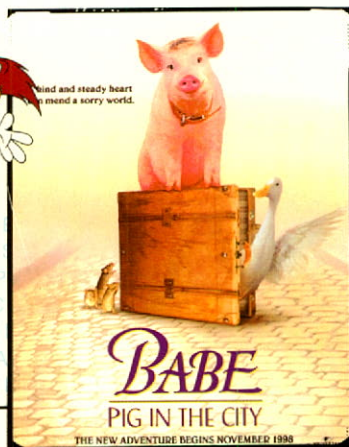
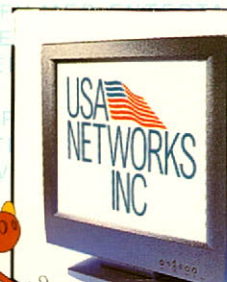


# Transforming Seagram for the next century.



ERYKAH BADU



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TREASURY DEPARTMENT

# There's how

**A new company for the new century.** That's where Seagram is headed. While Seagram remains strongly committed to its core spirits and wine business, the Company has been making major investments that will greatly expand its presence in the entertainment industry.

The result? Seagram has been reshaped to accelerate its growth in the years ahead to achieve its vision as a global leader. In pursuit of this objective, Seagram is being guided by six strategic themes: Entertaining a Global Audience, Delivering Premium Products, Capitalizing on Trends, Creating New Experiences, Building Brands Globally, and Joining Forces.

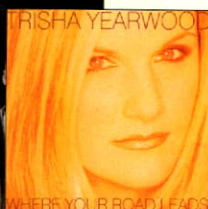
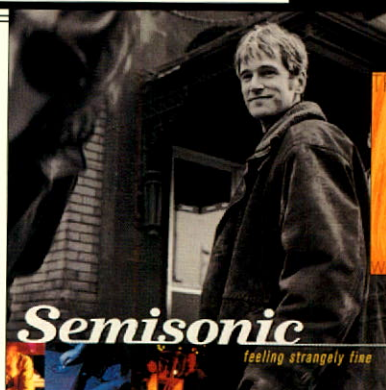
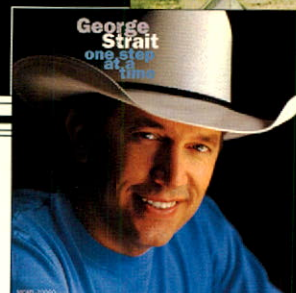
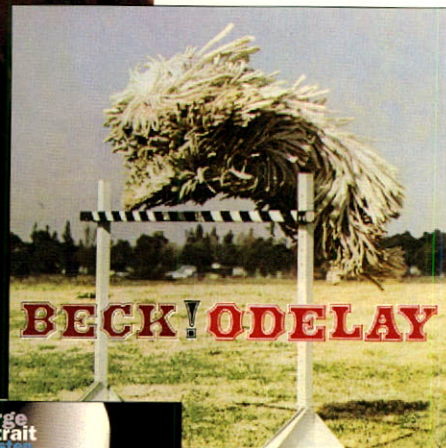
entertaining a

# GLOBAL

audience



• AUSTRALIA • CHINA • BELGIUM • CANADA • CHILE • CHINA • COLOMBIA • DENMARK • ECUADOR • FINLAND • GERMANY • HONG KONG • INDIA • JAPAN • KOREA • MEXICO • NETHERLANDS • NEW ZEALAND • NORWAY • POLAND • PORTUGAL • SOUTH AFRICA • SWEDEN • SWITZERLAND • THAILAND • UNITED KINGDOM • UNITED STATES • VIETNAM



GEORGE BENSON

• AUSTRALIA • CHINA • BELGIUM • CANADA • CHILE • CHINA • COLOMBIA • DENMARK • ECUADOR • FINLAND • GERMANY • HONG KONG • INDIA • JAPAN • KOREA • MEXICO • NETHERLANDS • NEW ZEALAND • NORWAY • POLAND • PORTUGAL • SOUTH AFRICA • SWEDEN • SWITZERLAND • THAILAND • UNITED KINGDOM • UNITED STATES • VIETNAM



**It's one world — Seagram's world.** Seagram has always been committed to operating on a global scale. Our spirits and wine products are recognized in over 150 countries.

Similarly, our entertainment operations are expanding worldwide. In country after country, they're playing our song. Families are visiting our recreation facilities in the United States, China, Spain and soon in Japan. And viewers are watching our Universal television networks in France, Germany, Italy and the world beyond.

**For Seagram, all the world's a stage.**



ESPEN LIND

Seagram's  
STRAWBERRY  
DAIQUIRI  
IMPORTED WINE ALCOHOL

Seagram's  
Ginger Ale  
1.25 PT • 20 FL OZ • 592 ML

Perrier-Jouët  
CHAMPAGNE  
BRUT  
FLEUR DE CHAMPAGNE  
1990

CORDON ROUGE  
CHAMPAGNE  
CH. MUMM & CO  
REIMS - FRANCE

STERLING  
VINEYARDS  
CHARDONNAY

THE GLENLIVET  
100  
CENTURY OF MALTS  
SCOTCH MALT WHISKY

THE GLENLIVET  
AGED 12 YEARS  
Pure Single Malt  
Scotch Whisky  
PRODUCT OF SCOTLAND

Captain Morgan's  
PARROT BAY  
TROPICAL COGNAC RUM  
WITH SPICE AND COCONUT FLAVOR

Captain Morgan's  
ORIGINAL SPICED RUM  
WITH SPICE AND SEVEN NATURAL FLAVORS

Martell  
CORDON BLEU  
GRAND CLASSIC COGNAC  
FONDEE EN 1715  
MARTELL & CO. COGNAC  
PRODUCED & BOTTLED IN COGNAC FRANCE  
APPELLATION COGNAC CONTRÔLÉE

delivering  
premium  
products



**When people around the world ask for premium products, they choose Seagram brands.**

For decades, the Seagram name has been synonymous with the finest in spirits and wines — Chivas Regal, Crown Royal, Martell, Mumm, Perrier-Jouët. Increasingly, Universal's high quality entertainment is the first choice of consumers in the global marketplace. Because of our global distribution systems, our products are as readily available as they are widely known around the world.



# on capitalizing trends

**What's hot and what's not?** The answer to that question is critical to the success of any global enterprise. Seagram, through its marketing know-how and consumer awareness, is capitalizing on emerging trends such as the global appetite for **U.S. popular culture**, the worldwide increase in **leisure time** and the rising level of **disposable income** around the world. Just as Seagram's premium spirits and wine brands have responded to such trends for decades, Universal is answering the demands of the burgeoning global market for entertainment. Film, music, recreation and television product are transcending the boundaries of language and culture.



# CREATING

new

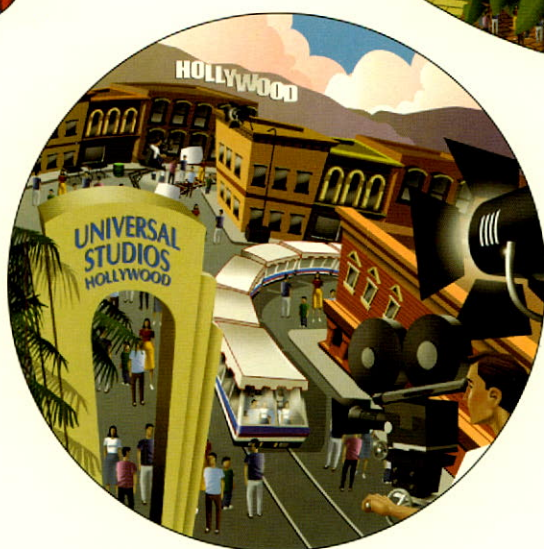
## experiences

Universal's recreation destinations transport families to places they once only imagined. They enjoy good times, excitement and laughter that create lasting memories. Universal's theme parks in Los Angeles and Orlando are the anchors for a growing constellation of global recreation offerings.

From Jurassic Park and Dr. Seuss at Islands of Adventure in the United States to the first Hollywood-themed location-based entertainment in China, from rollercoasters in Spain to the upcoming Universal Studios in Japan, Universal's recreation creations will offer a world of new experiences.

**New entertainment experiences, all languages,  
no age limits — everyone's welcome.**







**Seagram knows a lot about building brands.**

The global marketing skills that have transformed Seagram's spirits and wine brands into globally recognized names are now doing the same with Universal's collection of entertainment franchises, artists and characters. We recognize that movies, like *Babe* and *The Lost World: Jurassic Park*, and cartoon characters, like Woody Woodpecker®, can become household terms and powerful brand names, capable of influencing consumer purchases.

In Woody's case, he will be appearing on a new television show this fall, and gaining worldwide visibility in toy stores, on lunch boxes, and at Universal's theme parks. And of course, he'll have his own website on the Internet.



# building bRands...



building brands

# globally

Seagram's reputation is founded on the quality of its products and the success and dedication with which it builds its core brands globally. Seagram is devoted to keeping its brands dynamic and there is no better example than the new marketing programs under way to enhance the unique appeal of Chivas Regal Scotch Whisky, the Company's flagship brand. With an emphasis on its authentic, discriminating and cosmopolitan personality, Chivas Regal delivers genuine pleasure for people who enjoy the richness of life.

**At Seagram, our overriding goal is to sustain the brands we have worked so hard to build — and our consumers have come to prefer.**



you either have

!t

or you don't

Sit back.  
Put up feet.  
Pour glass.  
Survey kingdom.

CHIVAS REGAL. YOU EITHER HAVE **It** OR YOU DON'T.



# Joining

In pursuit of global growth, Seagram places a high priority on joining with world-class partners to achieve common goals. In spirits and wine, Seagram has nurtured some of the world's most successful brands through these unique alliances. With The Absolut Company/V&S Vin & Sprit, we have developed ABSOLUT VODKA as a leading premium spirit brand; with Kirin Brewery Co., Ltd. we have expanded the manufacturing, sale and distribution of Seagram brands in Japan.

In entertainment, our interests have been strengthened through associations with extraordinary partners such as Matsushita Electric Industrial Co., Ltd., USA Networks, Inc., DreamWorks SKG, Loews Hotel America Inc., and Hard Rock Cafe Inc.

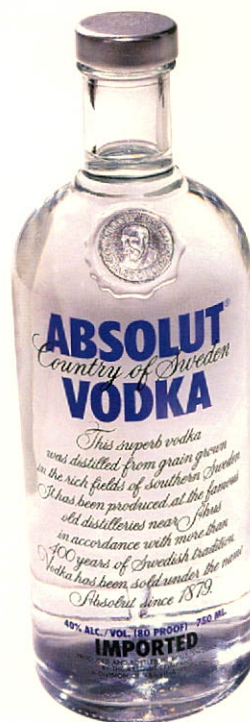
**At Seagram, we embrace talent, creativity, and good ideas.**

# Matsushita Electric

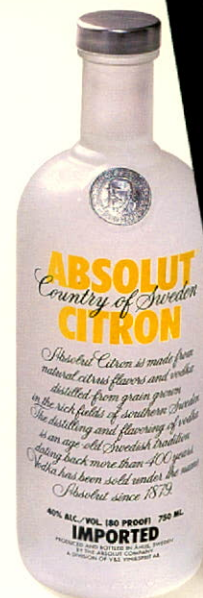


**DREAMWORKS**  
SKG

THE PORTOFINO BAY HOTEL, A LOEWS  
HOTEL AT UNIVERSAL STUDIOS ESCAPE



V&S VIN & SPRIT



USA   
NETWORKS  
INC



KIRIN BREWERY CO., LTD.  
ROBERT BROWN, PRODUCED  
AND MARKETING IN JAPAN  
BY KIRIN-SEAGRAM LIMITED



THE HARD ROCK CAFE AT CITYWALK,  
UNIVERSAL STUDIOS HOLLYWOOD

# here's why

## letter to our shareholders

Seagram began its dramatic transformation in 1995, reshaping the Company to meet the challenges of a rapidly changing environment. Fiscal 1998 was a critical and successful year in this effort. We have made great strides in implementing our strategy and refocusing our Company to achieve accelerated earnings growth in the years ahead.

In fiscal 1998, revenues declined nine percent to \$9.7 billion and earnings before interest, taxes, depreciation and amortization (EBITDA) from continuing operations declined eight percent to \$1.3 billion after a \$60 million charge for the spirits and wine business in Asia.

While our overall revenues and EBITDA declined, most of our businesses made significant progress. Universal Studios, Inc.'s ("Universal") EBITDA rose 18 percent to \$712 million with all three business segments — filmed entertainment, music and recreation and other — contributing to the growth. Television, reported in filmed entertainment, had an exceptionally strong year, benefiting from the 100 percent ownership of USA Networks for a portion of the year and from its attributed share of EBITDA from USA Networks, Inc. since February. The Seagram Spirits And Wine Group EBITDA in the Americas clearly outpaced the industry. Several key North American brands experienced substantial growth,

including Crown Royal Canadian Whisky and Captain Morgan Rum. Europe & Africa's EBITDA was approximately equal to last year's, as marketplace conditions stabilized. However, the difficult conditions in Asia Pacific reduced spirits and wine EBITDA by approximately 20 percent.

We substantially advanced our position in the entertainment industry by initiating major transactions that reconfigured our music and television businesses. We also decided to unlock the enhanced value created in Tropicana Products, Inc. ("Tropicana") for our shareholders during the past 10 years of Seagram's ownership. In August,

we completed the sale of Tropicana to PepsiCo, Inc. ("Pepsi") for approximately \$3.3 billion in cash. At the time of the printing of this Annual Report, our proposed acquisition of PolyGram N.V. ("PolyGram") is proceeding on schedule, with completion of the transaction expected to occur in the second quarter of the Company's fiscal year ending June 30, 1999. A significant development which also occurred during fiscal 1998 was the completion of the disposition of Seagram's common stock holdings in Time Warner Inc.

Following the sale of Tropicana, Seagram now has major positions in two clear and distinct lines of business: spirits and wine, and entertainment. Upon the completion of Universal's acquisition of PolyGram, we expect that Seagram will be deriving approximately 70 percent of its revenues from entertainment and 30 percent from spirits and wine. These changes,

resulting from the realignment of our Company's assets, reflect a carefully developed strategy designed to reshape our Company.

While the Seagram name has been synonymous with spirits and wine for more than seven decades, the Company historically has had substantial sums invested outside its core businesses. As early as the 1960s, management was actively seeking to provide additional sources of growth for Seagram shareholders. In 1963, Seagram made a sizable investment in Texas Pacific Oil Company, Inc. Later, the Company established a substantial stake in E.I. du Pont de Nemours and Company ("DuPont").

In 1995, when we purchased Universal after the redemption of most of our DuPont holdings, we were not simply making a portfolio trade. We moved from a passive investment to an active one. We are now deeply involved in

managing a global entertainment company. We viewed Universal as an underutilized resource that would provide a vehicle for realizing a long-term growth strategy.

In order to realize Universal's full potential, we have made a number of additional investments designed to build the Company's future. Universal has not simply been reengineering its operations and enhancing its efficiency. It also has taken major steps to reshape each of its three businesses — music, filmed entertainment, and recreation.

We have always believed there were particularly attractive growth opportunities open to the Universal Music Group, both in North America and abroad. The music industry is on the cusp of a revolution in music distribution, with expected growth in electronic commerce. In just a few years, music will be ordered and also delivered electronically,

Seagram now has major positions  
in two clear and distinct lines  
of business: **spirits and wine,**  
and **entertainment.**



TESSERA, THE CHERRY POPPIN' DADDIES, PATCH ADAMS,  
UNIVERSAL STUDIOS FLORIDA

# income highlights

U.S. dollars in millions, except per share amount				
	Fiscal Years Ended June 30, 1998	1997	Transition Period Ended June 30, 1996	Fiscal Year Ended January 31, 1996 <sup>(1)</sup>
<b>REVENUES</b>	<b>\$ 9,714</b>	<b>\$ 10,644</b>	<b>\$ 4,251</b>	<b>\$ 8,052</b>
<b>EBITDA<sup>(2)</sup></b>				
Spirits and Wine	\$ 590 <sup>(3)</sup>	\$ 810	\$ 244	\$ 493 <sup>(4)</sup>
Entertainment				
Filmed Entertainment	463	373	176	240
Music Entertainment	90	72	(24)	59
Recreation and Other	159	158	44	121
Total Entertainment	712	603	196	420
Total EBITDA	\$ 1,302	\$ 1,413	\$ 440	\$ 913
<b>Operating Income</b>	<b>\$ 508<sup>(3)</sup></b>	<b>\$ 781</b>	<b>\$ 128</b>	<b>\$ 482<sup>(4)</sup></b>
Income from continuing operations	\$ 880	\$ 445	\$ 67	\$ 144
Income from discontinued Tropicana operations, after tax	66	57	18	30
Discontinued DuPont activities, after tax	—	—	—	3,232
Net Income	\$ 946	\$ 502	\$ 85	\$ 3,406
<b>Earnings per share – basic</b>				
Income from continuing operations	\$ 2.51	\$ 1.20	\$ .18	\$ .38
Discontinued Tropicana operations, after tax	.19	.16	.05	.08
Discontinued DuPont activities, after tax	—	—	—	8.67
Net Income	\$ 2.70	\$ 1.36	\$ .23	\$ 9.13
<b>Earnings per share – diluted</b>				
Income from continuing operations	\$ 2.49	\$ 1.20	\$ .18	\$ .38
Discontinued Tropicana operations, after tax	.19	.15	.05	.08
Discontinued DuPont activities, after tax	—	—	—	8.54
Net Income	\$ 2.68	\$ 1.35	\$ .23	\$ 9.00

(1) The fiscal year ended January 31, 1996 includes the results of Universal for seven months from June 5, 1995 to December 31, 1995.

(2) Represents attributed earnings before interest, taxes, depreciation and amortization (EBITDA) which includes the proportionate share of the EBITDA of the Company's equity companies.

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

(4) Includes \$274 million reengineering charge for spirits and wine operations.

providing dramatic savings in distribution costs while simultaneously increasing opportunities to sell music to a broad array of consumers. Outside the United States, there is strong growth potential for recorded music in Asia and the developing markets of Latin America and Eastern Europe. As these regions begin to prosper, their populations will be every bit as interested in music as are people in our traditional markets. And Universal Music can play a large role in meeting this growing demand.

Since 1995, the Universal Music Group has made significant strides in increasing its revenues and market share. Nonetheless, we saw limits. We were the smallest of the six major vertically-integrated companies that produce and distribute recorded music. We were making great progress internationally through the opening of Universal Music Group companies in key markets. We knew, however, that we remained challenged by the need to further that effort, quickly and efficiently.

Consequently, we negotiated an agreement with Koninklijke Philips Electronics N.V. ("Philips") and PolyGram to acquire all of PolyGram.

This acquisition will create the world's largest music company, bringing together a vast array of global labels and talent in virtually every music genre. The combined companies, to be known as the Universal Music Group, complement each other in several ways. Universal Music has about two-thirds of its annual sales in North America, while PolyGram has generated about 75 percent of its revenues outside of North America. Additionally, while Universal has no classical labels, PolyGram has three — Deutsche Grammophon, Philips, and Decca/London.

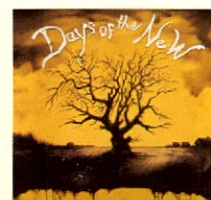
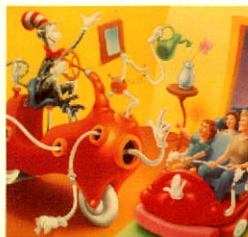
This global music company will not only have the ability to project talented artists onto a global stage, it will also be able to produce and distribute the work of artists with local followings in individual countries. The expanded Universal Music Group will also offer important benefits for the rest of Universal in the form of cross-marketing opportunities.

Just as we have expanded Universal Music into an important and dynamic force in the music industry, our efforts to build a broad-based entertainment company led us to a major television transaction

in fiscal 1998. After gaining full control of USA Networks last year, we went on to combine that company and Universal Television Group's domestic production and distribution business with HSN, Inc., the parent company to the Home Shopping Network which also owned a number of major market broadcast television stations. The result is a new company, USA Networks, Inc., in which Universal has a 45 percent equivalent equity interest and the ability to obtain a majority equity interest and control of USA Networks, Inc. in the years ahead.

