



McGILL UNIVERSITY

SEP 28 1999

TREASURY DEPARTMENT

SEAGRAM

1999 ANNUAL REPORT

are you **ready...**



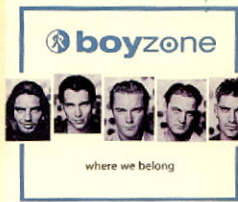
music

Today, our Universal Music Group is the world's largest music company. We're the market leader in every major region — Europe, North America, Latin America and Asia — as well as key countries, including the U.K., France, Germany, Brazil and the U.S. We lead the industry in discovering and developing artists across every major music genre — including Pop, Rock, Rap, Hip-Hop, R&B, Jazz, Country and Classical. And we have the largest and most prestigious catalog in the world, spanning all genres and languages.

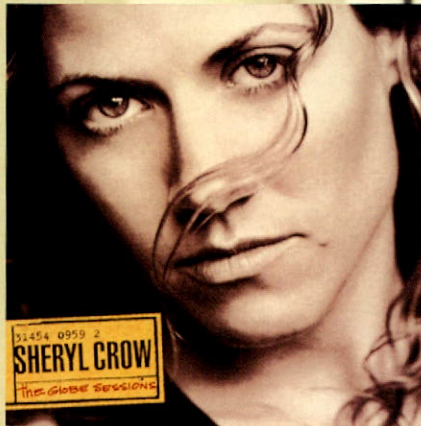
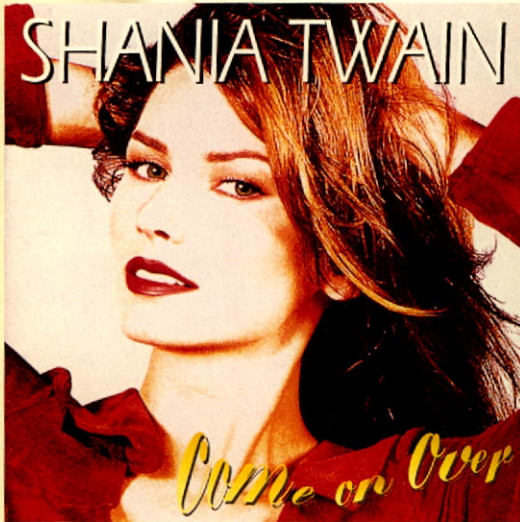
Universal Music is home to some of the world's finest artists — from Elton John to Shania Twain, Luciano Pavarotti to U2, Sheryl Crow to Enrique Iglesias, Johnny Hallyday to Mary J. Blige, Boyz II Men to Jacky Cheung, Aqua to Reba McEntire, Diana Krall to Sting and Andrea Bocelli to Stevie Wonder. Our catalog features such legends as Ella Fitzgerald, Marvin Gaye, Jimi Hendrix, Bob Marley and Hank Williams.

With music-minded partners, we're leading the way in leveraging the power of the World Wide Web to sell music via the Internet and future broadband channels.

HOWARD ROSS LIBRARY OF MANAGEMENT
MCGILL UNIVERSITY



UNIVERSAL
MUSIC GROUP



...to speak the universal language of
music...



filmed entertainment

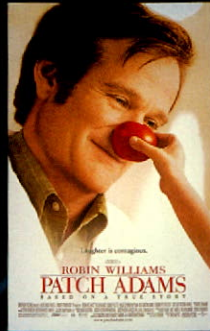
Our filmed entertainment business, which had experienced a long dry spell, has been showing signs of a comeback since December 1998, with the box office successes of *Patch Adams*, *Shakespeare In Love* (a co-production with Miramax), *The Mummy*, *Notting Hill* and *American Pie*.

We have put in place a new management team and have actively sought ways to take capital out of the business — including reducing the number of fully financed films and increasing partner arrangements.

In domestic television, we've reaped great value for shareholders from our effective 45 percent interest in USA Networks, Inc. As of mid-August 1999, the market value of this investment was \$7.4 billion, more than double our initial investment in February 1998. In international television, we've built strategic alliances in hot, growing markets in Latin America and Europe. Around the world, Universal-branded networks are enjoying great success: *13th Street: The Action & Suspense Channel* is today the most watched channel on the Canal Satellite platform in France, for example, while *Studio Universal* is the most watched channel on the Stream platform in Italy.



FILMED ENTERTAINMENT



...to excite, delight and amaze
the biggest audience
ever...



...to give the world an

out-of-this-world

experience

recreation and other businesses

By 2001, we expect about 30 million fun-seeking guests a year in Asia, Europe and North America to be experiencing the exciting, innovative recreation entertainment of Universal Studios.

Our latest expansion, the Universal Studios Escape destination in Orlando, Florida, is an extraordinary and unparalleled entertainment experience. There, our new Universal Studios Islands of Adventure theme park brings people of all ages into a whole new world of exhilarating rides and entertainment on five themed islands: Seuss Landing, Toon Lagoon, Marvel Super Hero Island, The Lost Continent and Jurassic Park.

And the excitement continues: We added new attractions to Universal Studios Hollywood, and we began construction on a new theme park in Osaka, Japan, slated to open in 2001. This follows our European market entry with Universal Studios Port Aventura south of Barcelona, Spain, and the opening of Universal Studios Experience in Beijing, China.

Around the globe, our theme parks — through corporate partnerships, outside financing, royalties and management fees — are one of our major growth engines. As tens of millions of consumers around the planet will attest, enhancing shareholder returns has never been this much fun.



UNIVERSAL STUDIOS
RECREATION GROUP



e...



spirits and wine

For decades, people around the world have made Seagram brands part of life's many celebrations, memories and important moments, and we're working hard to ensure that Seagram is *the* toast of the new millennium.

Our spirits and wine business generated approximately \$500 million in pre-tax free cash flow in fiscal 1999. For our shareholders, the business creates significant returns, as we aim to deliver sustainable, profitable growth ahead of the competition.

Today, we've grown our production, marketing and distribution of distilled spirits and wines into what is now a nearly \$5 billion business that also encompasses coolers, beers and mixers. As a global leader in the beverage alcohol industry, we serve more than 190 countries and territories. And because we offer premium brands, millions of consumers around the world order Seagram brands by name: Chivas Regal Scotch Whisky, Crown Royal Canadian Whisky, Captain Morgan Original Spiced Rum, Martell Cognac, ABSOLUT VODKA (owned by V&S Vin & Sprit AB), Don Julio Tequila and Sterling Vineyards Wines, to name just a few.



...to make every day feel like a

celebration?

are you ready for the future?

we are.

**We're the new Seagram —
and for us, the future is now.**

**We're global, we're growing,
and we're ready
to rock your world.**

INCOME HIGHLIGHTS

U.S. DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS	ACTUAL TWELVE MONTHS ENDED JUNE 30,			PRO FORMA TWELVE MONTHS ENDED JUNE 30,	
	1999	1998	1997	1999	1998
REVENUES	\$ 12,312	\$ 9,474	\$ 10,354	\$ 15,344	\$ 14,587
EBITDA⁽¹⁾					
Music	\$ 347	\$ 84	\$ 76	\$ 861	\$ 708
Filmed Entertainment	(136)	316	218	(200)	105
Recreation and Other	133	99	102	133	99
Spirits and Wine	684	583 ⁽²⁾	786	684	583 ⁽²⁾
Total EBITDA	\$ 1,028	\$ 1,082	\$ 1,182	\$ 1,478	\$ 1,495
Operating income (loss)	\$ (250) ⁽³⁾	\$ 553 ⁽²⁾	\$ 719	\$ 281	\$ 274 ⁽²⁾
Income (loss) from continuing operations	\$ (383)	\$ 880	\$ 445	\$ (208)	\$ 447
Income (loss) from discontinued					
Tropicana operations, after tax	(3)	66	57	—	—
Gain on sale of discontinued					
Tropicana operations, after tax	1,072	—	—	—	—
Net income (loss)	\$ 686	\$ 946	\$ 502	\$ (208)	\$ 447
Earnings per share – basic					
Income (loss) from continuing operations	\$ (1.01)	\$ 2.51	\$ 1.20	\$ (.52)	\$ 1.12
Income (loss) from discontinued					
Tropicana operations, after tax	(.01)	.19	.16	—	—
Gain on sale of discontinued					
Tropicana operations, after tax	2.83	—	—	—	—
Net income (loss)	\$ 1.81	\$ 2.70	\$ 1.36	\$ (.52)	\$ 1.12
Earnings per share – diluted					
Income (loss) from continuing operations	\$ (1.01)	\$ 2.49	\$ 1.20	\$ (.52)	\$ 1.11
Income (loss) from discontinued					
Tropicana operations, after tax	(.01)	.19	.15	—	—
Gain on sale of discontinued					
Tropicana operations, after tax	2.83	—	—	—	—
Net income (loss)	\$ 1.81	\$ 2.68	\$ 1.35	\$ (.52)	\$ 1.11

(1) Represents earnings before interest, taxes, depreciation and amortization (EBITDA) from consolidated companies.

(2) Includes \$60 million charge for Asia spirits and wine operations.

(3) Includes \$405 million restructuring charge for music and filmed entertainment.

letter to our shareholders

What drives Seagram? The answer is our commitment to bring excitement and exhilaration to people's lives, and to create moments, memories and celebrations the world over. By doing so, we deliver significantly increased value to our customers and investors.

After all, at Seagram, and for all those we serve, the experience is everything.

And, as fellow Seagram shareholders, we also recognize that performance is everything. In 1999, except for our motion picture group, we performed well, and, importantly, we positioned ourselves for stronger growth and performance in 2000 and beyond.

For the year ended June 30, 1999, we had pro forma* earnings before interest, taxes, depreciation and amortization (EBITDA) of \$1.48 billion on pro forma revenues of \$15.3 billion. These results reflect strong performances by our music, recreation, and spirits and wine businesses. While our overall results were constrained by losses from our motion picture group, much has been done to improve this business. Since May 1999, the successes of a number of our films are an indication of the beginning of a turnaround in our box office performance.

After completing our transformation during fiscal 1999, we now enter a new chapter of executing our business plans. As a result of transactions totaling more than \$40 billion over four years, we have transformed Seagram from a hybrid holding company with a significant spirits and wine business into an operating company — one in which we now control our destiny. And, as a result of all these changes, we believe Seagram is now a company whose growth prospects are real and immediate.

Our transformation has turned Seagram into a leading entertainment company and a premier spirits and wine business. Today, nearly 70 percent of our revenues come from entertainment, with about 30 percent from spirits and wine — a business that continues to bring us approximately \$500 million in pre-tax free cash flow annually.

strengthening our balance sheet

We are committed to strengthening our balance sheet by paying down our debt. Since December 1998, we have shed approximately \$1 billion in non-strategic assets. The majority of the proceeds from the sale of those assets has been earmarked for debt reduction.

In addition, in June 1999 we completed \$2.3 billion in common share and adjustable conversion-rate security unit offerings. The funds raised through these issuances were used to repay borrowings incurred as a result of our recent acquisition.

We will continue to carefully manage our balance sheet and work toward improving our credit standing with the rating agencies, while retaining maximum financial flexibility in order to fuel our growth.

making music: global pre-eminence

Seagram's music business is a key driver behind the Company's growth prospects. This business is aggressive, entrepreneurial, innovative and poised for significant growth.

The completion of the PolyGram acquisition on December 10, 1998, made the Universal Music Group (UMG) the largest music company in the world. Our dominance in both international and local repertoire is evidenced by our number one market position in every major region around the world. We also have the largest music catalog in the world, as well as one of the industry's leading music publishing businesses.

Last year, pro forma EBITDA for our combined music operations increased 22 percent to \$861 million on pro forma revenues of \$6.3 billion. The growth was driven by a strong release schedule worldwide and savings resulting from the integration of PolyGram and Universal.

**WE ARE COMMITTED
TO STRENGTHENING OUR
BALANCE SHEET BY PAYING
DOWN OUR DEBT.**

* Pro forma financial information reflects the PolyGram acquisition, the disposition of Tropicana and the USA Networks transactions, as if they had occurred at the beginning of fiscal 1998.



music

- #1 music company in the world
- #1 in every major region — including Europe, North America, Latin America and Asia
- #1 in global sales with more than 60 albums that sold one million or more units in fiscal 1999
- #1 in catalog size — with the largest collection of classical recordings



Through our **GetMusic** joint venture with BMG, we are creating a new generation of online interactive music channels, while providing consumers with an opportunity to purchase music on line.

SEAGRAM VALUES

CONSUMER AND
CUSTOMER FOCUS

EVERYTHING WE DO IS DEDICATED TO THE SATISFACTION OF PRESENT AND FUTURE CONSUMERS AND CUSTOMERS.

RESPECT

WE TREAT EVERYONE WITH DIGNITY, AND WE VALUE DIFFERENT BACKGROUNDS, CULTURES AND VIEWPOINTS.

INTEGRITY

WE ARE HONEST, CONSISTENT AND PROFESSIONAL IN EVERY FACET OF OUR BEHAVIOR. WE COMMUNICATE OPENLY AND DIRECTLY.

**THE MUSIC BUSINESS
STANDS ON THE THRESHOLD
OF A SWEEPING TRANSFORMATION
— A TRANSFORMATION WE
INTEND TO SHAPE AND LEAD.**

The music business stands on the threshold of a sweeping transformation — a transformation we intend to shape and lead. Music holds the promise of becoming the first pure e-commerce experience in which consumers can sample music right on the Web, order it, have it delivered and pay for it electronically. The Internet promises to dramatically expand the reach of the music industry, while substantially reducing manufacturing and distribution costs. Utilizing e-commerce for music distribution is a core Seagram strategy. That's why we are at the forefront of e-commerce initiatives — which include an emphasis on securely downloading music directly from the Internet under the industry's joint program known as the Secure Digital Music Initiative (SDMI); ordering CDs on line; and creating online experiences for consumers.

- In February 1999, in line with SDMI, UMG announced a pilot program with the four other major record companies and IBM to conduct the first trial of a system that permits convenient, secure and fast distribution of full-length, CD-quality albums over broadband connections.
- In April 1999, UMG joined with BMG Entertainment to form *GetMusic*, a joint venture designed to create online communities of music fans, promote artists and sell CDs on line through genre-based music channels.
- In May 1999, UMG entered into a long-term agreement with InterTrust Technologies Corporation to establish standards for the secure and convenient electronic delivery of music directly to the home.
- Also in May 1999, UMG entered into a joint agreement with AT&T, BMG Entertainment and Matsushita Electric Industrial Co. (Panasonic) to develop and test technology for large-scale, secure music and media distribution.
- In June 1999, SDMI announced standards to secure music being copied onto portable devices.

- In July 1999, UMG announced that it will work closely with Panasonic, Toshiba and RioPort to ensure that Universal music that is downloaded from the Internet can be enjoyed on portable devices manufactured by these companies.

Going forward, our key strategies in music are: to capitalize on our leading position in the music industry; to be a leader in the development of e-commerce for music distribution; to continue to build on our international marketing capabilities; to find new and creative ways to exploit our extensive catalog of music; and to pursue significant cost savings from the Universal/PolyGram combination. Bringing together these two leading music companies offered us opportunities to eliminate duplication in labels, distribution facilities and other overhead costs. We are on track with our cost savings program.

**filmed entertainment:
box office comeback**

As anticipated, Universal's filmed entertainment business ended the year with a pro forma EBITDA loss of \$200 million on pro forma revenues of \$3.38 billion. This business unit, which produces and distributes motion pictures and television programming, is a critical component of our company — yet its financial performance has been extremely disappointing. Universal Pictures endured a slump between the successful releases of *Jurassic Park: The Lost World* in 1997 and *Patch Adams* in late 1998. As a result, our motion picture business incurred significant losses for the fiscal year, and it will be several quarters before it returns to profitability.

We are in the process of turning around our movie business. It won't happen overnight, but we have high hopes for its future. We have a new management team in place. We also have a new strategy to enhance returns: We are managing risk and taking capital out of the business, and we are seeking partners for a large portion of our output. In fiscal 1999, one Universal film that was

TEAMWORK	INNOVATION	QUALITY	
WE WORK AND COMMUNICATE ACROSS FUNCTIONS, LEVELS, GEOGRAPHIES AND BUSINESS UNITS TO BUILD OUR GLOBAL SEAGRAM FAMILY. WE ARE EACH ACCOUNTABLE FOR OUR BEHAVIOR AND PERFORMANCE.	WE CHALLENGE OURSELVES BY EMBRACING INNOVATION AND CREATIVITY, NOT ONLY IN OUR BRANDS, BUT ALSO IN ASPECTS OF OUR WORK. WE LEARN FROM BOTH OUR SUCCESSES AND FAILURES.	WE DELIVER THE QUALITY AND CRAFTSMANSHIP THAT OUR CONSUMERS AND CUSTOMERS DEMAND — IN ALL WE DO — WITH OUR PRODUCTS, OUR SERVICES AND OUR PEOPLE.	BY LIVING THESE VALUES, WE WILL ACHIEVE OUR GROWTH OBJECTIVES, AND WE WILL MAKE SEAGRAM THE COMPANY PREFERRED BY CONSUMERS, CUSTOMERS, EMPLOYEES, SHAREHOLDERS AND COMMUNITIES.

co-produced with Miramax, *Shakespeare in Love*, won seven Academy Awards, and another, produced by Universal Pictures' Working Title Films, *Elizabeth*, won one. Moreover, since May 1999, several releases, including *The Mummy*, *Notting Hill* and *American Pie* have been extraordinarily successful. And we believe we have a strong slate of upcoming films.

Despite the string of difficulties our studio has faced in the past, we remain committed to the motion picture business because of the central role it plays in building brand value at Universal. Movies drive our theatrical business, our home video business and our television business. Movies establish and legitimize stories and characters, they live on through soundtracks, and they come alive all over again at our theme parks. Moreover, film libraries need to be refreshed with new film releases.

Our library of about 3,000 feature films is an appreciating asset that provides us cash flow. In addition, we are using our television library of more than 24,000 episodes, along with our motion picture library, to gain equity stakes in new television channels internationally, particularly in Europe.

building and growing domestic and international television

Since 1996, we have turned around our television business — once the weakest of Universal's businesses. In February 1998, we entered into a critical transaction with HSNi, which owned the Home Shopping Network, a group of major-market television stations and a controlling interest in Ticketmaster. Our two cable networks, USA Network and the SCI FI Channel, along with most of our domestic programming resources, were combined with HSNi. As part of that transaction, we received \$1.3 billion in cash and an effective 45 percent interest in the new company,

which is now called USA Networks, Inc. (USAi). Our strategy for domestic television operations is clear and bearing fruit: the market value of this investment has more than *doubled* and was worth \$7.4 billion as of mid-August 1999. We have a strong relationship with USAi management and, ultimately, a clear path to full control.

USAi is not only an important force in creating and distributing television programming, it is also at the forefront of e-commerce. Through the merchandising and teleservice operations of the Home Shopping Network, Ticketmaster and its controlling interest in Ticketmaster Online-CitySearch, USAi has amassed the assets needed to capitalize on the e-commerce revolution.

We also are executing a clear international television strategy. Through Universal Television & Networks Group, we are focused on using our strength in film and television product to build a fully integrated global television business. Our distribution, networks and production operations combine to bring Universal into key markets in Europe, Latin America, and where we can capitalize on the growing entertainment appetite of consumers. For example, our networks business includes: *13th Street: The Action & Suspense Channel* in France and Germany; *Studio Universal*, available in Italy and Germany; *Sci-Fi*, available in the United Kingdom and Southern Africa, and as programming blocks in Latin America and Brazil; *USA Network Latin America*, distributed in 18 Latin American countries; and *USA Network Brazil*, a joint venture with Globosat. In June 1999, we launched our first pay-TV channel in Spain, *Calle 13: El Canal de Suspense Y Acción*.

MOVIES DRIVE OUR THEATRICAL BUSINESS, OUR HOME VIDEO BUSINESS AND OUR TELEVISION BUSINESS. MOVIES ESTABLISH AND LEGITIMIZE STORIES AND CHARACTERS, THEY LIVE ON THROUGH SOUNDTRACKS, AND THEY COME ALIVE ALL OVER AGAIN AT OUR THEME PARKS.



THE MUMMY



SHAKESPEARE IN LOVE



NOTTING HILL



PATCH ADAMS

13TH STREET

THE ACTION & SUSPENSE CHANNEL



New movies add value by refreshing our library and by creating brand opportunities. Our creative film projects and collaborations actively generate theme park attractions and merchandise for our theme parks... create and bolster sales of music soundtracks... and broaden box office appeal to embrace video and international release.

GLOBAL BOX OFFICE GROSSES THROUGH MID-AUGUST 1999:

- **The Mummy** had grossed more than \$350 million
- **Shakespeare in Love** had garnered about \$280 million
- **Notting Hill** had reached nearly \$240 million
- **Patch Adams**, since its December 1998 opening, had topped \$200 million



LIBRARY

- Our film library — one of the world's largest — contains 3,000 feature films.
- Our television library consists of more than 24,000 episodes.

filmed

entertainment

re-creating and growing the recreation experience

Our core strategy in recreation has been to expand our branded theme parks globally — a strategy we have been executing with tremendous momentum. Our network of theme parks builds brand recognition worldwide for the Universal Studios name and draws on well-known stories and characters. As a result of our multi-year investment program, we are dramatically increasing the scale of the business and its earnings and growth potential.

In 1999, EBITDA from consolidated and unconsolidated companies rose 42 percent to \$225 million on revenues of \$1.1 billion. The expansion of our Florida destination resort contributed to this outstanding result.

In May 1999, we opened a second theme park in Orlando, Universal Studios Islands of Adventure, which is now part of Universal Studios Escape, a partnership with The Rank Group plc. The new park features five islands: Seuss Landing, Toon Lagoon, Marvel Super Hero Island, The Lost Continent and Jurassic Park. Universal Studios Escape also offers Universal Studios CityWalk, a dining, retailing and entertainment experience that has proven highly successful at our first theme park, Universal Studios Hollywood.

In addition to doubling the size of our theme parks in Florida by opening Universal Studios Islands of Adventure, we are adding to our Orlando complex three spectacular hotels, in partnership with Loews Hotels and The Rank Group plc. The first, the Portofino Bay Hotel, opens in September 1999. Two additional hotels are scheduled to open in the future.

By complementing our theme parks with an array of restaurants, shops and hotels, we are creating a major destination resort in Orlando. Reviews of Universal Studios Islands of Adventure have been particularly enthusiastic, and attendance is off to a very good start. The park received substantial and laudatory coverage in the media and praise from consumers. Filmmaker Steven Spielberg, who helped design

the new park, proclaimed it “the eighth wonder of the world.”

Part of our recreation strategy has involved international expansion: In June 1998, we acquired a 37 percent interest in Port Aventura, a theme park situated on 2,000 acres near Barcelona, Spain. Last year, we took over management of the facility and renamed it Universal Studios Port Aventura.

