



Brown-Forman Corporation

A N N U A L R E P O R T 1 9 9 8



HIGHLIGHTS

(Expressed in millions, except per share amounts and ratios)

Year Ended April 30,	1997	1998	% Change
Net Sales	\$ 1,841	\$ 1,924	5%
Gross Profit	\$ 904	\$ 979	8%
Operating Income	\$ 287	\$ 307	7%
Net Income	\$ 169	\$ 185	9%
Earnings Per Share - Basic and Diluted	\$ 2.45	\$ 2.67	9%
Cash Dividends Paid Per Common Share	\$ 1.06	\$ 1.10	4%
Shareholder Value Added	\$ 84	\$ 94	12%
Return on Average Invested Capital	19.4%	20.4%	
Return on Average Common Stockholders' Equity	25.2%	24.3%	

QUARTERLY FINANCIAL INFORMATION

(Expressed in millions, except per share amounts)

	Net Sales	Gross Profit	Net Income	Earnings Per Share- Basic and Diluted	Cash Dividends Paid Per Common Share	Market Price (High-Low) Per Common Share	
						Class A	Class B
Fiscal 1998	\$ 1,924	\$ 979	\$ 185	\$ 2.67	\$ 1.10	\$ 55 ¹ / ₄ - \$ 44 ¹ / ₂	\$ 59 - \$ 45
Quarters							
First	428	218	34	0.50	0.27	52 ³ / ₄ - 47	54 ¹ / ₈ - 47
Second	554	278	61	0.88	0.27	51 - 44 ¹ / ₂	53 ³ / ₁₆ - 45
Third	481	251	46	0.66	0.28	53 - 47 ¹ / ₄	55 ³ / ₄ - 48 ³ / ₄
Fourth	461	232	44	0.63	0.28	55 ¹ / ₄ - 49 ³ / ₈	59 - 52 ¹ / ₁₆
Fiscal 1997	\$ 1,841	\$ 904	\$ 169	\$ 2.45	\$ 1.06	\$ 50 ⁷ / ₈ - \$ 34 ³ / ₄	\$ 51 ⁷ / ₈ - \$ 35 ¹ / ₄
Quarters							
First	424	212	32	0.47	0.26	42 ⁵ / ₈ - 34 ³ / ₄	42 ¹ / ₄ - 35 ¹ / ₄
Second	526	255	55	0.80	0.26	43 ¹ / ₂ - 36 ¹ / ₈	43 ⁷ / ₈ - 35 ³ / ₄
Third	458	219	42	0.60	0.27	47 ¹ / ₄ - 42 ¹ / ₄	47 ⁷ / ₈ - 42 ¹ / ₈
Fourth	433	218	40	0.58	0.27	50 ⁷ / ₈ - 42 ³ / ₈	51 ⁷ / ₈ - 42

*Brown-Forman, founded in 1870,
is a diversified producer and
marketer of fine quality consumer
products, including:*

*Jack Daniel's Tennessee Whiskey
Southern Comfort
Canadian Mist Canadian Whiskies
Early Times Kentucky Whisky
Jack Daniel's Country Cocktails
Fetzer Vineyards California Wines
Korbel California Champagnes
Bolla Italian Wines
Lenox China and Crystal
Lenox Collectibles
Dansk Contemporary Tabletop,
Housewares, and Giftware
Gorham Silver, Stainless Steel Flatware,
and Crystal
Hartmann Luggage, Business Cases,
and Personal Leather Goods*

PLANTING GERMINATING CULTIVATING

The theme of Brown-Forman's 1998 Annual Report is growth – sustainable, organic growth. Much like a healthy vineyard, Brown-Forman is comprised of brands and businesses that are in different stages of development. At any point in time we are “planting” the seeds of new opportunities, “cultivating” the growth of young ventures, and “nurturing” healthy, vibrant businesses. In some cases, a single brand – Jack Daniel's, for example – is in early developmental stages in certain markets, while in others its progress is more advanced. Other brands or businesses

may be in only one stage of development. Further, investments we made in previous years now reap rewards, while the capital we seed today will produce future growth.

Brown-Forman has a fine record of generating increased shareholder value, and we remain committed to creating true organic growth over the long term. We trust you will find this report to be an informative and interesting way of learning more about how we are executing our strategic initiatives.

NOURISHING NURTURING REAPING



Owsley Brown II

Dear Stockholders:

I am pleased to report that Brown-Forman had another record year. Net income and earnings per share grew 9% with solid improvement in every quarter. Revenue, gross profit, and operating income increased for both of our business segments, as most of our major wine and spirits brands grew and Lenox significantly improved its results. This year's performance makes us more confident than ever in our business strategies and in our future. Our position as an independent, brand-building company creates unique opportunities for us in both business segments and will amply reward our shareholders. In terms of return on invested capital and operating margin, we are one of the most profitable wine and spirits companies in the world. Our recent operating income growth rate also exceeds that of our major wine and spirits competitors. We believe that our management team, premium brands, growth initiatives, and the long-term perspective fostered by the

loyalty of our shareholder base give us the resources and the flexibility to continue improving upon this superior financial performance.

WINE AND SPIRITS

Operating income from our beverage division increased 6% this year, the result of an excellent performance in the U.S. and growth for our premium wine and spirits brands in some key European and Asian markets. Jack Daniel's, our largest profit contributor, finished the year with depletions of approximately 5.4 million cases, a 5% improvement over last year. Jack Daniel's performed particularly well in the U.S., suggesting that the brand can grow substantially in even its most established markets. The brand's overseas growth came not only from more developed markets, such as the U.K. and Japan, but also from promising new markets, including Poland, South Africa, and China. We continue to invest in additional advertising for Jack Daniel's in order to increase the brand's equity and secure its future growth. To better communicate with newer consumers in the U.S., we supplemented the existing black-and-white print campaign with new color advertising. Jack Daniel's Country Cocktails, Jack Daniel's & Cola, Gentleman Jack, and the recently introduced super-premium Jack Daniel's Single Barrel all made substantial progress last year, further contributing to the brand's image and broadening its appeal.

Worldwide depletions for Southern Comfort, another important member of our beverage portfolio, improved 2% this year, the result of our international expansion initiatives. We also increased spending behind Southern Comfort and

will continue to do so. The brand performed well in established markets, including Greece, Ireland, and Italy, as well as in the developing markets of India, Russia, and the Philippines. Southern Comfort has a strong international base to build upon and it plays an important role in our company's international growth plans.

Finlandia, Glenmorangie, and several other U.S. spirits brands reported sizeable volume and gross profit increases for fiscal 1998. Consistent with our brand-building strategy, we increased our support behind these and other brands during the year and plan to continue doing so, capitalizing on the growing consumer preference for premium and super-premium products. We also made progress placing other brands, such as Canadian Mist, Early Times, and Woodford Reserve, in new markets outside the U.S. We believe that our spirits brands are well positioned for the future.

Our wine group had an excellent year. Profits grew at a double-digit rate, largely the result of price increases in the U.S. and international volume growth. Exports of Fetzer grew at an impressive rate, indicating substantial international opportunity for the brand. In order to build brand equity, we increased U.S. television advertising spending this year, most notably for Fetzer and Bolla, and continued to upgrade the packaging of our brands. We also maintained our commitment to improving the quality of our wines and many of our labels benefited from favorable reviews throughout the year. Our U.S. portfolio expanded with the addition of the Michel Picard line of French wines. We believe the brand has a promising future and we continue to seek other quality additions to our global portfolio.

Our beverage division faced several challenges during the year, including the continued decline in demand for our pre-blended frozen drinks in the U.S., a stronger dollar, and difficult economic conditions in a number of countries. Internationally, the softness we experienced in the early months of our fiscal year diminished and volumes improved significantly as the year progressed. We did not incur the heavy penalties suffered in Southeast Asia by others in our industry whose business is much more dependent than ours on that region. Although a continuation of the dollar's strength could temper the pace of our future earnings growth, we believe the outlook for developing our international business remains excellent, and we will continue our investment spending to build a profitable and sustainable business for the future.

Depletions and gross profits from our Advancing Markets Group grew more than 30% during fiscal 1998. Volume for this division now exceeds 400,000 cases, having more than doubled since its creation in fiscal 1995. International business accounts for 28% of total beverage sales (net of excise taxes), up from just 8% in 1986, evidence of the success of this expansion initiative. We believe that our beverage company will create substantial value for our shareholders as it pursues growth with powerful brands, a team of skilled people, and a focused business strategy.

CONSUMER DURABLES

Operating income from Consumer Durables grew 17%, the second consecutive year of double-digit profit growth. Significant improvement in Lenox Collections' high-margin catalog

and direct mail business and modest earnings gains for the retail and wholesale divisions contributed to these results. Lenox Collections performed well throughout the year, the result of successful turnaround efforts begun in fiscal 1997. Lenox continues to lead the fine china category, with a U.S. market share double that of its nearest competitor. Dansk increased sales as it successfully re-entered the wholesale channel with its casual, contemporary tableware patterns. More aggressive marketing efforts and favorable consumer response to product line innovations contributed to double-digit growth in revenue and gross profit at Hartmann. Our consumer durables segment is creating value for our shareholders by capitalizing on powerful brand names, expanding its distribution, and introducing new dinnerware, gifts, and leather goods with ever greater consumer appeal.

GROWTH IN THE FUTURE

Our company enjoyed a prosperous 1998. During the year, two of the world's biggest wine and spirits companies merged, creating uncertainty within the industry, but not at Brown-Forman. We are an independent, highly profitable, brand-building company that produces and markets some of the finest brands in the world - and that's what we intend to remain. The strength of our brands and the skill of our people will determine our success and we are investing in both. Advertising for wine and spirits grew 13% this year, significantly faster than our rate of sales growth, and one of the highest advertising reinvestment rates in the industry. At a time when many of our

wine and spirits competitors are seeking to improve their near-term reported results by cost-cutting, we are focused on the fundamentals of our business: adding value to our brands and generating sustainable long-term growth for our shareholders.

We believe our company will not only preserve its current enviable status in the industry but will grow to become an even greater factor in the world's marketplace. We are better positioned to accomplish our objectives than we have ever been - our brands are strengthening, our international expansion is progressing, our financial and operating capacity is growing, and our people are among the most motivated and skilled in the industry. This puts us in an excellent position to take advantage of superior opportunities when they arise, and we are committed to doing so in ways that will bring long-term rewards to our shareholders.

Thank you for your continued support of Brown-Forman.

Sincerely yours,



Owsley Brown II
Chairman and Chief Executive Officer
June 12, 1998



Jack Daniel's Single Barrel is the first single barrel Tennessee whiskey ever produced. It gives the Jack Daniel's franchise an exceptional entry in the growing and highly profitable single barrel/small batch whiskey category.



The new Finlandia bottle resembles melting ice, symbolic of the brand's origins in pure glacial spring water. The Finlandia package now presents a premium image consistent with the superior vodka in the bottle.

P L A N



*(Clockwise)
Rick Lewis in California,
Adilson Prado in São
Paulo, Kate Sweet in
London, and Mark
Overdyk in Hamburg
are just four of our 7,600
employees who contribute
to the company's success
around the world.*



The company launched Southern Comfort in the Philippines with great fanfare, including festive outdoor parties and large floor displays in retail stores. Brown-Forman employees Ollie de Jesus and Alan Anastacio worked closely with the trade to establish the store displays, like the one shown here in Manila.

T I N G

Brown-Forman plants the seeds of future growth in many ways in the world's markets. Because success in today's global economy requires the creative energy of a company's workforce, our most important investment is in our people. Brown-Forman has always believed in hiring and developing the best employees, but we have recently redoubled our efforts — with an increasingly diverse group of people — to better position the company to compete globally. In the last four years, we have added more than 500 new employees, many of them non-U.S. citizens working in their native countries.

We also sow new seeds by introducing our brands in new markets. Southern Comfort stands out as an excellent product with which to enter different countries around the world. This unique American

spirit has particular appeal among young adults of many cultures, and in recent years we have launched the brand in the Philippines, Brazil, and India. Since 1994, we have introduced Jack Daniel's in 32 new markets around the globe, bringing the total to well over one hundred. In fiscal 1998 we also began selling Jack Daniel's & Cola in Germany, Woodford Reserve in Germany and the U.K., Forester 1870 in India, and Fjord Vodka in Poland.

In the U.S., we reseed our already strong brand franchises with increased investments in marketing and new partnerships with on- and off-premise retailers. We also focus on new products and line extensions. Brown-Forman gained U.S. marketing and distribution rights to Finlandia Vodka in fiscal 1997 and,

working with Primalco Ltd., the brand's Finnish owners, we are now introducing new packaging for this premium imported vodka. Already the third-largest selling premium imported vodka, we are hopeful that the new bottle, coupled with a significant increase in marketing and advertising investment, will produce long-term growth for the brand. We also expanded distribution of Jack Daniel's Single Barrel in the U.S. and select international markets last year. This line extension is performing well in its infancy.



