be drilled, as in the schematic above, down and under the river. Wells can be drilled at a slant to avoid hostile terrain directly over the pool.



In the field or in the office, the search for oil requires skilled personnel. Above, a TP man uses a "plotter," a computer device which translates numbers and symbols into geological maps.

of the big diesel engines, the intricate, dangerous ballet of the crew members changing drill bits, the grueling 24-hour-a-day pace. Drilling *is* dramatic, and the drama is heightened by unlikely settings on desert floors, in arctic gales, on ocean platforms. But the real tensions are where oil is found—in the minds of men, in the executive offices of companies like Texas Pacific, where millions of dollars and years of work are invested on the strength of what one or two men see, or think they see, on a map on the wall.

Texas Pacific's search for the big find actually began at home in 1970 with "deep gas plays," made possible by substantially advanced technology that taps hitherto unreachable depths. Drilling wells that sometimes go down more than 20,000 feet and cost in excess of $2 million, TP's deep gas program has already logged some significant successes.

In the Elsinore field of West Texas, Texas Pacific took a "farm-in," or sublease, from a major oil company on the basis of new analysis of existing geological studies. TP discovered the Elsinore field in 1973 and the property now ranks in the top ten of the company's assets. There are now fourteen producing wells in the field, six of them drilled in 1975, and development is continuing. In the Northwest Reydon field of western Oklahoma, another important deep gas discovery, TP has participation in eleven producing wells.

Here, also, development is continuing. In 1975, in the Phantom Draw field in Eddy County, New Mexico, Texas Pacific found gas at a depth of 12,700 feet, in a very sizeable quantity that has yet to be fully exploited. Other important exploration activities are underway in West Texas, Southern Illinois and Western Kentucky. Gas discoveries like those above helped TP increase its gas production by 9.8 percent over 1974 levels, while industry-wide production slumped 4.1 percent during calendar 1974. Since 1972 TP's gas reserves have increased substantially, while industry reserves declined. Over the same period TP's proved oil reserves have also increased, compared with a decline for the industry in the United States.

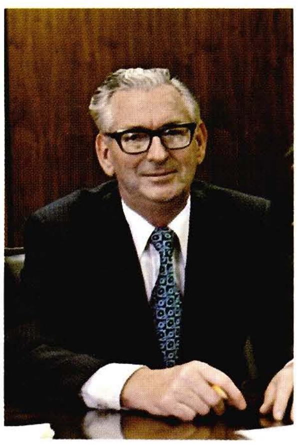
While not so far advanced as the deep gas program, Texas Pacific's domestic offshore program has also enjoyed early success and shows significant promise. Drilling during 1974 confirmed there are major reserves in the leasing areas in which TP has substantial interests.

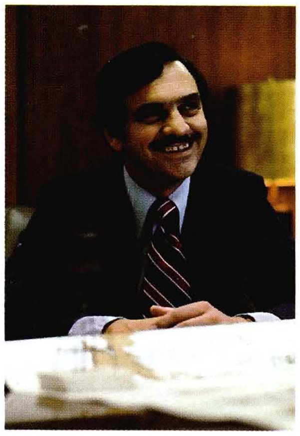
During 1975, a field in the Eugene Island structure, offshore Louisiana, (Blocks 377, 380 and 392) yielded significant deposits of oil and gas. Texas Pacific's interest in these blocks ranges from 10.5 to 13 percent.

Offshore Texas in 1975, multiple gas pays were found in High Island Block A-309, where TP has a 15 percent interest. A second exploratory well in

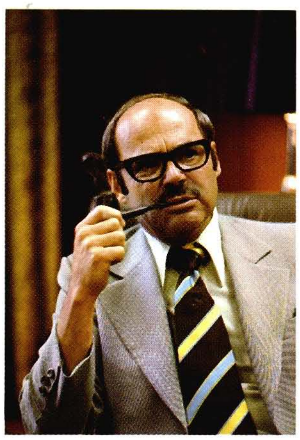
At left, in the "War Room" at the Dallas headquarters, information is pulled together, decisions made, and presentations made to prospective exploration partners.

Texas Pacific President Howard B. Hinson is a veteran industry leader with wide experience in international exploration.





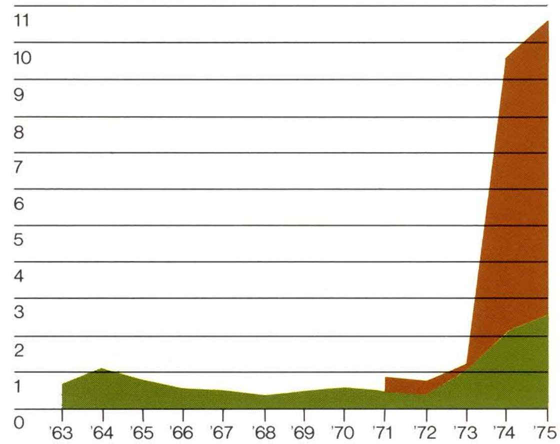
Albert Hrubetz, Executive Vice-President—Exploration and International, directs the company's aggressive search for new energy sources.



Above, Robert M. Brackbill, Executive Vice-President—Production, has helped to modernize TP's production and training. At left, Claude W. Dodgen, Jr., Executive Vice-President—Finance and Administration, directs financial, administrative and legal functions.

At right, Texas Pacific has increased its amount of acreage under lease or concession nearly twentyfold in the last five years.

Undeveloped Acreage millions of acres



Total Overseas
Total United States and Canada

Oil and Gas Reserves of Texas Pacific*
at year end July 31

Reserves of oil and condensate (millions of barrels)	1975	1974
Proved reserves	153.4	153.9
Probable reserves	52.9	34.6
Total reserves	206.3	188.5
Reserves of natural gas (billions of cubic feet)		
Proved reserves	508.4	432.8
Probable reserves	16.7	31.0
Total reserves	525.1	463.8

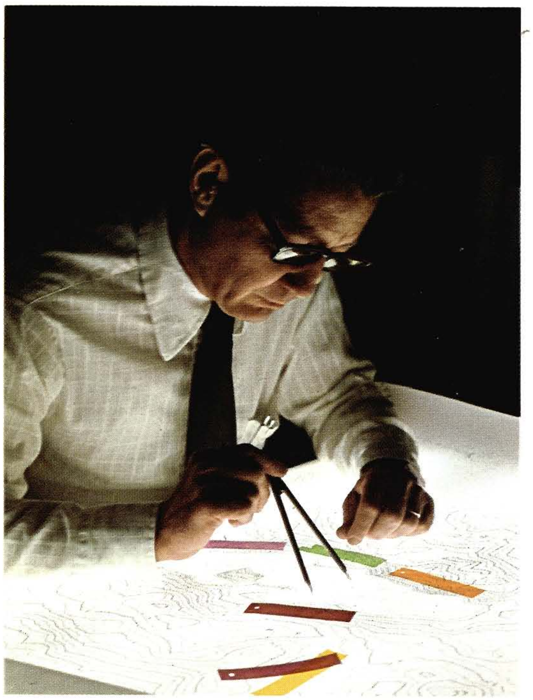
*After production payments.

High Island Block A-298, where TP has a 12.5 percent interest, confirmed an earlier discovery. Development platforms are planned on both blocks. And the first well on High Island Block A-561, where TP has a 20 percent interest, also encountered gas and oil pays from a number of sands. More drilling is planned here, too.

One of the main yardsticks of exploration success is the number of drillable prospects turned out. Texas Pacific's development drilling investment has risen threefold over the last four years, which reflects drilling cost increases of 35 percent last year alone, as well as increased activity. But drilling has to go ahead. "Our objective is to find oil," Hinson says, "and the only way to build an oil company is by lots of drilling. The more places we're in, the more chances we have to win." Thirty of Texas Pacific's prospects are now in the drillable stage, and 200 other developing prospects are approaching that status.

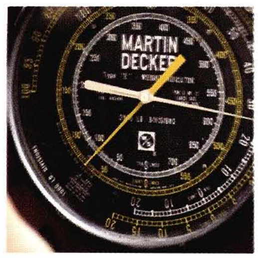
Domestically, TP's acreage account has increased from 405,500 net acres in 1972 to 2.5 million net acres in 1975. Thirty-three blocks of presently undeveloped acreage have been acquired at competitive bidding in the Gulf of Mexico, offshore Louisiana and Texas.