We also began construction on our Japanese theme park, Universal Studios Japan, scheduled to open in 2001. It will be located in Osaka, Japan’s second largest city, with nearly 35 million people living within 100 miles of the site. This joint venture will be the centerpiece of a \$15 billion redevelopment of the Osaka waterfront that will be called Universal City Osaka.

In addition, last year we became the only western entertainment company with a permanent attraction in China. Universal Studios Experience is located in Beijing.

Meanwhile, throughout fiscal 1999, we continued to refresh Universal Studios Hollywood, adding new attractions to strengthen its appeal to newcomers and give previous visitors an additional incentive to return.

As we develop recreation venues, we have done so with prudent use of capital and strategic partnering. For example, our Universal Studios Escape theme park expansion carried a total price tag of \$2.1 billion, but we spent only about \$500 million of our own capital. We have limited our financial exposure by creating joint ventures, and we receive significant income from these projects through royalties and management fees.

In addition to the strength we have in our recreation group, our retailer Spencer Gifts, home to fun and humorous licensed merchandise, continued to see significant growth in revenues and EBITDA during fiscal 1999. The strong performance of our interactive games operations — in particular *Crash Bandicoot* and *Spyro* games — also contributed to this result.

In the years ahead, we expect to triple our 1998 consolidated and unconsolidated EBITDA from our recreation business to \$450 million by 2003.

**IN THE YEARS AHEAD,
WE EXPECT TO TRIPLE OUR 1998
CONSOLIDATED AND
UNCONSOLIDATED EBITDA
FROM OUR RECREATION BUSINESS
TO \$450 MILLION BY 2003.**

Through its global theme parks, Universal Studios is creating a new paradigm for corporate branding and consumer entertainment. And there is plenty to experience — from world-class, family-friendly restaurants and hotels to thrilling, steep roller coasters and water rides; incredible computer simulation; life-sized, interactive 3-D adventures; and up-close and personal contact with The Cat in the Hat, Spider-Man, T-Rex and The Incredible Hulk.



- **Barcelona, Spain:**
Universal Studios Port Aventura near Barcelona, which jump-started our European market presence, features the largest roller coaster on the Continent.

- **Beijing, China:**
We are the first Western entertainment company to open a permanent attraction, Universal Studios Experience.



- **Orlando, Florida:**
Universal Studios Escape doubles its size and impact, adding Universal Studios Islands of Adventure — five themed islands, which together comprise the theme park for the 21st century. CityWalk becomes a dining, retail and entertainment mecca. At Universal Studios Florida, *Men in Black: The Ride* debuts in Summer 2000 as an interactive adventure ride.



- **Universal City, California:**
Terminator 2: 3-D makes its debut as a stupendous new attraction at Universal Studios Hollywood. CityWalk will add new venues and expand by more than 50 percent in 2000.



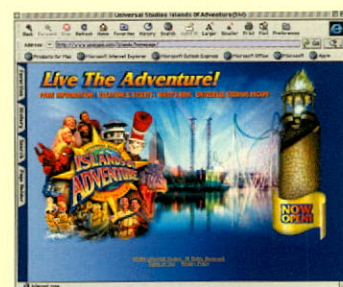
- **Osaka, Japan:**
Universal's theme park is the centerpiece of a \$15 billion waterfront development, scheduled to open in 2001.

OTHER BUSINESSES

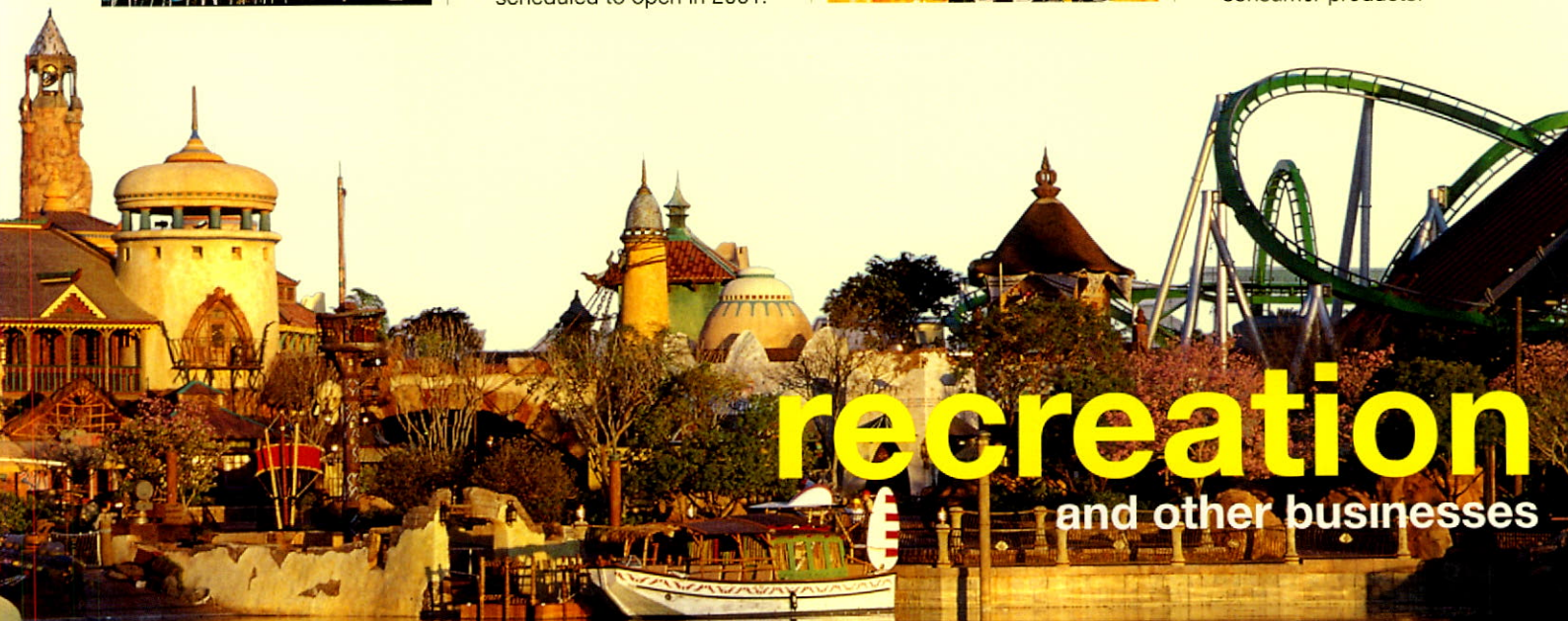
- **The Universal Studios Consumer Products Group** builds brand value with global licensing and retail strategies for our properties, including Woody Woodpecker and Friends, Crash Bandicoot and Spyro the Dragon.



- **Spencer Gifts** is home to fun and humorous licensed merchandise and operates more than 600 retail stores throughout North America.



- **Universal Studios Online** designs and builds sites that showcase our movies, TV shows, theme parks and consumer products.



- Our goal is to capture the lion's share of volume and profit growth in spirits and wine categories and markets where Seagram chooses to focus and compete
- Priority established markets: U.S., Spain, U.K., Germany, Japan and Korea
- Priority development markets: Brazil, Russia, Poland, China and India
- Scope: more than 190 countries and territories
- 1999 sales: about \$5 billion

- 1999 pre-tax free cash flow: about \$500 million
- Premium brand strength:
 - Chivas Regal — the world's leading premium Scotch whisky
 - Crown Royal — the world's #1 Canadian whisky
 - Captain Morgan Original Spiced Rum — the world's fastest growing million-case selling spirit
 - ABSOLUT VODKA, owned by V&S Vin & Sprit AB — the sixth most popular spirit brand in the world
 - Seagram Chateau & Estate Wines Company continues to be a leading U.S. producer and importer of fine wines

Today, our spirits and wine business is operationally driven. With a well-honed marketing organization and a defined strategy for growth and performance in place, we're striving toward leadership in categories with clearly identi-

fied potential. Our spirits and wine business is integral to the growth and overall development of the Company. The foundation of our business has never been stronger — our prospects are bright and our confidence high.



spirits and wine



**WE BELIEVE SEAGRAM HAS
BRANDS AND MARKETING SKILLS
THAT ARE UNMATCHED IN THE
INDUSTRY.**

growth and performance in spirits and wine

Our spirits and wine business made substantial progress last year. It generated increased revenues and earnings in the strong North American market, while managing the impact of market difficulties in Latin America. It performed well in Europe overall, despite adverse trade conditions in Germany, and it rebounded significantly in Asia, following that region's recent meltdown and beginnings of a recovery.

In 1999, EBITDA increased six percent to \$684 million on revenues of \$4.8 billion.

In this core business, our strategy has been to capture the lion's share of the volume and profit growth in spirits and wine categories and markets where Seagram chooses to focus and compete. The group's aim is to deliver sustainable profitable growth, outperforming its key competitors in profitability.

In recent years, the spirits and wine business has been buffeted by changing demographics and changing tastes. But, with the power of our premium brands and the growing strength of our global marketing team, combined with enhanced in-market execution, we have been building sales and market share. We had a particularly strong outlook for Asia because that region's rapid economic growth was creating a sizable market for our products. When the Asian economic crisis began to unfold in late 1997, we addressed it quickly. We took advantage of reduced asset prices to make additional investments in major markets such as Korea, and we moved to a distributor approach in markets such as Taiwan. Our spirits and wine business in Asia is on the rebound, and, as the fiscal year ended, we were pleased to see growing evidence that Asia's economic growth engine was restarting, albeit haltingly.

In all our markets, we have continued our efforts to refine our array of spirits and wine offerings, with primary focus on our high-quality global brands. Chivas Regal Scotch Whisky has gathered momentum as a result of our marketing program in key cities around the world. Crown Royal Canadian Whisky continues to forge ahead

in North America. And Captain Morgan Original Spiced Rum has delivered double-digit growth in every U.S. state. In fiscal 1999, the super-premium Tequila — Don Julio — joined our portfolio.

In July 1999, we completed the sale of Mumm and Perrier-Jouët Champagne houses to Hicks, Muse, Tate & Furst, generating significant cash while retaining global distribution of both grandes marques. That same month, together with V&S Vin & Sprit AB, owner of The Absolut Company, we launched ABSOLUT MANDRIN, further building on ABSOLUT VODKA's brand franchise.

Seagram Chateau & Estate Wines Company continues to be a leading U.S. producer and importer of fine wines. Growth during the fiscal year was achieved through our continuing efforts to enhance wine quality, which allowed for increased profitability through pricing and bolstered demand for the excellent wines in the portfolio. The Seagram Beverage Company, which markets and distributes premium low-alcohol beverages and Seagram's Ginger Ale and Mixers, also enjoyed another strong year of growth.

We are supporting all our brands with vigorous marketing efforts. Overall, we believe there are substantial opportunities to generate attractive earnings in the spirits and wine industry. And we believe Seagram has brands and marketing skills that are unmatched in the industry. We expect our spirits and wine business to continue to contribute substantial free cash flow, and we anticipate that volume, earnings and market share will grow well into the new millennium.

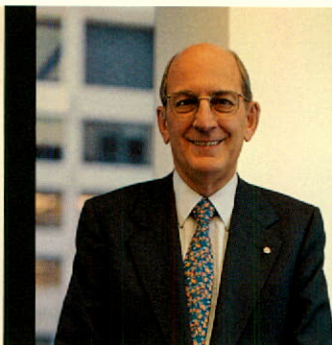
When we look back at last year and when we contemplate Seagram's future, we see a dynamic company aggressively pursuing a carefully crafted strategy — a strategy designed to provide our shareholders with real and immediate growth and value.

As we move forward, we intend to vigorously execute the business strategies we have set for ourselves and all our employees around the globe.

We face our challenges with confidence. We do so not only because of the strength of our



EDGAR M. BRONFMAN



CHARLES R. BRONFMAN



EDGAR BRONFMAN, JR.

businesses and the conviction of our strategy, but even more fundamentally because of the skill and dedication that the Company's employees have displayed in responding to rapid change and new directions.

We have devoted substantial resources to providing all of our employees with the skills and tools they need to do their jobs and with the knowledge of the values required to work well with our customers as well as with one another. We thank our employees for their hard work and dedication during Seagram's major corporate transformation.

We also thank our Directors for the guidance they have provided as we have undergone our transformation. The process of reinventing Seagram has put enormous demands on their time, and they have repeatedly risen to the challenge of providing wise counsel and unwavering support. We would like to convey our special thanks to two of our longest-serving directors who will be retiring from our Board in November 1999: The Honourable William G. Davis, who joined the Board in 1985, has served on the Audit and Finance Committees and ably chaired the Corporate Governance Committee, and The Honourable E. Leo Kolber, a director since 1971,

who has served with distinction on the Executive, Finance and Human Resources Committees. These two directors have provided invaluable advice over the years, and their wise counsel and support will be missed.

We also wish to extend our thanks to two of our officers who retired during the year: Gabor Jellinek, Vice President of Production, who retired after 42 years of service and achievement at Seagram, and Arnold M. Ludwick, Vice President, who served Seagram with great dedication for 16 years. We are most appreciative of their many contributions.

Because of our employees, officers and directors, past and present, today we are better positioned than ever before to achieve profitable growth and increase value for our shareholders.

We are committed to creating experiences for our customers that are filled with drama, fun and excitement, as we strive to create moments and celebrations that they will remember for a lifetime. For us, the experience *is* everything.

We are ready to create the experience, deliver it and profit from it, in a consistent and competitively superior fashion, as Seagram embraces the new millennium.

WE ARE COMMITTED TO CREATING EXPERIENCES FOR OUR CUSTOMERS THAT ARE FILLED WITH DRAMA, FUN AND EXCITEMENT, AS WE STRIVE TO CREATE MOMENTS AND CELEBRATIONS THAT THEY WILL REMEMBER FOR A LIFETIME. FOR US, THE EXPERIENCE IS EVERYTHING.

On behalf of the Board,

Edgar M. Bronfman

CHAIRMAN

Charles R. Bronfman

CO-CHAIRMAN

Edgar Bronfman, Jr.

PRESIDENT AND CHIEF EXECUTIVE OFFICER

August 18, 1999

1999 financial results

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management's discussion and analysis

Our Company operates in four global business segments: music, filmed entertainment, recreation and other, and spirits and wine. The music business is conducted through Universal Music Group, which is the largest recorded music company in the world. Universal Music Group produces and distributes recorded music throughout the world in all major genres. Universal Music Group also manufactures, sells and distributes video products in the United States and internationally, and licenses music copyrights. The filmed entertainment and recreation and other businesses are conducted through Universal Studios Group. Our filmed entertainment business produces and distributes motion picture, television and home video products worldwide, operates and has ownership interests in a number of international cable channels and engages in the licensing of merchandising and film property rights. The recreation and other businesses operate theme parks, retail stores and are also involved in the development of entertainment software. The spirits and wine business, directly and through affiliates and joint ventures, produces, markets and distributes distilled spirits, wines, ports and sherries, coolers, beers, mixers and other low-alcohol beverages. In addition to marketing owned brands, the spirits and wine business also distributes distilled spirits, wine and beer brands owned by others.

Management's discussion and analysis of our results of operations and liquidity should be read in conjunction with the accompanying financial statements.

SIGNIFICANT TRANSACTIONS

During the last three years, we entered into several significant transactions which have realigned our businesses and have impacted the comparability of our financial statements.

ACQUISITION OF POLYGRAM On December 10, 1998, we acquired 99.5 percent of the outstanding shares of PolyGram N.V. (PolyGram), a global music and entertainment company, for \$8,607 million in cash and approximately 47.9 million common shares of Seagram. Substantially all of the common shares were issued to Koninklijke Philips Electronics N.V., which had owned 75 percent of the PolyGram shares. The results of the operations of PolyGram are included in the results of our music and filmed entertainment segments from the date of acquisition.

DISPOSITION OF TROPICANA On August 25, 1998, we completed the sale of Tropicana, consisting of Tropicana Products, Inc. and our global juice business (Tropicana) for \$3,288 million in cash, which resulted in a pre-tax gain of \$1,445 million (\$1,072 million after tax). As a result of this disposal, we reported the results of Tropicana as discontinued operations for all periods presented.

USA TRANSACTIONS On October 21, 1997, Universal acquired the remaining 50 percent interest in the USA Networks partnership from Viacom Inc. for \$1.7 billion in cash. On February 12, 1998, Universal sold its acquired 50 percent interest in USA Networks to USA Networks, Inc. (USAi) and contributed its original 50 percent interest in USA Networks, the majority of its television assets and 50 percent of the international operations of USA Networks to USANi LLC. As a result of this transaction, Universal received \$1,332 million in cash, a 10.7 percent interest in USAi and a 45.8 percent exchangeable interest in USANi LLC. Universal recognized a gross gain of \$583 million, before taking into consideration the effect of the transactions, which impaired certain remaining television assets and transformed various related contractual obligations into adverse purchase commitments. The impairment losses and adverse purchase commitments arising from the transactions aggregated \$223 million and were reflected in the net gain of \$360 million (\$222 million after tax).

TIME WARNER SHARES On May 28, 1997, we sold 30 million shares of Time Warner common stock for \$1.39 billion. The gain recognized in 1997 on the sale of the shares was \$154 million (\$100 million after tax). On February 5, 1998, we sold 15 million shares of Time Warner common stock for \$958 million. On May 27, 1998, we sold our remaining 11.8 million shares of Time Warner common stock for \$905 million. The aggregate gain on the sale of the shares in the fiscal year ended June 30, 1998 was \$926 million (\$602 million after tax).

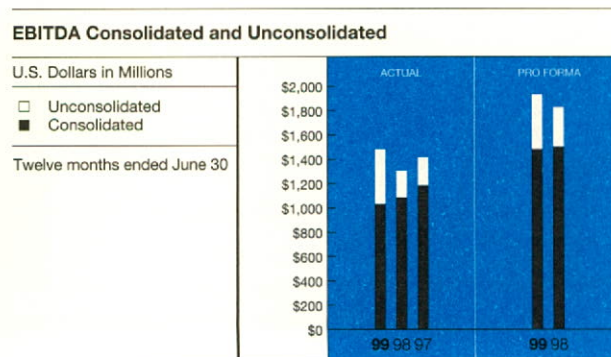
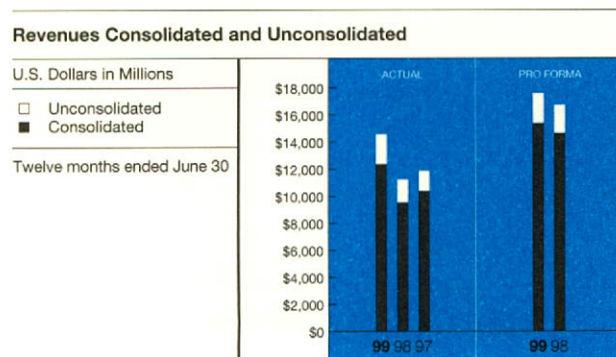
PUBLISHING GROUP On December 16, 1996, we sold our book-publishing unit, The Putnam Berkley Group, Inc. Proceeds from the sale were \$330 million, resulting in a \$64 million pre-tax gain on the disposition. There was no after-tax gain or loss due to the write-off of non-tax-deductible goodwill associated with Putnam. The operating results of Putnam through December 16, 1996 are included in operating income.

DUPONT EQUITY WARRANTS On July 24, 1996, we sold 156 million equity warrants of E.I. du Pont de Nemours and Company to DuPont for \$500 million in cash. The after-tax net proceeds were \$479 million, the gain on the sale of the warrants was \$60 million (\$39 million after tax) and is included in interest, net and other in the fiscal year ended June 30, 1997.

COMPARABILITY

The discussion presented below includes an analysis of total Seagram and business segment results prepared in accordance with U.S. generally accepted accounting principals (GAAP). The supplemental financial data includes earnings before interest, taxes, depreciation and amortization, referred to as EBITDA. Because of the significant goodwill associated with our acquisitions, we believe EBITDA is an appropriate measure of operating performance. However, you should note that EBITDA is not a substitute for operating income, net income, cash flows and other measures of financial performance as defined by GAAP and may be defined differently by other companies. Investments in companies that are not consolidated with the results of Seagram are reported as "equity earnings from unconsolidated companies." This discussion includes, as supplemental financial data, information about our share of the results of revenues and EBITDA related to these investments.

To enhance comparability, financial information for 1999 and 1998 is also presented on a pro forma basis which illustrates the effect of the acquisition of PolyGram, the disposition of Tropicana and the USA transactions, as if the transactions had occurred at the beginning of the 1998 fiscal year. We believe that pro forma results represent meaningful comparative information for assessing earnings trends because the pro forma results include comparable operations in each year presented. The discussion of the recreation and other and spirits and wine business segments does not include pro forma comparisons, since the pro forma adjustments did not impact those segments. The pro forma results are not necessarily indicative of the combined results that would have occurred had the events actually occurred at the beginning of our 1998 fiscal year. We believe this information will help you to better understand our business results.



RESULTS OF OPERATIONS

EARNINGS SUMMARY

U.S. DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS	ACTUAL TWELVE MONTHS ENDED JUNE 30,			PRO FORMA TWELVE MONTHS ENDED JUNE 30,	
	1999	1998	1997	1999	1998
Revenues	\$ 12,312	\$ 9,474	\$ 10,354	\$ 15,344	\$ 14,587
Operating income (loss)					
Music	\$ (126)	\$ (44)	\$ (58)	\$ 75	\$ (124)
Filmed Entertainment	(206)	229	157	(281)	30
Recreation and Other	45	24	31	45	24
Spirits and Wine	552	464	663	552	464
Corporate	(110)	(120)	(138)	(110)	(120)
Restructuring charge – Music and Filmed Entertainment	(405)	—	—	—	—
Gain on sale of Putnam	—	—	64	—	—
Operating income (loss)	(250)	553	719	281	274
Interest, net and other	457	228	147	682	598
Gain on sale of Time Warner shares	—	926	154	—	926
Gain on USA transactions	128	360	—	128	360
Provision (benefit) for income taxes	(33)	638	331	61	493
Minority interest	(26)	48	12	4	16
Equity earnings (losses) from unconsolidated companies	137	(45)	62	130	(6)
Income (loss) from continuing operations	(383)	880	445	(208)	447
Income (loss) from discontinued Tropicana operations, after tax	(3)	66	57	—	—
Gain on sale of discontinued Tropicana operations, after tax	1,072	—	—	—	—
Net income (loss)	\$ 686	\$ 946	\$ 502	\$ (208)	\$ 447
Earnings per share – basic					
Income (loss) from continuing operations	\$ (1.01)	\$ 2.51	\$ 1.20	\$ (.52)	\$ 1.12
Income (loss) from discontinued operations	(.01)	.19	.16	—	—
Gain on sale of discontinued operations	2.83	—	—	—	—
Net income (loss)	\$ 1.81	\$ 2.70	\$ 1.36	\$ (.52)	\$ 1.12
Earnings per share – diluted					
Income (loss) from continuing operations	\$ (1.01)	\$ 2.49	\$ 1.20	\$ (.52)	\$ 1.11
Income (loss) from discontinued operations	(.01)	.19	.15	—	—
Gain on sale of discontinued operations	2.83	—	—	—	—
Net income (loss)	\$ 1.81	\$ 2.68	\$ 1.35	\$ (.52)	\$ 1.11
Net cash provided by (used for) operating activities	\$ 935	\$ (241)	\$ 664	—	—
Net cash (used for) provided by investing activities	\$ (6,136)	\$ 699	\$ 1,708	—	—
Net cash provided by (used for) financing activities	\$ 5,563	\$ 159	\$ (2,175)	—	—
Supplemental financial data:					
Revenues					
Consolidated companies	\$ 12,312	\$ 9,474	\$ 10,354	\$ 15,344	\$ 14,587
Unconsolidated companies	2,202	1,722	1,473	2,202	2,081
	\$ 14,514	\$ 11,196	\$ 11,827	\$ 17,546	\$ 16,668
EBITDA					
Consolidated companies	\$ 1,028	\$ 1,142	\$ 1,182	\$ 1,478	\$ 1,555
Charge for Asia	—	(60)	—	—	(60)
	1,028	1,082	1,182	1,478	1,495
Unconsolidated companies	449	220	231	449	326
	1,477	1,302	1,413	1,927	1,821
Adjustment for unconsolidated companies	(449)	(220)	(231)	(449)	(326)
Depreciation and amortization	(773)	(416)	(393)	(1,097)	(1,108)
Corporate	(100)	(113)	(134)	(100)	(113)
Restructuring charge – Music and Filmed Entertainment	(405)	—	—	—	—
Gain on sale of Putnam	—	—	64	—	—
Operating income (loss)	\$ (250)	\$ 553	\$ 719	\$ 281	\$ 274

1999 versus 1998

Actual

Revenues increased 30 percent in the twelve months ended June 1999 compared to 1998. This was primarily due to the PolyGram acquisition and improved sales in all business segments. Operating income declined from \$553 million in 1998 to a loss of \$250 million in the current year. The reduction was largely driven by a \$405 million pre-tax restructuring charge (discussed in Note 3 to the consolidated financial statements), higher amortization and depreciation expense and disappointing motion picture results. The impact of foreign currency exchange on 1999 was not significant. In 1999, EBITDA from consolidated companies decreased five percent to \$1,028 million on total revenues of \$12.3 billion.

