



BROWN-FORMAN

ANNUAL REPORT

2007

BUILDING ENDURING BRANDS

## FINANCIAL HIGHLIGHTS

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

	2006	2007	% Change
<b>CONTINUING OPERATIONS</b>			
Net Sales	\$2,412	\$2,806	16%
Gross Profit	\$1,308	\$1,481	13%
Operating Income	\$ 563	\$ 602	7%
Income from Continuing Operations	\$ 395	\$ 400	1%
Earnings Per Share from Continuing Operations			
– Basic	\$ 3.24	\$ 3.26	1%
– Diluted	\$ 3.20	\$ 3.22	1%
Return on Average Invested Capital	21.9%	17.4%	
Gross Margin	54.2%	52.8%	
Operating Margin	23.3%	21.5%	

## QUARTERLY FINANCIAL INFORMATION

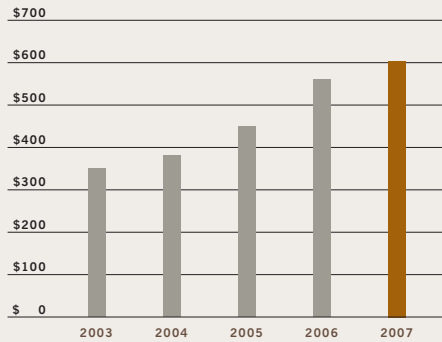
*(Expressed in millions, except per share amounts)*

	Fiscal 2006					Fiscal 2007				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Net Sales	\$ 542	\$ 658	\$ 628	\$ 585	\$2,412	\$ 633	\$ 727	\$ 755	\$ 691	\$2,806
Gross Profit	301	354	331	323	1,308	349	383	387	362	1,481
Net Income										
Continuing Operations	88	112	120	76	395	95	125	112	69	400
Total Company	13	109	120	78	320	94	124	105	67	389
Basic EPS										
Continuing Operations	\$ 0.72	\$ 0.92	\$ 0.98	\$ 0.62	\$ 3.24	\$ 0.77	\$ 1.02	\$ 0.91	\$ 0.56	\$ 3.26
Total Company	0.10	0.89	0.99	0.64	2.62	0.76	1.01	0.86	0.54	3.17
Diluted EPS										
Continuing Operations	\$ 0.71	\$ 0.91	\$ 0.97	\$ 0.61	\$ 3.20	\$ 0.76	\$ 1.00	\$ 0.90	\$ 0.56	\$ 3.22
Total Company	0.10	0.88	0.98	0.63	2.60	0.76	1.00	0.85	0.54	3.14
Cash Dividends per Common Share										
Declared	\$ 0.49	\$ 0.00	\$ 0.56	\$ 0.00	\$ 1.05	\$ 0.56	\$ 0.00	\$ 0.61	\$ 0.00	\$ 1.17
Paid	0.25	0.25	0.28	0.28	1.05	0.28	0.28	0.30	0.30	1.17
Market Price Per Common Share										
Class A High	\$64.15	\$65.65	\$74.25	\$84.45	\$84.45	\$77.70	\$79.58	\$73.23	\$71.19	\$79.58
Class A Low	56.44	58.02	64.64	69.80	56.44	69.14	71.55	66.41	66.32	66.32
Class B High	\$61.59	\$63.69	\$72.40	\$82.55	\$82.55	\$77.65	\$79.38	\$72.65	\$68.25	\$79.38
Class B Low	54.90	55.50	62.41	67.66	54.90	68.32	71.19	64.20	63.54	63.54

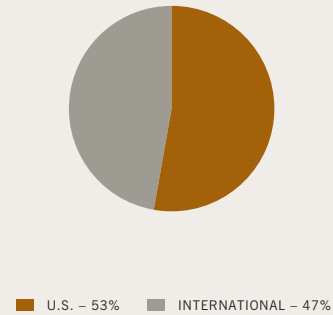
Note: Quarterly amounts may not add to amounts for the year due to rounding.

## FINANCIAL HIGHLIGHTS

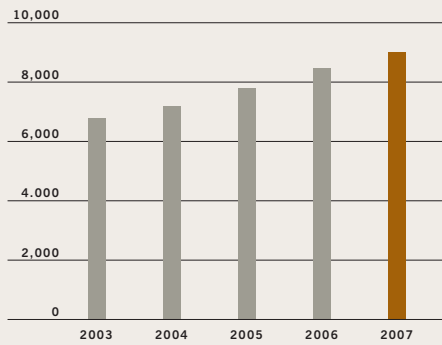
**OPERATING INCOME**  
*Continuing Operations (in millions)*



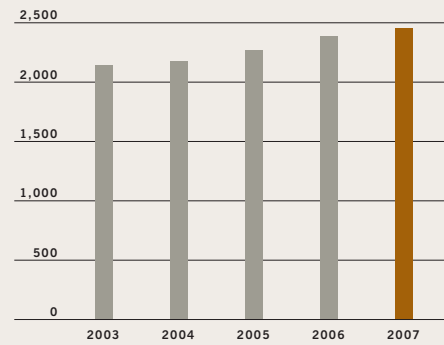
**NET SALES CONTRIBUTION**



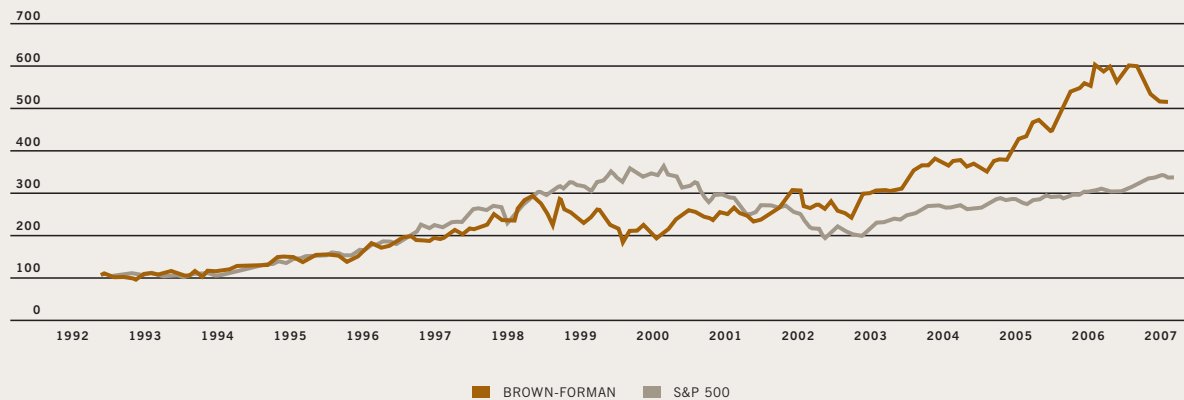
**JACK DANIEL'S**  
*Depletions (nine-liter cases in thousands)*



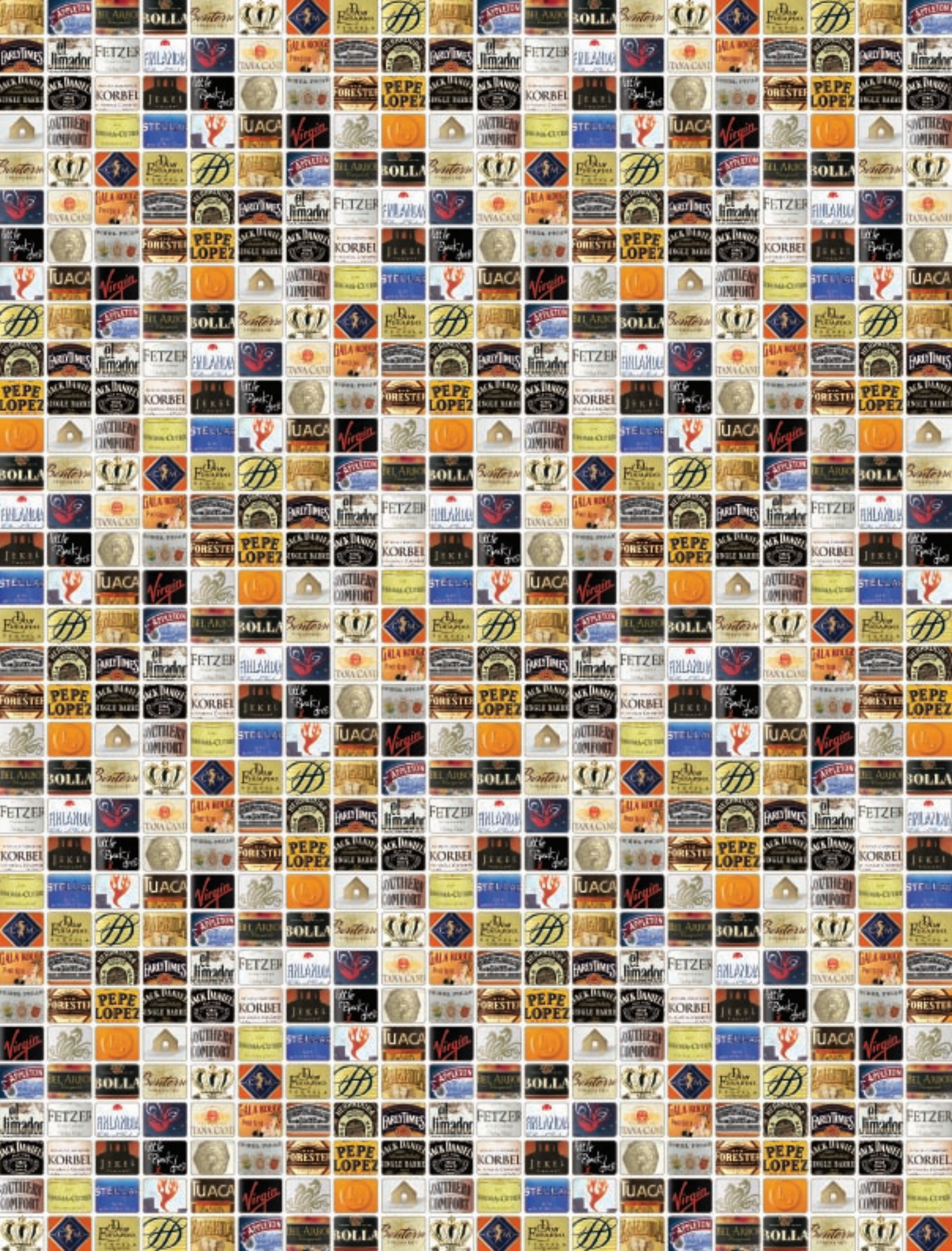
**SOUTHERN COMFORT**  
*Depletions (nine-liter cases in thousands)*



**BROWN-FORMAN STOCK PRICE PERFORMANCE VERSUS THE S&P 500 INDEX**  
*(indexed to April 30, 1992)*









OUR FUNDAMENTAL PURPOSE IS TO ENRICH THE EXPERIENCE OF LIFE, IN OUR OWN WAY, BY RESPONSIBLY BUILDING BEVERAGE ALCOHOL BRANDS THAT THRIVE AND ENDURE FOR GENERATIONS. BY SUCCESSFULLY BUILDING ENDURING BRANDS IN THE ENORMOUS GLOBAL MARKET FOR PREMIUM WINES AND SPIRITS, BROWN-FORMAN WILL CONTINUE TO GROW AND PROSPER AS AN INDEPENDENT COMPANY – JUST AS WE HAVE SINCE OUR INCEPTION IN 1870.



Our unique competitive advantages include the patient, long-term view of the Brown family; our management continuity; our people's extraordinary passion; and our growing portfolio of brands' strength and potential. In contrast to many companies, the "enduring" portion of our brand-building mission is vital to us. Our top two brands, Jack Daniel's and Southern Comfort, as well as Brown-Forman Corporation itself, are all 135 to 140 years old. Yet they continue to produce record results and just concluded their best year ever – and more

importantly, we believe their best years lie ahead. Our acquisition this past year of 137-year-old Heradura tequila added another brand with both a great heritage and we believe tremendous potential. It's just our kind of brand. Simply put, we seek to build and sustain multi-generational brands, and we approach brand building with that goal in mind. Our long-term perspective comes quite naturally. Because time is an essential ingredient in many of our products, our business perspective also spans a longer horizon. Of course, thinking



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FINANCIAL RESULTS

# BROWN-FORMAN

## TODAY TRULY DWARFS THE

COMPANY I JOINED NEARLY 40 YEARS AGO. In statistical terms important to you, our shareholders, we have grown our net income from around \$12 million to \$400 million. We have succeeded in moving our company from one whose norm was being highly leveraged to one whose routinely strong balance sheet is a source of pride. And, because we have succeeded in getting our assets to work ever harder for you, we have produced cash flows which have enabled our earnings to increase from \$0.05 per share in 1968 to \$3.22 a share today: more than a 60-fold increase.

...

Numbers alone are insufficient to understand the depth of our progress. We have evolved from a company that struggled to afford hiring great managers to a company now populated with a multitude of them. We have evolved from a company whose employees were almost exclusively American to one whose employees are citizens of almost all the major countries of the world. We have evolved from a company that operated mostly on instinct and rules of thumb into one of the most thoughtful, talented, and professional organizations of comparable size you can find anywhere.

...

As we made this evolution, we have tried to codify our operating philosophy based both on enduring values and on learning from our recent decades' experiences.

- We continue to be passionate about producing high-quality products and promoting our brands responsibly;
- We remain dedicated to achieving excellence and continuously improving all we do;
- We continue to seek out people of honesty and integrity who respect one another in all our relationships;
- We remain committed to safeguarding the environment and enhancing the communities where we live, work, and do business; and
- We continue to benefit from the valuable support of our long-term shareholders, especially members of the Brown family.

...

In the three-plus years that Paul Varga and his senior leadership team have been at the helm of the company, we have furthered our progress in each of these areas while achieving praiseworthy underlying earnings growth. You can see, therefore, why I believe the enormous confidence I have in the wisdom of the leadership that will guide this company in the future is well placed. And I know our Board of Directors will carry on in an equally positive manner with the guidance of our prospective Presiding Chairman, Garvin Brown IV.

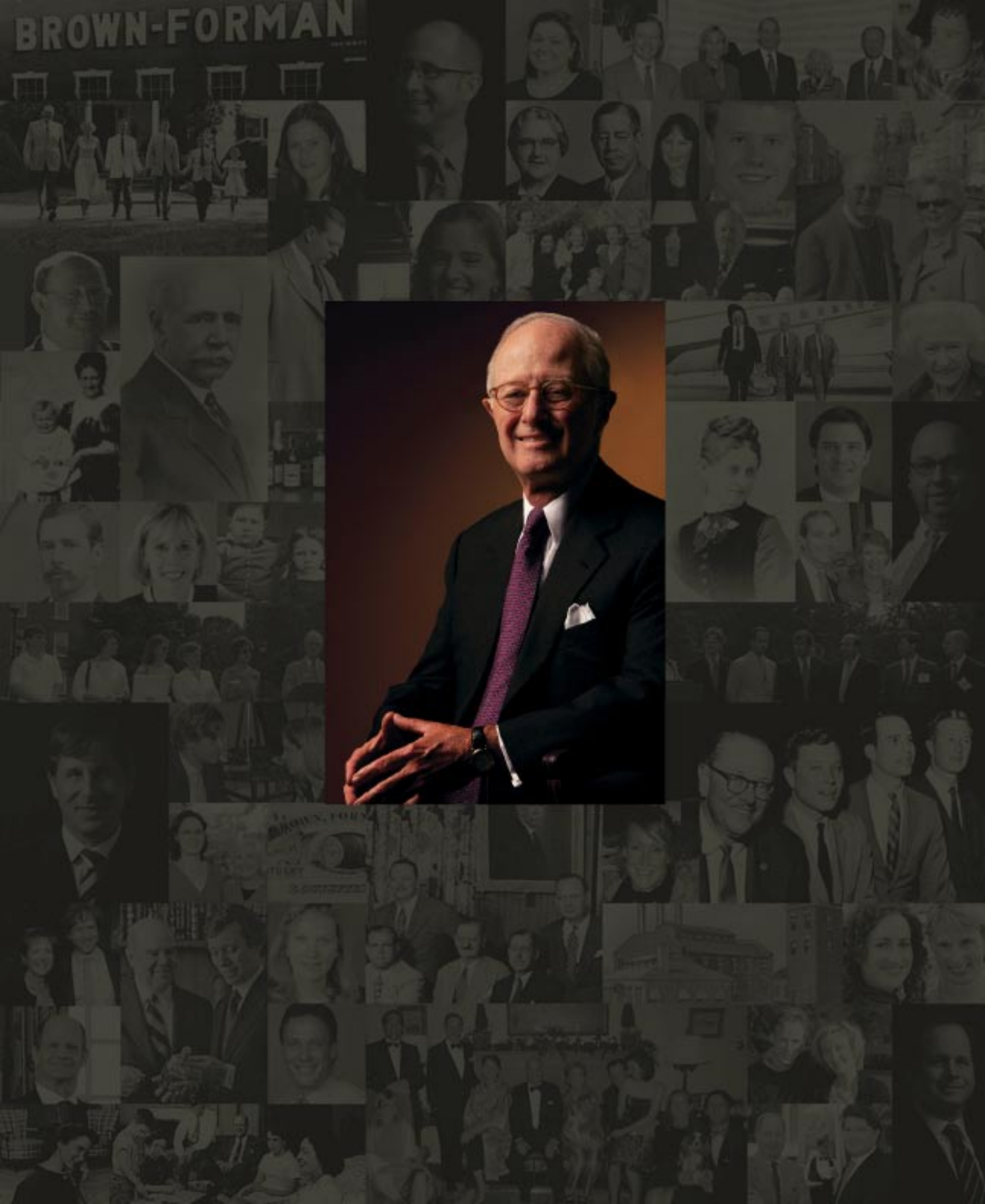
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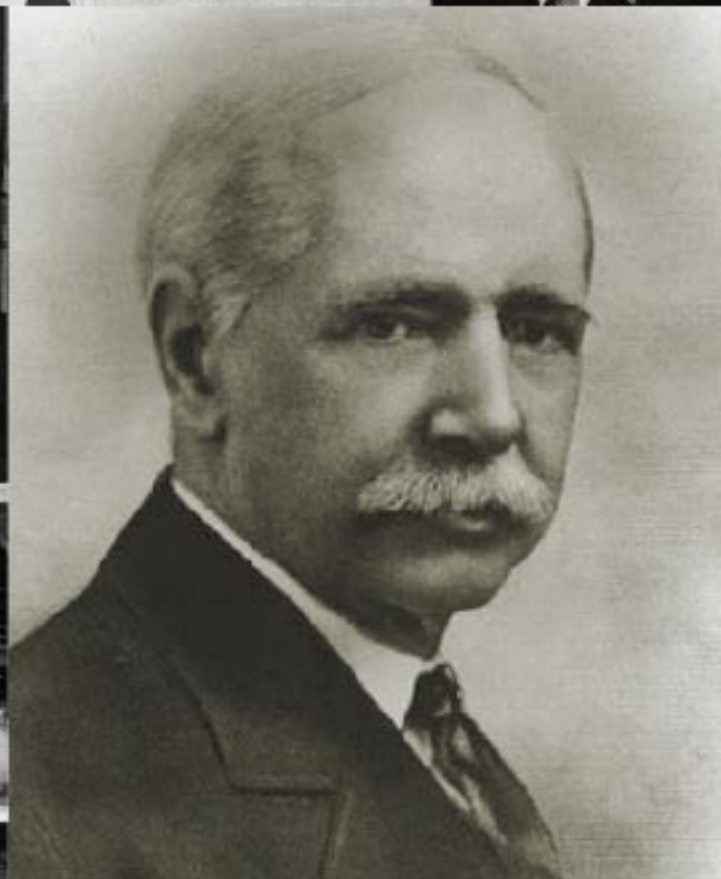
OWSLEY BROWN II, CHAIRMAN



**BROWN-FORMAN**









## THE BROWN FAMILY





## INCREASING FAMILY INVOLVEMENT

As Owsley Brown II nears the conclusion of his 40-year career, other family members continue an important company tradition of active involvement in both board and executive leadership.

### GEORGE GARVIN BROWN IV

The fifth generation namesake of the company's founder, Garvin Brown joined the company in 1996 and has held sales and marketing positions as well as serving two years as Director of the Office of the CEO. Currently, he serves as Vice President, Director Jack Daniel's Europe and Africa. On September 27, 2007, he will take on added responsibilities as Presiding Chairman of the Board.

### J. McCAULEY BROWN

Since joining the company in 1972, Mac Brown has worked in spirits sales and brand management positions for brands including Bolla, Old Forester, and Early Times. Currently serving as Vice President, Director of Business Services, he joined the company's Strategic Resource Allocation Committee on May 1, 2007 from which Owsley Brown will retire in the fall.

### CAMPBELL P. BROWN

Joining the company in 1994, Campbell Brown developed the company's spirits portfolio in India, the Philippines, and Turkey. He later held positions as U.S. Brand Manager for both Southern Comfort and Jack Daniel's, and had territorial responsibility for a number of key East Coast markets. Currently serving as Vice President, Director Southern Comfort Americas, he joined the Corporate Strategy Committee on May 1, 2007 from which Owsley Brown will retire in the fall.

### MARSHALL B. FARRER

After joining the company in 1998, Marshall Farrer worked in the company's wine business in various sales and marketing management roles and later served as Director of the former Brown-Forman Spirits Americas executive office. Currently serving as Vice President, Director Latin America and the Caribbean, he joined the Executive Committee on May 1, 2007 from which Owsley Brown will retire in the fall.









# FISCAL 2007 WAS AN EXCEPTIONAL YEAR FOR OUR BRANDS AND OUR BUSINESS,

UNDERSCORED BY STRONG ORGANIC GROWTH AND PUNCTUATED BY STRATEGIC ACQUISITIONS. For the year ended April 30, 2007, diluted earnings per share reached a record \$3.22, growing 11% after adjusting for timing-related and certain other items. Cash flow from operations increased to \$355 million for the year, and our priorities for using cash continued to focus on investing in our existing brands, acquiring strategic assets, repaying debt, and returning cash to shareholders. Last year, we paid dividends of \$143 million, a 12% increase over the prior year's payout and the 61st consecutive year of regular quarterly cash dividends. Although our total shareholder return was down 9% due to a decline in our stock price, longer-term returns have been very healthy. Total shareholder return over the last three-, five-, and 10-year periods has been 14%, 13%, and 12%, respectively.

Since our first acquisition of Early Times in 1923, acquiring strong, complementary brands has been an important part of our overall growth strategy. And, from time to time, we divest brands or businesses that lack the strong potential to produce growth or returns that meet our expectations. It's certainly rare for Brown-Forman to be as busy on the transaction front as we were in fiscal 2007, but don't misinterpret our recent buying and selling activities as a significant change in company direction or philosophy. After selling Lenox in fiscal 2006, we simply wanted to sell the residual consumer durables assets for the same reason we sold Lenox – to focus on better opportunities in the beverage business. Meanwhile, two excellent acquisition candidates came along within months of each other. As with all of our acquisitions, we believe the value of the brands we purchase exceed the prices we pay for them. Chambord and Casa Herradura are no exception. While both certainly have “strategic value,” that is not the basis on which we valued them. We bought them to add to Brown-Forman's long-term growth potential, and we believe we purchased them at attractive prices.

...

In May 2006, we purchased the Chambord liqueur brand and related assets from Charles Jacquin et Cie. Produced and bottled in France's Loire Valley, this unique super-premium liqueur has exceptional margins and a loyal consumer and trade following. Chambord fits well with our brand-building approach and is poised to

participate in the exciting “cocktail culture” that is helping to drive the growth of spirits today. In January 2007, we acquired the assets of privately held Mexican tequila producer Grupo Industrial Herradura, S.A. de C.V. (Casa Herradura). This acquisition brings us two strong brands – Herradura and el Jimador tequilas – with strong cash flows and excellent potential in the super-premium and premium segments in the world’s largest tequila markets, the U.S. and Mexico. We believe these brands will help us expand our entire business within the growing Hispanic population of the U.S., while the Casa Herradura infrastructure in Mexico gives us a strong growth platform in yet another important international market. Since the end of fiscal 2007, we have purchased the remaining portion of the Don Eduardo super-premium tequila brand and are in the process of consolidating all of our tequila production at the Casa Herradura distillery.

...

We continue to improve our wine brands’ cost structure and profitability while ensuring their continued quality. In September 2006, we sold our main Bolla wine production facility in Pedemonte, Italy, to Gruppo Italiano Vini (GIV). GIV now produces Bolla Italian wines for us, while we maintain worldwide ownership of the Bolla trademark and continue to sell Bolla wines in the U.S. and other markets. In a similar move, at year end we announced plans to sell our Paso Robles, California, winery

and vineyards where we produce Five Rivers wines, while retaining the trademark and continuing to produce and market the wines. Concurrently, we also announced plans to reorganize our wine production operations in Mendocino and Sonoma Counties to eliminate production redundancies and to sell our Valley Oaks homeplace.

...

Our durable goods businesses brought us diversification in the early 1980s when we were predominantly U.S.-focused and the domestic spirits industry was in decline. Since then, we have broadened our geographic diversification and expanded our brand portfolio, diminishing the importance of Lenox and Hartmann. In recent years, the upside potential of our beverage business has been so strong that we wanted to place every dollar of capital and every ounce of effort behind our beverage brands. In September 2005, we sold substantially all of Lenox, Inc. During fiscal 2007, we completed the sale of our remaining durable goods business, Hartmann and Brooks & Bentley. In May 2007, we concluded a cash distribution of the proceeds from the sale amounting to \$204 million, or \$1.65 per share. As we enter fiscal 2008, we intend to focus all of our energy on growing our successful global beverage alcohol business.