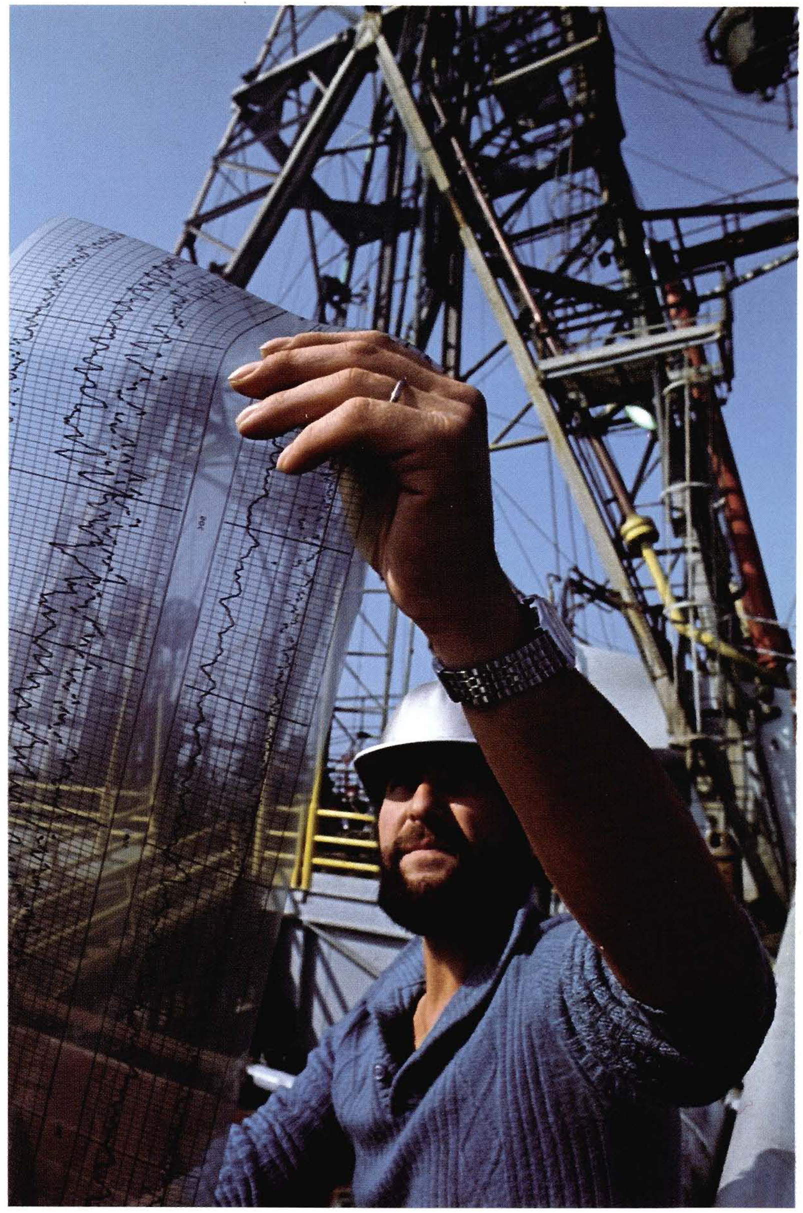
The acquisition of acreage overseas, which gives Texas Pacific its chance to find the really massive reserve potentials, has been even more rapid. Over-

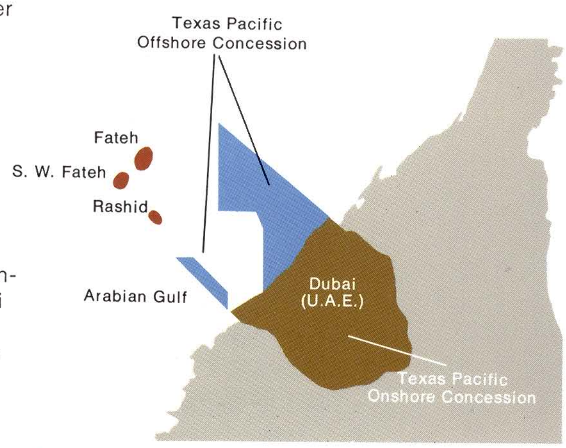


Technicians make geophysical maps to interpret prospects after seismic evaluation.

At right, an engineer evaluates a log at a well site. It gives information needed to decide at what depth the well should be completed. The gauge below monitors drilling operations.







At right, Texas Pacific has a 480,000-acre concession offshore Dubai near three major producing fields. Onshore Dubai, the company also has a substantial concession.

seas acreage has increased from 398,500 net acres in 1972 to 8.1 million net acres in 1975. Among the most important are these:

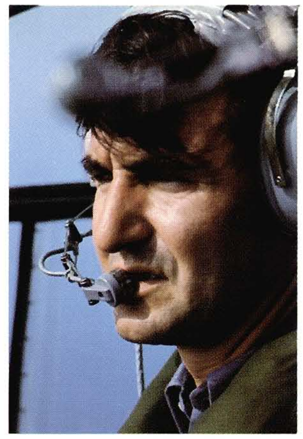
> Offshore Dubai, Texas Pacific holds a 60 percent concession of approximately 480,000 acres in the Arabian Gulf. By moving quickly, it got ahead of a major competitor by a margin of days, and obtained a choice lease adjacent to already proven areas. Seismic studies are underway. Drilling of the first well will start before the end of calendar 1975.

> Onshore Dubai, Texas Pacific is operator of a concession of 1,032,000 acres, with a 50 percent share. Drilling is planned for calendar 1976.

> In Spain, Texas Pacific has nine exploration permits in 786,000 acres in the Mediterranean, where it has completed geological and geophysical programs. One unsuccessful well was drilled offshore Spain in 1975.

> In Kenya, the company has a 45 percent interest in exploration permits for 11.6 million acres onshore and offshore in the northeast part of the country. Geological and geophysical studies have begun. TP will be drilling by the end of calendar 1975.

> In the Philippines, Texas Pacific has an 80 percent interest in an exploration permit in the Lamon Bay area off Luzon Island, and has conducted geological surveys over the 1,225,000-acre area. TP will complete its first



Helicopter pilots ferry men, supplies and data to the drillship. Below, a spinning "kelly" turns the drill stem and its many tons of pipe and drilling mud, the fluid that carries rock cuttings out of the hole and lubricates the drill bit.

Above, a rig off the coast of Spain drills through a large hole in the middle of the ship. The ship is steadied by 20 large anchors.

At right is a map of Texas Pacific's concession offshore the Philippines. Most of industry's exploration is to the west; Texas Pacific is exploring to the east, believing its geological and geophysical studies may result in a find missed by others.

wildcat well there before the end of 1975. Texas Pacific is working off the eastern shores of the Philippines, following its own interpretation of the maps.

> In the North Sea, Texas Pacific is participating in exploration of 612,000 acres (in which it holds interests varying from 18 to 25 percent) and in the drilling of a well near the renowned Forties Field. That drilling also began in 1975. Previously, TP participated in three dry holes in the North Sea.

With this vigorous exploration activity overseas, and continuing preeminence in secondary recovery and deep gas operations, Texas Pacific is well-positioned for coping with the new energy imperatives in the U.S. and the rest of the western world. The basic strategy—acquiring the company with production payments, stressing secondary recovery and deep gas plays, then shifting exploration emphasis offshore and overseas as the production payment was retired—has been implemented. Over the next two years, all the recruiting and training and planning that have gone on for months in the headquarters office in Dallas, all the negotiating in world captials will be put to the test. The lead time of meticulous, imaginative preparations devoted to this task have, in the intricate world of oil exploration, so far opened an array of promising possibilities. Now Texas Pacific is face-to-face with the opportunity for discoveries that could, in one stroke, double its current reserves.

Financial Report

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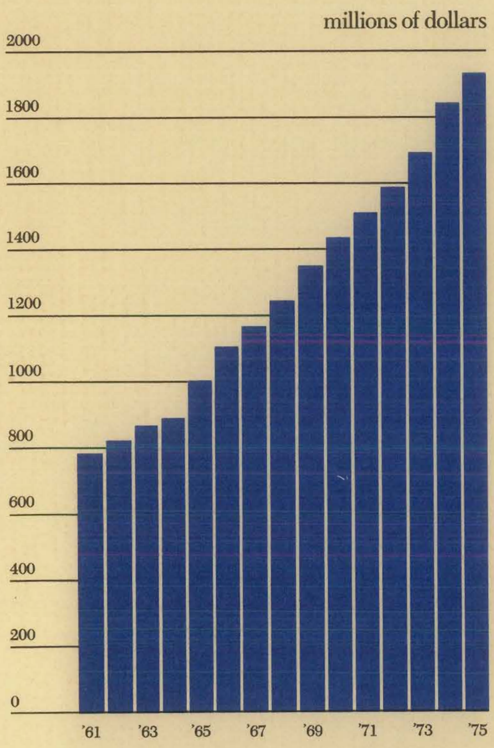
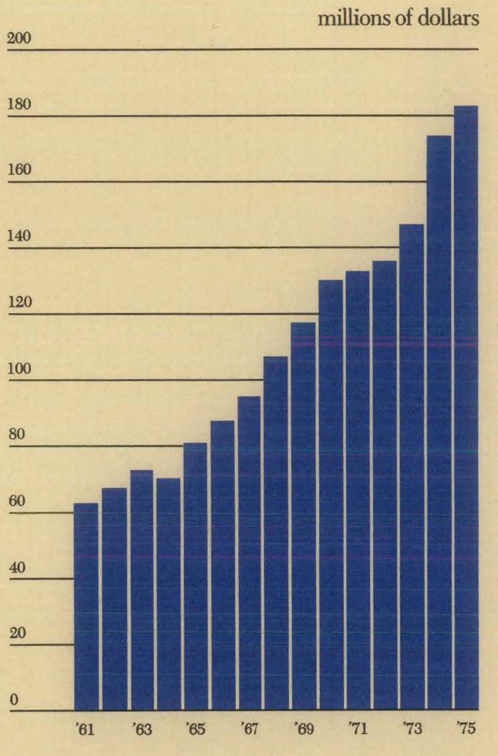
At left, traveling blocks on drilling rigs suspend tons of pipe as they plunge up and down the derrick.