In the 1999 fiscal year, interest, net and other included net interest expense of \$480 million which was offset by \$23 million of dividend income from DuPont. The increase of \$229 million from 1998 primarily reflects the funding of the PolyGram acquisition. During 1999, an additional gain from the USA transactions was recognized reflecting the reversal of \$128 million of accrued costs due to the favorable settlement of certain contractual obligations and adverse purchase commitments. The minority interest income in 1999 included \$21 million associated with the restructuring charge.

The effective tax rate was six percent in fiscal 1999, compared with 40 percent in the prior year. The provision for 1999 included \$45 million of taxes on the USA transactions and a \$140 million benefit for the restructuring charge. The tax rate for ongoing operations (excluding the impact of the USA transactions, the restructuring charge, sale of Time Warner shares and spirits and wine charge) was 21 percent compared with 48 percent in 1998, largely due to the increased goodwill expense for which there is no associated tax benefit and taxes on earnings from unconsolidated equity investments.

The equity in earnings of unconsolidated companies increased to \$137 million in fiscal 1999 from a loss of \$45 million in fiscal 1998. The increase in equity earnings primarily reflects the improved operating results at USANi LLC and the impact of the USA transactions. Earnings from Seagram's investments in USANi LLC are included in equity earnings from unconsolidated companies for all of 1999. In 1998, Seagram had a 100 percent interest in USA Networks from October 1997 until February 1998, during which time the results were consolidated.

A net loss from continuing operations of \$383 million or \$1.01 per share (basic and diluted) was incurred in 1999, compared with net income from continuing operations of \$880 million or \$2.51 per basic share and \$2.49 per share on a diluted basis for 1998. The net loss from continuing operations, excluding the restructuring charge, the gains on the sales of Time Warner shares and the USA transactions and a charge for spirits and wine operations in Asia, was \$215 million or \$0.57 per share (basic and diluted) in 1999 compared with income of \$141 million or \$0.40 per share (basic and diluted) in 1998.

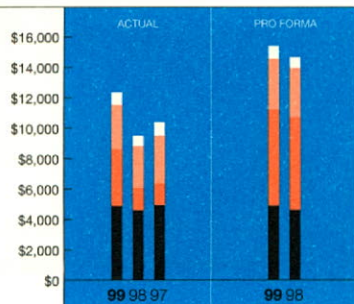
For the period to August 25, 1998, the loss from discontinued Tropicana operations, after tax, was \$3 million or \$0.01 per share (basic and diluted). During 1999, we recorded a pre-tax gain of \$1,445 million (\$1,072 million after tax or \$2.83 per share, basic and diluted) on the sale of Tropicana. Net income including discontinued operations was \$686 million or \$1.81 per basic and diluted share in the fiscal year ended June 30, 1999, compared with \$946 million or \$2.70 per basic share and \$2.68 per diluted share in the prior fiscal year.

Revenues by Business Segment

U.S. Dollars in Millions

- Recreation and Other
- Filmed Entertainment
- Music
- Spirits and Wine

Twelve months ended June 30



Pro Forma

Revenues increased five percent in fiscal 1999 to \$15.3 billion with growth in all business segments. Operating income was \$281 million compared with \$274 million in 1998. EBITDA from consolidated companies decreased one percent year-on-year. Increases in EBITDA outside the filmed entertainment segment were more than offset by disappointing performance of our film business. The effective income tax rate for the year ended June 30, 1999 was 22 percent compared with 51 percent in the prior year. The minority interest charge for 1999 was \$4 million compared with \$16 million in the prior year primarily due to current year losses in our film business. Equity in earnings of unconsolidated companies shows a similar improvement as the actual results, increasing to \$130 million in 1999 from a loss of \$6 million in 1998.

A net loss of \$208 million or \$0.52 per share (basic and diluted) was incurred in fiscal 1999, compared with net income of \$447 million or \$1.12 per basic share and \$1.11 per share on a diluted basis in 1998. Excluding the gains on the sales of Time Warner shares and the USA transactions and the prior year charge for spirits and wine operations in Asia, the pro forma net loss was \$284 million or \$0.71 per share (basic and diluted) in the current year, a slight improvement over the prior year when a net loss of \$292 million or \$0.73 per share (basic and diluted) was incurred.

1998 versus 1997

Our fiscal 1998 results were severely impacted by the economic and currency crises in Asia, which hampered business performance and resulted in a \$60 million charge to spirits and wine operations in the second quarter of the fiscal year. Revenues of \$9.5 billion declined from \$10.4 billion in fiscal 1997. Excluding the unfavorable impact of foreign exchange and the contribution of Putnam from 1997, revenues declined five percent year-on-year. Operating income was \$553 million and, after the charge for Asia, substantially below the prior year which included a \$64 million pre-tax gain on the sale of Putnam. After excluding the 1998 charge for Asia and the 1997 contribution from Putnam, operating income declined three percent reflecting the decline in spirits and wine operations and increased depreciation and amortization expense. The incremental depreciation and amortization principally results from increased goodwill expense, from October to February, associated with the acquisition of the remaining 50 percent of USA Networks. EBITDA from consolidated operations was \$1.1 billion compared with \$1.2 billion in 1997. After excluding the charge for Asia and the contribution of Putnam, EBITDA decreased two percent.

Interest, net and other, in fiscal 1998 included net interest expense of \$255 million which was partially offset by \$27 million of dividend income from Time Warner and DuPont. In 1997, net interest expense of \$247 million was offset by \$60 million in pre-tax gain on the sale of the DuPont warrants and \$40 million of dividend income from Time Warner and DuPont. The net interest expense increase largely reflects a higher average debt balance, which is due to the funding of our purchase of the incremental 50 percent interest in USA Networks in October 1997 and share repurchases pursuant to our ongoing share repurchase program, partially offset by the repayment of debt with the proceeds from the USA transactions and the sales of Time Warner shares, discussed below.

During fiscal 1998, we recognized a pre-tax gain on the sale of the remaining Time Warner shares of \$926 million and a pre-tax gain on the USA transactions of \$360 million. During 1997, we had a pre-tax gain of \$154 million on the sale of Time Warner shares.

The effective income tax rate was 40 percent in fiscal 1998 compared with 46 percent in the prior year. The underlying effective income tax rate for continuing operations (excluding the impact of the USA transactions, sale of Time Warner shares, sale of DuPont warrants, and spirits and wine charge) was 48 percent in 1998 compared with 43 percent in the prior fiscal year. The increase in the effective tax rate results from reduced earnings in relatively low tax jurisdictions in Asia.

The minority interest charge in fiscal 1998 includes \$35 million associated with the gain on the USA transactions. The equity in earnings of unconsolidated companies declined from earnings of \$62 million in 1997 to a loss of \$45 million in 1998 primarily due to the impact of the USA transactions, lower contributions from Cineplex Odeon Corporation and our spirits and wine joint ventures and higher amortization related to certain equity investments.

Income from continuing operations was \$880 million or \$2.51 per basic share and \$2.49 per diluted share for fiscal 1998, compared with \$445 million or \$1.20 per share (basic and diluted) in the prior year. Excluding the gain on the USA transactions (after taxes and minority interest), the after-tax gain on the sales of Time Warner shares, and the after-tax charge for spirits and wine operations in Asia, income from continuing operations in fiscal year 1998 was \$141 million or \$0.40 per share (basic and diluted). In 1997, excluding the after-tax gains on the sales of the DuPont warrants and Time Warner shares, income from continuing operations was \$306 million or \$0.82 per share (basic and diluted).

Income from discontinued Tropicana operations, after tax, was \$66 million or \$0.19 per share (basic and diluted) for fiscal year 1998, compared with \$57 million or \$0.16 per basic share and \$0.15 per share on a diluted basis in the prior fiscal year. Revenues from discontinued operations were \$2.0 billion in fiscal 1998 and \$1.9 billion in the prior year. Operating income was \$169 million in 1998 and \$152 million in the prior year. Results of discontinued operations include allocations of consolidated interest expense totaling \$39 million and \$41 million for 1998 and 1997, respectively. The allocations were based on the ratio of net assets of discontinued operations to consolidated net assets.

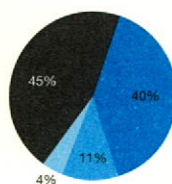
BUSINESS SEGMENT RESULTS

MUSIC

U.S. DOLLARS IN MILLIONS	ACTUAL TWELVE MONTHS ENDED JUNE 30,			PRO FORMA TWELVE MONTHS ENDED JUNE 30,	
	1999	1998	1997	1999	1998
REVENUES	\$ 3,751	\$ 1,461	\$ 1,427	\$ 6,336	\$ 6,108
Operating income (loss) before restructuring charge	\$ (126)	\$ (44)	\$ (58)	\$ 75	\$ (124)
Restructuring charge	(313)	—	—	—	—
OPERATING INCOME (LOSS)	\$ (439)	\$ (44)	\$ (58)	\$ 75	\$ (124)
Equity earnings (losses) from unconsolidated companies	\$ 4	\$ 4	\$ (2)	\$ (3)	\$ (7)
SUPPLEMENTAL FINANCIAL DATA:					
REVENUES					
Consolidated companies	\$ 3,751	\$ 1,461	\$ 1,427	\$ 6,336	\$ 6,108
Unconsolidated companies	61	68	73	61	68
	\$ 3,812	\$ 1,529	\$ 1,500	\$ 6,397	\$ 6,176
EBITDA					
Consolidated companies	\$ 347	\$ 84	\$ 76	\$ 861	\$ 708
Unconsolidated companies	5	6	(4)	5	6
	352	90	72	866	714
Adjustment for unconsolidated companies	(5)	(6)	4	(5)	(6)
Depreciation and amortization	(473)	(128)	(134)	(786)	(832)
Restructuring charge	(313)	—	—	—	—
OPERATING INCOME (LOSS)	\$ (439)	\$ (44)	\$ (58)	\$ 75	\$ (124)

Music Revenues by Geographic Region

Twelve months ended June 30, 1999



■ North America ■ Latin America ■ Asia Pacific ■ Europe & Africa

1999 versus 1998

Consolidated Operations

ACTUAL Revenues more than doubled in the fiscal year ended June 30, 1999, reflecting the acquisition of PolyGram and the success of our domestic and international repertoire. An operating loss of \$126 million (excluding a pre-tax restructuring charge of \$313 million) was incurred in the current year, compared to a loss of \$44 million in the prior year. EBITDA, at \$347 million, more than quadrupled in 1999. The significant increase in EBITDA reflects the PolyGram acquisition. The decline in operating income is principally driven by higher goodwill amortization.

The acquisition of PolyGram, with its strong presence in local repertoire, when combined with our strength in the U.S. market, makes our music business the clear market leader in recorded music. In fiscal 1999, revenues generated in North America accounted for 45 percent of the total music revenues of \$3,751 million. The European market accounted for 40 percent, Asia Pacific and Japan contributed 11 percent and Latin America accounted for the remaining four percent. The integration of PolyGram has been completed in many markets and continues on schedule in those remaining.

PRO FORMA Revenues increased four percent to \$6.3 billion in the twelve months ended June 30, 1999. In 1999, revenues were driven by solid performances from U2, Shania Twain, Jay-Z, Andrea Bocelli, Bee Gees and Sheryl Crow, among others, along with increases in higher-priced units. In total, 69 albums reached worldwide sales in excess of one million units compared with 52 in 1998. Operating income was \$75 million for 1999, compared to a loss of \$124 million in 1998. EBITDA increased 22 percent in 1999 compared to 1998. These improvements are due to a strong release schedule worldwide and the elimination of duplicate costs as we progress with the integration of PolyGram. By 2001, we expect to achieve our projected cost savings of at least \$300 million annually.

Unconsolidated Operations

The equity in earnings from unconsolidated companies, consisting primarily of concert operations, was \$4 million for the twelve months ended June 30, 1999, and was unchanged compared to the same period in 1998. In April 1999, the Universal Music Group announced an Internet alliance with BMG Entertainment, consisting of online music channels and an e-commerce site, *getmusic.com*. We believe this joint venture will position Universal as a leader in shaping the music industry on the Internet.

1998 versus 1997

Consolidated Operations

In fiscal 1998, revenues increased two percent. Major albums in release during 1998 included those by Chumbawamba, K-Ci & JoJo, Trisha Yearwood and Smashmouth. In addition, the Company benefited from its significant investment internationally with the success of Aqua, a group from Denmark whose album *Aquarium* sold 8.9 million units in the 1998 fiscal year. The operating loss for music declined from \$58 million in 1997 to \$44 million for 1998 as margins improved primarily driven by a better mix. EBITDA increased 11 percent to \$84 million largely due to progress at Universal Records, International and Music Publishing.

Unconsolidated Operations

The equity in earnings of unconsolidated companies increased to \$4 million in fiscal 1998 from a loss of \$2 million in fiscal 1997.

FILMED ENTERTAINMENT

U.S. DOLLARS IN MILLIONS	ACTUAL TWELVE MONTHS ENDED JUNE 30,			PRO FORMA TWELVE MONTHS ENDED JUNE 30,	
	1999	1998	1997	1999	1998
REVENUES	\$ 2,931	\$ 2,793	\$ 3,168	\$ 3,378	\$ 3,259
Operating income (loss) before restructuring charge	\$ (206)	\$ 229	\$ 157	\$ (281)	\$ 30
Restructuring charge	(92)	—	—	—	—
OPERATING INCOME (LOSS)	\$ (298)	\$ 229	\$ 157	\$ (281)	\$ 30
Equity earnings (losses) from unconsolidated companies	\$ 148	\$ (28)	\$ 50	\$ 148	\$ 22
SUPPLEMENTAL FINANCIAL DATA:					
REVENUES					
Consolidated companies	\$ 2,931	\$ 2,793	\$ 3,168	\$ 3,378	\$ 3,259
Unconsolidated companies	1,689	1,133	749	1,689	1,492
	\$ 4,620	\$ 3,926	\$ 3,917	\$ 5,067	\$ 4,751
EBITDA					
Consolidated companies	\$ (136)	\$ 316	\$ 218	\$ (200)	\$ 105
Unconsolidated companies	343	147	155	343	253
	207	463	373	143	358
Adjustment for unconsolidated companies	(343)	(147)	(155)	(343)	(253)
Depreciation and amortization	(70)	(87)	(61)	(81)	(75)
Restructuring charge	(92)	—	—	—	—
OPERATING INCOME (LOSS)	\$ (298)	\$ 229	\$ 157	\$ (281)	\$ 30

1999 versus 1998

Consolidated Operations

ACTUAL Filmed Entertainment revenues increased five percent in fiscal 1999. Operating income decreased from income of \$229 million in the prior year to a loss of \$206 million in the current year, excluding the \$92 million pre-tax restructuring charge. The prior year results included operating income of \$76 million for USA Networks from October 21, 1997 until February 12, 1998. In the current year the contribution of USANi LLC is included in equity from unconsolidated companies rather than consolidated operations. While recent releases of *The Mummy* and *Notting Hill* are encouraging, the Motion Picture Group results declined because of the disappointing box office performance of current year releases such as *Babe: Pig in the City*, *Meet Joe Black*, *Virus* and *edTV*. Also, comparisons with last year's results are difficult since those results benefited from the positive carryover of the successful releases of *The Lost World: Jurassic Park* and *Liar, Liar*. International Television and Library results declined year-on-year due to the loss of profit on products transferred in the USA transactions and lower profitability on television library sales. In connection with the assets acquired as part of the purchase of PolyGram, we are evaluating our future strategic opportunities within the domestic television production business. EBITDA declined from \$316 million in the prior year to a loss of \$136 million in the current year. The prior year results included \$97 million of EBITDA related to USA Networks, which was consolidated from October 21, 1997 until February 12, 1998. There is no contribution from USA Networks in consolidated EBITDA in the current year.

With the recent success of *American Pie* and *Bowfinger* early in fiscal 2000, the Motion Picture Group expects to improve its box office performance in fiscal year 2000, although we expect it will be several quarters before our film business returns to profitability.

PRO FORMA Filmed Entertainment includes the results of PolyGram Filmed Entertainment in the Motion Picture Group and the prior year results reflect the USA transactions as though they had both occurred at July 1, 1997. On a pro forma basis, revenues increased four percent in the fiscal year ended June 30, 1999 to \$3.4 billion. EBITDA was a loss of \$200 million in 1999 compared to income of \$105 million in 1998. Operating income decreased from income of \$30 million in the prior year to a loss of \$281 million in the current year. The results declined due to the weak performance of current year releases discussed above.

Unconsolidated Operations

The equity in earnings from unconsolidated companies increased from a loss of \$28 million for the twelve-month period in the prior year to income of \$148 million in the current year. Revenues from unconsolidated companies increased 49 percent over the prior year; EBITDA more than doubled in the same period. The significant improvement is due primarily to improved operating results at USANi LLC and the impact of the USA transactions. In the current fiscal year, subsequent to the USA transactions, we have approximately a 49 percent interest in USANi LLC and the results are included in equity earnings from unconsolidated companies for the entire year. In the 1998 fiscal year, we had a 100 percent interest in USA Networks from October 1997 until February 1998, during which time the results were included in consolidated operations. We also benefited from improved operating results at Loews Cineplex in 1999 compared to Cineplex Odeon Corporation (owned in the prior year). In addition to USANi LLC and Loews Cineplex, the unconsolidated companies principally include United Cinemas International and Cinema International Corporation.

1998 versus 1997

Consolidated Operations

In fiscal year 1998, revenues decreased 12 percent. Motion picture revenues, which accounted for approximately two-thirds of the \$2.8 billion of revenues, declined substantially due to the disappointing box office performance of releases in 1998, including *A Simple Wish*, *Primary Colors* and *Mercury Rising*. The 1997 year benefited from the successful releases of *The Lost World: Jurassic Park* and *Liar, Liar* in the fourth quarter of that year. Operating income increased 46 percent to \$229 million, and EBITDA increased 45 percent to \$316 million; however, the 1998 results include operating income of \$76 million and EBITDA of \$97 million for USA Networks for the period when Universal owned 100 percent of USA Networks.

Unconsolidated Operations

The equity in earnings from unconsolidated companies declined from \$50 million in fiscal 1997 to a loss of \$28 million in fiscal 1998. Revenues from unconsolidated companies increased 51 percent, while EBITDA decreased five percent. The year-on-year variances were due primarily to the impact of the USA transactions.

RECREATION AND OTHER

U.S. DOLLARS IN MILLIONS	ACTUAL TWELVE MONTHS ENDED JUNE 30,		
	1999	1998	1997
REVENUES	\$ 818	\$ 695	\$ 825
Gain on sale of Putnam	—	—	64
	\$ 818	\$ 695	\$ 889
OPERATING INCOME	\$ 45	\$ 24	\$ 31
Equity losses from unconsolidated companies	\$ (17)	\$ (22)	\$ —
SUPPLEMENTAL FINANCIAL DATA:			
REVENUES			
Consolidated companies	\$ 818	\$ 695	\$ 889
Unconsolidated companies	290	289	272
	\$ 1,108	\$ 984	\$ 1,161
EBITDA			
Consolidated companies ⁽¹⁾	\$ 133	\$ 99	\$ 102
Unconsolidated companies	92	60	56
	225	159	158
Adjustment for unconsolidated companies	(92)	(60)	(56)
Depreciation and amortization	(88)	(75)	(71)
OPERATING INCOME	\$ 45	\$ 24	\$ 31

(1) Excludes \$64 million gain on sale of Putnam 1997.

1999 versus 1998

Consolidated Operations

Revenues for recreation and other increased 18 percent in the year and operating income almost doubled to \$45 million. EBITDA increased 34 percent. These increases reflect the success of the *Crash Bandicoot* and *Spyro* video games, improved sales by Spencer Gifts and additional management fees from the expansion of Universal Studios Escape and the recently acquired Universal Studios Port Aventura. These increases were partially offset by a five percent decline in paid attendance at Universal Studios Hollywood, largely due to reduced Asian tourism. Increased operating expenses at the park were partially offset by a one percent increase in total per capita spending.

Unconsolidated Operations

The equity in earnings from unconsolidated companies improved from a loss of \$22 million in the prior year to a loss of \$17 million in the current year. Revenues from unconsolidated companies were flat year-on-year while EBITDA increased 53 percent. The improvement in the results is due to expansion at Universal Studios Escape, Universal Studios Port Aventura and a gain recognized by Sega GameWorks L.L.C. on the sale of its game sales operation to Sega in the first quarter. At Universal Studios Escape, the opening of Universal Studios Islands of Adventure, Hard Rock Live and CityWalk contributed to a 12 percent increase in paid attendance and a two percent increase in total per capita spending.