Observers who viewed this venture as a sale of our television assets have misinterpreted the transaction. In fact, what we have achieved is a significant voting and equity interest in an exciting venture which is now the fourth largest cable programming group in the United States and has strong prospects in the physical fulfillment of electronic commerce and broadcast television. This new company, USA Networks, Inc., is prepared to capitalize on the new contours of the entertainment industry that are emerging around the world.

VINCE GILL, SEUSS LANDING, DAYS OF THE NEW,  
SEAGRAM'S EXTRA DRY GIN, COLUMBO



This evolution has poised the new Universal Television & Networks Group to build upon its remaining assets and add strategic alliances to take Universal to new heights in the global television industry. As a major production, distribution and networks operation, Universal Television & Networks Group is addressing the unique needs of burgeoning television markets outside of the United States. The Group distributes Universal's 24,000-episode television library and feature film product to free and pay television outlets around the world, and is the exclusive international distributor for USA Networks, Inc.'s television production arm, Studios USA. In addition to its current production and development slate, the Group has launched the Universal-branded channels *13th Street: The Action & Suspense Channel* in France and Germany, and *Studio Universal* in Italy, with more channel launches planned.

In motion pictures, as in television, we have relied on several strategic alliances to accelerate the pace of growth. These alliances are allowing us to increase our global production and distribution activities while helping us to mitigate many of the financial risks traditionally associated with producing motion pictures. Although our

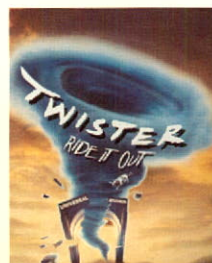
motion picture performance was disappointing in fiscal 1998, Universal Pictures has an exciting lineup of films scheduled for release in the months ahead, including *Meet Joe Black* starring Brad Pitt and Anthony Hopkins; *Psycho*, Academy Award nominee Gus Van Sant's re-creation of the Hitchcock classic; *Patch Adams* starring Robin Williams; and *Babe: Pig in the City*, the sequel to our highly successful 1995 original release, *Babe*.

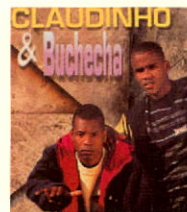
The Universal Studios Recreation Group also made great strides last year. In partnership with The Rank Group plc., we began construction on a new theme park in Orlando, Florida, to be called Islands of Adventure. This new theme park, together with the first of three new hotels being built in partnership with Loews Hotels, will open during the summer of 1999. Islands of Adventure, the hotels, a completely new CityWalk and the adjacent Universal Studios Florida will comprise Universal Studios Escape, one of the largest recreation destinations in the United States.

Universal Studios Recreation Group is also expanding internationally. Universal will become the first U.S. entertainment company to develop and operate a recreation

site in China when its Beijing multifaceted attraction, called the Universal Studios Experience, opens later this year. In addition, in June 1998, we acquired a 37 percent interest in, and became exclusive manager of, Port Aventura, a major theme park, with 2,000 acres for park and resort expansion, located south of Barcelona, Spain. The park, which opened in 1995, draws approximately three million visitors annually and will be renamed Universal's Port Aventura. Construction is now going forward on Universal Studios Japan, which is scheduled to open in Osaka in the summer of 2001. This venture is the centerpiece of a complete redevelopment of Osaka's waterfront, and we believe our brand of entertainment will be even more popular in Japan than it is in the United States. After the opening of Universal Studios Japan in 2001, six years after we acquired Universal, our recreation business will be completely transformed in size and scale. Our network of major recreation destinations carrying the Universal brand will serve millions of families around the world.

In addition to taking major steps in the entertainment industry, in fiscal 1998 we also devoted substantial attention to our core spirits and wine business. Although spirits and





Six years after we acquired Universal,  
our **recreation business** will be  
completely **transformed** in size and scale.

wine is regarded as a mature industry in much of the world, we have been seeking higher growth rates in the emerging markets. Economies in Asia, Latin America, and Eastern Europe have reached a status through which there is a sizable middle class with the disposable income to enjoy our premium products.

However, the economic crisis that enveloped much of Asia last year thwarted our expansion in that region. Amid growing economic uncertainty in much of Asia, purchases of spirits and wine products declined sharply. In response to these developments, we took a \$60 million charge in fiscal 1998.

We intend, however, to stay the course. Asia is a key region for Seagram and one in which, we believe, the rapid growth in per capita income is likely to resume.

Consequently, we have responded to the economic slowdown by capitalizing on an opportunity to increase our investment in Doosan Seagram Co., Ltd., a leading force in marketing and distributing whisky in the Republic of Korea.

Despite the problems in Asia, our spirits and wine operations have made progress in expanding our involvement elsewhere in the emerging markets. And in the industrial countries, we have redoubled our efforts to achieve substantial growth by seeking to heighten the effectiveness of our brand marketing. We have some of the world's finest brands, which are a key element of our business and we have continued to invest heavily in them. This year, for example, we are undertaking a "restaging" of Chivas Regal, our flagship Scotch whisky brand.

We have created a new promotion and marketing campaign designed to refresh the brand's image as the preeminent premium Scotch whisky product around the world. This campaign not only involved major changes in the brand's advertising, but also a new array of promotional efforts.

A new tougher-minded approach by our people in The Seagram Spirits And Wine Group, along with a definite new bias for action, appear to be producing outstanding results in some highly-competitive markets. In North America, we continue to achieve record numbers through solid volume growth, as well as pricing gains. Our recent performance in both the United Kingdom and Japan is also especially noteworthy. The successful reinvigoration of our business in these markets is evidence

that growth in spirits and wine is clearly achievable.

The ways in which we are attempting to achieve that growth include the revitalization of core brands, as well as the expanded use of brand extensions, the introduction of new products, and the development of strategic partnerships. By offering additional products under the Captain Morgan name, for example, we have been able to substantially expand our sales of rum products around the world. In addition, last year we introduced Seagram's V.O. Gold, a line extension of one of Seagram's oldest products. Seagram's V.O. Gold already has achieved consumer acceptance and broad recognition in select U.S. markets. Moreover, our agreement with V&S Vin & Sprit of Sweden has continued to achieve great success for their ABSOLUT VODKA brand. Using our distribution skills we have worked with The Absolut Company to transform ABSOLUT VODKA into a truly global brand. We recently entered into an

agreement for Seagram Americas to introduce V&S Vin & Sprit's small-batch premium vodka, Sundsvall, into the U.S. market starting in the fall of 1998.

Seagram Chateau & Estate Wines Company continued to show strong growth in fiscal 1998. Driven by a strong economy and growing demand for its high-end table wines and Champagnes, Chateau & Estate consolidated its position in the marketplace as a leading producer and marketer of fine wines and Champagnes.

We face many challenges in our spirits and wine business. The generation now coming of age around the world is showing renewed interest in spirits and wine. But their tastes are different from their parents', and we must respond accordingly. Moreover, our competition is increasingly imposing. Two of our largest competitors merged last year to form a global company with a powerful collection of brands. Nonetheless, we

believe we are well-positioned to strengthen our returns in this industry in the years ahead.

Indeed, Seagram ended fiscal 1998 highly confident about our Company's future. The process of transformation we began several years ago is beginning to deliver precisely the kind of enhanced growth potential that we had envisioned. Seagram is well-established in spirits and wine and is expanding its presence in all segments of the entertainment industry. We think the results we achieved last year demonstrate that entertainment will provide us with the growth engine that the Company has been seeking. And we think our businesses, with their emphasis on global marketing of well-established brand names, is precisely the right fit for the Company's skills.

In shaping our activities, management has benefited greatly from the wise counsel of our Board of Directors. Last year our Board was

A new **tougher-minded approach** by our people  
in The Seagram Spirits And Wine Group,  
along with a definite new bias for action, appear  
to be producing **outstanding results** in some  
highly-competitive markets.



CHUMBAWAMBA, CAPTAIN MORGAN, ABSOLUT VODKA, SEAGRAM'S V.O.



Seagram is a **renewed, reconfigured,**  
and truly **reinvigorated** Company with strong positions  
in both spirits and wine, and entertainment.

further strengthened through the additions of: Laurent Beaudoin, Chairman and Chief Executive Officer of Bombardier Inc.; Richard Brown, Chief Executive of Cable and Wireless plc; André Desmarais, President and Co-Chief Executive Officer of Power Corporation of Canada; and Samuel Minzberg, President and Chief Executive Officer of Claridge Inc. Barry Diller, who had been Chairman and Chief Executive Officer of HSN, Inc., was appointed to our Board when we joined forces to form USA Networks, Inc. Similarly, Cornelis Boonstra, Chairman of Philips, has agreed to join our Board following the completion of our purchase of PolyGram.

We extend our special gratitude to two outstanding Directors: C. Edward Medland who will be retiring in November and Lew R. Wasserman who retired from our Board in February. We would like

to acknowledge the significant contribution, wise counsel and support of Ted Medland, who has served for 25 years on Seagram's Board. We also extend our special thanks to him for his sure-handed leadership of the Audit Committee which he has chaired with distinction since 1975. Mr. Medland has also served on the Board's Executive and Finance Committees. Lew Wasserman's knowledge and experience in the entertainment field have been invaluable to the Seagram Board and we are very grateful that we can continue to call on him for his guidance.

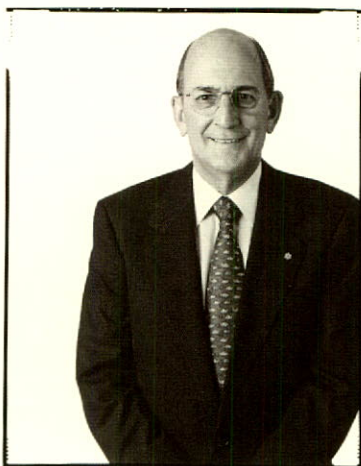
Last year we strengthened our management team in several important ways. John Hunter, who retired from The Coca-Cola Company as Executive Vice President and Principal Operating Officer, International in 1996, joined Seagram as Chairman of The Seagram Spirits And Wine

Group. At the corporate level, Neal Cravens was promoted to the position of Senior Vice President, Finance and John Preston became Vice President and Treasurer. In addition, Ramesh Vangal became President of the Asia-Pacific region for our spirits and wine operations. In July, Samuel Bronfman II became Chairman of The Seagram Beverage Company in addition to serving as President of Seagram Chateau & Estate Wines Company.

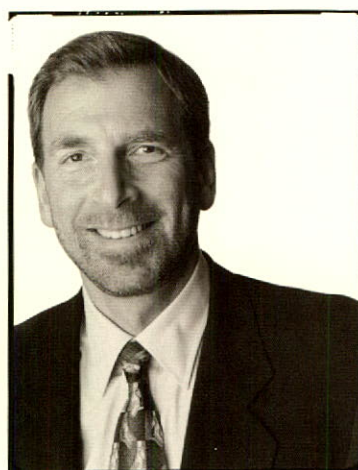
Our corporate and divisional staffs, especially those involved in managing our financial and legal functions, were particularly challenged by the scale and number of complex transactions which occurred during the year. All of the staff members involved in these initiatives responded with true professionalism and tireless dedication on behalf of our shareholders' interests.



Edgar M. Bronfman



Charles R. Bronfman



Edgar Bronfman, Jr.

The Company has benefited greatly from the skill and dedication that all of our employees have brought to bear on their responsibilities. Again and again, our employees have proven to be the key factor in shaping our success. We thank them for their efforts.

We would like to acknowledge the significant contributions made to our Company by Ellen Marram, who has served Seagram as an Executive Vice President and as

President and Chief Executive Officer, Tropicana Beverage Group, with great distinction. In addition, we would like to thank Ellen and all the 4,500 employees worldwide for building Tropicana into one of the most powerful brands in North America and one that is increasingly recognized around the world. We wish Tropicana continued success under Pepsi's stewardship.

As Seagram heads toward the next century, we are confident that the process of change that we

have set in motion is preparing us to generate the level of financial results that we seek. Seagram is a renewed, reconfigured, and truly reinvigorated Company with strong positions in both spirits and wine, and entertainment.

We are confident that the important steps we took last year have materially advanced our efforts to reinvent our Company and that those changes will serve our shareholders well in the years ahead.

On Behalf of the Board,

**EDGAR M. BRONFMAN**  
Chairman

**CHARLES R. BRONFMAN**  
Co-Chairman

**EDGAR BRONFMAN, JR.**  
President and  
Chief Executive Officer

August 12, 1998

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## management's discussion and analysis

The Company has entered into several significant transactions during the last two years, which have realigned the Company's assets and have impacted or will impact the comparability of its financial statements.

**Sale of Tropicana:** On August 25, 1998, the Company completed the sale of Tropicana Products, Inc. and the Company's global juice business ("Tropicana") for cash proceeds of approximately \$3.3 billion. As a result of this transaction, the Company's Consolidated Financial Statements and Management's Discussion and Analysis report the results of Tropicana as discontinued operations for all periods presented.

**Acquisition of PolyGram:** On June 22, 1998, the Company announced that it had signed definitive agreements with Koninklijke Philips Electronics N.V. ("Philips") and PolyGram N.V. ("PolyGram") to acquire PolyGram in a transaction valued at approximately \$10.4 billion. The agreements call for the Company to pay \$8.4 billion in cash and to issue a maximum of approximately 47.9 million common shares (12 percent of outstanding common shares after the transaction). The acquisition, which is subject to the receipt of certain regulatory approvals, is expected to close during the second quarter of the Company's fiscal year ending June 30, 1999.

**Purchase of USA Networks and Combination with USA Networks, Inc.:** On October 21, 1997, Universal Studios, Inc. ("Universal") acquired Viacom Inc.'s 50 percent interest in USA Networks, including the Sci-Fi Channel, 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"), formerly HSN, Inc., and contributed its original 50 percent interest in USA Networks and the majority of its television assets, including substantially all of its domestic operations and 50 percent of the international operations of USA Networks, to USAi for \$1.3 billion in cash and a 45.8 percent equivalent equity interest in USAi. The Company had a \$222 million after-tax gain on the transaction.

**Sale of Time Warner Shares:** On February 5, 1998, the Company sold 15 million shares of Time Warner Inc. ("Time Warner") for pretax proceeds of \$958 million. On May 27, 1998, the Company sold its remaining 11.8 million shares of Time Warner common stock for pretax proceeds of \$905 million. The aggregate after-tax gain on the sale of the shares in 1998 was \$602 million and after-tax net proceeds were \$1.5 billion. On May 28, 1997, the Company sold 30 million shares of Time Warner common stock for pretax proceeds of \$1.39 billion. The Company had an after-tax gain of \$100 million and after-tax net proceeds of \$1.33 billion on the 1997 transaction.

**Sale of Putnam Berkley:** On December 16, 1996, the Company completed the sale of The Putnam Berkley Group, Inc. ("Putnam"), the book publishing division of Universal, for \$330 million in cash. The Company had a \$64 million pretax gain on the sale but no after-tax gain due to the write-off of goodwill allocated to Putnam, which has no associated tax benefit.

**Sale of the 156 Million DuPont Equity Warrants:** On July 24, 1996, the Company sold its 156 million equity warrants of E.I. du Pont de Nemours and Company ("DuPont") to DuPont for \$500 million in cash. The Company had an after-tax gain of \$39 million and after-tax net proceeds of \$479 million.

Effective June 30, 1996, the Company changed its fiscal year-end from January 31 to June 30. The financial results for the twelve months ended June 30, 1997 represent the first full fiscal year on the new basis. The financial results for the period from February 1, 1996 to June 30, 1996 (the "Transition Period") are also included in this Report. Results for the Transition Period are not necessarily indicative of operations for a full year.

For each fiscal period presented, the following analysis includes an overview of revenues and operating income for the Company's two business segments, spirits and wine and entertainment, and a more detailed discussion of the three lines of business within entertainment — filmed entertainment, music, and recreation and other. This discussion will address attributed revenues and attributed earnings before interest, taxes, depreciation and amortization ("EBITDA"). These amounts include the Company's proportionate share of the revenues and EBITDA, respectively, of its equity companies. The adjustment for equity companies eliminates the proportionate share of the revenues or EBITDA of equity companies, and reflects the equity income as reported under U.S. generally accepted accounting principles.

The Company believes cash flow, as defined by EBITDA, is an appropriate measure of the Company's operating performance, given the goodwill associated with the Company's acquisitions. In addition, financial analysts generally consider EBITDA to be an important measure of comparative operating performance. However, EBITDA should be considered in addition to, not as a substitute for, operating income, net income, cash flows and other measures of financial performance in accordance with generally accepted accounting principles.

The following detailed analysis of operations should be read in conjunction with the Consolidated Financial Statements of the Company found on pages 39 to 62.

## Earnings Summary

U.S. Dollars in Millions Except Per Share Amounts	Twelve Months Ended June 30,			Five Months Ended June 30,	
	1998	1997	1996	1996	1995
<b>Attributed Revenues</b>	<b>\$ 11,196</b>	<b>\$ 11,763</b>	<b>\$ 11,294</b>	<b>\$ 4,779</b>	<b>\$ 2,270</b>
<b>Reported Revenues</b>	<b>9,714</b>	<b>10,644</b>	<b>10,215</b>	<b>4,251</b>	<b>2,093</b>
<b>EBITDA</b>	<b>1,302</b>	<b>1,413</b>	<b>1,022</b>	<b>440</b>	<b>331</b>
<b>Operating Income</b>					
Spirits and Wine	465	677	338	182	207
Entertainment	163	242	174	1	32
Corporate	(120)	(138)	(125)	(55)	(19)
<b>Operating Income</b>	<b>508</b>	<b>781</b>	<b>387</b>	<b>128</b>	<b>220</b>
Interest, net and other	(1,058)	(7)	238	99	56
Provision (benefit) for income taxes	638	331	35	(33)	54
Minority interest charge (credit)	48	12	14	(5)	3
<b>Income from Continuing Operations</b>	<b>\$ 880</b>	<b>\$ 445</b>	<b>\$ 100</b>	<b>\$ 67</b>	<b>\$ 107</b>
Income from discontinued Tropicana operations, after tax	66	57	42	18	10
Discontinued DuPont activities	—	—	—	—	3,232
<b>Net Income</b>	<b>\$ 946</b>	<b>\$ 502</b>	<b>\$ 142</b>	<b>\$ 85</b>	<b>\$ 3,349</b>
<b>Earnings Per Share – Basic</b>					
Income from continuing operations	\$ 2.51	\$ 1.20	\$ .26	\$ .18	\$ .29
Discontinued Tropicana operations, after tax	.19	.16	.11	.05	.03
Discontinued DuPont activities, after tax	—	—	—	—	8.67
<b>Net Income</b>	<b>\$ 2.70</b>	<b>\$ 1.36</b>	<b>\$ .37</b>	<b>\$ .23</b>	<b>\$ 8.99</b>
<b>Earnings Per Share – Diluted</b>					
Income from continuing operations	\$ 2.49	\$ 1.20	\$ .26	\$ .18	\$ .29
Discontinued Tropicana operations, after tax	.19	.15	.11	.05	.03
Discontinued DuPont activities, after tax	—	—	—	—	8.60
<b>Net Income</b>	<b>\$ 2.68</b>	<b>\$ 1.35</b>	<b>\$ .37</b>	<b>\$ .23</b>	<b>\$ 8.92</b>

Note: The Company's reported financial results for the five-month periods ended June 30, 1996 and 1995 include six months of Universal (from January 1, 1996 to June 30, 1996) and one month of Universal (from the acquisition date of June 5, 1995 to June 30, 1995), respectively.