Southern Comfort Spice was developed specifically for the South African market. Its introduction has gone well thanks to good support from the trade.



The new Michel Picard Wines from France strengthen the company's portfolio by offering consumers American-style varietal wines as well as French-style regional wines, such as the Pouilly-Fuissé shown here.

G E R M I

Hopland
Greenfield
San Rafael
Newport Beach
Denver
Dallas
Chicago
Columbus
Louisville
Nashville
Lynchburg
Versailles
Atlanta
Miami
Collingwood
Boston
Hauppauge
St. Croix
Caracas
São Paulo
Buenos Aires



Dublin
London
Paris
Hamburg
Barcelona
Istanbul
Athens
Milan
Verona
Warsaw
Prague
Cape Town
Shanghai
New Delhi
Singapore
Manila
Sydney
Tokyo
Hong Kong
Beijing

Brown-Forman Beverages Worldwide has opened 18 new international offices in the last four years and now has offices, production facilities, or joint venture operations in more than 40 locations around the globe.



We tailor our promotional activities to fit each market. In Hamburg, Germany Jack Daniel's is the sponsor of a professional soccer team. Jack Daniel's signs adorn the stadium and the team's players wear jerseys sporting the Jack Daniel's name.

N A T I N G

The first visual evidence of a new crop is the appearance of shoots. Some plants produce fruit quickly and continue to blossom for a long time. Similarly, many of Brown-Forman's investments already produce returns while offering the opportunity for significantly greater growth in the future.

The company's beverage business in Western Europe is a good example. We've enjoyed success there for many years and continue to see great potential for the future. Depletions of Jack Daniel's grew at a double-digit rate in the United Kingdom last year, making it the brand's number one export market. Jack Daniel's also increased volume in other Western European markets, including Germany, Greece, France, and Spain, although gross profit growth was dampened somewhat by the strong dollar. Southern Comfort also enjoyed volume

gains in Western Europe last year, the first such depletion growth for the brand in these markets in four years.

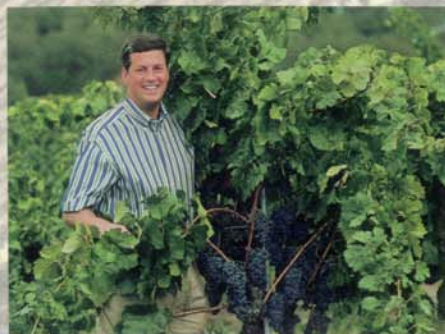
Other investments are in earlier stages of development. Brown-Forman's South African business, for example, is much newer but already shows signs that it will blossom nicely. In addition to Jack Daniel's and Southern Comfort, we sell products in South Africa made specifically for that nation's consumers. We also market and distribute other companies' brands under agency agreements, a good indication that we have established a solid organization in South Africa. The company's investments in China and Central Europe are taking root, and we plan for continued progress in Latin America, India, and other parts of Asia as well.

Even in the established U.S. market, plenty of opportunity exists for new growth, as demonstrated by the first-year success of Michel Picard Wines from France. This portfolio of varietal and French regional wines has earned excellent reviews from wine writers and approval from the trade and consumers alike.

In our consumer durables business, Lenox's Disney-themed giftware products and Dansk's new casual dinnerware lines have sprouted well since their introductions. The company believes both businesses offer significant opportunity for future growth.



Because of the increasing worldwide demand for quality California wines, the company is expanding the Mendocino Cooperage adjacent to Fetzer Vineyards. Nathan Roberts, shown here, and his colleagues will soon be able to make as many as 100,000 barrels a year.



Fetzer International Winemaker Phil Hurst carefully crafts wines to meet the taste preferences of wine drinkers in global markets.

CULTI



(From left) Bill Creason, Dave Seheurich, and Peggy Stevens of the Labrot & Graham team stand beside the copper pot stills that are housed in one of the many historic stone buildings at the distillery. More than 22,000 visitors from all 50 states and 52 foreign countries visited the L&G Distillery in its first full year of operation in Central Kentucky.



Jack Daniel's brand team members (from left) Mike Keyes, Riley Hedrick, Dennis Walsh, and Erin Schlader lead the company's efforts behind the brand in the U.S. The Jack Daniel's family of brands gives the company a strong entry in virtually every segment of the American whiskey market.

V A T I N G

Farmers often say that to succeed in agriculture, one must take care of business every day – the job of cultivating the land never ends. We believe success in the consumer products business demands the same commitment.

Jack Daniel's is truly one of America's icon brands, but we are not satisfied to merely rest on the laurels of its past success. Rather, we choose to carefully cultivate the brand's Americana image to produce consistent long-term growth. Jack Daniel's worldwide depletions increased 5% last year, reflecting solid volume growth in the U.S., established international markets, and countries where the brand is relatively new.

We have also helped the Jack Daniel's franchise produce more growth by introducing several successful line extensions over

time. Gentleman Jack, a super-premium whiskey, produced double-digit growth for the ninth consecutive year in fiscal 1998. Jack Daniel's Country Cocktails, a line of tasty, low-alcohol drinks, grew at double-digit rates for the third straight year. Newer line extensions, such as Jack Daniel's Single Barrel, Jack Daniel's Silver Select, and Jack Daniel's Master Distiller, provide franchise entries in ultra-premium niche markets.

Another way we cultivate our American whiskey business is through the Labrot & Graham Distillery in Woodford County, Kentucky. This carefully restored historic facility is one of the premier tourist attractions in Central Kentucky's Bluegrass horse country. Visitors not only tour the idyllic grounds of this venerable distillery

to see where Woodford Reserve is aged and bottled, but they also learn about the history of bourbon and its importance to the development of Kentucky and our nation.

Our wine business also cultivated new growth last year, especially in international markets. Led by Fetzer Wines, our wine business grew at a double-digit rate in overseas markets. With California wines being a small but rapidly growing part of the international wine market, we believe significant potential exists for substantial long-term growth.



Hartmann is broadening its appeal among consumers by introducing new fabrics and patterns. The Hartmann Wings Collection luggage, shown here, features the new cognac diamond design.



Early Times grew nicely in Japan last year, thanks to effective television ads featuring images of the American West. Early Times is now the best-selling bourbon in Japan.

N O U R I



Mike Smith, John Overfield, and Bob McLachlan were instrumental in establishing the Jack Daniel's-T.G.I. Friday's® alliance, which paid big dividends to both companies last year. Jack Daniel's Tennessee Whiskey enjoyed increased sales at Friday's restaurants and bars, while the Jack Daniel's Grill menu was one of the great success stories in the U.S. restaurant industry.



Fetzer enjoyed impressive sales growth in the U.S. last year, partly because of a continuing emphasis on higher margin premium varietal wines. (From left) James Sobbizadeh, Kay Rodrick, Dennis Martin, and Michael Friedman are four members of the strong Fetzer team leading this important brand.

SHING

One of the keys to success in agriculture is gaining additional yield from existing crops by carefully nourishing the environment around them. Brown-Forman takes the same approach to generate new growth in already strong markets and businesses.

The domestic Fetzer Wines business provides an excellent example of this strategy. In fiscal 1998, the company continued to build on the strength of Fetzer's line of premium varietal wines while de-emphasizing its lower-priced wines. Our continuing efforts to improve quality also allowed us to increase prices and margins on Fetzer Wines last year, resulting in solid profit growth for this highly successful brand. In addition, the Bonterra brand, produced by Fetzer from organically grown grapes, continued its growth trend.

We're also finding new ways to grow Jack Daniel's in the U.S., including the use of color magazine ads for the first time in the brand's history. Equally important is the new on-premise focus for this brand, as we establish strategic alliances with large chain restaurants and bars. The Jack Daniel's Grill at T.G.I.Friday's® restaurants illustrates the great value of this initiative. Last year, Friday's network television ads promoted Jack Daniel's menu items and prominently featured the brand's name and logo. We're continuing to develop our strong relationship with Friday's, while also working on additional partnerships with other large on-premise chains.

We also nourish our consumer durables businesses. As a result, Hartmann Luggage enjoyed double-

digit sales gains in the U.S. last year. The mobile luggage pieces and the "Intensity" ballistic nylon series performed especially well, while the new "Progression" line of business cases also earned positive trade and consumer reaction.



The company enhanced Old Forester – Brown-Forman's original brand – last year with new packaging. The new bottle and label present a more premium look while maintaining founder George Garvin Brown's handwritten assurance of quality.



In New York City, Korbelt owner Gary Heck and Ken Wilson of the Brown-Forman Wine Group joined with Times Square 2000 representatives Jeffrey Straus and Gretchen Dykstra to announce Korbelt's designation as the official champagne of the Times Square Millennium Celebration. The partnership includes a 10-year sponsorship affiliation for Korbelt and the Times Square New Year's Eve festivities.

N U R T U



The new Jack Daniel's Country Cocktails bottling line began operations in January. (From left) Rick Higdon, Juanita Emmett, and John Kopatz are members of this important production team.



New products and new designs provide the lifeblood of Lenox's businesses, especially Lenox Collections and giftware. Designer Andrew Kinzett models a new vase for Lenox.

R I N G

The wise farmer knows that successful vines need nurturing to keep them healthy and vibrant. Brown-Forman applies this same philosophy to its businesses.

Lenox, for example, is a more than 100-year old company that has long been the standard-bearer for fine china in the U.S. Seeking additional growth, Lenox recently expanded its product line in the faster-growing casual dinnerware and giftware categories. More importantly, we nurtured the very profitable Lenox Collections business by concentrating on those products with the most potential. This strategy allowed us to reduce costs and increase sales, resulting in double-digit profit growth for Lenox Collections in fiscal 1998.

Korbel California Champagnes is another long-term success story that we nurture with special attention. By far the top-selling premium champagne in the U.S., Korbel is preparing for what promises to be the biggest sales opportunity for champagnes in literally a thousand years – the new millenium celebration. Korbel recently signed an agreement with New York City's Times Square 2000 project to be the exclusive champagne at the Times Square New Year's Eve celebrations during the next decade, including, of course, the millenium celebration. Korbel has designed special labels and advertising to commemorate this designation, which should help sales across the U.S.

Brown-Forman has produced and bottled distilled spirits products for more than a century, yet we still find ways to nurture our production process. Costs are down and quality is up across the Distillery Company. In fiscal 1998, for example, we developed our own in-house bottling line for Jack Daniel's Country Cocktails after outsourcing this important function for several years. By bottling this growing product line ourselves, we will produce significant cost savings as well as greater quality control.

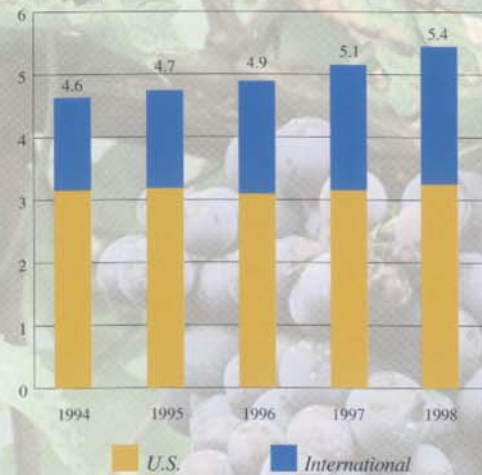
**Major Brands' Worldwide
Depletions* in Fiscal 1998**

North American Spirits	Nine-Liter Cases	Change
		From Fiscal 1997
Jack Daniel's	5,375,000	5%
Canadian Mist	2,765,000	-4%
Southern Comfort	2,235,000	2%
Early Times	1,255,000	-3%
Wines		
Fetzer	2,475,000	4%
Bolla	1,525,000	6%
Korbel Champagnes	1,110,000	4%

* Depletions are case sales from wholesalers to retailers, representing our best approximation of consumer purchase.

