
CREATING
SMART
RESPONSIBILITIES
&RIGHTS
ENVIRONMENTAL STEWARDSHIP
SHORT TERM
LONG TERM
CREATING VALUE
LONG TERM PERSPECTIVE
GEOGRAPHIC DIVERSIFICATION
SHORT TERM
LONG TERM
CREATING VALUE
BRAND FOCUS
PRICING DISCIPLINE
CONSUMERS
UNDERSTANDING
CREATING VALUE
SMART SPENDING
ACCEPTABLE RISK
ON OFF PREMISE
INVOLVEMENT
ACQUISITION OPPORTUNITIES
SMART SPENDING
EXCEPTIONAL REWARDS
BEYOND BRIC
BUILDING CONSENSUS
SUSTAINABLE GROWTH
GROWTH
RETURNS
SEEKING SOLUTIONS
RISK
ACCEPTABLE
KEY
MARKETS
CREATING VALUE
BRAND PORTFOLIO
LONG-TERM PERSPECTIVE
IMPROVING COMMUNITIES
CREATING VALUE
EMBRACING OPPORTUNITIES
ON OFF PREMISE
BRAND
GEOGRAPHIC EXPANSION
OPPORTUNITIES

FINANCIAL HIGHLIGHTS

(Expressed in millions, except per share amounts and ratios)	2007	2008	% Change
CONTINUING OPERATIONS			
Net Sales	$2,806	$3,282	17%
Gross Profit	$1,481	$1,695	14%
Operating Income	$ 602	$ 685	14%
Net Income	$ 400	$ 440	10%
Earnings Per Share			
– Basic	$ 3.26	$ 3.59	10%
– Diluted	$ 3.22	$ 3.55	10%
Return on Average Invested Capital	17.4%	17.2%	
Gross Margin	52.8%	51.6%	
Operating Margin	21.5%	20.9%	

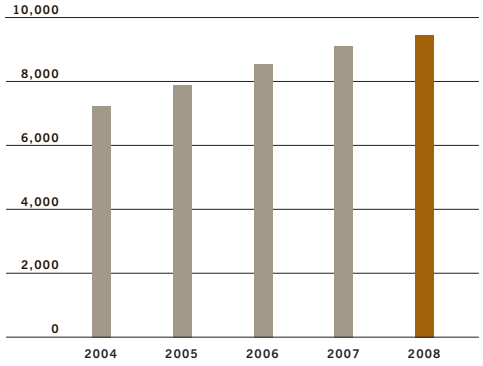
QUARTERLY FINANCIAL INFORMATION

(Expressed in millions, except per share amounts)	Fiscal 2007					Fiscal 2008				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Net Sales	$ 633	$ 727	$ 755	$ 691	$2,806	$ 739	$ 893	$ 877	$ 772	$3,282
Gross Profit	349	383	387	362	1,481	391	470	433	401	1,695
Net Income										
Continuing Operations	95	125	112	69	400	95	130	116	99	440
Total Company	94	124	105	67	389	95	129	116	99	440
Basic EPS										
Continuing Operations	$ 0.77	$ 1.02	$ 0.91	$ 0.56	$ 3.26	$ 0.77	$ 1.05	$ 0.94	$ 0.82	$ 3.59
Total Company	0.76	1.01	0.86	0.54	3.17	0.77	1.05	0.94	0.82	3.59
Diluted EPS										
Continuing Operations	$ 0.76	$ 1.00	$ 0.90	$ 0.56	$ 3.22	$ 0.77	$ 1.04	$ 0.93	$ 0.81	$ 3.55
Total Company	0.76	1.00	0.85	0.54	3.14	0.77	1.04	0.94	0.81	3.56
Cash Dividends per Common Share										
Declared	$ 0.56	$ –	$ 0.61	$ –	$ 1.17	$ 0.61	$ –	$ 0.68	$ –	$ 1.29
Paid	0.28	0.28	0.30	0.30	1.17	0.30	0.30	0.34	0.34	1.29
Market Price Per Common Share										
Class A High	$77.70	$79.58	$73.23	$71.19	$79.58	$77.50	$82.50	$78.50	$76.15	$82.50
Class A Low	69.14	71.55	66.41	66.32	66.32	66.50	69.70	63.00	65.00	63.00
Class B High	$77.65	$79.38	$72.65	$68.25	$79.38	$74.26	$79.88	$76.15	$73.35	$79.88
Class B Low	68.32	71.19	64.20	63.54	63.54	63.76	66.04	61.35	62.10	61.35