## Results of Operations

**Fiscal Year Ended June 30, 1998 vs. Fiscal Year Ended June 30, 1997** The Company's results in 1998 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. Reported revenues and attributed revenues of \$9.7 billion and \$11.2 billion, respectively, declined from \$10.6 billion and \$11.8 billion, respectively, last year. Excluding the unfavorable impact of foreign exchange and the contribution of Putnam from last year, reported revenues and attributed revenues declined five percent and two percent year-on-year, respectively. EBITDA was \$1.3 billion compared with \$1.4 billion last year. Excluding the charge for Asia this year and the contribution of Putnam last year, EBITDA decreased two percent. Spirits and wine EBITDA declined 20 percent, before the charge for Asia. Entertainment EBITDA was 24 percent above last year, excluding the contribution of Putnam.

Operating income was \$508 million, after the charge for Asia, substantially below the prior year which included a \$64 million pretax gain on the sale of Putnam. Excluding the charge for Asia this year and the contribution from Putnam last year, operating income declined 18 percent year-on-year primarily reflecting the decline in spirits and wine operations and higher depreciation and amortization expense. The incremental depreciation and amortization principally results from higher goodwill amortization from October to February related to the acquisition of the remaining 50 percent of USA Networks. Corporate expenses decreased from \$138 million to \$120 million largely due to reduced expenses associated with the Company's ongoing reengineering programs.

Interest, net and other in the fiscal year ended June 30, 1998 includes the pretax gains on the USAi transaction (\$360 million) and the sale of the remaining Time Warner shares (\$926 million). Net interest expense of \$255 million is also partially offset by \$27 million of dividend income from Time Warner and DuPont. In the fiscal year ended June 30, 1997, net interest expense of \$247 million was offset by the pretax gains on the sales of the DuPont warrants (\$60 million) and Time Warner shares (\$154 million), 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 the Company's purchase of the incremental 50 percent interest in USA Networks on October 21, 1997 and share repurchases pursuant to the Company's ongoing share repurchase program, partially offset by the repayment of debt with the proceeds from the USAi transaction and the sales of the Time Warner shares.

The underlying effective income tax rate for continuing operations (excluding one-time items) for the fiscal year ended June 30, 1998 was 55 percent compared with 38 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 income tax provision in fiscal 1998 also includes \$138 million of taxes on the gain on the USAi transaction, \$324 million of taxes on the gain on the sale of the remaining Time Warner shares and a \$10 million benefit on the charge for spirits and wine operations in Asia. The income tax provision in fiscal 1997 also included \$21 million of taxes on the gain on the sale of the DuPont warrants, \$64 million of taxes on the gain on the sale of Putnam and \$54 million of taxes on the gain on the sale of Time Warner shares. The effective income tax rate, including the one-time items, was 41 percent in fiscal 1998 compared with 42 percent in the prior year.

The minority interest charge in fiscal year 1998 includes \$35 million associated with the gain on the USAi transaction.

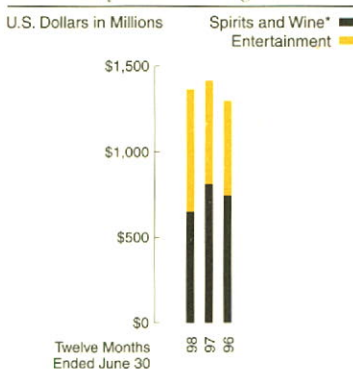
Income from continuing operations was \$880 million or \$2.51 per basic share and \$2.49 per share on a diluted basis in the fiscal year ended June 30, 1998, compared with \$445 million or \$1.20 per share (basic and diluted) in the prior fiscal year. Excluding the gain on the USAi transaction (after 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 the fiscal year ended June 30, 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) in the fiscal year ended June 30, 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. Reported revenues from discontinued operations were \$2.0 billion in the fiscal year ended June 30, 1998 and \$1.9 billion in the prior fiscal year. Operating income was \$169 million in the fiscal year ended June 30, 1998 and \$152 million in the prior fiscal year. Results of discontinued operations include allocations of consolidated interest expense totaling \$39 million and \$41 million in the fiscal years ended June 30, 1998 and 1997, respectively. The allocations were based on the ratio of net assets of discontinued operations to consolidated net assets.

### Reported Revenues by Business Segment



### EBITDA by Business Segment



\*1998 excludes \$60 million charge for Asia operations; 1996 excludes \$274 million charge related to reengineering activities.

Net income including discontinued operations was \$946 million or \$2.70 per basic share and \$2.68 per diluted share in the fiscal year ended June 30, 1998, compared with \$502 million or \$1.36 per basic share and \$1.35 per diluted share in the prior fiscal year.

## Spirits and Wine

U.S. Dollars in Millions	Twelve Months Ended June 30,			Five Months Ended June 30,	
	1998	1997	1996	1996	1995
Attributed Revenues	\$ 4,757	\$ 5,249	\$ 5,343	\$ 2,007	\$ 1,904
Adjustment for equity companies	(87)	(198)	(240)	(116)	(112)
<b>Reported Revenue*</b>	<b>\$ 4,670</b>	<b>\$ 5,051</b>	<b>\$ 5,103</b>	<b>\$ 1,891</b>	<b>\$ 1,792</b>
EBITDA before charges	650	810	746	244	265
Charge for Asia	(60)	—	—	—	—
Reengineering charge	—	—	(274)	—	—
EBITDA	590	810	472	244	265
Adjustment for equity companies	(6)	(10)	(10)	(5)	(3)
Depreciation and amortization	(119)	(123)	(124)	(57)	(55)
<b>Operating Income</b>	<b>\$ 465</b>	<b>\$ 677</b>	<b>\$ 338</b>	<b>\$ 182</b>	<b>\$ 207</b>

\*Reported revenues include excise taxes of \$754 million, \$793 million, and \$766 million in the twelve months ended June 30, 1998, 1997 and 1996, respectively and \$288 million and \$311 million in the five month periods ended June 30, 1996 and 1995, respectively.

### Spirits and Wine

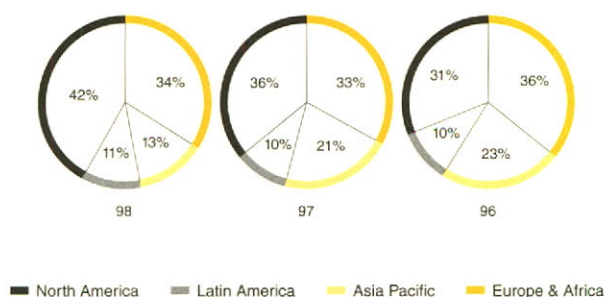
As a result of the sale of Tropicana, the results of The Seagram Beverage Company, which were formerly included in the results of the Tropicana Beverage Group, are now reported in the spirits and wine segment for all periods presented. The Seagram Beverage Company produces and markets coolers, beers and mixers in the United States. The results of The Seagram Beverage Company are not material to the total spirits and wine segment.

Spirits and wine revenues were adversely affected by difficult market conditions in Asia Pacific and the impact of unfavorable foreign exchange. Attributed revenues declined nine percent to \$4.8 billion, while reported revenues were eight percent weaker than last year at \$4.7 billion. Excluding the impact of unfavorable foreign exchange, attributed and reported revenues would have declined five percent and four percent, respectively, versus last year. EBITDA decreased 20 percent, before the charge for Asia, to \$650 million. Excluding the impact of unfavorable foreign exchange, EBITDA would have decreased 10 percent. EBITDA, before the charge, as a percent of attributed revenues declined from 15.4 percent to 13.7 percent reflecting the shortfall in the Asian market, where predominantly higher margin products are sold.

Spirits and wine case volumes decreased one percent in fiscal year 1998 as the performance of the Company's global brands was mixed. Volumes in North America were strong, in particular for Crown Royal Canadian Whisky, for which shipments grew

### Spirits and Wine Attributed Revenues by Geographic Region

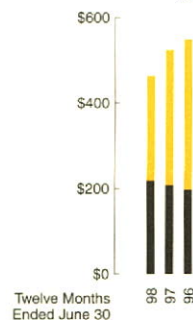
Twelve Months Ended June 30



### Spirits and Wine Brand Support

U.S. Dollars in Millions

Brand Equity  
Other Marketing



seven percent, and Captain Morgan Rum, for which volumes increased 22 percent. ABSOLUT VODKA, which the Company distributes in major international markets, had a four percent increase in shipments. Shipments of several global brands declined due to the market conditions in Asia, including Chivas Regal Scotch Whisky, Martell Cognac and Royal Salute Scotch Whisky.

The \$160 million EBITDA decrease, before the charge, is due to lower revenues and margins in Asia and the impact of unfavorable foreign exchange. 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. EBITDA for the Americas increased nine percent, driven by North America which had higher revenues and margin increases due to improved mix and sustained price increases. EBITDA in Latin America was essentially even with last year. EBITDA for Europe & Africa declined one percent, but would have increased seven percent excluding the impact of unfavorable foreign exchange. Key growth markets in Europe included the U.K. and Spain.

In the fiscal year ended June 30, 1998, attributed revenues and EBITDA generated in North America accounted for 42 percent and 60 percent of total attributed revenues and EBITDA, respectively. Europe & Africa accounts for 34 percent of spirits and wine attributed revenues and 28 percent of EBITDA. Reflecting the difficult market conditions this year, Asia Pacific's contribution declined to 13 percent of the total attributed revenues and only one percent of EBITDA. Latin America accounts for the remaining 11 percent of both attributed revenues and EBITDA. (This geographic breakdown, which is used by management to measure the performance of marketing affiliates, assigns sales to the region in which the purchaser is located, includes the Company's proportionate share of the revenues and EBITDA of equity company affiliates and is before one-time charges. The geographic data contained in Note 14 of the Notes to the Consolidated Financial Statements for the fiscal year ended June 30, 1998 include the Company's other operations, and are based upon the location of the legal entity which invoices the sale.)

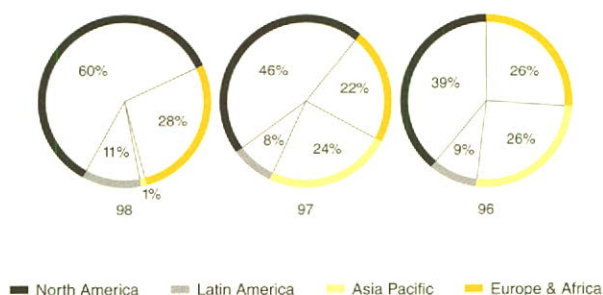
Despite the revenue and EBITDA decline, the Company continued to invest for future growth by supporting its brands in key markets. While total brand spending declined 12 percent, or approximately three percent at constant exchange rates, due to the volume shortfall, brand equity spending rose four percent. The brand equity growth reflects an increased emphasis on the consumer and is focused behind core strategic brands in North America, particularly Crown Royal Canadian Whisky and ABSOLUT VODKA, and in Europe.

In the second quarter of the fiscal year ended June 30, 1998, the Company recorded a \$60 million charge related to its operations in Asia. 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. After giving effect to this charge, EBITDA was \$590 million compared with \$810 million in the prior fiscal year.

Depreciation and amortization of assets was \$96 million in fiscal year 1998 and \$101 million in fiscal year 1997. Amortization of goodwill was \$23 million and \$22 million in the fiscal years 1998 and 1997, respectively. Spirits and wine capital

#### Spirits and Wine EBITDA by Geographic Region\*

Twelve Months Ended June 30



\*1998 excludes \$60 million charge for Asia operations; 1996 excludes \$274 million charge related to reengineering activities.

expenditures were \$170 million and \$187 million in fiscal years 1998 and 1997, respectively. Total assets were \$5,015 million at June 30, 1998.

## Entertainment

U.S. Dollars in Millions	Twelve Months Ended June 30,			Five Months Ended June 30,		Six Months Ended June 30,
	1998	1997	1996	1996	1995	1995
<b>Attributed Revenues</b>						
Filmed Entertainment	\$ 3,926	\$ 3,917	\$ 3,671	\$ 1,740	\$ 193	\$ 1,556
Music	1,529	1,500	1,205	537	85	589
Recreation and Other	984	1,097	1,075	495	88	448
<b>Attributed Revenues</b>	<b>\$ 6,439</b>	<b>\$ 6,514</b>	<b>\$ 5,951</b>	<b>\$ 2,772</b>	<b>\$ 366</b>	<b>\$ 2,593</b>
Gain on sale of Putnam	—	64	—	—	—	—
Adjustment for equity companies	(1,395)	(985)	(839)	(412)	(65)	(372)
<b>Reported Revenues</b>	<b>\$ 5,044</b>	<b>\$ 5,593</b>	<b>\$ 5,112</b>	<b>\$ 2,360</b>	<b>\$ 301</b>	<b>\$ 2,221</b>
<b>EBITDA</b>						
Filmed Entertainment	\$ 463	\$ 373	\$ 379	\$ 176	\$ 37	\$ 89
Music	90	72	24	(24)	11	75
Recreation and Other	159	158	147	44	18	75
<b>EBITDA</b>	<b>712</b>	<b>603</b>	<b>550</b>	<b>196</b>	<b>66</b>	<b>\$ 239</b>
Gain on sale of Putnam	—	64	—	—	—	—
Adjustment for equity companies	(178)	(97)	(92)	(47)	(11)	—
Depreciation and amortization	(371)	(328)	(284)	(148)	(23)	—
<b>Operating Income</b>	<b>\$ 163</b>	<b>\$ 242</b>	<b>\$ 174</b>	<b>\$ 1</b>	<b>\$ 32</b>	<b>\$ —</b>

Note: The Company's reported financial results for the five-month periods ended June 30, 1996 and 1995 include six months of Universal (from January 1, 1996 to June 30, 1996) and one month of Universal (from the acquisition date of June 5, 1995 to June 30, 1995), respectively. Universal's results for the six months ended June 30, 1995 are provided for comparative purposes.

## Entertainment

In the fiscal year ended June 30, 1998, Universal contributed \$5.0 billion to reported revenues, 10 percent less than the \$5.6 billion contributed in the prior fiscal year. Operating income declined to \$163 million compared with \$242 million in fiscal year 1997, which included the \$64 million gain on the sale of Putnam. Excluding the operating contribution of Putnam and the gain on the sale in the prior fiscal year, reported revenues decreased six percent, while operating income increased four percent.

**Filmed Entertainment** In fiscal year 1998, attributed revenues were essentially even with the prior year, while reported revenues decreased 12 percent. As a result of the USA Networks and USAi transactions, fiscal year 1998 attributed revenues and EBITDA include 50 percent of USA Networks from July 1, 1997 to October 21, 1997, 100 percent of USA Networks from October 22, 1997 to February 11, 1998 and the Company's 45.8 percent equivalent share of the earnings of USAi thereafter. Reported revenues declined, in spite of even attributed revenues, because of a higher equity company adjustment related to the Company's investment in USAi this year versus USA Networks last year. The motion picture group revenues, which accounted for approximately half of the \$3.9 billion of attributed revenues, declined substantially due to the disappointing box office performance of releases in fiscal year 1998, including *A Simple Wish*, *Primary Colors* and *Mercury Rising*.

EBITDA increased 24 percent to \$463 million. EBITDA as a percent of attributed revenues increased from 9.5 percent to 11.8 percent. EBITDA benefited from the USA Networks and USAi transactions as well as the strong performance of the USA cable networks, which had higher advertising and affiliate revenues. Motion picture group EBITDA declined due to the box office performance of current releases, which more than offset higher library sales and profitability.

## Entertainment Capital Expenditures

U.S. Dollars in Millions	Twelve Months Ended June 30,			Five Months Ended June 30, 1996
	1998	1997	1996	
Filmed Entertainment	\$ 94	\$ 44	\$ 52	\$ 33
Music	31	47	37	24
Recreation and Other	115	115	180	79
	<b>\$ 240</b>	<b>\$ 206</b>	<b>\$ 269</b>	<b>\$ 136</b>

Note: Capital expenditures for the five-month period ended June 30, 1996 include six months of Universal (from January 1, 1996 to June 30, 1996).

**Music** In fiscal year 1998, both attributed and reported revenues increased two percent. Major albums in release in 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 Company has also developed local artists including Rosana in Spain, Claudinho and Buchecha in Brazil and Molotov in Mexico.

Music EBITDA increased 25 percent to \$90 million. EBITDA as a percent of attributed revenues rose from 4.8 percent to 5.9 percent reflecting a better mix of releases on wholly-owned labels.

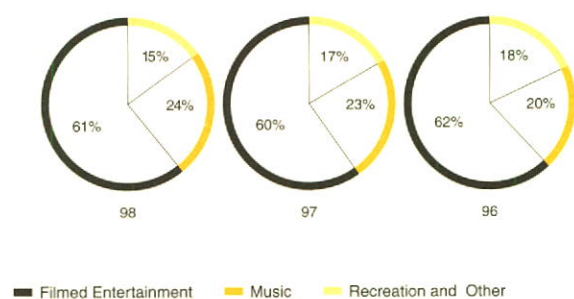
**Recreation and Other** Attributed revenues for recreation and other declined 10 percent while reported revenues declined 15 percent. EBITDA was essentially even at \$159 million. The comparison is impacted by the sale of Putnam during fiscal year 1997. Excluding the contribution of Putnam from the prior fiscal year, attributed revenues rose four percent, reported revenues increased three percent and EBITDA was 21 percent higher.

The EBITDA growth is primarily due to stronger results at Universal Studios Florida and improved contribution from new media ventures reflecting the success of the *Crash Bandicoot 2* video game. At Universal Studios Florida, a 50 percent-owned joint venture, per capita spending rose three percent, largely due to an increase in the price of admission. Paid attendance declined two percent. However, total turnstile attendance rose nine percent, driven by a promotion for second-day-free admission. The promotion resulted in higher revenues and margins at the theme park. 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 which benefited from the opening of *Jurassic Park – The Ride* in June 1996.

Spencer Gifts continued its strong performance during the fiscal year due to new store openings and a slight increase in comparable store sales. The Universal Studios new media group had strong video game sales, principally *Crash Bandicoot 2*, and reduced losses from the Company's equity investment in Interplay Productions.

## Universal Attributed Revenues by Business Segment

Twelve Months Ended June 30



**Fiscal Year Ended June 30, 1997 vs. Comparable Period Ended June 30, 1996** Reported revenues and attributed revenues of \$10.6 billion and \$11.8 billion, respectively, increased from \$10.2 billion and \$11.3 billion, respectively, in the prior period. Excluding the contribution of Putnam which was sold in December 1996, reported revenues and attributed revenues both increased five percent year-on-year. EBITDA was \$1.4 billion compared with \$1.0 billion in the prior period. Excluding the contribution of Putnam and a \$274 million pretax reengineering charge for spirits and wine operations in the prior period, EBITDA increased 10 percent. Spirits and wine EBITDA, excluding the reengineering charge in the prior period, was nine percent higher. Entertainment EBITDA was 13 percent above the prior period, excluding the contribution of Putnam.

Operating income, including a \$64 million pretax gain on the sale of Putnam, was \$781 million, up substantially from the prior year which included the \$274 million pretax reengineering charge for spirits and wine operations. Excluding the contribution of Putnam from both years and the reengineering charge last year, operating income rose nine percent year-on-year reflecting the growth in operations which was partially offset by higher depreciation and amortization and higher corporate expenses. The incremental depreciation and amortization principally resulted from higher goodwill amortization related to the Brillstein-Grey Entertainment, Interscope Records and Multimedia Entertainment acquisitions. The increase in corporate expenses to \$138 million is largely due to the increase in the market value of the Company's shares during the fiscal year ended June 30, 1997 which resulted in the recognition of additional expenses associated with stock-based compensation.

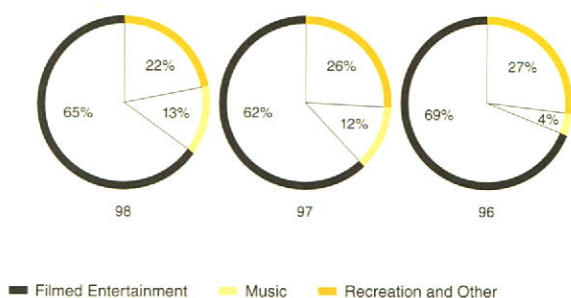
Interest, net and other in the fiscal year ended June 30, 1997 was net of the pretax gains on the sales of the DuPont warrants (\$60 million) and Time Warner shares (\$154 million). Net interest expense of \$247 million was also partially offset by \$40 million of dividend income from Time Warner and DuPont. In the twelve months ended June 30, 1996, net interest expense of \$277 million was partially offset by \$39 million of dividend income.