**Jack Daniel's
Worldwide Depletions**

Millions of Nine-Liter Cases



REAP

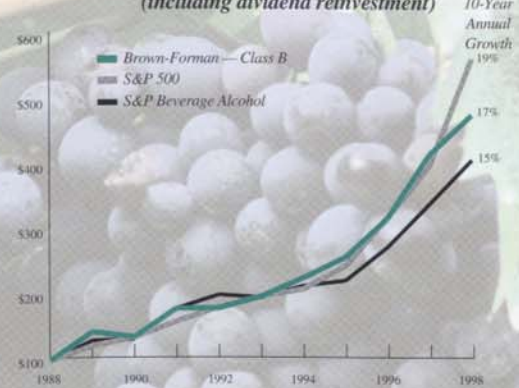
Gross Profit Per Employee



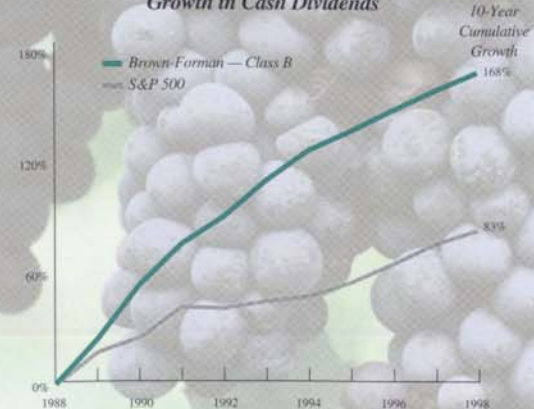
Earnings Per Share



**Total Shareholder Return
(including dividend reinvestment)**



Growth in Cash Dividends





Employees (from left) Cheryl-Lynne Patricia Moore, Alan Moore, Kathleen Garcia, Robert Holmes, Dana Allen, Eddie Plunkett, Peter Tevebaugh, Marisol Lanceta, Jerry Divino, Larry Frerman, Jackie Porter, Andrew Mansinne, Barbara Carnforth, Nick Nelson, and Jim Welch gathered in the company's garden dining area to toast Brown-Forman's success in fiscal 1998.

I N G T H E R E W A R D S

In both the agriculture and consumer products industries, celebrating success is an annual event because people in both endeavors enjoy reaping the rewards of their efforts. Here at Brown-Forman, fiscal year end offers us the opportunity to gather together and raise a glass to our success. And we have much to celebrate.

Depletion trends for most of our major brands improved in fiscal 1998. Worldwide depletions of Jack Daniel's, our largest brand, grew by 5% as the brand gained in the U.S., in international markets where the brand is well established, and in emerging markets. Sales volume of Jack Daniel's has increased from less than 200,000 cases in 1956, when Brown-Forman bought the brand, to 5.4 million cases in fiscal 1998.

Depletions of Fetzer and Bolla wines, Korbel Champagnes, and Southern Comfort also grew nicely.

We are also celebrating continued improvement in net gross profit, a key measure by which we gauge the quality of volume growth. During the past year, gross profit increased 8%, as the company's gross margin improved from 49.1% to 50.9%. This impressive performance was accompanied by a strong 9% growth in earnings per share, another important measure of our success.

Long-term growth in the market value of our stock is the ultimate reward being reaped by the shareholders of Brown-Forman. A \$100 investment in the company's Class B stock ten years ago would have grown to

\$479 by the end of fiscal 1998, assuming reinvestment of all dividends and ignoring personal taxes and transaction costs. This represents an annualized return of 17% over the ten-year period. While Brown-Forman's performance has compared favorably to returns for the broader U.S. market during most of this decade, we did not keep pace with the 41% gain posted by the S&P 500 in fiscal 1998.

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SELECTED FINANCIAL DATA

Year Ended April 30,

(Expressed in millions, except per share amounts and ratios)

Operations	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Net Sales	\$ 1,262	1,279	1,366	1,496	1,658	1,628	1,680	1,807	1,841	1,924
Gross Profit	\$ 546	584	645	719	791	790	824	880	904	979
Operating Income	\$ 208	225	223	234	255	240	268	274	287	307
Net Income	\$ 144	93	145	146	156	129	149	160	169	185
Weighted Average Shares used to calculate Earnings Per Share										
- Basic	83.9	83.9	83.3	82.7	82.7	78.7	69.0	69.0	69.0	68.9
- Diluted	83.9	83.9	83.3	82.7	82.7	78.7	69.0	69.0	69.0	69.0
Earnings Per Share										
- Basic and Diluted	\$ 1.72	1.10	1.74	1.76	1.88	1.63	2.15	2.31	2.45	2.67
Cash Dividends Paid Per Common Share	\$ 0.51	0.63	0.72	0.78	0.86	0.93	0.97	1.02	1.06	1.10
Invested Capital										
Average Invested Capital	\$ 671	704	743	823	925	900	835	875	929	948
Average Common Stockholders' Equity	\$ 493	564	616	686	765	629	493	578	671	756
Total Assets	\$ 1,003	1,021	1,083	1,194	1,311	1,234	1,286	1,381	1,428	1,494
Long-Term Debt	\$ 115	114	112	114	154	299	247	211	63	50
Other Key Measures										
Gross Margin	43.3%	45.7%	47.2%	48.1%	47.7%	48.5%	49.1%	48.7%	49.1%	50.9%
Operating Margin	16.5%	17.6%	16.4%	15.6%	15.4%	14.8%	15.9%	15.2%	15.6%	15.9%
Effective Tax Rate	36.0%	48.7%	33.8%	34.6%	35.6%	37.4%	39.8%	37.8%	38.0%	37.6%
Return on Average Invested Capital	23.8%	14.6%	20.5%	18.8%	18.0%	15.4%	19.5%	19.7%	19.4%	20.4%
Return on Average Common Stockholders' Equity	29.2%	16.3%	23.5%	21.3%	20.4%	20.4%	30.1%	27.5%	25.2%	24.3%
Total Long-Term Debt to Total Long-Term Capital	17.2%	16.1%	14.5%	13.4%	15.9%	39.2%	31.1%	25.0%	8.0%	5.7%
Total Cash Dividends Paid to Net Income	29.8%	57.4%	41.7%	44.4%	45.8%	57.5%	45.3%	44.2%	43.3%	41.2%
Cash Flows from Operations	\$ 138	125	134	156	193	221	197	167	176	220
EBITDA	\$ 239	259	256	271	299	286	311	320	337	358

Notes:

1. Includes the operations of Fetzer Vineyards and Dansk International Designs Ltd., since their acquisitions on August 31, 1992, and July 2, 1991, respectively.
2. Fiscal 1994 net income and earnings per share were reduced by \$32 million and \$0.41, respectively, from the cumulative effect of accounting changes. Fiscal 1990 net income and earnings per share were increased by \$12 million and \$0.14, respectively, from the cumulative effect of accounting changes.
3. On October 15, 1993, the company sold Brown-Forman Enterprises, its credit card processing operations, resulting in an after-tax gain of \$18 million.
4. On January 31, 1989, the company sold the U.S. marketing rights for Martell Cognacs resulting in an after-tax gain of \$22 million.
5. Fiscal 1990 net income was reduced \$60 million to reflect the write-down of intangible assets of California Cooler.
6. Weighted average shares, earnings per share and cash dividends paid per common share have been adjusted for a 3-for-1 common stock split in fiscal 1994.
7. Return on Average Invested Capital is defined as the sum of net income (excluding extraordinary items) and after-tax interest expense, divided by average invested capital. Average invested capital is the sum of all interest-bearing debt and preferred and common equity.
8. Return on Average Common Stockholders' Equity is defined as the sum of income applicable to common stock divided by average common stockholders' equity.
9. Total Long-Term Debt to Total Long-Term Capital is defined as long-term debt divided by the sum of long-term debt and preferred and common equity.
10. EBITDA is defined as earnings before interest, taxes, depreciation and amortization, and as such represents a measure of the company's liquidity. It should be considered in addition to, but not as a substitute for, other measures of financial performance in accordance with generally accepted accounting principles.

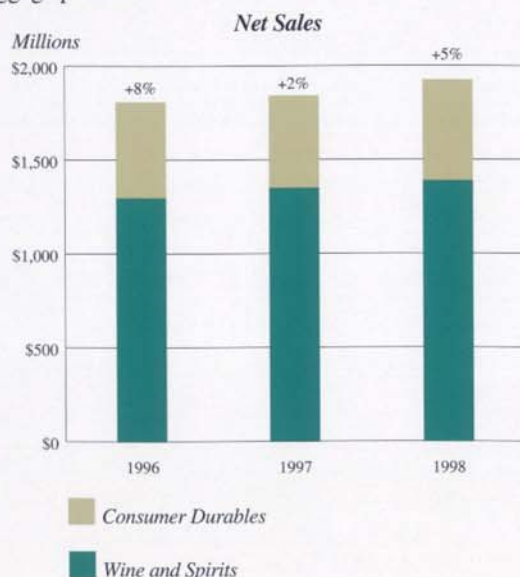
In the discussion below, and in the Chairman's letter, we discuss Brown-Forman's consolidated financial condition and results of operations for the fiscal years ended April 30, 1996, 1997 and 1998. We also discuss factors that may affect the company's future financial condition. Please read this section along with Brown-Forman's consolidated financial statements for the year ended April 30, 1998, and the related notes.

When we make forward-looking statements about Brown-Forman's anticipated financial performance, business prospects, new products, or similar matters, we do not guarantee that the results indicated will actually be achieved. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. To comply with the terms of the safe harbor, we have prepared a non-exclusive list of important risk factors that could cause our actual results to differ materially from anticipated results. You can find this list in Part II, Item 7 of the company's Annual Report on Form 10-K, into which this discussion is incorporated by reference.

CONSOLIDATED SALES AND EARNINGS

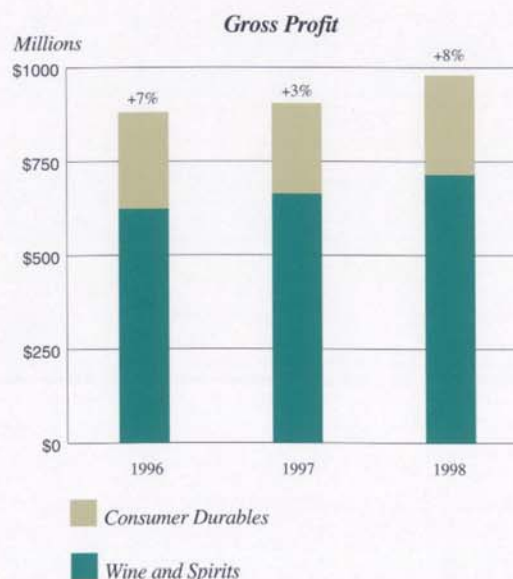
Fiscal 1998 Compared to 1997

Net sales reached record levels in fiscal 1998, growing \$83 million, or 5%. Sales of wines and spirits increased 3%, as solid growth of Jack Daniel's and wines was tempered by a decline in sales of frozen cocktails. Revenues from the consumer durables segment improved 9%, reflecting strong growth by the Lenox Collections direct marketing division as well as higher sales of fine china dinnerware and luggage products.

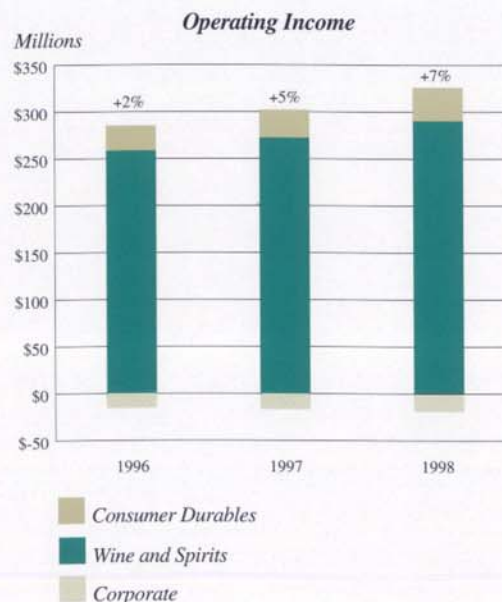


International sales of \$347 million were up 5% in fiscal 1998, despite a significant strengthening of the U.S. dollar. Growth outside the U.S. reflects our successful efforts to expand the international distribution of Brown-Forman's leading brands. Sales outside the United States represented 18%, 21% and 21% of our revenues (excluding excise taxes) during fiscal 1996, 1997 and 1998, respectively.

Gross profit performance is a key measure by which we gauge the quality of volume growth. Fiscal 1998 gross profit improved 8%, significantly exceeding the rate of sales growth. By focusing our marketing efforts on high-margin products and realizing manufacturing efficiencies, we have steadily improved the company's gross margin from less than 40% in fiscal 1988 to nearly 51% in fiscal 1998.



Operating income for fiscal 1998 improved \$20 million, or 7%. Profits from wine and spirits grew \$16 million, reflecting higher volumes, price increases and manufacturing efficiencies, allowing the company to increase its investment in brand building and international expansion initiatives. The consumer durables segment achieved a \$5 million increase in operating income, reflecting profitable growth of Lenox Collections and fine china dinnerware.



Earnings per share reached a record \$2.67, up 9% over fiscal 1997. Earnings growth resulted from improved operating income, lower interest expense and a slightly more favorable effective tax rate.