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

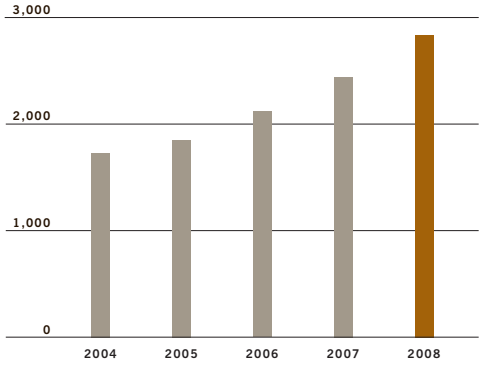
JACK DANIEL'S

Depletions (nine-liter cases in thousands)



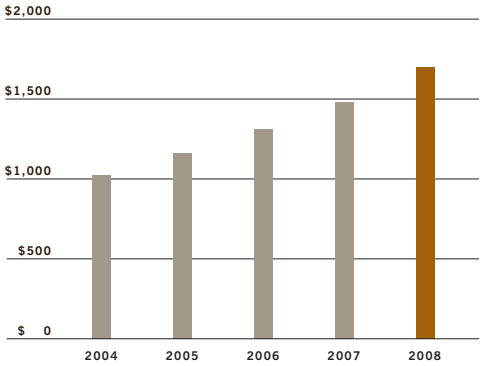
FINLANDIA

Depletions (nine-liter cases in thousands)



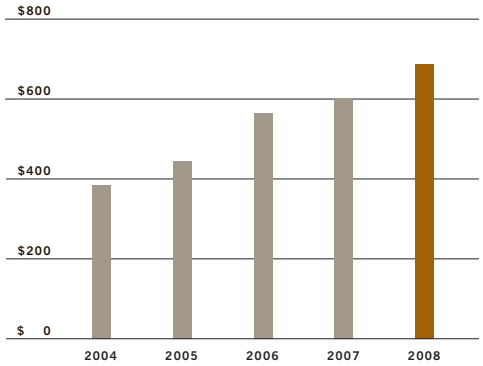
GROSS PROFIT

Continuing Operation (in millions)



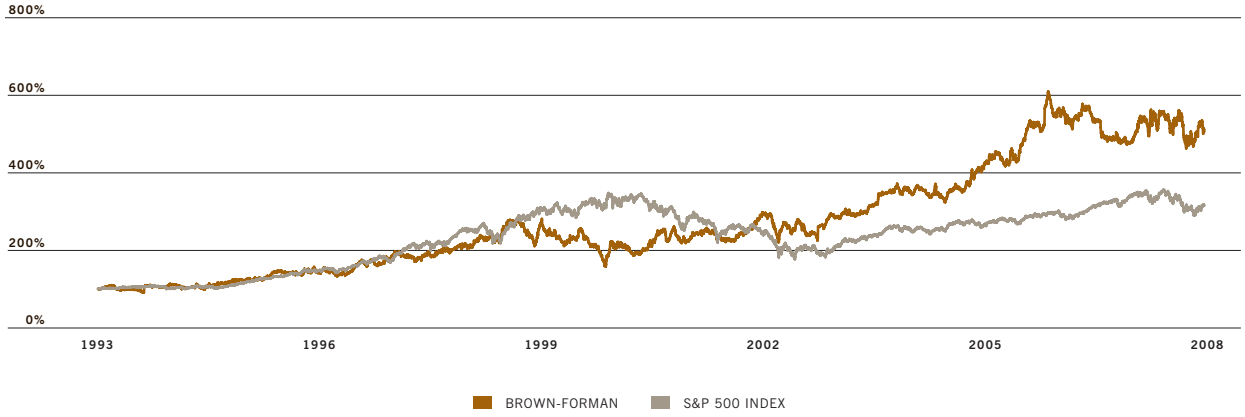
OPERATING INCOME

Continuing Operation (in millions)



BROWN-FORMAN STOCK PRICE PERFORMANCE VERSUS THE S&P 500 INDEX

(indexed to April 30, 1993)



BALANCED. WHEN WE ARE ASKED TO CHOOSE A SINGLE WORD THAT BEST DESCRIBES BROWN-FORMAN – STRATEGICALLY, OPERATIONALLY, FINANCIALLY, AND CULTURALLY – WE GRAVITATE TO THE WORD "BALANCED."