Sales



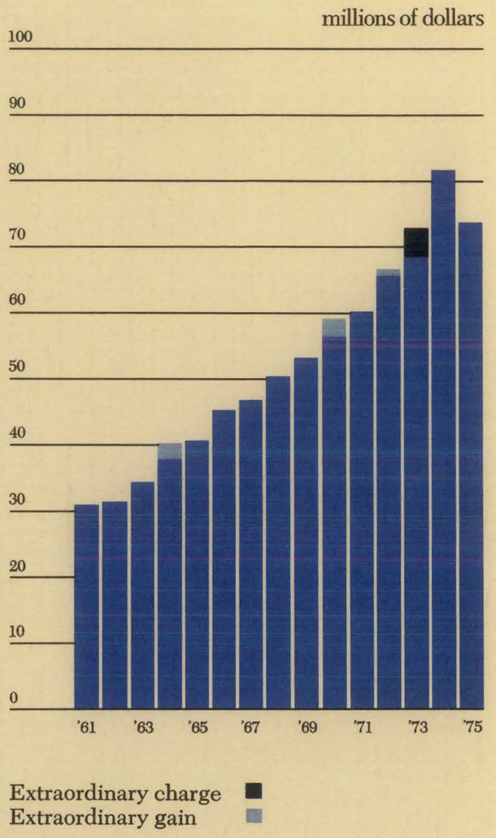
Sales increased 4.9 percent in 1975, reaching $1.9 billion. The geographical derivation of sales, net of excise taxes to improve comparability among the areas, was as follows: United States, 68 percent; Canada, 6 percent; Europe, 15 percent; and Central and South America, 11 percent. During the last 15 years, sales have increased at an annual compound rate of 6.6 percent.

Operating Income



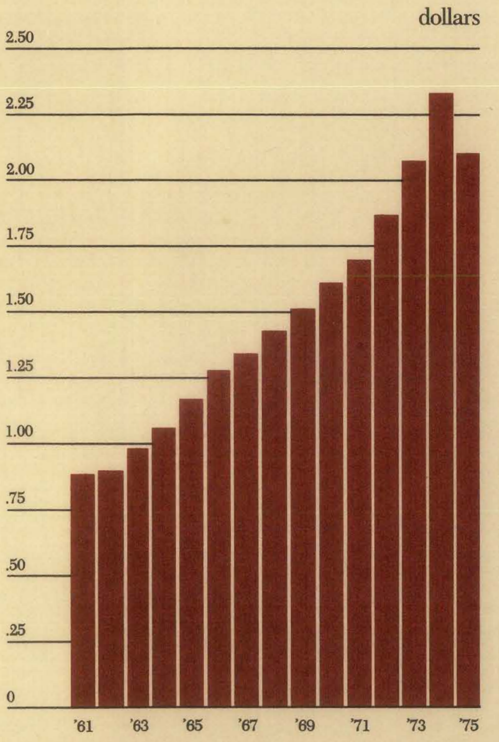
Operating income (income before interest expense and income taxes) in 1975 increased 5.6 percent over 1974. This increase was derived from oil and gas operations. (See Line of Business Summary on page 44 and Management's Discussion and Analysis of the Summary of Operations on page 45 for the source of operating income for the past five years between [a] spirits and wine and [b] oil and gas.) During the last 15 years, operating income has increased at an annual compound rate of 7.9 percent.

Net Income



The 9.1 percent decline in 1975 was due to the effects of worldwide recession and inflation, higher interest costs, and the decline in profitability in the United Kingdom. (See Management's Discussion and Analysis of the Summary of Operations on page 45 for further explanation of the decline in earnings in 1975.) During the last 15 years, net income has increased at an annual compound rate of 6.4 percent.

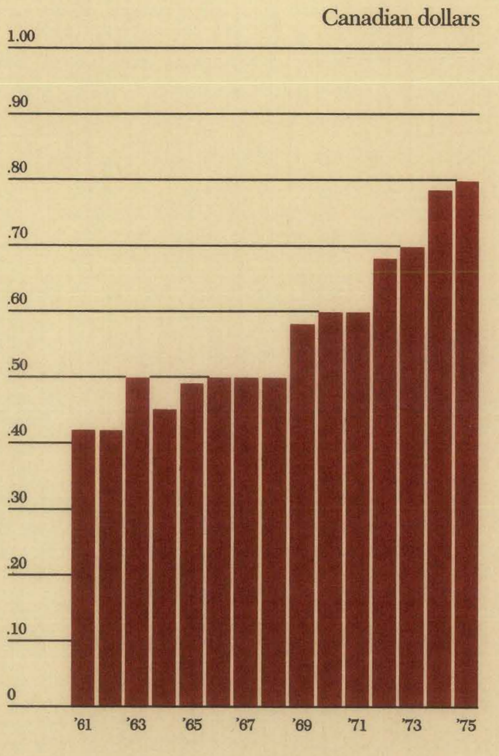
Earnings per Share*



The Company's earnings per share were $2.11 in 1975, down from $2.33 in 1974. Aside from stock splits in fiscal years 1965 and 1972, the number of shares outstanding has not changed. During the last 15 years, earnings per share have increased at an annual compound rate of 6.4 percent.

*Before extraordinary items; adjusted for 2-for-1 stock splits in fiscal years 1965 and 1972.

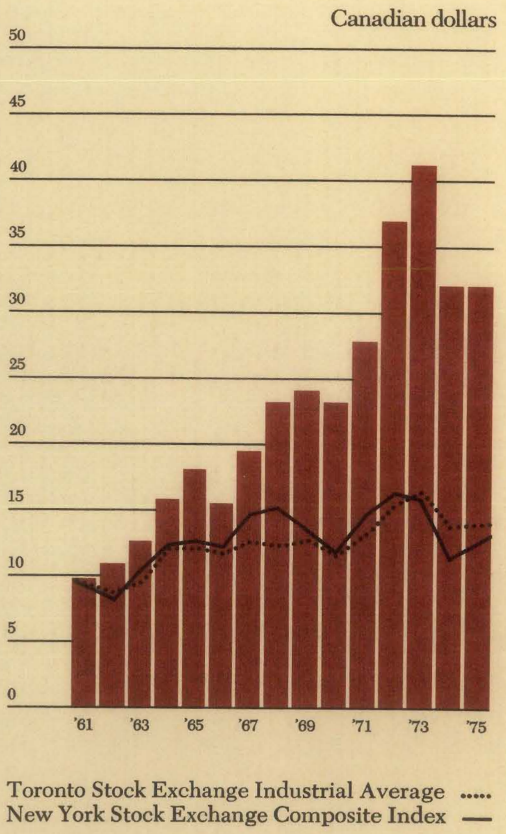
Dividends per Share*



Dividends per share paid in 1975 amounted to $.80 in Canadian currency. Approximately 60 percent of the Company's 1975 earnings were retained for use in expansion of operations. During the last 15 years, dividends per share have increased at an annual compound rate of 4.6 percent.

*Adjusted for 2-for-1 stock splits in fiscal years 1965 and 1972.

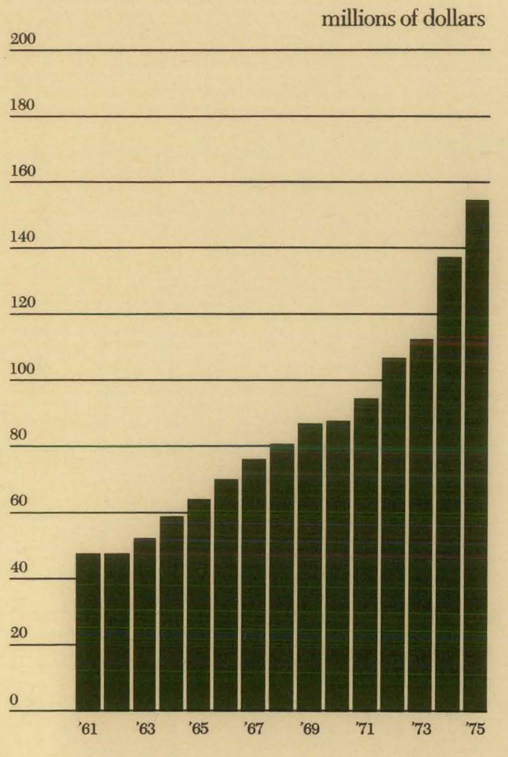
Common Stock Price*



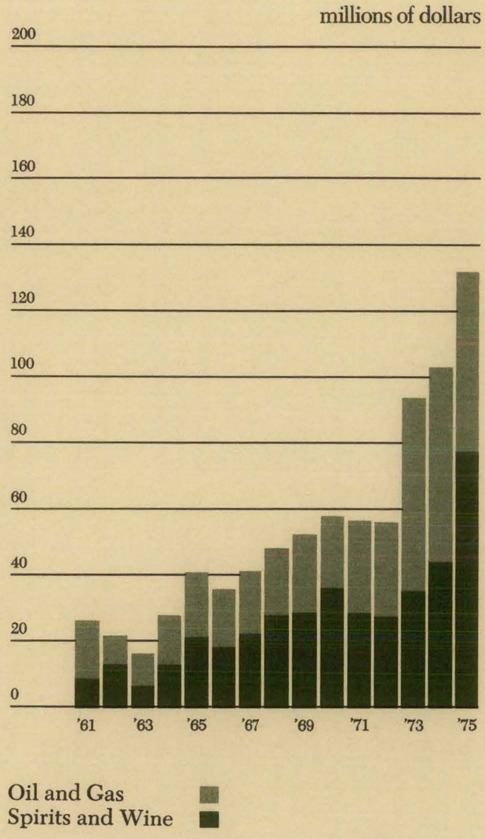
The Company's common stock is listed on the Montreal, Toronto, Vancouver, New York, Paris and London Stock Exchanges. The Company has 35,077,400 shares of common stock outstanding, which are held by 19,175 stockholders.