Fiscal 1997 Compared to 1996

Net sales grew \$34 million, or 2%, in fiscal 1997. Sales of wine and spirits increased 4% resulting from worldwide growth of Jack Daniel's and premium wine brands, partially offset by sharply lower sales of frozen cocktail products. Sales from the consumer durables segment declined 4%, primarily reflecting a planned contraction of Lenox Collections.

Operating income improved \$13 million, or 5%, during fiscal 1997. A 4% increase in operating income for the wine and spirits segment resulted from strong worldwide growth of Jack Daniel's and our premium wine brands, partially offset by sharply lower sales of frozen cocktail products and by investments associated with our international expansion initiative. Operating income for the consumer durables segment increased 11% in fiscal 1997, largely reflecting a rebound in profits at Lenox Collections.

Earnings per share grew 6% over fiscal 1996 to \$2.45 per share, reflecting higher operating income and lower interest expense.

SHAREHOLDER VALUE ADDED

Brown-Forman's foremost goal is to increase the value of our shareholders' investment. To assist us in achieving this objective, we gauge performance and compensate our management based on a measure we call Shareholder Value Added (SVA). SVA represents the company's after-tax operating income less our cost of capital, which recognizes not only the profits generated by the company but also the investment required to produce those profits.

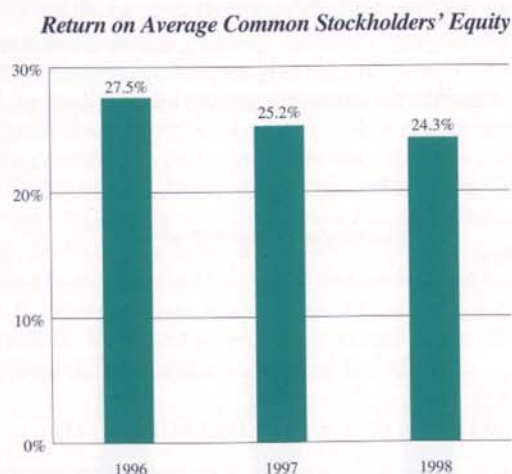


During the three years ended April 30, 1998, SVA increased at an annual compound rate of 8%. Strong 12% growth in fiscal 1998 SVA reflects the leverage gained from expanding operating earnings at a faster rate than invested capital.

Return on average invested capital increased from 19.4% to 20.4%, reflecting continued growth in profits and careful management of invested capital.



Return on average common stockholders' equity has declined over the past three years, reflecting our use of free cash flow to reduce debt as a percentage of the company's total capital structure.



COMPANY OUTLOOK

We believe the outlook for Brown-Forman's growth is very positive. Market conditions for premium wine and spirits brands remain promising and, in order to capitalize on these opportunities, we plan to further increase the marketing investments behind our beverage brands. We will continue to penetrate new markets by expanding our global sales, marketing and distribution resources, as well as develop new products within promising market segments.

The outlook is also positive for our consumer durables business. Lenox dominates the U.S. market for fine china dinnerware, and is creating value for shareholders by capitalizing on its powerful brand name. Continued focus will be placed on developing categories which offer significant growth opportunities, including products designed for casual dining and gift giving.

WINE AND SPIRITS SEGMENT

Summary of Operating Performance

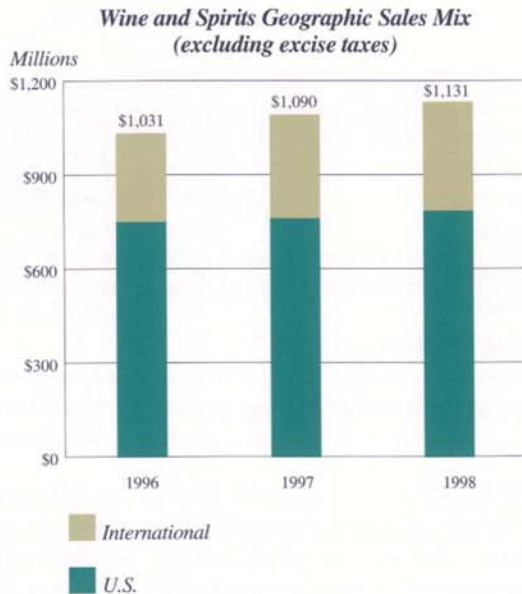
(Expressed in millions, except percentages)

	1996	1997	1998
Net Sales	\$ 1,294	\$ 1,347	\$ 1,385
% Change	14%	4%	3%
Gross Profit	\$ 622	\$ 662	\$ 713
% Change	14%	6%	8%
Advertising Expenses	\$ 160	\$ 174	\$ 197
% Change	24%	9%	13%
SG&A Expenses	\$ 200	\$ 215	\$ 227
% Change	15%	8%	5%
Operating Income	\$ 262	\$ 273	\$ 289
% Change	8%	4%	6%
Net Income	\$ 167	\$ 173	\$ 183
% Change	8%	3%	6%
EBITDA	\$ 286	\$ 301	\$ 318
% Change	7%	5%	5%
Gross Margin	48.1%	49.2%	51.5%
Operating Margin	20.2%	20.3%	20.8%

Fiscal 1998 Compared to 1997

Net sales grew \$38 million, or 3%, driven by record sales for the Jack Daniel's family of brands and Fetzer. Fiscal 1998 results also include the first full year of sales for Finlandia and Michel Picard, brands added to our U.S. portfolio in fiscal 1997. Partially offsetting these gains were a continued decline in frozen cocktail sales and lower volumes for Canadian Mist.

A key growth initiative for Brown-Forman has been to accelerate expansion into international markets. Although tempered by the stronger dollar, beverage sales outside the U.S. grew 5% in fiscal 1998. International sales in both fiscal 1997 and 1998 represented 28% of total wine and spirits sales excluding excise taxes.



Gross profit expanded at a much stronger pace than sales, growing 8% in fiscal 1998. Price increases, favorable product mix and manufacturing efficiencies combined to improve the gross margin for our wine and spirits segment from 49.2% to 51.5%.

Advertising expenses grew 13%, reflecting a substantial increase in consumer spending to support established brands such as Jack Daniel's and Fetzer, as well as new brands like Finlandia. **Selling, general and administrative expenses** increased 5%, primarily reflecting further investment in the sales infrastructure for international markets.

Operating income increased 6%, as the operating margin for wine and spirits improved from 20.3% to 20.8%. **Net income** also increased 6%, reflecting operating growth as well as a reduction in the segment's effective tax rate from 36.8% to 36.5%.

Fiscal 1997 Compared to 1996

Net sales grew \$53 million, or 4%, primarily reflecting a strong performance by Jack Daniel's. Also contributing to segment sales growth was a significant increase in revenues from the Fetzer, Bolla and Korbel wine brands, largely as a result of price increases during the year. These positive results were partially offset by significantly lower sales of Tropical Freezes, a line of frozen cocktails introduced in fiscal 1996.

Gross profit margin increased from 48.1% to 49.2%, reflecting price increases, a favorable product mix and lower costs.

Advertising expenses grew 9% as the company increased spending in support of its major brands, principally Jack Daniel's and Southern Comfort. **Selling, general and administrative expenses** rose 8%, primarily reflecting investments associated with the company's strategy to expand our brands into new international markets.

Operating income increased 4%, largely as a result of higher profits from Jack Daniel's and our premium wine brands. These gains were partially offset by lower sales of frozen cocktails and by investments in international markets. **Net income** grew 3%, reflecting operating growth, partially offset by an increase in the segment's effective tax rate from 36.3% to 36.8%.

Business and Social Environment for Spirits and Wines

The business environment for spirits and wines is strongly influenced by societal attitudes toward drinking and governmental policy reflecting those attitudes. While in most societies the majority of people either consume beverage alcohol or are neutral regarding its use, a minority oppose drinking. Opponents of beverage alcohol typically seek to reduce the number of outlets for sale, to increase the shelf price through higher taxes and to impose restrictions on advertising.

Brown-Forman strongly opposes abusive drinking and contributes significant amounts of money to programs aimed at understanding and curbing alcohol abuse. We also support and abide by voluntary industry marketing and advertising guidelines. Brown-Forman and other beverage alcohol producers are in the forefront of encouraging responsible consumption of their products and in warning against alcohol abuse. The sale of spirits and wines takes place against the backdrop of this debate about the proper role of beverage alcohol in society.

Distillers and vintners, such as Brown-Forman, seek to compete vigorously in the marketplace and to protect the rights of adult consumers to purchase their products. In the U.S. and in international markets, Brown-Forman participates in trade association activity with other distillers and vintners to work for a more favorable political and social environment for the sale of our products. In the U.S., Brown-Forman is a member of the Distilled Spirits Council of the United States and The Wine Institute, organizations which oppose punitive legislation and seek to obtain fair treatment for the company and its consumers. Similarly, Brown-Forman works to secure favorable legislative and regulatory treatment in foreign markets, including open access to foreign markets for U.S.-made spirits and wines.

Beverage alcohol sales are particularly sensitive to higher tax rates. In Brown-Forman's largest market, the U.S., no federal legislation is currently pending to increase federal excise taxes, but a future tax increase cannot be ruled out. Similarly, there are periodic efforts to increase beverage alcohol taxes at a state level. While there has been discussion (and legislation introduced) to ban television advertising of spirits in the U.S., nothing has come of it. However, most TV networks and local affiliated stations currently decline to accept distilled spirits advertising.

Outside the U.S., the beverage alcohol market is also affected by tax rates and advertising restrictions, but the impact of those policies in any one market is not significant to the company's overall business.

The creation of the European Union and the consequent elimination of trading barriers and adoption of a single currency affect Brown-Forman's business in Europe. These changes may transform the spirits and wines distribution system in Europe, which is built on a country basis, by encouraging cross-border sales. Brown-Forman is not a significant owner of European distribution companies, but we may find pressure on the retail sales price of our products because of increased cross-border competition.

In the publicity surrounding the class action tort litigation against the tobacco companies in the U.S. and the U.K. (and accompanying U.S. legislation to implement a proposed tobacco settlement), some commentators have suggested that other industries, such as alcohol, fast foods and automobiles may be next. To our knowledge, no such litigation is pending against Brown-Forman or any other alcohol producer. Our view is that there are very significant differences between tobacco and beverage alcohol that make such litigation, if filed, unlikely to be successful. Beverage alcohol, when used as intended, is not harmful to otherwise healthy consumers. Indeed, scientists and health care experts report that beverage alcohol may have positive cardiovascular health benefits when consumed by otherwise healthy adults. Although Brown-Forman does not recommend that consumers drink beverage alcohol for health reasons, the potential health benefits of responsible beverage alcohol consumption are an important distinction between alcohol and tobacco. The drinking of beverage alcohol for social, ceremonial and religious purposes is deeply interwoven, since Biblical times, into the traditions of many societies. The dangers of alcohol abuse are commonly known and have never been concealed by alcohol producers. Beverage alcohol producers have been in the forefront of encouraging responsible consumption of their products and in warning against alcohol abuse. Lastly, the content, manufacture, marketing and sale of beverage alcohol are subject to stringent regulation by the state and federal governments, including the placement of health warning labels on the container.

The recent merger of Grand Metropolitan and Guinness created United Distillers & Vintners, by far the largest global spirits company. There is speculation about further consolidation of the major spirits companies. Although there is fierce competition among the different major spirits producers, these companies also act as distributors for each other's products in different markets. For instance, United Distillers & Vintners distributes Jack Daniel's and Southern Comfort in the U.K. and Bacardi distributes our spirits products in most of continental Europe. Although the consolidation of spirits producers could theoretically hinder the distribution and marketing of our spirits products, to date that has not happened and it seems unlikely to do so. As Brown-Forman generally does not own major distribution companies, our products are sought after for distribution by other major companies and we expect that to continue.

CONSUMER DURABLES SEGMENT

Summary of Operating Performance

(Expressed in millions, except percentages)

	1996	1997	1998
Net Sales	\$ 513	\$ 494	\$ 539
% Change	(5%)	(4%)	9%
Gross Profit	\$ 258	\$ 242	\$ 266
% Change	(7%)	(6%)	10%
Advertising Expenses	\$ 71	\$ 55	\$ 63
% Change	(2%)	(22%)	14%
SG&A Expenses	\$ 160	\$ 157	\$ 168
% Change	(4%)	(2%)	7%
Operating Income	\$ 27	\$ 30	\$ 35
% Change	(29%)	11%	17%
Net Income	\$ 14	\$ 16	\$ 19
% Change	(29%)	16%	23%
EBITDA	\$ 48	\$ 51	\$ 56
% Change	(17%)	6%	11%
Gross Margin	50.3%	48.9%	49.4%
Operating Margin	5.3%	6.1%	6.6%

Our consumer durables segment includes fine china, crystal, silver, pewter and luggage products marketed under the Lenox, Dansk, Gorham, Kirk Stieff and Hartmann brand names.