THE EXERCISE OF BUILDING BROWN-FORMAN IS A CONTINUOUS BALANCING ACT, WHERE WE SIMULTANEOUSLY AIM TO GROW THE COMPANY ON A SUSTAINED BASIS, CREATE ENDURING VALUE FOR OUR STAKEHOLDERS, AND STRENGTHEN OUR FUTURE AS AN INDEPENDENT, FAMILY-CONTROLLED ENTERPRISE. IN CARRYING OUT THIS PURSUIT, WE DEPEND HEAVILY ON BALANCED THINKING. WE ARE FOCUSED ON BOTH THE LONG TERM AND THE SHORT TERM; WE WORK TO ACCESS BOTH THE ANALYTICAL AND INSTINCTIVE TALENTS OF OUR PEOPLE; WE FREQUENTLY LOOK BACKWARD TO BETTER UNDERSTAND OUR INDUSTRY AND OUR COMPANY'S HISTORY SO THAT WE CAN DRAW ON THAT PERSPECTIVE WHEN NAVIGATING AN UNCERTAIN FUTURE; AND, ALTHOUGH WE EXECUTE OUR AGREED-UPON STRATEGIES WITH ENTHUSIASM, WE ALTER OUR COURSE AS CIRCUMSTANCES DICTATE.

MOST OF ALL, WE ARE DILIGENT IN BALANCING RISK AND REWARD ON BEHALF OF OUR SHAREHOLDERS. OUR AMBITION IS TO CONSISTENTLY PRODUCE EXCELLENT REWARDS FOR WHAT WE CONSIDER TO BE A MODERATE AND ACCEPTABLE LEVEL OF INVESTMENT RISK.

WE ACHIEVE BALANCED THINKING WITH A SKILLED AND EXPERIENCED BOARD AND LEADERSHIP TEAM ALONG WITH ACTIVE

INVOLVEMENT BY BROWN FAMILY MEMBERS IN MANAGEMENT, ON OUR BOARD, AND AS SUPPORTIVE SHAREHOLDERS.

PAUL C. VARGA
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER

1M+

1 MILLION+ CASE BRANDS
Jack Daniel's Tennessee Whiskey
New Mix*
Jack Daniel's & Cola*
Finlandia Vodka
Fetzer Wines
Southern Comfort
Canadian Mist
Korbel California Champagnes
Bolla Wines
el Jimador Tequila
** Ready-to-drink product*

Fiscal 2008 was a record year in the company's 138-year history. We achieved many new milestones, including surpassing $3 billion in sales, generating more than half of our revenues outside the U.S., and breaking the 35 million case barrier in annual depletion volumes for our entire portfolio. In an environment marked by increasing consumer and competitive challenges, we produced strong results underscored by healthy underlying growth, a strong balance sheet, and excellent cash flows.

Financial Performance. For the year ended April 30, 2008, diluted earnings per share from continuing operations increased to $3.55, an increase of 10% over last year's earnings. Operating income grew 14% to $685 million on a reported basis, or 8% on an underlying basis. Our net sales for the year increased 17% to a record $3.3 billion, while gross profit grew 14% to $1.7 billion, both benefiting from the addition of the Casa Herradura brands acquired in fiscal 2007 and a weaker U.S. dollar. Our healthy cash flows enabled us to pay dividends totaling $158 million to shareholders last year, a 10% increase over dividends paid out in the prior year and the 62nd consecutive year of paying regular quarterly cash dividends.

Since the beginning of fiscal 1999, we have returned approximately $1.3 billion to shareholders via dividends and cash distributions, including a $204 million cash distribution in early fiscal 2008 associated with the proceeds received from the sale of Lenox, Inc. Our total shareholder return, assuming reinvestment of dividends, over that 10-year period has significantly outpaced the return delivered by the S&P 500. In fact, a $100 investment in our Class B stock at the end of April 1998 would be worth nearly $300 at the end of fiscal 2008. This compares quite favorably to a similar investment in the S&P 500, which today would be worth about $150.

Our total shareholder return for this fiscal year was a healthy 8%, higher than nearly all of our direct competitors and well ahead of the total return for the S&P 500 which declined 5%.

Reflecting our commitment to creating value for shareholders and our confidence in the future, we completed the repurchase of $223 million of our common stock at an average price of $68 per share. We believe this was an excellent investment at a time when both interest rates and our stock price were attractive.

Brand Performance. Because of the continuing excellent performance of our flagship Jack Daniel's brand over the years, some observers of Brown-Forman mistakenly view us as a "one-brand company." But with 10 brands boasting depletions of more than 1 million cases, we are much more than a one-brand company.

Jack Daniel's. Last year, Jack Daniel's fortified its position as the world's best-selling American whiskey brand with global depletions approaching 9.5 million cases. Depletions and net sales in the U.S. grew in the low single digits, while outside the U.S., depletions were up 8%, and net sales grew nearly 17%. Total nine-liter depletions for the Jack Daniel's family

of brands, including Gentleman Jack, Jack Daniel's Single Barrel, and Jack Daniel's ready-to-drink products, reached more than 10 million cases on a drinks-equivalent basis, representing volume growth of more than 6% for the fiscal year.