...

Considering the vast and growing world market for wines and spirits, the strength and potential of our brands, the quality and continuity of

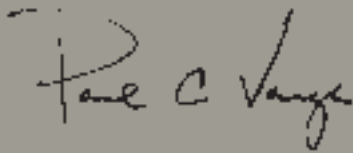


our people and our partners, and the continued support of our shareholders, we have great optimism about Brown-Forman's future. Building enduring brands is our best strategy and the one that will produce the best long-term results for our shareholders. Pursuing this strategy will help us attract and retain the high-caliber people who will ensure that our brands and our corporation endure long into the future.

...

On the pages that follow, we share more thoughts about our company, emphasizing our global expansion, our people, and our brands. I also recognize several of our retiring leaders, most notably Owsley Brown II, who has been the primary architect of Brown-Forman's success over the last 15 years. Read on to learn more about the initiatives, people, and brands that make Brown-Forman what it is today.

Sincerely yours,



PAUL C. VARGA, PRESIDENT AND CHIEF EXECUTIVE OFFICER

June 22, 2007

THE LAST 15 YEARS OF INTERNATIONAL EFFORT HAVE FUNDAMENTALLY CHANGED BROWN-FORMAN AND PROVIDED A SOLID FOUNDATION FOR CONTINUED GLOBAL GROWTH. When we committed to stepping up our international expansion significantly in 1994, only 20% of our sales came from outside the U.S. Today, Brown-Forman ranks among the 10 largest spirits companies worldwide; our brands are distributed in over 135 countries; and we generate over 47% of our sales from outside the U.S. Importantly, we have grown our international business while continuing to grow our large and extremely important domestic business. For example, Jack Daniel's grew 50% in the last seven years, from 6 million to 9 million cases worldwide. About one-third of that new growth came from the U.S. and the remaining two-thirds from international markets.

...

Most of our international growth over the last 15 years has come from Europe, Australia, South Africa, and Canada. But, we also have good-size, growing businesses today throughout Asia and Latin America. Of course, the markets that account for most of the world's population – China, India, Russia, Mexico, and Brazil – offer excellent long-term potential, and today we are poised to

capitalize on these enormous opportunities. At 300 million, the population of the U.S. is a mere 5% of the world's population, so we expect our domestic sales as a percentage of global sales to continue to shrink as we build our international business. Brown-Forman now has offices and facilities in North and South America, Europe, Africa, Asia, and Australia. We staff those offices primarily with local nationals who contribute their unique understanding of the market and their sensitivity to consumer preferences.

...

Getting our products into the hands of consumers worldwide hinges on deploying a broad array of distribution strategies. Our flexibility as an organization, our ability to adapt our distribution method to the market, and our skill in choosing excellent partners in each market give us tremendous competitive advantages. "Think globally, act locally" succinctly captures how we work. We strive to globalize a brand's essential elements – such as positioning or packaging – and then customize each brand to the world's diverse consumers, building relationships market by market, channel by channel, even drink by drink. As we have grown outside the U.S., we have steadily increased our influence over the local route to market so that the knowledge we accumulate can be put back to use in building our brands even further.

...

Global partnerships are a critical component of our route-to-market strategy, which may seem

odd for a company that strongly professes its independence. But, partnerships founded on mutually beneficial relationships, built over time, enable us to carry out our brand-building strategies effectively. For example, our long-standing relationship with Bacardi-Martini Ltd. has been extremely successful and mutually beneficial, even though we compete against one another on many levels. Both companies are committed to their respective independence and take a similar approach to the alcohol beverage business – plus, our portfolios have a nice compatibility. We work together in different ways around the world, either with one company acting as agent for the other, through joint ownership of a distribution company, or some hybrid relationship. In fiscal 2003 in the U.K., our second largest market, we formed a cost-sharing arrangement with Bacardi to build our brands, which continues to work beautifully. At the same time, when opportunities emerge that require more individual influence instead of combined efforts, we pursue them. For example, in China, we chose to build our distribution infrastructure organically. In that market, we've been relying on our own people, working with local partners rather than linking with a major global partner.

...

Our rapidly expanding global presence results in large part from carefully selected international investments, reinforced by our recent acquisitions of Chambord liqueur and Casa Herradura. Adding Chambord to our product portfolio brings

SINCE 1994  
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TODAY ARE DISTRIBUTED IN  
MORE THAN 135 COUNTRIES IN  
EVERY CORNER OF THE WORLD.



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Brown-Forman began as a two-person family concern in 1870 with a single brand and a localized market. Over 50 years passed before a second major brand was added ... and 30 years more before the first product was exported. Driven by a passion for brand building and fueled by a commitment to international growth, the company today boasts a portfolio of 30 to 35 wine and spirits brands, offices and facilities in 26 countries on five continents, and a worldwide workforce of about 4,440.

#### AUSTRALIA

Australia is an ideal illustration of the company's global growth over the last 15 years. In fiscal 1993, we made our first investment in an international distribution business by acquiring 20% of our Australian distributor. Today, we own 100% of that distribution company and Australia generates significant profits for the company.











In support of our ever-expanding international presence, Brown-Forman maintains offices and facilities globally to provide quality products to consumers worldwide.



#### North America

Atlanta, Georgia  
 Braintree, Massachusetts  
 Dallas, Texas  
 Hopland, California  
 Lebanon, Tennessee  
 Louisville, Kentucky  
 Lynchburg, Tennessee  
 Nashville, Tennessee  
 Newport Beach, California  
 San Rafael, California  
 Versailles, Kentucky  
 Windsor, California  
 Toronto, Ontario, Canada  
 Amatitlán, Jalisco, Mexico

#### Asia

Haryana, India  
 Hong Kong, China  
 Jakarta Selatan, Indonesia  
 Makati City, Philippines  
 Seoul, South Korea  
 Shanghai, China  
 Shenzhen, China  
 Singapore  
 Taipei, Taiwan  
 Tokyo, Japan

#### Europe

Athens, Greece  
 Barcelona, Spain  
 Hamburg, Germany  
 Helsinki, Finland  
 Istanbul, Turkey  
 London, United Kingdom  
 Warszawa, Poland  
 Milano, Italy  
 Paris, France  
 Prague, Czech Republic  
 Sofia, Bulgaria

#### South America

Sao Paulo, Brazil

#### Middle East

Dubai, UAE

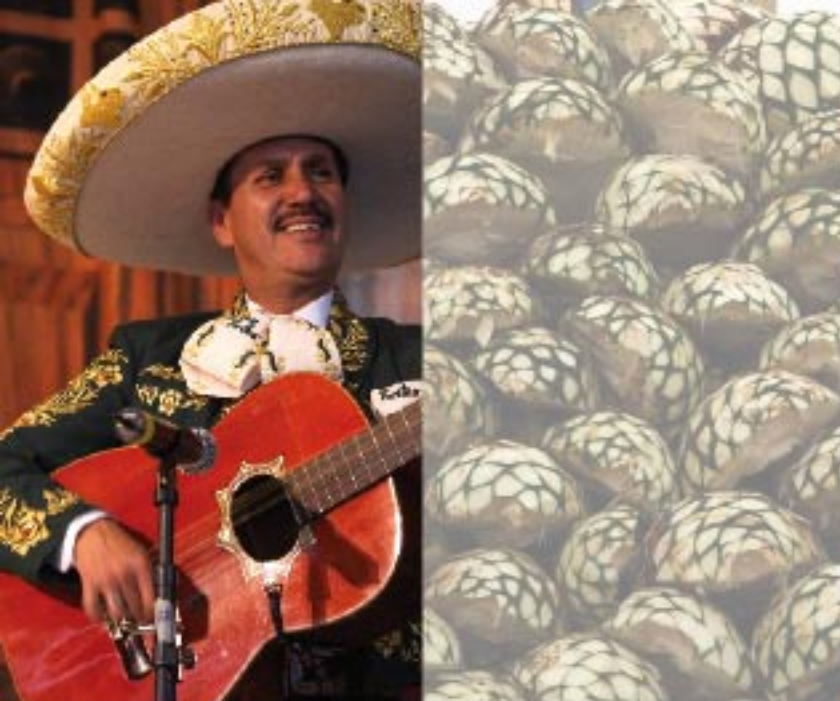
#### Australia/New Zealand

Adelaide, Australia  
 Brisbane, Australia  
 Melbourne, Australia  
 Perth, Australia  
 Sydney, Australia  
 Auckland, New Zealand

to better decisions, it also provides opportunities to learn from one another and to gain the benefit of colleagues' opinions and experiences. And by having long-tenured management and employees, we tap into each other's knowledge with great continuity. Constructive candor is an important ingredient in our collective wisdom. We are working hard to extract productive, dissenting views as a means to making better decisions. By creating an environment where people are encouraged to constructively disagree with others – including the CEO – we improve our ability to harness the naturally diverse viewpoints of our people.



Here at Brown-Forman, we believe that having a diverse workforce honors the wealth of unique experiences that each of us brings to the workplace and respects our differences as people. Inclusion unleashes the power of diversity by creating a culture that empowers all employees to express themselves fully and to feel comfortable being who they are as they contribute their talents to the business. Over the last 15 years, we have changed the demographic profile of Brown-Forman considerably through our international expansion, and the recent acquisitions of Chambord in France and Casa Herradura in Mexico added even more talented employees with diverse backgrounds and experiences. Today, we have over 1,600 employees working outside of the U.S., or more than one-third of our employee base. We have made great strides on global



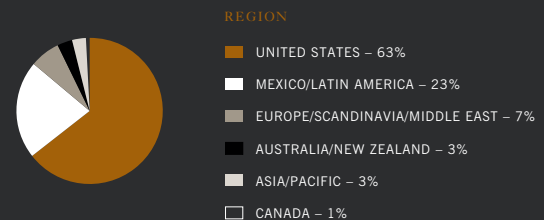
## CASA HERRADURA ACQUISITION

The addition of Casa Herradura, founded in 1870, the same year as Brown-Forman, brings the company two established brands in the fast-growing tequila segment in the world's two largest tequila markets – Mexico and the U.S. which account for more than 85% of global volume. Equally important, we gain a strong production, sales, and distribution platform in Mexico to support our continued international expansion and to reach the growing U.S. Hispanic population.

## GLOBAL PARTNERSHIPS

In selected markets around the world, we rely on various forms of partnerships to help promote and distribute our brands. These partnerships – from joint ventures or cost-sharing arrangements to acting as an agent or cooperating on industry issues – bring economies of scale, greater depth of trade coverage, and improved service to both on- and off-premise accounts, and reinforce our abilities to execute our brand-building models.

## INCREASINGLY GLOBAL WORKFORCE





us a unique super-premium spirit brand in the fast-growing liqueur segment, plus production facilities in France. With the Casa Herradura purchase, we gain great trademarks, high-quality production facilities, and a sales, marketing, and distribution infrastructure in Mexico that gives us a solid growth platform. Like Finlandia before them, both of these acquisitions help Brown-Forman with its overall ambition to expand internationally.

## OUR PEOPLE ARE MOBILIZED BEHIND A COMMON STRATEGIC PURSUIT—TO

BE THE BEST BRAND BUILDERS IN THE INDUSTRY, PERIOD. ONLY PEOPLE CAN BUILD BRANDS. This is our foremost brand-building principle. Our goal is to breathe life into our brands, to animate them ... and it takes people to provide that inspiration, that spark of life. A billboard on the street, for instance, reaches a great many people, but it can only do so much. It can't talk; it can't persuade someone beyond its primary message; and it can't be alert to an opportunity. But a person can think, adjust, react, innovate on the spot, and take our brand building beyond a monologue. So, we believe our spending behind our people is our most important investment.

...

We rely heavily on collective wisdom at Brown-Forman. Through our committee system and other cross-company initiatives, senior managers work outside their primary areas of responsibility quite often. This cross-pollination not only leads

to better decisions, it also provides opportunities to learn from one another and to gain the benefit of colleagues' opinions and experiences. And by having long-tenured management and employees, we tap into each other's knowledge with great continuity. Constructive candor is an important ingredient in our collective wisdom. We are working hard to extract productive, dissenting views as a means to making better decisions. By creating an environment where people are encouraged to constructively disagree with others – including the CEO – we improve our ability to harness the naturally diverse viewpoints of our people.

...

Here at Brown-Forman, we believe that having a diverse workforce honors the wealth of unique experiences that each of us brings to the workplace and respects our differences as people. Inclusion unleashes the power of diversity by creating a culture that empowers all employees to express themselves fully and to feel comfortable being who they are as they contribute their talents to the business. Over the last 15 years, we have changed the demographic profile of Brown-Forman considerably through our international expansion, and the recent acquisitions of Chambord in France and Casa Herradura in Mexico added even more talented employees with diverse backgrounds and experiences. Today, we have over 1,600 employees working outside of the U.S., or more than one-third of our employee base. We have made great strides on global

diversity and this gives us the foundation of confidence we will need to continue our diversity and inclusion efforts. An important part of our future success will be the hiring of Brown-Forman's first Chief Diversity Officer, a key leadership role we expect to fill in early fiscal 2008.

...

In the months ahead, we will mark the retirements of three highly valued members of our senior leadership team – Jim Chiles, Michael Crutcher, and Lois Mateus. Throughout their long and successful careers with our company, each of these executives has earned great respect and made enormous contributions in their functional areas of responsibility. By also providing advice, counsel, and influence on the company's most important business topics, they contributed significantly to Brown-Forman well beyond their functions. We will miss each one of them. It's unusual for us to lose three senior executives at the same time, but in typical Brown-Forman fashion, their transitions are unhurried and well-planned. While we can't replace these unique and gifted colleagues as individuals, their positions will be filled either by drawing on our diverse reservoir of internal management talent or by going outside the company to gain the benefit of fresh viewpoints.

...

Brown-Forman is advantaged by having behind us a strong, committed family with a supportive, long-term view. Collectively, the Brown family holds a disproportionate amount of their personal wealth in this single entity, and their consistent support is

a testament to their belief in Brown-Forman and in the enormous opportunities for growth that are still ahead for us. The Brown family's influence extends beyond their dependable support as shareholders to their engagement as board members and managers of the company.

...

Owsley Brown II exemplifies this family commitment, having devoted 40 years to the company founded by his great-grandfather. Through his imaginative leadership and immeasurable contributions, Owsley changed the shape and face of Brown-Forman – orchestrating the strategic initiative to expand our business internationally, developing Jack Daniel's into one of the world's foremost consumer brands, and fortifying our product portfolio with new products and key brand acquisitions. While he will retire from active management at the end of September, he is continuing his service on our Board of Directors. Beyond his leadership of Brown-Forman's well-documented financial success, Owsley will be remembered for being the inspiration for our company's design excellence, the initiator of our financial and analytical rigor, the source of our company's reputation for civility, the foremost practitioner of our shareholder orientation, and our spokesperson on the inherent value of people. He is a special man, and on behalf of Brown-Forman's employees, shareholders, and partners, we thank Owsley for his gracious and authentic leadership. With Owsley's retirement, we also celebrate a symbolic passing of the baton from the fourth generation of

FOLLOWING A  
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diversity and this gives us the foundation of confidence we will need to continue our diversity and inclusion efforts. An important part of our future success will be the hiring of Brown-Forman's first Chief Diversity Officer, a key leadership role we expect to fill in early fiscal 2008.

...

In the months ahead, we will mark the retirements of three highly valued members of our senior leadership team – Jim Chiles, Michael Crutcher, and Lois Mateus. Throughout their long and successful careers with our company, each of these executives has earned great respect and made enormous contributions in their functional areas of responsibility. By also providing advice, counsel, and influence on the company's most important business topics, they contributed significantly to Brown-Forman well beyond their functions. We will miss each one of them. It's unusual for us to lose three senior executives at the same time, but in typical Brown-Forman fashion, their transitions are unhurried and well-planned. While we can't replace these unique and gifted colleagues as individuals, their positions will be filled either by drawing on our diverse reservoir of internal management talent or by going outside the company to gain the benefit of fresh viewpoints.

...

Brown-Forman is advantaged by having behind us a strong, committed family with a supportive, long-term view. Collectively, the Brown family holds a disproportionate amount of their personal wealth in this single entity, and their consistent support is

Firmly believing in our time-honored cultural concept of collective wisdom, Brown-Forman has traditionally followed a highly collaborative approach to corporate decision-making. Within our well-structured committee system, we encourage differing points of view, engage in constructive debate, and achieve valuable consensus.

#### Management Executive Committee

The Executive Committee is the company's senior policy-making body responsible for providing effective governance, decision-making, leadership, and management of the company's business and brand-building strategies.

#### Corporate Strategy Committee

This committee develops long-term strategies for growth through an ongoing and evolving process of discussion and exploration, supported by research, analysis, and the involvement of subject-matter experts.

#### Strategic Resource Allocation Committee

This group is responsible for leading the strategic allocation of both tangible and intangible resources, including dollars, people, and time.

#### Compensation and Benefits Committee

This committee supports organizational objectives and shareholder interests by ensuring that total compensation programs reflect the remuneration philosophy adopted by the Board and enable the company to recruit, retain, and motivate talented and diverse employees around the world.

#### Major Gifts Committee

Composed of both executive and employee members, this committee reviews and awards grants with a particular focus on the arts, followed by health and social services, education, and environmental groups.



#### Route-to-Consumer Strategy Committee

Studying the global distribution landscape, this committee develops distribution philosophies and operating principles and policies, and recommends coordinated distribution strategies that enable the company to fully pursue the building of our brands.

#### Responsibility and Rights Committee

This group develops and recommends offensive and defensive strategies and approaches to ensure the company remains in the forefront of responsibly marketing wines and spirits, preserves commercial freedoms, and promotes commercial equity.

#### Whiskey Supply-Demand Planning Committee

This committee develops long-range plans for spirits production quantities, based on careful analysis of risks and rewards, and recommends plans for improving the utilization of the company's spirits production assets and facilities.

#### Wines Supply-Demand Planning Committee

Through a process of risk and reward analysis, this group develops long-range plans for wine production quantities, moving excess inventory, reducing the use of resources, and improving utilization of company wine production assets and facilities.

#### Tequila Supply-Demand Planning Committee

This committee develops long-range plans for tequila production and agave quantities, provides education on the agave process and key decision criteria, and recommends ways for improving utilization of the company's tequila production assets and facilities.



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Teamwork is among the core values that have become deeply ingrained in our consciousness and in our collaborative culture. Working together on management committees, task forces, brand teams, and work groups, we depend on one another for our continued success.

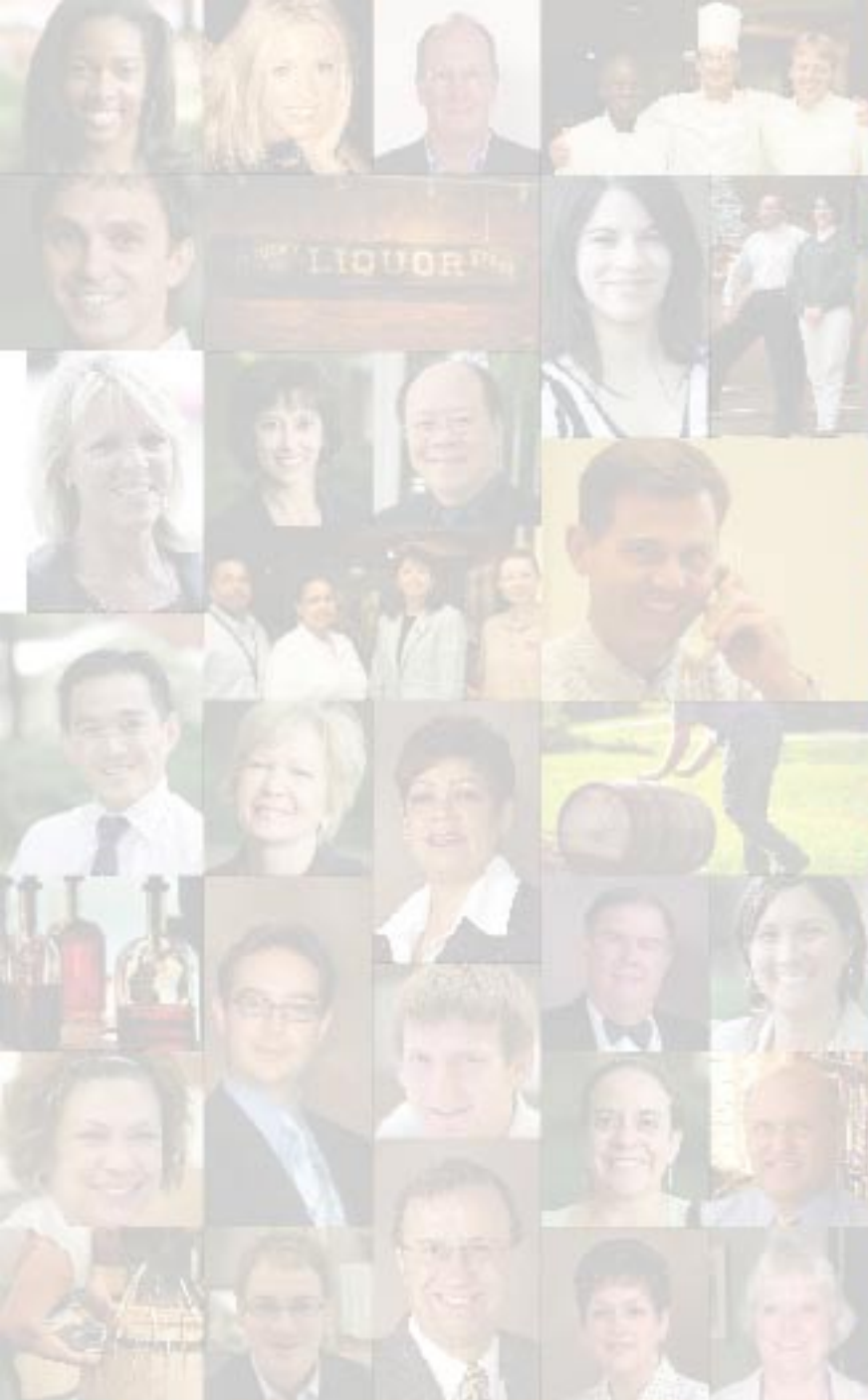
#### STRATEGIC RESOURCE ALLOCATION COMMITTEE

From left: Timothy J. Condon, Senior Vice President, Director of Beverage Finance; Donald C. Berg, Senior Vice President, Director of Corporate Finance; Phoebe A. Wood, Vice Chairman and Chief Financial Officer (chair); J. McCauley Brown, Vice President, Director of Business Services; Lisa P. Steiner, Senior Vice President, Director of Global Human Resources; Owsley Brown II, Chairman of the Board; Mark I. McCallum, Executive Vice President and Chief Brands Officer; Paul C. Varga, President and Chief Executive Officer; Jennifer B. Nunley, Manager, Corporate Planning and Analysis; James L. Bareuther, Executive Vice President and Chief Operating Officer; and Jane C. Morreau, Senior Vice President and Controller.

#### JACK DANIEL'S BRAND TEAM

From left: Timothy G. Rutledge, Director, Jack Daniel's Americas; Jennifer M. Powell, Associate Brand Manager Jack Daniel's; Lawson E. Whiting, Director, Business Strategy and Analysis; James P. Murphy, Director, Global Marketing; Daniel J. Schapker, Group Manager CIG Jack Daniel's; Michael J. Keyes, Senior Vice President, Managing Director Jack Daniel's.









Over the next several months, three highly respected members of our senior leadership team – James Chiles, Michael Crutcher, and Lois Mateus – will retire from active management. Individually and collectively, these valued leaders contributed greatly to the growth and success of our company, and in reshaping and positioning Brown-Forman for the future.

#### JAMES B. CHILES

Jim Chiles (far left), Senior Vice President of Global Production, will retire at the end of October 2007 when he reaches the company's customary retirement age. During an exemplary 42-year career with the company, he has been a trusted advisor, mentor, and friend to countless employees who benefited immensely from his candor, wisdom, friendship, and superb common sense.

#### MICHAEL B. CRUTCHER

Michael Crutcher, Vice Chairman, General Counsel and Secretary, will retire at the end of August after serving the company for 18 years. A valued advisor, he recruited, built, and led the team of legal and government relations professionals who have been critical to Brown-Forman's success. An outstanding leader, he chaired several industry associations that address vital social responsibility issues and other concerns important to our company and industry.