Fiscal 1998 Compared to 1997

Net sales grew \$45 million, or 9%, led by strong volume gains in the direct mail and catalog business of Lenox Collections. Sales of fine china to department stores increased modestly during the year, as did sales of tableware and giftware from the company's retail division. Sales of Hartmann Luggage grew at a double-digit rate for the year, attributable to product line innovations and aggressive marketing efforts.

Gross profit increased \$24 million and improved as a percentage of net sales from 48.9% to 49.4%, reflecting a greater mix of sales from Lenox Collections products which carry higher margins.

Advertising expenses grew 14% due primarily to increased spending by Lenox Collections. **Selling, general and administrative expenses** rose 7%, reflecting a slower rate of growth than sales and gross profit.

Operating income improved 17%, driven largely by profit gains for Lenox Collections and the company's retail stores. **Net income** grew 23%, reflecting operating growth as well as a reduction in the segment's effective tax rate from 47.5% to 45.0%.

Fiscal 1997 Compared to 1996

Net sales declined \$19 million, or 4%, in fiscal 1997, primarily reflecting a planned contraction at Lenox Collections, as well as a decline in sales of fine china to department stores. Revenues from our Lenox and Dansk retail stores improved solidly, with same store sales up 10% over fiscal 1996.

Gross profit decreased \$16 million in fiscal 1997, largely attributable to the contraction of Lenox Collections and lower sales of fine china to department stores.

Advertising expenses declined 22% due primarily to the contraction of Lenox Collections. **Selling, general and administrative expenses** did not change significantly from fiscal 1996.

Operating income increased \$3 million, or 11%, primarily as a result of improved profitability of the scaled-down Lenox Collections business. Segment profits were also enhanced by stronger consumer demand at our retail stores. **Net income** grew 16%, reflecting the net impact of the factors discussed above as well as a reduction in the segment's effective tax rate from 49.6% to 47.5%.

LIQUIDITY AND CAPITAL RESOURCES

Our cash flows from operations continue to provide more than adequate capital to meet operating and capital expenditure requirements and pay dividends. We consider our ability to internally generate cash to be a significant financial strength.

Free cash flow is the cash remaining from operations after satisfying business reinvestment opportunities. A consolidated statement of cash flows is summarized as follows:

(Expressed in millions)

	1996	1997	1998
EBITDA	\$ 320	\$ 337	\$ 358
Interest expense, net	(17)	(14)	(11)
Taxes on income	(97)	(104)	(111)
Other	(39)	(43)	(16)
Cash from operating activities	167	176	220
Cash used for investing activities	(67)	(56)	(46)
Free cash flow	100	120	174
Dividends	(71)	(73)	(76)
Reduction of debt	(37)	(43)	(61)
Acquisition of treasury stock	—	—	(17)
Cash used for financing activities	(108)	(116)	(154)
Increase (decrease) in cash	\$ (8)	\$ 4	\$ 20

Cash provided by operations increased \$44 million in fiscal 1998, primarily reflecting higher net income and an increase in accounts payable and accrued expenses. Cash used for investing activities declined \$10 million in fiscal 1998, reflecting lower outlays for capital expenditures as well as proceeds received from the sale of manufacturing assets.

During fiscal 1998, Brown-Forman repurchased 310,000 shares of its Class B common stock on the open market at a cost of \$17 million to fund the company's stock option plans. The company intends to continue to acquire its common shares in the open market for this purpose.

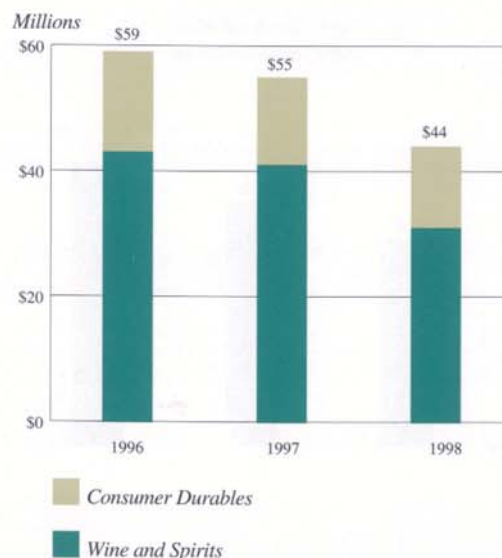
Cash provided by operations increased \$9 million in fiscal 1997, mainly attributable to higher net income for the year. Cash used for investing activities in fiscal 1997 primarily reflected capital expenditures to expand manufacturing and office facilities and enhance the company's information systems.

We have a \$300 million revolving credit agreement that expires in fiscal 2003. At April 30, 1998, we had no outstanding borrowings under this agreement. At April 30, 1998, we had \$220 million of unused debt capacity on our \$250 million shelf registration, which was filed with the Securities and Exchange Commission in fiscal 1994.

CAPITAL EXPENDITURES

We invested \$59 million in property, plant and equipment in fiscal 1996, \$55 million in fiscal 1997, and \$44 million in fiscal 1998. These expenditures primarily reflect the expansion and modernization of company-wide production facilities.

Capital Expenditures



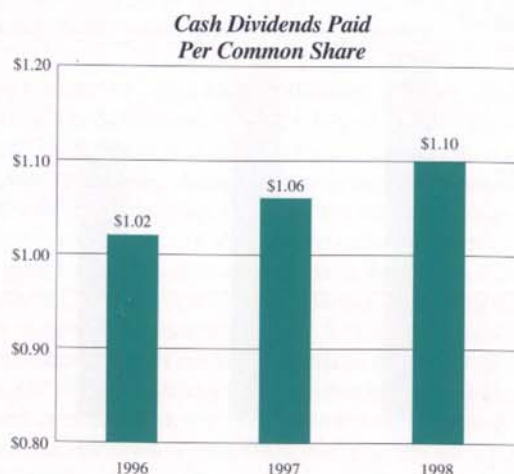
Capital expenditures for fiscal 1999 are expected to approximate \$55 million, primarily for expanding and enhancing our production facilities. Fiscal 1999 capital expenditure requirements are expected to be met with internally generated funds.

We have conducted a comprehensive review of our information systems to identify those systems which may be affected by the "Year 2000" issue and we have developed an implementation plan to resolve the issue. In preparing our systems for the year 2000, we expect to incur internal staff costs as well as external consulting and other costs over the next two fiscal years. The cost of new systems software will be capitalized. Other costs of the project will be expensed as incurred.

Because we have replaced or updated many of our information systems in recent years, the costs to be incurred in addressing the Year 2000 issue are not expected to be significant and, thus, are not expected to have a material impact on our financial condition, results of operations or cash flows. This expectation assumes that our existing forecast of costs to be incurred contemplates all significant actions required and that we will not be obligated to incur significant Year 2000 related costs on behalf of our customers or suppliers.

DIVIDENDS

Quarterly dividends were increased 4% in fiscal 1998 to \$0.28, which results in an indicated annual dividend of \$1.12 per common share. The increase was based on the expectation of continued strong cash flow. Cash dividends paid as a percentage of net income were 41% in fiscal 1998, compared to 44% and 43% for fiscal 1996 and fiscal 1997, respectively.



DERIVATIVE FINANCIAL INSTRUMENTS

As a result of the growth of our international business in recent years, Brown-Forman's foreign currency receipts exceed the company's foreign currency payments. Accordingly, to the extent this foreign currency exposure is not hedged, the company's results of operations and financial position are negatively impacted by a weakening of foreign currencies against the U.S. dollar and positively impacted by a strengthening of the foreign currencies.

We use foreign currency forward contracts and purchased options, with durations of generally less than one year, as protection against the risk that the eventual U.S. dollar cash flows resulting from the sale and purchase of goods in foreign currencies will be adversely affected by changes in exchange rates. While these hedging instruments are subject to fluctuations in value from movement in the foreign currency exchange rates, such fluctuations are offset by the change in value of the underlying exposures being hedged. We are not a party to leveraged derivatives and do not hold or issue financial instruments for trading purposes.

We had outstanding foreign currency forward and purchased option contracts, hedging primarily German mark, Spanish peseta, British pound and Japanese yen revenues, with notional amounts totaling \$28 million, \$40 million and \$84 million at April 30, 1996, 1997 and 1998, respectively. The company's credit exposure is limited to the fair value of the contracts (which did not exceed \$1 million at April 30, 1996, 1997 and 1998) rather than the notional amounts. The company does not obtain collateral or other security to support the contracts. However, the contracts are entered into with major financial institutions, thereby decreasing the risk of credit loss.

MARKET RISKS

The company holds debt obligations, foreign currency forward and option contracts, and commodity future contracts which are exposed to risk from changes in interest rates, foreign currency exchange rates and commodity prices, respectively. We have established policies, procedures and internal processes governing the management of these market risks. As of April 30, 1998, the exposure to these market risks is not considered material.

ENVIRONMENTAL

Along with other responsible parties, we face environmental claims resulting from the cleanup of several waste deposit sites. We have accrued our estimated portion of cleanup costs and expect either the other responsible parties or insurance to cover the remaining costs. We believe that any additional costs incurred to satisfy environmental claims will not have a material adverse effect on the company's financial condition, results of operations or cash flows.

Brown-Forman Corporation

CONSOLIDATED STATEMENT OF INCOME

(Expressed in millions, except per share amounts)

<i>Year Ended April 30,</i>	1996	1997	1998
Net sales	\$ 1,807	\$ 1,841	\$ 1,924
Excise taxes	263	257	255
Cost of sales	664	680	690
Gross profit	880	904	979
Advertising expenses	231	229	260
Selling, general and administrative expenses	375	388	412
Operating income	274	287	307
Interest income	3	3	3
Interest expense	20	17	14
Income before income taxes	257	273	296
Taxes on income	97	104	111
Net income	\$ 160	\$ 169	\$ 185
Earnings per share - basic and diluted	\$ 2.31	\$ 2.45	\$ 2.67

The accompanying notes are an integral part of the consolidated financial statements.

Brown-Forman Corporation
CONSOLIDATED BALANCE SHEET

(Expressed in millions, except share and per share amounts)

April 30,	1996	1997	1998
Assets			
Cash and cash equivalents	\$ 54	\$ 58	\$ 78
Accounts receivable, less allowance for doubtful accounts of \$13 in 1996, \$10 in 1997 and \$11 in 1998	257	263	265
Inventories:			
Barreled whiskey	167	176	187
Finished goods	169	172	179
Work in process	59	66	88
Raw materials and supplies	38	37	48
Total inventories	433	451	502
Other current assets	24	30	24
Total Current Assets	768	802	869
Property, plant and equipment, net	281	292	281
Intangible assets, less accumulated amortization of \$108 in 1996, \$120 in 1997 and \$130 in 1998	259	254	250
Other assets	73	80	94
Total Assets	\$1,381	\$1,428	\$1,494

The accompanying notes are an integral part of the consolidated financial statements.

<i>April 30,</i>	1996	1997	1998
Liabilities			
Commercial paper	\$ 50	\$ 155	\$ 107
Accounts payable and accrued expenses	223	209	233
Current portion of long-term debt	6	7	7
Accrued taxes on income	3	6	8
Deferred income taxes	21	22	27
Total Current Liabilities	303	399	382
Long-term debt	211	63	50
Deferred income taxes	127	136	150
Accrued postretirement benefits	52	54	55
Other liabilities and deferred income	54	46	40
Total Liabilities	747	698	677
Stockholders' Equity			
Capital Stock:			
Preferred \$0.40 cumulative, \$10 par value, redeemable at company's option at \$10.25 per share plus unpaid accrued dividends; 1,177,948 shares authorized and outstanding			
	12	12	12
Class A common stock, voting, \$0.15 par value; authorized shares, 30,000,000; issued shares, 28,988,091			
	4	4	4
Class B common stock, nonvoting, \$0.15 par value; authorized shares, 60,000,000; issued shares, 40,008,147			
	6	6	6
Retained earnings	616	712	821
Cumulative translation adjustment	(4)	(4)	(9)
Treasury stock, at cost (310,000 Class B common shares in 1998)	—	—	(17)
Common Stockholders' Equity	622	718	805
Total Stockholders' Equity	634	730	817
Total Liabilities and Stockholders' Equity	\$1,381	\$1,428	\$1,494

Brown-Forman Corporation

CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in millions; amounts in brackets are reductions of cash)

Year Ended April 30,	1996	1997	1998
Cash flows from operating activities:			
Net income	\$ 160	\$ 169	\$ 185
Adjustments to reconcile net income to net cash provided by (used for) operations:			
Depreciation	37	41	42
Amortization	9	9	9
Deferred income taxes	26	10	19
Other	(5)	(7)	(14)
Change in assets and liabilities, excluding the effects of businesses acquired or sold:			
Accounts receivable	(18)	(6)	(2)
Inventories	(40)	(24)	(52)
Other current assets	(2)	(1)	7
Accounts payable and accrued expenses	(8)	(14)	24
Accrued taxes on income	3	4	2
Accrued postretirement benefits	1	2	1
Other liabilities and deferred income	4	(7)	(1)
Cash provided by operating activities	167	176	220
Cash flows from investing activities:			
Additions to property, plant and equipment	(59)	(55)	(44)
Disposals of property, plant and equipment	3	3	13
Investment in affiliate, net of cash acquired	(8)	—	—
Other	(3)	(4)	(15)
Cash (used for) investing activities	(67)	(56)	(46)
Cash flows from financing activities:			
Net change in commercial paper	(60)	(39)	(48)
Proceeds from long-term debt	30	3	1
Reduction of long-term debt	(7)	(7)	(14)
Dividends paid	(71)	(73)	(76)
Acquisition of treasury stock	—	—	(17)
Cash (used for) financing activities	(108)	(116)	(154)
Net increase (decrease) in cash and cash equivalents	(8)	4	20
Cash and cash equivalents, beginning of year	62	54	58
Cash and cash equivalents, end of year	\$ 54	\$ 58	\$ 78

The accompanying notes are an integral part of the consolidated financial statements.