Finlandia. Ninety percent of Finlandia's 2.8 million cases were generated outside the U.S., including over 800,000 cases in Poland, the brand's largest market. The brand continued to be a major growth driver with depletions advancing 16% and net sales gaining 33% this past fiscal year.

Southern Comfort. Our second-largest profit contributor, Southern Comfort continued to deliver solid gross profit growth in fiscal 2008, driven by volume and price increases in Australia, South Africa, and some established European markets. Global volumes held steady at nearly 2.5 million cases, despite a decline in the U.S., the brand's largest market. The brand continues to exemplify our company's brand renovation capabilities and now has posted nine consecutive years of gross profit growth.

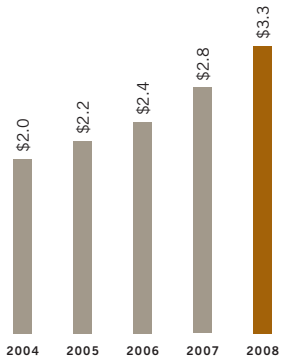
Casa Herradura. In the first full year since we acquired Casa Herradura, we carefully evaluated the brands' positioning, pricing, and packaging; implemented new trade practices to reduce excess wholesale and retail inventory in Mexico; and successfully integrated the Herradura and el Jimador brands into our U.S. distribution network. We believe these brands, along with the New Mix el Jimador tequila-based ready-to-drink product, will be key contributors to the company's long-term growth. Renowned for crafting tequilas of superior quality and authenticity, Casa Herradura was recognized as the 2007 Distiller of the Year by *Wine Enthusiast* magazine – the first tequila producer to earn this prestigious title.

Balanced Thinking. As the theme for this report highlights, we believe there's no substitute for balanced thinking. We believe it is critical to our long-term success and ongoing independence. A direct reflection of our commitment to balanced thinking is the collaborative, consensus-oriented manner in which our company is run. We have long believed that the collective wisdom of all of us is far superior to the individual intellect of any one of us. The practice of this belief helps us immensely in producing consistently thoughtful and accurate judgments about our business.

We achieve balanced thinking with a skilled and experienced Board and leadership team along with active involvement by Brown family members in management, on our Board, and as supportive shareholders. In the last year, we formed the Brown-Forman/Brown Family Shareholders Committee to further encourage open, constructive, ongoing dialogue between the company and its family shareholders. Designed for broad family participation and including several non-family Brown-Forman executives, the committee has formed working groups to study areas of particular interest to family shareholders, including governance, philanthropy,

THEN AND NOW
Old Forester, the company's founding brand, is the nation's longest continuously produced bourbon.

BONTERRA VINEYARDS
Since 1987, Bonterra has been a pioneer and global leader in organic viticulture and biodynamic farming, following a balanced approach of a "Good Earth" philosophy and profitability. Bonterra is the No. 1 selling wine produced with organically grown grapes in the U.S. with over 50% market share.



NET SALES
(in billions)
Over the last four years, the company's net sales have steadily climbed at an annual compound growth rate of 13%.

< MATTHEW E. HAMEL
EXECUTIVE VICE PRESIDENT,
GENERAL COUNSEL
AND SECRETARY

> RALPH DE CHABERT
VICE PRESIDENT,
CHIEF DIVERSITY OFFICER




< DONALD C. BERG
EXECUTIVE VICE PRESIDENT
AND CHIEF FINANCIAL OFFICER

> PHOEBE A. WOOD
RETIRED APRIL 30, 2008

and family members' education and employment at the company. A list of the leaders and Brown family members who collectively provide the balanced thinking behind our strategies and success can be found on pages 52 and 53.

Senior Management Changes. In October 2007, we named Matthew Hamel as our General Counsel. Matt brings over 21 years of international legal and corporate management experience with Dow Jones & Company and Colgate-Palmolive Company. He succeeds Michael Crutcher, who retired after 18 years with us, during which he built and led our team of legal and government relations professionals and served as a valued and trusted advisor.

In December 2007, Ralph de Chabert was appointed as the company's first Chief Diversity Officer with the responsibility for developing and implementing a global diversity and inclusion strategy, with an initial focus on the U.S. He brings to this critical role a proven track record of significant achievements managing diversity initiatives in the public, private, for-profit, and not-for-profit sectors, including positions with McKesson Corporation, Safeway, and American President Companies, Ltd.