#### LOIS MATEUS

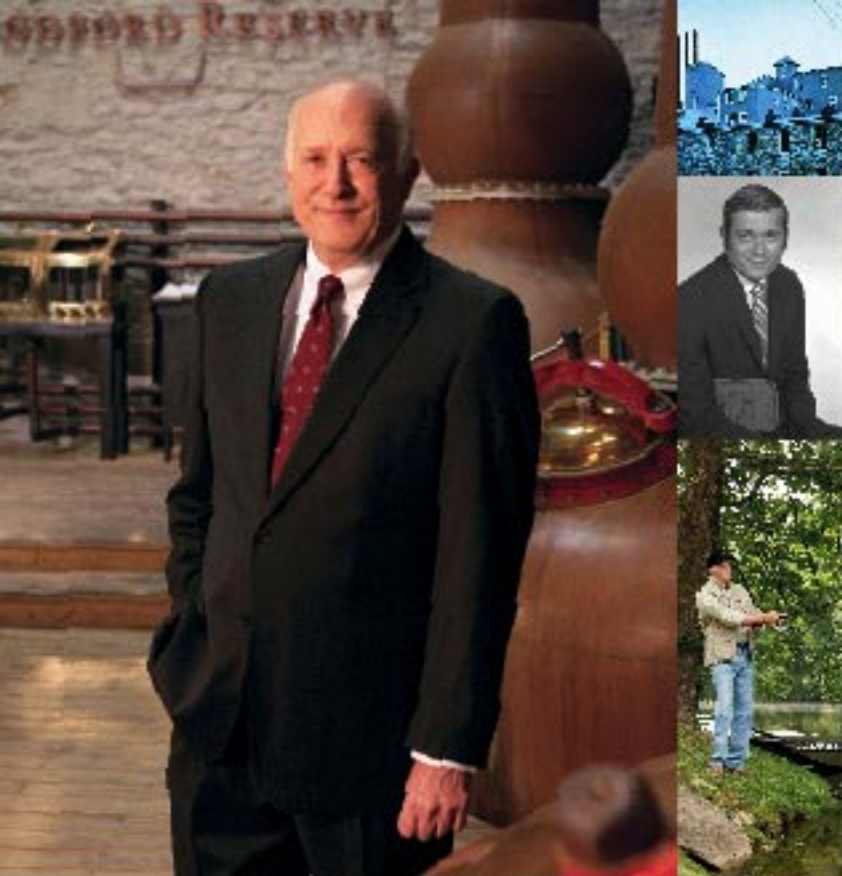
Lois Mateus, Senior Vice President and Director of Corporate Communications and Services, will retire at the end of the year. Over the last 25 years, Brown-Forman has truly benefitted from her enormous talent, knowledge, and creativity. Her many contributions showcased our consumer brands, brought life to our cultural essence, and artistically elevated our workplace. As a valued mentor, she has served as a role model for all employees and especially for women with leadership aspirations.

efforts. We feel the best way to attract a new consumer is to get an existing one to express advocacy for one of our brands. This takes time, but we are in this business for the long-term and believe the prize for our patience is the possibility that a consumer might begin a responsible relationship with one of our brands at LDA (legal drinking age) and continue it through the remainder of their drinking life.

...

Today, we have a strong and balanced portfolio of 30 to 35 brands. In developing our portfolio, we seek a diversity in terms of stage of development, geography, category, consumer segmentation, and price. We think about our brand portfolio along the same dimensions that many investors consider when balancing their investment portfolios – seeking, for example, a blend of domestic and global growth or a balance between emerging and established opportunities. The intent is to create brands that will yield strong, diversified, consistent earnings per share and cash flow growth and provide excellent returns on capital. In recent years, we've made significant investments in our portfolio with a conscious effort to capture consumer preferences for other categories and grow our non-whiskey business. While Jack Daniel's remains our biggest brand by far, we have five other brands with annual depletions at or around 2 million cases; collectively, they account for nearly 11 million cases of annual depletions. So while we're known for Jack Daniel's, the





## MANAGEMENT SUCCESSION PLAN

**B**rown-Forman has a long-standing tradition of entrusting the leadership of the organization to individuals of the highest ability with a distinguished record of success at the company. Talented performers are developed through increased responsibilities and exposure to various aspects of the business. And, typical of most of our business practices, the transition of key leadership roles is carefully considered and thoughtfully implemented.



## EMPLOYEE LONGEVITY

The average tenure among Brown-Forman employees is more than double that of the average U.S. worker. This longevity is a testament to the company's culture that engages employees at all levels and rewards individual achievement.





the Brown family to the fifth. People who study family companies know how rare it is for a family company to survive into its fifth generation. It requires tremendous effort, a long-term view, a growth orientation, and of course, excellent performance. We thank the Brown family for their support and congratulate them on this enormous accomplishment. We look forward to the support, leadership, and contributions from the fifth generation of Browns in ensuring that this proverbial baton gets successfully passed someday to a well-prepared group of sixth-generation Browns.

**IN OUR QUEST TO BE THE INDUSTRY'S BEST BRAND BUILDERS, WE'VE LEARNED OVER TIME THAT WHAT WE DO BEST HAS LITTLE TO DO WITH OUR COMPANY'S SIZE OR THE PURSUIT OF MARKET DOMINANCE. WE FOCUS INSTEAD ON FORGING INDIVIDUAL CONNECTIONS BETWEEN BRANDS AND CONSUMERS ... BRAND BY BRAND AND DRINK BY DRINK.** When we introduce people to one of our brands, we try to do it in a manner that will encourage brand loyalty. We aspire for consumers to become advocates and ambassadors for our brands to their friends and colleagues, and in doing so, become a self-perpetuating part of our marketing

efforts. We feel the best way to attract a new consumer is to get an existing one to express advocacy for one of our brands. This takes time, but we are in this business for the long-term and believe the prize for our patience is the possibility that a consumer might begin a responsible relationship with one of our brands at LDA (legal drinking age) and continue it through the remainder of their drinking life.

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lesser-known story of Brown-Forman today is our success beyond Jack Daniel's.

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Our premium global brands – Jack Daniel's, Southern Comfort, and Finlandia – are among the top 50 premium spirits brands in the world and are critical to the company's sales and profitability growth. Of course, Jack Daniel's continues to be one of the premier brands in our exciting industry. Our super-premium developing brands represent a group of primarily on-premise brands with super- to ultra-premium price points that exhibit long-term growth potential and outstanding profitability. With the additions of Chambord and the Casa Herradura brands, we've strengthened our hand considerably. Our mid-priced regional brands are a diverse assortment of new and established brands with a primarily off-premise focus. These brands are highly important, not necessarily for their growth potential, but for their ability to generate cash that can be invested behind our best growth opportunities going forward. In strengthening our product line, we believe we've developed a competency at rejuvenating brands that may have stalled or hit hard times. We believe there is great value in getting consumers to think "new" about old brands. A prime example of our brand reinvigoration prowess is Southern Comfort, a century-old brand that had stalled in the mid-1990s. Today, the brand boasts seven consecutive years of growth and worldwide depletions now exceed 2.4 million cases.

In acquiring products to enhance our portfolio, we don't simply chase the latest trend or the hottest brand – instead, we seek brands in key categories with long-term, sustainable growth potential. Growing up as a whiskey company, we had not been participating in some of the categories most appealing to new beverage alcohol consumers. So our latest acquisitions have tended to be in the faster-growing segments at the premium-plus end, like Tuaca and Chambord in the liqueur arena, Sonoma-Cutrer in chardonnay and, most recently, with Herradura and el Jima-dor in premium tequilas.

...

Consumer pricing is critical to both the economics and image of our brands. The price paid for a drink or bottle of one of our brands makes a story statement to, and about, the consumer. We work hard to build and justify upward pricing mobility by consistently reinvesting behind our brands to enhance their value in the eyes of our consumers. Lem Motlow, the nephew of Mr. Jack Daniel, articulated this philosophy quite succinctly when he vowed to Jack Daniel's loyalists that "all goods worth price charged." We believe in and practice this philosophy today by demonstrating consistent pricing discipline, by improving the quality of our products to keep them in synch with changing consumer tastes, by carefully enhancing our packaging, and by creatively adapting the marketing communications that support our brands.

OUR UNIQUE  
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#### Jack Daniel's Tennessee Whiskey

Established in 1866, Jack Daniel's is still crafted at America's oldest registered distillery in the small town of Lynchburg, Tennessee. Made using the finest grains and pure, iron-free water from our cave spring, Jack Daniel's is a unique whiskey that is slowly mellowed drop by drop through 10 feet of sugar maple charcoal and matured in new charred, white oak barrels to achieve its smooth character. The family of brands includes Jack Daniel's Old No. 7 Brand Tennessee Whiskey, Jack Daniel's Single Barrel Tennessee Whiskey and Gentleman Jack Rare Tennessee Whiskey.





## Southern Comfort

Southern Comfort is one of a kind and still made with many of the same secret ingredients created by New Orleans bartender M.W. Heron in 1874. The unique taste of Southern Comfort can best be described as a distinct blend of whiskey, fruit, and spice flavors. Today, Southern Comfort has achieved the status of an American icon – and “SoCo,” as it known to a new generation of young adult consumers, has become a fun choice when good friends create legendary nights together.





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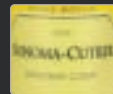
#### el Jimador Tequila

El Jimador is crafted in the historic village of Amatitán in the state of Jalisco, the very center of the rich agave producing region of Mexico. Named in honor of the men who harvest the locally grown agave with great pride and care, el Jimador is widely available in both Blanco and Reposado expressions and in a considerably more exclusive, limited edition Añejo.



#### Jack Daniel's Ready-to-Drinks

Jack Daniel's ready-to-drinks include the Jack Daniel's and Cola product sold primarily in Australia, and the Jack Daniel's Country Cocktails line of malt beverages sold in the U.S. Designed for consumers looking for a premium quality brand and the convenience of a ready-to-drink alcohol beverage, Jack Daniel's ready-to-drinks offer fun, sociability, and refreshment.



#### Sonoma-Cutrer Wines

Sonoma-Cutrer is "America's Grand Cru" and crafts world-class expressions of Chardonnay using traditional Burgundian methods and our own unique philosophy. Since the first vintage release in 1981, the winery has focused on producing only the best expressions of Chardonnay possible that are the purest reflections of both grapes and terroir.



#### Tuaca Liqueur

Tuaca is a unique Italian liqueur with hints of vanilla and natural citrus essences crafted in the coastal town of Livorno, Italy. Tuaca has a unique taste profile, and bartenders have recognized it as a great product and adopted the brand as their own. When served icy cold, it is a smooth drink with a unique twist.



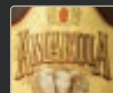
#### Woodford Reserve Kentucky Straight Bourbon Whiskey

Woodford Reserve is a super-premium, small-batch bourbon that is a product of the historic Woodford Reserve Distillery located in the heart of Kentucky's Bluegrass Region. A bourbon of exceptional richness, depth, and character with a smooth, well-rounded finish, award-winning Woodford Reserve is savored by consumers worldwide.



#### Appleton Estate Jamaica Rum\*

The picturesque Nassau Valley in Jamaica has been home to the Appleton Estate since 1749. These premium and ultra-premium rums are distilled from 100% fermented molasses, aged in oak barrels, and meticulously hand-crafted to perfection.



#### Amarula Cream Liqueur\*

From the vastness of the African plains comes Amarula Cream, the world's most exotic liqueur. Amarula is made from the wild marula fruit that is collected by hand then distilled for two years. The liqueur is blended with cream resulting in a delicious taste of caramel, chocolate, and butterscotch.



**Don Eduardo Tequila**

Handcrafted from 100% estate-grown blue agave, ultra-premium Don Eduardo tequila has become a favorite of critics worldwide. Available in expressions – Silver, Reposado, and Añejo – Don Eduardo offers a “new interpretation” of the great taste of tequila.



**Mariah Vineyards**

Mariah is a premium Zinfandel that originates from the exclusive Mendocino Ridge appellation. These aptly named “islands in the sky” are vineyards above 1,200 feet in elevation that reside above the cool Pacific fog line and are heated by the warm sun each day. This results in concentrated and full-flavor grapes that are harvested and sorted by hand to ensure the highest quality possible.



**Durbanville Hills Wines\***

The breathtaking views of South Africa’s majestic Table Mountain from Durbanville Hills winery is the inspiration behind Durbanville Hills wines. Durbanville Hills’ innovative winemaking techniques perfectly capture the flavors and diversity of this remarkable landscape in three fine expressions of Sauvignon Blanc, Shiraz, and South Africa’s indigenous varietal, Pinotage.



**Sanctuary Wines**

Sanctuary is a wine brand from legendary California winemaker Dennis Martin that focuses on offering the best premium varietals from highly acclaimed single vineyards. Thus, the brand is a “sanctuary” or haven for only the finest wines available.



**Wakefield Wines\***

Wakefield is the best-kept secret in Australian premium wine with the No. 1 selling premium Cabernet Sauvignon in Australia. It’s a trusted, market-leading, family-owned brand in Australia and is the authority of the fine wine region of the Clare Valley. Since their first gold-winning vintage in 1973, the Taylor family has grown their portfolio, naming it Wakefield after a river that runs through their estate.



**Canadian Mist Blended Canadian Whisky**

The versatile, light-tasting whisky, Canadian Mist is triple distilled in Collingwood, Ontario where it sources its water from Canada’s Georgian Bay, one of the world’s cleanest and freshest water sources. From here comes an award-winning whisky so smooth and versatile that it lends itself to endless taste possibilities whether drinking it straight or enjoyed in a cocktail.



**Korbel California Champagnes\***

Korbel California Champagne has been America’s symbol of celebration for over 124 years. Korbel marks, acknowledges, and honors people and occasions. Made in the traditional Methode Champenoise, it’s the No. 1 selling premium sparkling wine in the U.S.



\*Brands represented in the U.S. and other select markets by Brown-Forman



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#### Finlandia Vodka

Finlandia vodka isn't made ... it's born. It's born from the purity of Finland's nature. It's born from the spirit and authenticity of the Finnish people. And it's born from the history and culture that have allowed the country and people to flourish. Finlandia vodka celebrates the very best of Finland and allows our friends around the world to celebrate with us. In addition to its classic premium vodka, the brand family includes a popular line of Finlandia Fusion flavored vodkas: Cranberry, Lime, Mango, Wild Berries and Grapefruit.





### Chambord Liqueur

Chambord is a unique black raspberry liqueur that is all natural and made with fresh black raspberries, vanilla and honey. Chambord was inspired by a luxurious black raspberry liqueur produced for Louis XIV during his visit to Chateau Chambord in 1645. Today, Chambord is produced on the premises of a traditional Loire Valley chateau south of Paris. Superb as an enhancement to almost any cocktail or superior sipped alone, Chambord is the perfect addition to any occasion.





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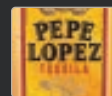
#### Bolla Wines

Bolla wines has been producing authentic, quality Italian wines in the Veneto region of Northern Italy for more than 120 years – and today continues its tradition of crafting fine wines through both popular varietal and classic Veronese wines. Bolla has been a top-selling Italian wine brand in the U.S. for more than 20 years.



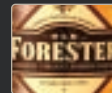
#### Early Times Kentucky Whisky

Early Times is the epitome of good, honest American whisky at its best. Early Times' proprietary formula and unique aging process create a smooth, mellow, flavorful whisky that's easy to drink both straight and mixed. The Early Times Mint Julep has been the official drink of the Kentucky Derby for nearly 20 consecutive years.



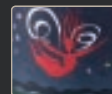
#### Pepe Lopez Tequilas

Pepe Lopez is a true Mexican tequila, produced in Tequila, Jalisco, Mexico and double-distilled to ensure its appealing flavor. Available in Oro (Gold) and Superior Silver (White) labels, Pepe Lopez is a fun, quality tequila perfect for home-made margaritas and casual entertaining.



#### Old Forester Kentucky Straight Bourbon Whisky

Company founder George Garvin Brown recognized a need for quality whisky. To satisfy this desire for good, quality bourbon on a consistent basis, he developed Old Forester, known as "America's First Bottled Bourbon" that ensured quality in every bottle.



#### Five Rivers Wines

Inspired by the spirit of the Central Coast, Five Rivers wines engage consumers with a distinct wine experience with award-winning Chardonnay, Cabernet Sauvignon, Pinot Noir, and Pinot Grigio varietals. The mystical Goddess of the Central Coast presides over Five Rivers wines providing inspiration and wisdom.



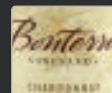
#### Fontana Candida Wines

Located near Rome in the beautiful wine-growing region of Monteporzio Cantone, Fontana Candida is known throughout the world for its delicious, light, and crisp Frascati, Orvieto, and Pinot Grigio wines. Frascati was first created over 2,000 years ago, and Fontana Candida is the most popular Frascati in the world.



#### Jekel Vineyards

Jekel Vineyards is one of the leading pioneers of wine-growing in Monterey County. The cool coastal growing region of Monterey results in better flavor development and concentration in wine – particularly with cool climate varietals such as Riesling, Chardonnay, and Pinot Noir.



#### Bonterra Vineyards

Bonterra Vineyards is the world's leading producer of premium wines crafted from 100% organically grown grapes. Bonterra is committed to making world-class quality wines – through respect for the earth, the vineyard, and the environment. As we say at Bonterra, "organic grapes make better wine."



### Bel Arbor Wines

With over 25 years of California winemaking heritage, Bel Arbor wines are an expression of California's accessible fruit-forward wine style. Among California's best value wines, Bel Arbor varietals include Chardonnay, Cabernet Sauvignon, Merlot, and White Zinfandel.



### Michel Picard Wines

Headquartered in Burgundy, Michel Picard owns five estate wineries throughout the Burgundy region including some of the region's most revered and historic vineyards. Michel Picard uses special innovative winemaking techniques to produce outstanding wines from the renowned Burgundy, Beaujolais, Rhone, and Loire growing regions.



### Virgin Vines Wines\*

Launched in partnership with Sir Richard Branson and the Virgin Group, Virgin Vines is a fun, new wine that is easy to find, easy to open, and easy to enjoy. The recognizable "Virgin" logo, beautiful hand-painted bottle, and innovative "B.o.B." screw-top closure make Virgin Vines more approachable than most wines.



### Gala Rouge Wines

Gala Rouge is an updated, approachable French wine designed for the stylish wine drinker who values fun, sophistication, and quality wine. With its vibrant and expressive vintage poster art label, Gala Rouge decorates every occasion with its artistic flair and classic taste.



### Little Black Dress Wines

Little Black Dress translates the positive emotions and confident feelings women have about their little black dresses to a wine brand. Flirty and fun, sophisticated and timeless, Little Black Dress is the easy, versatile, go-to choice in wine that she can count on to complement all the occasions when it's great to be a woman.



### Stellar Gin

Stellar is made with 10 carefully selected botanicals infused with six natural citrus flavors and then blended with a quadruple-distilled spirit. Cold-filtration finishes the process, resulting in a taste that is crisp, refreshing, and alive with flavor. Stellar's citrus crush infusion delivers the most refreshing gin experience.



### Eleven Tongues Wines

Introduced in May 2007, this new South African wine is available in expressions of Chardonnay, Sauvignon Blanc, and Shiraz. The brand received a Gold Star rating for the Chardonnay and a Silver Star rating for the Sauvignon Blanc at the San Diego International Wines Competition.



\*Brands represented in the U.S. and other select markets by Brown-Forman



lesser-known story of Brown-Forman today is our success beyond Jack Daniel's.

...

Our premium global brands – Jack Daniel's, Southern Comfort, and Finlandia – are among the top 50 premium spirits brands in the world and are critical to the company's sales and profitability growth. Of course, Jack Daniel's continues to be one of the premier brands in our exciting industry. Our super-premium developing brands represent a group of primarily on-premise brands with super- to ultra-premium price points that exhibit long-term growth potential and outstanding profitability. With the additions of Chambord and the Casa Herradura brands, we've strengthened our hand considerably. Our mid-priced regional brands are a diverse assortment of new and established brands with a primarily off-premise focus. These brands are highly important, not necessarily for their growth potential, but for their ability to generate cash that can be invested behind our best growth opportunities going forward. In strengthening our product line, we believe we've developed a competency at rejuvenating brands that may have stalled or hit hard times. We believe there is great value in getting consumers to think "new" about old brands. A prime example of our brand reinvigoration prowess is Southern Comfort, a century-old brand that had stalled in the mid-1990s. Today, the brand boasts seven consecutive years of growth and worldwide depletions now exceed 2.4 million cases.



#### Herradura Tequila

An authentic Mexican treasure, Herradura is one of the oldest and most respected producers of tequila in the world. Since 1870, Herradura has produced the world's finest tequila, handcrafted in a historic setting near a 19th century hacienda in Amatitán, Jalisco in the heart of Mexico's tequila region. These all-natural, 100% blue agave tequilas are made using traditional methods, such as cooking the agave in clay ovens and fermenting naturally with wild yeast. These ultra-premium tequilas are available in four award-winning expressions: Silver, Reposado, Añejo, and Extra Añejo (Selección Suprema).





## Fetzer Wines

Founded in 1968 and located in Mendocino, California, Fetzer Vineyards is one of California's most awarded wineries. Fetzer has been named Winery of the Year nine times by Wine & Spirits magazine and one of America's top value wineries in 2006. Fetzer is committed to sustainability and environmental stewardship in every aspect of the wine-making process – making us better winemakers and stewards of the land, but also better neighbors and members of the community. Fetzer produces a broad array of varietals including Cabernet Sauvignon, Chardonnay, Gewürztraminer, Sauvignon Blanc, Riesling, Merlot, Pinot Grigio, Pinot Noir, Shiraz/Syrah, Syrah Rose, White Zinfandel and Zinfandel.





lesser-known story of Brown-Forman today is our success beyond Jack Daniel’s.

...

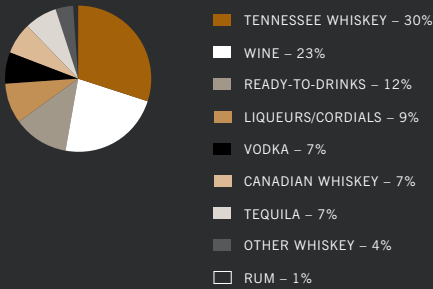
Our premium global brands – Jack Daniel’s, Southern Comfort, and Finlandia – are among the top 50 premium spirits brands in the world and are critical to the company’s sales and profitability growth. Of course, Jack Daniel’s continues to be one of the premier brands in our exciting industry. Our super-premium developing brands represent a group of primarily on-premise brands with super- to ultra-premium price points that exhibit long-term growth potential and outstanding profitability. With the additions of Chambord and the Casa Herradura brands, we’ve strengthened our hand considerably. Our mid-priced regional brands are a diverse assortment of new and established brands with a primarily off-premise focus. These brands are highly important, not necessarily for their growth potential, but for their ability to generate cash that can be invested behind our best growth opportunities going forward. In strengthening our product line, we believe we’ve developed a competency at rejuvenating brands that may have stalled or hit hard times. We believe there is great value in getting consumers to think “new” about old brands. A prime example of our brand reinvigoration prowess is Southern Comfort, a century-old brand that had stalled in the mid-1990s. Today, the brand boasts seven consecutive years of growth and worldwide depletions now exceed 2.4 million cases.

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BROWN-FORMAN'S PRINCIPLES OF BRAND BUILDING

- 1. People build brands
- 2. Understand consumers well and deliver benefits they truly desire.
- 3. Establish clear, differentiated positioning.
- 4. Deliver superior product quality.
- 5. Enhance packaging based on consumer needs and trends.
- 6. Price to reflect fair consumer value.
- 7. Employ an appropriate creative repertoire of brand-building models and tools.
- 8. Market and promote our brands responsibly.
- 9. Remain relevant to consumers.
- 10. Execute plans superbly.
- 11. Monitor and evaluate performance and incorporate learning into future plans.

COMPREHENSIVE BRAND PORTFOLIO  
(based on nine-liter case depletions)



AGENCY BRANDS

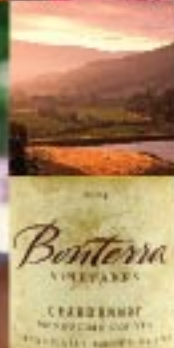
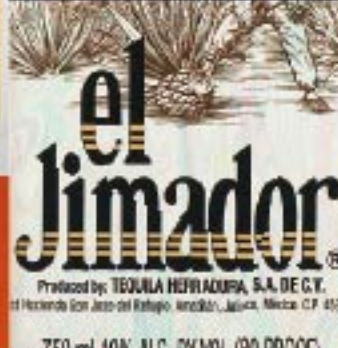
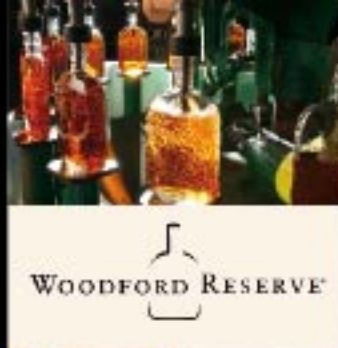
Attracted by our proven brand-building prowess, major wine and spirits producers rely on Brown-Forman to market their products in selected markets around the world. These so-called agency brands include many well-known and highly respected consumer brand names.