Brown-Forman Corporation

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Years Ended April 30, 1996, 1997 and 1998 (Expressed in millions, except per share amounts)

			Common Stock				
	Total	Preferred Stock	Class A	Class B	Retained Earnings	Cumulative Translation Adjustment	Treasury Stock
Balance, April 30, 1995	\$ 546	\$ 12	\$ 4	\$ 6	\$ 527	\$(3)	\$ —
Net income	160				160		
Cash dividends							
Preferred, per share \$0.40	(1)				(1)		
Common, per share \$1.02	(70)				(70)		
Foreign currency translation adjustment	(1)					(1)	
Balance, April 30, 1996	634	12	4	6	616	(4)	—
Net income	169				169		
Cash dividends							
Preferred, per share \$0.40	(1)				(1)		
Common, per share \$1.06	(72)				(72)		
Balance, April 30, 1997	730	12	4	6	712	(4)	—
Net income	185				185		
Cash dividends							
Preferred, per share \$0.40	(1)				(1)		
Common, per share \$1.10	(75)				(75)		
Foreign currency translation adjustment	(5)					(5)	
Acquisition of treasury stock (310,000 Class B common shares)	(17)						(17)
Balance, April 30, 1998	\$ 817	\$ 12	\$ 4	\$ 6	\$ 821	\$(9)	\$ (17)

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share and per option amounts)

1. ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of all majority-owned subsidiaries. Investments in affiliates in which the company has the ability to exercise significant influence, but not control, are accounted for by the equity method. All other investments in affiliates are carried at cost. Intercompany transactions are eliminated.

Cash Equivalents

Cash equivalents include demand deposits with banks and all highly liquid investments with original maturities of three months or less.

Inventories

Inventories are stated at the lower of cost or market. Approximately 86% of consolidated inventories are valued using the last-in, first-out (LIFO) method. All remaining inventories are valued using the first-in, first-out and average cost methods.

If the LIFO method had not been used, inventories would have been \$85, \$98 and \$104 higher than reported at April 30, 1996, 1997 and 1998, respectively.

A substantial portion of barreled whiskey will not be sold within one year because of the duration of the aging process. All barreled whiskey is classified as a current asset in accordance with industry practice. Bulk wine inventories are classified as work in process.

Warehousing, insurance, ad valorem taxes and other carrying charges applicable to barreled whiskey are included in inventory costs.

Long-Lived Assets

Property, plant and equipment are stated at cost. Provision for depreciation is made on the basis of estimated useful lives of depreciable assets, principally using the straight-line method.

Intangible assets, principally the excess of purchase price over the fair value of identifiable net assets of acquired businesses, are stated at cost less accumulated amortization. These assets are amortized using the straight-line method over their estimated useful lives, not exceeding forty years.

Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," was adopted during 1996. SFAS No. 121 requires long-lived assets and certain identifiable intangibles to be reviewed for impairment value, based upon undiscounted future cash flows, and appropriate losses to be recognized whenever the carrying amount of an asset may not be recovered. The adoption of SFAS No. 121 did not have a material effect on the consolidated financial statements.

Revenue Recognition

The company recognizes revenue when goods are shipped.

Advertising Costs

Advertising costs are charged to expense as incurred, except for direct-response advertising costs, which are capitalized and amortized over periods not exceeding one year.

Foreign Currency Translation

The U.S. dollar is the functional currency for substantially all of the company's consolidated operations. For these operations, all gains and losses from currency transactions are included in income currently. For certain foreign equity investments, the functional currency is the local currency. The cumulative translation effects for the equity investments using functional currencies other than the U.S. dollar are included in the cumulative translation adjustment in stockholders' equity.

Earnings Per Share

SFAS No. 128, "Earnings per Share," which establishes standards for computing and presenting earnings per share, was adopted during 1998. The adoption of SFAS No. 128 did not change the company's previously-reported earnings per share.

Basic earnings per share (basic EPS) is calculated using net income reduced by dividend requirements on preferred stock, divided by the weighted average number of common shares outstanding during the year. Diluted earnings per share (diluted EPS) is calculated in the same manner, except that the denominator also includes additional common shares that would have been issued if outstanding stock options had been exercised, as determined by application of the treasury stock method. Preferred stock dividend requirements were \$0.5 in 1996, 1997 and 1998. The weighted average number of shares used to calculate basic EPS was 68,996,238 for both 1996 and 1997 and 68,933,284 for 1998. The weighted average number of shares used to calculate diluted EPS was 68,996,238 for 1996, 69,013,904 for 1997, and 68,987,157 for 1998.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year presentation.

Other

Statement of Position (SOP) 96-1, "Environmental Remediation Liabilities," which was adopted by the company effective May 1, 1997, provides authoritative guidance for the recognition, measurement and disclosure of environmental remediation liabilities in financial statements. The adoption of SOP 96-1 did not have a material effect on the consolidated financial statements. See Note 13 for discussion of the company's environmental commitments and contingencies.

SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," was issued in March 1998 and provides authoritative guidance regarding the recognition of costs incurred for internal-use computer software. SOP 98-1 was retroactively adopted by the company for costs incurred after May 1, 1997, as encouraged by the SOP. The adoption of SOP 98-1 did not have a material effect on the consolidated financial statements.

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, "Reporting Comprehensive Income," which is effective for fiscal years beginning after December 15, 1997. SFAS No. 130 requires companies to classify items defined as "other comprehensive income" by their nature in a financial statement, and to display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the balance sheet. The adoption of SFAS No. 130 will not have a material impact on the consolidated financial statements.

In June 1997, the FASB issued SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information," which is effective for fiscal years beginning after December 15, 1997. SFAS No. 131 establishes standards for reporting information about a company's operating segments and requires certain disclosures about a company's products and services, the geographic areas in which it operates and its major customers. Although the company has not determined the effect that adoption of SFAS No. 131 may have on the format of the consolidated financial statement disclosures, it will have no effect on the company's consolidated financial condition, results of operations or cash flows.

2. CREDIT FACILITIES

The company has a \$300 revolving credit agreement with various domestic and international banks that expires in fiscal 2003. The most restrictive of the agreement's covenants requires the company to maintain a minimum level of net worth. At April 30, 1998, net worth exceeded the required level, as defined in the agreement, by \$467. At April 30, 1998, the company had no outstanding borrowings under this agreement. At April 30, 1998, the company also had available for issuance \$220 of debt securities under a shelf registration filing with the Securities and Exchange Commission.

3. DEBT

At April 30, the company's long-term debt consisted of the following:

<i>April 30,</i>	1996	1997	1998
Commercial paper	\$ 144	\$ —	\$ —
6.82% to 7.38% medium-term			
notes, due 2005	30	30	30
11.25% notes, due through 1999	28	22	16
Variable rate industrial revenue			
bonds, due through 2026	14	17	10
Other	1	1	1
	217	70	57
Less current portion	6	7	7
	\$ 211	\$ 63	\$ 50

At April 30, 1996, commercial paper of \$144 was classified as long-term debt due to the credit available under the long-term credit facilities discussed in Note 2 and the company's intent to refinance those borrowings on a long-term basis. Long-term debt payments of \$7 and \$8 are required during 1999 and 2000, respectively. No additional debt payments are required through 2003. Cash paid for interest was \$21 in 1996, \$18 in 1997 and \$15 in 1998. Excluding the effect of the interest rate agreement discussed below, the weighted average interest rates on commercial paper were 5.4% at April 30, 1996 and 5.6% at April 30, 1997 and 1998. The weighted average interest rates on the variable rate industrial revenue bonds were 4.2%, 4.6% and 4.3% at April 30, 1996, 1997 and 1998, respectively.

The company sold an option in 1990 to swap interest rates that effectively eliminated the call feature on certain 9.375% notes for the period April 1, 1995 to April 1, 1998. This option was exercised April 1, 1995, effectively converting \$100 of commercial paper from floating interest rate obligations to 9.375% fixed rate obligations for the period April 1, 1995 to April 1, 1998. The option on this swap was sold in order to manage the level of fixed and floating rate debt. The premium received on the sale of this option was amortized as a reduction of interest expense through April 1, 1998.

4. COMMITMENTS

Rental payments for real estate, vehicles, and office, computer and manufacturing equipment under operating leases amounted to approximately \$25, \$28 and \$28 for 1996, 1997 and 1998, respectively. The company has commitments related primarily to minimum lease payments of \$24 in 1999, \$19 in 2000, \$8 in 2001, \$5 in 2002, \$2 in 2003 and \$3 thereafter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share and per option amounts)

5. FOREIGN CURRENCY RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS

The company uses foreign currency forward contracts and purchased options, with durations of generally less than one year, as protection against the risk that the eventual U.S. dollar cash flows resulting from the sale and purchase of goods in foreign currencies will be adversely affected by changes in exchange rates. While these hedging instruments are subject to fluctuations in value from movement in the foreign currency exchange rates, such fluctuations are offset by the change in value of the underlying exposures being hedged. The company is not a party to leveraged derivatives and does not hold or issue financial instruments for trading purposes.

The company had outstanding foreign currency forward and purchased option contracts, hedging primarily German mark, Spanish peseta, British pound and Japanese yen revenues, with notional amounts totaling \$28, \$40 and \$84 at April 30, 1996, 1997 and 1998, respectively. The company's credit exposure is limited to the fair value of the contracts (see Note 6) rather than the notional amounts. The company does not obtain collateral or other security to support the contracts. However, the contracts are entered into with major financial institutions, thereby decreasing the risk of credit loss.