In March 2008, Donald Berg was named Chief Financial Officer effective May 1. A 19-year company veteran and member of our Executive Committee since 1999, Don most recently served in the key role of Senior Vice President and Director of Corporate Finance, with responsibilities encompassing investor relations, corporate development, treasury, and tax. He succeeds Phoebe Wood, who retired at fiscal year-end after bringing thoughtful and professional oversight to our financial and technology functions and helping lead us during a period of strong financial performance over the last seven years.

In Conclusion. I believe strongly in this company and in its prospects for long-term growth, and I thank you on behalf of our management for your long-standing support. We see tremendous opportunity for the development of our brands in both our U.S. market and the exciting world outside the U.S., which now accounts for the majority of our sales.

As has been our practice for generations, we will strive for an optimal balance of current growth and long-term value creation that will provide our shareholders with superior returns while serving the best interest of employees, business partners, and the communities in which we work and live.

SINCERELY YOURS,

PAUL C. VARGA
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
JUNE 27, 2008

NATIONAL TRUST FOR HISTORIC PRESERVATION®

RESTORING AMERICA

The National Trust for Historic Preservation named Brown-Forman a 2008 "Restore America Hero" to recognize our long-standing commitment to historic preservation.

Your company's leadership has delivered a record year. Despite challenging economic conditions, Brown-Forman grew operating income, increased earnings per share, and created shareholder value in line with its long-term historical trends. Thanks to this ongoing balance of sustainable growth and value creation, our company continues to thrive as a well-governed, independent, family controlled, publicly traded business.

Complementing this year's successful results, the Board also put thoughtful focus on the long-term evolution of our governance structures and Board succession planning – ensuring continuity in the work of the Board and cultivating strong and balanced ties between the company, the Board, and Brown-Forman's long-term family shareholder base. In addition to my own appointment as Presiding Chairman of the Board, Board actions since the last annual meeting included:

- The decision of Owsley Brown II, former Chairman and CEO, to retire from the Board when his term expires at this year's annual meeting in July, concluding a remarkable 37-year service on the Board, including 12 years as its Chairman;
- The gracious agreement of Donald G. Calder to extend his service and stand for re-election to the Board as an independent director and as the Chairman of the Audit Committee; and
- The adoption of an expanded charter for the Nominating Committee, its renaming as the Corporate Governance and Nominating Committee, with its Chairman, independent director Richard P. Mayer, kindly agreeing to take on this added responsibility.

In addition to these Board changes, the Brown-Forman/Brown Family Shareholders Committee has been developing policies and practices to strengthen the bond between family shareholders and the company, as mentioned in Paul Varga's letter. The Committee's formation and work mark a key milestone in passing the baton of family leadership from the fourth to the fifth generation.

In view of all this progress, I'd like to thank the independent, management, and family directors of our Board for their ongoing leadership of Brown-Forman. And on behalf of the Board, I offer my most sincere thanks to our long-term shareholders, as they continue their engaged investment in this great 138-year-old enterprise.

With fond wishes to the Brown-Forman community for the coming year,

RESPECTFULLY,

GEO. GARVIN BROWN IV
PRESIDING CHAIRMAN OF THE BOARD
JUNE 27, 2008

THANKS TO THIS ONGOING BALANCE OF SUSTAINABLE GROWTH AND VALUE CREATION, OUR COMPANY CONTINUES TO THRIVE AS

A WELL-GOVERNED, INDEPENDENT, FAMILY CONTROLLED, PUBLICLY TRADED BUSINESS.

GEO. GARVIN BROWN IV
PRESIDING CHAIRMAN
OF THE BOARD

LONG-TERM PERSPECTIVE

At Brown-Forman, we value our long-term perspective, perpetuated through family control, which enables us to build brands that thrive and endure for generations. This long-term view is a natural extension of our business – because time is an essential ingredient in many of our products.

WE INVEST IN OUR BRANDS AND PEOPLE, MAKE OPPORTUNISTIC ACQUISITIONS, AND RETURN CASH TO OUR SHAREHOLDERS. WE SEEK TO TIP THE SCALE IN FAVOR OF SHAREHOLDER VALUE BY DELIVERING STRONG, CONSISTENT, AND GROWING CASH FLOWS FOR WHAT WE CONSIDER TO BE A MODERATE, ACCEPTABLE LEVEL OF INVESTMENT RISK.

RISK REWARDED

Over the last 10 years, we expanded our portfolio to include high-end chardonnay with Sonoma-Cutrer, premium vodka with Finlandia, and super-premium liqueurs Tuaca and Chambord. We believe these four brands, coupled with the recently acquired Casa Herradura brand family, bolster our ability to penetrate some of the fastest-growing categories and regions for premium wine and distilled spirits.