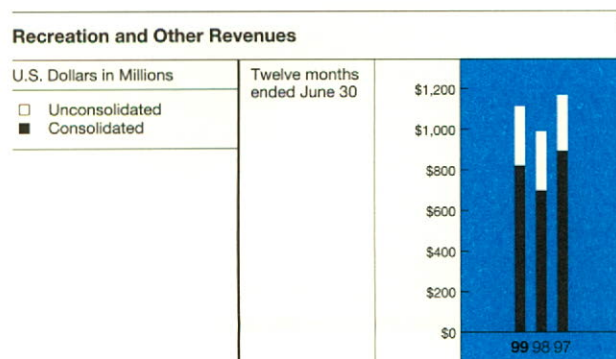
1998 versus 1997

Consolidated Operations

Revenues declined 16 percent and operating income declined to \$24 million principally due to the impact of the sale of Putnam during fiscal year 1997. Excluding the contribution of Putnam from the prior fiscal year, revenues increased three percent and operating income increased from \$9 million to \$24 million. The operating income increase is attributable to improved performance at Spencer Gifts, which benefited from new store openings and a slight increase in comparable store sales, and strong video game sales, principally *Crash Bandicoot 2*. EBITDA decreased three percent to \$99 million. EBITDA at Universal Studios Hollywood was lower as a 13 percent decline in paid attendance more than offset a three percent increase in per capita spending. The attendance shortfall was caused by the impact of El Niño, as well as difficult comparisons with the prior year that benefited from the opening of *Jurassic Park — The Ride* in June 1996.

Unconsolidated Operations

The equity in earnings from unconsolidated companies declined from breakeven in fiscal 1997 to a loss of \$22 million in fiscal 1998 largely due to higher amortization associated with certain equity investments. Revenues from unconsolidated companies increased six percent, and EBITDA increased seven percent year-on-year. The improvement in revenues and EBITDA was largely due to stronger results at Universal Studios Florida. In Florida, paid attendance declined two percent from 1997, however, EBITDA was higher because of an increase in the admission price as well as a nine percent increase in total



turnstile attendance due to a promotion for second-day free admission. The promotion resulted in higher revenues and margins at the theme park.

SPIRITS AND WINE

U.S. DOLLARS IN MILLIONS	ACTUAL TWELVE MONTHS ENDED JUNE 30,		
	1999	1998	1997
REVENUES	\$ 4,812	\$ 4,525	\$ 4,870
Operating income before charge for Asia	\$ 552	\$ 524	\$ 663
Charge for Asia	—	(60)	—
OPERATING INCOME	\$ 552	\$ 464	\$ 663
Equity earnings from unconsolidated companies	\$ 2	\$ 1	\$ 14
SUPPLEMENTAL FINANCIAL DATA:			
REVENUES			
Consolidated companies	\$ 4,812	\$ 4,525	\$ 4,870
Unconsolidated companies	162	232	379
	\$ 4,974	\$ 4,757	\$ 5,249
EBITDA			
Consolidated companies	\$ 684	\$ 643	\$ 786
Charge for Asia	—	(60)	—
	684	583	786
Unconsolidated companies	9	7	24
	693	590	810
Adjustment for unconsolidated companies	(9)	(7)	(24)
Depreciation and amortization	(132)	(119)	(123)
OPERATING INCOME	\$ 552	\$ 464	\$ 663

1999 versus 1998

Consolidated Operations

Revenues increased six percent and operating income increased 19 percent in fiscal 1999. Operating income in the prior year included a \$60 million charge related to operations in Asia. Excluding the impact of this charge, operating income increased five percent. Operating income (excluding the charge for Asia) as a percentage of revenues for total spirits and wine is essentially flat year-on-year at 12 percent. Asia Pacific's revenues increased 79 percent. The increase is principally due to the June 1998 acquisition of the remaining shares of our Korean affiliate, Doosan Seagram Co., Ltd., and the inclusion of their results in consolidated operations for 1999. Additionally, an improvement in the difficult economic conditions experienced in the region in 1998 also contributed to the increase. Revenues in North America increased four percent, reflecting higher volumes and pricing. Europe's revenues increased four percent year-on-year. In Latin America, revenues declined six percent due to the difficult economic conditions in the region, particularly in Brazil. In the twelve months ended June 30, 1999, cost of goods sold as a percentage of revenues increased to 53.3 percent from 52.7 percent the prior year. Selling, general and administrative expenses as a percentage of revenues decreased to 34.7 percent from 35.9 percent due to slight reductions in both brand spending and overhead expenses coupled with improved revenues. Total brand spending declined two percent at constant exchange rates in 1999. Brand equity spending increased one percent at constant exchange rates as we continued to invest for future growth by supporting our brands in key markets. The brand equity growth reflected an increased emphasis on the consumer and was focused behind core strategic brands, particularly Crown Royal Canadian Whisky and ABSOLUT VODKA in North America and Chivas Regal Scotch Whisky and Martell Cognac globally.

Spirits and wine case volumes, including unconsolidated companies, increased one percent in 1999 as the performance of our global brands was mixed. Volumes in North America were strong, in particular for Crown Royal Canadian Whisky and

Captain Morgan Rum. Globally, volumes for Crown Royal Canadian Whisky and Captain Morgan Rum increased five and 14 percent, respectively. ABSOLUT VODKA, which is owned by V&S Vin & Sprit AB and distributed by the Company in major international markets, had a nine percent increase in volume. Case volumes of several global brands declined including Martell and Chivas which were down three and nine percent, respectively.

EBITDA increased 17 percent. Excluding the impact of the \$60 million charge for Asia Pacific from the prior year results, EBITDA would have increased six percent.

Unconsolidated Operations

The equity in earnings of unconsolidated companies was \$2 million in 1999 compared to \$1 million in the prior year. Revenues from unconsolidated companies declined by 30 percent and EBITDA increased 29 percent. The year-on-year variances are primarily due to changes in the entities that are included in unconsolidated companies. In 1999, the results include Kirin-Seagram Limited in Japan for the entire twelve months and Seagram (Thailand) Limited for nine months to March 1999 at which time we increased our investment in Thailand and began to consolidate that affiliate. In 1998 the unconsolidated companies also included Doosan Seagram Co., Ltd. in Korea. As a result of an additional investment in Doosan Seagram Co., Ltd., at the end of June 1998, that affiliate's results are now consolidated.

1998 versus 1997

Consolidated Operations

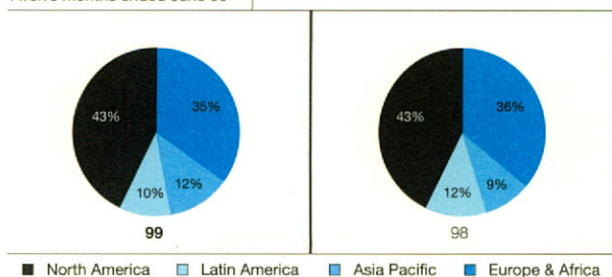
As a result of the economic and currency crises in Asia, Seagram recorded a \$60 million charge related to its operations in Asia in the second quarter of the fiscal year ended June 30, 1998. The charge was comprised of approximately \$30 million for increased bad debt reserves, \$15 million for severance and related costs, and the remainder for other asset write-downs.

Spirits and wine revenues were adversely affected by difficult market conditions in Asia Pacific and the impact of unfavorable foreign exchange. Revenues declined seven percent to \$4.5 billion. Operating income declined 30 percent to \$464 million after the \$60 million charge for Asia. Excluding the impact of unfavorable foreign exchange and the charge for Asia, operating income would have decreased 10 percent. Operating income, before the charge, as a percent of revenues declined from 13.6 percent to 11.6 percent reflecting the shortfall in the Asian market where predominantly higher margin products are sold. The decline in revenues in Asia is due to lower shipments in order to deliberately reduce distributor inventories, particularly in Greater China, and diminished consumer demand. Margins in Asia deteriorated as demand has shifted away from imported products to less expensive locally produced spirits. Revenues in North America increased five percent due to improved mix and sustained price increases. Revenues in Latin America increased four percent. Revenues for Europe and Africa declined four percent but would have increased three percent excluding the impact of unfavorable foreign exchange. Key growth markets in Europe included the U.K., Spain and Italy.

In fiscal 1998 cost of goods sold, before the charge, as a percent of revenues was unchanged at 52.7 percent. Selling, general and administrative expenses, before the charge, as a percent of revenues increased to 35.9 percent from 33.7 percent due as reductions in overhead and brand spending did not fully compensate for the rapid revenue decline in Asia. Total brand spending declined 12 percent, or approximately three percent at constant exchange rates, primarily due to the volume shortfall.

Spirits and Wine Revenues by Geographic Region

Twelve months ended June 30



Spirits and wine case volumes, including unconsolidated companies, decreased one percent in fiscal year 1998 as the performance of our global brands was mixed.

Unconsolidated Operations

The equity in earnings of unconsolidated companies was \$1 million in 1998 compared to \$14 million in 1997. The year-on-year declines are primarily due to the difficult market conditions in Asia Pacific where all the unconsolidated companies are located. In 1998 and 1997, the results include Kirin-Seagram Limited in Japan, Seagram (Thailand) Limited and Doosan Seagram Co., Ltd., in Korea.

LIQUIDITY, CAPITAL RESOURCES AND MARKET RISK

FINANCIAL POSITION Current assets of \$8.9 billion at June 30, 1999 were \$1.9 billion higher than at June 30, 1998. Current liabilities increased \$3.4 billion to \$8.1 billion at June 30, 1999. The increases in current assets and current liabilities are primarily due to the acquisition of PolyGram. Shareholders' equity was \$12.9 billion at June 30, 1999, compared with \$9.3 billion at June 30, 1998. In December 1998, \$2 billion in common shares were issued in connection with the acquisition of PolyGram. In June 1999, we completed a \$1.4 billion common share issuance. Our total long- and short-term debt, net of cash and short-term investments, increased to \$7.0 billion at June 30, 1999 from \$2.7 billion at June 30, 1998, reflecting an increase in borrowings used primarily to finance the acquisition of PolyGram. Our ratio of net debt to total capitalization (including minority interest) increased from 19 percent to 32 percent, reflecting the larger debt outstanding.

CASH FLOWS FROM OPERATING ACTIVITIES Net cash provided by operating activities totaled \$935 million in the 1999 fiscal year, an increase of \$1.2 billion from 1998. Contributing to this favorable development were lower working capital requirements, partially offset by a reduction in income from continuing operations. In 1998, operating activities used cash of \$241 million, following net cash provided of \$664 million in 1997. The increased cash requirements in the 1998 fiscal year reflect reduced income from continuing operations (excluding the gains on the USA transactions and the Time Warner share sales) and higher working capital requirements.

CASH FLOWS FROM INVESTING ACTIVITIES Net cash used for investing activities was \$6.1 billion in fiscal year 1999. The \$3.3 billion pre-tax proceeds from the Tropicana disposition were more than offset by the use of \$8.6 billion of cash for the PolyGram acquisition, an additional investment in USANi LLC and USA Networks, Inc. of \$243 million and capital expenditures of \$531 million. The capital expenditures by business segment were Music — \$135 million, Filmed Entertainment — \$134 million, Recreation and Other — \$134 million and Spirits and Wine — \$128 million. In 1998, net cash provided by investing activities was \$699 million. The net cash provided included \$1.3 billion gross proceeds from the USA transactions and \$1.9 billion proceeds from the sales of 26.8 million Time Warner shares. Partially offsetting these proceeds were the \$1.7 billion acquisition of the incremental 50 percent interest in USA Networks and capital expenditures of \$410 million, broken down by business segment as follows: Music — \$31 million, Filmed Entertainment — \$94 million, Recreation and Other — \$115 million and Spirits and Wine — \$170 million. In addition, \$386 million of cash was used for sundry investments, including investments in Doosan Seagram Co., Ltd., Seagram's spirits and wine affiliate in Korea, Universal Studios Port Aventura, a theme park located in Spain, and Loews Cineplex Entertainment Corporation. Net cash provided by investing activities in 1997 was \$1.7 billion and included \$1.39 billion gross proceeds from the sale of 30 million Time Warner shares, \$500 million proceeds on the sale of the DuPont warrants and \$330 million proceeds on the sale of Putnam. These cash proceeds were partially offset by capital expenditures of \$393 million: Music — \$47 million, Filmed Entertainment — \$44 million, Recreation and Other — \$115 million and Spirits and Wine — \$187 million.

CASH FLOWS FROM FINANCING ACTIVITIES Financing activities in fiscal 1999 provided \$5.6 billion, an increase of \$5.4 billion over the prior year, primarily used to finance the PolyGram acquisition. Contributing to the significant increase were a \$1.4 billion common share issuance, a \$900 million issuance of Adjustable Conversion-rate Equity Security Units and long-term debt issuances and other borrowings totaling \$5.1 billion. On July 15, 1999, we issued additional Adjustable Conversion-rate Equity Security Units for approximately \$74 million. In 1999, we made dividend payments of \$247 million. In the fiscal year ended June 30, 1998, financing activities provided \$159 million as compared to 1997 when \$2.2 billion was used. In 1998, an increase in short-term borrowings of \$1.1 billion was used to finance the acquisition of the incremental 50 percent interest in

USA Networks. This increase was offset by dividend payments of \$231 million and \$753 million used to repurchase common shares. In 1997, we made dividend payments of \$239 million, used \$416 million to repurchase common shares and decreased short-term borrowings by \$1.6 billion.

Cash used by the discontinued Tropicana operations to the disposition date of August 25, 1998 was \$3 million as compared to the cash provided by discontinued Tropicana operations of \$67 million in fiscal 1998 and \$16 million in fiscal 1997.

WORKING CAPITAL Our working capital position is reinforced by available credit facilities of \$7.6 billion. These facilities are used to support our commercial paper borrowings and are available for general corporate purposes. We believe our access to external capital resources, together with internally generated liquidity, will be sufficient to satisfy existing commitments and plans, and to provide adequate financial flexibility.

Capital needs of film studios are significant. In order to effectively manage our capital needs and costs in the film business, we utilize a variety of arrangements, including co-production, insurance, contingent profit participation and the sale of certain distribution rights. We have entered into an agreement to sell substantially all films produced or acquired during the term of the agreement for amounts which approximate costs. We serve as sole distributor and earn a distribution fee, which is variable and contingent upon the films' performance. We also have the option to repurchase the films at certain future dates. At the expiration of this agreement in 2000, the funding of film production activities will be met through internally generated funds or from other external sources.

Evolving technology allows consumers to experience music in new electronic mediums and formats. Through a variety of strategic alliances and independent initiatives, we continue to invest resources in the technology and electronic commerce areas. During 1999, technology spending approximated \$30 million.

INTERNATIONAL EXCHANGE We are exposed to changes in financial market conditions in the normal course of business because we conduct business in many foreign currencies and engage in ongoing investing and funding activities in many countries. Market risk is the uncertainty to which future earnings or asset/liability values are exposed due to operating cash flows denominated in foreign currencies and various financial instruments used in the normal course of operations. We have established policies, procedures and internal processes governing management of market risks and the use of financial instruments to manage our exposure to such risks.

We are also exposed to changes in interest rates primarily as a result of our borrowing and investing activities that include short-term investments and borrowings and long-term debt used to maintain liquidity and fund business operations. We continue to utilize U.S. dollar-denominated commercial paper and bank borrowings to fund seasonal working capital requirements in the U.S. and Canada and also borrow in different currencies from other sources to meet the borrowing needs of our affiliates. The nature and amount of our long-term and short-term debt can be expected to vary as a result of future business requirements, market conditions and other factors.

Operating cash flows denominated in foreign currencies as a result of our international business activities and certain borrowings are exposed to changes in foreign exchange rates. We continually evaluate our foreign currency exposure (primarily British pound and euro), based on current market conditions and the business environment. In order to mitigate the effect of foreign currency risk, we engage in hedging activities. The magnitude and nature of such hedging activities are explained in Note 6 to the consolidated financial statements.

Our company employs a variance/covariance approach in our calculation of Value at Risk (VaR), which measures the potential losses in fair value or earnings that could arise from changes in market conditions, using a 95 percent confidence level and assuming a one-day holding period. The VaR, which is the potential loss in fair value, attributable to our interest rate sensitive exposures at June 30, 1999 was \$49 million. This exposure is primarily related to long-term debt with fixed interest rates. The VaR, which is the potential loss in earnings associated with our exposure to foreign exchange rates, primarily to hedge cash flow exposures denominated in foreign currencies, was \$12 million at June 30, 1999. These exposures include intercompany trade accounts, service fees, intercompany loans and third-party debt. We are subject to other foreign exchange market risk exposure as a result of non-financial instrument anticipated foreign currency cash flows which are difficult to reasonably predict, and have therefore not been included in the Company's VaR calculation.

Year 2000 Issue

We have dedicated substantial resources to minimize potential business disruption associated with the Year 2000 (Y2K) issue. Modification or replacement of time or date sensitive information technology (IT) is necessary so that the affected systems will properly recognize dates beyond December 31, 1999. If not corrected, certain systems may fail or miscalculate data. Failures or miscalculations may not only result from IT systems, but also from non-IT systems, such as equipment that relies on embedded technology. Risks associated with the Y2K issue also include the potential impact of third parties on our business, including vendors and government services. The Y2K issue could impact all areas of our business, including the production and distribution of music, film and beverage products, operation of theme parks and retail stores.

We have developed a comprehensive program to address Y2K issues. We have project management offices at each major business group (Universal Music Group, Universal Studios Group and The Seagram Spirits and Wine Group). Each office is responsible for identifying and addressing the systems in that business group which are likely to be impacted by the Y2K date change and contacting key vendors, customers and others with whom the respective group does business to determine their state of readiness. In addition to the project management offices, we have an established Executive Steering Committee which coordinates Y2K issues across the business groups. Our program is structured so that strategies are implemented by each business group to address IT and non-IT issues. The program, as well as our anticipated timeframe for completion, follows:

ASSESSMENT This step includes identifying computer hardware, software and network components and equipment potentially impacted by Y2K problems for both IT and non-IT systems, and distinguishing those that are critical from those that are not. Critical systems are those systems that would result in a significant impairment of our ability to conduct our basic business operations should they fail, such as production and distribution, billing and collections, payments to employees and vendors, and financial reporting. Our assessment phase is complete.

REMEDiation This step includes converting noncompliant system code or equipment to a state where Y2K issues are resolved. In some cases, replacing or abandoning certain systems is the most cost-effective remediation approach. Of the approximate 4,100 critical systems identified during the assessment phase of our program, remediation of 84 percent of the systems is now considered complete and 16 percent are currently in the remediation stage, with completion of all critical systems expected by October 31, 1999.

TESTING AND VALIDATION Testing and validation includes ensuring that systems which have been through the remediation process will operate properly beginning in January 2000. We anticipate that all critical systems will have been tested and validated by October 31, 1999.

THIRD-PARTY VENDORS AND CUSTOMERS We assess and validate third-party vendors and customers as part of our program. Our assessment of third-party Y2K readiness occurs through a variety of methods including interviews, on-site assessment and testing. Third-party assessment will be completed by September 30, 1999.

CONTINGENCY PLANNING In addition to assessment, remediation and testing of systems, we are in an ongoing process of developing contingency plans for systems which may not be Y2K ready by December 31, 1999. Contingency planning is also under way to address the potential impacts of Y2K failure by third parties, which could have an adverse impact on our operations. Our contingency objective is to ensure that alternative processes are identified which will enable us to maintain a minimum acceptable operational capacity should failures occur. We anticipate that all contingency plans will be in place by December 31, 1999.

We expect to incur approximately \$75 million in costs related to assessment and remediation of IT and non-IT systems. Through June 30, 1999, 50 percent of the estimated costs have been incurred. Our estimated costs do not include the costs of redeployed internal resources or the costs of internally developed software or hardware which is being replaced or developed in the normal course of business. The total cost estimate is also subject to change as the program progresses. We expect that certain remediation efforts related to non-critical systems and contingency planning efforts will extend well into 2000. All costs associated with our plan will be funded through operations.

The costs of the Company's Y2K remediation efforts are based upon management's best estimates, which require assumptions about future events, availability of resources and personnel, third-party remediation actions and other factors. There are no assurances that these estimates will be accurate, and actual amounts may differ materially based on a number of factors, including the availability and cost of resources to undertake remediation activities and the scope and nature of the work required to complete remediation.

We expect that the Y2K issue will not pose significant operational problems. However, the Company has not completed all phases of its program and is dependent on third parties whose progress is not within its control. As with many multinational companies, we could experience disruptions in services from third-party providers, such as certain services provided by governments or other services providers, and in certain areas where attention to the Y2K issue has not been significant. While our Y2K plan is expected to significantly reduce the likelihood of business disruptions, delays in the implementation of new systems, a failure to fully identify all embedded technology potentially affected by the Y2K issues and impacts on suppliers, customers, financial institutions and government agencies, or a failure of third parties to adequately address their respective Y2K issues could have a material adverse effect on our operations.

Statements concerning Y2K issues that contain more than historical information may be considered forward-looking statements, which are subject to risks and uncertainties. Actual results may differ materially from those expressed in the forward-looking statements, and our Y2K discussion should be read in conjunction with our statement on forward-looking statements which appears below.

Euro Conversion

In January 1999, certain member countries of the European Union began operating with a new common currency, the euro, which was established by fixing conversion rates between their existing currencies and the euro. The euro may be used in business transactions along with existing currencies until June 2002, at which time the existing currencies will be removed from circulation. We conduct business in member countries and, accordingly, continue to evaluate the effects of the euro conversion on our European operations, principally in the music and spirits and wine businesses. We have established processes to address the issues raised by this currency conversion, including the impact on information technology and other systems, currency risk, financial instruments, taxation and competitive implications. Based upon progress to date, we believe that the introduction of the euro and phasing out of existing currencies will not have a material impact on our financial position or results of operations.

Cautionary Statement Concerning Forward-Looking Statements

This report contains statements that are "forward-looking statements," in that it includes statements regarding the intent, belief or current expectations of our management with respect to our future operating performance. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements that express forecasts, expectations and projections with respect to future matters, including the launching or prospective development of new business initiatives and products, anticipated music or motion picture releases, Internet or theme park projects, Y2K remediation efforts and anticipated cost savings or synergies are forward-looking statements within the meaning of the Act. Such forward-looking statements are not guarantees of future performance. Actual results may differ materially from our forward-looking statements as a result of certain risks and uncertainties, many of which are outside our control, including but not limited to:

- Changes in global and localized economic and political conditions that may affect attendance and spending at our theme parks, purchases of our consumer products and the performance of our filmed entertainment operations.
- Changes in financial and equity markets, including significant interest rate and foreign currency rate fluctuations, which may affect our access to, or increase the cost of financing for our operations and investments.
- Increased competitive product and pricing pressures and unanticipated actions by competitors that could impact our market share, increase expenses and hinder our growth potential.
- Changes in consumer preferences and tastes, which may affect all our business segments.

- Adverse weather conditions or natural disasters, such as hurricanes and earthquakes, which may, among other things, impair performance at our theme parks in California, Florida and Spain.
- Legal and regulatory developments, including changes in accounting standards, taxation requirements, such as the impact of excise tax increases with respect to the spirits and wine business, and environmental laws.
- Technological developments that may affect the distribution of our products or create new risks to our ability to protect our intellectual property rights.
- The uncertainties of litigation and other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission.