United States	Poland	Otard
Korbel	Maximus	Grant's
Appleton	Carolans	Glenfiddich
Amarula	Tullamore Dew	Clan MacGregor
Wakefield	DeKuyper	Hennessy
Durbanville Hills		Moet & Chandon
Michel Picard	Czech Republic	Dom Perignon
	Bacardi	Grey Goose
Australia	Martini	Belvedere
Appleton	S. Raphael	
Coruba Jamaica Rum	Dewar's	
Gekkeikan Sake	Bombay Sapphire	











BROWN-FORMAN

ANNUAL REPORT

2007

## FINANCIAL RESULTS





## SELECTED FINANCIAL DATA

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

Year Ended April 30,	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>CONTINUING OPERATIONS</b>										
Net Sales	\$ 1,365	1,446	1,542	1,572	1,618	1,795	1,992	2,195	2,412	2,806
Gross Profit	\$ 689	741	812	848	849	900	1,024	1,156	1,308	1,481
Operating Income	\$ 265	279	296	320	326	341	383	445	563	602
Income from Continuing Operations	\$ 160	176	187	200	212	222	243	339	395	400
Weighted Average Shares used to calculate Earnings per Share										
– Basic	137.9	137.2	137.0	137.0	136.7	134.7	121.4	121.7	122.1	122.9
– Diluted	138.0	137.4	137.2	137.1	137.0	135.1	122.0	122.5	123.4	124.2
Earnings per Share from Continuing Operations										
– Basic	\$ 1.15	1.28	1.36	1.46	1.55	1.65	2.00	2.79	3.24	3.26
– Diluted	\$ 1.15	1.28	1.36	1.46	1.55	1.65	1.99	2.77	3.20	3.22
Gross Margin	50.4%	51.2%	52.6%	53.9%	52.5%	50.1%	51.4%	52.7%	54.2%	52.8%
Operating Margin	19.4%	19.3%	19.2%	20.3%	20.2%	19.0%	19.2%	20.3%	23.3%	21.5%
Effective Tax Rate	37.3%	36.0%	35.9%	35.8%	34.1%	33.6%	33.1%	32.6%	29.3%	31.7%
Average Invested Capital	\$ 583	681	889	1,016	1,128	1,266	1,392	1,535	1,863	2,431
Return on Average Invested Capital	28.9%	26.7%	22.0%	20.7%	19.3%	18.0%	18.5%	23.0%	21.9%	17.4%
<b>TOTAL COMPANY</b>										
Cash Dividends Declared per Common Share	\$ 0.55	0.58	0.61	0.64	0.68	0.73	0.80	0.92	1.05	1.17
Average Stockholders' Equity	\$ 757	855	976	1,111	1,241	1,290	936	1,198	1,397	1,700
Total Assets at April 30	\$ 1,494	1,735	1,802	1,939	2,016	2,264	2,376	2,649	2,728	3,551
Long-term Debt at April 30	\$ 43	46	33	33	33	629	630	351	351	422
Total Debt at April 30	\$ 157	290	259	237	200	829	679	630	576	1,177
Cash Flow from Operations	\$ 220	213	241	232	249	243	304	396	343	355
Return on Average Stockholders' Equity	24.2%	23.4%	22.1%	20.7%	18.1%	18.7%	27.1%	25.7%	22.9%	22.9%
Total Debt to Total Capital	16.1%	24.0%	19.8%	16.6%	13.2%	49.4%	38.3%	32.5%	26.9%	42.8%
Dividend Payout Ratio	41.5%	39.5%	38.5%	38.1%	41.4%	41.1%	38.2%	36.1%	40.0%	36.8%

**Notes:**

1. Includes the consolidated results of Sonoma-Cutrer Vineyards, Finlandia Vodka Worldwide, Tuoni e Canepa, Swift & Moore, Chambord, and Casa Herradura since their acquisitions in April 1999, December 2002, February 2003, February 2006, May 2006, and January 2007, respectively.
2. Weighted average shares, earnings per share, and cash dividends declared per common share have been adjusted for a 2-for-1 common stock split in January 2004.
3. We define Return on Average Invested Capital as the sum of net income (excluding extraordinary items) and after-tax interest expense, divided by average invested capital. Invested capital equals assets less liabilities, excluding interest-bearing debt.
4. We define Return on Average Stockholders' Equity as net income applicable to common stock divided by average stockholders' equity.
5. We define Total Debt to Total Capital as total debt divided by the sum of total debt and stockholders' equity.
6. We define Dividend Payout Ratio as cash dividends divided by net income.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

In the discussion below, we review Brown-Forman's consolidated financial condition and results of operations for the fiscal years ended April 30, 2005, 2006, and 2007. We also make statements relating to our anticipated financial performance and other forward-looking statements and discuss factors that may affect our future financial condition and performance. We have prepared a list of some risk factors that could cause actual results to differ materially from our anticipated results. Please read this Management's Discussion and Analysis section in conjunction with our consolidated financial statements for the year ended April 30, 2007, their related notes, and the important information regarding forward-looking statements on page 56.

As discussed in Note 2 to the accompanying financial statements, we sold Lenox, Inc. during fiscal 2006, and sold Brooks & Bentley and Hartmann in fiscal 2007. As a result, we have reported them as discontinued operations in the accompanying financial statements.

## EXECUTIVE OVERVIEW

Brown-Forman Corporation is a diversified producer and marketer of fine-quality consumer beverage products, including Jack Daniel's and its family of brands, Southern Comfort, Finlandia, Tequila Herradura, el Jimador Tequila, Canadian Mist, Fetzer, Bolla, and Sonoma-Cutrer wines, and Korbel Champagne. We market and sell various categories of beverage alcohol products, such as Tennessee, Canadian, and Kentucky whiskies; Kentucky bourbon; California sparkling wine; tequila; table wine; liqueurs; vodka; rum; gin; and ready-to-drink products.

## OUR MARKETS

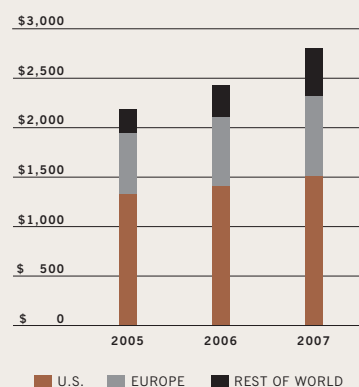
Our brands are sold around the world in over 135 countries. Our largest and most important market is the U.S., where 53% of our net sales from continuing operations were generated in fiscal 2007, compared to 58% in fiscal 2006. Sales in the U.S. grew 7% when compared to fiscal 2006, while our sales outside of the U.S. grew 30%. Europe, our second-largest region in terms of net sales, grew a healthy 15% in fiscal 2007, influenced in part by a weaker U.S. dollar and the full-year effect of a structural change in our distribution arrangement in Germany, where we are now responsible for paying and remitting excise taxes. Europe represented 29% of total net sales from continuing operations in fiscal 2007, unchanged from fiscal 2006. Growth from the rest of the world accelerated, improving 65% in fiscal 2007, and now constitutes 18% of our total net sales from continuing operations, up from 11% of total net sales just two short years ago. The double-digit increase in net sales and the significant increase in the percentage contribution to total sales compared to fiscal 2005 includes the effect of structural changes in our distribution model in Australia, where we are now responsible for paying and remitting excise taxes, and the incremental net sales associated with the acquisition of Casa Herradura primarily in the Mexican market.

International expansion continued to provide a significant portion of our growth, as it has over the past decade. In fact, markets outside of the U.S. contributed more than 75% of growth in net sales in fiscal 2007 and constituted approximately 47% of our total reported net sales for the year.

The principal international markets for our brands include the U.K., Australia, Poland, Germany, Mexico, South Africa, Spain, France, Canada,

and Japan. As we continue to expand outside of the U.S., foreign exchange rate fluctuations increasingly affect our financial results – in terms of both sales from goods sold in local currencies and the cost of goods and services purchased in local currencies. On a net basis, we sell more in local currency than we buy, thus exposing our financial results to the negative impact of a strengthening U.S. dollar. To help protect against this, we regularly hedge our foreign currency exposure. But over the long term, reported profits from our international business may be adversely affected if the U.S. dollar strengthens against other currencies.

NET SALES BY GEOGRAPHY  
(in millions)



Consumer demand for both premium and super-premium brands in the U.S. continued to expand this past year, but at a slightly lower growth rate than in fiscal 2006. Positive demographic trends, the continued consumer interest in spirits-based cocktails, and consumers' desire to trade up to more premium offerings helped to maintain the positive environment for premium spirits in the U.S. We anticipate that this encouraging environment will continue in the U.S., but consumer preferences can change very quickly and could affect our performance if we are not prepared to respond quickly to changing industry and competitive dynamics.

## OUR BRANDS

In fiscal 2007, we entered into numerous transactions, including those that allow us to focus on better opportunities in our beverage business, and others that changed our brand portfolio. Following the sale of Lenox, Inc. in fiscal 2006, during fiscal 2007 we sold the remaining businesses in our former consumer durables segment, Hartmann luggage and Brooks & Bentley, which have been classified as discontinued operations in this annual report.

Meanwhile, we strengthened our brand offerings with the purchase of Chambord liqueur and the Casa Herradura brands (including el Jimador, Herradura, New Mix, Antiguo, and Suave 35). These brand additions to our portfolio participate in the premium or super-premium categories, in high priority markets, and offer attractive gross profit per case. We anticipate each of these brands will provide long-term earnings growth rates at or above our historical average, strengthening our margins and growth profile.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our brand portfolio reached a milestone in fiscal 2007, with depletions (defined on the next page) surpassing 30 million nine-liter cases. We also had nine brands with depletions exceeding 1 million nine-liter cases.

We analyze our beverage portfolio in numerous ways. One way includes the following three categories: *premium global brands*, which have broad international distribution and are sold at premium price points; *mid-priced regional brands*, which are important category leaders whose volumes are concentrated in fewer markets; and *super-premium developing brands*, which are smaller, higher-margin brands with significant growth opportunities.

NET SALES BY CATEGORY



Our *premium global brands*, which include Jack Daniel's, Southern Comfort, and Finlandia and their brand families, represented 71% of our net sales in fiscal 2007, with net sales growing at double-digit rates. We expect our premium global brands to continue to contribute significantly to our future performance.

*Jack Daniel's Tennessee Whiskey* remains the most important brand within our portfolio and is one of the largest and most profitable spirits brands in the world. Global depletions for Jack Daniel's increased 6% in fiscal 2007, surpassing the 9 million nine-liter case mark, and growing in the U.S. and in 23 of its 25 largest international markets. Volumes of Jack Daniel's outside of the U.S. experienced double-digit growth in fiscal 2007, surpassing the 4 million case mark; non-U.S. volumes now represent slightly over half of the brand's total net dollar sales. In the U.S., where approximately 52% of Jack Daniel's nine-liter case volumes are sold, depletions grew 3%.

The positive environment for premium spirits, increased levels of advertising and promotional support, and the brand's overall marketplace strength have combined to provide solid growth in volumes and double-digit gains in gross profit on a global basis. A significant percentage of our total earnings are derived from Jack Daniel's, and the brand's growth is vital to our overall marketplace strength. Accordingly, it will remain our major overall focus. While a significant decline in volume or selling price for the brand could materially depress our overall earnings, we are encouraged by the accelerating geographic diversification of the brand's profits, which intensified in fiscal 2007.

*Southern Comfort*, our second most important brand, delivered solid volume and profit growth in fiscal 2007. The brand's global depletions grew 3%, fueled by growth in its largest market, the U.S. *Finlandia's* volume grew an impressive 15% led by strong growth in Poland, the brand's biggest market. In contrast to Jack Daniel's and Southern Comfort, nearly 85% of this brand's 2.4 million cases are sold outside of the U.S., including over 600,000 cases in Poland. We expect both Southern Comfort and Finlandia to contribute significantly to our long-term growth.

Our *mid-priced regional brands* had mixed results during fiscal 2007, as depletions expanded for *Fetzer Valley Oaks* and *Bonterra* wines and *Korbel* Champagnes, but contracted for *Bolla*, *Canadian Mist*, and *Early Times*. Together, our foundation brands represent 23% of our total net sales and remain important contributors to our earnings and cash flow. These large, off-premise-driven category leaders compete in extremely price-competitive categories. Consequently, we have only moderate growth expectations for most of these brands.

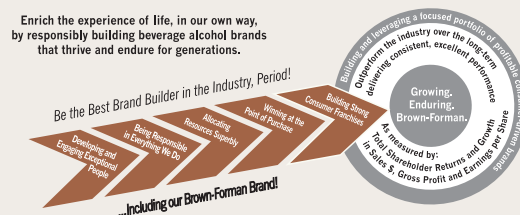
Our *super-premium developing brands*, representing 6% of net sales in fiscal 2007, comprise the category that we believe has significant worldwide growth opportunities. Overall net sales improved at a double-digit rate for the year, due in part to our acquisitions of *Chambord* and *Casa Herradura* and solid growth from *Woodford Reserve* bourbon and *Sonoma-Cutrer* wines. We remain encouraged by the growth prospects for these brands and believe they have the potential to contribute meaningfully to our earnings in the years ahead, especially as we integrate Casa Herradura fully into our brand portfolio.

In the short term, we expect this integration to moderately depress our earnings, however. In fiscal 2008, we estimate a \$0.13 to \$0.18 dilutive effect on earnings per share. We will also be bringing Casa Herradura into conformity with our trade practice standards, financial control environment and U.S. public company requirements. Greater than anticipated changes needed on one or more of these fronts could detract from our current anticipated fiscal 2008 performance. Longer term, our ability to grow the volumes and maintain or increase the profit margins on the Herradura and el Jimador brands, especially in the U.S. or Mexico, will be important to our future performance.

Our acquisition of Casa Herradura in January 2007 expanded our super-premium developing portfolio, and we believe provides us with several meaningful brand contributors to our earnings growth potential in the future.

## OUR ROUTE-TO-CONSUMER STRATEGY

Introduced four years ago, the Brown-Forman Arrow captures our overarching objective to "Be the Best Brand Builder in the Industry, Period!" and the five supporting imperatives that reach that goal. All of our strategies flow from this over-arching objective.



A critical supporting component of our brand-building strategy is a multi-faceted program designed to ensure that consumers can find our products whenever and wherever they have an opportunity to choose a premium beverage alcohol brand. This program employs a variety of distribution models around the world and our preference for a particular arrangement or partnership depends on our assessment of a market's long-term competitive dynamics and our portfolio's stage of development in that market. In several markets around the world, we own and operate our own distribution network, including Australia, China, the Czech Republic, Korea,



## MANAGEMENT'S DISCUSSION AND ANALYSIS

Mexico, Poland, and Thailand. In those markets we sell our beverage alcohol products directly to retail stores and to wholesalers. In many other markets, including the U.S., we use third parties to distribute our portfolio of brands.

We continued to see the distribution environment change in the U.S. this past year with a number of distributor consolidations. We have been evaluating options that might lead to new arrangements or partnerships in the important U.S. market. During fiscal 2007, we renewed our cost-sharing agreement with Bacardi in the U.K., the largest market for our brands outside the U.S., and changed distributors in several other markets. In January 2007, as part of the Casa Herradura acquisition, we acquired a distribution network in Mexico.

#### OUR COMPETITION

Our brands operate in a highly competitive industry, as we compete against many global, regional, and local brands in several categories and price points of beverage alcohol. Trade information indicates that we are one of the largest wine and spirits suppliers in the U.S. in terms of revenues.

#### OUR EARNINGS OUTLOOK

We are optimistic about our earnings outlook for fiscal 2008 due to the current momentum of our brands, the continued favorable global environment for premium spirits, the exciting opportunities to expand our recent brand additions, and the numerous possibilities we believe we have to continue building our fine portfolio of brands around the world.

Fiscal 2007 earnings from continuing operations were \$3.22 per diluted share. We currently expect fiscal 2008 earnings from continuing operations to be \$3.35 to \$3.55 per diluted share, which represents growth of 7% to 13% compared to fiscal 2007 earnings from continuing operations, excluding the \$0.08 per share net gain on the sale of winery assets. This outlook includes our estimated earnings dilution of \$0.13 to \$0.18 per share associated with the Casa Herradura acquisition, two-thirds of which we expect to be transition-related costs. These estimated costs include integration and compliance expenditures and non-cash charges associated with the purchase of distribution rights for the Herradura brand in the U.S.

The low end of our earnings outlook noted above approximates our projection of the average operating income growth of our competitors, while the high end of the range is modestly higher than our most recent three year average underlying growth in earnings. Our full-year earnings outlook for fiscal 2008 is moderated by the potential incremental dilution over fiscal 2007 attributable to the acquisition of Casa Herradura, a higher effective tax rate, an anticipated increase in raw material costs, and the absence of an approximate \$0.06 per share benefit from interest earned in fiscal 2007 on proceeds invested from the sale of Lenox Inc., the latter of which we distributed to shareholders on May 10, 2007.

#### RESULTS OF OPERATIONS

Our total company diluted earnings per share were \$3.14 in fiscal 2007, which consisted of \$3.222 per diluted share from continuing operations and a \$0.086 loss from discontinued operations. The following discussion of our results from continuing operations excludes the results related to the former Consumer Durables segment, which have been segregated

from continuing operations and reflected as discontinued operations for all periods presented. See "Discontinued Operations" on page 34.

#### CONTINUING OPERATIONS

Continuing operations consist of our beverage business, which includes strong brands representing a wide range of varietal wines, champagnes, and spirits such as whiskey, bourbon, vodka, tequila, rum, and liqueur. The largest market for our brands is the U.S., which generally prohibits wine and spirits manufacturers from selling their products directly to consumers. Instead, we sell our products to wholesale distributors, who then sell the products to retailers, who in turn sell to consumers. We use a similar tiered distribution model in many markets outside the U.S., but we distribute our own products in several markets, including Australia, China, the Czech Republic, Korea, Mexico, Poland, and Thailand.

Distributors and retailers normally keep some of our products on hand as inventory, making it possible for retailers to sell more (or less) of our products to consumers than distributors buy from us during any given time period. Because we generally record revenues when we ship our products to distributors, our sales do not necessarily reflect actual consumer demand during any particular period. Ultimately, of course, consumer demand is critical in determining our financial results. Depletions, which are defined as nine-liter case shipments from distributors to retailers, are generally used in the beverage alcohol industry as the most representative approximation of consumer demand.

#### FISCAL 2007 COMPARED TO FISCAL 2006

Net sales surpassed \$2.8 billion in fiscal 2007, replacing the net sales provided by Lenox Inc. (which we sold in fiscal 2006) with what we believe are much higher-quality sales with far better growth potential. The major factors driving the \$394 million, or 16%, increase in net sales were:

	<i>Growth vs. 2006</i>
• Distribution changes	4%
• Foreign exchange	3%
• Acquisitions	3%
• Underlying net sales growth:	6%
Volume .....	4%
Price/Mix .....	2%
Reported net sales growth	<u>16%</u>

"Distribution changes" refers to our operations in Australia and Germany, where our net sales were affected due to additional margin earned, a change in the timing of revenue recognition during the transition, or the payment of excise taxes. We believe these items create a disproportionate effect on the underlying net sales growth, making comparisons difficult to understand.

"Foreign exchange" refers to net gains and losses incurred by our sales and purchases in currencies other than the U.S. dollar. We use this to understand the growth of our business on a constant dollar basis, as we believe fluctuations in exchange rates distort the underlying growth of our

## MANAGEMENT'S DISCUSSION AND ANALYSIS

business (both positively and negatively). To neutralize the effect of foreign exchange fluctuations, we translate current year results at prior year rates. In fiscal 2007, our net sales, gross profit, operating income, and earnings per share benefited from a weaker U.S. dollar, while advertising and selling, general, and administrative expenses were hurt. We believe separately identifying the impact foreign exchange has on each of the key line items of the Consolidated Statement of Operations allows the reader to better understand our underlying business performance.

"Acquisitions" refers to the effect the Chambord liqueur and Casa Herradura acquisitions had on our results, which we believe makes comparisons difficult to understand. We believe disclosing this effect separately aids in understanding the underlying year-over-year changes.

We believe that disclosing the 6% underlying revenue growth for fiscal 2007 is important because it more accurately reflects our underlying performance.

Fiscal 2007 was another strong year for Jack Daniel's Tennessee Whiskey, as volume increased for the fifteenth consecutive year, passing the 9 million nine-liter case milestone. Consumer demand continued to expand for this iconic, authentic American whiskey, as the brand added 525,000 nine-liter cases globally, growing more than 6% over the prior year. The brand was particularly strong outside of the U.S., from which over 70%, or nearly 375,000 nine-liter cases, of its growth came. Depletions grew at a double-digit rate internationally and were notably robust in Germany, France, South Africa, Italy, Russia, and Japan. Volumes improved in the low single digits in the brand's largest market, the U.S., adding approximately 150,000 nine-liter cases to its already large base.

Like Jack Daniel's U.S. volume growth, the overall total distilled spirits category continued to increase. These industry trends, as measured by National Alcohol Beverage Control Association (NABCA) data, indicate total distilled spirits grew 3.6% for the twelve months ending April 30, 2007, while Jack Daniel's grew 3.2% for the same period. One factor that may have contributed to the Jack Daniel's U.S. moderated growth rate was our reorganization to combine our wine and spirits sales and marketing organizations. With this reorganization behind us, we anticipate that Jack Daniel's growth rate in the U.S. will improve and be on par with the total distilled spirits category. However, if this year's trend of Jack Daniel's slight underperformance in growth rate relative to the total distilled spirits category were to continue in the future, it could negatively affect our earnings growth rate.

Performance for the rest of the Jack Daniel's family of brands was also strong. Growing at a double-digit rate, Jack Daniel's ready-to-drink products approached the 3 million nine-liter case mark on the strength of Jack Daniel's & Cola sales in Australia while Jack Daniel's Single Barrel and repackaged Gentlemen Jack combined to reach volumes of nearly 250,000 nine-liter cases.

Southern Comfort global depletions grew 3%, with mid-single digit gains in the U.S. and South Africa. For the second consecutive year, worldwide depletions for Finlandia grew 15%, led again by volume growth in Poland, the brand's largest market (where it now sells over 600,000 nine-liter cases), and double-digit growth in numerous other markets,

including Israel, Russia, and the U.K. The brand grew in the low single digits in the very competitive U.S. vodka market.

All three of these premium global brands, Jack Daniel's, Southern Comfort, and Finlandia, achieved record sales and profit levels in fiscal 2007.

Overall volume performance was mixed for our mid-priced regional brands. Depletions grew in the mid-single digits for both Fetzer Valley Oaks and Korbel Champagnes, while Canadian Mist, Bolla, and Early Times all posted volume declines for the year. Overall volumes for our super-premium developing brands grew at a double-digit rate, led by solid growth for Sonoma-Cutrer and Woodford Reserve. Ready-to-drink volumes continued their strong performance, expanding 9% for the second consecutive year, fueled primarily by excellent double-digit gains in Australia.

The following table highlights worldwide depletion results for our major brands during fiscal 2007:

	<i>Nine-liter Cases (000s)</i>	<i>% Change vs. 2006</i>
Jack Daniel's	9,075	6%
Total RTDs <sup>(1)</sup>	3,360	9%
Southern Comfort	2,465	3%
Finlandia	2,440	15%
Fetzer Valley Oaks	2,295	5%
Canadian Mist	1,945	(4%)
Korbel Champagnes	1,280	5%
Bolla	1,160	(5%)

(1) RTD (ready-to-drink) volumes include Jack Daniel's and Southern Comfort products.

**Gross profit** is a key performance measure for us. The same factors described above that boosted revenue growth also fueled the 13%, or \$173 million, increase in gross profit, which approached \$1.5 billion. The table below summarizes the major factors driving the gross profit growth for the year.

	<i>Growth vs. 2006</i>
• Foreign exchange	2%
• Distribution changes	2%
• Acquisitions	2%
• Trade inventory changes	(1%)
• Underlying gross profit growth:	8%
<i>Volume</i> .....	6%
<i>Price/Mix</i> .....	2%
Reported gross profit growth	13%

Underlying gross profit growth of 8% was fueled primarily by double-digit gains for Jack Daniel's, Southern Comfort, Finlandia, and our Jack Daniel's & Cola ready-to-drink product sold primarily in Australia. Improved margins on Canadian Mist, reflecting the brand's recent pricing strategy, and higher volumes for several other brands, including Woodford Reserve, Sonoma-Cutrer, Korbel Champagne, and Bonterra wines, also contributed to the underlying growth in gross profit for the year.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Trade inventory changes.** We work with our distributor partners around the world to enable them to maintain optimal inventories of our brands and to help them realize supply-chain efficiencies. Ultimately, however, given the number of distributors and importers to whom we sell our brands, we do not have control over their buying patterns or the inventory held at either wholesale or retail levels. Therefore, we believe it is important to provide visibility to both the positive and negative effects that fluctuating trade inventory levels have on our reported results. We compute this effect using our historical and estimated depletion trends and, as shown in the table on page 29, separately identify trade inventory changes in the variance analysis for our key metrics.

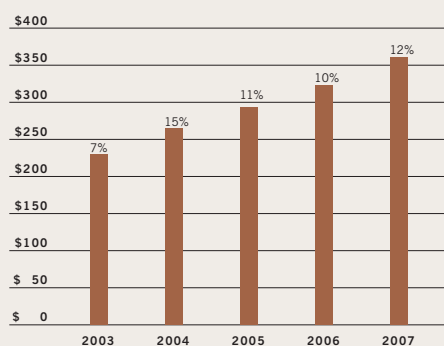
**Gross margin** declined from 54.2% in fiscal 2006 to 52.8% in fiscal 2007. The major factor driving this decline in margin was the full-year effect of recording excise taxes for our German and Australian businesses, which lowered gross margin by 1.5 percentage points. The distribution structures changed in these markets in October 2005 and February 2006, respectively, causing us to be responsible for collecting and remitting excise taxes in these markets.

**Advertising expenses** were up \$38 million, or 12%, as we continued our long track record of consistently reinvesting to build our brands. The weaker U.S. dollar and spending behind acquired brands (Chambord liqueur and the Casa Herradura brands) contributed to the increase in spending for the year. On a constant-exchange basis, and excluding the effect of acquisitions, advertising investments were up 6%, reflecting incremental spending behind Jack Daniel's, Southern Comfort, Finlandia, and several of our super-premium developing brands.

	<i>Growth vs. 2006</i>
• Foreign exchange	3%
• Acquisitions	3%
• Underlying advertising growth	6%
Reported advertising growth	<u>12%</u>

## ADVERTISING TRENDS

(in millions; percentage rates over each bar represents year-over-year growth.)



**Selling, general, and administrative expenses** increased \$68 million, or 14%, influenced by the following factors:

	<i>Growth vs. 2006</i>
• Distribution changes	5%
• Acquisitions	3%
• Foreign exchange	1%
• Underlying SG&A growth	5%
Reported SG&A growth	<u>14%</u>

Higher compensation and postretirement costs increased the underlying selling, general, and administrative expenses. We also made changes to our distribution networks during fiscal 2006 in Germany and Australia that we believe will improve our direct influence over in-market brand-building activities.