The underlying effective income tax rate for continuing operations (excluding one-time items) for the fiscal year ended June 30, 1997 was 38 percent compared with 41 percent in the comparable prior period. The income tax provision in fiscal 1997 also included \$21 million of taxes on the gain on the sale of the DuPont warrants, \$64 million of taxes on the gain on the sale of Putnam and \$54 million of taxes on the gain on the sale of Time Warner shares. In the comparable prior period, the income tax provision included a \$73 million benefit on the reengineering charge and a \$67 million benefit related to a settlement with the U.S. government regarding the recognition of a capital loss on the Company's 1981 exchange of shares of Conoco Inc. for common stock of DuPont.

Income from continuing operations was \$445 million or \$1.20 per share (basic and diluted) in the fiscal year ended June 30, 1997, compared with \$100 million or \$0.26 per share (basic and diluted) in the comparable prior period. Excluding the after-tax gains on the sales of the DuPont warrants and Time Warner shares, income from continuing operations in fiscal year 1997 was \$306 million or \$0.82 per share (basic and diluted). In the comparable prior period, excluding the reengineering charge and the benefit associated with the tax settlement, income from continuing operations was \$234 million or \$0.63 per basic share and \$0.61 on a diluted basis.

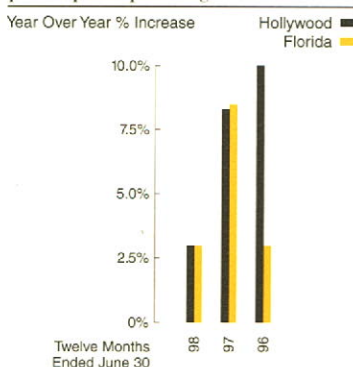
#### Universal Attributed EBITDA by Business Segment

Twelve Months Ended June 30



#### Universal Theme Park per Capita Spending

Year Over Year % Increase



Income from discontinued Tropicana operations, after tax, was \$57 million or \$0.16 per basic share and \$0.15 per diluted share in the fiscal year ended June 30, 1997, compared with \$42 million or \$0.11 per share (basic and diluted) in the comparable prior period. Reported revenues from discontinued operations were \$1.9 billion in the fiscal year ended June 30, 1997 and \$1.8 billion in the comparable prior period. Operating income was \$152 million in the fiscal year ended June 30, 1997 and \$120 million in the comparable prior period. Results of discontinued operations include allocations of consolidated interest expense totaling \$41 million and \$38 million in the twelve months ended June 30, 1997 and 1996, respectively. The allocations were based on the ratio of net assets of discontinued operations to consolidated net assets.

Net income including discontinued operations was \$502 million or \$1.36 per basic share and \$1.35 per diluted share in the fiscal year ended June 30, 1997, compared with \$142 million or \$0.37 per share (basic and diluted) in the comparable prior period.

### **Spirits and Wine**

Attributed revenues declined two percent to \$5.2 billion, while reported revenues were one percent weaker than the comparable prior period at \$5.05 billion. Excluding the impact of unfavorable foreign exchange, revenues would have been essentially even with the comparable prior period. Spirits and wine case volumes decreased two percent in fiscal year 1997 as the performance of the Company's global brands was mixed. EBITDA increased nine percent to \$810 million from \$746 million before the reengineering charge, driven largely by strong North American performance. The foreign exchange impact on EBITDA was negligible.

The \$64 million EBITDA increase, before the reengineering charge in the prior period, reflected significant growth in the Americas and was driven by strong volumes in North America and improvement in key Latin American markets. EBITDA for Europe & Africa declined seven percent primarily due to the difficult conditions in the German and Italian markets. In Asia Pacific, EBITDA declined five percent.

### **Entertainment**

In the fiscal year ended June 30, 1997, Universal contributed \$5.6 billion to reported revenues, up nine percent from the \$5.1 billion contributed in the comparable prior period. Operating income, including the \$64 million gain on the sale of Putnam, rose 39 percent to \$242 million in fiscal year 1997. Excluding the operating contribution of Putnam and the gain on the sale, reported revenues and operating income increased 12 percent and four percent, respectively.

*Filmed Entertainment* In fiscal year 1997, attributed revenues increased seven percent and reported revenues increased six percent. EBITDA declined slightly to \$373 million. The motion picture group's EBITDA was down, despite the successful theatrical release of *The Nutty Professor*, *Liar Liar* and *The Lost World: Jurassic Park*, due to several disappointing releases and a one-time charge associated with the termination of The Bubble Factory production deal. The EBITDA of USA Networks (50 percent-owned at June 30, 1997) and the television group were essentially even with the prior comparable period.

*Music* Attributed revenues and reported revenues increased 24 percent and 22 percent, respectively. The results reflect a considerably improved chart position. Major albums in release in 1997 included those by No Doubt, Bush, BLACKstreet, The Wallflowers, Counting Crows and Nirvana. Music EBITDA tripled to \$72 million.

*Recreation and Other* Attributed revenues for recreation and other increased two percent while reported revenues decreased three percent. EBITDA increased seven percent to \$158 million. Excluding the contribution of Putnam from both periods, attributed revenues rose over 20 percent, reported revenues increased 18 percent and EBITDA climbed 22 percent. The recreation group's strong growth was driven by the successful opening of two new attractions: *Jurassic Park – The Ride* at Universal Studios Hollywood in June 1996, and *Terminator 2: 3-D* at Universal Studios Florida, its 50 percent-owned joint venture, in May 1996. Attendance and per capita spending rose at both theme parks.

**Transition Period vs. Comparable Period Ended June 30, 1995** Revenues were significantly higher than the comparable prior period reflecting the timing of the closing of the Universal acquisition in June 1995. EBITDA increased 33 percent to \$440 million in the Transition Period. Entertainment EBITDA was \$196 million compared with \$66 million in the prior period, which represented one month of Universal results. Operating income declined to \$128 million in the Transition Period reflecting a substantial increase in the depreciation and amortization expense associated with the Universal acquisition.

Interest, net and other in the Transition Period was \$99 million, \$43 million higher than in the five months ended June 30, 1995. The prior period was net of \$76 million of interest income largely earned from the temporary investment of the full proceeds from the DuPont redemption from April 1995 until the funding of the Universal acquisition in June 1995.

The income tax provision in the Transition Period included the \$67 million benefit related to a settlement with the U.S. government regarding the 1981 exchange of shares of Conoco Inc. for common stock of DuPont. Excluding this tax benefit, the effective income tax rate of 117 percent was significantly higher than the prior period rate of 33 percent because of the non-deductibility of the goodwill amortization associated with the Universal acquisition and lower taxable earnings.

Income from continuing operations was \$67 million or \$0.18 per share (basic and diluted) in the Transition Period. Excluding the \$67 million benefit associated with the tax settlement, income from continuing operations was breakeven. In the five months ended June 30, 1995, income from continuing operations was \$107 million or \$0.29 per share (basic and diluted).

Income from discontinued Tropicana operations, after tax, was \$18 million or \$0.05 per share (basic and diluted) in the Transition Period, compared with \$10 million or \$0.03 per share (basic and diluted) in the five months ended June 30, 1995. Reported revenues from discontinued operations were \$762 million in the Transition Period and \$622 million in the five months ended June 30, 1995 comparable prior period. Operating income was \$51 million in the Transition Period and \$36 million in the five months ended June 30, 1995. Results of discontinued operations include allocations of consolidated interest expense totaling \$15 million and \$17 million in the five months ended June 30, 1996 and 1995, respectively. The allocations were based on the ratio of net assets of discontinued operations to consolidated net assets.

Due to the redemption of most of the Company's DuPont shares on April 6, 1995, the Company discontinued accounting for its investment in DuPont under the equity method effective February 1, 1995. Earnings related to the DuPont investment are presented as discontinued activities in the prior period and include a \$3.2 billion after-tax gain on the redemption of the 156 million shares and \$68 million of after-tax dividend income earned on such shares prior to the redemption transaction.

Net income including discontinued operations was \$85 million or \$0.23 per share (basic and diluted) in the Transition Period compared with \$3.3 billion or \$8.99 per basic share and \$8.92 per diluted share for the five-month period ended June 30, 1995.

### **Spirits and Wine**

In the Transition Period, spirits and wine attributed revenues grew five percent to \$2.0 billion and reported revenues increased six percent to \$1.9 billion largely driven by improvement in Europe. In the Transition Period, EBITDA decreased eight percent to \$244 million primarily reflecting a decline in North America, which more than offset improvement in Europe & Africa and a substantial recovery in several Latin American affiliates. Asia Pacific's results were essentially unchanged. Spirits and wine case volumes rose almost four percent in the Transition Period, as most of the Company's key premium brands grew.

### **Entertainment**

In the Transition Period, which includes Universal results from January 1, 1996 to June 30, 1996, Universal contributed \$2.4 billion to reported revenues and \$1 million to operating income, after significant amortization and depreciation expense. In the period ended June 30, 1995, the Company's results included one month of Universal from the acquisition date of June 5, 1995 until June 30, 1995. During that time, Universal had reported revenues of \$301 million and operating income of \$32 million. In order to provide a basis of comparison, the discussion that follows is based upon Universal results for the six months ended June 30, 1996 compared with the results for the six months ended June 30, 1995.

*Filmed Entertainment* In the six-month period ended June 30, 1996, attributed revenues and reported revenues each rose 12 percent and EBITDA almost doubled to \$176 million versus the prior period. The motion picture group was driven by higher worldwide profits from prior year releases, particularly *Babe* and *Casper*. The television group had improved results mainly because of the cancellation of several series which were in a deficit position. EBITDA of USA Networks (50 percent-owned at June 30, 1996) was essentially even with the prior period.

*Music* In the six-month period ended June 30, 1996, attributed and reported revenues each declined nine percent, while EBITDA was a loss of \$24 million compared to income of \$75 million in the comparable prior period. Lower revenues and EBITDA reflect difficult comparisons with the prior period as the six months ended June 30, 1995 included significant carryover business from the very strong fourth quarter of 1994. EBITDA was affected by a substantial investment program in 1996, which

included increased spending for international expansion and investment in new artists and label ventures including Universal Records and Rising Tide/Nashville, and the acquisition of a 50 percent interest in Interscope Records.

*Recreation and Other* Attributed revenues increased 10 percent and reported revenues increased eight percent during the six-month period ended June 30, 1996 but EBITDA declined from \$75 million to \$44 million. Attendance and per capita spending at both theme parks were higher in the period ended June 30, 1996 than the prior period. This is due in part to the successful openings of *Terminator 2: 3-D* at Universal Studios Florida, the Company's 50 percent-owned joint venture, in May 1996 and *Jurassic Park – The Ride* at Universal Studios Hollywood in June 1996. Recreation EBITDA was down substantially due largely to higher marketing spending and the timing of that spending in advance of the new attractions which opened comparatively late in the period.

### **Liquidity, Capital Resources and Market Risk**

The Company's financial position strengthened during the fiscal year ended June 30, 1998. Total current assets increased to \$7.0 billion at June 30, 1998 from \$6.1 billion at June 30, 1997. The increase is primarily due to additional cash and short-term investments of \$684 million resulting from the proceeds received from the USAi transaction and the sale of the remaining Time Warner shares, offset in part by the use of funds for share repurchases. Current liabilities of \$4.7 billion at June 30, 1998 were \$1.6 billion higher than at June 30, 1997 largely due to an increase in short-term borrowings to fund the \$1.7 billion acquisition of the incremental 50 percent share of USA Networks. Shareholders' equity was \$9.3 billion at June 30, 1998 compared to \$9.4 billion at June 30, 1997. The Company's total long- and short-term debt, net of cash and short-term investments, increased to \$2.7 billion at June 30, 1998 from \$2.2 billion at June 30, 1997. The Company's ratio of net debt to total capitalization (including minority interest) increased from 16 percent to 19 percent, reflecting the higher debt outstanding.

In the fiscal year ended June 30, 1998, operating activities used cash of \$241 million, following net cash provided of \$664 million in the fiscal year ended June 30, 1997. The increased cash requirements in the 1998 fiscal year reflect reduced income from continuing operations (excluding the gains on the USAi transaction and the Time Warner share sales) and higher working capital requirements. The net cash used for operating activities is partially offset by significant non-cash charges such as depreciation and amortization of assets and amortization of excess of cost over fair value of assets.

Net cash provided by investing activities was \$699 million in fiscal year 1998. The net cash provided includes gross proceeds from the USAi transaction (\$1.3 billion) and the sales of 26.8 million Time Warner shares (\$1.9 billion). These cash proceeds were partially offset by the acquisition of the incremental 50 percent interest in USA Networks (\$1.7 billion) and capital expenditures of \$410 million: spirits and wine - \$170 million and entertainment - \$240 million. In addition, \$386 million of cash was used for sundry investments including investments in Doosan Seagram Co., Ltd., the Company's spirits and wine affiliate in Korea, Port Aventura, a theme park located in Spain, and Loews Cineplex Entertainment Corporation. In fiscal year 1997, net cash provided by investing activities was \$1.7 billion and included gross proceeds from the sale of 30 million Time Warner shares (\$1.39 billion), the sale of the DuPont warrants (\$500 million) and the sale of Putnam (\$330 million). These cash proceeds were partially offset by capital expenditures of \$393 million: spirits and wine - \$187 million and entertainment - \$206 million.

In the fiscal year ended June 30, 1998, the Company made dividend payments of \$231 million and used \$753 million to repurchase its common shares. Financing activities reflect an increase in short-term borrowings of \$1.1 billion used to finance the acquisition of the incremental 50 percent interest in USA Networks. The net result of the cash used for operating activities and the cash provided by investing activities and financing activities, was net cash provided by continuing operations of \$617 million. In the fiscal year ended June 30, 1998, the discontinued Tropicana operations provided cash of \$67 million resulting in an aggregate increase of \$684 million in cash and short-term investments. In the fiscal year ended June 30, 1997, continuing operations provided net cash of \$197 million and discontinued Tropicana operations provided net cash of \$16 million, reflected as a \$213 million increase in cash and short-term investments.

The Company has entered into an arrangement to sell to a third party substantially all films produced or acquired during the term of the agreement for amounts which approximate cost. The Company will serve as sole distributor and earn a distribution fee, which is variable and contingent upon the films' performance. In addition, the Company has the option to purchase the films at certain future dates.

The Company's working capital position is reinforced by available credit facilities of \$3 billion. These facilities are used to support the Company's commercial paper borrowings and are available for general corporate purposes. The acquisition of PolyGram will be partially financed through the sale of Tropicana, the after-tax proceeds of which are expected to be approximately \$3 billion. The Company expects to obtain the remaining funds for the acquisition from commercial bank borrowings,

the issuance of commercial paper and/or the sale of debt securities, the terms of which have yet to be determined. The Company believes its 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.

The Company is exposed to changes in financial market conditions in the normal course of its business operations due to its operations in different foreign currencies and its ongoing investing and funding activities. 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. The Company has established policies, procedures and internal processes governing its management of market risks and the use of financial instruments to manage its exposure to such risks.

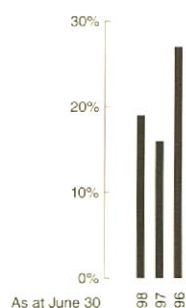
The Company is exposed to changes in interest rates primarily as a result of its borrowing and investing activities which include short-term investments and borrowings and long-term debt used to maintain liquidity and fund its business operations. The Company continues to utilize U.S. dollar-denominated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

The Company's operating cash flows denominated in foreign currency as a result of its international business activities and certain of its borrowings are exposed to changes in foreign exchange rates. The Company continually evaluates its foreign currency exposure (primarily British pound, French franc, German mark and Swiss franc), based on current market conditions and the business environment. In order to mitigate the effect of foreign currency risk, the Company engages in hedging activities. The magnitude and nature of such hedging activities are explained further in Note 10 to the financial statements.

The Company employs a variance/covariance approach in its 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 those interest rate sensitive exposures associated with the Company's exposure to interest rates at June 30, 1998 and the average VaR for the year then ended was \$11 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 the Company's exposure to foreign exchange rates, primarily to hedge cash flow exposures denominated in foreign currencies, was \$12 million at June 30, 1998 and the average VaR for the year then ended was \$5 million. These exposures include intercompany trade accounts, service fees, intercompany loans, third party debt and firm commitments related to the acquisition of PolyGram. The Company is 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.

#### Net Debt\* as a Percentage of Total Capital\*\*

U.S. Dollars in Millions



\*Net of cash and short-term investments

\*\*Net debt, Minority interest and Shareholders' equity

### Year 2000 Issue

The Company has a comprehensive program to address Year 2000 readiness in its internal systems and with its customers and suppliers. The Company's program addresses its most critical internal systems first and targets to have them Year 2000-compliant by July 1, 1999, the first day of the Company's fiscal year 2000. These activities are intended to encompass all major categories of information technology and non-information technology systems in use by the Company, including manufacturing, sales, finance and human resources. The costs incurred to date related to these programs have not been material. The Company currently estimates that the total costs of its Year 2000 readiness programs, excluding redeployed resources, will not exceed \$50 million. The total cost estimate does not include potential costs related to any customer or other claims or the costs of internal software or hardware replaced in the normal course of business. The total cost estimate is based on the current assessment of the Company's Year 2000 readiness needs and is subject to change as the program progresses.

The Company is communicating with its major customers, suppliers and financial institutions to determine the extent to which the Company is vulnerable to those third parties' failure to remedy their own Year 2000 issues. While some of the Company's major suppliers and customers contacted have confirmed that they anticipate being Year 2000-compliant on or before December 31, 1999, most of the customers, suppliers and financial institutions contacted have only indicated that they have Year 2000 readiness programs.

The Company currently expects that the Year 2000 issue will not pose significant operational problems. However, delays in the implementation of new systems, a failure to fully identify all Year 2000 dependencies in the Company's systems and in the systems of its suppliers, customers and financial institutions, or a failure of such third parties to adequately address their respective Year 2000 issues could have a material adverse effect on the Company's business, financial condition and results of operations. Therefore, the Company's Year 2000 Program includes the development of contingency plans for continuing operations in the event such problems arise. However, there can be no assurance that such contingency plans will be sufficient to handle all problems which may arise.

### Cautionary Statement Concerning Forward-Looking Statements

The statements in this Annual Report relating to matters that are not historical facts are forward-looking statements that are not guarantees of future performance and involve risks and uncertainties, including but not limited to future global economic conditions, foreign exchange rates, the actions of competitors and other factors beyond the control of the Company including, in the case of the Year 2000 issue, the actions of customers, suppliers and financial institutions.

### Quarterly High and Low Share Prices

	Fiscal Years Ended June 30,				Five Month Period Ended June 30,		Fiscal Year Ended January 31,	
	1998		1997		1996		1996	
	High	Low	High	Low	High	Low	High	Low
New York Stock Exchange								
First Quarter	US\$ 41%	US\$ 33 <sup>1</sup> / <sub>6</sub> %	US\$ 38%	US\$ 30%	US\$ 38%	US\$ 31%	US\$ 32%	US\$ 25%
Second Quarter	37%	30%	41%	35%	36%	32%	36%	26%
Third Quarter	39%	31%	42%	38			38%	34%
Fourth Quarter	46 <sup>1</sup> / <sub>6</sub> %	36 <sup>1</sup> / <sub>6</sub> %	41%	35%			39%	34%
Canadian Stock Exchange								
First Quarter	C\$ 56.70	C\$ 46.45	C\$ 52%	C\$ 42%	C\$ 52%	C\$ 43%	C\$ 45%	C\$ 35%
Second Quarter	52.30	43.25	57%	47%	49%	44%	50	36%
Third Quarter	56.50	44.70	57%	51%			52	46%
Fourth Quarter	67.50	52.65	58%	50			53%	46%

### Return to Shareholders

The Company had 7,167 registered shareholders at August 15, 1998. The Company's common shares are listed on the New York, Toronto, Montreal, Vancouver and London Stock Exchanges. Closing prices at June 30, 1998, on the New York and Toronto Stock Exchanges were \$40.94 and C\$59.95, respectively.