*Adjusted for 2-for-1 stock splits in fiscal years 1965 and 1972. Price on Canadian Exchanges.

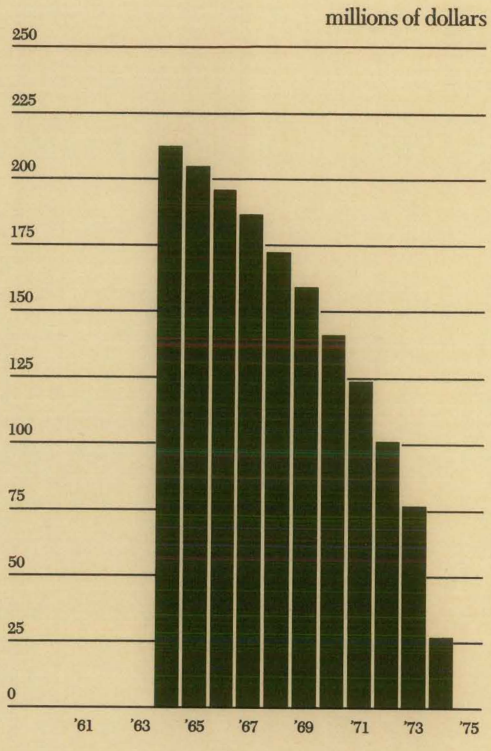
Working Capital Provided from Operations



Capital Expenditures



Glanville Production Payment—Balance Outstanding

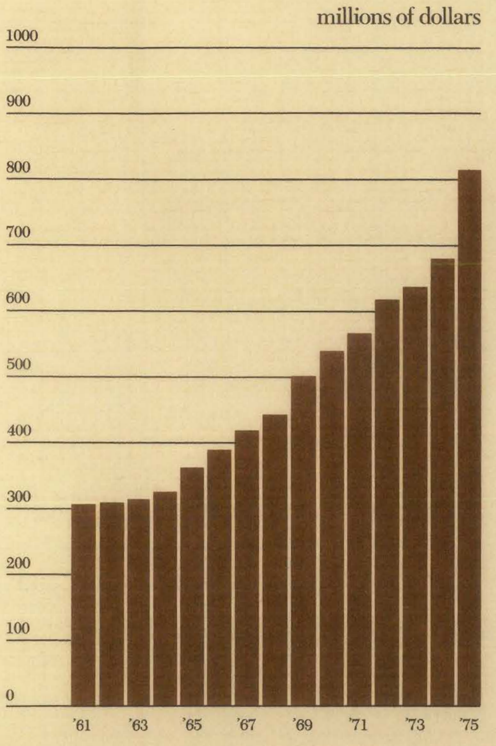


The Company's operations generated $155.5 million of working capital in 1975, up 12.1 percent from 1974. Due to the large investments in oil and gas in recent years and retirement of the Glanville Production Payment, non-cash charges relating to oil and gas properties (principally depreciation, depletion and amortization) have increased substantially. During the last 15 years, working capital from operations has increased at an annual compound rate of 8.8 percent. These funds have been used for building aging inventories, increased investment in oil and gas operations, expansion of fixed assets, and payment of dividends.

Capital expenditures have increased substantially within the last five years, particularly in the oil and gas segment of the business, where capital expenditures have totaled $229 million, or $17 million more than for spirits and wine. Capital spending in the spirits and wine segment has been concentrated in the wine operations and the overseas whisky business, principally in the United Kingdom.

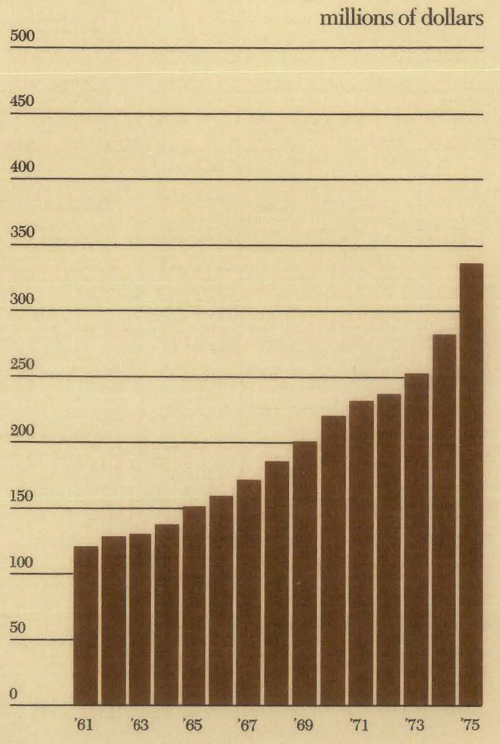
In November, 1963, the Company acquired oil and gas properties subject to a $216-million reserved production payment. The final installment of this amount was paid in December, 1974, thus allowing the revenues formerly devoted to the payment of principal and interest on this production payment to be used for other corporate purposes.

Inventories



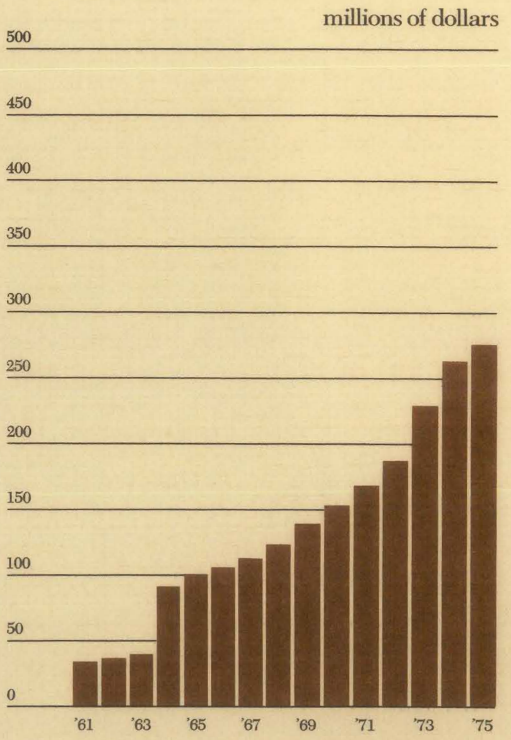
Due to the extended period required for the aging of spirits and wine, inventories are the largest element in the Company's total assets—$807 million in 1975. Inventories have increased during each of the last 15 years; as sales increase, the requirement to age inventories grows proportionately. A substantial portion of the Company's inventories are valued using the last-in, first-out (LIFO) method, as described in the Summary of Significant Accounting Policies on page 39. Current replacement cost of inventories valued at LIFO is $171 million over book value.

Property, Plant and Equipment—Spirits and Wine



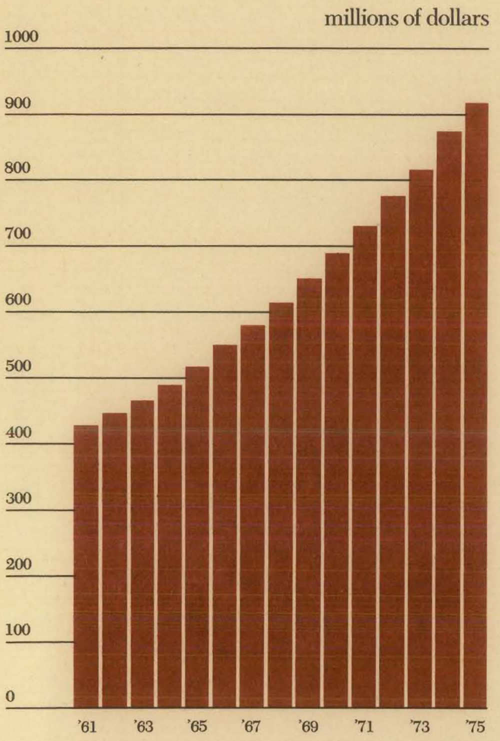
In 1975, the Company's investment in property, plant and equipment, after deducting depreciation, increased approximately 20 percent over 1974. This growth is consistent with the Company's policy of investing in new facilities and modernizing existing plants to expand capacity and improve efficiency.