**Other income** decreased \$28 million in fiscal 2007, due primarily to the absence of the following items that occurred during fiscal 2006:

- \$14 million consideration received from LVMH Moët Hennessy Louis Vuitton for the early termination of our distribution and marketing rights for the Glenmorangie family of brands;
- \$25 million gain relating to a contractual fee paid to us by Pernod Ricard following their acquisition of Allied Domecq and decision to exit Swift & Moore (formerly a joint venture between Allied Domecq and us in Australia); and
- \$5 million gain on the sale of unused Jekel winery assets in Monterey, California (although the Jekel brand remains an important part of our portfolio).

Partially offsetting the absence of these items in fiscal 2007 was an \$11 million gain we recognized on the sale of an Italian winery used in producing Bolla wines to Gruppo Italiano Vini (GIV). Although the Bolla brand remains an important part of our portfolio, we moved the responsibility for producing these Italian wines to GIV, an Italian company, during fiscal 2007.

**Operating income** from continuing operations for fiscal 2007 improved 7%, or \$39 million. Positive factors driving operating income growth were solid underlying performances from our premium global brands, a weaker U.S. dollar, and a net gain on the sale of winery property in Italy. These positive factors were partially offset by the absence of several items that occurred in fiscal 2006, including a cash payment received for the early termination of marketing and distribution rights for the Glenmorangie family of brands, a net gain related to the restructuring of the ownership of our Australian distributor, and a gain on the sale of winery property in California. The following chart summarizes the major factors driving our 7% growth in operating income and identifies our underlying operating income growth for fiscal 2007 of 11%, which we believe more accurately reflects the underlying performance of our business.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

	<i>Growth vs. 2006</i>
• Absence of Glenmorangie consideration	(3%)
• Distribution changes	(4%)
• Trade inventory changes	(1%)
• Acquisitions	(1%)
• Net gain on sale of winery property	1%
• Foreign exchange	4%
• Underlying operating income growth	11%
Reported operating income growth	7%

**Interest expense (net)** increased \$12 million compared to fiscal 2006, reflecting the financing of the Casa Herradura acquisition. We initially financed the acquisition with approximately \$114 million of cash and approximately \$680 million of commercial paper. We replaced some of this debt with the issuance of \$400 million of long-term debt in March 2007.

**Effective tax rate** reported for continuing operations in fiscal 2007 was 31.7% compared to 29.3% reported in fiscal 2006. The 2.4 percentage points increase in the rate was primarily attributable to the absence of a tax benefit achieved last year by offsetting various capital gains items (from the early termination of Glenmorangie marketing and distribution rights, the sale of winery property, and consideration received from changes in our Australian distribution operation) against the capital loss resulting from the sale of Lenox, Inc. The effective tax rate was also affected by the phase-out of the extraterritorial income exclusion, as provided by The American Jobs Creation Act of 2004.

**Diluted earnings per share** from continuing operations reached a record \$3.22, up 1% over fiscal 2006. Performance for the year benefited from solid growth for Jack Daniel's, Southern Comfort, and Finlandia, and improved volume and profits from Jack Daniel's ready-to-drink product, sold primarily in Australia. Reported results in both fiscal 2007 and fiscal 2006 were also affected by several items that we believe were not representative of our underlying growth in earnings. These items include:

*Recorded in fiscal 2006*

- A net benefit received from changes in our Australian distribution operation of approximately \$0.15 per share;
- Profits associated with the early termination of Glenmorangie marketing and distribution of approximately \$0.11 per share;
- A net gain on the sale of California winery property of approximately \$0.04 per share; and
- An increase in trade inventory levels which boosted earnings by approximately \$0.05 per share.

*Recorded in fiscal 2007*

- A net gain on the sale of Italian winery property of approximately \$0.08 per share;
- A benefit resulting from a weaker U.S. dollar of approximately \$0.13 per share; and
- A reduction in earnings reflecting interest and transition expenses associated with our acquisitions of Chambord liqueur and Casa Herradura of approximately \$0.15 per share.

**Basic and diluted earnings per share.** In Note 15 to our consolidated financial statements, we describe our 2004 Omnibus Compensation Plan and how we issue stock options under it. In Note 1, under "Stock-Based Compensation" we describe how the plan is designed to avoid diluting earnings per share.

**FISCAL 2006 COMPARED TO FISCAL 2005**

**Net sales** improved 10%, or \$217 million, driven by higher sales for almost all of our brands but notably for Jack Daniel's, Southern Comfort, and Finlandia, reflecting higher volumes, and margin expansion related to selected price increases. Jack Daniel's registered growth for the fourteenth consecutive year, as demand expanded 8% globally, or 665,000 nine-liter cases, to over 8.5 million nine-liter cases. Southern Comfort worldwide volumes expanded 5% for the second consecutive year. Results for Finlandia were also strong, as worldwide depletions accelerated, growing 15% led by volume growth in Poland and double-digit increases in Israel, Russia, and China. Higher volumes from our super-premium developing brands, including Woodford Reserve, Sonoma-Cutrer, and Tuaca, and our ready-to-drink performance in Australia, also contributed to the growth in sales for the year.

**Gross profit** grew 13%, or \$152 million. This growth resulted from the same factors that generated revenue growth. Gross margin increased from 52.7% in fiscal 2005 to 54.2% in fiscal 2006. The major factors driving this improvement were price increases on several brands in various markets, a favorable shift of business to more profitable markets and brands, and significantly lower cost for wines.

**Advertising expenses** increased 10% as we increased brand-building activities behind Jack Daniel's, Southern Comfort, Finlandia, and several of our super-premium developing brands, including Woodford Reserve and Tuaca. Partially offsetting these increases in spending were the benefit of a stronger U.S. dollar on spending outside of the U.S. and the absence of advertising investments behind two low-carbohydrate wines, One.6 Chardonnay and One.9 Merlot in fiscal 2005.

**Selling, general, and administrative expenses** increased 12% from fiscal 2005, driven by changes in our distribution networks around the world that we believe will enhance our direct influence over in-market brand-building activities in key markets in Continental Europe, Australia, and Japan. In addition, higher postretirement expenses, inflation on salary and related, and third-party advisory fees associated with the evaluation of a possible purchase of Allied Domecq, contributed to the growth in spending.

**Other income** improved \$45 million in fiscal 2006 due primarily to three items:

- a \$14 million benefit associated with terminating our distribution rights to the Glenmorangie family of brands;
- a \$25 million gain related to acquiring full ownership of our Australian distributor; and
- a \$5 million gain from selling winery assets.

**Operating income** reached a then record \$563 million in fiscal 2006, growing \$118 million, or 26%, reflecting strong underlying growth for our premium



## MANAGEMENT'S DISCUSSION AND ANALYSIS

global brands. The payment received for the early termination of marketing and distribution rights for the Glenmorangie family of brands, the net gain related to the restructuring of the ownership of our Australian distributor, the gain on the sale of winery assets, and profits associated with higher global trade inventory levels contributed to the growth in operating income. These positive factors were partially offset by the negative effect of a stronger U.S. dollar.

**Interest expense (net)** declined \$9 million compared to fiscal 2005 reflecting significantly higher cash balances due in part to the sale of Lenox, Inc. and the repayment of approximately \$280 million of short- and medium-term notes.

**Effective tax rate** for continuing operations in fiscal 2006 was 29.3% compared to 32.6% in fiscal 2005. The decline in the rate primarily reflects the tax benefit achieved by offsetting various capital gains against the capital loss resulting from the sale of Lenox, Inc.

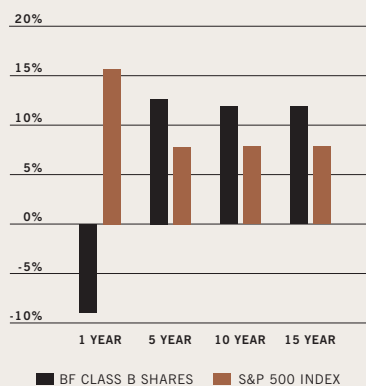
**Diluted earnings per share** increased 16% to \$3.20 per share in fiscal 2006. This growth resulted from the same factors that generated operating income growth, though it was tempered by the absence of a gain recorded in fiscal 2005 related to the sale of our shares in Glenmorangie plc.

#### OTHER KEY PERFORMANCE MEASURES

Our primary goal is to increase the value of our shareholders' investment. We believe that long-term growth in the market value of our stock is a good indication of our success in delivering attractive returns to shareholders.

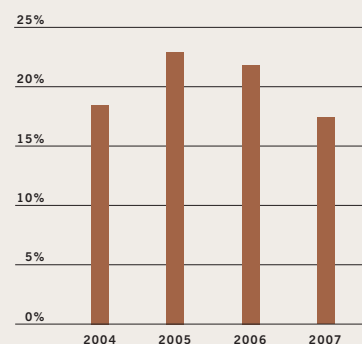
**Total shareholder return.** While an investment made in Brown-Forman Class B stock a year ago has declined nearly 9% and the S&P 500 has increased, a \$100 investment in our stock over the long-term has outpaced the return provided by the S&P 500. A \$100 investment in our Class B stock five years ago would have grown to nearly \$183 by the end of fiscal 2007, assuming reinvestment of all dividends and ignoring personal taxes and transaction costs. This represents an annualized return of 13% over the five-year period, compared to an 8% annualized increase for the S&P 500.

COMPOUND ANNUAL GROWTH IN TOTAL SHAREHOLDER RETURN  
(as of April 30, 2007, and including dividend reinvestment)



**Return on average invested capital.** Our return on average invested capital from continuing operations improved 3.4 percentage points from fiscal 2004 through fiscal 2006 reflecting record earnings fueled by double-digit organic growth and tight management of our investment base. Despite our return on average invested capital declining in fiscal 2007 to 17.4%, our returns continued to outpace those of nearly all of our competitors. Record earnings in fiscal 2007 were offset by the dilutive effect of the investments in Chambord liqueur and Casa Herradura. We believe our return on invested capital will continue to improve over the long term, given our positive outlook for earnings growth and careful management of our investment base. However, we expect a decline in our returns next fiscal year due to the full-year effect of the Casa Herradura acquisition, which is expected to be dilutive initially but is projected to build and enhance our returns, as we believe the brands have considerable growth potential.

RETURN ON AVERAGE  
INVESTED CAPITAL



#### BUSINESS ENVIRONMENT FOR WINE AND SPIRITS

**Generally.** The business climate for distilled spirits, our principal product line, continues to be solid in the U.S. (our biggest market) and very robust overseas. This reflects favorable demographic and income trends in the U.S. and the popularity of Jack Daniel's, Southern Comfort, and Finlandia Vodka in many international markets. The trend toward premium products continues, which helps our brands. We see great opportunity in emerging markets such as China, Central Europe, and South Africa.

The wine business is more challenging, given margin pressure and a high cost basis. However, wine and spirits combined have taken market share in beverage alcohol from beer in the U.S. Favorable demographic trends should help the top-line growth of wine sales, but acceptable profitability remains a challenge. We continue to actively pursue opportunities to improve our overall wine cost structure and our brand performance such as those we accomplished this past year, including the sale of a winery operation in Italy and the reorganization of our wine production facilities.

**Government policies, public attitudes.** Against this background of good business trends, we know that our ability to market and sell our beverage alcohol products depends heavily on society's attitudes toward

## MANAGEMENT'S DISCUSSION AND ANALYSIS

drinking and government policies that flow from those attitudes. This is not just a U.S. issue but one we see in Europe and around the world. In particular, a number of organizations criticize abusive drinking and blame alcohol manufacturers for problems associated with alcohol misuse. Specifically, critics say alcohol companies market their products to encourage underage drinking.

We are extremely careful to market our beverage products only to adults. We were one of the first companies to adopt a comprehensive marketing code governing the sale of our wine and spirits brands, which emphasizes the importance of content and placement to minimize exposure to the underaged. We adhere to marketing codes of the Distilled Spirits Council of the U.S. and the Wine Institute. We also contribute significant resources to The Century Council, an organization that we and other spirits producers created to combat drunk driving and underage drinking.

Illegal alcohol consumption by underaged drinkers and abusive drinking by a minority of adult drinkers give rise to public issues of great significance. Alcohol critics seek governmental measures to make beverage alcohol more expensive, less available, and more difficult to advertise and promote. We disagree that this is a good strategy to deal with the minority of individuals who abuse alcohol. In our view, society is more likely to curb alcohol abuse through better education about beverage alcohol and by setting a good example through moderate drinking than by restricting alcohol advertising and sales or imposing punitive taxation.

Legal or regulatory measures against beverage alcohol (including its advertising and promotion) could hurt our sales. Especially in the U.S., distilled spirits are at a marked disadvantage to beer and wine in taxation, access to network television advertising, and the number and type of sales outlets. Achieving greater cultural acceptance of our products and parity with beer and wine in access to consumers are major goals that we share with other distillers.

**Policy objectives.** We believe that beverage alcohol should be regarded like other beneficial products, such as automobiles, power lawnmowers, and chocolate – which can be hazardous if misused by the consumer. Therefore, we seek to encourage the proper use of our products and discourage abuse of alcohol, particularly drinking by those under the legal drinking age. We believe the most powerful way to encourage proper drinking and discourage alcohol abuse is through partnership with parents, schools, and other organizations.

We also seek recognition that distilled spirits, wine, and beer, are all different forms of beverage alcohol, and should be treated on an equal basis by government. Generally speaking, however, distilled spirits, especially in the U.S., pay higher taxes per ounce of pure alcohol, are subject to more severe restrictions on the places and hours of sale, and in some

venues (such as network TV) are denied the right to advertise. We seek to “level the playing field” in beverage alcohol.

We also seek, for the convenience of our customers, Sunday sales in those states that still ban them. We encourage rules that liberalize international trade, so that we can expand our international business. We oppose tax increases, which make our products more expensive for our consumers, and seek to diminish the tax advantage enjoyed by beer.

**Taxes.** Like all goods, beverage alcohol sales are sensitive to higher tax rates. No legislation to increase U.S. federal excise taxes on distilled spirits is currently pending, but future tax increases are always possible, as are tax increases levied on the broader business community. From time to time, state legislatures increase beverage alcohol taxes. The cumulative effect of such tax increases over time hurts sales. Because combined federal and state taxes already account for more than 50% of the price of a typical bottle of bourbon, we work for reasonable excise tax reductions. Increased tax rates, advertising restrictions, and outmoded product standards also affect beverage alcohol markets outside the U.S. To date, those changes have not been significant to our overall business, but that could change.

**The litigation climate.** A law firm has filed nine class-action lawsuits against spirits, beer, and wine manufacturers, including us, alleging that our marketing causes illegal consumption of alcohol by those under the legal drinking age. We dispute these allegations and will defend these cases vigorously. To date, the first six courts to consider those lawsuits have dismissed them and two cases have been voluntarily withdrawn. However, the plaintiffs have appealed the dismissal of the six cases. Adverse developments in these or similar lawsuits could hurt our beverage business and the overall industry.

**Distribution strategy.** We use a number of different business models to market and distribute our products overseas. But we rely largely on other spirits producers to distribute and market our products outside the U.S. Although consolidation among spirits producers could hinder the distribution of our wine and spirits products in the future, to date this has rarely happened. Other spirits companies typically seek to distribute our premium spirits and wine brands, and we expect that demand to continue.

**Exchange rates.** The strength of foreign currencies relative to the U.S. dollar affects sales and cost to purchase goods and services in our international business. This year, our earnings were helped by a weaker U.S. dollar, particularly in the U.K., Australia, and Continental Europe. We have hedged the majority of our exposure to foreign exchange fluctuations in 2008 by entering into foreign currency forwards and option contracts. However, if the U.S. dollar appreciates significantly, the effect on our business would be negative for any unhedged portion.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## DISCONTINUED OPERATIONS

## SUMMARY OF OPERATING PERFORMANCE

<i>(Dollars in millions, except per share amounts)</i>	2005	2006	2007
Net sales	\$534	\$166	\$ 50
Operating expenses	(524)	(178)	(53)
Impairment charge	(37)	(60)	(9)
Transaction costs	—	(10)	(1)
Loss before income taxes	(27)	(82)	(13)
Income tax (expense) benefit	(4)	7	2
Net loss from discontinued operations	\$ (31)	\$ (75)	\$ (11)
Loss per share:			
Basic	(0.256)	(0.615)	(0.087)
Diluted	(0.255)	(0.608)	(0.086)

As discussed in Note 2 to the accompanying financial statements, we sold Lenox, Inc. during fiscal 2006, and sold Brooks & Bentley and Hartmann in fiscal 2007. As a result, we have reported them as discontinued operations in the accompanying financial statements.

The net loss from discontinued operations in fiscal 2007 was \$11 million compared to a net loss of \$75 million in fiscal 2006. Fiscal 2006 included a pre-tax impairment charge and transaction costs totaling \$70 million in addition to a loss from the operations of Lenox Inc. incurred during the period before the sale. Fiscal 2007 loss includes a pre-tax impairment charge of \$9 million. The majority of this impairment relates to the decision made in fiscal 2007 by our Board of Directors to sell Hartmann and to focus our efforts entirely on our beverage business. The \$7 million pre-tax impairment charge associated with Hartmann consisted of a goodwill impairment of \$4 million and an impairment charge of \$3 million that represented the excess of the carrying value of the net assets to be sold over the expected sales proceeds, net of estimated costs to sell.

Before we decided to sell Hartmann, no impairment charge was recorded because we believed its operations would generate sufficient future cash flows to enable us to fully recover its carrying amount. The decision to sell Hartmann reflects the Board's opinion that the sum of the price to be obtained from the sale and the strategic value of focusing entirely on our beverage business would be greater than the value of continuing to operate Hartmann.

There was also a \$2 million pre-tax impairment charge recorded for Brooks & Bentley in fiscal 2007. This impairment charge reflected a revision to its estimated fair value and costs to sell, based on the negotiations that resulted in the sale of Brooks & Bentley.

## LIQUIDITY AND CAPITAL RESOURCES

Our ability to generate cash from operations consistently is one of our most significant financial strengths. Our strong cash flows enable us to pay dividends, pursue brand-building programs, and make strategic acquisitions

that we believe will enhance shareholder value. Investment grade ratings of A2 from Moody's and A from Standard & Poor's provide us with financial flexibility when accessing global credit markets. We believe cash flows from operations are more than adequate to meet our expected operating and capital requirements. In fiscal 2007, our cash flow from operations, cash on hand, and a net increase in debt enabled us to fund capital expenditures of \$58 million, distribute \$143 million in dividends to our shareholders, and to support acquisitions totaling over \$1 billion.

## CASH FLOW SUMMARY

<i>(Dollars in millions)</i>	2005	2006	2007
Operating activities	\$396	\$343	\$ 355
Investing activities:			
Acquisitions	(64)	—	(1,045)
Sale of discontinued operations	—	205	12
Sale of investment in affiliate	93	—	—
Net (purchase) sale of short-term securities	—	(160)	74
Additions to property, plant, and equipment	(44)	(51)	(58)
Other	(1)	3	(21)
	(16)	(3)	(1,038)
Financing activities:			
Net (repayment) issuance of debt	(50)	(55)	597
Dividends	(111)	(128)	(143)
Other	8	23	33
	(153)	(160)	487
Foreign exchange effect	—	—	4
Change in cash/cash equivalents	\$227	\$180	\$(192)

Cash provided by operations was \$355 million in fiscal 2007 compared to \$343 million in fiscal 2006. This increase was driven by a \$24 million reduction in cash used for discontinued operations following the sale of both Lenox, Inc. in fiscal 2006 and the remaining businesses that comprised the former consumer durables segment in fiscal 2007. We generated \$349 million in cash flow from the operating activities of continuing operations in fiscal 2007, a 3% decrease compared with \$361 million in the prior year. Higher earnings were offset by an increase in working capital requirements due in part to the acquisitions of Chambord liqueur and Casa Herradura. In addition, an increase in barreled whiskey inventory levels for Jack Daniel's and a reduction in our accrued income taxes due to the seasonalization of our payments increased working capital requirements.

Cash used for investing activities in fiscal 2007 increased by \$1,035 million compared to fiscal 2006, largely reflecting the acquisitions of Chambord and Casa Herradura for a total of \$1,045 million during fiscal 2007.

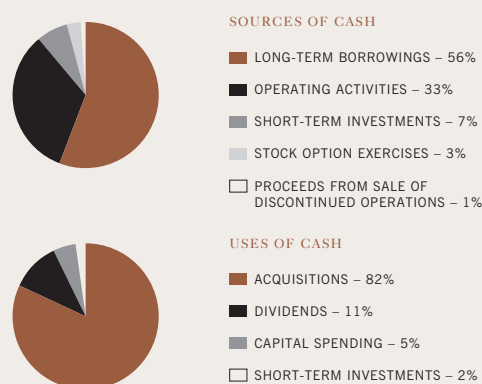
Cash provided by financing activities increased by \$647 million, primarily reflecting the issuance of a combination of commercial paper and \$400 million of debt to finance the acquisition of Casa Herradura.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

In comparing fiscal 2006 with fiscal 2005, cash provided by operations decreased \$53 million, as higher earnings were offset by a \$59 million reduction in cash provided by discontinued operations following the sale of Lenox, Inc. in fiscal 2006. Cash used for investing activities declined \$13 million in fiscal 2006, as proceeds received on the sale of Lenox, Inc. were offset by capital spending and higher interest-yielding short-term investments.

## FISCAL 2007 CASH UTILIZATION



Investments in property, plant, and equipment were \$44 million in fiscal 2005, \$51 million in fiscal 2006, and \$58 million in fiscal 2007. Expenditures over the three-year period included investments to maintain, expand, and improve efficiencies of our production operations and to provide capital resources to build our brands.

We expect capital expenditures for fiscal 2008 to be \$70 to \$80 million, an increase compared to our spending over the past three fiscal years. This increase reflects investments to further expand capacity of our production and distribution facilities to meet the continued growing demand for Jack Daniel's and investments resulting from the Casa Herradura acquisition. We will also continue to invest in technology to enhance our understanding of our consumers, improve the efficiency of our production operations, augment the quality of each of our brands, and build our brands. We expect to fund fiscal 2008 capital expenditures with cash provided by operations.

In March 2003, we repurchased 7.9 million shares of our common stock for \$561 million, including transaction costs, through a "Dutch auction" tender offer. We financed the repurchase by issuing \$600 million in debt; of this amount, \$250 million was repaid in March 2006, and the remaining \$350 million is due in March 2008. We expect to meet the 2008 obligation through cash from operations and existing commercial paper capacity.

We have access to short-term capital markets through the issuance of commercial paper, backed by a bank credit agreement for \$800 million that expires in fiscal 2012. The credit agreement provides us with an immediate and continuing source of liquidity. At April 30, 2007, we had no outstanding borrowings under this agreement.

In January 2007, we filed a new shelf registration with the SEC for an undetermined amount of securities that gives us prompt access to longer-term financing.

Effective May 31, 2006, we completed the acquisition of Chambord liqueur and all related assets from Chatam International Incorporated and its operating subsidiary, Charles Jacquin et Cie Inc., for \$251 million, including transaction costs. The acquisition consisted primarily of the Chambord brand name and goodwill, to which we allocated \$116 million and \$127 million of the purchase price, respectively.

On January 18, 2007, we completed the acquisition of substantially all of the assets of Casa Herradura and its affiliates relating to its tequila business, including the Herradura and el Jimador tequilas, the New-Mix tequila-based ready-to-drink brand, the trade names and trademarks associated with such brands and other acquired brands, as well as related production facilities and the sales, marketing, and distribution organization in Mexico. The cost of the acquisition, including transaction costs, was \$794 million, which has been preliminarily allocated to the acquired assets and liabilities (see Note 3 to the accompanying consolidated financial statements). We financed the acquisition with approximately \$114 million of cash and approximately \$680 of commercial paper, \$400 million of which was subsequently replaced with long-term debt.

On March 22, 2007, our Board of Directors approved the distribution to shareholders of the \$204 million in cash received (net of transaction fees) from the sale of Lenox, Inc. and Brooks & Bentley. The distribution of \$1.6533 per share was made on May 10, 2007, to shareholders of record on April 5, 2007. The Internal Revenue Service has issued to us a private letter ruling which states that the special distribution will be treated as a distribution in partial liquidation pursuant to Sections 302(b)(4) and 302(e)(1) of the Internal Revenue Code.

## LONG-TERM OBLIGATIONS

We have long-term obligations related to contracts, leases, and borrowing arrangements that we enter into in the normal course of business (see Notes 5 and 7 to the accompanying consolidated financial statements). The following table summarizes the amounts of those obligations as of April 30, 2007, and the years when those obligations must be paid:

## LONG-TERM OBLIGATIONS

(Dollars in millions)	Total	2009-2008	2009-2012	After 2012
Long-term debt	\$ 776	\$ 354	\$ 414	\$ 8
Interest on long-term debt	106	33	72	1
Grape purchase obligations	104	29	55	20
Operating leases	44	13	21	10
Postretirement benefit obligations <sup>(1)</sup>	6	6	n/a	n/a
Agave purchase obligations <sup>(2)</sup>	n/a	n/a	n/a	n/a
Total	\$1,036	\$ 435	\$562	\$39

(1) As of April 30, 2007, we have unfunded pension and other postretirement benefit obligations of \$104 million. Because the specific periods in which those obligations will be funded are not determinable, no amounts related to those obligations are reflected in the above table other than the \$6 million of expected contribution in fiscal 2008. Historically, we have generally funded these obligations with the minimum annual contribution required by ERISA, but we may elect to contribute more than the minimum amount in future years.