In the fiscal year ended June 30, 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. In the Transition Period and the year ended January 31, 1996, dividends paid were \$0.15 per share per quarter. Dividends paid to shareholders totaled \$231 million and \$239 million in fiscal years 1998 and 1997, respectively, \$112 million in the Transition Period and \$224 million in the year ended January 31, 1996.

## consolidated statement of income

	Fiscal Years Ended June 30,		Transition Period Ended June 30,	Fiscal Year Ended January 31,
U.S. Dollars in Millions, Except Per Share Amounts	1998	1997	1996	1996
Revenues	\$ 9,714	\$ 10,644	\$ 4,251	\$ 8,052
Cost of revenues	5,630	6,369	2,671	4,865
Selling, general and administrative expenses	3,576	3,494	1,452	2,705
Operating income	508	781	128	482
Interest, net and other	(1,058)	(7)	99	195
	1,566	788	29	287
Provision (benefit) for income taxes	638	331	(33)	121
Minority interest charge (credit)	48	12	(5)	22
Income from continuing operations	880	445	67	144
Income from discontinued Tropicana operations, after tax	66	57	18	30
Discontinued DuPont activities:				
Dividends, after tax	—	—	—	68
Gain on redemption of 156 million shares, after tax	—	—	—	3,164
	—	—	—	3,232
Net Income	\$ 946	\$ 502	\$ 85	\$ 3,406
<b>Earnings per share – basic</b>				
Income from continuing operations	\$ 2.51	\$ 1.20	\$ .18	\$ .38
Discontinued Tropicana operations, after tax	.19	.16	.05	.08
Discontinued DuPont activities, after tax	—	—	—	8.67
Net Income	\$ 2.70	\$ 1.36	\$ .23	\$ 9.13
<b>Earnings per share – diluted</b>				
Income from continuing operations	\$ 2.49	\$ 1.20	\$ .18	\$ .38
Discontinued Tropicana operations, after tax	.19	.15	.05	.08
Discontinued DuPont activities, after tax	—	—	—	8.54
Net Income	\$ 2.68	\$ 1.35	\$ .23	\$ 9.00

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

# consolidated balance sheet

U.S. Dollars in Millions	June '90, 1998	June '90, 1997
<b>ASSETS</b>		
Current Assets		
Cash and short-term investments at cost	\$ 1,174	\$ 490
Receivables, net	2,155	1,781
Inventories	2,555	2,584
Film costs, net of amortization	175	387
Deferred income taxes	282	512
Prepaid expenses and other current assets	630	377
<b>Total Current Assets</b>	<b>6,971</b>	<b>6,131</b>
Common stock of DuPont	1,228	1,034
Common stock of USAi	306	—
Common stock of Time Warner	—	1,291
Film costs, net of amortization	1,272	991
Artists' contracts, advances and other entertainment assets	761	645
Property, plant and equipment, net	2,733	2,559
Investments in unconsolidated companies	3,437	2,097
Excess of cost over fair value of assets acquired	3,076	3,355
Deferred charges and other assets	661	610
Net assets of discontinued Tropicana operations	1,734	1,734
	<b>\$ 22,179</b>	<b>\$ 20,447</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Short-term borrowings and indebtedness payable within one year	\$ 1,653	\$ 239
Accrued royalties and participations	702	726
Payables and accrued liabilities	2,068	1,818
Income and other taxes	286	304
<b>Total Current Liabilities</b>	<b>4,709</b>	<b>3,087</b>
Long-term indebtedness	2,225	2,478
Accrued royalties and participations	421	339
Deferred income taxes	2,598	2,426
Other credits	995	844
Minority interest	1,915	1,851
Shareholders' Equity		
Shares without par value	848	809
Cumulative currency translation adjustments	(499)	(427)
Cumulative gain on equity securities, after tax	699	781
Retained earnings	8,268	8,259
<b>Total Shareholders' Equity</b>	<b>9,316</b>	<b>9,422</b>
	<b>\$ 22,179</b>	<b>\$ 20,447</b>

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

Approved by the Board

  
Edgar M. Bronfman  
Director

  
C.E. Medland  
Director

# consolidated statement of cash flows

U.S. Dollars in Millions	Fiscal Years Ended June 30, 1998	1997	Transition Period Ended June 30, 1996	Fiscal Year Ended January 31, 1996
<b>OPERATING ACTIVITIES</b>				
Income from continuing operations	\$ 880	\$ 445	\$ 67	\$ 144
Adjustments to reconcile income from continuing operations to net cash provided:				
Depreciation and amortization of assets	289	290	134	201
Amortization of excess of cost over fair value of assets acquired	208	165	73	86
Gain on sale of Time Warner shares, DuPont warrants and Putnam, before tax	(926)	(278)	-	-
Gain on USAi transaction, before tax	(360)	-	-	-
Minority interest charged (credited) to income	48	12	(5)	22
Sundry	(49)	128	-	11
Changes in assets and liabilities:				
Receivables, net	(324)	(238)	540	(145)
Inventories	14	6	(65)	(130)
Film costs, net of amortization	(246)	(306)	(102)	(42)
Prepaid expenses and other current assets	(278)	(59)	(60)	(30)
Artists' contracts, advances and other entertainment assets	(88)	(2)	1	66
Payables and accrued liabilities	(53)	357	(248)	115
Income and other taxes payable	46	156	56	(106)
Deferred income taxes	447	(53)	(4)	26
Other credits	151	41	(72)	4
	(1,121)	219	248	78
Net cash (used for) provided by operating activities	(241)	664	315	222
<b>INVESTING ACTIVITIES</b>				
Capital expenditures	(410)	(393)	(245)	(349)
Proceeds from sale of Time Warner shares, DuPont warrants and Putnam	1,863	2,217	-	-
Acquisition of 50% interest in USA Networks	(1,700)	-	-	-
Proceeds from USAi transaction	1,332	-	-	-
Investment in Interscope Records	-	-	(200)	-
Investment in Brillstein-Grey Entertainment	-	-	(81)	-
Discontinued DuPont activities:				
Dividends, net of taxes paid	-	-	-	68
Proceeds from redemption of shares, net of taxes paid	-	-	-	7,729
Purchase of 80 percent interest in Universal	-	-	-	(5,523)
Sundry	(386)	(116)	(65)	(14)
Net cash provided by (used for) investing activities	699	1,708	(591)	1,911
<b>FINANCING ACTIVITIES</b>				
Dividends paid	(231)	(239)	(112)	(224)
Issuance of shares upon exercise of stock options and conversion of LYONs	86	107	20	72
Shares purchased and retired	(753)	(416)	(68)	(18)
Increase in long-term indebtedness	41	3	36	214
Decrease in long-term indebtedness	(37)	(29)	(341)	(251)
Increase (decrease) in short-term borrowings and indebtedness payable within one year	1,053	(1,601)	914	(1,595)
Net cash provided by (used for) financing activities	159	(2,175)	449	(1,802)
Net cash provided by continuing operations	617	197	173	331
Net cash provided by (used for) discontinued Tropicana operations	67	16	(126)	(249)
<b>Net increase in cash and short-term investments</b>	<b>\$ 684</b>	<b>\$ 213</b>	<b>\$ 47</b>	<b>\$ 82</b>

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 Number (Thousands)	Amount	Cumulative Currency Translation Adjustments	Cumulative Gain (Loss) on Equity Securities	Retained Earnings
<b>January 31, 1995</b>	372,537	\$ 638	\$ (359)	\$ (85)	\$ 5,315
Fiscal year ended January 31, 1996					
Net income					3,406
Dividends paid (\$.60 per share)					(224)
Change in currency translation adjustments			91		
Change in market value of equity securities, net of \$265 tax				492	
Shares issued – exercise of stock options	2,056	57			
– conversion of LYONs	550	15			
Shares purchased and retired	(681)	(1)			(17)
<b>January 31, 1996</b>	374,462	709	(268)	407	8,480
Transition Period ended June 30, 1996					
Net income					85
Dividends paid (\$.30 per share)					(112)
Change in currency translation adjustments			22		
Change in market value of equity securities, net of \$38 tax benefit				(70)	
Shares issued – exercise of stock options	612	18			
– conversion of LYONs	57	2			
Shares purchased and retired	(2,072)	(4)			(64)
<b>June 30, 1996</b>	373,059	725	(246)	337	8,389
Fiscal year ended June 30, 1997					
Net income					502
Dividends paid (\$.645 per share)					(239)
Change in currency translation adjustments			(181)		
Change in market value of equity securities, net of \$239 tax				444	
Shares issued – exercise of stock options	3,243	98			
– conversion of LYONs	296	9			
Shares purchased and retired	(11,317)	(23)			(393)
<b>June 30, 1997</b>	365,281	809	(427)	781	8,259
Fiscal year ended June 30, 1998					
Net income					946
Dividends paid (\$.66 per share)					(231)
Change in currency translation adjustments			(72)		
Change in market value of equity securities, net of \$44 tax benefit				(82)	
Shares issued – exercise of stock options	2,751	84			
– conversion of LYONs	48	2			
Shares purchased and retired	(20,948)	(47)			(706)
<b>June 30, 1998</b>	347,132	\$ 848	\$ (499)	\$ 699	\$ 8,268

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

## summary of significant accounting policies

**The Seagram Company Ltd.** operates in two global business segments: spirits and wine and entertainment. The spirits and wine businesses are engaged principally in the production and marketing of distilled spirits, wines, coolers, beers and mixers. The entertainment company, Universal Studios, Inc. ("Universal"), produces and distributes motion picture, television and home video products and recorded music; and operates theme parks and retail stores.

More than 50 percent of the Company's shares are held by U.S. residents and, therefore, the Company has prepared its consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP) which, in their application to the Company, conform in all material respects to Canadian GAAP. Differences between U.S. and Canadian GAAP and the magnitude thereof are discussed in Note 19. Should a material difference arise in the future, financial statements will be provided under both U.S. and Canadian GAAP.

**Principles of Consolidation** The consolidated financial statements include the accounts of The Seagram Company Ltd. and its subsidiaries. The equity method is used to account for unconsolidated affiliates owned 20 percent or more. In conformity with GAAP, management has made estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

**Foreign Currency Translation** Except for operations in highly inflationary economies, affiliates outside the U.S. operating in the spirits and wine segment 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. Affiliates outside the U.S. operating in the entertainment segment principally use the U.S. dollar as the functional currency.

**Inventories** Inventories are stated at cost, which is not in excess of market, and consist principally of spirits and wines. The cost of spirits and wines inventories is determined by either the last-in, first-out (LIFO) method or the identified cost method. The cost of music, retail and home video inventories is determined by the first-in, first-out (FIFO) method.

In accordance with industry practice, current assets include spirits and wines which, in the Company's normal business cycle, are aged for varying periods of years.

### Revenues and Costs

**Film** 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. Generally, television films from the Company's library are licensed for domestic and foreign syndication, cable or pay television and home video.

Revenues from the theatrical 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. Revenues from the sale of home video product, net of provision for estimated returns and allowances, are recognized upon availability of product for retail sale.

Generally, the estimated ultimate costs of completed theatrical and television film productions (including applicable capitalized overhead) are amortized and participation expenses are accrued for each production in the proportion of revenue recognized by the Company during the year to the total estimated future revenue to be received from all sources, under the individual film forecast method. Estimated ultimate revenues and costs are reviewed quarterly and revisions to amortization rates or write-downs to net realizable value may occur.

Film costs, net of amortization, classified as current assets include the portion of unamortized costs of completed theatrical films allocated to theatrical, home video and pay television distribution markets. The allocated portion of released film costs expected to be realized from secondary markets or other exploitation is reported as a noncurrent asset. 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. Generally, abandoned story and development costs are charged to film production overhead. Film costs are stated at the lower of unamortized cost or estimated net realizable value as periodically determined on a film-by-film basis. Approximately \$300 million of the cost of the Universal acquisition was allocated to the film library and is being amortized on a straight-line basis principally over a 20-year life.

**Recorded Music** Revenues from the sale of recorded music, net of provision for estimated returns and allowances, are recognized upon shipment. 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 recouped from royalties to be earned. Approximately \$400 million of the cost of the Universal acquisition was allocated to artists' contracts, music catalogs and copyrights and is being amortized, on an accelerated basis, over a 14- to 20-year life.

**Property, Plant and Equipment** Property, plant and equipment is carried at cost. Depreciation is determined for financial reporting purposes using the straight-line method over estimated useful asset lives, generally at annual rates of 2–10 percent for buildings, 4–33 percent for machinery and equipment and 2–20 percent for other assets.

**Excess of Cost Over Fair Value of Assets Acquired and Other Intangible Assets** The unallocated excess of cost of purchased businesses over the fair value of assets acquired, the excess of investments in unconsolidated companies over the underlying equity in tangible net assets acquired and other intangible assets are being amortized on a straight-line basis over various periods from six to 40 years from the date of acquisition. The Company reviews the carrying value of goodwill for impairment 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 of the goodwill to the net carrying value of goodwill.

**Income Taxes** 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. Deferred taxes are not provided for that portion of undistributed earnings of foreign subsidiaries which is considered to be permanently reinvested.

**Benefit Plans** Retirement pensions are provided for substantially all of the Company's employees through either 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; pension benefits under defined benefit plans generally are based on years of service and compensation levels near the end of employee service. 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. 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 postemployment benefits.

**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.

**Financial Instruments** The Company occasionally 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 through currency forwards and options 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.

**Comprehensive Income** The Company will adopt FAS 130, *Reporting Comprehensive Income*, in its fiscal year beginning July 1, 1998. The consolidated statement of shareholders' equity will be expanded to include all components of comprehensive income required to be disclosed in accordance with FAS 130.

**Start-Up Costs** The Accounting Standards Executive Committee recently issued 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. Initial adoption of this SOP should be reported as a cumulative effect of a change in accounting principle. The Company is still evaluating the impact of adopting this pronouncement.

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

## notes to consolidated financial statements

### NOTE 1 Discontinued Tropicana Operations

Discontinued Tropicana operations is composed of the business of Tropicana Products, Inc. and the Company's global fruit juice business ("Tropicana"). Tropicana produces, markets and distributes *Tropicana*, *Dole*\* and other branded fruit juices and juice beverages. On August 25, 1998, the Company completed the sale of Tropicana for approximately \$3.3 billion in cash. Proceeds from the sale will be used to partially fund the acquisition of PolyGram N.V. ("PolyGram") described in Note 2, currently scheduled to close during the second quarter of the Company's fiscal year ending June 30, 1999.

Commencing in June 1998, the Company, together with its subsidiaries and affiliates, began transferring to Tropicana Products, Inc. all shares of subsidiaries and other assets and liabilities of the Company's juice business that had not previously been owned by Tropicana Products, Inc. Certain assets relating to the business of Tropicana which, in the aggregate, are not material to Tropicana's business continue to be held by the Company or its affiliates after the closing date, pending receipt of consents or approvals or satisfaction of other applicable requirements necessary for the transfer of such assets.

Summarized below is the Tropicana financial information:

Millions	Fiscal Years Ended June 30, 1998	1997	Transition Period Ended June 30, 1996	Fiscal Year Ended January 31, 1996
Revenues	\$ 1,986	\$ 1,916	\$ 762	\$ 1,695
Cost of revenues	1,394	1,314	515	1,257
Selling, general and administrative expenses	423	450	196	336
Operating income	169	152	51	102
Interest expense	39	41	15	40
Provision for income taxes	64	54	18	32
Income from discontinued operations	\$ 66	\$ 57	\$ 18	\$ 30

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

Millions	1998	June 30, 1997
Current assets	\$ 546	\$ 588
Noncurrent assets	1,622	1,551
	\$ 2,168	\$ 2,139
Current liabilities	\$ 322	\$ 285
Noncurrent liabilities	112	120
Shareholders' equity	1,734	1,734
	\$ 2,168	\$ 2,139

On May 19, 1995, Tropicana acquired the worldwide juice and juice beverage business of Dole Food Company, Inc. ("Dole") for \$276 million. The transaction excluded Dole's canned pineapple juice business. The reported operating results for the fiscal year ended January 31, 1996 reflect the results of operations of the acquired business from the acquisition date. The acquisition has been accounted for under the purchase method of accounting and is included in discontinued Tropicana operations presented in the consolidated results of the Company. The cost of the acquisition has been allocated on the basis of the estimated fair market value of the assets acquired and liabilities assumed. This valuation resulted in \$134 million of unallocated excess cost over fair value of assets acquired which is being amortized over 40 years.

\*The Dole brand name is licensed from Dole.

## **NOTE 2 Acquisition of PolyGram**

On June 22, 1998, the Company announced that it had signed definitive agreements with Koninklijke Philips Electronics N.V. ("Philips") and PolyGram to acquire PolyGram in a transaction valued at approximately \$10.4 billion. The Company has agreed to make a tender offer for all issued shares, including Philips' 75 percent interest in PolyGram and publicly-held shares, for NLG115, or approximately U.S. \$57 per share in cash or, at the shareholders' election, for a mixture of cash and the Company's common shares, based on an exchange ratio of 1.3772 Company shares for each PolyGram share. The agreements relating to this proposed transaction call for the Company to issue a maximum of approximately 47.9 million common shares (12 percent of the common shares outstanding after the transaction), or \$2 billion in value. Philips has agreed to tender all its PolyGram shares into the Company's tender offer, acquire as many of the Company's shares as may be available to it in the tender offer (taking into account the election by the public shareholders), and hold its shares of the Company for no less than two years.

The PolyGram transaction, which is subject to the receipt of certain regulatory approvals, is expected to close during the second quarter of the Company's fiscal year ending June 30, 1999.

## **NOTE 3 Purchase of USA Networks and Combination with USA Networks, Inc. ("USAi"), Formerly HSN, Inc.**

On September 22, 1997, the Company and Viacom Inc. ("Viacom") announced their agreement to resolve all litigation regarding jointly-owned USA Networks. Under the terms of the agreement, Universal, on October 21, 1997, acquired Viacom's 50% interest in USA Networks, including the Sci-Fi Channel, for \$1.7 billion in cash. 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 valuation resulted in \$1.6 billion of unallocated excess of cost over fair value of assets acquired which was being amortized over 40 years.

The minority shareholder in Universal Studios Holding I Corp. ("Universal Holding"), Matsushita Electric Industrial Co., Ltd. ("Matsushita"), declined to contribute the additional capital required to fund its proportionate share of this acquisition. As a result, the Company's ownership of Universal Holding has increased from 80 percent to approximately 84 percent.

On February 12, 1998, Universal sold its acquired 50 percent interest in USA Networks to USAi and contributed its original 50 percent interest in USA Networks and the majority of its television assets, including substantially all of its domestic operations and 50 percent of the international operations of USA Networks, to USANi LLC (the "LLC") in a transaction ("USAi transaction") in which Universal received \$1,332 million in cash, 13.5 million shares of USAi (after giving effect to the 2 for 1 split of USAi stock on March 26, 1998) consisting of 7.1 million shares of USAi common stock and 6.4 million shares of USAi Class B common stock which in aggregate represented a 10.7 percent interest in USAi at the transaction date, and a 45.8 percent interest (118,633,171 shares at June 30, 1998) in the LLC (a subsidiary of USAi) which is exchangeable for USAi common stock and Class B common stock. Universal recognized a gain of \$360 million (\$222 million after tax) on the transaction, included in Interest, net and other on the consolidated statement of income and retained earnings. The transaction resulted in \$82 million of unallocated excess cost over fair value of assets acquired which is being amortized over 40 years.

The investment in the 7.1 million shares of USAi common stock held by Universal at June 30, 1998 is accounted for at market value (\$178 million at June 30, 1998) and has an underlying historical cost of \$142 million. The investment in the 6.4 million shares of Class B common stock of USAi is carried at its historical cost of \$128 million.