Oil and Gas Properties



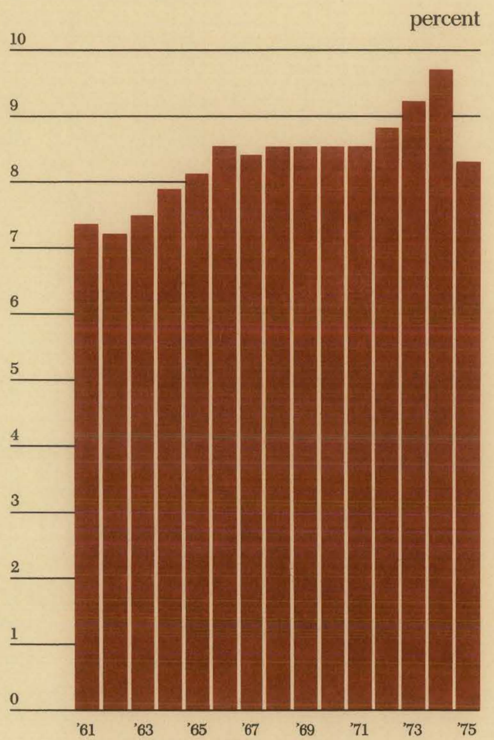
Within the last year, oil and gas properties, less accumulated depreciation, depletion and amortization, have increased by 5 percent. The charts on pages 15, 17, and 25 provide further information about oil and gas operations —production, undeveloped acreage, and reserves.

Shareholders' Equity



Shareholders' equity rose 5.3 percent to a record $913 million in 1975. The increases in shareholders' equity over the last 15 years reflect the Company's policy of reinvesting a major portion of earnings. Current shareholders' equity per share equals $26.02. During the last 15 years, shareholders' equity has grown at an annual compound rate of 5.5 percent.

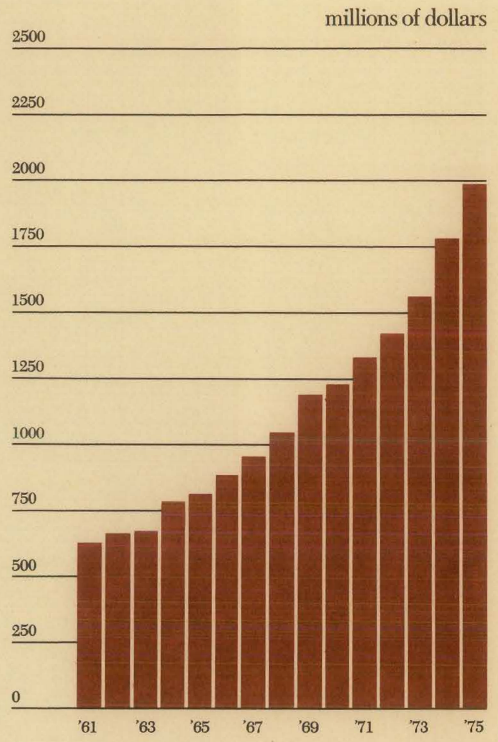
Return on Shareholders' Equity*



Return on shareholders' equity was 8.3 percent in 1975, and averaged 8.9 percent for the five-year period ending July 31, 1975. This index is a commonly used measure of investment productivity.

*Income before extraordinary items divided by average shareholders' equity.

Total Assets



The Company's total assets were slightly less than $2 billion in 1975. Over the last 15 years, significant changes in the composition of total assets were as follows: current assets in 1975, 64 percent as compared with 71 percent in 1961; property, plant and equipment, less accumulated depreciation, 17 percent as compared with 19 percent; oil and gas properties, less accumulated depreciation, depletion and amortization, 14 percent as compared with 6 percent.

Consolidated Statement of Income and Retained Earnings

The Seagram Company Ltd.
(Incorporated under the Canada Corporations Act)
and Subsidiary Companies

For the years ended July 31, 1975 and 1974
(Amounts stated in United States currency)

	1975	1974
Sales	$1,930,786,000	$1,840,986,000
Cost of goods	1,409,273,000	1,365,684,000
	521,513,000	475,302,000
Investment and other income	6,009,000	5,361,000
	527,522,000	480,663,000
Selling, general and administrative expenses	344,358,000	307,225,000
Operating income	183,164,000	173,438,000
Interest on long-term indebtedness	28,342,000	24,420,000
Interest on short-term borrowings	41,164,000	23,976,000
Income before income taxes	113,658,000	125,042,000
Provision for income taxes—current	27,296,000	34,954,000
—deferred	12,242,000	8,513,000
	39,538,000	43,467,000
Net income	74,120,000	81,575,000
Retained earnings at beginning of year	849,164,000	794,685,000
	923,284,000	876,260,000
Dividends	27,970,000	27,096,000
Retained earnings at end of year	$ 895,314,000	$ 849,164,000
Net income per share	$2.11	$2.33

Consolidated Balance Sheet

July 31, 1975 and 1974
(Amounts stated in United States currency)

Assets

	1975	1974
Current assets		
Cash	$ 38,328,000	$ 55,548,000
Short-term investments and other marketable securities, at cost	11,404,000	8,871,000
Receivables	398,635,000	360,970,000
Inventories	807,098,000	684,064,000
Prepaid expenses	20,645,000	18,473,000
	1,276,110,000	1,127,926,000
Property, plant and equipment, at cost	539,799,000	468,469,000
Accumulated depreciation	207,681,000	189,801,000
	332,118,000	278,668,000
Oil and gas properties, at cost	347,567,000	313,893,000
Accumulated depreciation, depletion and amortization	70,339,000	49,655,000
	277,228,000	264,238,000
Investments and advances—spirits and wine companies	71,681,000	68,465,000
Sundry assets	34,177,000	26,761,000
	$1,991,314,000	$1,766,058,000

Liabilities and Shareholders' Equity

	1975	1974
Current liabilities		
Short-term borrowings	$ 270,808,000	$ 293,169,000
United States excise taxes	78,837,000	75,581,000
Payables and accrued liabilities	113,872,000	104,946,000
Income and other taxes	19,966,000	24,042,000
Indebtedness payable within one year	6,356,000	6,255,000
	489,839,000	503,993,000
Long-term indebtedness	471,900,000	291,747,000
Deferred income taxes and other credits	93,778,000	82,451,000
Minority shareholders of subsidiaries	22,944,000	21,164,000
Shareholders' equity		
Common stock, without par value		
Authorized—46,000,000 shares		
Issued —35,077,400 shares	17,539,000	17,539,000
Retained earnings	895,314,000	849,164,000
	912,853,000	866,703,000
	$1,991,314,000	$1,766,058,000

Approved by the Board:
Edgar M. Bronfman, Director
J. E. Frowde Seagram, Director

Consolidated Statement of Changes in Financial Position

The Seagram Company Ltd.
(Incorporated under the Canada Corporations Act)
and Subsidiary Companies

For the years ended July 31, 1975 and 1974
(Amounts stated in United States currency)

	1975	1974
Financial resources provided by:		
Net income	$ 74,120,000	$ 81,575,000
Items not requiring the use of working capital—		
Depreciation, excluding oil and gas operations	21,277,000	18,498,000
Charges relating to oil and gas properties	41,556,000	24,750,000
Deferred income taxes	12,242,000	8,513,000
Sundry	6,286,000	5,312,000
Working capital provided from operations	155,481,000	138,648,000
Net change in other credits	(915,000)	11,437,000
Additions to long-term indebtedness	199,071,000	8,724,000
	353,637,000	158,809,000
Financial resources used for:		
Additions to property, plant and equipment	77,362,000	45,287,000
Additions to oil and gas properties	54,546,000	59,916,000
Investments and advances—spirits and wine companies	3,216,000	22,561,000
Reductions in long-term indebtedness	18,918,000	25,268,000
Dividends	27,970,000	27,096,000
Other, net	9,287,000	4,035,000
	191,299,000	184,163,000
Net change in working capital	$162,338,000	$ (25,354,000)
Consisting of increase (decrease) in:		
Cash and short-term investments	$(14,687,000)	$ 8,141,000
Receivables	37,665,000	55,767,000
Inventories	123,034,000	46,922,000
Prepaid expenses	2,172,000	1,869,000
	148,184,000	112,699,000
Short-term borrowings and indebtedness payable within one year	(22,260,000)	108,676,000
United States excise taxes	3,256,000	11,274,000
Payables and accrued liabilities	8,926,000	18,558,000
Income and other taxes	(4,076,000)	(455,000)
	(14,154,000)	138,053,000
Net change in working capital	$162,338,000	$ (25,354,000)

Summary of Significant Accounting Policies

The Company follows the generally accepted accounting principles described below. These, together with the notes which follow, should be considered an integral part of the consolidated financial statements.