(2) As discussed in Note 5 to the accompanying consolidated financial statements, we have obligations to purchase agave. Because the specific periods in which those obligations will be paid are not determinable, no amounts related to those obligations are reflected in the table above.

We expect to meet these obligations with internally generated funds.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## MARKET RISKS

Our foreign currency hedging contracts are subject to changes in exchange rates; our commodity futures and option contracts are subject to changes in commodity prices; and some of our debt obligations are subject to changes in interest rates. We discuss these instruments' sensitivity to market fluctuations below. See Note 5 to our consolidated financial statements for information regarding our grape and agave purchase obligations, which are also exposed to commodity price risk, and "Critical Accounting Estimates" for a discussion of the exposure of our pension and other postretirement plans to interest rate risks.

Inflationary, deflationary, and recessionary conditions affecting these market risks also affect the demand for and pricing of our products. See "Important Information Regarding Forward-Looking Statements" (page 56) for details.

**Foreign exchange.** As a result of continued growth in international sales, we estimate that our foreign currency revenues will exceed our foreign currency expenses by approximately \$460 million in fiscal 2008. To the extent that this foreign currency exposure is not hedged, our results of operations and financial position are positively affected when the U.S. dollar weakens against foreign currencies and negatively affected when the dollar strengthens against them.

However, we routinely use foreign currency forward and option contracts to hedge our foreign exchange risk. Provided the contracts remain effective in hedging the foreign exchange risk, we do not recognize any unrealized gains or losses on the contracts in earnings until the underlying hedged transactions are recognized in earnings. At April 30, 2007, our foreign currency hedges had a total notional value of \$406 million and a net unrealized loss of \$6 million. Assuming the contracts remain effective hedges, we estimate that if the value of the U.S. dollar averaged 10% higher in fiscal 2008 than the fiscal 2007 effective rates for the currencies in which we do business, our fiscal 2008 operating income would decrease by \$7 million. Conversely, a 10% average decline in the value of the dollar would increase operating income by \$29 million. Thus, over the longer-term, reported profits from our international business may be adversely affected if the U.S. dollar strengthens against other currencies.

**Commodity prices.** We are subject to commodity price volatility caused by weather, supply conditions, geopolitical and economic variables, and other unpredictable external factors. We use futures contracts and options to reduce the volatility of pricing for certain commodities, primarily corn. At April 30, 2007, we had outstanding hedge positions on approximately 1 million bushels of corn with a negligible net unrealized loss. We estimate that a 10% change in commodity prices would result in negligible incremental gain or loss on these contracts.

**Interest rates.** Our short-term investments and short-term borrowings are exposed to the risk of changes in interest rates. Based on April 30, 2007, balances of variable-rate debt and investments, a 1% increase in interest rates would increase our net interest expense, which includes interest income on cash and short-term investments, by \$4 million.

## CRITICAL ACCOUNTING ESTIMATES

Our financial statements reflect certain estimates involved in applying the following critical accounting policies that entail uncertainties and subjectivity. Using different estimates could have a material effect on our operating results, financial condition, and changes in financial condition.

**Goodwill and other intangible assets.** We have obtained most of our brands through acquisitions from other companies. Upon acquisition, the purchase price is first allocated to identifiable assets and liabilities, including brand names and other intangible assets, based on estimated fair value, with any remaining purchase price recorded as goodwill. Goodwill and intangible assets with indefinite lives are not amortized. We consider all of our brand names to have indefinite lives.

We assess our brand names and goodwill for impairment at least annually to ensure that future cash flows continue to exceed the related book value. A brand name is impaired if its book value exceeds its fair value. Goodwill is evaluated for impairment if the book value of its reporting unit exceeds its estimated fair value. Fair value is determined using discounted future cash flows, with consideration of market values for similar assets when available. If the fair value of an evaluated asset is less than its book value, the asset is written down to its estimated fair value.

Considerable management judgment is necessary to assess impairment and estimate fair value. The assumptions used in our evaluations, such as forecasted growth rates and cost of capital, are consistent with our internal projections and operating plans.

**Property, plant, and equipment.** We depreciate our property, plant, and equipment on a straight-line basis using our estimates of useful life, which are 20 to 40 years for buildings and improvements, 3 to 10 years for machinery, equipment, furniture, and fixtures, and 3 to 7 years for capitalized software.

We assess our property, plant, and equipment and other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset or asset group may not be recoverable. Fair value is determined using discounted future cash flows, with consideration of market values for similar assets when available. If the fair value of an evaluated asset is less than its book value, we write it down to its estimated fair value.

Considerable management judgment is necessary to assess impairment and estimate fair value. Assumptions used in these evaluations are consistent with our internal projections and operating plans.

**Pension and other postretirement benefits.** We sponsor various defined benefit pension plans as well as postretirement plans providing retiree health care and retiree life insurance benefits. Benefits are based on such factors as years of service and compensation level during employment. The benefits expected to be paid are expensed over the employees' expected service. This requires us to make certain assumptions to determine the expected benefit, such as interest rates, return on plan assets, the rate of salary increases, expected service, and health care cost trend rates.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The assets, obligations, and assumptions used to measure pension and retiree medical expenses are determined as of January 31 of the preceding year ("measurement date"). Because obligations are measured on a discounted basis, the discount rate is a significant assumption. It is based on interest rates for high-quality, long-term corporate debt at each measurement date. The expected return on pension plan assets is based on our historical experience and our expectations for long-term rates of return. The other assumptions also reflect our historical experience and management's best judgment regarding future expectations. We review our assumptions on each annual measurement date. For fiscal 2007, we have increased the discount rate for pension obligations from 5.95% to 6.04%, and for other postretirement benefit obligations from 5.95% to 5.98%. Pension and postretirement benefit expense for fiscal 2008 is estimated to be approximately \$25 million, compared to \$22 million for fiscal 2007. A decrease/increase in the discount rate of 25 basis points would increase/decrease the fiscal 2008 expense by approximately \$1 million.

As discussed in Note 12 to the accompanying consolidated financial statements, we adopted Statement of Financial Accounting Standards No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, on April 30, 2007.

**Income taxes.** Our annual tax rate is based on our income and the statutory tax rates in the various jurisdictions in which we operate. In fiscal 2007, our annual income tax rate for continuing operations was 31.7%, compared to 29.3% in fiscal 2006. The tax rate in fiscal 2007 increased 2.4 percentage points, primarily as a result of the absence of the fiscal 2006 tax benefit achieved by offsetting various capital gains items (from the early termination of Glenmorangie marketing and distribution rights, the sale of winery property, and consideration from changes in our Australian distribution) against the capital loss resulting from the sale of Lenox, Inc. The total Lenox capital loss exceeded the amount of capital gains offset during fiscal 2006 by \$64 million. Currently, we are unaware of any particular transactions that will permit the use of this capital loss carryforward, so we have not recorded any tax benefit relating to it. The effective tax rate was also affected by the phase-out of the extraterritorial income exclusion, as provided by The American Jobs Creation Act of 2004 (the "Act").

Additionally, the Act, which was enacted in October 2004, provided a special, one-time opportunity to deduct from taxable income 85% of certain qualifying foreign dividends repatriated in the U.S. from controlled foreign corporations, subject to various limitations and restrictions. In fiscal 2006, we repatriated \$277 million of foreign earnings previously considered to be indefinitely reinvested outside of the U.S. This one-time opportunity allowed us to repatriate earnings in excess of those for which a deferred income tax liability previously had been established. The deferred tax liability covered all of the associated tax expense attributable to the repatriation. We intend to continue to reinvest earnings outside the U.S. indefinitely and have not recognized any U.S. tax expense on these earnings. At April 30, 2007, we had approximately \$230 million of undistributed international earnings.

Significant judgment is required in evaluating our tax positions. We establish reserves when we believe that certain positions are likely to be challenged and may not succeed, despite our belief that our tax return positions are fully supportable. We adjust these reserves in light of changing facts and circumstances, such as the progress of a tax audit. We believe current reserves are appropriate for all known contingencies, but this situation could change.

Several years can elapse before a particular matter for which we have established a reserve is resolved. Although predicting the final outcome or the timing of resolution of any particular tax matter can be difficult, we believe that our reserves reflect the likely outcome of known tax contingencies. Unfavorable settlement of any particular issue could require use of our cash. Favorable resolution would be recognized as a reduction to our effective tax rate at the time of resolution.

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertainty in tax positions. This interpretation requires that we recognize in our financial statements the impact of a tax position if that position is more likely than not to be sustained on audit, based on the technical merits of the position. The provisions of FIN 48 become effective as of the beginning of our 2008 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We do not expect our adoption of FIN 48 to affect our financial statements materially.

**Contingencies.** We operate in a litigious environment, and we are sued in the normal course of business. Sometimes plaintiffs seek substantial damages. Significant judgment is required in predicting the outcome of these suits and claims, many of which take years to adjudicate. We accrue estimated costs for a contingency when we believe that a loss is probable and we can make a reasonable estimate of a loss, and adjust the accrual as appropriate to reflect changes in facts and circumstances.

A law firm has sued Brown-Forman and many other manufacturers and marketers of spirits, wines, and beer in a series of nine very similar class-action lawsuits seeking damages and injunctive relief from alleged marketing of beverage alcohol to underage consumers. The suits allege that the defendants engage in deceptive and negligent marketing practices targeting underage consumers. They seek to recover on behalf of parents those funds that their children spent on the illegal purchase of alcohol as well as disgorgement of all profits from the alleged illegal sales. We are vigorously defending these cases. Six of the suits have been dismissed by trial court and are being appealed. Two cases have been voluntarily withdrawn. One is pending decision of a dismissal motion. We cannot yet predict the outcome of these claims, including whether we will incur related losses or the amount of such losses. Since we cannot estimate the amount of possible loss, no amounts have been accrued. But an unfavorable result in these or similar class-action lawsuits could have a material adverse impact on our business.



## CONSOLIDATED STATEMENTS OF OPERATIONS

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

Year Ended April 30,	2005	2006	2007
Net sales	\$2,195	\$2,412	\$2,806
Excise taxes	417	468	588
Cost of sales	622	636	737
<b>GROSS PROFIT</b>	<b>1,156</b>	<b>1,308</b>	<b>1,481</b>
Advertising expenses	293	323	361
Selling, general, and administrative expenses	420	469	537
Other income, net	(2)	(47)	(19)
<b>OPERATING INCOME</b>	<b>445</b>	<b>563</b>	<b>602</b>
Gain on sale of investment in affiliate	72	—	—
Interest income	7	14	18
Interest expense	20	18	34
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	<b>504</b>	<b>559</b>	<b>586</b>
Income taxes	165	164	186
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>339</b>	<b>395</b>	<b>400</b>
Loss from discontinued operations, net of income taxes	(31)	(75)	(11)
<b>NET INCOME</b>	<b>\$ 308</b>	<b>\$ 320</b>	<b>\$ 389</b>
Basic earnings (loss) per share:			
Continuing operations	\$2.788	\$3.239	\$3.257
Discontinued operations	(0.256)	(0.615)	(0.087)
<b>TOTAL</b>	<b>\$2.532</b>	<b>\$2.624</b>	<b>\$3.170</b>
Diluted earnings (loss) per share:			
Continuing operations	\$2.772	\$3.204	\$3.222
Discontinued operations	(0.255)	(0.608)	(0.086)
<b>TOTAL</b>	<b>\$2.517</b>	<b>\$2.596</b>	<b>\$3.136</b>

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

## CONSOLIDATED BALANCE SHEETS

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

April 30,	2006	2007
<b>ASSETS</b>		
Cash and cash equivalents	\$ 475	\$ 283
Short-term investments	160	86
Accounts receivable, less allowance for doubtful accounts of \$5 in 2006 and \$22 in 2007	323	404
Inventories:		
Barreled whiskey	274	303
Finished goods	94	151
Work in process	106	198
Raw materials and supplies	37	42
Total inventories	511	694
Current portion of deferred income taxes	80	76
Current assets held for sale	26	—
Other current assets	34	92
<b>TOTAL CURRENT ASSETS</b>	<b>1,609</b>	<b>1,635</b>
Property, plant, and equipment, net	425	506
Prepaid pension cost	146	23
Goodwill	192	670
Other intangible assets	325	684
Noncurrent assets held for sale	9	—
Other assets	22	33
<b>TOTAL ASSETS</b>	<b>\$2,728</b>	<b>\$3,551</b>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 289	\$ 361
Accrued income taxes	49	27
Payable to shareholders	—	204
Short-term borrowings	225	401
Current portion of long-term debt	—	354
Current liabilities held for sale	6	—
<b>TOTAL CURRENT LIABILITIES</b>	<b>569</b>	<b>1,347</b>
Long-term debt, less unamortized discount of \$1 in both 2006 and 2007	351	422
Deferred income taxes	133	56
Accrued pension and other postretirement benefits	78	123
Other liabilities	34	30
<b>TOTAL LIABILITIES</b>	<b>1,165</b>	<b>1,978</b>
Commitments and contingencies		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock:		
Class A, voting, \$0.15 par value (57,000,000 shares authorized; 56,882,000 shares issued)	9	9
Class B, nonvoting, \$0.15 par value (100,000,000 shares authorized; 69,188,000 shares issued)	10	10
Additional paid-in capital	47	64
Retained earnings	1,607	1,649
Accumulated other comprehensive income (loss):		
Pension and other postretirement benefits adjustment	(5)	(99)
Cumulative translation adjustment	24	46
Unrealized loss on cash flow hedge contracts	(1)	(4)
Treasury stock, at cost (3,565,000 and 2,833,000 shares in 2006 and 2007, respectively)	(128)	(102)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>1,563</b>	<b>1,573</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$2,728</b>	<b>\$3,551</b>

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in millions)

Year Ended April 30,	2005	2006	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$308	\$320	\$389
Adjustments to reconcile net income to net cash provided by (used for) operations:			
Gain on sale of investment in affiliate	(72)	—	—
Net loss from discontinued operations	31	75	11
Depreciation and amortization	43	42	44
Stock-based compensation expense	7	9	8
Deferred income taxes	(3)	(33)	(7)
Other	2	(2)	(11)
Change in assets and liabilities, excluding the effects of businesses acquired or sold:			
Accounts receivable	(3)	(21)	(47)
Inventories	(27)	(37)	(41)
Other current assets	11	(7)	(9)
Accounts payable and accrued expenses	54	3	14
Accrued income taxes	(6)	7	(20)
Noncurrent assets and liabilities	10	5	18
Net cash provided by (used for) operating activities of discontinued operations	41	(18)	6
Cash provided by operating activities	<u>396</u>	<u>343</u>	<u>355</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of businesses, net of cash acquired	—	—	(1,045)
Acquisition of distribution rights	—	—	(25)
Proceeds from sale of discontinued operations	—	205	12
Proceeds from sale of investment in affiliate, net of disposal costs	93	—	—
Acquisition of minority interest in subsidiary	(64)	—	—
Purchase of short-term investments	—	(388)	(249)
Sale of short-term investments	—	228	323
Additions to property, plant, and equipment	(44)	(51)	(58)
Proceeds from sale of property, plant, and equipment	—	7	14
Computer software expenditures	(3)	—	(9)
Trademark and patent expenditures	(1)	(1)	—
Net cash provided by (used for) investing activities of discontinued operations	3	(3)	(1)
Cash used for investing activities	<u>(16)</u>	<u>(3)</u>	<u>(1,038)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net change in short-term borrowings	(50)	225	178
Proceeds from long-term debt	—	—	421
Repayment of long-term debt	—	(280)	(2)
Debt issuance costs	—	—	(2)
Proceeds from exercise of stock options	9	19	27
Excess tax benefits from stock options	2	7	8
Acquisition of treasury stock	(3)	(3)	—
Dividends paid	(111)	(128)	(143)
Cash (used for) provided by financing activities	<u>(153)</u>	<u>(160)</u>	<u>487</u>
Effect of exchange rate changes on cash and cash equivalents	—	—	4
Net increase (decrease) in cash and cash equivalents	<u>227</u>	<u>180</u>	<u>(192)</u>
Cash and cash equivalents, beginning of year	68	295	475
Cash and cash equivalents, end of year	<u>\$295</u>	<u>\$475</u>	<u>\$283</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR:</b>			
Interest	\$ 21	\$ 21	\$ 32
Income taxes	\$174	\$188	\$205

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



## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars expressed in millions, except per share amounts)

Year Ended April 30,	2005	2006	2007
<b>CLASS A COMMON STOCK</b>	\$ 9	\$ 9	\$ 9
<b>CLASS B COMMON STOCK</b>	10	10	10
<b>ADDITIONAL PAID-IN CAPITAL</b>			
Balance at beginning of year	28	34	47
Stock issued under compensation plans	—	—	2
Stock-based compensation expense	7	8	6
Adjustment for stock option exercises	(3)	(3)	1
Excess tax benefits from stock options	2	8	8
Balance at end of year	34	47	64
<b>RETAINED EARNINGS</b>			
Balance at beginning of year	1,218	1,415	1,607
Net income	308	320	389
Cash dividends (\$0.92, \$1.05, and \$1.165 per share, in 2005, 2006, and 2007, respectively)	(111)	(128)	(143)
Special cash distribution payable to shareholders (\$1.6533 per share in 2007)	—	—	(204)
Balance at end of year	1,415	1,607	1,649
<b>TREASURY STOCK, AT COST</b>			
Balance at beginning of year	(156)	(147)	(128)
Acquisition of treasury stock	(3)	(3)	—
Stock issued under compensation plans	12	21	24
Stock-based compensation expense	—	1	2
Balance at end of year	(147)	(128)	(102)
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Balance at beginning of year	(14)	(11)	18
Net other comprehensive income	3	29	19
Adjustment to initially apply SFAS 158, net of tax of \$60 (Note 12)	—	—	(94)
Balance at end of year	(11)	18	(57)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>\$1,310</b>	<b>\$1,563</b>	<b>\$1,573</b>
<b>COMPREHENSIVE INCOME</b>			
Net income	\$ 308	\$ 320	\$ 389
Other comprehensive income (loss):			
Foreign currency translation adjustment	11	(3)	22
Pension liability adjustment, net of tax of \$4, \$(21), and \$1 in 2005, 2006, and 2007, respectively	(6)	33	(1)
Amounts related to cash flow hedges:			
Reclassification to earnings, net of tax of \$(2), \$2, and \$(2) in 2005, 2006, and 2007, respectively	3	(4)	3
Net gain (loss) on hedging instruments, net of tax of \$3, \$(2), and \$3 in 2005, 2006, and 2007, respectively	(5)	3	(6)
Net other comprehensive income	3	29	18
Total comprehensive income	\$ 311	\$ 349	\$ 407
<b>CLASS A COMMON SHARES OUTSTANDING (IN THOUSANDS)</b>			
Balance at beginning of year	56,841	56,782	56,829
Acquisition of treasury stock	(59)	—	—
Stock issued under compensation plans	—	47	41
Balance at end of year	56,782	56,829	56,870
<b>CLASS B COMMON SHARES OUTSTANDING (IN THOUSANDS)</b>			
Balance at beginning of year	64,747	65,106	65,636
Acquisition of treasury stock	—	(91)	—
Stock issued under compensation plans	359	621	731
Balance at end of year	65,106	65,636	66,367
<b>TOTAL COMMON SHARES OUTSTANDING (IN THOUSANDS)</b>	<b>121,888</b>	<b>122,465</b>	<b>123,237</b>

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars expressed in millions, except per share amounts)

**1. ACCOUNTING POLICIES** We apply the following accounting policies when preparing our consolidated financial statements. References to “FASB” are to the Financial Accounting Standards Board, the private-sector organization that establishes financial accounting and reporting standards, including Statements of Financial Accounting Standards (SFAS).

**Principles of consolidation.** Our consolidated financial statements include the accounts of all wholly-owned and majority-owned subsidiaries. We use the equity method to account for investments in affiliates over which we can exercise significant influence (but not control). We carry all other investments in affiliates at cost. We eliminate all intercompany transactions.

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

**Short-term investments.** Short-term investments consist of auction rate securities and variable-rate demand notes. These instruments have long-term underlying maturities, but have interest rates that are reset every 90 days or less, at which time they can typically be purchased or sold, which creates a highly liquid market for these instruments. These investments are classified as available-for-sale and recorded at cost, which approximates fair value due to the reset feature.

**Allowance for doubtful accounts.** We evaluate the collectibility of accounts receivable based on a combination of factors. When we are aware of circumstances that may impair a specific customer’s ability to meet its financial obligations, we record a specific allowance to reduce the net recognized receivable to the amount we reasonably believe will be collected.

**Inventories.** We state inventories at the lower of cost or market, with approximately 59% of consolidated inventories being valued using the last-in, first-out (LIFO) method. Other inventories are valued using the first-in, first-out (FIFO) method. If the FIFO method had been used, inventories would have been \$121 and \$125 higher than reported at April 30, 2006 and 2007, respectively. FIFO cost approximates current replacement cost.

Whiskey must be barrel-aged for several years, so we bottle and sell only a portion of our whiskey inventory each year. Following industry practice, we classify all barreled whiskey as a current asset. We include warehousing, insurance, ad valorem taxes, and other carrying charges applicable to barreled whiskey in inventory costs.

We classify bulk wine and agave inventories as work in process.

**Property, plant, and equipment.** We state property, plant, and equipment at cost less accumulated depreciation. We calculate depreciation on a straight-line basis over the estimated useful lives of the assets as follows: 20 to 40 years for buildings and improvements; 3 to 10 years for machinery, equipment, furniture, and fixtures; and 3 to 7 years for capitalized software costs.

We assess our property, plant, and equipment and other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset or asset group may not be recoverable. Fair value is determined using discounted future cash flows, with consideration of market values for similar assets when available. If the fair value of an evaluated asset is less than its book value, we write it down to its estimated fair value.

**Goodwill and other intangible assets.** We assess our goodwill and other intangible assets for impairment at least annually. If the fair value of an evaluated asset is less than its book value, the asset is written down to its estimated fair value. Fair value is determined using discounted future cash flows, with consideration of market values for similar assets when available.

**Foreign currency translation.** The U.S. dollar is the functional currency for most of our consolidated operations. For those operations, we report all gains and losses from foreign currency transactions in current income. The local currency is the functional currency for some foreign operations. For those investments, we report cumulative translation effects as a component of accumulated other comprehensive income (loss), a component of stockholders’ equity.

**Revenue recognition.** We recognize revenue when title and risk of loss pass to the customer, which typically is at the time the product is shipped. Certain sales contain customer acceptance provisions that grant a right of return on the basis of either subjective criteria or specified objective criteria. Revenue is recorded net of the estimated cost of sales returns and allowances.

**Cost of sales.** Cost of sales includes the costs of receiving, producing, inspecting, warehousing, insuring, and shipping goods sold during the period.

**Shipping and handling fees and costs.** We report the amounts we bill to our customers for shipping and handling as net sales, and we report the costs we incur for shipping and handling as cost of sales.

**Advertising costs.** We expense the costs of advertising during the year in which the advertisements first take place.

**Sales discounts.** Sales discounts, which are recorded as a reduction of net sales, totaled \$119, \$157, and \$242 for 2005, 2006, and 2007, respectively.

**Selling, general, and administrative expenses.** Selling, general, and administrative expenses include the costs associated with our sales force, administrative staff and facilities, and other expenses related to the non-manufacturing functions of our business.

**Earnings per share.** Basic earnings per share is based upon the weighted average number of common shares outstanding during the period. Diluted earnings per share includes the dilutive effect of stock-based compensation awards, including stock options, stock-settled stock appreciation rights (SSARs), and non-vested restricted stock.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars expressed in millions, except per share amounts)

The following table presents information concerning basic and diluted earnings per share:

	2005	2006	2007
Basic and diluted net income (loss):			
Continuing operations	\$ 339	\$ 395	\$ 400
Discontinued operations	(31)	(75)	(11)
Total	\$ 308	\$ 320	\$ 389
Share data (in thousands):			
Basic average common shares outstanding	121,746	122,094	122,868
Dilutive effect of non-vested restricted stock	12	31	59
Dilutive effect of stock options and SSARs	749	1,314	1,274
Diluted average common shares outstanding	122,507	123,439	124,201
Basic earnings (loss) per share:			
Continuing operations	\$2.788	\$3.239	\$3.257
Discontinued operations	(0.256)	(0.615)	(0.087)
Total	\$2.532	\$2.624	\$3.170
Diluted earnings (loss) per share:			
Continuing operations	\$2.772	\$3.204	\$3.222
Discontinued operations	(0.255)	(0.608)	(0.086)
Total	\$2.517	\$2.596	\$3.136

**Stock-based compensation.** In December 2004, the FASB issued SFAS 123(R), *Share-Based Payment*, which requires companies to expense the fair value of stock options and other forms of stock-based compensation. We adopted SFAS 123(R) during fiscal 2005 by retroactively adjusting our financial statements for all periods since fiscal 1997, when we first began granting stock-based compensation subject to SFAS 123(R).

Our stock-based compensation plan requires that we purchase shares to satisfy stock-based compensation requirements, thereby avoiding future dilution of earnings that would occur from issuing additional shares. We acquire treasury shares from time to time in anticipation of these requirements. We intend to hold enough treasury stock so that the number of diluted shares never exceeds the original number of shares outstanding at the inception of the stock-based compensation plan (as adjusted for any share issuances unrelated to the plan). The extent to which the number of diluted shares exceeds the number of basic shares is determined by how much our stock price has appreciated since the stock-based compensation was awarded, not by how many treasury shares we have acquired.