The investment in the LLC is included in Investments in unconsolidated companies on the consolidated balance sheet and is accounted for under the equity method.

The unaudited condensed pro forma results of operations data presented below assume that both the purchase of the acquired 50 percent interest in USA Networks and the USAi transaction occurred at the beginning of each period presented. These pro forma results of operations were prepared based upon the historical consolidated statements of operations of the Company and the pro forma results of operations of USAi for the fiscal years ended June 30, 1998 and 1997, adjusted to reflect purchase accounting. The unaudited pro forma information is not necessarily indicative of the results of operations of the Company that would have occurred if the transactions had been in effect since the assumed dates, nor is it necessarily indicative of future operating results of the Company.

## Pro Forma Income Statement Data

(Millions, Except Per Share Amounts)	Years Ended June 30,	
	1998	1997
Revenues	\$ 9,351	\$ 10,330
Income from continuing operations	\$ 874	\$ 427
Income from discontinued Tropicana operations	66	57
Net income	\$ 940	\$ 484
<b>Earnings per share – basic</b>		
Income from continuing operations	\$ 2.50	\$ 1.16
Income from discontinued Tropicana operations	.19	.15
Net income	\$ 2.69	\$ 1.31
<b>Earnings per share – diluted</b>		
Income from continuing operations	\$ 2.47	\$ 1.14
Income from discontinued Tropicana operations	.19	.15
Net income	\$ 2.66	\$ 1.29

### NOTE 4 Time Warner Inc. (“Time Warner”) Investment

On February 5, 1998, the Company sold 15 million shares of Time Warner common stock for pretax proceeds of \$958 million. On May 27, 1998, the Company sold its remaining 11.8 million shares of Time Warner common stock for pretax proceeds of \$905 million. The aggregate gain on the sale of the shares, included in interest, net and other on the consolidated statement of income, was \$926 million (\$602 million after tax).

On May 28, 1997, the Company sold 30 million shares of Time Warner common stock for pretax proceeds of \$1.39 billion. The gain on the sale of the shares, included in interest, net and other in the fiscal year ended June 30, 1997, was \$154 million (\$100 million after tax) in accordance with the specific identification method.

### NOTE 5 DuPont Share Redemption and Remaining DuPont Investment

On April 6, 1995, E.I. du Pont de Nemours and Company (“DuPont”) redeemed 156 million shares of its common stock owned by the Company for \$8.336 billion plus share purchase warrants which the Company valued as of the date of the transaction at \$440 million. The Company received after-tax proceeds of approximately \$7.7 billion from the transaction. The \$3.2 billion gain on the transaction was net of a \$2 billion tax provision of which \$1.5 billion was deferred. The Company has retained 16.4 million shares of DuPont common stock, post-split (on June 12, 1997, DuPont common stock was split two-for-one), which were carried at their market value of \$1.23 billion at June 30, 1998. The underlying historical value of the remaining DuPont shares is \$187 million which represents the historical cost of the retained shares plus unremitted earnings related to those shares.

The warrants were sold to DuPont for \$500 million on July 24, 1996. The gain on the sale of the warrants was \$60 million (\$39 million after tax) and is reflected in interest, net and other in the fiscal year ended June 30, 1997.

### NOTE 6 Acquisition of Interest in Universal Holding

On June 5, 1995, the Company completed its purchase of an 80 percent interest in Universal Holding, the indirect parent of Universal, from Matsushita for \$5.7 billion. Matsushita retained a 20 percent interest in Universal Holding. During the fiscal year ended June 30, 1998, Matsushita’s ownership of Universal Holding was diluted to approximately 16 percent as described in Note 3.

The acquisition has been accounted for under the purchase method of accounting. The cost of the acquisition has been allocated on the basis of the estimated fair market value of the assets acquired and liabilities assumed. This valuation resulted in \$2.6 billion of unallocated excess of cost over fair value of assets acquired which is being amortized over 40 years.

The unaudited condensed pro forma income statement data which follows assumes the Universal Holding acquisition and the redemption of 156 million shares of DuPont common stock occurred at the beginning of the period presented. The unaudited condensed pro forma income statement data were prepared based upon the historical consolidated income statement of the Company for the fiscal year ended January 31, 1996, and of Universal Holding for the five months ended May 31, 1995, adjusted to reflect purchase accounting. Financial results for Universal Holding for the seven-month period June 1995 through December 1995 were included in the Company's results for the fiscal year ended January 31, 1996. The unaudited pro forma information is not necessarily indicative of the combined results of operations of the Company and Universal Holding that would have resulted if the transactions had occurred on the dates previously indicated, nor is it necessarily indicative of future operating results of the Company.

## Pro Forma Income Statement Data

Millions, Except Per Share Amounts (Unaudited)	Fiscal Year Ended January 31, 1996
Revenues	\$ 9,972
Income from continuing operations	\$ 124
Discontinued Tropicana operations	30
Net income	\$ 154
<b>Earnings per share - basic</b>	
Income from continuing operations	\$ .33
Discontinued Tropicana operations	.08
Net income	\$ .41
<b>Earnings per share - diluted</b>	
Income from continuing operations	\$ .33
Discontinued Tropicana operations	.08
Net income	\$ .41

The above pro forma presentation excludes the \$3.2 billion after-tax gain on the redemption of the DuPont shares.

### NOTE 7 Sale of Publishing Group

On December 16, 1996, the Company completed the sale of its book publishing unit, The Putnam Berkley Group, Inc. ("Putnam"). Proceeds from the sale were \$330 million, resulting in a \$64 million pretax 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.

### NOTE 8 Investments in Unconsolidated Companies

The Company has a number of investments in unconsolidated companies which are 50 percent or less owned or controlled and are carried in the consolidated balance sheet on the equity method.

*Entertainment Segment* Significant investments at June 30, 1998 include USANi LLC, primarily engaged in electronic retailing, 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 (45.8 percent equity interest); Loews Cineplex Entertainment Corporation, primarily engaged in theatrical exhibition of motion pictures in the U.S. and Canada (26 percent owned); United International Pictures, a distributor of theatrical product outside the U.S. and Canada (33 percent owned); Cinema International BV, primarily engaged in marketing of home video product outside the U.S. and Canada (49 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); Brillstein-Grey Entertainment (49.5 percent owned) which owns 50 percent of Brillstein-Grey Communications, a producer of network television series; Universal City Florida Partners, which owns Universal Studios Florida, a motion picture and television theme tourist attraction and production facility in Orlando, Florida (50 percent owned); Universal City Development Partners, which has begun development on land adjacent to Universal Studios Florida of an additional themed tourist attraction, Universal Studios Islands of Adventure, and commercial real estate (50 percent owned); USJ Co., Ltd., which has begun development of a motion picture themed tourist attraction, Universal Studios Japan, and commercial real estate in Osaka, Japan (24 percent owned); Port Aventura, a theme park located in Spain (37 percent owned); SEGA GameWorks, which designs, develops and operates location-based entertainment centers (27 percent owned); and Interplay Productions, an entertainment software developer (30 percent owned).

*Spirits and Wine Segment* Significant investments at June 30, 1998 include Seagram (Thailand) Limited, an importer and distributor of spirits and wines (49 percent owned) and Kirin-Seagram Limited, engaged in the manufacture, sale and distribution of distilled beverage alcohol and wines in Japan (50 percent owned).

Summarized financial information, derived from unaudited historical financial information, is presented below for the Company's investments in unconsolidated companies.

### Summarized Balance Sheet Information

Millions	June 30, 1998	June 30, 1997
Current assets	\$ 1,651	\$ 1,402
Noncurrent assets	10,415	2,569
Total assets	\$ 12,066	\$ 3,971
Current liabilities	\$ 1,718	\$ 1,186
Noncurrent liabilities	3,738	1,427
Equity	6,610	1,358
Total liabilities and equity	\$ 12,066	\$ 3,971
Proportionate share of net assets of unconsolidated companies	\$ 2,884	\$ 627

Approximately \$700 million (1997 – \$1.5 billion) of the cost of the Universal Holding acquisition was allocated to the investment 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,		Transition Period Ended June 30,	Fiscal Year Ended January 31,
	1998	1997	1996	1996
Revenues	\$ 4,561	\$ 4,782	\$ 2,134	\$ 2,730
Earnings before interest and taxes	366	351	191	208
Net income	173	229	130	132

The Company's operating income includes \$130 million, \$124 million, \$58 million and \$69 million in equity in the earnings of unconsolidated companies for the fiscal years ended June 30, 1998 and 1997, the Transition Period ended June 30, 1996, and the fiscal year ended January 31, 1996, respectively, principally in the entertainment segment.

**NOTE 9 Long-term Indebtedness and Credit Arrangements****Long-term Indebtedness**

Millions	June 30, 1998	June 30, 1997
9% Debentures due December 15, 1998 (C\$200 million)*	\$ 156	\$ 156
Unsecured term bank loans, due 1998 to 1999, with a weighted average interest rate of 4.81%	155	190
6.5% Debentures due April 1, 2003	200	200
8.35% Debentures due November 15, 2006	200	200
8-3/8% Guaranteed Debentures due February 15, 2007	200	200
7% Guaranteed Debentures due April 15, 2008	200	200
8-7/8% Guaranteed Debentures due September 15, 2011	223	223
9.65% Guaranteed Debentures due August 15, 2018	249	249
9% Guaranteed Debentures due August 15, 2021	198	198
8.35% Debentures due January 15, 2022	199	199
6.875% Debentures due September 1, 2023	200	200
6% Swiss Franc Bonds due September 30, 2085 (SF 250 million)	164	171
Sundry	167	131
	2,511	2,517
Indebtedness payable within one year	(286)	(39)
	\$ 2,225	\$ 2,478

\*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%.

The Company's unused lines of credit totaled \$3.0 billion and have varying terms of up to five years. At June 30, 1998, short-term borrowings comprised \$1,367 million of bank borrowings bearing interest at market rates.

Interest expense on long-term indebtedness was \$226 million and \$218 million in the fiscal years ended June 30, 1998 and 1997, respectively, \$96 million in the Transition Period ended June 30, 1996, and \$236 million in the fiscal year ended January 31, 1996. Annual repayments and redemptions of long-term indebtedness for the five fiscal years subsequent to June 30, 1998 are: 1999 – \$286 million; 2000 – \$28 million; 2001 – \$1 million; 2002 – \$0; and 2003 – \$200 million.

Joseph E. Seagram & Sons, Inc. ("JES"), the Company's U.S. spirits and wine subsidiary, has outstanding \$9 million of Liquid Yield Option Notes (LYONs), which 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 holder's option, into 18.44 of the Company's common shares (303,930 shares at June 30, 1998). The Company has guaranteed the LYONs on a subordinated basis.

In addition, the Company has unconditionally guaranteed JES's 8-3/8 percent Guaranteed Debentures due February 15, 2007, 7 percent Guaranteed Debentures due April 15, 2008, 8-7/8 percent Guaranteed Debentures due September 15, 2011, 9.65 percent Guaranteed Debentures due August 15, 2018 and 9 percent Guaranteed Debentures due August 15, 2021.

Summarized below is the JES financial information:

Millions	Fiscal Years Ended June 30, 1998	June 30, 1997	Transition Period Ended June 30, 1996	Fiscal Year Ended January 31, 1996
Revenues	\$ 2,295	\$ 2,291	\$ 790	\$ 2,710
Cost of revenues	1,445	1,423	528	1,742
Income (loss) from continuing operations	(8)	76	55	48
Discontinued Tropicana operations	(17)	11	2	(5)
Discontinued DuPont activities, after tax	—	—	—	3,232
Net Income (loss)	\$ (25)	\$ 87	\$ 57	\$ 3,275

	June 30, 1998	June 30, 1997
Current assets	\$ 1,821	\$ 821
Noncurrent assets	12,201	12,662
	\$ 14,022	\$ 13,483
Current liabilities	\$ 843	\$ 542
Noncurrent liabilities	3,922	3,798
Shareholders' equity	9,257	9,143
	\$ 14,022	\$ 13,483

#### NOTE 10 Financial Instruments and Equity Securities

The Company selectively uses foreign currency forward and option contracts to offset the effects of exchange rate changes on cash flow exposures denominated in foreign currencies. These exposures include intercompany trade accounts, service fees, intercompany loans, third-party debt and firm commitments related to the acquisition of PolyGram. The Company does not use derivative financial instruments for trading or speculative purposes.

The notional amount of forward exchange contracts and options is the amount of foreign currency bought or sold at maturity and is not a measure of the Company's exposure through its use of derivatives.

At June 30, 1998, 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 totalling \$7,309 million (\$781 million at June 30, 1997). The notional amounts of these contracts, which mature at various dates through February 2001, are summarized below:

Millions	June 30, 1998		June 30, 1997	
	Buy	Sell	Buy	Sell
Canadian dollar	\$ 168	\$ —	\$ 164	\$ —
British pound	47	59	—	126
U.S. dollar	—	—	—	244
French franc	34	5	—	131
Belgian franc	—	62	—	—
Japanese yen	—	18	—	38
Italian lira	—	18	—	22
German mark	6,800	11	—	9
Spanish peseta	—	19	—	—
Other currencies	31	37	25	22
	\$ 7,080	\$ 229	\$ 189	\$ 592

The Company minimizes its credit exposure to counterparties 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.

### Fair Value of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments.

*Cash and short-term investments* The carrying amount of cash and short-term investments, which is comprised primarily of time deposits, approximates fair value.

*Foreign currency exchange contracts* The fair value of forward exchange contracts is based on quoted market prices from banks.

*Short- and long-term debt* The carrying amounts of commercial paper and short-term bank loans approximate their fair value. The fair value of the Company's long-term debt is estimated based on the quoted market prices for similar issues.

Millions	June 30, 1998		June 30, 1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and short-term investments	\$ 1,174	\$ 1,174	\$ 490	\$ 490
Foreign currency exchange contracts	169	50	(10)	(13)
Short-term debt	1,653	1,653	239	239
Long-term debt	2,225	2,477	2,478	2,680

### Equity Securities

The following is a summary of available-for-sale securities comprised of the common stock of DuPont and USAi at June 30, 1998 and of DuPont and Time Warner at June 30, 1997:

Millions	June 30, 1998	June 30, 1997
Cost	\$ 457	\$ 1,124
Gross unrealized gain	1,077	1,201
Fair value	1,534	2,325

The Financial Accounting Standards Board recently issued FAS 133, *Accounting for Derivative Instruments and Hedging Activities*, which is effective for the Company's fiscal year beginning July 1, 1999. FAS 133 requires an entity to recognize all derivatives as either assets or liabilities on the balance sheet and to measure those instruments at fair value. The Company is still evaluating the impact of adopting this pronouncement.

### NOTE 11 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, 1998, 37,921,849 common shares were potentially issuable upon the conversion of the LYONs and the exercise of employee stock options. Basic net income per share was based on the following weighted average number of shares outstanding during the fiscal period ended June 30, 1998 – 349,874,259; June 30, 1997 – 369,682,224; June 30, 1996 – 373,857,915; and January 31, 1996 – 373,116,794. Diluted net income per share was based on the following weighted average number of shares outstanding during the fiscal period ended June 30, 1998 – 353,604,553; June 30, 1997 – 374,268,746; June 30, 1996 – 377,562,104; and January 31, 1996 – 378,683,450.

### 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 consistent with the fair value methodology prescribed by FAS 123, the Company's net income and earnings per share would be reduced to the pro forma amounts indicated on the following page:

Millions, Except Per Share Amounts	Fiscal Years Ended June 30, 1998	1997	Transition Period Ended June 30, 1996	Fiscal Year Ended January 31, 1996
<b>Net Income:</b>				
As reported	\$ 946	\$ 502	\$ 85	\$ 3,406
Pro forma	892	469	73	3,383
<b>Basic earnings per common share:</b>				
As reported	\$ 2.70	\$ 1.36	\$ .23	\$ 9.13
Pro forma	2.55	1.27	.19	9.07
<b>Diluted earnings per common share:</b>				
As reported	\$ 2.68	\$ 1.35	\$ .23	\$ 9.00
Pro forma	2.52	1.26	.19	8.94

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, 1998 and June 30, 1997, the Transition Period ended June 30, 1996 and the fiscal year ended January 31, 1996, respectively: dividend yields of 1.8, 1.6, 1.8 and 1.9 percent; expected volatility of 25, 24, 22 and 20 percent; risk-free interest rates of 5.6, 6.7, 6.0 and 6.6 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, 1998 and June 30, 1997, the Transition Period ended June 30, 1996 and the fiscal year ended January 31, 1996 for which the exercise price equals the market price on the grant date was \$10.92, \$12.18, \$9.70 and \$9.23, respectively. The weighted average fair value of options granted during the fiscal year ended June 30, 1998 and Transition Period ended June 30, 1996 for which the exercise price exceeded the market price on the grant date was \$7.44 and \$6.91, respectively.

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:

Description	Stock Options Outstanding	Weighted Average Exercise Price of Options Outstanding
<b>Balance, January 31, 1995</b>	18,904,802	\$ 25.59
Granted	6,293,023	31.94
Exercised	(2,055,830)	24.37
Cancelled	(140,840)	29.96
<b>Balance, January 31, 1996</b>	23,001,155	27.45
Granted	6,757,978	35.41
Exercised	(611,855)	25.97
Cancelled	(61,040)	31.56
<b>Balance, June 30, 1996</b>	29,086,238	29.33
Granted	7,366,978	38.97
Exercised	(3,242,766)	25.93
Cancelled	(249,324)	33.02
<b>Balance, June 30, 1997</b>	32,961,126	31.79
Granted	8,160,909	38.32
Exercised	(2,751,832)	26.14
Cancelled	(752,284)	38.53
<b>Balance, June 30, 1998</b>	37,617,919	33.49

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
\$10 – \$20	1,514,947	1.4	\$ 18.82	1,514,947	\$ 18.82
\$20 – \$30	8,611,070	4.2	27.09	8,251,070	27.07
\$30 – \$40	26,177,602	8.3	35.65	11,742,442	33.60
\$40 – \$50	814,300	7.9	47.20	311,668	47.43
\$50 – \$60	500,000	9.6	52.28	–	–
	37,617,919			21,820,127	

#### NOTE 12 Income Taxes

The following tables summarize the sources of pretax income and the resulting income tax expense.

#### Geographic Components of Pretax Income

Millions	Fiscal Years Ended June 30, 1998	Fiscal Years Ended June 30, 1997	Transition Period Ended June 30, 1996	Fiscal Year Ended January 31, 1996
U.S.	\$ 1,157	\$ 159	\$ (164)	\$ 22
Canada	26	68	(24)	12
Other jurisdictions	383	561	217	253
Income before minority interest, discontinued Tropicana operations and discontinued DuPont activities	1,566	788	29	287
Discontinued Tropicana operations	130	111	36	62
Discontinued DuPont activities	–	–	–	5,283
Income before minority interest	\$ 1,696	\$ 899	\$ 65	\$ 5,632

#### Components of Income Tax Expense

Millions	Fiscal Years Ended June 30, 1998	Fiscal Years Ended June 30, 1997	Transition Period Ended June 30, 1996	Fiscal Year Ended January 31, 1996
Income tax expense (benefit) applicable to:				
Continuing Operations	\$ 638	\$ 331	\$ 34	\$ 121
1981 transaction*	–	–	(67)	–
Discontinued Tropicana operations	64	54	18	32
Discontinued DuPont activities	–	–	–	2,051
Total income tax expense (benefit)	\$ 702	\$ 385	\$ (15)	\$ 2,204

\*The 1981 transaction relates to a loss disallowed by the U.S. Tax Court on the exchange of common stock of Conoco Inc. for DuPont. In June 1996, the Company and the IRS reached a settlement whereby a portion of the original loss was allowed.