Brown-Forman views investment opportunities, business decisions, and a range of leadership challenges through a long-term lens. The advantage of our long-term view, perpetuated through family control, results in our willingness to look beyond the current month, quarter, or year as we seek to accomplish our objectives in ways that sustain growth and bolster our enduring viability.

Near-Term Investments and Long-Term Goals. In today's highly challenging U.S. environment, we need to ensure that our investments of time and dollars are keeping us competitive. Often, this requires subtle shifts between our long-term strategies and the tactical brand initiatives that we invest in over the near term. If consumers are responding more favorably to our short-term investments than our long-term ones, we may reallocate resources toward the promotions to which consumers are more responsive rather than paying for additional media impressions. Specifically, in the U.S., we have continued to make appropriate shifts in our investment mix behind our portfolio of brands toward activities more relevant to consumers in the current difficult economic environment – such as spending more for retail store presence and promotional display efforts and less on TV or billboard advertising.

Organic and Acquired Growth. As brand builders, we celebrate our success in creating and building consumer demand for brands like Finlandia, Bonterra, Woodford Reserve, Sonoma-Cutrer, and Tuaca. But we are also excited about the recently acquired Chambord, Herradura, and el Jimador brands that we expect to contribute to growth over the long term. Although nearly all of our brands were acquired at some point, we typically view prospective brand acquisitions as opportunities rather than necessities. Whether recently acquired or in our hands for decades, our ambition is the same – to build the brands in a manner that creates incremental long-term value for shareholders and enables the brands to endure for generations.

Strict Financial Discipline. We have a long-held philosophy of spending corporate resources wisely. Following this philosophy, we invest in our brands and people, make opportunistic acquisitions, and return cash to our shareholders. We seek to tip the scale in favor of shareholder value by delivering strong, consistent, and growing cash flows for what we consider to be a moderate, acceptable level of investment risk.

Our long-term view and patient approach enables our balancing of risk and reward. We manage risk by maintaining a conservative capital structure and emphasizing stability over volatility, by keeping our options open, and by understanding the governmental and social issues that affect our business. When taking prudent risks, we make multiple investments across brands and geographies rather than concentrating our resources on a single brand or a single geography.


HERRADURA
100% PURO
DE AGAVE

Being Responsible in Everything We Do is one of the strategic imperatives that guide our actions both individually and corporately. For us, being responsible means making decisions and taking actions that reinforce social, environmental, financial, civic, and personal responsibility. As leaders in the beverage alcohol industry, we pay particular attention to how we market our products and how people drink them. When consumed responsibly and moderately, our products can be part of a healthy lifestyle and enrich life. But the misuse and abuse of our products – from underage and binge drinking to drunk driving and alcoholism – result in real social harm that profoundly affects individuals, families, and society.

Our goal is to market responsibly, advertising and promoting our brands in ways that avoid any suggestion of misuse. But we also aim to use the power of our brand communications to encourage (and educate the public about) responsible consumption. We must also do what we can to reduce the harmful effects of abuse and misuse of alcohol. It is crucial that we bring the same creativity and energy to social responsibility as we do to building our brands. Our challenge is to put our values into action, actively deploying the best responsibility strategies, insights, and ideas to foster more responsible consumer attitudes and behavior.

Defending Our Rights. We deserve a level playing field as we seek to sell our products and communicate with our consumers. Globally, we face a complex set of laws, regulations, and policies governing the sale and distribution of beverage alcohol. For example, in France we face challenges in communicating with consumers because nearly all beverage alcohol advertising is prohibited. In the U.S., beer, wine, and spirits all seek to reach many of the same consumers and contain equivalent amounts of alcohol per standard serving size, yet different rules apply to each. For example, all the major broadcast television networks accept beer and wine advertising but reject spirits advertising. And, in many parts of the country, the sale of spirits is restricted on Sundays while beer and wine are available to consumers every day.

Corporate Responsibility. We strive to balance our responsibilities to our shareholders and to the world around us. Shareholder and societal returns are not mutually exclusive, and both are critical to our overall success. As part of our ongoing environmental stewardship efforts to reduce our energy use, we adopted a goal of reducing greenhouse gas emissions by 2010 against a baseline for facilities and operations owned in 2005.

Our civic engagement activities support non-profit organizations that improve the lives of individuals and the vitality of our communities, making them better places for our employees and their families. In fiscal 2008, we made contributions totaling approximately $8 million to support worthy community charities and causes, such as the arts, education, social services, and the environment.