Principles of Consolidation
The consolidated financial statements include the accounts of The Seagram Company Ltd. and all subsidiaries. Investments and advances—spirits and wine companies relate principally to companies owned 20% or more; these investments are included on an equity basis.

Foreign Exchange Accounting
A substantial amount of the assets, liabilities, sales and earnings originates in the accounts of subsidiaries in the United States through the operation of a wholly owned subsidiary, Joseph E. Seagram & Sons, Inc. and, therefore, the statements are expressed in United States currency. The accounts of companies located in Canada and elsewhere outside the United States have been translated generally using the following exchange rates: inventories on hand and inventory items included in cost of goods at rates of exchange prevailing at the time of production or acquisition; other current assets, current liabilities and long-term indebtedness at the rates of exchange at July 31; non-current assets, accumulated depreciation and capital stock at rates of exchange prevailing at the time of acquisition or issue; items of income or expense, other than inventory items and depreciation, at average rates of exchange prevailing during the fiscal year. Unrealized conversion differences due to normal fluctuations in exchange rates are deferred as long as the cumulative balance is a net gain.

Inventories
Inventories are stated at cost which is not in excess of market and consist principally of whiskies and spirits. Cost is determined by either the last-in, first-out (LIFO) method or the identified cost method.

The LIFO method is used by the Company in the United States and Puerto Rico. Under the LIFO method, the current costs of producing whiskey are charged to cost of goods sold and the original production costs are retained in inventory. In times of rising prices, the current costs of producing whiskey are substantially higher than the original production costs associated with the whiskey currently being sold. Whiskey inventories in the United States generally mature for 4½ to 8 years.

It is the Company's practice to charge to expense as incurred all costs associated with the aging of whiskey; these costs consist of warehouse depreciation, warehouse operating expenses, insurance and local taxes.

Current assets include spirits and wine which, in the normal business cycle of the industry, will remain in storage to be aged for varying periods of years.

Property, Plant and Equipment
Property, plant and equipment are carried at cost. Depreciation of fixed assets is determined for financial reporting purposes on a straight-line basis over the estimated useful asset lives. Upon sale or retirement of fixed assets, the accumulated depreciation, together with any amounts realized on sale, is offset against the cost of the assets sold or retired. The resulting profit or loss, if any, is included in income. Expenditures for maintenance and repairs are charged to income as incurred; renewals and improvements are capitalized.

Oil and Gas Properties
Investments in oil and gas properties are carried at cost. Oil and gas operations are conducted principally through a wholly owned subsidiary, Texas Pacific Oil Company, Inc. The Company uses the successful efforts method of accounting for oil and gas operations whereby costs of drilling and developing producing wells are capitalized and the costs of unsuccessful wells are charged to expense when incurred. Costs of acquiring acreage, including geological and geophysical costs, are capitalized. Undeveloped acreage costs for leases in offshore United States waters are amortized over the projected holding period based on historical experience of the operator; for onshore acreage these costs are expensed upon surrender. Costs of productive oil and gas wells, including intangible development costs, as well as the cost of producing oil and gas dedicated to production payments, are capitalized and amortized on the unit-of-production method based on the Company's overall oil and gas reserves.

Income Taxes
Deferred income taxes are provided for items reported for tax purposes in different periods than for financial purposes, except for certain permanent or indefinite differences in timing relating principally to the United States oil and gas operations, namely statutory depletion allowances, deductions for intangible development costs on productive wells, and costs associated with producing oil and gas dedicated to production payments. See Note 9 for further discussion of taxes related to oil and gas operations. Deferred income taxes result principally from additional tax deductions available through the use of accelerated depreciation methods.

Taxes have not been provided on undistributed earnings of subsidiaries outside of Canada, because the Company plans to reinvest such earnings.

Notes to Consolidated Financial Statements

Advertising and Promotion Expenses
Advertising and promotion expenses are charged to income as incurred.

Intangible Assets
Product trademarks, distribution rights, patents and goodwill are carried at nominal value, and, except for goodwill which is amortized principally over fifteen years, related outlays are charged to income as incurred.

Pensions
The Company has trusteed non-contributory pension plans covering substantially all of its employees. The projected benefits method is the actuarial basis adopted by the pension plans. Pension costs, determined by independent consulting actuaries, are funded as accrued.

Note 1
Inventories accounted for under the LIFO inventory method amounted to $256,280,000 at July 31, 1975 and $226,562,000 at July 31, 1974. The excess of current estimated replacement cost over LIFO carrying value was $170,991,000 at July 31, 1975 and $111,315,000 at July 31, 1974.

Note 2
The principal oil and gas properties are subject to reserved payments aggregating $3,635,000 at July 31, 1975 ($33,795,000 at July 31, 1974). Payments to holders of the production payments, including interest and production taxes, were $26,943,000 in fiscal 1975 and $60,915,000 in fiscal 1974; these amounts are excluded from consolidated sales. Depreciation, depletion and amortization of oil and gas properties provided in the year ended July 31, 1975 aggregated $24,139,000 and $10,139,000 in the preceding year; the accumulated balance of depletion and amortization at July 31, 1975 was $48,089,000.

Note 3
Short-term borrowings at July 31, 1975 consisted of bank borrowings of $70,300,000 and commercial paper of $200,508,000. The maximum amount of short-term borrowings outstanding during the fiscal year ended July 31, 1975 was $441,425,000 and averaged $400,552,000 for the fiscal year ended July 31, 1975. The interest rates on these short-term borrowings were at prime or its equivalent, and on a weighted average basis were 10.5% for the fiscal year ended July 31, 1975; and 9.0% at July 31, 1975.

Unused lines of credit at July 31, 1975 were $428,965,000. Of this total, $200,508,000 were in support of commercial paper outstanding. Commitment fees on these lines vary and in aggregate are not material.

Although there are no formal agreements with lending institutions, the Company follows a general policy in the United States of maintaining balances equal to approximately 10% (based on a twelve-month moving average) of the lines of credit. These balances may be withdrawn at any time without sanction. There are no compensating balances maintained outside the United States.

Note 4
Chivas Brothers Limited, a wholly owned subsidiary in the United Kingdom, entered into a contract in December, 1973, whereunder it agreed at such time as it elects, but within a period of five years, to purchase scotch whisky from a subsidiary of a British bank (the owner). The whisky will be purchased by the owner from various distillers unrelated to the Company and will be identified and held by Chivas Brothers until required for regular

blending into its products. The amount of commitment, representing the aggregate acquisition cost to the owner, was $48,375,000 at July 31, 1975, and under the contract can reach a maximum of $77,400,000. Chivas Brothers pays and, in order to provide accounting compatibility with its practices for owned stocks, expenses currently charges equivalent to whisky aging and financing costs. Performance of Chivas Brothers under the purchase commitment is guaranteed by the Company.

Note 5

Long-term indebtedness consisted of the following:

	July 31 1975	July 31 1974
Seven Year 7½% Notes, due July 1, 1978	$ 50,000,000	$ 50,000,000
Seven Year 7% Debentures, due December 15, 1978 ($25,000,000 Canadian)	24,250,000	25,000,000 due to exchange rates?
Five Year 9½% Debentures, due June 1, 1980 ($65,000,000 Canadian)	63,050,000	—
Twenty-five Year 4¼% Debentures, due April 1, 1983	20,824,000	22,579,000
Twenty-five Year 4⅝% Promissory Notes, due February 1, 1989	50,500,000	54,000,000
Twenty Year 7⅝% Debentures, due December 15, 1991 ($25,000,000 Canadian)	24,250,000	25,000,000
Twenty Year 10⅞% Debentures, due June 1, 1995 ($60,000,000 Canadian)	58,200,000	—
Twenty-five Year 7¾% Debentures, due September 1, 1996	50,000,000	50,000,000
Bank borrowings, primarily Sterling, repayable in fiscal 1977 through 1980; interest at 10¼% on average in fiscal 1975 (14% in fiscal 1974)	77,913,000	36,650,000
Eurodollar borrowings repayable in fiscal 1979, interest at 7½% on average in fiscal 1975 (14½% in fiscal 1974)	25,000,000	10,000,000
Sundry	34,269,000	24,773,000
	478,256,000	298,002,000
Less: Indebtedness payable within one year	6,356,000	6,255,000
	$471,900,000	$291,747,000

Some of the long-term indebtedness contain requirements for annual redemptions. The amount thereof for the fiscal year 1977 totals $37,770,000.

Arrangements are occasionally entered into whereby funds of companies outside the United States are deposited on a time basis and equivalent borrowings are provided elsewhere, principally in the United Kingdom. These deposits and borrowings, being in effect transfers of an inter-company nature, are offset in consolidation. The amount under such arrangements at July 31, 1975 was $28,650,000, all of which expires more than one year thereafter.

Consolidated retained earnings at July 31, 1975 include $433,615,000 representing a portion of the retained earnings of Joseph E. Seagram & Sons, Inc. and its subsidiaries, which, under provisions of the most restrictive indenture requirements, cannot be paid in the form of dividends or otherwise transferred to the Canadian parent.