QUARTERLY HIGH AND LOW SHARE PRICES

	FISCAL YEARS ENDED JUNE 30,					
	1999		1998		1997	
	HIGH	LOW	HIGH	LOW	HIGH	LOW
New York Stock Exchange						
First Quarter	US\$ 41.94	US\$ 28.69	US\$ 41.13	US\$ 33.94	US\$ 38.38	US\$ 30.88
Second Quarter	38.38	25.13	37.63	30.25	41.88	35.25
Third Quarter	51.25	37.81	39.75	31.44	42.75	38.00
Fourth Quarter	65.00	48.81	46.69	36.81	41.88	35.75
Toronto Stock Exchange						
First Quarter	C\$ 62.25	C\$ 43.80	C\$ 56.70	C\$ 46.45	C\$ 52.25	C\$ 42.25
Second Quarter	59.50	38.65	52.30	43.25	57.40	47.50
Third Quarter	77.35	58.00	56.50	44.70	57.30	51.90
Fourth Quarter	98.00	72.00	67.50	52.65	58.10	50.00

RETURN TO SHAREHOLDERS

The Company had 6,623 registered shareholders at September 1, 1999. The Company's common shares are listed on the New York, Toronto, Montreal, Vancouver and London Stock Exchanges. Closing prices at June 30, 1999 on the New York and Toronto Stock Exchanges were \$50.38 and C\$73.35, respectively.

In the fiscal years ended June 30, 1999 and 1998, the Company paid dividends of \$0.165 per share per quarter. In the fiscal year ended June 30, 1997, the Company paid dividends of \$0.15 per share in the first quarter and \$0.165 per share in each of the final three quarters.

consolidated statement of income

U.S. DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS	FISCAL YEARS ENDED JUNE 30,		
	1999	1998	1997
Revenues	\$ 12,312	\$ 9,474	\$ 10,354
Cost of revenues	7,337	5,525	6,262
Selling, general and administrative expenses	4,820	3,396	3,373
Restructuring charge	405	—	—
Operating income (loss)	(250)	553	719
Interest, net and other	457	228	147
Gain on sale of Time Warner shares	—	926	154
Gain on USA transactions	128	360	—
	(579)	1,611	726
Provision (benefit) for income taxes	(33)	638	331
Minority interest	(26)	48	12
Equity earnings (losses) from unconsolidated companies	137	(45)	62
Income (loss) from continuing operations	(383)	880	445
Income (loss) from discontinued Tropicana operations, after tax	(3)	66	57
Gain on sale of discontinued Tropicana operations, after tax	1,072	—	—
Net income	\$ 686	\$ 946	\$ 502
Earnings per share – basic			
Income (loss) from continuing operations	\$ (1.01)	\$ 2.51	\$ 1.20
Discontinued Tropicana operations, after tax	2.82	.19	.16
Net income	\$ 1.81	\$ 2.70	\$ 1.36
Earnings per share – diluted			
Income (loss) from continuing operations	\$ (1.01)	\$ 2.49	\$ 1.20
Discontinued Tropicana operations, after tax	2.82	.19	.15
Net income	\$ 1.81	\$ 2.68	\$ 1.35

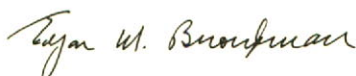
The accompanying notes are an integral part of these financial statements.

consolidated balance sheet

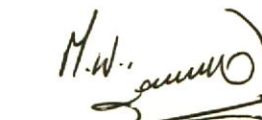
U.S. DOLLARS IN MILLIONS	JUNE 30, 1999	JUNE 30, 1998
ASSETS		
Cash and cash equivalents	\$ 1,533	\$ 1,174
Receivables, net of allowances	2,985	2,155
Inventories	2,627	2,555
Other current assets	1,736	1,087
TOTAL CURRENT ASSETS	8,881	6,971
Investments	5,663	4,971
Film costs, net of amortization	1,251	1,272
Music catalogs, artists' contracts and advances	3,348	761
Property, plant and equipment, net	3,158	2,733
Goodwill and other intangible assets	11,871	3,076
Other assets	839	661
Net assets of discontinued Tropicana operations	—	1,734
	\$ 35,011	\$ 22,179
LIABILITIES AND SHAREHOLDERS' EQUITY		
Short-term borrowings and current portion of long-term debt	\$ 1,053	\$ 1,653
Payables and accrued liabilities	4,808	2,354
Accrued royalties and participations	2,285	702
TOTAL CURRENT LIABILITIES	8,146	4,709
Long-term debt	7,468	2,225
Accrued royalties and participations	434	421
Deferred income taxes	2,698	2,598
Other liabilities	1,499	995
Minority interest	1,878	1,915
TOTAL LIABILITIES	22,123	12,863
Shareholders' Equity		
Shares without par value	4,575	848
Retained earnings	8,707	8,268
Accumulated other comprehensive income	(394)	200
TOTAL SHAREHOLDERS' EQUITY	12,888	9,316
	\$ 35,011	\$ 22,179

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

Approved by the Board



Edgar M. Bronfman
Director



Matthew W. Barrett
Director

consolidated statement of cash flows

U.S. DOLLARS IN MILLIONS	FISCAL YEARS ENDED JUNE 30,		
	1999	1998	1997
OPERATING ACTIVITIES			
Income (loss) from continuing operations	\$ (383)	\$ 880	\$ 445
Adjustments to reconcile income from continuing operations to net cash provided:			
Depreciation and amortization of assets	527	289	290
Amortization of goodwill	246	127	103
Gain on sale of Time Warner shares, DuPont warrants and Putnam	—	(926)	(278)
Gain on USA transactions	(128)	(360)	—
Minority interest in income (loss) of subsidiaries	(26)	48	12
Equity earnings from unconsolidated companies (greater) less than dividends received	(45)	101	45
Deferred income taxes	92	447	(53)
Other	120	(69)	145
Changes in assets and liabilities, net of effect of acquisitions and dispositions:			
Receivables, net of allowances	952	(324)	(238)
Inventories	(85)	14	6
Other current assets	6	(524)	(365)
Music catalogs, artists' contracts and advances	(2)	(88)	(2)
Payables and accrued liabilities	(69)	(7)	513
Other liabilities	(270)	151	41
	1,318	(1,121)	219
Net cash provided by (used for) operating activities	935	(241)	664
INVESTING ACTIVITIES			
Acquisition of PolyGram	(8,607)	—	—
Sale of Tropicana	3,288	—	—
Investments in USANi LLC and USA Networks	(243)	(1,700)	—
USA transactions	—	1,332	—
Sale of Time Warner shares, DuPont warrants and Putnam	—	1,863	2,217
Capital expenditures	(531)	(410)	(393)
Other	(43)	(386)	(116)
Net cash (used for) provided by investing activities	(6,136)	699	1,708
FINANCING ACTIVITIES			
Dividends paid	(247)	(231)	(239)
Issuance of shares	1,417	—	—
Issuance of shares upon exercise of stock options and conversion of LYONs	314	86	107
Issuance of Adjustable Conversion-rate Equity Security Units	900	—	—
Issuance of long-term debt	5,086	41	3
Repayment of long-term debt	(1,066)	(37)	(29)
Shares purchased and retired	—	(753)	(416)
(Decrease) increase in short-term borrowings and current portion of long-term debt	(841)	1,053	(1,601)
Net cash provided by (used for) financing activities	5,563	159	(2,175)
Net cash provided by continuing operations	362	617	197
Net cash (used for) provided by discontinued operations	(3)	67	16
NET INCREASE IN CASH AND CASH EQUIVALENTS	359	684	213
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,174	490	277
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,533	\$ 1,174	\$ 490

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

consolidated statement of shareholders' equity

U.S. DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS	COMMON SHARES WITHOUT PAR VALUE		RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL SHAREHOLDERS' EQUITY
	NUMBER (THOUSANDS)	AMOUNT			
BALANCE AT JUNE 30, 1996	373,059	\$ 725	\$ 8,389	\$ 91	\$ 9,205
Components of comprehensive income:					
Net income			502		502
Currency translation adjustments				(181)	(181)
Unrealized holding gain in equity securities, net of \$239 tax				444	444
Total comprehensive income					765
Dividends paid (\$.645 per share)			(239)		(239)
Shares issued – exercise of stock options	3,243	98			98
– conversion of LYONs	296	9			9
Shares purchased and retired	(11,317)	(23)	(393)		(416)
BALANCE AT JUNE 30, 1997	365,281	809	8,259	354	9,422
Components of comprehensive income:					
Net income			946		946
Currency translation adjustments				(72)	(72)
Unrealized holding loss in equity securities, net of \$44 tax benefit				(82)	(82)
Total comprehensive income					792
Dividends paid (\$.66 per share)			(231)		(231)
Shares issued – exercise of stock options	2,751	84			84
– conversion of LYONs	48	2			2
Shares purchased and retired	(20,948)	(47)	(706)		(753)
BALANCE AT JUNE 30, 1998	347,132	848	8,268	200	9,316
Components of comprehensive income:					
Net income			686		686
Currency translation adjustments				(599)	(599)
Unrealized holding gain in equity securities, net of \$8 tax				5	5
Total comprehensive income					92
Dividends paid (\$.66 per share)			(247)		(247)
Shares issued – exercise of stock options and other compensation	8,493	312			312
– conversion of LYONs	26	2			2
– issuance of common shares	76,904	3,413			3,413
BALANCE AT JUNE 30, 1999	432,555	\$ 4,575	\$ 8,707	\$ (394)	\$ 12,888

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

notes to consolidated financial statements

NOTE 1 Description of Business and Summary of Significant Accounting Policies

DESCRIPTION OF BUSINESS

The Seagram Company Ltd. operates in four global business segments: music, filmed entertainment, recreation and other, and spirits and wine. The music business is conducted through Universal Music Group, which produces and distributes recorded music throughout the world in all major genres. Universal Music Group also manufactures, sells and distributes video products in the United States and internationally, and licenses music copyrights. The filmed entertainment business produces and distributes motion picture, television and home video products worldwide, operates and has ownership interests in a number of international cable channels and engages in the licensing of merchandising and film property rights. The recreation and other businesses operate theme parks, retail stores and are also involved in the development of entertainment software. The spirits and wine business, directly and through affiliates and joint ventures, produces, markets and distributes distilled spirits, wines, ports and sherries, coolers, beers, mixers and other low-alcohol beverages. In addition to marketing owned brands, the spirits and wine business also distributes distilled spirits, wine and beer brands owned by others.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION The Seagram Company Ltd. is headquartered in Canada, and more than 50 percent of the Company's shares are held by U.S. residents. As a result, the Company has prepared its consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP). U.S. GAAP applicable to the Company conforms, in all material respects, to Canadian GAAP. Differences between U.S. and Canadian GAAP affecting these financial statements are discussed in Note 13. Should a material difference between the two accounting principles arise in the future, financial statements would be provided under both U.S. and Canadian GAAP.

PRINCIPLES OF CONSOLIDATION AND ACCOUNTING FOR INVESTMENTS The consolidated financial statements include the accounts of The Seagram Company Ltd. and its subsidiaries. All intercompany accounts, transactions and profits have been eliminated. Investments in certain other companies in which Seagram has significant influence, but less than a controlling interest, are accounted for using the equity method. Investments in companies in which Seagram does not have significant influence are accounted for at market value if the investments are publicly traded, or at cost if not publicly traded.

USE OF ESTIMATES The preparation of the financial statements requires management to make informed estimates, assumptions and judgments, with consideration given to materiality, that affect the reported amounts of assets, liabilities, revenues and expenses. For example, estimates are used in management's forecast of anticipated revenues in the music and filmed entertainment businesses and in determining valuation allowances for uncollectible trade receivables and deferred income taxes. Actual results could differ from those estimates.

Revenues and Costs

MUSIC Revenues from the sale of recorded music, net of a provision for estimated returns and allowances, are recognized upon shipment to third parties. Advances to established recording artists and direct costs associated with the creation of record masters are capitalized and are charged to expense as the related royalties are earned, or when the amounts are determined to be unrecoverable. The advances are expensed when past performance or current popularity does not provide a sound basis for estimating that the advance will be recovered from future royalties.

FILMED ENTERTAINMENT Generally, theatrical films are first distributed in the worldwide theatrical and home video markets. Subsequently, theatrical films are made available for worldwide pay television, network exhibition, television syndication and basic cable television. Television films from the Company's library may be licensed for domestic and foreign syndication, cable or pay television and home video. Theatrical revenues from the distribution of films are recognized as the films are exhibited. Revenues from television and pay television licensing agreements are recognized when the films are available for telecast. Home video product revenues, less a provision for estimated returns and allowances, are recognized upon availability of product for retail sale. Film costs are stated at the lower of cost, less accumulated amortization, or net realizable value. Generally,

abandoned story and development costs are charged to film production overhead. The estimated total film production and participation costs are expensed based on the ratio of the current period's gross revenues to estimated total gross revenues from all sources on an individual production basis. Estimates of total gross revenues and costs can change significantly due to a variety of factors, including the level of market acceptance of film and television products. Accordingly, revenue and cost estimates are reviewed quarterly and revisions to amortization rates or write-downs to net realizable value may occur.

Film costs, net of amortization, for completed theatrical films intended for distribution in the worldwide theatrical, home video and pay television distribution markets are classified as other current assets. The portion of released film costs expected to be realized from secondary markets such as network exhibition, television syndication and basic cable television are reported as noncurrent assets. Other costs relating to film production, including the purchase price of literary properties and related film development costs, and the film library are classified as noncurrent assets.

The Company has an agreement with an independent party to sell substantially all completed feature films produced over the period 1997-2000 at amounts which approximate cost. The Company distributes these films and maintains an option to re-acquire the films, based on a formula considering the remaining estimated total gross revenues, net of costs, at the time of re-acquisition. No films have been re-acquired as of June 30, 1999. As a distributor, the Company has recorded, in its statement of income, the revenues received from and operating expenses related to the films in all markets, and, in interest, net and other, certain other costs relating to the agreement.

RECREATION AND OTHER Revenues at theme parks are recognized at the time of visitor attendance. Revenues for retail operations are recognized at point-of-sale.

SPIRITS AND WINE Revenues from the sale of spirits and wines are generally recognized when products are shipped. The Company establishes liabilities for estimated returns and allowances at the time of shipment. Accruals for customer discounts and rebates are recorded when revenues are recognized.

FOREIGN CURRENCY TRANSLATION For operations in highly inflationary economies, the U.S. dollar is utilized as the functional currency. Affiliates outside the U.S. generally use the local currency as the functional currency. For affiliates in countries considered to have a highly inflationary economy, inventories and property, plant and equipment are translated at historical exchange rates and translation effects are included in net income. The cumulative currency translation adjustment balance was \$(1,098) million, \$(499) million and \$(427) million at June 30, 1999, 1998 and 1997, respectively.

CASH AND CASH EQUIVALENTS Cash equivalents include time deposits and highly liquid investments with original maturities of three months or less.

INVENTORIES Inventories consist principally of spirits and wines and are stated at cost, which is not in excess of market. The cost of spirits and wines inventories is determined by either the last-in, first-out (LIFO) method or the identified cost method. In accordance with industry practice, current assets include spirits and wines inventories, which are aged for varying periods of years. The cost of music, retail and home video inventories is determined by the first-in, first-out (FIFO) method.

PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment is carried at cost. Depreciation is determined using the straight-line method based on the estimated useful lives of the assets, generally at annual rates of 2-10 percent for buildings, 4-33 percent for machinery and equipment and 2-20 percent for other assets.

GOODWILL AND INTANGIBLE ASSETS The Company has significant acquired intangible assets, including goodwill, music catalogs, artists' contracts, music publishing assets, film libraries, copyrights and trademarks. Music catalogs and artists' contracts are amortized on an accelerated basis over 14 and 20 years, respectively. From the date of acquisition, the acceleration results in 80 percent of artists' contracts being amortized within the first eight years and 50 percent of music catalogs being amortized within the first five years. Music publishing assets, film libraries and copyrights are amortized on a straight-line basis over 20 years. Goodwill is amortized on a straight-line basis over periods up to 40 years. The Company reviews the carrying value of goodwill and intangible assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Measurement of any impairment would include a comparison of discounted

estimated future operating cash flows anticipated to be generated during the remaining amortization period to the net carrying value. Music catalogs, artists' contracts, music publishing assets and copyrights includes \$400 million of the cost of the 1995 Universal acquisition and approximately \$2.8 billion of the cost of the December 1998 PolyGram acquisition. A film library acquired in connection with the Universal acquisition was valued at \$300 million.

STOCK-BASED COMPENSATION Compensation cost attributable to stock option and similar plans is recognized based on the difference, if any, between the quoted market price of the Company's common shares on the date of grant over the exercise price of the option. The Company does not issue options at prices below market value at date of grant.

DERIVATIVE FINANCIAL INSTRUMENTS The Company enters into foreign currency and interest rate derivative contracts for the purpose of minimizing risk. The Company uses currency forwards and options to hedge firm commitments and a portion of its foreign indebtedness. In addition, the Company hedges foreign currency risk on intercompany payments and receipts through currency forwards, options and swaps which offset the exposure being hedged. Gains and losses on forward contracts are deferred and offset against foreign exchange gains and losses on the underlying hedged transaction. Gains and losses on forward contracts used to hedge foreign debt and intercompany payments are recorded in the income statement in selling, general and administrative expenses. The Company uses interest rate swap and swaptions to manage net exposure to interest rate movements related to its borrowings and to lower its overall borrowing costs. Net payments or receipts are recorded as adjustments to interest expense. Interest rate instruments generally have the same life as the underlying interest rate exposure. Gains or losses on the early termination of interest rate instruments are recognized over the remaining life, if any, of the underlying exposure as an adjustment to interest expense.

COMPREHENSIVE INCOME The Company adopted Financial Accounting Standards (SFAS) No. 130, *Reporting Comprehensive Income*, at July 1, 1998. As it relates to the Company, comprehensive income is defined as net income plus the sum of currency translation adjustments and unrealized holding gains/losses in equity securities, collectively other comprehensive income, and is presented in the consolidated statement of shareholders' equity.

New Accounting Guidance

START-UP COSTS The Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AcSEC) issued Statement of Position (SOP) 98-5, *Reporting on the Costs of Start-Up Activities*, which is effective for the Company's fiscal year beginning July 1, 1999. SOP 98-5 requires that costs of start-up activities and organization costs be expensed as incurred. The adoption of SOP 98-5 will result in a pre-tax charge of approximately \$140 million, which will be accounted for as a cumulative effect of a change in accounting principle.

FINANCIAL INSTRUMENTS In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which will require the Company to record all derivatives on the balance sheet at fair value. Changes in derivative fair values will either be recognized in earnings as offsets to the changes in fair value of related hedged assets, liabilities and firm commitments or for forecasted transactions, deferred and recorded as a component of accumulated other comprehensive income until the hedged transactions occur and are recognized in earnings. The ineffective portion of a hedging derivative's change in fair value will be immediately recognized in earnings. The impact of SFAS No. 133 on the Company's financial statements will depend on a variety of factors, including the future level of forecasted and actual foreign currency transactions, the extent of the Company's hedging activities, the types of hedging instruments used and the effectiveness of such instruments. In June 1999, the FASB delayed the effective date of the standard which will now be effective for the Company's fiscal year beginning July 1, 2000. The Company is currently evaluating the impact of adopting SFAS No. 133 on its financial statements.

PROPOSED CHANGES TO FILM ACCOUNTING STANDARDS In October 1998, the AcSEC issued an exposure draft of a proposed SOP, *Accounting by Producers and Distributors of Films*. The proposed SOP would supersede current film accounting standards related to the recognition of revenues, costs and expenses and film cost valuation. The SOP is intended to clarify the accounting for items that currently vary in practice. The SOP is expected to result in earlier recognition of certain expenses and revised

financial statement presentation and disclosure. Once effective, adoption of the proposed accounting standard would be reflected as a cumulative effect of a change in accounting principle. Since the provisions of the SOP are still being deliberated by AcSEC, and could change significantly prior to the issuance of a final standard, the Company has not determined its impact at this time.

RECLASSIFICATIONS Certain prior period amounts in the financial statements and notes have been reclassified to conform with the current year presentation.

NOTE 2 Significant Transactions

ACQUISITION OF POLYGRAM

On December 10, 1998, the Company acquired 99.5 percent of the outstanding shares of PolyGram N.V. (PolyGram), a global music and entertainment company, for \$8,607 million in cash and approximately 47.9 million common shares of the Company. Substantially all of the common shares were issued to Koninklijke Philips Electronics N.V., which had owned 75 percent of the PolyGram shares. The acquisition has been accounted for under the purchase method of accounting, and accordingly the results of the operations of PolyGram are included in the results of the Company's music and filmed entertainment segments from the date of acquisition. The acquisition was financed through both short-term and long-term borrowings. Following the acquisition of PolyGram, Matsushita Electric Industrial Co., Ltd., has an approximate 8 percent ownership interest in the entities which own Universal's music, filmed entertainment and recreation and other assets.

ALLOCATION OF PURCHASE PRICE The Company has performed a purchase price study related to its acquisition of PolyGram in order to assess and allocate the purchase price among tangible and intangible assets acquired and liabilities assumed, based on fair values at the acquisition date. The final allocation of purchase price is not expected to differ significantly from the following:

MILLIONS

Identifiable intangible assets	\$ 2,774
Goodwill	9,476
Accrual for exit activities	(490)
All other, net	(960)
	<u>\$ 10,800</u>

INTANGIBLE ASSETS Identifiable intangible assets consist of music catalogs, artists' contracts, music publishing assets, distribution networks and customer relationships. Acquired music catalogs, artists' contracts, and music publishing assets are amortized over periods ranging from 14 to 20 years, on an accelerated basis, and other intangibles are amortized over a 40-year period, on a straight-line basis. Goodwill is the excess of purchase price over the fair value of assets acquired and liabilities assumed, and is amortized on a straight-line basis over a 40-year period.

ACCRUAL FOR EXIT ACTIVITIES In connection with the integration of PolyGram and Seagram, management developed a formal exit activity plan which was committed to by management and communicated to employees shortly after the acquisition was consummated. Accrued exit activities related to the acquired PolyGram business consist principally of facility elimination costs, contract terminations and the severance or relocation of approximately 1,700 employees, of which approximately 1,000 had been terminated at June 30, 1999.

DISPOSITION OF TROPICANA

On August 25, 1998, the Company completed the sale of Tropicana Products, Inc. and the Company's global fruit juice business (Tropicana) for approximately \$3,288 million in cash, which resulted in a pre-tax gain of \$1,445 million (\$1,072 million

after tax). Tropicana produced and marketed Tropicana, Dole and other branded fruit juices and beverages. Summarized financial information related to the discontinued Tropicana business follows:

MILLIONS	PERIOD ENDED AUGUST 25, 1998	FISCAL YEARS ENDED JUNE 30, 1998	1997
Revenues	\$ 337	\$ 1,986	\$ 1,916
Cost of revenues	266	1,394	1,314
Selling, general and administrative expenses	68	423	450
Operating income	3	169	152
Interest expense	3	39	41
Provision for income taxes	3	64	54
Income (loss) from discontinued operations	\$ (3)	\$ 66	\$ 57

Interest expense above represents allocations based on the ratio of net assets of discontinued operations to consolidated net assets.