EUROPEAN ALCOHOL AND HEALTH FORUM

With brands distributed in more than 135 countries, Brown-Forman's responsibility efforts extend internationally. Last year, we became a founding member of the newly formed European Alcohol and Health Forum, a European Union initiative to establish a common platform of stakeholders to provide time and resources to take meaningful actions to address alcohol-related harm.

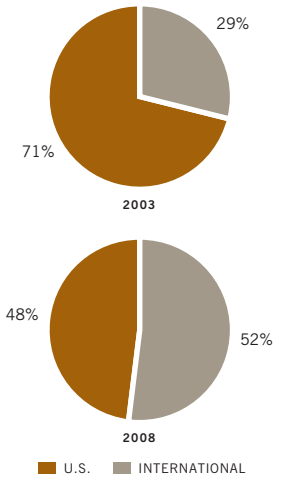
JACK DANIEL'S ADVERTISING

Jack Daniel's brand marketing messaging focuses squarely on responsible consumption and consumer behavior.

UNIVERSITY OF KENTUCKY ALCOHOL EDUCATION GRANT

Brown-Forman has funded many alcohol-related harm-reduction programs over the past two decades through organizations such as The Century Council. Recently, for the first time, we began direct funding of such a program on a college campus. A $200,000 grant to the University of Kentucky (UK) Alcohol and Health Education Office will enable the expansion of peer education and prevention initiatives for all UK students.

See our 2007 Corporate Responsibility Report at www.brown-forman.com/responsibility/report for details on our commitment.



U.S. VS. INTERNATIONAL NET SALES
Brown-Forman's increasing globalization crossed a key milestone in fiscal 2008, with non-U.S. markets now accounting for more than half of total sales.

We are approaching the 15-year mark in our strategic initiative to expand our international business footprint. In fiscal 2008, we achieved a significant milestone by generating more than 50% of our consolidated sales from markets outside the U.S., compared to less than 20% in 1994. Today, we rank among the 10 largest premium spirits companies worldwide, and our brands are distributed in more than 135 countries.

Even more important, we see enormous potential for continued growth, particularly in international markets, mostly due to global demographics. The U.S. represents less than 5% of the world's total population, and our company today accounts for less than 1% of the total volume of the global beverage alcohol market. We expect international growth opportunities to eclipse those in the U.S. and to provide an increasing share of our business over time. Our challenge is to determine the most attractive and advantageous places to grow.

With that evolution, we have become global in our fundamental focus as well. We no longer distinguish between a "domestic" market and a "foreign" market. Rather, we compete effectively today in the U.S. market, the U.K. market, the Russian market, the Australian market, and dozens more around the globe.

Geographic Diversification. Because of the company's broad geographic success, our earnings flow from a variety of diverse markets, reducing the risk of depending solely on one or two large markets. Even more important, this geographical diversification gives us a broader array of investment opportunities. The strategic value of this geographic diversification is readily apparent in our fiscal 2008 results, as our international markets drove the vast majority of our growth in sales.

IN FISCAL 2008, WE ACHIEVED A SIGNIFICANT MILESTONE BY GENERATING MORE THAN 50% OF OUR CONSOLIDATED SALES FROM MARKETS OUTSIDE THE U.S., COMPARED TO LESS THAN 20% IN 1994.

Today, businesses of every sort, including wine and spirits marketers and distributors, are attracted to the BRIC markets – the acronym for the rapidly developing economies of Brazil, Russia, India, and China that jointly encompass 25% of the world's land mass and 42% of the world's population. These are extremely attractive markets with enormous long-term potential, and as a result, there is a high level of competition from both global and local brands. Today, we have a solid position in China, and Russia is one of Brown-Forman's fastest-growing markets in the world as Jack Daniel's and Finlandia are both developing rapidly. In India and Brazil, we are in earlier stages of development. We expect that the BRIC markets will continue to gain importance to our company in the coming years, and importantly, these are not the only international opportunities for Brown-Forman.

We look worldwide for the most attractive opportunities to build our brands, often in markets that other competitors might consider as too small or too developed. Following this strategy, we have achieved notable success in a diverse mix of markets – including the U.K, France, Poland, South Africa, Australia, Korea, Mexico, Argentina, Israel, and many more.

BRAND

GEOGRAPHIC EXPANSIO
PORTUNITIE

MBRACING
PPORTUNITIES

SMART
SPENDING

BRIC
SPENDING

CREATING
VALUE

GEOGRA
DIVERSIFICA

Connecting with Consumers Globally. To better understand and connect with our consumers around the world, our employee population has grown more global. Today, nearly 40% of our employees work outside the U.S., and in Europe alone we have grown from six employees in 1995 to more than 320.