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, short-term investments and commercial paper approximates the carrying amount due to the short maturities of these instruments. The fair value of long-term debt is estimated using discounted cash flows based on the company's incremental borrowing rates for similar types of borrowings. The fair value of foreign currency contracts is based on quoted market prices. A comparison of the fair values and carrying amounts of these instruments is as follows:

	1997		1998	
	<i>Carrying Amount</i>	<i>Fair Value</i>	<i>Carrying Amount</i>	<i>Fair Value</i>
Assets:				
Cash and cash equivalents	\$ 58	\$ 58	\$ 78	\$ 78
Foreign currency contracts	—	—	1	1
Liabilities:				
Commercial paper	155	155	107	107
Long-term debt	70	72	57	60

7. BALANCE SHEET INFORMATION

<i>April 30,</i>	1996	1997	1998
Property, plant and equipment			
Land	\$ 17	\$ 17	\$ 17
Buildings	173	200	206
Equipment	404	421	423
	594	638	646
Less accumulated depreciation	313	346	365
	\$ 281	\$ 292	\$ 281

Accounts payable and accrued expenses

Accounts payable, trade	\$ 74	\$ 83	\$ 90
Accrued expenses:			
Compensation and commissions	40	42	50
Excise and other non-income taxes	17	19	18
Interest	6	5	4
Advertising	29	14	19
Other	57	46	52
	149	126	143
	\$ 223	\$ 209	\$ 233

8. TAXES ON INCOME

Taxes on income are composed of the following:

	1996	1997	1998
Current:			
Federal	\$ 54	\$ 76	\$ 73
Foreign	5	6	5
State and local	12	12	14
	71	94	92
Deferred:			
Federal	21	7	16
State and local	5	3	3
	26	10	19
	\$ 97	\$ 104	\$ 111

Brown-Forman Corporation

United States and foreign components of income before income taxes are as follows:

	1996	1997	1998
United States	\$229	\$237	\$261
Foreign	28	36	35
	<u>\$257</u>	<u>\$273</u>	<u>\$296</u>

The following is a reconciliation of the effective tax rates with the United States' statutory rate:

	<i>Percent of Income Before Taxes</i>		
	1996	1997	1998
Statutory rate	35.0%	35.0%	35.0%
State taxes, net of U.S.			
Federal tax benefit	4.1	4.0	3.7
Income taxed at other than U.S.			
Federal statutory rate	(2.2)	(1.5)	(1.7)
Tax benefit of Foreign			
Sales Corporation	(1.3)	(0.9)	(0.8)
Nondeductible amortization	1.2	1.1	1.0
Other, net	1.0	0.3	0.4
	<u>37.8%</u>	<u>38.0%</u>	<u>37.6%</u>

Deferred tax assets and liabilities are composed of the following:

<i>April 30,</i>	1996	1997	1998
Deferred tax assets:			
Postretirement and other benefits	\$ 36	\$ 38	\$ 40
Accrued liabilities and other	15	20	16
Total deferred tax assets	<u>51</u>	<u>58</u>	<u>56</u>
Deferred tax liabilities:			
Intercompany transactions	141	152	168
Property, plant and equipment	21	24	23
Undistributed foreign earnings	17	17	17
Pension plans	18	20	23
Other	2	3	2
Total deferred tax liabilities	<u>199</u>	<u>216</u>	<u>233</u>
Net deferred tax liability	<u>\$ 148</u>	<u>\$ 158</u>	<u>\$ 177</u>

Deferred income taxes were not provided on certain undistributed earnings (\$59, \$73 and \$91 at April 30, 1996, 1997 and 1998, respectively) of certain foreign subsidiaries because such undistributed earnings are expected to be reinvested indefinitely overseas. If these amounts were not considered permanently reinvested, additional deferred taxes of approximately \$20, \$24 and \$28 would have been provided in 1996, 1997 and 1998, respectively.

Cash paid for income taxes was \$65 in 1996, \$91 in 1997 and \$90 in 1998.

9. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The company provides certain health care and life insurance benefits for eligible retirees.

The postretirement benefit expense includes the following components:

	1996	1997	1998
Service cost of benefits earned	\$ 1	\$ 1	\$ 1
Interest cost on accumulated post-			
retirement benefit obligation	3	3	3
Postretirement benefit expense	<u>\$ 4</u>	<u>\$ 4</u>	<u>\$ 4</u>

The postretirement benefit liability includes the following components:

	1996	1997	1998
Actuarial present value of accumulated postretirement obligations:			
Retirees	\$21	\$22	\$22
Fully eligible active participants	1	1	1
Other active participants	21	17	19
	<u>43</u>	<u>40</u>	<u>42</u>
Unrecognized net gain	9	14	12
Unrecognized prior service cost	—	—	1
Accrued postretirement benefits	<u>\$52</u>	<u>\$54</u>	<u>\$55</u>

Assumptions:

Discount Rate	7.0%	7.5%	7.0%
Health care cost trend rates:			
Present rate before age 65	7.7%	7.3%	7.0%
Present rate age 65 and after	6.8%	6.6%	6.3%

A 1% increase in the assumed health care cost trend rate would have increased the accumulated postretirement benefit obligation as of April 30, 1998 by \$5 and the postretirement benefit expense for 1998 by \$1. The company expects its health care cost trend rates to gradually decline to 5.0% by 2004 and remain level thereafter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share and per option amounts)

10. PENSION PLANS

The company has defined benefit pension plans covering certain employees. The benefits for these plans are based primarily on years of service and employees' pay near retirement for salaried employees and stated amounts for each year of service for union

and hourly employees. The company also has unfunded plans that provide retirement benefits in excess of qualified plan formulas or regulatory limitations for certain employees. Net pension income includes the following components:

	1996	1997	1998
Benefit cost for service during the year	\$ (7)	\$ (9)	\$ (9)
Interest cost on projected benefit obligation	(17)	(16)	(18)
Actual return on plan assets	79	51	72
Net amortization and deferral	(54)	(23)	(41)
Net pension income	\$ 1	\$ 3	\$ 4

The amounts included in the accompanying consolidated balance sheet were based on the funded status of the plans at January 31, 1997 and 1998 and are as follows:

	1997		1998	
	<i>Plan Assets Exceed Obligations</i>	<i>Obligations Exceed Plan Assets</i>	<i>Plan Assets Exceed Obligations</i>	<i>Obligations Exceed Plan Assets</i>
Actuarial present value of benefit obligations:				
Vested benefit obligations	\$ 178	\$ 21	\$ 202	\$ 27
Nonvested benefit obligations	11	2	13	2
Accumulated benefit obligations	189	23	215	29
Additional amounts related to assumed pay increases	32	6	35	5
Projected benefit obligations	221	29	250	34
Plan assets at fair value	339	7	398	9
Plan assets in excess of (less than) benefit obligations	118	(22)	148	(25)
Unamortized net (assets) obligations at date of adoption	(21)	2	(17)	2
Unrecognized net (gain) loss resulting from experience different from that assumed and changes in actuarial assumptions	(48)	—	(74)	2
Unrecognized prior service cost	4	5	3	5
Adjustment required to recognize minimum liability	—	(3)	—	(6)
Prepaid (accrued) pension cost	\$ 53	\$ (18)	\$ 60	\$ (22)

The projected benefit obligation was determined using a weighted average discount rate of 7% for 1996, 7.5% for 1997 and 7% for 1998. The weighted average rate of future compensation increases was 4% for 1996, 4.5% for 1997 and 4% for 1998. The expected rate of return on plan assets was 9.5% for 1996 and 10% for 1997 and 1998. The plans' assets consist primarily of stocks and bonds.

The company's policy for funded plans is to make contributions equal to or greater than the requirements prescribed by the Employee Retirement Income Security Act.

Brown-Forman Corporation

11. BUSINESS SEGMENT INFORMATION

The company's operations have been classified into two business segments: wine and spirits, and consumer durables. The wine and spirits segment includes the production, importing and marketing of wines and distilled spirits. The consumer durables segment includes the manufacture and sale of china, crystal, ceramic and crystal collectibles, silver, pewter, luggage and leather accessories.

Summarized financial information by business segment for 1996, 1997 and 1998 is as follows:

	1996	1997	1998
Net sales:			
Wine and Spirits	\$1,294	\$1,347	\$1,385
Consumer Durables	513	494	539
	\$1,807	\$1,841	\$1,924
Earnings before interest, taxes, depreciation and amortization (EBITDA):			
Wine and Spirits	\$ 286	\$ 301	\$ 318
Consumer Durables	48	51	56
Corporate	(14)	(15)	(16)
	\$ 320	\$ 337	\$ 358
Operating income:			
Wine and Spirits	\$ 262	\$ 273	\$ 289
Consumer Durables	27	30	35
Corporate	(15)	(16)	(17)
	\$ 274	\$ 287	\$ 307
Total assets:			
Wine and Spirits	\$ 835	\$ 885	\$ 914
Consumer Durables	480	470	483
Corporate	66	73	97
	\$1,381	\$1,428	\$1,494
Depreciation and amortization:			
Wine and Spirits	\$ 24	\$ 28	\$ 29
Consumer Durables	21	21	21
Corporate	1	1	1
	\$ 46	\$ 50	\$ 51

	1996	1997	1998
Capital expenditures:			
Wine and Spirits	\$ 43	\$ 40	\$ 31
Consumer Durables	16	14	13
Corporate	—	1	—
	\$ 59	\$ 55	\$ 44
Sales outside the U.S.:			
Wine and Spirits	\$ 254	\$ 304	\$ 320
Consumer Durables	28	26	27
	\$ 282	\$ 330	\$ 347

There were no significant intersegment sales or transfers during 1996, 1997 or 1998. Operating income by business segment excludes interest income, interest expense, and unallocated corporate expenses. Corporate assets consist principally of cash and cash equivalents, certain corporate receivables, and other assets.

12. CONTINGENCIES

In the normal course of business, various suits and claims are brought against the company, some of which seek significant damages. Many of these suits and claims take years to adjudicate, and it is difficult to predict their outcome. In the opinion of management, based on advice from legal counsel, none of these suits or claims will have a material adverse effect on the company's consolidated financial position, results of operations or cash flows.

13. ENVIRONMENTAL

The company, along with other responsible parties, faces environmental claims resulting from the cleanup of several waste deposit sites. The company has accrued its estimated portion of cleanup costs and expects other responsible parties and insurance to cover the remaining costs. The company believes that any additional costs incurred by the company will not have a material adverse effect on the company's consolidated financial position, results of operations or cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share and per option amounts)

14. STOCK OPTIONS

Under the Brown-Forman Corporation Omnibus Compensation Plan (the Plan), the company may grant stock options and other stock-based incentive awards for a total of 1,500,000 shares of common stock to eligible employees until April 30, 2005. All shares delivered under the Plan will be issued from treasury stock acquired by the company.

Stock options are granted at an exercise price of not less than the fair value of the underlying stock on the date of the grant. Stock options granted under the Plan generally become exercisable after a period of three years from the first day of the fiscal year of grant and expire seven years thereafter. As of April 30, 1998, no other stock-based awards have been granted under the Plan.

The company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for stock options. Accordingly, no compensation expense has been recognized. Had compensation expense for the stock options been determined based on the fair value at the grant dates consistent with the methodology prescribed under SFAS No. 123, "Accounting for Stock-Based Compensation," the company's net income would have been reduced by \$0.3 in 1997 and \$0.9 in 1998. The company's basic and diluted earnings per share would have been reduced by \$0.01 per share in 1997 and 1998.

The fair values of the options granted in 1997 and 1998 were \$8.74 per option and \$12.24 per option, respectively. The fair values were estimated using the Black-Scholes pricing model with the following assumptions: risk-free interest rates of 6.7% in 1997 and 6.2% in 1998; expected volatility of 19.1% in 1997 and 18.1% in 1998; expected dividend yields of 2.9% in 1997 and 2.2% in 1998; and an expected life of 6 years in both 1997 and 1998.

The following table summarizes option activity for the years ended April 30, 1997 and 1998. All options are for an equivalent number of shares of Class B common stock.

	<i>Options Outstanding</i>	<i>Weighted Average Exercise Price</i>
Balance, April 30, 1996	—	—
Granted	157,073	\$ 36.13
Forfeited	(4,589)	36.13
Balance, April 30, 1997	152,484	36.13
Granted	250,277	49.13
Forfeited	(15,677)	42.09
Balance, April 30, 1998	387,084	44.29

The following table summarizes the status of stock options outstanding as of April 30, 1998, by exercise price:

<i>Exercise Price</i>	<i>Options Outstanding</i>	<i>Remaining Contractual Life (Years)</i>
\$ 36.13	144,000	8
49.13	243,084	9
	387,084	

REPORT OF MANAGEMENT

We are responsible for the presentation of the information contained in the consolidated financial statements and for its integrity and objectivity. Our statements have been prepared in accordance with generally accepted accounting principles and include amounts based on our best estimates and judgments with appropriate consideration given to materiality. We also prepared the related financial information and are responsible for its accuracy and consistency with the financial statements.

The consolidated financial statements have been audited by Coopers & Lybrand L.L.P., independent accountants. We have made available to Coopers & Lybrand L.L.P. all the company's financial records and related data, as well as the minutes of stockholders', directors', and other appropriate meetings. Furthermore, we believe that all representations made to Coopers & Lybrand L.L.P. during the audit were valid and appropriate.

We are responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance at reasonable cost that financial records are reliable for preparing financial statements and that assets are properly accounted for and safeguarded. The company has an internal audit function that is intended to provide a review and monitoring process that allows the company to be reasonably sure that the system of internal control operates effectively. In addition, as part of the audit of the financial statements, Coopers & Lybrand L.L.P. completed a study and evaluation of selected internal accounting controls to establish a basis for reliance thereon in determining the nature, timing and extent of audit tests to be applied. We have considered the internal auditors' and Coopers and Lybrand L.L.P.'s recommendations concerning the system of internal control and have taken actions that we believe are cost-effective in the circumstances to respond appropriately to these recommendations. We believe that as of April 30, 1998, the system of internal control is adequate to accomplish the objectives discussed herein.