Note 6

During the years ended July 31, 1975 and 1974, the directors and officers of The Seagram Company Ltd. received remuneration from the Company and from its subsidiary companies as set out below:

	14 Directors of the Company 1975	14 Directors of the Company 1974	6 Officers of the Company 1 of whom is not a Director 1975	6 Officers of the Company 1 of whom is not a Director 1974
The Seagram Company Ltd.	$ 53,000	$48,000		
Joseph E. Seagram & Sons, Inc.			$ 660,000	$ 591,000
Distillers Corporation Limited			521,000	412,000
G. H. Mumm & Cie.	91,000			
	$144,000	$48,000	$1,181,000	$1,003,000

Note 7

Charges to earnings for pension costs amounted to $9,200,000 in 1975 and $7,100,000 in 1974. Pension fund assets exceed vested benefits earned by employees presently covered under the plans; past service costs are not material. The United States 1974 Pension Reform Act is not expected to have any significant effect on future fund contributions.

Note 8

The overall tax rates are below the 48% statutory tax rate in the United States due to the oil and gas operations and the taxation of operations outside of the United States, mainly Canada, at a lower rate.

	1975	1974
Statutory rate	48%	48%
Oil and gas	(7%)	(8%)
Operations outside the United States	(6%)	(5%)
Effective rate	35%	35%

Reference is made to Note 9 for particulars of certain changes in the United States income tax laws relating to oil and gas operations.

Various taxing authorities have proposed or levied assessments of additional income taxes for prior years. Management considers that the settlements will not have a material effect on the Company.

Note 9

The United States Tax Reduction Act of 1975, enacted March 29, 1975, eliminated as of January 1, 1975 the major benefits from percentage depletion on most oil and gas production. Had the full benefits of percentage depletion been available for the entire fiscal year to the Company's oil and gas subsidiary, Texas Pacific Oil Company, Inc., the current tax provision for fiscal 1975 would have been reduced by $6,100,000.

As a further result of the elimination of percentage depletion, the authoritative accounting body in the United States, the Financial Accounting Standards Board (FASB), has released an exposure draft which would require deferred tax provisions for intangible drilling and related costs that are deducted currently for tax purposes but capitalized for financial statement purposes. Prior to the elimination of depletion, in accordance with generally accepted accounting principles in the United States, such deferrals were not provided.

The Company has recorded deferred taxes following the FASB recommended prospective net method for intangible drilling and related costs since January 1, 1975; the effect on net income was immaterial.

The FASB exposure draft also would require that oil and gas producing companies record as deferred taxes as of January 1, 1975 the cumulative amount of the reduction in income taxes in prior years related to unamortized capitalized costs previously deducted for income tax purposes. This cumulative amount (approximately $61,000,000 for the Company) would be recorded as a one-time, non-cash charge to earnings and would be shown in the income statement similar to an extraordinary item. This deferred tax adjustment would not affect cash flow or working capital.

It is emphasized that the foregoing position of the FASB at this time is only proposed and that it is not possible to predict the time of issuance of or the position which will be taken in the final statement.

To The Shareholders of
The Seagram Company Ltd.

We have examined the consolidated balance sheets of The Seagram Company Ltd. and its subsidiary companies as at July 31, 1975 and 1974 and the consolidated statements of income and retained earnings and 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 of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the consolidated financial position of the companies as at July 31, 1975 and 1974 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.

Price Waterhouse & Co.
5 Place Ville Marie, Montréal, Québec H3B 2G4
September 23, 1975

Five-Year Summary of Operations

(U.S. dollars in thousands, except per share amounts)

	1975	1974	1973	1972	1971
Sales	**$1,930,786**	$1,840,986	$1,688,487	$1,585,162	$1,512,246
Cost of goods	**1,409,273**	1,365,684	1,273,583	1,200,688	1,149,852
	521,513	475,302	414,904	384,474	362,394
Investment & other income	**6,009**	5,361	5,346	5,405	5,647
	527,522	480,663	420,250	389,879	368,041
Selling, general & administrative expense	**344,358**	307,225	273,164	253,471	235,929
Operating income	**183,164**	173,438	147,086	136,408	132,112
Interest expense	**69,506**	48,396	29,821	25,172	26,177
Income before income taxes	**113,658**	125,042	117,265	111,236	105,935
Income taxes	**39,538**	43,467	44,584	45,541	45,818
Income before extraordinary items	**74,120**	81,575	72,681	65,695	60,117
Extraordinary items*	—	—	(4,613)	577	—
Net income	**$ 74,120**	$ 81,575	$ 68,068	$ 66,272	$ 60,117
Per share**					
Income before extraordinary items	**$2.11**	$2.33	$2.07	$1.87	$1.71
Extraordinary items	—	—	(.13)	.02	—
Net income	**$2.11**	$2.33	$1.94	$1.89	$1.71
Dividends (Canadian currency)	**$ .80**	$.775	$ .70	$.675	$ .60

*In the year ended July 31, 1973, the extraordinary charge of $4,613,000 arose from an adjustment on translation of foreign currencies due to the February, 1973, devaluation of the United States dollar.

In the year ended July 31, 1972, the net extraordinary item of $577,000 consisted of a $9,158,000 gain on the sale of a Canadian subsidiary, Gramercy Holdings Limited, and a charge of $8,581,000 principally due to an adjustment on translation of foreign currencies arising from the December, 1971, devaluation of the United States dollar.

**For the years 1975 back through 1971, net income and dividends per common share are based on 35,077,400 shares outstanding, after giving effect to a 2-for-1 stock split in fiscal 1972.

Line of Business Summary

(U.S. dollars in thousands, except per share amounts)

The following summary, which is being presented for the first time, shows sales and operating income for the two major lines of business: (a) spirits and wine; (b) oil and gas. This presentation conforms to the line of business breakdown included in the Annual Report, Form 10-K, as filed with the Securities and Exchange Commission for the year ended July 31, 1975.

	1975	1974	1973	1972	1971
Sales:					
Spirits and wine	**$1,807,708**	$1,786,836	$1,660,941	$1,559,665	$1,488,276
Oil and gas	**123,078**	54,150	27,546	25,497	23,970
	$1,930,786	$1,840,986	$1,688,487	$1,585,162	$1,512,246
Operating income:					
Spirits and wine	**$ 145,042**	$ 161,193	$ 148,964	$ 135,568	$ 132,364
Oil and gas	**38,122**	12,245	(1,878)	840	(252)
	$ 183,164	$ 173,438	$ 147,086	$ 136,408	$ 132,112

Quarterly Data

1975:	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Sales	$ 515,394	$ 494,916	$ 463,412	$ 457,064
Operating income	60,653	30,459	42,576	49,476
Interest expense	16,993	19,477	18,325	14,711
Income before income taxes	43,660	10,982	24,251	34,765
Income taxes	15,761	2,780	8,813	12,184
Net income	$ 27,899	$ 8,202	$ 15,438	$ 22,581
Per share				
Net income	.80	.23	.44	.64
Dividends (Canadian currency)	.20	.20	.20	.20
Stock price*				
High	32¾	36	36⅞	33⅞
Low	24¼	30½	29⅜	28

1974:				
Sales	$ 481,227	$ 480,501	$ 438,372	$ 440,886
Operating income	51,647	32,330	35,857	53,604
Interest expense	10,391	13,249	12,297	12,459
Income before income taxes	41,256	19,081	23,560	41,145
Income taxes	15,669	5,695	6,974	15,129
Net income	$ 25,587	$ 13,386	$ 16,586	$ 26,016
Per share				
Net income	.73	.38	.47	.75
Dividends (Canadian currency)	.175	.20	.20	.20
Stock price*				
High	46	44½	45¾	39¼
Low	40⅜	39⅛	38¼	32

*Canadian Stock Exchanges

Management's Discussion and Analysis of the Summary of Operations

The following summary, together with the Report of the Directors to Shareholders on pages 4 to 11, relates to the comparative financial statements for years 1975 and 1974, and identifies material factors influencing results.

Total sales increased 4.9 percent in 1975 and 9 percent in 1974. Net of excise taxes, total sales were up 10.4 percent and 14 percent respectively. Excise taxes were a lower percentage of the total sales in 1975 as a result of certain proof reductions in the United States.

The overall sales increases in 1975 were influenced substantially by higher oil and gas revenue, in part from the retirement of the Glanville Production Payment in December, 1974. Sales of spirits and wine, net of excise taxes, rose 2.7 percent in fiscal 1975 and 11 percent in fiscal 1974. In the United States, the Company's largest market, Seagram's brands maintained or increased their share of market, although sales of blended whiskies fell behind those of a year ago, and sales of both Crown Royal and V.O. also declined slightly. In addition, work stoppages in the United Kingdom reduced shipments of scotch whisky, particularly in the fourth quarter.

For 1974 compared with 1973, the overall sales increases were attributable in part to higher revenue in the Company's spirits and wine operations. These increases were spread throughout virtually all areas of the Company. In particular, sales increases were shown in Canadian and scotch whisky, vodka, and gin; these increases were partially offset by slight declines in blended whiskies. In addition, oil and gas revenue increased due to both higher prices and higher production.