## Components of Income Tax Expense *Continued*

Millions	Fiscal Years Ended June 30, 1998	1997	Transition Period Ended June 30, 1996	Fiscal Year Ended January 31, 1996
<b>Current</b>				
Continuing operations				
Federal	\$ 134	\$ 184	\$ (9)	\$ (7)
State and local	(20)	35	3	15
1981 transaction*	—	—	(105)	—
Other jurisdictions	77	165	81	87
	191	384	(30)	95
Discontinued Tropicana operations	58	53	—	44
Discontinued DuPont activities	—	—	—	612
	249	437	(30)	751
<b>Deferred</b>				
Continuing operations				
Federal	351	(25)	(26)	43
State and local	34	(19)	(2)	(2)
1981 transaction*	—	—	38	—
Other jurisdictions	62	(9)	(13)	(15)
	447	(53)	(3)	26
Discontinued Tropicana operations	6	1	18	(12)
Discontinued DuPont activities	—	—	—	1,439
	453	(52)	15	1,453
<b>Total income tax expense (benefit)</b>	<b>\$ 702</b>	<b>\$ 385</b>	<b>\$ (15)</b>	<b>\$ 2,204</b>

\*The 1981 transaction relates to a loss disallowed by the U.S. Tax Court on the exchange of common stock of Conoco Inc. for DuPont. In June 1996, the Company and the IRS reached a settlement whereby a portion of the original loss was allowed.

## Components of Net Deferred Tax Liability

Millions	June 30, 1998	June 30, 1997
Basis and amortization differences	\$ 572	\$ 498
DuPont share redemption	1,540	1,540
DuPont and USAi investments (1997 – DuPont and Time Warner)	516	420
Unremitted foreign earnings	94	59
Other, net	80	27
Deferred tax liabilities	2,802	2,544
Deferred revenue	(60)	(132)
Employee benefits	(28)	(103)
Tax credit and net operating loss carryovers	(60)	(49)
Valuation, doubtful accounts and return reserves	(234)	(260)
Other, net	(136)	(128)
Deferred tax assets	(518)	(672)
Valuation allowance	32	42
	(486)	(630)
<b>Net deferred tax liability</b>	<b>\$ 2,316</b>	<b>\$ 1,914</b>

The Company has U.S. tax credit carryovers of \$32 million; \$13 million of which has no expiration date and \$19 million of which have expiration dates through 2009. The valuation allowance arises from uncertainty as to the realization of certain U.S. tax credit carryovers. If realized, these benefits would be applied to reduce the Universal unallocated excess purchase price. In addition, the Company has approximately \$78 million of net operating loss carryovers; \$16 million of which has no expiration date and \$62 million of which have expiration dates through 2011.

### Effective Income Tax Rate — Continuing Operations

	Fiscal Years Ended June 30, 1998	1997	Transition Period Ended June 30, 1996	Fiscal Year Ended January 31, 1996
U.S. statutory rate	35%	35%	35%	35%
1981 transaction	—	—	(231)	—
State and local	1	1	4	3
Dividends received deduction	—	(1)	(17)	(3)
Goodwill amortization	3	7	85	10
Other	2	—	10	(3)
Effective income tax rate — continuing operations	41%	42%	(114%)	42%

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 13 Benefit Plans

##### Pension

Pension costs were \$29 million and \$46 million for the fiscal years ended June 30, 1998 and June 30, 1997, respectively, \$25 million for the Transition Period ended June 30, 1996 and \$41 million for the fiscal year ended January 31, 1996.

The Company has defined benefit pension plans which cover certain U.S. employees. The net cost of the Company's U.S. pension plans was based on an expected long-term return on plan assets of 10.75 percent for the fiscal years ended June 30, 1998 and 1997, 10 percent for the Transition Period ended June 30, 1996 and 10.75 percent for the fiscal year ended January 31, 1996. Discount rates of 7.0 and 7.75 percent were used in determining the actuarial present value of the projected benefit obligation at June 30, 1998 and 1997, respectively. The assumed rates of increase in future compensation levels were 4.25 to 5.25 percent for the fiscal year ended June 30, 1998, 5.0 to 6.0 percent for the fiscal year ended June 30, 1997 and the Transition Period ended June 30, 1996 and 4.5 to 5.5 percent for the fiscal year ended January 31, 1996. Plans outside the U.S. used assumptions in determining the actuarial present value of projected benefit obligations that reflect the economic environments within the various countries, and therefore are consistent with (but not identical to) those of the U.S. plans.

The majority of the pension arrangements for the Company's employees of affiliates outside the U.S., the U.K. and Canada are either insured or government sponsored. In those affiliates outside of the U.S. where defined benefit plans exist (U.K., Canada and France), the net periodic pension cost was \$8 million and \$6 million for the fiscal years ended June 30, 1998 and 1997, respectively, \$3 million for the Transition Period ended June 30, 1996 and \$6 million for the fiscal year ended January 31, 1996. At June 30, 1998, the present value of these plans' projected benefit obligation was \$360 million, \$307 million of which was for vested benefits; the fair value of plan assets was \$415 million.

## Net Cost of U.S. Defined Benefit Pension Plans

Millions	Fiscal Years Ended June 30, 1998	Fiscal Years Ended June 30, 1997	Transition Period Ended June 30, 1996	Fiscal Year Ended January 31, 1996
Service cost – benefits earned during the period	\$ 13	\$ 14	\$ 5	\$ 12
Interest cost on Projected Benefit Obligation	45	45	18	44
Return on plan assets				
Actual gain	(127)	(145)	(46)	(171)
Deferred actuarial gain	50	78	22	124
Net amortization and deferral	(4)	2	2	3
Net pension (income) cost	\$ (23)	\$ (6)	\$ 1	\$ 12

## Status of U.S. Defined Benefit Pension Plans

Millions	June 30, 1998		June 30, 1997	
	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial present value of:				
Vested Benefit Obligation	\$ (527)	\$ (103)	\$ (422)	\$ (81)
Accumulated Benefit Obligation	\$ (540)	\$ (106)	\$ (442)	\$ (84)
Projected Benefit Obligation	\$ (558)	\$ (123)	\$ (498)	\$ (107)
Plan assets at fair value, principally equity securities	832	–	741	–
Plan assets in excess of (less than)				
Projected Benefit Obligation	274	(123)	243	(107)
Deferred net actuarial (gain) loss	(177)	49	(175)	34
Unamortized prior service cost	13	(1)	4	4
Unamortized transition obligation	–	1	–	2
Recognition of minimum liability	–	(32)	–	(17)
Prepaid (accrued) pension cost	\$ 110	\$ (106)	\$ 72	\$ (84)

The Company has defined contribution plans covering certain U.S. employees. Contributions made to these plans are included in consolidated pension costs.

### Postretirement

The Company provides retiree health care and life insurance benefits covering certain retirees. Certain U.S. salaried and certain hourly employees are eligible for benefits upon retirement and completion of a specified number of years of service.

The components of net periodic postretirement benefit cost are as follows:

Millions	Fiscal Years Ended June 30, 1998	Fiscal Years Ended June 30, 1997	Transition Period Ended June 30, 1996	Fiscal Year Ended January 31, 1996
Service cost – benefits earned during the period	\$ 2	\$ 2	\$ 1	\$ 2
Interest cost on accumulated postretirement benefit obligation	11	11	5	12
Amortization of prior service cost	(4)	(3)	(2)	(3)
Net postretirement benefit cost	\$ 9	\$ 10	\$ 4	\$ 11

The accumulated postretirement benefit obligation, included in other credits in the accompanying balance sheet, comprises the following:

Millions	June 30, 1998	June 30, 1997
Retirees	\$ 112	\$ 100
Fully eligible active plan participants	26	23
Other active plan participants	30	29
Unrecognized:		
Actuarial gain	4	16
Prior service cost	19	22
Accrued postretirement benefit obligation	\$ 191	\$ 190

Future benefit costs were estimated assuming medical costs would increase at an 8.25 percent annual rate, decreasing to a 5.5 percent annual growth rate ratably over the next five years, and then remaining at a 5.5 percent growth rate thereafter. A one-percentage-point increase in this annual trend rate would have increased the postretirement benefit obligation at June 30, 1998 by \$6 million (\$4 million after tax), with an increase in pretax expense of \$1 million for the fiscal year ended June 30, 1998. The weighted average discount rates used to estimate the accumulated postretirement benefit obligation were 7.0 and 7.75 percent at June 30, 1998 and 1997, respectively.

#### NOTE 14 Business Segment and Geographic Data

##### Business Segment Data

Millions	Spirits and Wine <sup>(1)</sup>	Entertainment	Corporate <sup>(2)</sup>	Total <sup>(1)</sup>
<b>June 30, 1998</b>				
Revenues	\$ 4,670	\$ 5,044	\$ –	\$ 9,714
Depreciation and amortization of assets	96	186	7	289
Amortization of goodwill	23	185	–	208
Operating income (expense)	465	163	(120)	508
Identifiable assets	5,015	13,163	2,267	20,445
Capital expenditures	170	240	–	410
<b>June 30, 1997</b>				
Revenues	\$ 5,051	\$ 5,593	\$ –	\$ 10,644
Depreciation and amortization of assets	101	185	4	290
Amortization of goodwill	22	143	–	165
Operating income (expense)	677	242	(138)	781
Identifiable assets	5,290	10,586	2,837	18,713
Capital expenditures	187	206	–	393
<b>June 30, 1996 (Transition Period)</b>				
Revenues	\$ 1,891	\$ 2,360	\$ –	\$ 4,251
Depreciation and amortization of assets	46	86	2	134
Amortization of goodwill	11	62	–	73
Operating income (expense)	182	1	(55)	128
Identifiable assets	5,551	10,269	3,694	19,514
Capital expenditures	108	136	1	245
<b>January 31, 1996</b>				
Revenues	\$ 4,999	\$ 3,053	\$ –	\$ 8,052
Depreciation and amortization of assets	100	97	4	201
Amortization of goodwill	24	62	–	86
Operating income (expense)	361 <sup>(3)</sup>	205	(84)	482
Identifiable assets	5,659	9,997	3,755	19,411
Capital expenditures	173	175	1	349

(1) Excludes discontinued Tropicana operations.

(2) Includes (i) corporate expenses and assets not identifiable with either business segment, and (ii) DuPont and Time Warner holdings, which represented 54%, 82%, 90% and 91% of corporate assets at June 30, 1998, 1997 and 1996 and January 31, 1996, respectively.

(3) Includes a \$274 million charge related to reengineering activities.

The Company will adopt FAS 131, *Disclosures about Segments of an Enterprise and Related Information*, in its fiscal year beginning July 1, 1998. To comply with the disclosure requirements in FAS 131, in addition to the segments above, the Company will also disclose the components of the entertainment segment, namely filmed entertainment, music and recreation and other.

## Geographic Data

Millions	Revenues <sup>(1)(2)</sup>		Operating Income <sup>(2)</sup>	Total Assets <sup>(2)(3)</sup>
	Unrelated Parties	Inter-company		
<b>June 30, 1998</b>				
U.S.	\$ 5,287	\$ 325	\$ (61)	\$ 13,289
Europe	3,043	360	497	4,698
Asia Pacific	578	—	(104)	501
Latin America	518	26	32	342
Canada	288	228	144	387
	<b>\$ 9,714</b>	<b>\$ 939</b>	<b>\$ 508</b>	<b>\$ 19,217</b>
<b>June 30, 1997</b>				
U.S.	\$ 5,499	\$ 54	\$ (15)	\$ 11,208
Europe	3,434	390	540	3,947
Asia Pacific	943	—	48	514
Latin America	480	27	37	355
Canada	288	235	171	364
	<b>\$ 10,644</b>	<b>\$ 706</b>	<b>\$ 781</b>	<b>\$ 16,388</b>
<b>June 30, 1996 (Transition Period)</b>				
U.S.	\$ 2,122	\$ 31	\$ (151)	\$ 10,923
Europe	1,480	176	231	4,161
Asia Pacific	390	—	(5)	419
Latin America	144	13	22	288
Canada	115	61	31	404
	<b>\$ 4,251</b>	<b>\$ 281</b>	<b>\$ 128</b>	<b>\$ 16,195</b>
<b>January 31, 1996</b>				
U.S.	\$ 3,785	\$ 56	\$ 35	\$ 10,468
Europe	2,806	456	272	4,357
Asia Pacific	853	—	28	453
Latin America	406	29	16	324
Canada	202	212	131	382
	<b>\$ 8,052</b>	<b>\$ 753</b>	<b>\$ 482</b>	<b>\$ 15,984</b>

(1) Revenues are classified based upon the location of the legal entity which invoices the customer rather than the location of the customer. Revenues among geographic areas include intercompany transactions on a current market price basis.

(2) Excludes discontinued Tropicana operations.

(3) Excludes DuPont and Time Warner holdings.

**NOTE 15 Fiscal Year Change**

Effective June 30, 1996, the Company changed its fiscal year-end from January 31 to June 30. Accordingly, the consolidated financial statements include the results of operations for the Transition Period, which are not necessarily indicative of operations for a full year.

Results for the comparable prior year period are summarized below.

Millions, Except Per Share Amounts (Unaudited)	Five Months Ended June 30, 1995	
Revenues	\$ 2,093	
Operating income	220	
Provision for income taxes	54	
Income from continuing operations	107	
Discontinued Tropicana operations, after tax	10	
Discontinued DuPont activities, after tax	3,232	
Net income	\$ 3,349	
<b>Earnings Per Share</b>	Basic	Diluted
Income from continuing operations	\$ .29	\$ .29
Discontinued Tropicana operations, after tax	.03	.03
Discontinued DuPont activities, after tax	8.67	8.60
Net income	\$ 8.99	\$ 8.92

**NOTE 16 Reengineering Activities**

In connection with a program to better position its spirits and wine operations to achieve its strategic growth objectives, the Company recorded a pretax charge of \$274 million in the fiscal year ended January 31, 1996. The charge related to the Company's global spirits and wine manufacturing, financial, marketing and distribution systems and includes rationalization of facilities in the U.S. and Europe and other costs related to the redesign of processes associated with the fulfillment of customer orders and the organizational structure under which the spirits and wine business operates. The components of the \$274 million charge reflected approximately a \$100 million provision for severance costs, \$104 million for asset write-downs/impairments and \$70 million for facility rationalization, including lease terminations, and other reengineering programs.

**NOTE 17 Additional Financial Information****Income Statement and Cash Flow Data**

Millions	Fiscal Years Ended June 30, 1998	Fiscal Years Ended June 30, 1997	Transition Period Ended June 30, 1996	Fiscal Year Ended January 31, 1996
<b>INTEREST, NET AND OTHER</b>				
Interest expense	\$ 318	\$ 285	\$ 136	\$ 338
Interest income	(59)	(34)	(13)	(102)
Dividend income	(27)	(40)	(19)	(38)
Capitalized interest	(4)	(4)	(5)	(3)
Gain on sale of Time Warner shares	(926)	(154)	—	—
Gain on USAi transaction	(360)	—	—	—
Gain on sale of DuPont warrants	—	(60)	—	—
	\$ (1,058)	\$ (7)	\$ 99	\$ 195
<b>EXCISE TAXES</b>				
(included in revenues and cost of revenues)	\$ 754	\$ 793	\$ 288	\$ 804
<b>CASH FLOW DATA</b>				
Interest paid, net	\$ 265	\$ 252	\$ 98	\$ 222
Income taxes paid (refunded)	\$ 144	\$ 85	\$ (37)	\$ 1,039

## Balance Sheet Data

Millions	June 30, 1998	June 30, 1997
<b>RECEIVABLES</b>		
Trade	\$ 1,994	\$ 1,762
Other	487	328
	2,481	2,090
Allowance for doubtful accounts and other valuation accounts	(326)	(309)
	\$ 2,155	\$ 1,781
<b>INVENTORIES</b>		
Beverages	\$ 2,239	\$ 2,359
Materials, supplies and other	316	225
	\$ 2,555	\$ 2,584
<b>LIFO INVENTORIES</b>		
Estimated replacement cost	\$ 356	\$ 342
Excess of replacement cost over LIFO carrying value	(173)	(181)
	\$ 183	\$ 161
<b>FILM COSTS, NET OF AMORTIZATION</b>		
<b>THEATRICAL FILM COSTS</b>		
Released	\$ 353	\$ 468
In process and unreleased	839	501
	\$ 1,192	\$ 969
<b>TELEVISION FILM COSTS</b>		
Released	223	368
In process and unreleased	32	41
	255	409
	\$ 1,447	\$ 1,378

Unamortized costs related to released theatrical and television films aggregated \$576 million at June 30, 1998. 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 88 percent of the unamortized released film costs will be amortized under the individual film forecast method during the three years ending June 30, 2001.

Millions	June 30, 1998	June 30, 1997
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	\$ 553	\$ 493
Buildings and improvements	1,467	1,425
Machinery and equipment	1,221	1,104
Furniture and fixtures	369	298
Construction in progress	301	262
	3,911	3,582
Accumulated depreciation	(1,178)	(1,023)
	\$ 2,733	\$ 2,559
<b>PAYABLES AND ACCRUED LIABILITIES</b>		
Trade	\$ 449	\$ 381
Other	1,619	1,437
	\$ 2,068	\$ 1,818

**NOTE 18 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 has entered into an arrangement to sell to a third party substantially all films produced or acquired during the term of the agreement for amounts which approximate cost. The Company will serve as sole distributor and earns a distribution fee, which is variable and contingent upon the films' performance. In addition, the Company has the option to purchase the films at certain future dates.

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 19 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 \$699 million or approximately eight percent at June 30, 1998. There is no effect on net income.
- (ii) Proportionate consolidation of joint ventures under Canadian GAAP would increase assets and liabilities by approximately \$1.1 billion and decrease working capital by approximately \$31 million at June 30, 1998. 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, 1998. There is no effect on net income.
- (iv) Other differences between U.S. and Canadian GAAP are immaterial.


## 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

  
 Robert W. Matschullat  
 Vice Chairman and Chief Financial Officer

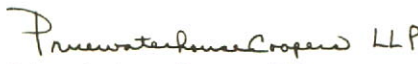
August 12, 1998

## 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, 1998 and 1997 and the related consolidated statements of income, shareholders' equity and cash flows for the fiscal years ended June 30, 1998 and 1997, the Transition Period ended June 30, 1996 and the fiscal year ended January 31, 1996. 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, 1998 and 1997 and the results of their operations and their cash flows for the fiscal years ended June 30, 1998 and 1997, the Transition Period ended June 30, 1996 and the fiscal year ended January 31, 1996, 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.



PricewaterhouseCoopers LLP

New York, New York

August 12, 1998, except as to Note 1, which is as of August 25, 1998

## quarterly data

### 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 <sup>(5)</sup>
Revenues	\$ 2,445	\$ 3,065	\$ 2,036	\$ 2,168	\$ 9,714
Operating income	262	204	32	10	508
Income from continuing operations, after tax	116	8	447 <sup>(1)</sup>	309 <sup>(2)</sup>	880
Income from discontinued Tropicana operations, after tax	17	20	14	15	66
Net income	\$ 133	\$ 28	\$ 461	\$ 324	\$ 946
<b>PER SHARE DATA</b>					
<b>Earnings per share – basic</b>					
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
<b>Earnings per share – diluted</b>					
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

### Fiscal 1997

U.S. Dollars in Millions Except for Share Amounts (Unaudited)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year Ended 6/30/97 <sup>(5)</sup>
Revenues	\$ 2,449	\$ 3,292	\$ 2,357	\$ 2,546	\$ 10,644
Operating income	239	353	98	91	781
Income from continuing operations, after tax	148	142	20	135	445
Income from discontinued Tropicana operations, after tax	18	19	7	13	57
Net income	\$ 166 <sup>(4)</sup>	\$ 161	\$ 27	\$ 148 <sup>(6)</sup>	\$ 502
<b>PER SHARE DATA</b>					
<b>Earnings per share – basic</b>					
Continuing operations	\$ .40	\$ .38	\$ .05	\$ .36	\$ 1.20
Discontinued Tropicana operations, after tax	.05	.05	.02	.04	.16
Net income	\$ .45	\$ .43	\$ .07	\$ .40	\$ 1.36
<b>Earnings per share – diluted</b>					
Continuing operations	\$ .40	\$ .38	\$ .05	\$ .36	\$ 1.20
Discontinued Tropicana operations, after tax	.05	.05	.02	.04	.15
Net income	\$ .45	\$ .43	\$ .07	\$ .40	\$ 1.35

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

(2) Includes a \$320 million after-tax gain on the sale of Time Warner shares.