**Estimates.** To prepare financial statements that conform with generally accepted accounting principles, our management must make informed estimates that affect how we report revenues, expenses, assets, and liabilities, including contingent assets and liabilities. Actual results could (and probably will) differ from these estimates.

**Recent accounting pronouncements.** In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertainty in tax positions. This interpretation requires that we recognize in our financial statements the impact of a tax position if that position is more likely than not to be sustained on audit, based on the technical merits of the position. The provisions of FIN 48 become effective as of the beginning of our 2008 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We do not expect our adoption of FIN 48 to affect our financial statements materially.

In September 2006, the FASB issued SFAS 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The provisions of SFAS 157 become effective as of the beginning of our 2009 fiscal year. We are currently evaluating the impact that SFAS 157 will have on our financial statements.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115*. SFAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The provisions of SFAS 159 become effective as of the beginning of our 2009 fiscal year. We are currently evaluating the impact that SFAS 159 will have on our financial statements.

**2. DISCONTINUED OPERATIONS** We sold our wholly-owned subsidiary Lenox, Inc. ("Lenox") during fiscal 2006. In connection with the sale, we recognized a non-cash impairment charge of \$60 in July 2005. The impairment charge represented the excess of the carrying value of the net assets sold over the expected sales proceeds. We also incurred transaction costs related to the sale, including legal, tax and actuarial expenses, transaction success payments, and investment banking fees.

Lenox's results of operations and the impairment charge and other transaction costs have been classified as discontinued operations, net of income taxes, in the accompanying consolidated statement of operations for fiscal 2005 and 2006.

After the sale of Lenox, we retained ownership of Brooks & Bentley, a former subsidiary of Lenox, located in the U.K. We sold Brooks & Bentley in 2007. After reviewing various strategic alternatives, we also sold our wholly-owned subsidiary, Hartmann, Inc. ("Hartmann") in 2007. Accordingly, the assets and liabilities of Brooks & Bentley and Hartmann that were sold in 2007 are classified as held for sale in the accompanying consolidated balance sheet as of April 30, 2006, and their operating results are classified as discontinued operations in the accompanying consolidated statements of operations. The results of discontinued operations for 2007 include a \$9 impairment charge. The majority of this impairment relates to the decision made in 2007 by our Board of Directors to sell Hartmann and to focus our efforts entirely on our beverage business. The \$7 pre-tax



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars expressed in millions, except per share amounts)

impairment charge associated with Hartmann consisted of a goodwill impairment of \$4 and an impairment charge of \$3 that represented the excess of the carrying value of the net assets to be sold over the expected sales proceeds, net of estimated costs to sell.

Before we decided to sell Hartmann, no impairment charge was recorded because we believed its operations would generate sufficient future cash flows to enable us to fully recover its carrying amount. The decision to sell Hartmann reflects the Board's opinion that the sum of the price to be obtained from the sale and the strategic value of focusing entirely on our beverage business would be greater than the value of continuing to operate Hartmann.

There was also a \$2 pre-tax impairment charge recorded in 2007 for Brooks & Bentley. This impairment charge reflected a revision to its estimated fair value and costs to sell, based on the negotiations that resulted in the sale of Brooks & Bentley.

A summary of discontinued operations follows:

Year Ended April 30,	2005	2006	2007
Net sales	\$534	\$166	\$ 50
Operating expenses	(524)	(178)	(53)
Impairment charge	(37)	(60)	(9)
Transaction costs	—	(10)	(1)
Loss before income taxes	(27)	(82)	(13)
Income tax (expense) benefit	(4)	7	2
Net loss from discontinued operations	\$(31)	\$(75)	\$(11)

**3. ACQUISITIONS** We have completed the following acquisitions over the past three years. The operating results of each acquired entity have been consolidated with our financial statements since their respective acquisition dates. Consolidated pro forma operating results would not have been materially different from the actual amounts reported.

**Finlandia Vodka.** In December 2004, we acquired the remaining capital stock of Finlandia Vodka Worldwide Ltd. (FVW) that we did not already own from the Altia Corporation of Finland for \$64. The value of FVW consists primarily of the Finlandia brand name, which has an indefinite useful life. As a result of this transaction, we allocated an additional \$80 to the Finlandia brand name (which was partially offset by a deferred income tax liability of \$21) and \$5 to various other net assets.

**Chambord Liqueur.** In May 2006, we completed the acquisition of Chambord liqueur and all related assets from Chatam International Incorporated and its operating subsidiary, Charles Jacquin et Cie Inc., for \$251, including transaction costs. We believe that Chambord, which is positioned in the super-premium spirits category, fits well with our approach to brand building. With the close of the transaction, we acquired the Chambord trademark, French manufacturing operations where the brand is produced, and the services of employees who work at the facility.

The acquisition consisted primarily of the Chambord brand name and goodwill, to which we allocated \$116 and \$127 of the purchase price, respectively. The transaction provides valuable strategic opportunities, which we believe will enable us to leverage our strong brand-building skills and our current distribution network, allowing us to grow sales of this super-premium priced product around the world. We also believe that the brand will provide us with additional distributor influence and that it complements several other brands in our portfolio, allowing for cross-selling, merchandising, and promotion, which we expect will lead to overall increased sales. These factors contributed to a purchase price that resulted in the recognition of \$127 of goodwill. The entire amount allocated to goodwill is deductible for income tax purposes.

**Casa Herradura.** In January 2007, we completed the acquisition contemplated in an August 2006 asset purchase agreement among Jose Guillermo Romo de la Peña, Luis Pedro Pablo Romo de la Peña, Grupo Industrial Herradura, S.A. de C.V. ("Casa Herradura"), certain of their respective affiliates, Brown-Forman and Brown-Forman Tequila Mexico, S. de R.L. de C.V., a subsidiary of Brown-Forman. We acquired substantially all of the assets of Casa Herradura and its affiliates relating to its tequila business, including the Herradura and el Jimador tequilas, the New-Mix tequila-based ready-to-drink brand, the trade names and trademarks associated with such brands and other acquired brands, as well as related production facilities and the sales, marketing and distribution organization in Mexico.

We believe this acquisition provides us with several strategic opportunities, including the ownership of two strong, established brands, Herradura and el Jimador, which compete at the super-premium and premium levels, respectively, in the world's largest tequila markets – the U.S. and Mexico. In addition, we believe the growth potential for these brands is very attractive based on the fact that tequila is one of the fastest-growing spirits category in both markets. We expect these brands will help advance our entire business within the Hispanic population, which is the fastest growing demographic segment in the U.S., and increase our participation in the popular cocktail culture of the U.S., where the tequila-based margarita is the most frequently called-for mixed drink. We also believe the infrastructure in Mexico will give us a strong business platform to advance our portfolio in an important international market where we have historically had very little presence. We expect to leverage our current distribution network outside of Mexico, allowing us to grow sales of these super-premium and premium brands in the U.S. and to expand the brands' presence in the rest of the world, where the opportunities for growth appear numerous given the very limited distribution of tequila. Finally, by expanding and diversifying our portfolio, we believe that these brands will provide us with additional clout with our distributors and that the brands' performance will benefit significantly from our strong brand-building skills. These factors contributed to a purchase price that resulted in the recognition of the goodwill shown on the next page.

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The cost of the acquisition was \$794, including transaction costs of \$16. The purchase price is subject to a customary post-closing working capital adjustment. The cost of the acquisition has been preliminarily allocated based on management's estimates and independent appraisals as follows:

Accounts receivable	\$ 33
Inventories	138
Other current assets	47
Property, plant, and equipment	65
Deferred income taxes	6
Goodwill	346
Other intangible assets	215
<b>Total assets</b>	<b>850</b>
Accounts payable and accrued expenses	54
Long-term debt	1
Other noncurrent liabilities	1
<b>Total liabilities</b>	<b>56</b>
<b>Net assets acquired</b>	<b>\$794</b>

A third-party valuation specialist performed a preliminary valuation of the acquired intangible assets to help us determine the fair value of each identifiable intangible asset. Standard valuation procedures were used in determining the fair value of the acquired intangible assets. The following table summarizes the identified intangible asset categories and their weighted average amortization period, where applicable:

	<i>Weighted Average Amortization Period</i>	<i>Fair Value</i>
Finite-lived intangible assets:		
Customer relationships	38 years	\$ 4
Indefinite-lived intangible assets:		
Trademarks and brand names		\$211
Goodwill		346

The initial allocation of the cost of the acquisition was based on preliminary estimates and may be revised as asset valuations are finalized and further information is obtained on the fair value of liabilities. The entire preliminary goodwill amount of \$346 is expected to be deductible for tax purposes.

We financed the acquisition with approximately \$114 of cash and approximately \$680 of commercial paper, \$400 of which was subsequently replaced with long-term debt.

**4. GOODWILL AND OTHER INTANGIBLE ASSETS** The following table shows the changes in the amounts recorded as goodwill over the past two years:

Balance as of April 30, 2005	\$189
Consolidation of Swift & Moore (Note 17)	5
Foreign currency translation adjustment	(2)
Balance as of April 30, 2006	192
Acquisition of Chambord (Note 3)	127
Acquisition of Casa Herradura (Note 3)	346
Foreign currency translation adjustment	5
<b>Balance as of April 30, 2007</b>	<b>\$670</b>

As of April 30, 2006, our other intangible assets consisted of trademarks and brand names, with indefinite useful lives. As of April 30, 2007, our other intangible assets consisted of:

	<i>Gross Carrying Amount</i>	<i>Accumulated Amortization</i>
Finite-lived intangible assets:		
Customer relationships	\$ 4	\$ —
Distribution rights	25	(2)
	<b>\$ 29</b>	<b>\$ (2)</b>
Indefinite-lived intangible assets:		
Trademarks and brand names	\$657	\$ —

Amortization expense related to intangible assets was \$0 in 2006 and \$2 in 2007. Amortization expense of approximately \$5 is projected for each of the next five fiscal years. However, actual amounts of future amortization expense may differ due to additional intangible asset acquisitions, impairment of intangible assets, accelerated amortization of intangible assets, purchase price reallocations, and other events.

**5. COMMITMENTS** We have contracted with various growers and wineries to supply some of our future grape and bulk wine requirements. Many of these contracts call for prices to be determined by market conditions, but some contracts provide for minimum purchase prices that may exceed market prices. We have purchase obligations related to these contracts of \$29 in 2008, \$19 in 2009, \$14 in 2010, \$12 in 2011, \$10 in 2012, and \$20 after 2012.

We also have contracts for the purchase of agave, which is used to produce tequila. These contracts provide for prices to be determined based on market conditions at the time of harvest, which although not specified, is expected to occur over the next ten years. As of April 30, 2007, based on current market prices, obligations under these contracts totaled \$26.

We made rental payments for real estate, vehicles, and office, computer, and manufacturing equipment under operating leases of \$15 in 2005, \$16 in 2006, and \$19 in 2007. We have commitments related to minimum lease payments of \$13 in 2008, \$8 in 2009, \$6 in 2010, \$4 in 2011, \$3 in 2012, and \$10 after 2012.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars expressed in millions, except per share amounts)

**6. CREDIT FACILITIES** We have a committed revolving credit agreement with various domestic and international banks for \$800 that expires in fiscal 2012. Its most restrictive covenant requires that our consolidated EBITDA (as defined in the agreement) to consolidated interest expense not be less than a ratio of 3 to 1. At April 30, 2007, we were within this covenant's parameters. At April 30, 2007, we also had the ability to issue an undetermined amount of debt securities under an SEC shelf registration filed in January 2007.

**7. DEBT** Our long-term debt consisted of the following:

April 30,	2006	2007
3.0% notes, due in fiscal 2008	\$349	\$350
Variable-rate notes, due in fiscal 2010	—	150
5.20% notes, due in fiscal 2012	—	250
Other	2	26
	351	776
Less current portion	—	354
	\$351	\$422

Debt payments required over the next five fiscal years consist of \$354 in 2008, \$4 in 2009, \$154 in 2010, \$3 in 2011, and \$253 in 2012. The weighted average interest rate on the variable-rate notes was 5.4% at April 30, 2007. In addition to long-term debt, we had short-term borrowings outstanding with weighted average interest rates of 5.0% and 5.3% at April 30, 2006 and 2007, respectively.

**8. FOREIGN CURRENCY RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS** We use foreign currency options and forward contracts as protection against the risk that the eventual U.S. dollar cash flows resulting from our forecasted sales and purchases of goods and services in foreign currencies will be adversely affected by changes in exchange rates. In general, average maturities are less than one year, although at April 30, 2007, we had some forward contracts with maturities approaching two years. We designate these derivative financial instruments as cash flow hedges.

We formally assess (both at inception and at least quarterly) whether the derivative financial instruments are effective at offsetting changes in the cash flows of the hedged transactions. We defer the effective portion of a derivative's change in fair value in Accumulated Other Comprehensive Income (Loss) until the underlying hedged transaction is recognized in earnings. We recognize any ineffective portion of the change in fair value immediately in earnings. No material gains or losses were recognized in earnings due to the ineffectiveness of cash flow hedges.

We had outstanding foreign currency options and forward contracts, hedging primarily British pound, Australian dollar, euro, and South African rand revenues, with notional amounts totaling \$205 and \$406 at April 30, 2006 and 2007, respectively. At April 30, 2007, we also had forward contracts hedging the fair value of a Mexican peso-denominated intercompany receivable, with a notional value of approximately \$120. Our credit exposure is, however, limited to the contracts' fair value (see

Note 9) rather than their notional amounts. We minimize credit exposure by entering into foreign currency contracts only with major financial institutions that have earned investment-grade credit ratings.

**9. FAIR VALUE OF FINANCIAL INSTRUMENTS** The fair value of cash, cash equivalents, short-term investments, and short-term borrowings approximates the carrying amount due to the short maturities of these instruments.

We estimate the fair value of long-term debt using discounted cash flows based on our incremental borrowing rates for similar debt. 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:

April 30,	2006		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets:</b>				
Cash and cash equivalents	\$475	\$475	\$283	\$283
Short-term investments	160	160	86	86
<b>Liabilities:</b>				
Foreign currency contracts	1	1	4	4
Short-term borrowings	225	225	401	401
Current portion of long-term debt	—	—	354	347
Long-term debt	351	338	422	422

**10. BALANCE SHEET INFORMATION** Supplemental information on our year-end balance sheet is as follows:

April 30,	2006	2007
<b>Property, plant, and equipment:</b>		
Land	\$ 78	\$ 88
Buildings	290	323
Equipment	403	446
Construction in process	23	27
	794	884
Less accumulated depreciation	369	378
	\$425	\$506
<b>Accounts payable and accrued expenses:</b>		
Accounts payable, trade	\$ 89	\$118
<b>Accrued expenses:</b>		
Advertising	62	65
Compensation and commissions	84	93
Excise and other non-income taxes	27	41
Self-insurance claims	8	10
Postretirement benefits	—	4
Interest	1	3
Other	18	27
	200	243
	\$289	\$361



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars expressed in millions, except per share amounts)

**11. TAXES ON INCOME** We incur income taxes on the earnings of our domestic and foreign operations. The following table, based on the locations of the taxable entities from which sales were derived (rather than the location of customers), presents the domestic and foreign components of our income before income taxes:

	2005	2006	2007
United States	\$350	\$395	\$489
Foreign	154	164	97
	<u>\$504</u>	<u>\$559</u>	<u>\$586</u>

The income shown above was determined according to financial accounting standards. Because those standards sometimes differ from the tax rules used to calculate taxable income, there are differences between: (a) the amount of taxable income and pretax financial income for a year; and (b) the tax bases of assets or liabilities and their amounts as recorded in our financial statements. As a result, we recognize a current tax liability for the estimated income tax payable on the current tax return, and deferred tax liabilities (income tax payable on income that will be recognized on future tax returns) and deferred tax assets (income tax refunds from deductions that will be recognized on future tax returns) for the estimated effects of the differences mentioned above. Deferred tax assets and liabilities as of the end of each of the last two years were as follows:

April 30,	2006	2007
Deferred tax assets:		
Postretirement and other benefits	\$ 2	\$71
Accrued liabilities and other	9	9
Inventories	64	62
Loss carryforwards	21	46
Valuation allowance	(21)	(32)
Total deferred tax assets, net	<u>75</u>	<u>156</u>
Deferred tax liabilities:		
Trademarks and brand names	(85)	(96)
Property, plant, and equipment	(43)	(40)
Total deferred tax liabilities	<u>(128)</u>	<u>(136)</u>
Net deferred tax (liability) asset	<u>\$(53)</u>	<u>\$20</u>

The \$32 valuation allowance at April 30, 2007, relates primarily to the \$23 capital loss carryforward associated with the sale of Lenox during fiscal 2006. Currently, we are unaware of any transaction that will permit the use of this carryforward, which expires in fiscal 2011. The remaining valuation allowance relates to various other operating and capital loss carryforwards, which expire between fiscal 2012 and fiscal 2018.

Deferred tax liabilities were not provided on undistributed earnings of certain foreign subsidiaries (\$150 and \$230 at April 30, 2006 and 2007, respectively) because we expect these undistributed earnings to be reinvested indefinitely overseas. If these amounts were not considered permanently reinvested, additional deferred tax liabilities of approximately \$26 and \$41 would have been provided as of April 30, 2006 and 2007, respectively.

The 2004 American Jobs Creation Act (the "Act") provided a special one-time opportunity to deduct from taxable income 85% of certain qualifying foreign dividends repatriated to the U.S. from controlled foreign corporations, subject to various limitations and restrictions, including qualified U.S. reinvestment of such earnings. During 2006, we repatriated \$277 of foreign earnings that represented qualified dividends under the Act. This reduced our deferred income tax liability related to undistributed foreign earnings by \$17.

Total income tax expense for a year includes the tax associated with the current tax return ("current tax expense") and the change in the net deferred tax liability ("deferred tax expense"). Total income tax expense for each of the last three years was as follows:

	2005	2006	2007
Current:			
Federal	\$130	\$153	\$141
Foreign	19	16	27
State and local	19	19	16
	<u>168</u>	<u>188</u>	<u>184</u>
Deferred:			
Federal	4	(11)	5
Foreign	(1)	(8)	1
State and local	(6)	(5)	(4)
	<u>(3)</u>	<u>(24)</u>	<u>2</u>
	<u>\$165</u>	<u>\$164</u>	<u>\$186</u>

Our consolidated effective tax rate may differ from current statutory rates due to the recognition of amounts for events or transactions that have no tax consequences. The following table reconciles our effective tax rate to the federal statutory tax rate in the U.S.:

	Percent of Income Before Taxes		
	2005	2006	2007
U.S. federal statutory rate	35.0%	35.0%	35.0%
State taxes, net of U.S. federal tax benefit	1.2	1.3	1.3
Income taxed at other than U.S. federal statutory rate	(1.9)	(1.5)	(1.5)
Tax benefit from export sales	(2.0)	(1.6)	(1.0)
Tax benefit from U.S. manufacturing	—	(0.7)	(0.7)
Impairment charges	0.2	—	—
Capital loss benefit	—	(2.8)	—
Other, net	0.1	(0.4)	(1.4)
Effective rate	<u>32.6%</u>	<u>29.3%</u>	<u>31.7%</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars expressed in millions, except per share amounts)

**12. PENSION AND OTHER POSTRETIREMENT BENEFITS** We sponsor various defined benefit pension plans as well as postretirement plans providing retiree health care and retiree life insurance benefits. The following discussion provides information about our obligations related to these plans, the assets dedicated to meeting the obligations, and the amounts we recognized in our financial statements as a result of sponsoring these plans. We use a measurement date of January 31 to determine the amounts of the plan obligations and assets presented below.

**Obligations.** We provide eligible employees with pension and other postretirement benefits based on such factors as years of service and compensation level during employment. The pension obligation shown below ("projected benefit obligation") consists of: (a) benefits earned by employees to date based on current salary levels ("accumulated benefit obligation"); and (b) benefits to be received by the employees as a result of expected future salary increases. (The obligation for medical and life insurance benefits is not affected by future salary increases.) This table shows how the present value of our obligation changed during each of the last two years.

	<i>Pension Benefits</i>		<i>Medical and Life Insurance Benefits</i>	
	2006	2007	2006	2007
Obligation at beginning of year	\$386	\$414	\$ 47	\$ 53
Service cost	13	13	1	1
Interest cost	22	24	3	3
Actuarial loss	7	14	5	—
Plan amendments	1	—	—	—
Retiree contributions	—	—	1	1
Benefits paid	(15)	(16)	(4)	(4)
Effect of Hartmann sale	—	(1)	—	(1)
Obligation at end of year	\$414	\$448	\$ 53	\$ 53

Service cost represents the present value of the benefits attributed to service rendered by employees during the year. Interest cost is the increase in the present value of the obligation due to the passage of time. Actuarial loss (gain) is the change in value of the obligation resulting from experience different from that assumed or from a change in an actuarial assumption. (The actuarial assumptions used are discussed at the end of this note.)

As shown in the previous table, our pension and other postretirement benefit obligations were reduced by benefit payments in 2007 of \$16 and \$4, respectively. Expected benefit payments over the next ten years are as follows:

	<i>Pension Benefits</i>	<i>Medical and Life Insurance Benefits</i>
2008	\$ 17	\$ 3
2009	19	3
2010	20	3
2011	22	3
2012	23	3
2013-2017	141	16

**Assets.** We specifically invest certain assets in order to fund our pension benefit obligations. Our investment goal is to earn a total return that, over time, will grow assets sufficiently to fund our plans' liabilities, after providing appropriate levels of contributions and accepting prudent levels of investment risk. To achieve this goal, plan assets are invested primarily in funds or portfolios of funds actively managed by outside managers. Investment risk is managed by company policies that require diversification of asset classes, manager styles, and individual holdings. We measure and monitor investment risk through quarterly and annual performance reviews, and periodic asset/liability studies.

Asset allocation is the most important method for achieving our investment goals and is based on our assessment of the plans' long-term return objectives and the appropriate balances needed for liquidity, stability, and diversification. The allocation of our pension plan assets at fair value on January 31, 2006 and 2007, and the target allocation for 2008, by asset category, are as follows:

	Actual 2006	Actual 2007	Target 2008
Equity securities	71%	71%	70%
Debt securities	16	15	15
Real estate	6	6	5
Other	7	8	10
Total	100%	100%	100%

This table shows how the fair value of the pension plan assets changed during each of the last two years. (We do not have assets set aside for postretirement medical or life insurance benefits.)

	<i>Pension Benefits</i>		<i>Medical and Life Insurance Benefits</i>	
	2006	2007	2006	2007
Fair value at beginning of year	\$324	\$368	\$ —	\$ —
Actual return on plan assets	41	42	—	—
Retiree contributions	—	—	1	1
Company contributions	18	2	3	3
Benefits paid	(15)	(16)	(4)	(4)
Fair value at end of year	\$368	\$396	\$ —	\$ —

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars expressed in millions, except per share amounts)

Consistent with our funding policy, we expect to contribute \$3 to our postretirement medical and life insurance benefit plans in 2008. While we may decide to contribute more, we currently expect to contribute \$3 to our pension plans in 2008.

**Funded status.** The funded status of a plan refers to the difference between its assets and its obligations. Prior to our adoption of SFAS 158 (discussed below), this amount differed from the amount recorded as a net asset (liability) on the balance sheet. This table shows the funded status of our plans.

	<i>Pension Benefits</i>		<i>Medical and Life Insurance Benefits</i>	
	2006	2007	2006	2007
Assets	\$368	\$396	\$ —	\$ —
Obligations	(414)	(448)	(53)	(53)
Assets contributed after measurement date	1	—	1	1
Funded status	\$ (45)	\$ (52)	\$ (52)	\$ (52)

The net asset (liability) is recorded in the balance sheet as follows:

	<i>Pension Benefits</i>		<i>Medical and Life Insurance Benefits</i>	
	2006	2007	2006	2007
Prepaid pension cost	\$146	\$ 23	\$ —	\$ —
Other assets	1	—	—	—
Accounts payable and accrued expenses	—	(1)	—	(3)
Accrued postretirement benefits	(37)	(74)	(41)	(49)
Net asset (liability)	\$110	\$ (52)	\$ (41)	\$ (52)
Accumulated other comprehensive loss:				
Net actuarial loss	\$ —	\$148	\$ —	\$ 9
Prior service cost	—	5	—	1
Minimum pension liability adjustment	7	—	—	—
	\$ 7	\$153	\$ —	\$ 10

On April 30, 2007, we adopted SFAS 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. SFAS 158 requires that we recognize the funded status of our pension and other postretirement benefit plans as an asset or liability on our balance sheet. Subsequent changes in the funded status will be recognized through comprehensive income in the year in which they occur. SFAS 158 also requires that, beginning in

2009, the assumptions used to measure our annual pension and other postretirement benefit expenses be determined as of the balance sheet date, and all plan assets and liabilities be reported as of that date. In accordance with SFAS 158, prior year amounts have not been adjusted.

The following table illustrates the incremental effect of applying SFAS 158 on individual line items on our balance sheet as of April 30, 2007:

	<i>Before Application of SFAS 158</i>	<i>Adjustments</i>	<i>After Application of SFAS 158</i>
Prepaid pension cost	\$ 134	\$(111)	\$ 23
Total assets	3,662	(111)	3,551
Accounts payable and accrued expenses	357	4	361
Accrued postretirement benefits	84	39	123
Deferred income taxes	116	(60)	56
Total liabilities	1,995	(17)	1,978
Accumulated other comprehensive gain (loss)	37	(94)	(57)
Total stockholders' equity	1,667	(94)	1,573
Total liabilities and stockholders' equity	3,662	(111)	3,551

This table compares our pension plans that have assets in excess of their accumulated benefit obligations with those whose assets are less than their obligations. (As discussed above, we have no assets set aside for post-retirement medical or life insurance benefits.)