Operating income increased in both 1975 and 1974. In 1975 this was due to increased oil and gas revenue, which was offset in part by higher exploration and development expenses. Contribution from spirits and wine operations declined as cost increases, particularly of corn, more than offset selling price increases in North America and certain proof reductions in the United States. These proof reductions serve to reduce excise tax payments. In addition, the overall product mix was not as profitable in 1975 as in 1974 in the United States market; sales of gin, vodka and rum, which have lower margins, increased while sales of aged products declined slightly. Operating income declined in the United Kingdom as a result of extraordinary increases in costs, severe competition and higher taxes in the home market, and labour problems which impeded the Company's ability to fill its orders for scotch products in the United States and other export markets.

In 1974 compared with 1973, operating income increased for both oil and gas operations and spirits and wine operations. Oil and gas operating income increased due to higher revenue, offset in part by increased exploration and development expenses. Spirits and wine operating income increased throughout virtually all areas of the Company.

Interest expense increased in 1975 as a result of higher borrowing levels. The increase in interest in 1974 resulted from both higher borrowing levels and higher interest rates. Proceeds from the increased borrowings in both years were used primarily for accumulation of aging inventory, additions to oil and gas properties, and additions to property, plant and equipment.

The effective tax rate in 1975 and 1974 was 34.8 percent. This represented a decline of 3.2 percentage points from 1973, arising principally from the reduction in federal taxes in Canada commencing January 1, 1973.

Operating income from oil and gas was depressed in the years 1971 to 1973 due to the Glanville Production Payment.

Fifteen-Year Financial Summary

(U.S. dollars in thousands, except per share amounts)

For the fiscal year	4.9% 1975	9.7% 1974	6.5% 1973	4.8% 1972	5.2% 1971	1970
Sales	**$1,930,786**	$1,840,986	$1,688,487	$1,585,162	$1,512,246	$1,437,234
Operating income	**183,164**	173,438	147,086	136,408	132,112	130,033
Income before extraordinary items	**74,120**	81,575	72,681	65,695	60,117	56,719
Extraordinary items	–	–	(4,613)	577	–	2,497
Net income	**74,120**	81,575	68,068	66,272	60,117	59,216
Per share–income before extraordinary items	**2.11**	2.33	2.07	1.87	1.71	1.62
Per share–extraordinary items	–	–	(.13)	.02	–	.07
Per share–net income	**2.11**	2.33	1.94	1.89	1.71	1.69
Return on shareholders' equity	**8.3%**	9.7%	9.2%	8.8%	8.5%	8.5%
Dividends	**27,970**	27,096	24,473	23,173	20,513	19,632
Dividends per share (Canadian currency)	**.80**	.775	.70	.675	.60	.60
Working capital provided from operations	**155,481**	138,648	113,031	107,247	94,302	87,738
Capital expenditures–						
Spirits and wine	**77,362**	45,287	34,603	26,638	28,523	35,485
Oil and gas	**54,546**	59,916	58,180	28,037	28,780	22,380
Total	**131,908**	105,203	92,783	54,675	57,303	57,865

At fiscal year-end	1975	1974	1973	1972	1971	1970
Total assets	**1,991,314**	1,766,058	1,568,346	1,416,327	1,325,930	1,235,379
Shareholders' equity	**912,853**	866,703	812,224	768,629	725,530	685,926
Shareholders' equity per share	**26.02**	24.71	23.16	21.91	20.68	19.55
Inventories	**807,098**	684,064	637,142	617,906	568,002	536,175
Property, plant and equipment–spirits and wine (net)	**332,118**	278,668	253,312	236,865	231,846	219,186
Oil and gas properties (net)	**277,228**	264,238	229,072	184,886	168,191	151,924
Glanville Production Payment–balance outstanding	–	28,119	77,128	101,991	123,869	141,618
Closing stock price (Canadian currency)	**32.00**	32.00	41.00	36.75	27.63	23.00

The number of shares outstanding during the period has been 35,077,400 after adjusting for 2-for-1 stock splits on November 25, 1964 and November 26, 1971.

*Excludes Texas Pacific acquisition.

**The Glanville Production Payment of $216,000,000 was entered into in November, 1963.

1969	1968	1967	1966	1965	1964	1963	1962	1961
$1,342,566	$1,255,352	$1,164,626	$1,104,386	$1,005,119	$ 897,083	$ 864,522	$ 820,412	$ 794,234
117,928	107,648	94,618	88,531	81,680	70,967	73,398	67,718	63,234
53,260	50,625	47,117	45,076	41,059	37,630	34,259	31,613	30,944
—	—	—	—	—	2,725	—	—	—
53,260	50,625	47,117	45,076	41,059	40,355	34,259	31,613	30,944
1.52	1.44	1.34	1.29	1.17	1.07	.98	.90	.88
—	—	—	—	—	.08	—	—	—
1.52	1.44	1.34	1.29	1.17	1.15	.98	.90	.88
8.5%	8.5%	8.4%	8.5%	8.1%	7.9%	7.5%	7.2%	7.4%
18,611	16,184	16,166	16,182	15,777	14,563	16,182	14,232	15,026
.575	.50	.50	.50	.488	.45	.50	.425	.425
87,470	81,189	76,068	70,712	63,727	58,899	52,908	47,655	47,721
28,874	27,654	23,521	18,561	22,051	14,504	7,157	14,121	8,682
23,933	21,371	18,540	18,160	18,960	14,722*	9,219	8,509	16,948
52,807	49,025	42,061	36,721	41,011	29,226	16,376	22,630	25,630
1,191,761	1,048,413	956,479	883,346	820,012	774,895	673,363	651,741	632,951
646,342	611,693	577,252	546,301	517,407	490,642	464,850	446,774	429,392
18.43	17.44	16.46	15.57	14.75	13.99	13.25	12.74	12.24
500,379	443,416	418,901	389,738	359,688	329,430	315,674	311,987	304,547
200,344	185,017	172,438	160,896	150,388	137,010	129,694	128,984	121,390
138,085	124,039	114,467	107,035	100,040	92,077	39,396	36,965	35,825
160,103	173,279	186,030	196,489	205,213	213,974	**	**	**
24.00	23.13	19.38	15.50	18.00	15.81	12.56	10.81	9.75

The Seagram Company Ltd.

Directors

Edgar M. Bronfman
Chairman and
Chief Executive Officer
The Seagram Company Ltd.

Charles R. Bronfman
President
The Seagram Company Ltd.

Allan Bronfman
Vice-President
The Seagram Company Ltd.

Harold Fieldsteel
Treasurer and Controller
The Seagram Company Ltd.

*Honorable Louis P. Gélinas
Consultant to Geoffrion,
Robert & Gélinas Ltd.

*William J. Green
Chairman of the Board
Clevepak Corporation

Melvin W. Griffin
President
The House of Seagram Ltd.

Alain de Gunzburg
Chairman of the Board,
G. H. Mumm & Cie, and
Vice-Chairman—Managing Director
Banque Louis-Dreyfus

E. Leo Kolber
President
Cemp Investments Ltd.

*John L. Loeb
Senior Partner
Loeb, Rhoades & Co.

C. Edward Medland
President and
Chief Executive Officer
Wood Gundy Limited

J. E. Frowde Seagram
President
Canlon Investments Limited

Philip F. Vineberg, O.C., Q.C.
Partner
Phillips & Vineberg

Jack Yogman
Executive Vice-President and
Chief Operating Officer
The Seagram Company Ltd.

*Member of the Audit Committee.

Officers

Edgar M. Bronfman
Chairman and
Chief Executive Officer

Charles R. Bronfman
President

Jack Yogman
Executive Vice-President and
Chief Operating Officer

Allan Bronfman
Vice-President

Harold Fieldsteel
Treasurer and Controller

Alan A. Sharp
Secretary

Leonard P. Babich
Assistant Controller

Auditors

Price Waterhouse & Co.

Registrars

Canada Permanent Trust Company
Montreal and Toronto

The Bankers' Trust Company
Calgary and Vancouver

Manufacturers Hanover
Trust Company
New York

Transfer Agents

The Royal Trust Company
Montreal, Toronto, Calgary,
Vancouver

Bankers Trust Company
New York

Special General Meeting and Annual Meeting of Shareholders

A Special General Meeting of Shareholders will be held November 13th, 1975, at 12:00 noon (E.S.T.) at Le Château Champlain, Place du Canada, Montreal, Quebec, Canada. The Annual Meeting of Shareholders will be convened immediately thereafter at the same location.

Form 10-K

A copy of the Annual Report on Form 10-K, as filed with the Securities and Exchange Commission in Washington, D.C., may be obtained by writing to the Secretary, The Seagram Company Ltd., 1430 Peel Street, Montreal, Quebec, Canada H3A 1S9

Edition française du rapport annuel

On peut se procurer l'édition française de ce rapport en écrivant au Secrétaire, La Compagnie Seagram Ltée, 1430 rue Peel, Montréal, Québec, Canada H3A 1S9

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