MILLIONS	JUNE 30, 1998
Current assets	\$ 546
Noncurrent assets	1,622
	\$ 2,168
Current liabilities	\$ 322
Noncurrent liabilities	112
Shareholders' equity	1,734
	\$ 2,168

USA TRANSACTIONS

On October 21, 1997 Universal acquired from Viacom Inc. the remaining 50 percent interest in the USA Networks partnership for \$1.7 billion in cash. This purchase was in addition to Universal's original 50 percent interest in USA Networks. The acquisition was accounted for under the purchase method of accounting. The cost of the acquisition was allocated on the basis of the estimated fair market value of the assets acquired and liabilities assumed. This transaction resulted in \$1.6 billion of goodwill which was being amortized over 40 years.

On February 12, 1998, Universal sold its acquired 50 percent interest in USA Networks to USA Networks, Inc. (USAi) and contributed its original 50 percent interest in USA Networks, the majority of its television assets and 50 percent of the international operations of USA Networks to USANi LLC. In this transaction, Universal received \$1,332 million in cash, a 10.7 percent interest in USAi and a 45.8 percent exchangeable interest in USANi LLC. Universal recognized a gross gain of \$583 million, before taking into consideration the effect of the transaction, which impaired certain remaining television assets and transformed various related contractual obligations into adverse purchase commitments. The fair value of these items was determined based on expected future cash flows. The impairment losses and adverse purchase commitments arising from the transaction aggregated \$223 million and were reflected in the net gain of \$360 million (\$222 million after tax). During 1999, \$128 million of accrued costs were reversed as a result of the favorable settlement of certain contractual obligations and adverse purchase commitments. The transactions resulted in \$82 million of goodwill, which is being amortized over 40 years. The investment in the 9.1 million shares of USAi common stock held by Universal at June 30, 1999 is accounted for at market value (\$365 million at June 30, 1999) and has an underlying historical cost of \$211 million. The investment in 6.7 million shares of Class B common stock of USAi is carried at its historical cost of \$136 million. The investment in the LLC is accounted for under the equity method.

PRO FORMA FINANCIAL INFORMATION

The unaudited condensed pro forma income statement data presented below assume the PolyGram acquisition, the sale of Tropicana and the USA transactions occurred at the beginning of the 1998 fiscal year. The pro forma information is not necessarily indicative of the combined results of operations of the Company that would have occurred if the transactions had occurred on the date previously indicated, nor is it necessarily indicative of future operating results of the Company.

PRO FORMA INCOME STATEMENT

MILLIONS, EXCEPT PER SHARE AMOUNTS	FISCAL YEARS ENDED JUNE 30,	
	1999	1998
Revenues	\$ 15,344	\$ 14,587
Net income (loss)	\$ (208)	\$ 447
Earnings (loss) per share		
Basic	\$ (.52)	\$ 1.12
Diluted	\$ (.52)	\$ 1.11

OTHER TRANSACTIONS

TIME WARNER SHARES On February 5, 1998, the Company sold 15 million shares of Time Warner common stock for pre-tax proceeds of \$958 million. On May 27, 1998, the Company sold its remaining 11.8 million shares of Time Warner common stock for pre-tax proceeds of \$905 million. The aggregate gain on the sale of the shares was \$926 million (\$602 million after tax). On May 28, 1997, the Company sold 30 million shares of Time Warner common stock for pre-tax proceeds of \$1.39 billion. The gain on the sale of the shares in the fiscal year ended June 30, 1997, was \$154 million (\$100 million after tax) in accordance with the specific identification method.

PUBLISHING GROUP On December 16, 1996, the Company sold its book publishing unit, The Putnam Berkley Group, Inc. (Putnam). Proceeds from the sale were \$330 million, resulting in a \$64 million pre-tax gain on the disposition. There was no after-tax gain or loss due to the write-off of non-tax-deductible goodwill associated with Putnam. The operating results of Putnam through December 16, 1996 are included in operating income.

DUPONT EQUITY WARRANTS On July 24, 1996, the Company sold 156 million equity warrants of E.I. du Pont de Nemours and Company (DuPont) to DuPont for \$500 million in cash. The after-tax net proceeds were \$479 million and the gain on the sale of the warrants was \$60 million (\$39 million after tax) and is included in interest, net and other in the fiscal year ended June 30, 1997.

NOTE 3 Restructuring Charge

Management developed and committed to a formal plan that was communicated to employees to restructure its music and filmed entertainment operations after the acquisition of PolyGram. This plan resulted in a 1999 pre-tax restructuring charge of \$405 million. The charge related entirely to the Company's existing global music and film production, financial, marketing and distribution operations and includes severance, elimination of duplicate facilities and labels, termination of artists' and distribution contracts and costs related to exiting film production arrangements and properties in development. The major components of the charge are:

MILLIONS	FILMED		TOTAL
	MUSIC	ENTERTAINMENT	
Severance and other employee-related costs	\$ 111	\$ 15	\$ 126
Facilities and labels	124	4	128
Contract termination and other costs	78	73	151
	\$ 313	\$ 92	\$ 405

The severance and other employee-related costs provide for a reduction of approximately 1,200 employees worldwide related to facility closures, duplicate position eliminations and streamlining of operations related to cost reduction initiatives. The facilities and labels elimination costs provide for domestic and international lease and label terminations and the write-off of the net book value of furniture, fixtures and equipment and leasehold improvements for vacated properties. The costs of contract terminations are comprised primarily of artists' contracts, distribution contracts, story property commitments and filmed entertainment term deals. The cash and non-cash elements of the restructuring charge approximate \$318 million and \$87 million, respectively. The utilization of the restructuring charge to date follows:

MILLIONS	ORIGINAL ACCRUAL	UTILIZED CASH	NON-CASH	BALANCE AT JUNE 30, 1999
Severance and other employee-related costs	\$ 126	\$ 42	\$ 3	\$ 81
Facilities and labels	128	4	13	111
Contract termination and other costs	151	30	9	112
	<u>\$ 405</u>	<u>\$ 76</u>	<u>\$ 25</u>	<u>\$ 304</u>

As part of the restructuring initiative, approximately 600 employees have separated from the Company as of June 30, 1999. The Company anticipates that all restructuring activities will be substantially completed by June 30, 2000.

NOTE 4 Investments

The Company's investments consist of:

MILLIONS	JUNE 30, 1999	JUNE 30, 1998
Equity method investments:		
USANi LLC	\$ 2,329	\$ 1,960
Other	1,710	1,477
	<u>4,039</u>	<u>3,437</u>
Cost and fair-value investments:		
DuPont	1,123	1,228
USAi common stock	365	178
USAi Class B common stock	136	128
	<u>1,624</u>	<u>1,534</u>
Total investments	<u>\$ 5,663</u>	<u>\$ 4,971</u>

EQUITY METHOD INVESTMENTS The Company has a number of investments in unconsolidated companies which are 50 percent or less owned or controlled, which are accounted for using the equity method. The most significant of these is USANi LLC, which is part of our filmed entertainment business and is engaged in network and first run syndication television production, domestic distribution of its and Universal's television production and operation of the USA Network and SCI FI Channel cable networks (49 percent equity interest). Other filmed entertainment equity investments include Loews Cineplex Entertainment Corporation, primarily engaged in theatrical exhibition of motion pictures in the U.S. and Canada (26 percent owned); Cinema International Corporation and United Cinemas International, both engaged in theatrical exhibition of motion pictures in territories outside the U.S. and Canada (49 percent owned). Significant investments in the recreation and other business include Universal City Florida Partners, which owns Universal Studios Florida, a motion picture and television themed tourist attraction and production facility in Orlando, Florida (50 percent owned); Universal City Development Partners, which owns Universal Studios Islands of Adventure, an additional themed tourist attraction developed on land adjacent to Universal Studios Florida and Universal Studios CityWalk Orlando, a dining, retailing and entertainment complex (50 percent owned); USJ Co., Ltd.,

which has begun development of a motion picture themed tourist attraction, Universal Studios Japan, and owns commercial real estate in Osaka, Japan (24 percent owned); Universal Studios Port Aventura, a theme park located in Spain (37 percent owned); SEGA GameWorks LLC, which designs, develops and operates location-based entertainment centers (27 percent owned); and Interplay Entertainment Corp., an entertainment software developer (26 percent owned). In the music business, significant equity investments include GetMusic, an online music alliance designed to create Internet sites that promote and sell music; Universal Concerts Canada and Universal/PACE Amphitheaters Group, L.P. The spirits and wine business has an investment in Kirin-Seagram Limited, engaged in the manufacture, sale and distribution of distilled beverage alcohol and wines in Japan (49 percent owned).

Summarized financial information for the Company's investments in unconsolidated companies, derived from unaudited historical financial results, follows:

SUMMARIZED BALANCE SHEET INFORMATION

MILLIONS	JUNE 30, 1999	JUNE 30, 1998
Current assets	\$ 1,897	\$ 1,651
Noncurrent assets	11,928	10,415
Total assets	\$ 13,825	\$ 12,066
Current liabilities	\$ 1,991	\$ 1,718
Noncurrent liabilities	3,883	3,738
Equity	7,951	6,610
Total liabilities and equity	\$ 13,825	\$ 12,066
Proportionate share of net assets of unconsolidated companies	\$ 3,691	\$ 2,884

Approximately \$700 million of the cost of the 1995 Universal acquisition was allocated to goodwill related to investments in unconsolidated companies and is being amortized on a straight-line basis over 40 years.

SUMMARIZED STATEMENT OF OPERATIONS

MILLIONS	FISCAL YEARS ENDED JUNE 30,		
	1999	1998	1997
Revenues	\$ 5,294	\$ 4,561	\$ 4,782
Earnings before interest and taxes	\$ 351	\$ 366	\$ 351
Net income	\$ 314	\$ 173	\$ 229

The equity earnings (losses) of unconsolidated companies in the consolidated statement of income includes goodwill amortization related to unconsolidated companies of \$35 million, \$81 million and \$62 million for the fiscal years ended June 30, 1999, 1998 and 1997, respectively, principally in the filmed entertainment and recreation and other segments. Additionally, operating income for the fiscal year ended June 30, 1998 includes \$76 million of income from USA Networks for the period from October 21, 1997 to February 12, 1998 when the Company owned 100 percent of USA Networks as described in Note 2.

COST AND FAIR-VALUE INVESTMENTS

DUPONT At June 30, 1999, the Company owned 16.4 million shares of the outstanding common stock of DuPont. The Company accounts for the investment at market value which was \$1,123 million at June 30, 1999. The underlying historical book value of the DuPont shares is \$187 million, which represents the historical cost of the shares plus unremitted earnings related to those shares.

USAi At June 30, 1999, the Company owned 9.1 million shares of the outstanding common stock of USAi. The investment, which is accounted for at market value (\$365 million at June 30, 1999), has an underlying cost of \$211 million. At June 30, 1999, the Company also owned 6.7 million shares of USAi Class B common stock which is carried at its historical cost of \$136 million.

NOTE 5 Long-Term Debt and Credit Arrangements

LONG-TERM DEBT

MILLIONS	JUNE 30, 1999	JUNE 30, 1998
9% Debentures due 1998 (C\$200 million) ⁽¹⁾	\$ —	\$ 156
Unsecured term bank loans, due 1998 to 1999, with a weighted average interest rate of 4.81%	—	155
6.5% Debentures due 2003	200	200
8.35% Debentures due 2006	200	200
8.35% Debentures due 2022	200	199
6.875% Debentures due 2023	200	200
6% Swiss Franc Bonds due 2085 (SF 250 million)	162	164
7.5% Adjustable Conversion-rate Equity Security Units ⁽²⁾	927	—
Other	208	158
	2,097	1,432
Joseph E. Seagram & Sons, Inc., guaranteed by Company:		
5.79% Senior Notes due 2001	250	—
6.25% Senior Notes due 2001	600	—
6.4% Senior Notes due 2003	400	—
6.625% Senior Notes due 2005	475	—
8.375% Debentures due 2007	200	200
7% Debentures due 2008	200	200
6.8% Senior Notes due 2008	450	—
8.875% Debentures due 2011	223	223
9.65% Debentures due 2018	249	249
7.5% Senior Debentures due 2018	875	—
9% Debentures due 2021	198	198
7.6% Senior Debentures due 2028	700	—
8% Senior Quarterly Income Debt Securities due 2038 (QUIDS)	550	—
Liquid Yield Option Notes (LYONs) ⁽³⁾	9	9
	5,379	1,079
	7,476	2,511
Current portion of long-term debt	(8)	(286)
	\$ 7,468	\$ 2,225

(1) All principal and interest payments for these 9% Debentures were converted at issuance through a series of currency exchange contracts from Canadian dollars to U.S. dollars with an effective interest rate of 7.7%.

(2) In June 1999, the Company issued 18,500,000 units of the 7.5% Adjustable Conversion-rate Equity Security Units at a stated price of \$50.125 for an aggregate initial offering price of \$927 million. Each unit consists of a contract to purchase common shares of the Company and a subordinated deferrable note of its subsidiary, Joseph E. Seagram & Sons, Inc., that is guaranteed by the Company. Under the purchase contracts, on June 21, 2002, the unit holders will purchase for \$50.125 not more than one and not less than 0.8333 of one share of the Company's common shares per unit, depending on the average trading price of the common shares during a specified trading period in June 2002. The junior subordinated deferrable notes have a principal amount equal to the stated amount of the units and an interest rate of 7.62%. The interest rate on the note is subject to adjustment at March 21, 2002 and the note matures on June 21, 2004. The holders of the units are required to pay contract fees to the Company at an annual rate of .12%. These payments will be funded out of payments made in respect of the notes so that the net distributions on the notes will be 7.5%.

(3) LYONs are zero coupon notes with no interest payments due until maturity on March 5, 2006. Each \$1,000 face amount LYON may be converted, at the option of the holder, into 18.44 of the Company's common shares (276,474 shares at June 30, 1999). The Company has guaranteed the LYONs on a subordinated basis.

The Company's unused lines of credit totaled \$7.6 billion and have varying terms of up to three years. At June 30, 1999, short-term borrowings comprised \$1,045 million of bank borrowings bearing interest at market rates.

Interest expense on long-term debt was \$380 million, \$226 million and \$218 million in the fiscal years ended June 30, 1999, 1998 and 1997, respectively. Annual repayments and redemptions of long-term debt for the five fiscal years subsequent to June 30, 1999 are: 2000 — \$8 million; 2001 — \$257 million; 2002 — \$666 million; 2003 — \$200 million; and 2004 — \$1,327 million.

Summarized financial information for JES and its subsidiaries is presented below. Separate financial statements and other disclosures related to JES are not provided because management has determined that such information does not provide additional meaningful information to holders of JES debt securities.

MILLIONS	FISCAL YEARS ENDED JUNE 30,		
	1999	1998	1997
Revenues	\$ 2,242	\$ 2,144	\$ 2,114
Cost of revenues	\$ 1,390	\$ 1,356	\$ 1,320
Income (loss) from continuing operations	\$ (8)	\$ (8)	\$ 76
Discontinued Tropicana operations	—	(17)	11
Net Income (loss)	\$ (8)	\$ (25)	\$ 87

	JUNE 30, 1999	JUNE 30, 1998
Current assets	\$ 1,674	\$ 1,821
Noncurrent assets	18,602	12,201
	\$ 20,276	\$ 14,022
Current liabilities	\$ 1,099	\$ 843
Noncurrent liabilities	10,014	3,922
Shareholders' equity	9,163	9,257
	\$ 20,276	\$ 14,022

NOTE 6 Financial Instruments

The carrying value of cash, cash equivalents, receivables, short-term borrowings, current portion of long-term debt and payables approximate fair value because maturities are less than one year in duration. The Company's remaining financial instruments consisted of the following:

	ASSET (LIABILITY)			
	JUNE 30, 1999		JUNE 30, 1998	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Nonderivatives				
Investments (Note 4)	\$ 398	\$ 1,488	\$ 329	\$ 1,406
Long-term debt	\$ (7,468)	\$ (7,600)	\$ (2,225)	\$ (2,477)
Derivatives held for purposes other than trading				
Foreign exchange forwards	\$ —	\$ 50	\$ —	\$ 1
Foreign exchange options	—	—	169	49
Interest rate swaps	—	13	—	—
	\$ —	\$ 63	\$ 169	\$ 50

Fair value of investments was determined based on quoted market value of these securities as traded on stock exchanges. Fair value of long-term debt was estimated using quoted market prices for similar issues. The fair value for foreign exchange and interest rate instruments was based on market prices as quoted from financial institutions.

The Company, as the result of its global operating and financing activities, is exposed to changes in interest rates and foreign currency exchange rates that may adversely affect its results of operations and financial position. In seeking to minimize the risks and costs associated with such activities, the Company manages the impact of interest rate changes and foreign currency changes on earnings and cash flows by entering into derivative contracts. The Company does not use derivative financial instruments for trading or speculative purposes.

At June 30, 1999, the Company held interest rate swap contracts that had notional amounts of \$500 million (none at June 30, 1998). These swap agreements expire in one to two years.

At June 30, 1999, the Company held foreign currency forward contracts and options to purchase and sell foreign currencies, including cross-currency contracts and options to sell one foreign currency for another currency, with notional amounts totaling \$4,539 million (\$7,309 million at June 30, 1998). The forward contracts and options are used to hedge the exchange rate exposure to foreign currency intercompany payments and receipts. The payments and receipts are principally related to intercompany sales, royalties, licenses and service fees. These derivatives have varying maturities not exceeding two years. The principal currencies hedged are the euro, British pound, Canadian dollar, Australian dollar and Japanese yen.

The Company minimizes its credit exposure to counter-parties by entering into contracts only with highly-rated commercial banks or financial institutions and by distributing the transactions among the selected institutions. Although the Company's credit risk is the replacement cost at the then-estimated fair value of the instrument, management believes that the risk of incurring losses is remote and that such losses, if any, would not be material. The market risk related to the foreign exchange agreements should be offset by changes in the valuation of the underlying items being hedged.

NOTE 7 Common Shares, Earnings Per Share and Stock Options

The Company is authorized to issue an unlimited number of common and preferred shares without nominal or par value. At June 30, 1999, 37,857,938 common shares were potentially issuable upon the conversion of the LYONs, the exercise of employee stock options and the conversion of deferred share units. Basic net income per share was based on the following weighted average number of shares outstanding during the fiscal years ended June 30, 1999 — 378,193,043; June 30, 1998 — 349,874,259; and June 30, 1997 — 369,682,224. Diluted net income per share was based on the following weighted average number of shares outstanding during the fiscal years ended June 30, 1998 — 353,604,553; and June 30, 1997 — 374,268,746. Average shares of 4,933,249 were not included in the computation of 1999 diluted net income per share because to do so would have been anti-dilutive.

STOCK OPTION PLANS

Under the Company's employee stock option plans, options may be granted to purchase the Company's common shares at not less than the fair market value of the shares on the date of the grant. Currently outstanding options become exercisable one to five years from the grant date and expire ten years after the grant date.

The Company has adopted FAS 123, *Accounting for Stock-Based Compensation*. In accordance with the provisions of FAS 123, the Company applies APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for its plans and does not recognize compensation expense for its stock-based compensation plans other than for restricted stock. If the Company had elected to recognize compensation expense based upon the fair value at the grant

date for awards under these plans utilizing the methodology prescribed by FAS 123, the Company's net income and earnings per share would be reduced to the pro forma amounts indicated below:

MILLIONS, EXCEPT PER SHARE AMOUNTS	FISCAL YEARS ENDED JUNE 30,		
	1999	1998	1997
Net income:			
As reported	\$ 686	\$ 946	\$ 502
FAS 123 pro forma	622	892	469
Basic earnings per common share:			
As reported	\$ 1.81	\$ 2.70	\$ 1.36
FAS 123 pro forma	1.64	2.55	1.27
Diluted earnings per common share:			
As reported	\$ 1.81	\$ 2.68	\$ 1.35
FAS 123 pro forma	1.64	2.52	1.26

These pro forma amounts may not be representative of future disclosures. The fair value for these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for the fiscal years ended June 30, 1999, June 30, 1998 and June 30, 1997, respectively: dividend yields of 1.5, 1.8 and 1.6 percent; expected volatility of 30, 25 and 24 percent; risk-free interest rates of 5.1, 5.6 and 6.7 percent; and expected life of six years for all periods. The weighted average fair value of options granted during the fiscal years ended June 30, 1999, June 30, 1998 and June 30, 1997 for which the exercise price equals the market price on the grant date was \$15.25, \$10.92 and \$12.18, respectively. The weighted average fair value of options granted during the fiscal year ended June 30, 1998 for which the exercise price exceeded the market price on the grant date was \$7.44.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Transactions involving stock options are summarized as follows:

	STOCK OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE OF OPTIONS OUTSTANDING
BALANCE, JUNE 30, 1996	29,086,238	\$ 29.33
Granted	7,366,978	38.97
Exercised	(3,242,766)	25.93
Cancelled	(249,324)	33.02
BALANCE, JUNE 30, 1997	32,961,126	31.79
Granted	8,160,909	38.32
Exercised	(2,751,832)	26.14
Cancelled	(752,284)	38.53
BALANCE, JUNE 30, 1998	37,617,919	33.49
Granted	11,674,558	45.40
Exercised	(8,489,374)	31.50
Cancelled	(3,234,811)	34.79
BALANCE, JUNE 30, 1999	37,568,292	37.53

The following table summarizes information concerning currently outstanding and exercisable stock options:

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
under \$20	621,347	0.7	\$ 19.44	621,347	\$ 19.44
\$20 – \$30	6,746,946	3.6	27.12	6,616,946	27.10
\$30 – \$40	22,002,489	7.5	35.66	12,827,685	34.66
\$40 – \$50	5,534,185	9.5	47.77	205,235	46.79
\$50 – \$60	2,663,325	9.6	57.54	100,000	52.28
	<u>37,568,292</u>			<u>20,371,213</u>	

NOTE 8 Income Taxes

The following tables summarize the sources of pre-tax income and the resulting income tax expense:

GEOGRAPHIC COMPONENTS OF PRE-TAX INCOME

MILLIONS	FISCAL YEARS ENDED JUNE 30,		
	1999	1998	1997
U.S.	\$ (545)	\$ 1,192	\$ 136
Canada	39	51	77
Other jurisdictions	(73)	368	513
Income (loss) from continuing operations, before tax	(579)	1,611	726
Discontinued Tropicana operations	1,445	130	111
Income before tax	\$ 866	\$ 1,741	\$ 837

COMPONENTS OF INCOME TAX EXPENSE

MILLIONS	FISCAL YEARS ENDED JUNE 30,		
	1999	1998	1997
Income tax expense (benefit) applicable to:			
Continuing operations	\$ (33)	\$ 638	\$ 331
Discontinued Tropicana operations	376	64	54
Total income tax expense	\$ 343	\$ 702	\$ 385
Current			
Continuing operations			
Federal	\$ (256)	\$ 134	\$ 184
State and local	3	(20)	35
Other jurisdictions	128	77	165
	(125)	191	384
Discontinued Tropicana operations	376	58	53
	251	249	437
Deferred			
Continuing operations			
Federal	130	351	(25)
State and local	2	34	(19)
Other jurisdictions	(40)	62	(9)
	92	447	(53)
Discontinued Tropicana operations	—	6	1
	92	453	(52)
Total income tax expense	\$ 343	\$ 702	\$ 385

COMPONENTS OF NET DEFERRED TAX LIABILITY

MILLIONS	JUNE 30, 1999		JUNE 30, 1998	
Basis and amortization differences	\$ 1,016	\$ 572		
DuPont share redemption	1,540	1,540		
DuPont and USAi investments	613	516		
Unremitted foreign earnings	89	94		
Advances	49	—		
Other, net	144	80		
Deferred tax liabilities	3,451	2,802		
Deferred revenue	(37)	(60)		
Employee benefits	(114)	(28)		
Tax credit and net operating loss carryovers	(256)	(60)		
Valuation, doubtful accounts and return reserves	(259)	(234)		
Other, net	(660)	(136)		
Deferred tax assets	(1,326)	(518)		
Valuation allowance	82	32		
	(1,244)	(486)		
Net deferred tax liability	\$ 2,207	\$ 2,316		

The Company has U.S. tax credit carryovers of \$32 million, \$13 million of which have no expiration date and \$19 million of which have expiration dates through 2009. In addition, the Company has approximately \$721 million of net operating loss carryovers, \$209 million of which have no expiration date and \$512 million of which have expiration dates through 2018. A portion of the valuation allowance arises from uncertainty as to the realization of certain of these tax credit and net operating loss carryovers. If realized, these benefits would be applied to reduce the unallocated purchase price.