	<i>Plan Assets</i>		<i>Accumulated Benefit Obligation</i>		<i>Projected Benefit Obligation</i>	
	2006	2007	2006	2007	2006	2007
Plans with assets in excess of accumulated benefit obligation	\$368	\$396	\$329	\$346	\$368	\$396
Plans with accumulated benefit obligation in excess of assets	—	—	37	42	46	52
Total	\$368	\$396	\$366	\$388	\$414	\$448



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars expressed in millions, except per share amounts)

**Pension expense.** This table shows the components of the pension expense recognized during each of the last three years. The amount for each year includes amortization of the prior service cost and net loss that was unrecognized as of the beginning of the year.

<i>Pension Benefits</i>			
	2005	2006	2007
Service cost	\$11	\$13	\$13
Interest cost	20	22	24
Expected return on plan assets	(32)	(32)	(32)
Amortization of:			
Unrecognized prior service cost	1	1	1
Unrecognized net loss	3	8	12
Net expense	\$ 3	\$12	\$18

The prior service cost represents the cost of retroactive benefits granted in plan amendments and is amortized on a straight-line basis over the average remaining service period of the employees expected to receive the benefits. The net loss results from experience different from that assumed or from a change in actuarial assumptions, and is amortized over at least that same period. The estimated amount of prior service cost and net loss that will be amortized from accumulated other comprehensive loss into pension expense in 2008 is \$1 and \$12, respectively.

The pension expense recorded during the year is estimated at the beginning of the year. As a result, the amount is calculated using an expected return on plan assets rather than the actual return. The difference between actual and expected returns is included in the unrecognized net loss at the end of the year.

**Other postretirement benefit expense.** This table shows the components of the postretirement medical and life insurance benefit expense that we recognized during each of the last three years.

<i>Medical and Life Insurance Benefits</i>			
	2005	2006	2007
Service cost	\$1	\$1	\$1
Interest cost	3	3	3
Net expense	\$4	\$4	\$4

**Assumptions and sensitivity.** We use various assumptions to determine the obligations and expense related to our pension and other postretirement benefit plans. The assumptions used in computing benefit plan obligations as of the end of the last two years were as follows:

	<i>Pension Benefits</i>		<i>Medical and Life Insurance Benefits</i>	
(In percent)	2006	2007	2006	2007
Discount rate	5.95	6.04	5.95	5.98
Rate of salary increase	4.00	4.00	—	—
Expected return on plan assets	8.75	8.75	—	—

The assumptions used in computing benefit plan expense during each of the last three years were as follows:

	<i>Pension Benefits</i>			<i>Medical and Life Insurance Benefits</i>		
(In percent)	2005	2006	2007	2005	2006	2007
Discount rate	6.00	5.80	5.95	6.00	5.80	5.95
Rate of salary increase	4.00	4.00	4.00	—	—	—
Expected return on plan assets	8.75	8.75	8.75	—	—	—

The discount rate represents the interest rate used to discount the cash-flow stream of benefit payments to a net present value as of the current date. A lower assumed discount rate increases the present value of the benefit obligation.

The assumed rate of salary increase reflects the expected annual increase in salaries as a result of inflation, merit increases, and promotions. A lower assumed rate decreases the present value of the benefit obligation.

The expected return on plan assets represents the long-term rate of return that we assume will be earned over the life of the pension assets, considering the distribution of those assets among investment categories and the related historical rates of return.

The assumed health care cost trend rates as of the end of the last two years were as follows:

	<i>Medical and Life Insurance Benefits</i>	
(In percent)	2006	2007
Health care cost trend rate assumed for next year:		
Present rate before age 65	11.0	10.0
Present rate age 65 and after	11.0	10.0

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars expressed in millions, except per share amounts)

We project health care cost trend rates to decline gradually to 5.0% by 2012 and to remain level after that. Assumed health care cost trend rates have a significant effect on the amounts reported for postretirement medical plans. A one percentage point increase/decrease in assumed health care cost trend rates would have increased/decreased the accumulated postretirement benefit obligation as of April 30, 2007, by \$5 and the aggregate service and interest costs for 2007 by \$1.

**Savings plans.** We also sponsor various defined contribution benefit plans that in total cover substantially all employees. Employees can make voluntary contributions in accordance with the provisions of their respective plans, which includes a 401(k) tax deferral option. We match a percentage of each employee's contributions in accordance with the provisions of the plans. We expensed \$7, \$7, and \$8 for matching contributions during 2005, 2006, and 2007, respectively.

**13. NET SALES** by product category and geographic region:

	2005	2006	2007
Net sales:			
Spirits	\$1,824	\$2,049	\$2,425
Wine	371	363	381
	\$2,195	\$2,412	\$2,806

	2005	2006	2007
Net sales:			
United States	\$1,316	\$1,404	\$1,498
Europe	637	709	816
Other	242	299	492
	\$2,195	\$2,412	\$2,806

Net sales are attributed to countries based on where customers are located. Long-lived assets located outside the U.S. are not significant.

**14. CONTINGENCIES** We operate in a litigious environment, and we are sued in the normal course of business. Sometimes plaintiffs seek substantial damages. Significant judgment is required in predicting the outcome of these suits and claims, many of which take years to adjudicate. We accrue estimated costs for a contingency when we believe that a loss is probable and we can make a reasonable estimate of the loss, and adjust the accrual as appropriate to reflect changes in facts and circumstances.

A law firm has sued Brown-Forman and many other manufacturers and marketers of spirits, wines, and beer in a series of nine very similar class action lawsuits seeking damages and injunctive relief from alleged marketing of beverage alcohol to underage consumers. The suits allege that the defendants engage in deceptive and negligent marketing practices targeting underage consumers. They seek to recover on behalf of parents those funds that their children spent on the illegal purchase of alcohol as

well as disgorgement of all profits from the alleged illegal sales. We are vigorously defending these cases. Six of the suits have been dismissed by trial court and are being appealed. Two cases have been voluntarily withdrawn. One is pending decision of a dismissal motion. We cannot yet predict the outcome of these claims, including whether we will incur related losses or the amount of such losses. Since we cannot estimate the amount of possible loss, no amounts have been accrued. But an unfavorable result in these or similar class-action lawsuits could have a material adverse impact on our business.

**15. STOCK-BASED COMPENSATION** Under our 2004 Omnibus Compensation Plan (the "Plan"), we can grant stock options and other stock-based incentive awards for a total of 5,946,000 shares of common stock to eligible employees until July 22, 2014. As of April 30, 2007, awards for 4,816,000 shares remain available for issuance under the Plan. Shares delivered to employees are limited by the Plan to shares that we purchase for this purpose. No new shares may be issued.

We grant stock options and SSARs at an exercise price of not less than the fair value of the underlying stock on the grant date. Except for the stock options that expire on September 1, 2007 (discussed below), stock options and SSARs granted under the Plan become exercisable after three years from the first day of the fiscal year of grant and expire seven years after that date. The grant-date fair values of these awards granted during 2005, 2006, and 2007 were \$10.78, \$12.59, and \$16.46 per award, respectively. Fair values were estimated using the Black-Scholes pricing model with the following assumptions:

	2005	2006	2007
Risk-free interest rate	4.0%	4.0%	5.0%
Expected volatility	24.0%	22.0%	16.9%
Expected dividend yield	1.9%	1.9%	1.8%
Expected life (years)	6	6	6

On March 22, 2007, our Board of Directors approved the distribution to shareholders of the \$204 million in cash received (net of transaction fees) from the sale of Lenox and Brooks & Bentley. The distribution of \$1.6533 per share was made on May 10, 2007, to shareholders of record on April 5, 2007. The Internal Revenue Service has issued to us a private letter ruling which states that the special distribution will be treated as a distribution in partial liquidation pursuant to Sections 302(b)(4) and 302(c)(1) of the Internal Revenue Code.

In connection with this special distribution, and pursuant to the terms of the Plan, the exercise price and number of stock options and SSARs outstanding on the ex-distribution date were adjusted in order to avoid the reduction in value of those awards that would otherwise have occurred as a result of the special distribution. The following information has been retroactively restated to reflect these adjustments.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars expressed in millions, except per share amounts)

In September 1999, we granted stock options with an exercise price of \$48.78 per share that became exercisable on May 1, 2006, and expire on September 1, 2007. The fair value of these options was \$2.89 per option, using the Black-Scholes pricing model and assuming a risk-free interest rate of 6.0%, expected volatility of 18.0%, an expected dividend yield of 2.2%, and an expected life of eight years. Approximately 418,000 of these options are outstanding as of April 30, 2007.

We also grant restricted shares of common stock under the Plan. As of April 30, 2007, there are approximately 122,000 restricted shares outstanding, with a weighted-average remaining restriction period of 3.4 years. The following table summarizes restricted stock activity during 2007.

	<i>Restricted Shares (in thousands)</i>	<i>Weighted Average Fair Value at Grant Date</i>
Outstanding at May 1, 2006	81	\$43.75
Granted	41	61.70
Outstanding at April 30, 2007	122	49.79

The accompanying statements of income reflect compensation expense related to stock-based incentive awards on a pre-tax basis of \$7 in 2005, \$8 in 2006, and \$8 in 2007, partially offset by deferred income tax benefits of \$3 in 2005, \$3 in 2006, and \$3 in 2007.

A summary of stock option and SSAR activity under the Plan as of April 30, 2007, and changes during the year then ended is presented below.

	<i>Weighted Shares (in thousands)</i>	<i>Weighted Average Exercise Price Per Option/SSAR</i>	<i>Average Remaining Contractual Term</i>	<i>Aggregate Intrinsic Value</i>
Outstanding at May 1, 2006	4,786	\$39.32		
Granted	340	70.61		
Exercised	(885)	40.60		
Forfeited or expired	(28)	54.03		
Outstanding at April 30, 2007	4,213	\$41.48	4.8	\$97
Exercisable at April 30, 2007	2,920	\$35.50	3.6	\$83

The total intrinsic value of options exercised during 2005, 2006, and 2007 was \$7, \$23, and \$26, respectively.

As of April 30, 2007, there was \$10 of total unrecognized compensation cost related to nonvested stock-based compensation. That cost is expected to be recognized over a weighted-average period of 2.6 years.

**16. SALE OF INVESTMENT IN AFFILIATE** During 2005, we sold our equity stake in Glenmorangie plc for proceeds of \$93 (net of disposal costs), resulting in a pre-tax gain of \$72.

**17. OTHER INCOME** In July 2005, we entered into an agreement with LVMH Moët Hennessey Louis Vuitton for the early termination of our long-term importing and marketing agreements for Glenmorangie products in the U.S., Canada, and certain countries in Europe and Asia, effective July 29, 2005. We received approximately \$14 for the early termination, which is included in other income for fiscal 2006 in the accompanying consolidated statement of operations.

In January 2006, we received proceeds of \$25 as compensation for Pernod Ricard assuming the distribution of its brands from Swift & Moore, an Australian distribution company co-owned by Pernod Ricard (following its purchase of Allied-Domecq) and us. This amount is recorded in other income for fiscal 2006. Pernod Ricard surrendered its ownership interest in Swift & Moore to us effective February 1, 2006, resulting in our becoming 100% owner of Swift & Moore as of that date. Swift & Moore, which is now Brown-Forman Australia, continues to distribute our brands in Australia.

In January 2006, we sold winery land and buildings in California for \$7, resulting in a gain of \$5 that is included in other income for fiscal 2006.

In September 2006, we entered into an agreement with Gruppo Italiano Vini (GIV) for the production of Bolla Italian wines. Under the agreement,

we also sold our main Bolla wine production facility in Pedemonte, Italy to GIV, which now produces Bolla Italian Wines for us. We recognized a gain on the sale of \$11, which is included in other income for fiscal 2007. The agreement also named GIV as Bolla's distributor in the Italian domestic market. We maintained worldwide ownership of the Bolla trademark and continue to sell Bolla Wines in the brand's other markets.

**18. SUBSEQUENT EVENT** On May 16, 2007, we reached an agreement with the Orendain family of Mexico to end our joint ventures in the tequila business. We purchased the remaining portion of the global trademark for the Don Eduardo super premium tequila brand from the Orendain family, and the Orendain family will repurchase all other Orendain trademarks that were once part of the joint ventures.

We have shared ownership of the trademarks with the Orendain family since 1999 through two joint ventures: Tequila Orendain de Jalisco and BFC Tequila Limited. Tequila Orendain de Jalisco produced the tequila and held the trademarks in Mexico. BFC Tequila Limited held the trademarks for all markets excluding Mexico. During the process of closing the Casa Herradura acquisition in fiscal 2007, we began negotiations with the Orendain family for the termination of these joint ventures, including the purchase of full ownership and rights to the Don Eduardo brand, and returning all rights to the international Orendain trademarks to the Orendain family.



## REPORTS OF MANAGEMENT

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Our management is responsible for the preparation, presentation, and integrity of the financial information presented in this Annual Report. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), including amounts based on management's best estimates and judgments. In management's opinion, the consolidated financial statements fairly present the Company's financial position, results of operations, and cash flows.

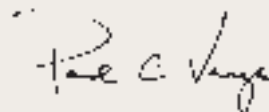
The Audit Committee of the Board of Directors, which is composed of independent directors, meets regularly with the independent registered public accounting firm, PricewaterhouseCoopers LLP (PwC), internal auditors, and representatives of management to review accounting, internal control structure, and financial reporting matters. The internal auditors and PwC have full and free access to the Audit Committee. As set forth in our Code of Conduct and Compliance Guidelines, we are firmly committed to adhering to the highest standards of moral and ethical behaviors in all of our business activities.

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is also responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the U.S.

Under our supervision, and with the participation of management, we conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework and criteria in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, we concluded that the Company's internal control over financial reporting was effective as of April 30, 2007. During the year ended April 30, 2007, Brown-Forman acquired Casa Herradura. (See Note 3 to the accompanying consolidated financial statements.) We are in the process of integrating the Casa Herradura operations and will be incorporating these operations as part of our internal controls. As permitted by the SEC, for purposes of this evaluation, the disclosure controls and procedures of the recently acquired Casa Herradura operations and the impact of this acquisition on the Company's internal controls over financial reporting were excluded. In accordance with guidance, we will include Casa Herradura in our assessment of internal control over financial reporting in fiscal 2008. There has been no change in the Company's internal control over financial reporting during the most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting, provided that the Casa Herradura operations and acquisition were excluded from management's evaluation as noted above. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of April 30, 2007, has been audited by PwC as stated in their report that appears on page 54.

Paul C. Varga  
President and Chief Executive Officer



Phoebe A. Wood  
Executive Vice President and Chief Financial Officer



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS  
OF BROWN-FORMAN CORPORATION:

We have completed integrated audits of Brown-Forman Corporation's consolidated financial statements and of its internal control over financial reporting as of April 30, 2007, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

**Consolidated financial statements:** In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, cash flows and stockholders' equity present fairly, in all material respects, the financial position of Brown-Forman Corporation and its subsidiaries (the "Company") at April 30, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 2007 in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 12 to the consolidated financial statements, the Company adopted the recognition provisions of SFAS 158 *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans – Amendment of FASB Statements No. 87, 88, 106, and 132(R)*.

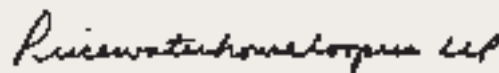
**Internal control over financial reporting:** Also, in our opinion, management's assessment, included in Management's Report on Internal Control over Financial Reporting appearing on page 53, that the Company maintained effective internal control over financial reporting as of April 30, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of April 30, 2007, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over

financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control over Financial Reporting, management has excluded Casa Herradura from its assessment of internal control over financial reporting as of April 30, 2007 because it was acquired by the Company in a purchase business combination during fiscal 2007. We have also excluded Casa Herradura from our audit of internal control over financial reporting. Casa Herradura is a wholly-owned subsidiary whose total assets and total revenues represent 8% and 2%, respectively, of the related consolidated financial statement amounts as of and for the year ended April 30, 2007.



PricewaterhouseCoopers LLP  
Louisville, Kentucky  
June 28, 2007

## DIRECTORS AND OFFICERS

BROWN-FORMAN CORPORATION  
BOARD OF DIRECTORSOwsley Brown II <sup>(1)</sup>*Chairman,  
Brown-Forman Corporation,  
Louisville, Kentucky*Paul C. Varga <sup>(1)</sup>*President and Chief Executive Officer,  
Brown-Forman Corporation,  
Louisville, Kentucky*Patrick Bousquet-Chavanne <sup>(3)</sup>*Group President,  
The Estée Lauder Companies Inc.,  
New York, New York*Barry D. Bramley <sup>(2)(4)</sup>*Former Chairman and Chief Executive Officer,  
British-American Tobacco Company, Ltd.,  
London, England*Geo. Garvin Brown IV <sup>(4)</sup>*Vice President,  
Brown-Forman Beverages International,  
London, England*

Martin S. Brown, Jr.

*Partner,  
Adams and Reese LLP,  
Nashville, Tennessee*Donald G. Calder <sup>(2)(4)</sup>*President and Chief Financial Officer,  
G. L. Ohrstrom & Co., Inc.,  
New York, New York*

Sandra A. Frazier

*Founder and Member,  
Tandem Public Relations,  
Louisville, Kentucky*Richard P. Mayer <sup>(3)(4)</sup>*Former Chairman and Chief Executive Officer,  
Kraft General Foods North America  
(now Kraft Foods, Inc.),  
Northfield, Illinois*William E. Mitchell <sup>(2)</sup>*Chairman, President, and Chief Executive Officer,  
Arrow Electronics, Inc.,  
Melville, New York*Matthew R. Simmons <sup>(3)</sup>*Founder and Chairman,  
Simmons and Company International,  
Houston, Texas*William M. Street <sup>(1)(2)</sup>*Former President,  
Brown-Forman Corporation,  
Louisville, Kentucky*

Dace Brown Stubbs

*Private Investor,  
Vero Beach, Florida*

James S. Welch, Jr.

*Vice Chairman,  
Brown-Forman Corporation,  
Louisville, Kentucky*BROWN-FORMAN CORPORATION  
EXECUTIVE OFFICERSOwsley Brown II <sup>(1)</sup>*Chairman*Paul C. Varga <sup>(1)</sup>*President and Chief Executive Officer*Michael B. Crutcher <sup>(5)</sup>*Vice Chairman, General Counsel, and Secretary*

James S. Welch, Jr.

*Vice Chairman, Strategy and Human Resources*

Phoebe A. Wood

*Vice Chairman and Chief Financial Officer*

Lois Mateus

*Senior Vice President*

Gerard J. Anderson

*Senior Vice President*

Donald C. Berg

*Senior Vice President*

William A. Blodgett, Jr.

*Senior Vice President*

Timothy J. Condon

*Senior Vice President*

Michael B. French

*Senior Vice President*

Paul E. Gross

*Senior Vice President*

Philip A. Lichtenfels

*Senior Vice President*

Jane C. Morreau

*Senior Vice President*

Larry W. Perry

*Senior Vice President*

Lisa P. Steiner

*Senior Vice President*

James L. Bareuther

*Executive Vice President and  
Chief Operating Officer*

John A. Accardo

*Senior Vice President*

Stuart A. Beck

*Senior Vice President*

Christopher J. Burt

*Senior Vice President*

David C. M. Dearie

*Senior Vice President*

Thomas W. Hinrichs

*Senior Vice President*

Mark A. Overdyk

*Senior Vice President*Mark I. McCallum  
*Executive Vice President and  
Chief Brands Officer*

Maureen E. Brekka

*Senior Vice President*

John V. Hayes

*Senior Vice President*

Theodore W. Hissey

*Senior Vice President*

John V. O. Kennard

*Senior Vice President*

Michael J. Keyes

*Senior Vice President*

Andrew P. Mansinne

*Senior Vice President*

Erin P. Schlader

*Senior Vice President*

Andrew M. Varga

*Senior Vice President*

James B. Chiles

*Senior Vice President,  
Global Production*

Jill A. Jones

*Senior Vice President*

Thomas R. Beam

*Senior Vice President*

Alan W. Blake

*Senior Vice President*

Bill C. Coleman

*President,  
Brown-Forman Cooperages*

Theodore S. Lioutas

*Vice President*

Leonore O. Wilkinson

*Vice President*<sup>(1)</sup> Member of Executive Committee of the Board of Directors<sup>(2)</sup> Member of Audit Committee<sup>(3)</sup> Member of Compensation Committee<sup>(4)</sup> Member of the Nominating Committee<sup>(5)</sup> Secretary to Board of Directors, Executive Committee,  
and Audit Committee



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 IMPORTANT INFORMATION ON FORWARD-LOOKING STATEMENTS
 

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This annual report contains statements, estimates, or projections that constitute “forward-looking statements” as defined under U.S. federal securities laws. Generally, the words “expect,” “believe,” “intend,” “estimate,” “will,” “anticipate,” and “project,” and similar expressions identify a forward-looking statement, which speaks only as of the date the statement is made. Except as required by law, we do not intend to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

We believe that the expectations and assumptions with respect to our forward-looking statements are reasonable. But by their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors that in some cases are out of our control. These factors could cause our actual results to differ materially from Brown-Forman’s historical experience or our present expectations or projections. Here is a non-exclusive list of such risks and uncertainties:

- changes in general economic conditions, particularly in the U.S. where we earn about half of our profits;
- lower consumer confidence or purchasing in the wake of catastrophic events or related to higher energy costs;
- tax increases, whether at the federal or state level or in major international markets and/or tariff barriers or other restrictions affecting beverage alcohol;
- limitations and restrictions on distribution of products and alcohol marketing, including advertising and promotion, as a result of stricter governmental policies adopted either in the U.S. or in international markets;
- adverse developments in the class action lawsuits filed against Brown-Forman and other spirits, beer, and wine manufacturers alleging that our industry conspired to promote the consumption of alcohol by those under the legal drinking age;
- a strengthening U.S. dollar against foreign currencies, especially the British Pound, Euro, Australian Dollar, and Mexican Peso;
- reduced bar, restaurant, hotel and travel business, including travel retail, in the wake of terrorist attacks;
- longer-term, a change in consumer preferences, social trends or cultural trends that results in the reduced consumption of our premium spirits brands;
- changes in distribution arrangements in major markets that limit our ability to market or sell our products;
- adverse impact on performance and reported results as a consequence of integrating acquisitions and ensuring their conformance to the company’s trade practice standards, financial control environment, and U.S. public company requirements;
- increases in the price of energy or raw materials, including grapes, grain, agave, wood, glass, and plastic;
- excess wine inventories or a worldwide oversupply of grapes or agave;
- termination of our rights to distribute and market agency brands included in our portfolio;
- counterfeit production of our products and any resulting negative effect on our intellectual property rights or brand equity; and
- adverse developments as a result of state or federal investigations of beverage alcohol industry trade practices of suppliers, distributors, and retailers.

**Corporate Headquarters**

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

**Internet Address:**

[www.brown-forman.com](http://www.brown-forman.com)

**E-mail Address:**

[brown-forman@b-f.com](mailto:brown-forman@b-f.com)

**Employees**

On April 30, 2007, Brown-Forman employed about 4,440 people, including approximately 390 on a part-time or temporary basis. Brown-Forman Corporation is an Equal Employment Opportunity and Affirmative Action employer. All human resource practices, actions, and programs are administered without regard to race, color, national or ethnic origin, gender, age, religion, veteran status, sexual preference, or disability. It is also the policy of Brown-Forman to prohibit sexual and other harassment.

**Stockholders**

The two classes of stock of Brown-Forman Corporation are listed on the New York Stock Exchange. There were 3,522 holders of record of Class A Common Stock and 4,081 holders of record of Class B Common Stock as of April 30, 2007. Stockholders reside in all 50 states and in 28 foreign countries.

**Dividend Reinvestment Service**

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

National City Bank, Dept. 5352  
Corporate Trust Operations  
P.O. Box 94946  
Cleveland, OH 44101-4946  
1-800-622-6757

**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, KY 40201-1080. The Form 10-K can also be downloaded from the Company's Web site at [www.brown-forman.com](http://www.brown-forman.com). Click on the Investor Relations section of the Web site and then click on Financial Reports and Filings and then on SEC Filings to view the Form 10-K, as well as other important documents.

**Corporate Governance Guidelines, Committee Charters and Codes**

The Board approved Corporate Governance Guidelines are published on the Company's Web site. These guidelines include director responsibilities and qualification standards, director compensation, management succession policies and principles, director access to management and, as appropriate, independent advisors, and an annual performance self-evaluation of the Board. The Company also has posted on its Web site the Audit Committee and Compensation Committee charters, as well as the Company's Code of Conduct, which applies to all directors and employees, and a Code of Ethics that applies specifically to the Company's senior financial officers. Copies of the Corporate Governance Guidelines, Committee charters and these Codes are also available by writing to our Corporate Secretary, Michael B. Crutcher, 850 Dixie Highway, Louisville, KY 40210 or e-mailing him at [Michael\\_Crutcher@b-f.com](mailto:Michael_Crutcher@b-f.com).

**Listed**

New York Stock Exchange  
New York City  
BFA/BFB

**Registrar and Transfer Agent and Dividend Disbursing Agent**

National City Bank  
Cleveland, Ohio

**E-mail Address:**

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**Environmental Stewardship**

Brown-Forman is committed to being a responsible corporate citizen. As a responsible corporate citizen, Brown-Forman is committed to environmental stewardship and sustainability. Our environment efforts focus primarily on the efficient use of natural resources, conserving energy and water, and minimizing waste.



**MOHAWK windpower** 

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