(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 \$39 million after-tax gain on the sale of DuPont warrants.

(5) Includes a \$100 million after-tax gain on the sale of Time Warner shares.

# financial summary

(U.S.S in Millions, Except Per Share Amounts)	Fiscal Years Ended June 30,		Transition Period Ended June 30,		Fiscal Years Ended January 31,	
	1998	1997	1996	1996	1995	1994
<b>INCOME STATEMENT</b>						
Revenues	\$ 9,714	\$ 10,644	\$ 4,251	\$ 8,052	\$ 5,008	\$ 4,742
Operating income	508	781	128	482	628	640
Interest, net and other	(1,058)	(7)	99	195	317	275
Income from continuing operations before cumulative effect of accounting change	880	445	67	144	170	249
Income from discontinued Tropicana operations, after tax	66	57	18	30	24	34
Discontinued DuPont activities, after tax	—	—	—	3,232	617	96
Income before cum. effect of accounting change	946	502	85	3,406	811	379
Cumulative effect of accounting change, after tax	—	—	—	—	(75)	—
Net income	\$ 946	\$ 502	\$ 85	\$ 3,406	\$ 736	\$ 379
<b>FINANCIAL POSITION</b>						
Current assets	\$ 6,971	\$ 6,131	\$ 6,307	\$ 6,194	\$ 3,938	\$ 3,532
Common stock of DuPont	1,228	1,034	651	631	3,670	3,154
Common stock of Time Warner	—	1,291	2,228	2,356	2,043	1,769
Other noncurrent assets	12,246	10,257	10,328	10,230	1,773	1,754
Net assets of discontinued Tropicana operations	1,734	1,734	1,693	1,549	1,270	1,220
Total assets	\$ 22,179	\$ 20,447	\$ 21,207	\$ 20,960	\$ 12,694	\$ 11,429
Current liabilities	\$ 4,709	\$ 3,087	\$ 4,383	\$ 3,557	\$ 3,865	\$ 2,776
Long-term indebtedness	2,225	2,478	2,562	2,889	2,838	3,051
Total liabilities	10,948	9,174	10,163	9,788	7,174	6,428
Minority interest	1,915	1,851	1,839	1,844	11	—
Shareholders' equity	9,316	9,422	9,205	9,328	5,509	5,001
Total liabilities & shareholders' equity	\$ 22,179	\$ 20,447	\$ 21,207	\$ 20,960	\$ 12,694	\$ 11,429
<b>CASH FLOW DATA</b>						
Cash flow (used for) provided by operating activities	\$ (241)	\$ 664	\$ 315	\$ 222	\$ 370	\$ 370
Capital expenditures	(410)	(393)	(245)	(349)	(124)	(118)
Other investing activities, net	1,109	2,101	(346)	2,260	(341)	(1,556)
Dividends paid	(231)	(239)	(112)	(224)	(216)	(209)
<b>PER SHARE DATA</b>						
<b>Earnings per share – basic</b>						
Continuing operations	\$ 2.51	\$ 1.20	\$ .18	\$ .38	\$ .46	\$ .67
Discontinued Tropicana operations, after tax	.19	.16	.05	.08	.06	.09
Discontinued DuPont activities, after tax	—	—	—	8.67	1.66	.26
Income before cum. effect of accounting change	2.70	1.36	.23	9.13	2.18	1.02
Cumulative effect of accounting change, after tax	—	—	—	—	(.20)	—
Net income	\$ 2.70	\$ 1.36	\$ .23	\$ 9.13	\$ 1.98	\$ 1.02
<b>Earnings per share – diluted</b>						
Continuing operations	\$ 2.49	\$ 1.20	\$ .18	\$ .38	\$ .46	\$ .66
Discontinued Tropicana operations, after tax	.19	.15	.05	.08	.06	.09
Discontinued DuPont activities, after tax	—	—	—	8.54	1.64	.25
Income before cum. effect of accounting change	2.68	1.35	.23	9.00	2.16	1.00
Cumulative effect of accounting change, after tax	—	—	—	—	(.20)	—
Net income	\$ 2.68	\$ 1.35	\$ .23	\$ 9.00	\$ 1.96	\$ 1.00
Dividends paid	\$ .66	\$ .645	\$ .30	\$ .60	\$ .58	\$ .56
Shareholders' equity	26.84	25.79	24.67	24.91	14.79	13.43
End of year share price						
New York Stock Exchange (U.S.\$)	\$ 40.94	\$ 40.25	\$ 33.63	\$ 36.38	\$ 28.75	\$ 30.75
Canadian Stock Exchange (Cdn\$)	59.95	55.50	45.75	49.75	40.50	40.63
Average shares outstanding (thousands)	349,874	369,682	373,858	373,117	372,499	373,051
Shares outstanding at year end (thousands)	347,132	365,281	373,059	374,462	372,537	372,489

# portfolio of brands

The following is a partial, nonexclusive listing:

## The Seagram Spirits And Wine Group

### American Whiskey

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 83  
Seagram's Five Star  
Seagram's V.O.  
Seagram's V.O. Gold

### Scotch Whisky

Benriach 10-year-old  
Black Douglas  
Chivas Regal 12-year-old  
Chivas Regal 18-year-old  
Chivas Brothers 1801  
Chivas Brothers  
The Century of Malts  
Chivas Brothers Oldest  
Glen Grant  
Glen Grant 10-year-old  
Glen Keith distilled before 1983  
The Glenlivet 12-year-old  
The Glenlivet 18-year-old  
The Glenlivet Archive  
Longmorn 15-year-old  
100 Pipers  
Passport  
Queen Anne  
Royal Salute 21-year-old  
Something Special  
Strathisla 12-year-old  
Windsor Premier 12-year-old

### Local Whisky

Black Jack  
Blenders Pride  
Boston Club  
Crescent  
Dunbar  
Emblem  
Gold Classic  
Imperial Blue  
Master Blend

Natu Nobilis  
News  
Oaken Glow  
Regency  
Robert Brown  
Royal Stag  
Secret  
Ten Distilleries  
Wilson's

### Cognac

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

### Brandy

Blandice  
Capa Negra  
Chatelain  
De Valcourt  
Macieira  
René Briand  
The Don

### Gin

Burnett's  
Seagram's Extra Dry  
Seagram's Lime Twisted

### Vodka

Alexander  
Nikolai

### Rum

Cacique  
Captain Morgan  
Captain Morgan  
Original Spiced  
Captain Morgan Private Stock  
Captain Morgan Silver Spiced  
Captain Morgan's Parrot Bay  
Morgan's Spiced  
Spiced Gold  
Centenario  
5 Estrellas  
Diplomático  
Montilla  
Myers's  
OVD  
Ronrico

### Tequila

Mariachi  
Olmeca

### Liqueur

Godiva

### Pre-Mixed

Seagram's Gin & Juice

### Coolers

Seagram's Spirit Coolers

### Champagne

Mumm Cordon Rouge N.V.  
Mumm Cordon Rouge Vintage  
Mumm Cordon Rosé N.V.  
Mumm Cordon Vert  
Mumm Grand Cordon  
Mumm de Cramant  
Perrier-Jouët Grand Brut  
Perrier-Jouët Grand Brut Millésime  
Perrier-Jouët Blason de France  
Perrier-Jouët Blason de France Rosé  
Perrier-Jouët Belle Epoque  
Vintage  
Perrier-Jouët Belle Epoque Rosé Vintage

### Sparkling Wine

Casa del Valle  
Cuvée Mumm  
Domaine Mumm  
Maschio  
Matheus Müller Sekt  
Monitor  
Mumm Cuvée Napa  
Mumm Sekt  
Raposeira

### Sherry

Sandeman Dry Seco  
Sandeman Medium Dry  
Sandeman Rich Cream  
Sandeman Don Fino  
Sandeman Character  
Sandeman Armada  
Sandeman Royal Corregidor  
Sandeman Soléo

### Port

Sandeman Original Rich Ruby  
Sandeman Original Fine White  
Sandeman Founders Reserve  
Sandeman Imperial Aged Reserve Tawny  
Sandeman 20-year-old Tawny  
Sandeman Late Bottled Vintage  
Sandeman Vintage

Sandeman Quinta do Vau - Single Quinta Vintage

### Wine

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

### Selected Agency Brands

ABSOLUT VODKA  
Bianchi (Argentina)  
Concha y Toro (Colombia)  
Jim Beam (Germany)  
Montana (U.K.)  
Stolichnaya (Greece)

## Seagram Chateau & Estate Wines Company

### Champagne

G.H. Mumm  
Perrier-Jouët

### Sparkling Wine

Mumm Cuvée Napa

### Sherry/Port

Sandeman

### Wine

Sterling Vineyards  
Barton & Guestier  
The Monterey Vineyard  
Tessera

### Selected Agency Brands

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 Orange Strawberry  
Passion  
Wild Strawberry Banana  
Wild Watermelon (Seasonal)  
Wild Winterberry (Seasonal)  
Fuzzy Navel  
Margarita  
Ruby Red Seabreeze  
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

### Beers

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

## Universal Studios

### FILMED ENTERTAINMENT

#### Universal Pictures

*Small Soldiers*  
*One True Thing*  
*Meet Joe Black*  
*Babe: Pig In the City*  
*Snow Falling On Cedars*  
*Patch Adams*  
*edTV*  
*The Mummy*  
*Jurassic Park 3*

#### Universal Studios

##### Home Video

Family Features (branded collections, including *An American Tail*, *Babe* and *Beethoven*)  
*The Lost World: Jurassic Park*  
*The Land Before Time* (series)  
*Alfred Hitchcock* (various titles)  
*Universal Classic Movie Monsters* (including *Dracula*, *Frankenstein*, *Creature From The Black Lagoon*, and *The Mummy*)  
*Wee-Sing* (series)

#### Universal Television & Networks Group:

##### Networks

13ème Rue (France)  
13th Street (Germany)  
Studio Universal (Italy)  
Sci Fi Channel Europe  
USA Network Brazil  
USA Network Latin America

#### International Talk Shows

*Vanessa* (UK)  
*Vera am Mittag* (Germany)  
*Catherine* (Netherlands)

#### Universal Television Library

More than 24,000 episodes, including  
*Alfred Hitchcock Presents*  
*Columbo*  
*Leave It To Beaver*  
*Magnum, P.I.*  
*Kojak*

#### Pay-Per-View

## MUSIC

### Universal Music Group

MCA Records  
MCA Nashville/Decca  
Geffen/DGC Records  
GRP Recording Company  
Interscope Records  
Hip-O Records  
Universal Records  
Universal Music & Video  
Distribution  
Universal Music  
Special Markets  
Universal Music International  
MCA Music Publishing  
Universal Concerts

### RECREATION

#### Universal Studios

##### Recreation Group

Universal City Hollywood  
Universal Studios Hollywood  
*Jurassic Park: The Ride*  
*Back to the Future: The Ride*  
Universal CityWalk Hollywood  
Universal Studios Escape  
Universal Studios Florida  
*Twister: Ride It Out*  
*Terminator 2: 3-D*  
Universal Studios  
Islands of Adventure  
Universal CityWalk Orlando  
Universal City Japan  
Universal Studios Japan  
Universal Studios Experience  
(Beijing, China)  
Universal's Port Aventura  
(Spain)

### OTHER BUSINESSES

#### Universal Studios

##### Consumer Products Group

Woody Woodpecker and Friends  
Babe and Friends  
*Babe: The Sheep Pig*  
Rocky & Bullwinkle and Friends  
*Alvin & the Chipmunks*  
Curious George  
*Curious George Adventures*  
*The Land Before Time*  
*Jurassic Park*  
Universal Studios Classic  
Movie Monsters  
Universal Studios Store

## Spencer Gifts

Dapy  
Glow!

### Universal Studios New Media Group:

#### Universal Studios Online

universalstudios.com  
realhollywood.com  
animalhouse.com  
Universal Studios Hollywood  
Backlot store  
Universal Studios Online  
Auction  
Universal Studios Online Horror  
Channel

#### Universal Interactive Studios

Crash Bandicoot

#### Universal Studios Digital Arts

## board of directors



1



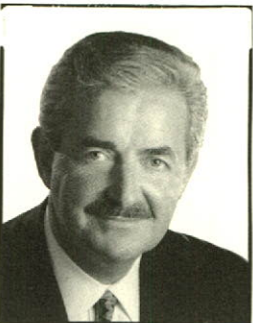
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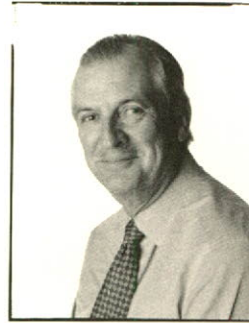
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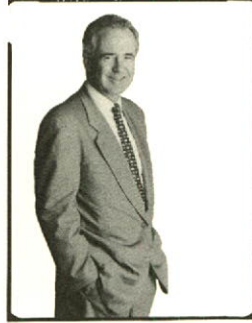
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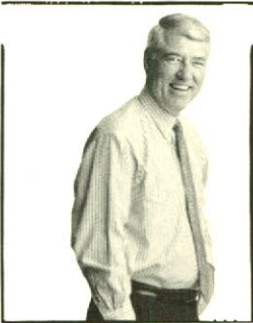
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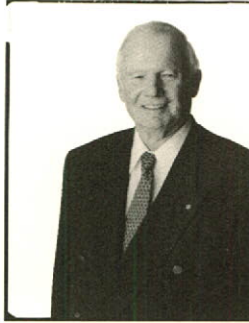
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10

**1. Edgar M. Bronfman<sup>(3)</sup>**  
Chairman of the Board,  
The Seagram Company Ltd.

**2. The Hon. Charles R. Bronfman, P.C., C.C.<sup>(3)</sup>**  
Co-Chairman of the Board and  
Chairman of the Executive  
Committee,  
The Seagram Company Ltd.

**3. Edgar Bronfman, Jr.<sup>(3)</sup>**  
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  
(divisions of Joseph E. Seagram  
& Sons, Inc., a subsidiary  
of the Corporation)

**5. Matthew W. Barrett, O.C.<sup>(1,3)</sup>**  
Chairman and  
Chief Executive Officer,  
Bank of Montreal  
(a financial institution)

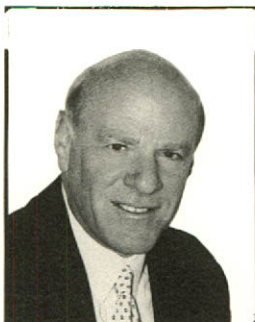
**6. Laurent Beaudoin, C.C.<sup>(1)</sup>**  
Chairman and Chief Executive  
Officer, Bombardier Inc.  
(a transportation, aerospace and  
motorized products company)

**7. Frank J. Biondi, Jr.**  
Chairman and  
Chief Executive Officer,  
Universal Studios, Inc.  
(a subsidiary of the Corporation)

**8. Richard H. Brown<sup>(3,4)</sup>**  
Chief Executive,  
Cable and Wireless plc  
(a provider of international  
telecommunications services)

**9. The Hon. William G. Davis,  
P.C., C.C., Q.C.<sup>(1,2)</sup>**  
Counsel,  
Tory DesLauriers &  
Binnington  
(attorneys)

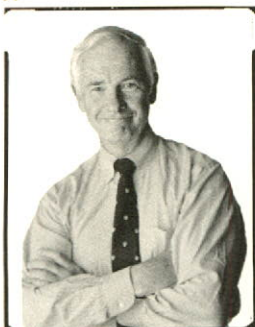
**10. André Desmarais<sup>(4)</sup>**  
President and Co-Chief  
Executive Officer,  
Power Corporation of Canada  
(a holding and management  
company)



11



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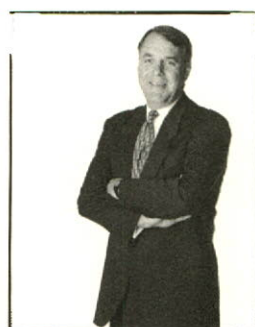
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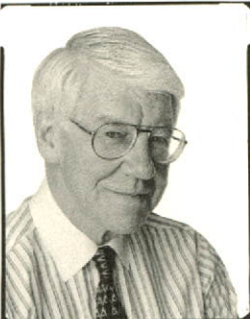
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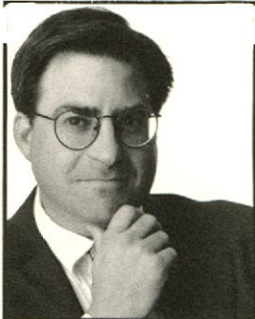
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**11. Barry Diller<sup>(3)</sup>**

Chairman and  
Chief Executive Officer,  
USA Networks, Inc.  
*(a diversified media and electronic  
commerce company formerly  
known as HSN, Inc.)*

**12. Michele J. Hooper<sup>(1)</sup>**

President and  
Chief Executive Officer,  
Stadtlander Drug Co., Inc.  
*(a health services provider)*

**13. David L. Johnston, C.C.<sup>(2,4)</sup>**

Professor of Law,  
McGill University  
*(an educational institution)*

**14. The Hon. E. Leo Kolber,  
Senator<sup>(3,4)</sup>**

Member of The Senate  
of Canada

**15. Marie-Josée Kravis, O.C.<sup>(2,4)</sup>**

Senior Fellow,  
Hudson Institute Inc.  
*(a non-profit economics  
research institute)*

**16. Robert W. Matschullat**

Vice Chairman and  
Chief Financial Officer,  
The Seagram Company Ltd.

**17. C. Edward Medland<sup>(1)</sup>**

President,  
Beauwood Investments Inc.  
*(a private investment company)*

**18. Samuel Minzberg<sup>(3)</sup>**

President and  
Chief Executive Officer,  
Claridge Inc.  
*(a management company)*

**19. John S. Weinberg<sup>(2,4)</sup>**

Managing Director,  
Goldman, Sachs & Co.  
*(investment bankers)*

**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.

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

Sir Iain Tennant, K.T.

John L. Weinberg

**HONORARY SECRETARY**

Alan A. Sharp

<sup>(1)</sup> Member of the Audit Committee

<sup>(2)</sup> Member of Corporate Governance  
Committee

<sup>(3)</sup> Member of the Executive Committee

<sup>(4)</sup> 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

**Neal B. Cravens**  
Senior Vice President,  
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**Gabor Jellinek**  
Vice President, Production

**Arnold M. Ludwick**  
Vice President

**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 4, 1998, at 11:30 a.m. (E.S.T.) at Le Centre Sheraton, 1201 René-Lévesque Boulevard West, Montreal, Quebec.

**Independent Accountants** PricewaterhouseCoopers LLP

**Stock Symbol** VO

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

### Transfer Agents and Registrars

CIBC Mellon Trust Company, 2001 University Street, 16th Floor, Montreal, Quebec H3A 2A6

Answerline: 1-800-387-0825 (Toll-free throughout North America), 1-416-643-5500

Website: [www.cibcmellon.ca](http://www.cibcmellon.ca)

E-mail: [inquiries@cibcmellon.ca](mailto:inquiries@cibcmellon.ca)

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.

**Internet Site** [www.seagram.com](http://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](mailto:SHAREHOLDERS*ACTIONNAIRES@SEAGRAM.COM)

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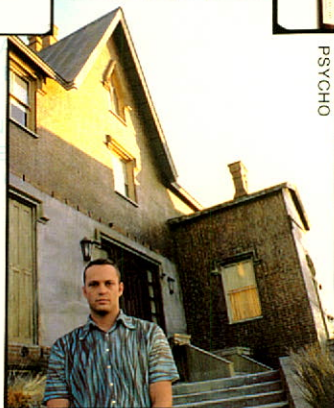
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