Deferred tax assets and liabilities are recognized based on differences between the financial statement and tax bases of assets and liabilities using presently enacted tax rates. Provision is made for income taxes, which may be payable on foreign subsidiary earnings to the extent that the Company anticipates that they will be remitted. Unremitted earnings of foreign subsidiaries which have been, or are intended to be, permanently reinvested and for which no income tax has been provided, approximated \$6,400 million at June 30, 1999. It is not practicable to estimate the additional tax that would be incurred, if any, if these amounts were repatriated.

EFFECTIVE INCOME TAX RATE — CONTINUING OPERATIONS

	FISCAL YEARS ENDED JUNE 30,		
	1999	1998	1997
U.S. statutory rate	(35)%	35%	35%
Goodwill amortization	11	1	8
Equity income	10	—	6
Foreign tax at other than U.S. statutory rate	5	4	(4)
State and local	—	1	2
Other	3	(1)	(1)
Effective income tax rate — continuing operations	(6)%	40%	46%

Various taxation authorities have proposed or levied assessments for additional income taxes of prior years. Management believes that settlements will not have a material effect on the results of operations, financial position or liquidity of the Company.

NOTE 9 Benefit Plans

The FASB issued SFAS No. 132, *Employers Disclosures about Pensions and Other Postretirement Benefits*, in February 1998. The new standard does not change the measurement or recognition of costs for pensions or other postretirement plans. It standardizes disclosures and eliminates those that are no longer useful. The information provided below has been presented under the requirements of the new standard.

Retirement pensions are provided for substantially all of the Company's employees through defined benefit or defined contribution plans sponsored by the Company or unions representing employees. For Company-sponsored defined benefit plans, pension expense and plan contributions are determined by independent consulting actuaries. The funding policy for tax-qualified pension plans is consistent with statutory funding requirements and regulations. Contributions to defined contribution plans are funded and expensed currently. Postretirement health care and life insurance are provided to a majority of nonunion employees in the U.S. Eligibility for benefits is based upon retirement, age and completion of a specified number of years of service. Postemployment programs, principally severance, are provided for the majority of nonunion employees. The cost of these programs is accrued based on actuarial studies. There is no advance funding for postretirement or post-employment benefits.

The following tables pertain to the Company's defined benefit pension or postretirement plans principally in the U.S., the U.K., Canada, France, Germany and Japan, and provide reconciliations of the changes in benefit obligations, fair value of plan assets and funded status for the two-year period ending June 30, 1999:

MILLIONS	PENSION BENEFITS		POSTRETIREMENT BENEFITS	
	1999	1998	1999	1998
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	\$ 1,070	\$ 946	\$ 172	\$ 157
Service cost	48	25	2	2
Interest cost	81	70	12	11
Plan amendments and acquisitions	220	2	5	—
Actuarial loss, net	21	92	1	12
Benefits paid	(81)	(67)	(10)	(10)
Translation	(20)	2	—	—
Benefit obligation at end of year	\$ 1,339	\$ 1,070	\$ 182	\$ 172
FAIR VALUE OF PLAN ASSETS				
Fair value of plan assets at beginning of year	\$ 1,271	\$ 1,091	\$ —	\$ —
Actual return on plan assets	127	226	—	—
Acquisition	45	—	—	—
Contributions	15	18	10	10
Benefits paid	(80)	(65)	(10)	(10)
Translation	(13)	1	—	—
Fair value of plan assets at end of year	\$ 1,365	\$ 1,271	\$ —	\$ —
FUNDED STATUS				
Funded status at end of year	\$ 26	\$ 201	\$ (182)	\$ (172)
Unrecognized actuarial gain	(203)	(202)	(3)	(3)
Unrecognized prior service cost	15	16	(16)	(19)
Unrecognized net transition obligation	4	1	—	—
Accrued pension asset (liability)	\$ (158)	\$ 16	\$ (201)	\$ (194)

Amounts recognized in the Company's consolidated balance sheet at June 30 consist of:

MILLIONS	PENSION BENEFITS		POSTRETIREMENT BENEFITS	
	1999	1998	1999	1998
Prepaid benefit cost	\$ 181	\$ 147	\$ —	\$ —
Accrued benefit liability	(339)	(131)	(201)	(194)
Net asset (liability) recognized	\$ (158)	\$ 16	\$ (201)	\$ (194)

Net periodic pension and other postretirement benefit costs for the fiscal years ended June 30 include the following components:

MILLIONS	PENSION BENEFITS			POSTRETIREMENT BENEFITS		
	1999	1998	1997	1999	1998	1997
Service cost	\$ 48	\$ 25	\$ 21	\$ 2	\$ 2	\$ 2
Interest cost	81	70	69	12	11	11
Expected return on plan assets	(116)	(107)	(91)	—	—	—
Amortization of prior service costs	3	3	3	(3)	(3)	(3)
Amortization of actuarial gains	(6)	(6)	(1)	—	(1)	—
Net benefit cost (credit)	\$ 10	\$ (15)	\$ 1	\$ 11	\$ 9	\$ 10

The weighted average rates and assumptions utilized in accounting for these plans for the fiscal years ended June 30 were:

	PENSION BENEFITS			POSTRETIREMENT BENEFITS		
	1999	1998	1997	1999	1998	1997
Discount rate	7.3%	7.0%	7.8%	7.3%	7.0%	7.8%
Expected return on plan assets	10.0%	10.8%	10.8%	—	—	—
Rate of compensation increase	4.5%	4.3%	5.0%	4.5%	4.3%	5.0%

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were \$218 million, \$196 million and \$15 million, respectively as of June 30, 1999, and \$50 million, \$44 million and \$4 million, respectively as of June 30, 1998.

For postretirement benefit measurement purposes, the Company assumed growth in the per capita cost of covered health care benefits (the health care cost trend rate) would gradually decline from 8.75 percent and 7.75 percent, in the pre-age 65 and post-age 65 categories, respectively in 1997 to 6 percent and 5 percent, pre-age 65 and post-age 65, respectively in 2002. In fiscal 1999, a one-percentage-point increase in this annual trend rate would have increased the postretirement benefit obligation by \$8 million and the pre-tax expense by \$1 million; conversely, a one-percentage-point decrease in the annual trend rate would have decreased the postretirement benefit obligation by \$7 million and the pre-tax expense by \$1 million.

During 1999, the Company amended the pension plan for certain U.S. employees from a final pay plan to a cash balance pension plan. Under the new plan, participants accrue benefits based on a percentage of pay plus interest. The new cash balance plan allows lump sum benefit payments in addition to annuities. This change did not have a significant impact on the Company's net periodic pension costs for the fiscal year ended June 30, 1999.

NOTE 10 Business Segment and Geographic Data

BUSINESS SEGMENT DATA

In 1999, the Company adopted SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. FAS 131 supersedes FAS 14, *Financial Reporting for Segments of a Business Enterprise*, replacing the *industry segment* approach with the *management approach*. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. FAS 131 also requires disclosures about products and services, geographic areas and major customers. The prior year's segment information has been restated to present the Company's four reportable segments: music, filmed entertainment, recreation and other, and spirits and wine. Each of these reportable segments is a strategic business unit that offers different products and services that are marketed through different channels. They are managed separately because of their unique customers, technology, marketing and distribution requirements. The adoption of FAS 131 had no impact on the results of operations or financial position.

The Company evaluates the performance of its segments and allocates resources to them based on several performance measures, including earnings before interest, taxes, depreciation and amortization from consolidated companies (EBITDA). While not a standard measurement under GAAP, the Company believes EBITDA is an appropriate measure of operating performance, given the goodwill associated with the Company's acquisitions. However, EBITDA could be defined differently by other companies and should be considered in addition to, not as a substitute for, other measures of financial performance including revenues and operating income. There are no intersegment revenues; however, corporate headquarters allocates a portion of its costs to each of its operating segments. The Company does not allocate interest income, interest expense, income taxes or unusual items to segments.

MILLIONS	MUSIC	FILMED ENTERTAINMENT	RECREATION AND OTHER	SPIRITS AND WINE	CORPORATE	TOTAL
June 30, 1999						
Revenues	\$ 3,751	\$ 2,931	\$ 818	\$ 4,812	\$ —	\$ 12,312
EBITDA	\$ 347	\$ (136)	\$ 133	\$ 684	\$ —	\$ 1,028
Depreciation and amortization	(473)	(70)	(88)	(132)	(10)	(773)
Corporate expenses	—	—	—	—	(100)	(100)
Restructuring charge	(313)	(92)	—	—	—	(405)
Operating income (loss)	\$ (439)	\$ (298)	\$ 45	\$ 552	\$ (110)	\$ (250)
Segment assets	\$ 16,392	\$ 7,735	\$ 3,029	\$ 5,165	\$ 2,690 ⁽¹⁾	\$ 35,011
Equity method investments	\$ 26	\$ 2,810	\$ 1,151	\$ 52	\$ —	\$ 4,039
Capital expenditures	\$ 135	\$ 134	\$ 134	\$ 128	\$ —	\$ 531
June 30, 1998						
Revenues	\$ 1,461	\$ 2,793	\$ 695	\$ 4,525	\$ —	\$ 9,474
EBITDA	\$ 84	\$ 316	\$ 99	\$ 583	\$ —	\$ 1,082
Depreciation and amortization	(128)	(87)	(75)	(119)	(7)	(416)
Corporate expenses	—	—	—	—	(113)	(113)
Operating income (loss)	\$ (44)	\$ 229	\$ 24	\$ 464	\$ (120)	\$ 553
Segment assets	\$ 2,902	\$ 6,638	\$ 3,044	\$ 5,594	\$ 4,001 ⁽²⁾	\$ 22,179
Equity method investments	\$ 24	\$ 2,431	\$ 961	\$ 21	\$ —	\$ 3,437
Capital expenditures	\$ 31	\$ 94	\$ 115	\$ 170	\$ —	\$ 410
June 30, 1997						
Revenues	\$ 1,427	\$ 3,168	\$ 889	\$ 4,870	\$ —	\$ 10,354
EBITDA	\$ 76	\$ 218	\$ 102	\$ 786	\$ —	\$ 1,182
Depreciation and amortization	(134)	(61)	(71)	(123)	(4)	(393)
Corporate expenses	—	—	—	—	(134)	(134)
Gain on sale of Putnam	—	—	64	—	—	64
Operating income (loss)	\$ (58)	\$ 157	\$ 95	\$ 663	\$ (138)	\$ 719
Segment assets	\$ 2,679	\$ 4,825	\$ 3,082	\$ 5,290	\$ 4,571 ⁽³⁾	\$ 20,447
Equity method investments	\$ 13	\$ 1,213	\$ 811	\$ 60	\$ —	\$ 2,097
Capital expenditures	\$ 47	\$ 44	\$ 115	\$ 187	\$ —	\$ 393

(1) Comprised of corporate assets not identifiable with reported segments (\$1,567) and DuPont holdings (\$1,123).

(2) Comprised of corporate assets not identifiable with reported segments (\$1,039), DuPont holdings (\$1,228) and net assets of discontinued Tropicana operations (\$1,734).

(3) Comprised of corporate assets not identifiable with reported segments (\$512), DuPont holdings (\$1,034), Time Warner holdings (\$1,291) and net assets of discontinued Tropicana operations (\$1,734).

GEOGRAPHIC DATA

The following table presents revenues and long-lived assets by geographic area for the 1999, 1998 and 1997 fiscal years. Revenues are classified based upon the location of the customer. In addition to Canada, the Company's country of domicile, individual countries are specified if revenues or long-lived assets exceed 10 percent of the total.

MILLIONS	REVENUES	LONG-LIVED ASSETS
June 30, 1999		
United States	\$ 5,917	\$ 15,093
United Kingdom	1,277	1,905
Canada	325	456
Other countries	4,793	8,676
	\$ 12,312	\$ 26,130
June 30, 1998		
United States	\$ 4,977	\$ 13,340
United Kingdom	769	611
Canada	285	58
Other countries	3,443	1,199
	\$ 9,474	\$ 15,208
June 30, 1997		
United States	\$ 5,308	\$ 12,557
United Kingdom	772	575
Canada	287	55
Other countries	3,987	1,129
	\$ 10,354	\$ 14,316

NOTE 11 Additional Financial Information

INCOME STATEMENT AND CASH FLOW DATA

MILLIONS	FISCAL YEARS ENDED JUNE 30,		
	1999	1998	1997
INTEREST, NET AND OTHER			
Interest expense	\$ 592	\$ 318	\$ 285
Interest income	(109)	(59)	(34)
Dividend income	(23)	(27)	(40)
Capitalized interest	(3)	(4)	(4)
Gain on sale of DuPont warrants	—	—	(60)
	\$ 457	\$ 228	\$ 147
EXCISE TAXES			
(included in revenues and cost of revenues)	\$ 865	\$ 726	\$ 748
CASH FLOW DATA			
Interest paid, net	\$ 643	\$ 265	\$ 252
Income taxes paid	\$ 471	\$ 144	\$ 85

BALANCE SHEET DATA

MILLIONS	JUNE 30, 1999	JUNE 30, 1998
RECEIVABLES		
Trade	\$ 3,227	\$ 1,994
Other	432	487
	3,659	2,481
Allowance for doubtful accounts and other valuation accounts	(674)	(326)
	\$ 2,985	\$ 2,155
INVENTORIES		
Beverages	\$ 2,233	\$ 2,239
Materials, supplies and other	394	316
	\$ 2,627	\$ 2,555
LIFO INVENTORIES		
Estimated replacement cost	\$ 395	\$ 356
Excess of replacement cost over LIFO carrying value	(187)	(173)
	\$ 208	\$ 183
OTHER CURRENT ASSETS		
Film costs, net of amortization	\$ 356	\$ 175
Music catalogs, artists' contracts and advances	164	76
Deferred income taxes	491	282
Prepaid expenses and other current assets	725	554
	\$ 1,736	\$ 1,087
FILM COSTS, NET OF AMORTIZATION		
Theatrical Film Costs		
Released	\$ 320	\$ 353
In process and unreleased	1,058	839
	1,378	1,192
Television Film Costs		
Released	176	223
In process and unreleased	53	32
	229	255
	1,607	1,447
Less: current portion	356	175
	\$ 1,251	\$ 1,272

Unamortized costs related to released theatrical and television films aggregated \$496 million at June 30, 1999. Excluding the portion of the purchase price allocated to the film library which is being amortized over a 20-year life, the Company currently anticipates that approximately 87 percent of the unamortized released film costs will be amortized under the individual film forecast method during the three years ending June 30, 2002.

MILLIONS	JUNE 30, 1999	JUNE 30, 1998
PROPERTY, PLANT AND EQUIPMENT		
Land	\$ 645	\$ 553
Buildings and improvements	1,646	1,467
Machinery and equipment	1,432	1,221
Furniture and fixtures	476	369
Construction in progress	286	301
	4,485	3,911
Accumulated depreciation	(1,327)	(1,178)
	\$ 3,158	\$ 2,733
PAYABLES AND ACCRUED LIABILITIES		
Trade	\$ 843	\$ 449
Income and other taxes	378	286
Other	3,587	1,619
	\$ 4,808	\$ 2,354

NOTE 12 Commitments and Contingencies

The Company has various commitments for the purchase or construction of property, plant and equipment, materials, supplies and items of investment related to the ordinary conduct of business. The Company is involved in various lawsuits, claims and inquiries. Management believes that the resolution of these matters will not have a material adverse effect on the results of operations, financial position or liquidity of the Company.

NOTE 13 Differences Between U.S. and Canadian Generally Accepted Accounting Principles

Differences between U.S. and Canadian GAAP for these financial statements are:

- (i) The common stock of DuPont and USAi would be carried at cost under Canadian GAAP, thereby reducing shareholders' equity by \$704 million or approximately five percent at June 30, 1999. There is no effect on net income.
- (ii) Proportionate consolidation of joint ventures under Canadian GAAP would increase assets and liabilities by approximately \$801 million and decrease working capital by approximately \$44 million at June 30, 1999. There is no effect on net income.
- (iii) Under Canadian GAAP, the assets and liabilities of the discontinued Tropicana operations would be presented separately on the consolidated balance sheet which would result in an increase of \$434 million in both total assets and total liabilities at June 30, 1999. There is no effect on net income.
- (iv) Canadian GAAP requires that the Company disclose it may experience the effects of the Year 2000 Issue before, on, or after January 1, 2000, and that the effects on operations and financial reporting, if not addressed, may range from minor errors to significant systems failure, which could affect the Company's ability to conduct normal business operations. While the Company has a Year 2000 program to address critical systems, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers, or third parties, will be fully resolved.
- (v) There are no other significant differences between U.S. and Canadian GAAP.

NOTE 14 Subsequent Events

On July 2, 1999, the Company completed the sale of its Mumm and Perrier-Jouët Champagne operations for approximately \$310 million. Through agreement with the purchaser, Seagram has retained global distribution rights of Mumm and Perrier-Jouët Champagnes for a ten-year period.


management's report

The Company's management is responsible for the preparation of the accompanying financial statements in accordance with generally accepted accounting principles, including the estimates and judgments required for such preparation.

The Company has a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded and financial records underlying the financial statements properly reflect all transactions. The system contains self-monitoring mechanisms, including a program of internal audits, which allow management to be reasonably confident that such controls, as well as the Company's administrative procedures and internal reporting requirements, operate effectively. Management believes that its long-standing emphasis on the highest standards of conduct and business ethics, as set forth in written policy statements, serves to reinforce the system of internal accounting controls. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

The Company's independent accountants, PricewaterhouseCoopers LLP, review the system of internal accounting controls to the extent they consider necessary to evaluate the system as required by generally accepted auditing standards. Their report covering their audits of the financial statements is presented below.

The Audit Committee of the Board of Directors, solely comprising Directors who are not officers or employees of the Company, meets with the independent accountants, the internal auditors and management to ensure that each is discharging its respective responsibilities relating to the financial statements. The independent accountants and the internal auditors have direct access to the Audit Committee to discuss, without management present, the results of their audit work and any matters they believe should be brought to the Committee's attention.



Edgar Bronfman, Jr.
President and Chief Executive Officer

August 18, 1999



Robert W. Matschullat
Vice Chairman and Chief Financial Officer

report of independent accountants

To the Shareholders of The Seagram Company Ltd. We have audited the accompanying consolidated balance sheet of The Seagram Company Ltd. and its subsidiaries as of June 30, 1999 and 1998 and the related consolidated statements of income, shareholders' equity and cash flows for the fiscal years ended June 30, 1999, 1998 and 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the U.S. and Canada. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of the Company and its subsidiaries as of June 30, 1999 and 1998 and the results of their operations and their cash flows for the fiscal years ended June 30, 1999, 1998 and 1997, in accordance with generally accepted accounting principles in the U.S. which, in their application to the Company, conform in all material respects with generally accepted accounting principles in Canada.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP
New York, New York
August 18, 1999

FISCAL 1999

U.S. DOLLARS IN MILLIONS EXCEPT FOR SHARE AMOUNTS (UNAUDITED)	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FISCAL YEAR ENDED 6/30/99 ⁽³⁾
Revenues	\$ 2,247	\$ 3,327	\$ 3,215	\$ 3,523	\$ 12,312
Operating income (loss)	\$ 179	\$ (219)	\$ (163)	\$ (47)	\$ (250)
Income (loss) from continuing operations, after tax	\$ 95	\$ (226) ⁽¹⁾	\$ (199)	\$ (53) ⁽²⁾	\$ (383)
Loss from discontinued Tropicana operations, after tax	(3)	—	—	—	(3)
Gain on sale of discontinued Tropicana operations, after tax	1,072	—	—	—	1,072
Net income (loss)	\$ 1,164	\$ (226)	\$ (199)	\$ (53)	\$ 686
PER SHARE DATA					
Earnings (loss) per share – basic					
Continuing operations	\$.27	\$ (.63)	\$ (.50)	\$ (.13)	\$ (1.01)
Discontinued Tropicana operations, after tax	(.01)	—	—	—	(.01)
Gain on sale of discontinued Tropicana, operations, after tax	3.09	—	—	—	2.83
Net income (loss)	\$ 3.35	\$ (.63)	\$ (.50)	\$ (.13)	\$ 1.81
Earnings (loss) per share – diluted					
Continuing operations	\$.27	\$ (.63)	\$ (.50)	\$ (.13)	\$ (1.01)
Discontinued Tropicana operations, after tax	(.01)	—	—	—	(.01)
Gain on sale of discontinued Tropicana, operations, after tax	3.07	—	—	—	2.83
Net income (loss)	\$ 3.33	\$ (.63)	\$ (.50)	\$ (.13)	\$ 1.81

FISCAL 1998

U.S. DOLLARS IN MILLIONS EXCEPT FOR SHARE AMOUNTS (UNAUDITED)	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FISCAL YEAR ENDED 6/30/98 ⁽³⁾
Revenues	\$ 2,372	\$ 3,009	\$ 1,991	\$ 2,102	\$ 9,474
Operating income	\$ 260	\$ 231	\$ 47	\$ 15	\$ 553
Income from continuing operations, after tax	\$ 116	\$ 8	\$ 447 ⁽⁴⁾	\$ 309 ⁽⁵⁾	\$ 880
Income from discontinued Tropicana operations, after tax	17	20	14	15	66
Net income	\$ 133	\$ 28	\$ 461	\$ 324	\$ 946
PER SHARE DATA					
Earnings per share – basic					
Continuing operations	\$.32	\$.02	\$ 1.30	\$.89	\$ 2.51
Discontinued Tropicana operations, after tax	.05	.06	.04	.04	.19
Net income	\$.37	\$.08	\$ 1.34	\$.93	\$ 2.70
Earnings per share – diluted					
Continuing operations	\$.32	\$.02	\$ 1.28	\$.88	\$ 2.49
Discontinued Tropicana operations, after tax	.05	.06	.04	.04	.19
Net income	\$.37	\$.08	\$ 1.32	\$.92	\$ 2.68

(1) Includes a \$244 million restructuring charge, after tax and minority interest.