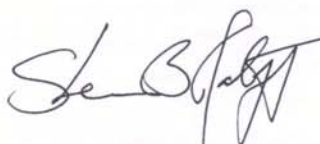
We also recognize our responsibility for fostering a strong ethical climate so that the company's affairs are conducted according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in the

company's Code of Conduct, which is publicized throughout the company. The Code of Conduct addresses, among other things, the necessity of ensuring open communication within the company; the disclosure of potential conflicts of interests; the compliance with all applicable domestic and foreign laws, including those relating to financial disclosure; and the maintenance of the confidentiality of proprietary information. The company has a systematic program to assess compliance with the Code of Conduct.

The Board of Directors, through its Audit Committee, composed solely of directors who are not employees of the company, meets with management, the internal auditors and the independent accountants to ensure that each is properly discharging its respective responsibilities. Both the independent accountants and the internal auditors have free access to the Audit Committee, without management present, to discuss the results of their work, including internal accounting controls and the quality of financial reporting.



Owsley Brown II
*Chairman of the Board
and Chief Executive Officer*



Steven B. Ratoff
*Executive Vice President
and Chief Financial Officer*

REPORT OF INDEPENDENT ACCOUNTANTS

BROWN-FORMAN CORPORATION

We have audited the accompanying consolidated balance sheet of Brown-Forman Corporation and Subsidiaries as of April 30, 1996, 1997 and 1998, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. 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. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Brown-Forman Corporation and Subsidiaries at April 30, 1996, 1997 and 1998, and the consolidated results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.



Louisville, Kentucky
May 27, 1998

Brown-Forman Corporation

BROWN-FORMAN DIRECTORS & OFFICERS

***Brown-Forman Corporation
Board of Directors***

Owsley Brown II ⁽¹⁾
*Chairman and
Chief Executive Officer,
Brown-Forman Corporation*

Barry D. Bramley ⁽²⁾
*Non-executive Chairman,
Cornwell Parker, PLC,
High Wycombe, England*

Geo. Garvin Brown III
*Chairman,
Trans-Tek, Inc.,
Louisville, Kentucky*

Donald G. Calder ⁽³⁾
*President and
Chief Financial Officer,
G. L. Ohrstrom & Co., Inc.,
New York, New York*

Owsley Brown Frazier ⁽¹⁾
*Vice Chairman,
Brown-Forman Corporation*

Richard P. Mayer ^{(2) (3)}
*Former Chairman and
Chief Executive Officer,
Kraft General Foods
North America
(now Kraft Foods Inc.),
Northfield, Illinois*

Stephen E. O'Neil ^{(2) (3)}
*Principal,
The O'Neil Group,
New York, New York*

William M. Street ⁽¹⁾
*Vice Chairman,
Brown-Forman Corporation*

James S. Welch ⁽²⁾
*Partner,
Ogden Newell & Welch,
Louisville, Kentucky*

⁽¹⁾ Member of Executive Committee
of the Board of Directors

⁽²⁾ Member of Audit Committee

⁽³⁾ Member of Compensation Committee

⁽⁴⁾ Secretary to Board of Directors,
Executive Committee, and
Audit Committee

***Brown-Forman Corporation
Executive Officers***

Owsley Brown II ⁽¹⁾
*Chairman and
Chief Executive Officer*

Owsley Brown Frazier ⁽¹⁾
Vice Chairman

William M. Street ⁽¹⁾
Vice Chairman

Steven B. Ratoff
*Executive Vice President
and Chief Financial Officer*

Michael B. Crutcher ⁽⁴⁾
*Senior Vice President,
General Counsel and Secretary*

John P. Bridendall
Senior Vice President

Russell C. Buzby
Senior Vice President

Lois Mateus
Senior Vice President

William A. Blodgett, Jr.
*Vice President and
Deputy General Counsel*

Milton B. Gillis
Vice President

F. Richard Lennon
Vice President

Meredith M. Parente
Vice President and Treasurer

Larry W. Perry
Vice President

Lawrence K. Probus
Vice President and Controller

James S. Welch, Jr.
Vice President

***Brown-Forman
Beverages Worldwide***

William M. Street
*President and
Chief Executive Officer*

E. Peter Rutledge
Executive Vice President

Timothy D. Younkin
*Senior Vice President and
Chief Marketing Officer*

Thomas P. Burnet
*President,
Advancing Markets Group*

Michael V. Cheek
*President,
North American Group*

James D. Hanauer
*President,
Brown-Forman Distillery Company*

David W. Higgins
*President,
Wine Group*

J. Andrew Smith
*President,
Core Markets Group*

James L. Bareuther
*Executive Vice President,
Spirits Brands Company*

Paul E. Dolan III
*Executive Vice President,
Wine Group*

Joseph E. Flock
*Executive Vice President,
Select Brands Company*

Donald C. Berg
*Senior Vice President,
Advancing Markets Group*

William M. Cascio
*Senior Vice President,
Wine Group*

James B. Chiles
*Senior Vice President,
Brown-Forman Distillery Company*

John V. O. Kennard
*Senior Vice President,
Spirits Brands Company*

Daniel T. Leese
*Senior Vice President,
Wine Group*

Edwin W. Morgan, Jr.
*Senior Vice President,
North American Group*

Douglas E. Rogers
*Senior Vice President,
Wine Group*

Ronald N. Tommasini
*Senior Vice President,
Core Markets Group*

C. Kenneth Wilson
*Senior Vice President,
Wine Group*

***Lenox,
Incorporated***

Louis C. Scala
*President,
Lenox Brands*

David A. Herman
*President,
Dansk and Lenox Retail*

Stanley E. Krangel
*President,
Lenox Collections*

Jerome J. Ciszewski
*Senior Vice President,
Lenox, Incorporated
and President,
Lenox Operations Group*

Louis A. Fantin
*Senior Vice President,
Secretary and Lenox Counsel*

James D. Wilson
*Senior Vice President,
Human Resources*

James G. Berwick
*Vice President,
Planning and Analysis*

Hartmann, Incorporated

Peter C. Lathrop
President

Brown-Forman Corporation

PRINCIPAL PRODUCTS

BROWN-FORMAN BEVERAGES WORLDWIDE

Jack Daniel's Tennessee Whiskeys
Southern Comfort
Canadian Mist Canadian Whiskies
Early Times Kentucky Whisky
Finlandia Vodkas**

Old Forester Kentucky Straight Bourbon Whisky
Bushmills Irish Whiskeys**
Jack Daniel's Country Cocktails
Gentleman Jack Rare Tennessee Whiskey

Woodford Reserve Kentucky Straight Bourbon Whiskey
Glenmorangie Single Highland Malt Scotch Whiskies**
Forester 1870 Kentucky Straight Bourbon Whisky
Black Bush Special Irish Whiskey**
Tropical Freezes
Pepe Lopez Tequilas
Korbel California Brandy*
Usher's Scotch Whisky**
Oblio Sambucas**
Jack Daniel's & Cola
Southern Comfort & Cola

Fetzer Vineyards California Wines
Korbel California Champagnes and Wines*
Bolla Italian Wines

Jekel Vineyards California Wines
Bonterra Vineyards California Wines
Carmen Vineyards Chilean Wines**
Michel Picard French Wines**
Brolio Italian Wines**
Bel Arbor California Wines
Fontana Candida Italian Wines**
Fontanafredda Italian Wines**
Armstrong Ridge California Champagne*
Noilly Prat Vermouths**

COOPERAGES

Blue Grass Cooperage
Mendocino Cooperage

LENOX, INCORPORATED

Lenox China and Crystal

Lenox Collectibles

Gorham Silver, Stainless Steel Flatware, and Crystal

Dansk Contemporary Tabletop, Housewares, and Giftware

Lenox/Kirk Steiff Silver, Stainless Steel Flatware, and Pewter Products

HARTMANN, INCORPORATED

Hartmann Luggage, Business Cases, and Personal Leather Goods

* Brands marketed by BFBW worldwide by agency agreement

** Brands marketed by BFBW in the U.S. and selected markets by agency agreements

For many years Brown-Forman has encouraged its customers to enjoy one of life's ancient pleasures - beverage alcohol - responsibly and in moderation. We take great pride in the quality of our fine spirits and wines and in the contribution they make to the public's enjoyment of life, meals, and social occasions.

Increasingly, people are coming to understand that responsible consumption of beverage alcohol can contribute to one's physical and psychological well-being. The cardiovascular benefits most adults can derive from moderate drinking are increasingly well documented and accepted, and anyone who has sipped a cocktail at the end of a stressful day can attest to the mental relaxation it can bring.

Communities, as well as individuals, benefit when people get together as families and neighbors to share meals, to celebrate special occasions, or simply to talk about the issues of the day. These gatherings play an integral role in strengthening the fabric of society, and we should not ignore the contributions made by spirits and wine in enhancing the congeniality and success of so many of them.

Recognizing that alcohol can be misused, however, Brown-Forman long ago joined with others to establish standards for responsible advertising and marketing through the Distilled Spirits Council of the United States (DISCUS) and the Wine Institute, which maintain Codes of Good Practice for their members. Through DISCUS and direct contributions, Brown-Forman has also supported public education programs on responsible drinking and ongoing research on alcohol and health. Brown-Forman and other concerned distillers founded and provide significant ongoing financial support to The Century Council, a national organization that fights alcohol misuse in the United States. Since 1990, distillers have spent more than \$90 million in support of Century Council programs such as:

- "Ready or Not" is a program for middle-schoolers and their parents. "Ready or Not" provides parents with guidance on how to talk with their children about drinking. Parents are given information on how to answer their children's questions about drinking and strategies to help their children counter the peer pressure they may feel to drink.

- "Alcohol 101" is an interactive CD ROM program to teach college students about the effects of alcohol on the body. Students can enter a "virtual bar" and experiment with drinking on the computer, to see how their body weight and time of consumption can affect their physical coordination and reasoning power. This program is offered free to colleges.
- The Century Council runs television ads warning young people about the dire consequences, financial and otherwise, from drunk driving.

The common theme of these Century Council programs is that alcohol education should not be left either to the school yard or to chance. If young people are to make responsible decisions about drinking, they need to understand the effects of alcohol and treat it with a healthy respect.

Brown-Forman believes that programs such as those offered by The Century Council offer a much better chance of meeting the problems caused by reckless drinking than simplistic solutions such as higher taxes and advertising restrictions. Higher taxes and advertising restrictions affect primarily the responsible social drinker, not the alcohol abuser who will find alcohol regardless of price. Rather than attack alcohol as a product, we should all work together to attack the patterns of behavior that result in alcohol abuse. Just as drunk driving fatalities are declining (especially among young people), problems such as college binge drinking can be reduced by imaginative programs such as The Century Council's "Alcohol 101."

Brown-Forman supports continuing public discussion of the facts regarding beverage alcohol so that adults can make informed decisions about whether, when, and how to drink. Responsible government policies around the world should acknowledge the distinction between "use" and "abuse" of beverage alcohol. While discouraging abuse and the consumption of alcohol by those who should not drink, government policies and social attitudes should respect responsible adult enjoyment of beverage alcohol and recognize the physical, psychological, and social benefits of moderate alcohol consumption.

* For free information about these Century Council programs, write The Century Council, 550 South Hope Street, Suite 1950, Los Angeles, CA 90071-2604.

CORPORATE HEADQUARTERS

850 Dixie Highway
Louisville, KY 40210
(502) 585-1100

Internet Address:

<http://www.brown-forman.com>

E-Mail Address:

brown-forman@b-f.com

EMPLOYEES

On April 30, 1998, Brown-Forman employed about 7,600 people, including approximately 1,140 on a part-time or temporary basis. Brown-Forman Corporation is an Equal Employment Opportunity and Affirmative Action employer. All personnel actions and programs are administered without regard to race, color, national origin, sex, age, religion, disability, or veteran status.

STOCKHOLDERS

All three classes of stock of Brown-Forman Corporation are listed on the New York Stock Exchange. There were 3,446 holders of record of Class A Common Stock, 4,957 holders of record of Class B Common Stock, and 887 holders of record of Preferred Stock as of April 30, 1998. Shareholders reside in all 50 states and 22 foreign countries.

DIVIDEND REINVESTMENT SERVICE

For information on the company's Dividend Reinvestment Service, write to:

First Chicago Trust Company of New York
P. O. Box 2598
Jersey City, NJ 07303-2598

LISTED

New York Stock Exchange
New York City

**REGISTRAR AND TRANSFER AGENT
AND DIVIDEND DISBURSING AGENT**

First Chicago Trust Company of New York
New York City

COUNSEL

Ogden Newell & Welch
Louisville, Kentucky

AUDITORS

Coopers & Lybrand L.L.P.
Louisville, Kentucky

FORM 10-K

Interested stockholders may obtain without charge a copy of the company's Form 10-K, as filed with the Securities and Exchange Commission, upon written request to: Stockholder Services, Brown-Forman Corporation, P. O. Box 1080, Louisville, Kentucky 40201-1080.