(2) Includes a \$76 million gain on the USA transactions, after tax and minority interest.

(3) For earnings per share data, each quarter is calculated as a discrete period and the sum of the four quarters does not equal the full year amount.

(4) Includes a \$281 million after-tax gain on the sale of Time Warner shares and a \$187 million gain on the USA transactions, after tax and minority interest.

(5) Includes a \$321 million after-tax gain on the sale of Time Warner shares.

financial summary

U.S. DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS	FISCAL YEARS ENDED		TRANSITION		FISCAL YEARS ENDED	
	1999	JUNE 30, 1998	1997	PERIOD ENDED JUNE 30, 1996	JANUARY 31, 1996	1995
INCOME STATEMENT						
Revenues	\$ 12,312	\$ 9,474	\$ 10,354	\$ 4,112	\$ 7,787	\$ 4,994
Operating income (loss)	\$ (250)	\$ 553	\$ 719	\$ 93	\$ 435	\$ 614
Interest, net and other	\$ 457	\$ 228	\$ 147	\$ 99	\$ 195	\$ 317
Gain on sale of Time Warner shares	\$ —	\$ 926	\$ 154	\$ —	\$ —	\$ —
Gain on USA transactions	\$ 128	\$ 360	\$ —	\$ —	\$ —	\$ —
Income (loss) from continuing operations before cumulative effect of accounting change	\$ (383)	\$ 880	\$ 445	\$ 67	\$ 144	\$ 170
Income (loss) from discontinued Tropicana operations, after tax	(3)	66	57	18	30	24
Gain on discontinued Tropicana operations, after tax	1,072	—	—	—	—	—
Discontinued DuPont activities, after tax	—	—	—	—	3,232	617
Income before cumulative effect of accounting change	686	946	502	85	3,406	811
Cumulative effect of accounting change, after tax	—	—	—	—	—	(75)
Net income	\$ 686	\$ 946	\$ 502	\$ 85	\$ 3,406	\$ 736
FINANCIAL POSITION						
Current assets	\$ 8,881	\$ 6,971	\$ 6,131	\$ 6,307	\$ 6,194	\$ 3,938
Common stock of DuPont	1,123	1,228	1,034	651	631	3,670
Common stock of USAi	501	306	—	—	—	—
Common stock of Time Warner	—	—	1,291	2,228	2,356	2,043
Other noncurrent assets	24,506	11,940	10,257	10,328	10,230	1,773
Net assets of discontinued Tropicana operations	—	1,734	1,734	1,693	1,549	1,270
Total assets	\$ 35,011	\$ 22,179	\$ 20,447	\$ 21,207	\$ 20,960	\$ 12,694
Current liabilities	\$ 8,146	\$ 4,709	\$ 3,087	\$ 4,383	\$ 3,557	\$ 3,865
Long-term debt	\$ 7,468	\$ 2,225	\$ 2,478	\$ 2,562	\$ 2,889	\$ 2,838
Total liabilities before minority interest	\$ 20,245	\$ 10,948	\$ 9,174	\$ 10,163	\$ 9,788	\$ 7,174
Minority interest	1,878	1,915	1,851	1,839	1,844	11
Shareholders' equity	12,888	9,316	9,422	9,205	9,328	5,509
Total liabilities & shareholders' equity	\$ 35,011	\$ 22,179	\$ 20,447	\$ 21,207	\$ 20,960	\$ 12,694
CASH FLOW DATA						
Cash flow provided by (used for) operating activities	\$ 935	\$ (241)	\$ 664	\$ 315	\$ 222	\$ 370
Capital expenditures	\$ (531)	\$ (410)	\$ (393)	\$ (245)	\$ (349)	\$ (124)
Other investing activities, net	\$ (5,605)	\$ 1,109	\$ 2,101	\$ (346)	\$ 2,260	\$ (341)
Dividends paid	\$ (247)	\$ (231)	\$ (239)	\$ (112)	\$ (224)	\$ (216)
PER SHARE DATA						
Earnings (loss) per share – basic						
Continuing operations	\$ (1.01)	\$ 2.51	\$ 1.20	\$.18	\$.38	\$.46
Discontinued Tropicana operations, after tax	(.01)	.19	.16	.05	.08	.06
Gain on sale of discontinued Tropicana operations, after tax	2.83	—	—	—	—	—
Discontinued DuPont activities, after tax	—	—	—	—	8.67	1.66
Income before cumulative effect of accounting change	1.81	2.70	1.36	.23	9.13	2.18
Cumulative effect of accounting change, after tax	—	—	—	—	—	(.20)
Net income	\$ 1.81	\$ 2.70	\$ 1.36	\$.23	\$ 9.13	\$ 1.98
Earnings (loss) per share – diluted						
Continuing operations	\$ (1.01)	\$ 2.49	\$ 1.20	\$.18	\$.38	\$.46
Discontinued Tropicana operations, after tax	(.01)	.19	.15	.05	.08	.06
Gain on sale of discontinued Tropicana operations, after tax	2.83	—	—	—	—	—
Discontinued DuPont activities, after tax	—	—	—	—	8.54	1.64
Income before cumulative effect of accounting change	1.81	2.68	1.35	.23	9.00	2.16
Cumulative effect of accounting change, after tax	—	—	—	—	—	(.20)
Net income	\$ 1.81	\$ 2.68	\$ 1.35	\$.23	\$ 9.00	\$ 1.96
Dividends paid	\$.66	\$.66	\$.645	\$.30	\$.60	\$.58
Shareholders' equity	\$ 29.80	\$ 26.84	\$ 25.79	\$ 24.67	\$ 24.91	\$ 14.79
End of year share price						
New York Stock Exchange (U.S.\$)	\$ 50.38	\$ 40.94	\$ 40.25	\$ 33.63	\$ 36.38	\$ 28.75
Toronto Stock Exchange (C\$)	\$ 73.35	\$ 59.95	\$ 55.50	\$ 45.75	\$ 49.75	\$ 40.50
Average shares outstanding (thousands)	378,193	349,874	369,682	373,858	373,117	372,499
Shares outstanding at year end (thousands)	432,555	347,132	365,281	373,059	374,462	372,537

The following is a partial, noninclusive listing.

UNIVERSAL MUSIC GROUP

Principal record labels include:

A&M Records
Blue Thumb Records
Decca Record Company
Def Jam Recordings
Deutsche Grammophon
Geffen Records
GRP Records
Impulse! Records
Interscope Records
Island Records
MCA Records
MCA Nashville
Mercury Records
Mercury Nashville
Motown Record Company
Philips
Polydor
Universal Records
Verve Records

Other businesses:

UM³
Universal Music Enterprises
Universal Music Publishing Group
Global E-Commerce & Advanced Technology
Universal Music International
Universal Music & Video Distribution
Universal Manufacturing & Logistics

Artists selling over one million albums in fiscal year 1999 include:

Aqua
98 Degrees
ABBA
Andrea Bocelli
The Cranberries
Sheryl Crow
Bee Gees
Boyzone
The Brian Setzer Orchestra
The Cardigans
Vince Gill
Dru Hill
Enrique Iglesias
Elton John
É o Tchan
ERA (Eric Levi)
Florent Pagny
Jay-Z
Kirk Franklin
George Strait
André Rieu
Shania Twain
U2
Caetano Veloso
Rob Zombie

UNIVERSAL STUDIOS GROUP

Filmed Entertainment

UNIVERSAL PICTURES

The Mummy
Jurassic Park 3
Klumps: The Nutty Professor 2
Dr. Seuss' How The Grinch Stole Christmas
The Adventures of Rocky & Bullwinkle
The Flintstones in Viva Rock Vegas
U-571
Gladiator

UNIVERSAL STUDIOS

HOME VIDEO

Family Features (branded collections, including
An American Tail, Babe, Beethoven and Dragonheart)
The Mummy
Alvin & the Chipmunks Meet Frankenstein
The Land Before Time (series)
Alfred Hitchcock (various titles)
Universal Studios Monsters (including *Dracula, Frankenstein, Creature From The Black Lagoon, and The Mummy*)
Maisy (series)

UNIVERSAL TELEVISION & NETWORKS GROUP

Networks

13^{ème} Rue (France)
13th Street (Germany)
Calle 13 (Spain)
Studio Universal (Italy, Germany)
Sci-Fi (UK and S. Africa, programming blocks in Latin America and Brazil)
USA Network Brazil
USA Network Latin America

Current Television Shows

Woody Woodpecker
Motown Live
Total Recall 2070
Blind Date
Trisha (UK)
Vera am Mittag (Germany)
Catherine (Netherlands)

Television Library

More than 24,000 episodes, including:
Alfred Hitchcock Presents
Columbo

Magnum, P.I.
Kojak
Miami Vice
The A-Team
Murder, She Wrote
Pay-Per-View

Recreation

UNIVERSAL STUDIOS

RECREATION GROUP

Universal Studios Hollywood
Universal Studios CityWalk
Hollywood
Universal Studios Escape
Universal Studios Islands of Adventure
Universal Studios Florida
Universal Studios CityWalk
Orlando
Wet 'n Wild — Orlando
Universal Studios Japan
Universal Studios Experience (Beijing, China)
Universal Studios Port Aventura (Spain)

Other Businesses

UNIVERSAL STUDIOS CONSUMER PRODUCTS GROUP

Woody Woodpecker and Friends
Curious George
Rocky & Bullwinkle and Friends
Dr. Seuss' How the Grinch Stole Christmas
The Flintstones in Viva Rock Vegas
Universal Studios Monsters
Crash Bandicoot
E.T. — The Extra Terrestrial
Jurassic Park
The Land Before Time
Spyro the Dragon
Hercules: The Legendary Journeys
Xena: Warrior Princess
Sitting Ducks
Bruce Lee
Universal Motorsports

SPENCER GIFTS

Spencer Gifts Express
Spencer Gifts America's Halloween Headquarters
DAPY
GLOW!
Spirit
Universal Studios Store

UNIVERSAL STUDIOS ONLINE

Homepage (www.universalstudios.com)
Universal Studios Horror Online (www.horreronline.com)
Universal's Tribute to Alfred Hitchcock (www.hitchcock100.com)
Woody Woodpecker (www.woodywoodpecker.com)
Universal Studios Shopping Experience (www.store.universalstudios.com)
Spencer Gifts Online (www.spencergifts.com)
Real Hollywood Online Auction (www.universalstudios.com/auction)
Universal Archives and Collections (www.universalstudios.com/archives)

UNIVERSAL INTERACTIVE STUDIOS

Crash Bandicoot
Spyro the Dragon
The Mummy
Woody Woodpecker and Friends
Dr. Seuss' How the Grinch Stole Christmas

THE SEAGRAM SPIRITS AND WINE GROUP

American Whiskey
Bulleit Bourbon
Cougar Bourbon
Four Roses Bourbon
Four Roses Black Label Bourbon
Four Roses Single Barrel Reserve Bourbon
Four Roses Super Premium Bourbon
Seagram's 7 Crown

Canadian Whisky

Crown Royal
Crown Royal Limited Edition
Crown Royal Special Reserve
Seagram's VO
Seagram's VO Gold

Scotch Whisky

Benriach 10-Year-Old
Chivas Regal 12-Year-Old
Chivas Regal 18-Year-Old

Chivas Brothers The Century
of Malts

Glen Grant 5-Year-Old
Glen Grant 10-Year-Old
Glen Keith 10-Year-Old
Longmorn 15-Year-Old
100 Pipers
Passport
Royal Salute 21-Year-Old
Strathisla 12-Year-Old
The Glenlivet 12-Year-Old
The Glenlivet 12-Year-Old
French Finish
The Glenlivet 15-Year-Old
The Glenlivet 18-Year-Old
The Glenlivet Archive
21-Year-Old

Local Whisky

Black Jack
Blenders Pride
Boston Club
Crescent
Dunbar
Emblem
Imperial Blue
Lammerlaw
Master Blend
Natu Nobilis
News
Oaken Glow
Regency
Robert Brown
Royal Stag
Secret
Ten Distilleries
Wilson's

Cognac

Martell V.S.
Martell V.S.O.P.
Reserve de J&F Martell
Martell Artys
Martell Cordon Bleu
Martell Napoléon
Martell X.O. Suprême
Martell Odys
Martell Extra
Martell L'Or
Martell Classique
Martell Création
Martell L'Art de Martell

Brandy

Capa Negra
Chatelain
Chemineaud
Macieira
René Briand
The Don

Gin

Burnett's White Satin
Seagram's Extra Dry
Seagram's Lime Twisted
Seagram's Grapefruit Twisted

Vodka

Nikolai
Orloff

Rum

Cacique Añejo
Cacique 500
Cacique Blanco
Cacique Limón
Captain Morgan Original Spiced
Captain Morgan's Parrot Bay
Captain Morgan Private Stock
Captain Morgan Spiced Gold
Morgan's Spiced
5 Estrellas
Montilla Carta Gold
Montilla Carta White
Montilla Carta Cristal
Myers's
OVD

Tequila

Don Julio
Coyote
Mariachi
Olmea
Tres Magueyes

Liqueur

Godiva
Godiva White Chocolate
Godiva Cappuccino
Samba

Pre-Mixed

Seagram's Gin & Juice

Coolers

Seagram's Spirits Coolers

Sparkling Wine

Cuvée Mumm
Domaine Mumm
Jules Mumm
Maschio
Matheus Müller Sekt
Monitor
Mumm Cuvée Napa
Mumm Sekt
Raposeira

Sherry

Sandeman Dry Seco
Sandeman Medium Dry
Sandeman Rich Golden
Sandeman Soléo
Sandeman Don Fino

Sandeman Character
Sandeman Armada
Sandeman Royal Corregidor
The Don Seco
The Don Medium
The Don Cream

Port

Sandeman Original Rich Ruby
Sandeman Original Fine Tawny
Sandeman Original Fine White
Sandeman Original Partners'
Ruby
Sandeman Signature
Sandeman Founders Reserve
Sandeman Imperial Aged
Reserve Tawny
Sandeman 20-Year-Old Tawny
Sandeman Late Bottled Vintage
Sandeman Vintage
Sandeman Vau Vintage

Wine

Almadén
Barton & Guestier
Forestier
San Telmo
Sterling Vineyards
The Monterey Vineyard

Selected Agency Brands

ABSOLUT VODKA
ABSOLUT CITRON
ABSOLUT KURANT
ABSOLUT PEPPAR
ABSOLUT MANDRIN
Bianchi (Argentina, Uruguay)
Concha y Toro (Colombia)
Gianni Kattus (Germany)
Jim Beam (Germany)
Montana (UK)
G.H. Mumm
Perrier-Jouët
Stolichnaya (Greece)

SEAGRAM CHATEAU & ESTATE WINES COMPANY

Sparkling Wine

Mumm Cuvée Napa

Sherry/Port

Sandeman

Wine

Sterling Vineyards
Barton & Guestier
The Monterey Vineyard
Tessera

Selected Agency Brands

G.H. Mumm
Perrier-Jouët

Brancott Vineyards
Dominus Estate
F.E. Trimbach
Castello d'Albola
Château Lafite-Rothschild
Château Mouton Rothschild
Château Latour
Château Margaux
Château Haut Brion
Château Petrus
Château Gruaud-Larose
Château Talbot
Château Meyney
Château Greysac
Château La Cardonne
Château Larose-Trintaudon
Château de La Chaize, Brouilly
Domaine Bonneau du Martray,
Corton Charlemagne
Les Charmes, Mâcon-Lugny

THE SEAGRAM BEVERAGE COMPANY

Coolers

Wild Berries
Wild Black Cherry
Wild Grape Kiwi
Wild Kiwi Strawberry
Wild Pink Lemonade
Wild Strawberry Banana
Wild Watermelon (Seasonal)
Wild Winterberry (Seasonal)
Wild Fuzzy Navel
Wild Margarita
Wild Tropical Punch
Wild Strawberry Daiquiri

Mixer Flavors & Styles

Seagram's Ginger Ale
Seagram's Diet Ginger Ale
Seagram's Raspberry
Ginger Ale
Seagram's Diet Raspberry
Ginger Ale
Seagram's Tonic Water
Seagram's Diet Tonic Water
Seagram's Club Soda
Seagram's Original Seltzer
Seagram's Black Cherry Seltzer
Seagram's Lemon Lime Seltzer
Seagram's Orange Seltzer
Seagram's Raspberry Seltzer
Seagram's Lemon Sour

Beers

Grolsch (agency brand)
Premium Lager
Amber Ale
Steinlager (agency brand)

board of directors

1 Edgar M. Bronfman⁽³⁾

CHAIRMAN OF THE BOARD,
THE SEAGRAM COMPANY LTD.

**2 The Hon. Charles R. Bronfman,
P.C., C.C.⁽³⁾**

CO-CHAIRMAN OF THE BOARD AND
CHAIRMAN OF THE EXECUTIVE COMMITTEE,
THE SEAGRAM COMPANY LTD.

3 Edgar Bronfman, Jr.⁽³⁾

PRESIDENT AND CHIEF EXECUTIVE OFFICER,
THE SEAGRAM COMPANY LTD.

4 Samuel Bronfman II

PRESIDENT, SEAGRAM CHATEAU &
ESTATE WINES COMPANY AND CHAIRMAN,
THE SEAGRAM BEVERAGE COMPANY

5 Matthew W. Barrett, O.C.^(1,3)

GROUP CHIEF EXECUTIVE,
BARCLAYS PLC (effective October 1, 1999)

6 Laurent Beaudoin, C.C.⁽²⁾

CHAIRMAN OF THE BOARD AND
CHAIRMAN OF THE EXECUTIVE COMMITTEE,
BOMBARDIER INC.

7 Cornelis Boonstra⁽³⁾

CHAIRMAN OF THE BOARD OF MANAGEMENT
AND PRESIDENT,
KONINKLIJKE PHILIPS ELECTRONICS, N.V.

8 Richard H. Brown^(3,4)

CHAIRMAN OF THE BOARD AND
CHIEF EXECUTIVE OFFICER,
ELECTRONIC DATA SYSTEMS CORPORATION

**9 The Hon. William G. Davis, P.C.,
C.C., Q.C.^(1,2)**

COUNSEL,
TORY TORY DESLAURIERS & BINNINGTON



10 André Desmarais⁽⁴⁾

PRESIDENT AND CO-CHIEF EXECUTIVE
OFFICER,
POWER CORPORATION OF CANADA

11 Barry Diller⁽³⁾

CHAIRMAN AND CHIEF EXECUTIVE OFFICER,
USA NETWORKS, INC.

12 Michele J. Hooper⁽¹⁾

PRESIDENT AND CHIEF EXECUTIVE OFFICER,
VOYAGER EXPANDED LEARNING

13 David L. Johnston, C.C.^(1,2)

PRESIDENT,
UNIVERSITY OF WATERLOO

14 The Hon. E. Leo Kolber, Senator^(3,4)

MEMBER OF THE SENATE
OF CANADA

15 Marie-Josée Kravis, O.C.^(2,4)

SENIOR FELLOW,
HUDSON INSTITUTE INC.

16 Robert W. Matschullat

VICE CHAIRMAN AND
CHIEF FINANCIAL OFFICER,
THE SEAGRAM COMPANY LTD.

17 Samuel Minzberg^(1,3)

PRESIDENT AND CHIEF EXECUTIVE OFFICER,
CLARIDGE INC.

18 John S. Weinberg^(2,4)

MANAGING DIRECTOR,
GOLDMAN, SACHS & CO.

Honorary Directors

David M. Culver, C.C.

A. Jean de Grandpré, C.C., Q.C.

Alain de Gunzburg

The Hon. Paul Desmarais, P.C., C.C.

C. Edward Medland

The Hon. Ian D. Sinclair, O.C., Q.C.

Sir Iain Tennant, K.T.

John L. Weinberg

Honorary Secretary

Alan A. Sharp

(1) Member of the Audit Committee

(2) Member of Corporate Governance Committee

(3) Member of the Executive Committee

(4) Member of the Human Resources Committee



officers

Edgar M. Bronfman
Chairman of the Board

The Hon. Charles R. Bronfman, P.C., C.C.
Co-Chairman of the Board
and Chairman of the
Executive Committee

Edgar Bronfman, Jr.
President and
Chief Executive Officer

Robert W. Matschullat
Vice Chairman and
Chief Financial Officer

John D. Borgia
Executive Vice President,
Human Resources

Steven J. Kalagher
Executive Vice President and
President and Chief Executive
Officer, The Seagram Spirits
And Wine Group

Daniel R. Paladino
Executive Vice President,
Legal and Environmental Affairs

Tod R. Hullin
Senior Vice President,
Corporate Communications
and Public Affairs

John R. Preston
Vice President and Treasurer

Michael C.L. Hallows
Secretary

shareholder information

Annual Meeting of Shareholders The Annual Meeting of Shareholders will be held on Wednesday, November 3, 1999, at 10:00 a.m. (E.S.T.) at the Hôtel Omni Montréal, 1050 Sherbrooke Street West, Montreal, Quebec.

Independent Accountants PricewaterhouseCoopers LLP

Stock Symbol VO

Stock Exchange Listings Montreal, Toronto, Vancouver, New York and London

Transfer Agents and Registrars

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ChaseMellon Shareholder Services L.L.C., P.O. Box 590, Ridgefield Park, N.J. 07660

Seagram Investor Relations

The Seagram Company Ltd., 1430 Peel Street, Montreal, Quebec H3A 1S9 or

Joseph E. Seagram & Sons, Inc., 375 Park Avenue, New York, N.Y. 10152

Joseph M. Fitzgerald — Vice President, Investor Relations 1-212-572-7282

Requests for a copy of the Annual Report on Form 10-K, as filed with the Securities and Exchange Commission in Washington, D.C., and other corporate information, should be directed to Seagram Investor Relations as listed above.

Corporate Website www.seagram.com

Shareholder Inquiries Shareholder inquiries should be addressed to: Shareholder Services, The Seagram Company Ltd., 1430 Peel Street, Montreal, Quebec H3A 1S9, telephoned to 1-514-987-5209, or E-mailed to SHAREHOLDERS*ACTIONNAIRES@SEAGRAM.COM

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