While enriching the human fabric of our global workforce, this diversity of nationalities and cultures provides a broader outlook and better ability to understand the consumers we are trying to cultivate. In each country or region, team members bring a unique understanding of their local markets and a valuable knowledge of consumer preferences and practices.

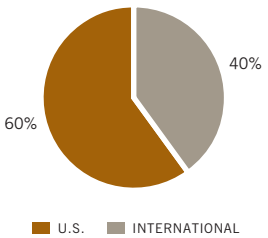
Expanding Our International Portfolio. Our portfolio of premium brands has expanded significantly over the past 10 years. The addition of Sonoma-Cutrer, Finlandia, Tuaca, Chambord, Herradura, and el Jimador to our existing portfolio, which includes the Jack Daniel's family of brands, Southern Comfort, Woodford Reserve, Bonterra, and Fetzer, enables us to bring an outstanding selection of premium brands to our distributors and consumers across the globe.

This portfolio offers a wide range of targeted brand/market opportunities. Drawing upon market and consumer research and distributor and competitive analyses, we seek to match the right brands with the right markets. As a result, we are forging a number of key developing brand/market combinations, including Jack Daniel's in Poland and Russia; Finlandia in Latin America, Poland, and Russia; Chambord in the U.K. and Australia; Tuaca in the U.K. and Australia; and Woodford Reserve in the U.K. and France.

Balancing On-Premise and Off-Premise. In the current economy, U.S. consumers are increasingly likely to "drive through" rather than to dine in when eating meals away from home. We believe a similar shift is under way with on-premise wine and spirits sales declining as consumers spend less time and money in restaurants and bars, while off-premise sales at beverage alcohol outlets and supermarkets are increasing. Markets in the U.K. and Continental Europe are also experiencing many of these same economic forces and consumer trends.

We are committed to building brands and forging consumer relationships in both on-premise and off-premise channels. Despite current economic conditions and consumer trends, we must do both and do them equally well. Recognizing that consumer patterns and market dynamics are constantly evolving, we continually adjust our resources so that our brands are available and attractive wherever our consumers might be. A recognition of this commitment occurred last year as *Cheers* magazine named Brown-Forman the "Large Spirits Company of the Year" for partnering with restaurant companies and building strong relationships.

BOURBON STREET TO CAPE TOWN
Fueled by solid depletion growth over the past five years, South Africa has emerged as the third-largest market for Southern Comfort, with depletions approaching 100,000 cases in fiscal 2008.



WORKFORCE LOCATION
The growing globalization of Brown-Forman's business is reflected in an increasingly global and culturally diverse workforce.

WOODFORD RESERVE
Woodford Reserve, a super-premium small-batch bourbon, is handcrafted at America's oldest working distillery. Savored by consumers in many countries, the brand grew depletions at a healthy double-digit rate in fiscal 2008 for the 10th consecutive year to surpass the 100,000-case milestone.

GENTLEMAN JACK

Winner of the Glass Packaging Institute's "Clear Choice" Award for best overall package design, Gentleman Jack Rare Tennessee Whiskey, the fastest-growing American whiskey brand in the U.S., grew worldwide depletions more than 40% in fiscal 2008, with annual volumes now exceeding the 200,000-case mark.

SOUTHERN COMFORT

In the important U.K. on-trade market, Southern Comfort is a top 10 brand and one of only two of the Top 10 to deliver value growth in 2007.

TO RUSSIA WITH LOVE

Russia became Finlandia's fourth largest market in fiscal 2008, and the brand was listed in February as the No. 1 imported premium vodka by the Russian government.

NÚMERO UNO SOUTH OF THE BORDER

El Jimador Reposado, launched in 1994 as part of the Casa Herradura brand family, has been the best-selling tequila in Mexico for the past five years.

Brown-Forman offers consumers around the world a broad, balanced portfolio of wine and spirits products across several categories and price points. We have the unusual ability to remain intently focused, as individuals and as a company, on improving each of our many brands. Remaining alert to the competitive environment, we will continue our fundamental strategy of building brands that endure and extending the growing presence of our brands globally.

Jack Daniel's Tennessee Whiskey. Approaching total depletions of nearly 9.5 million cases in fiscal 2008, Jack Daniel's is a symbol and model for our global development and expansion. With worldwide depletion growth of approximately 75% over the last 10 years, Jack Daniel's boasts annual depletions exceeding 100,000 cases in 10 international markets: the U.K. (with nearly 1 million cases), Germany, Spain, France, South Africa, Italy, Australia, Canada, Japan, and China.

Southern Comfort. Over the past several years, we have carried out a disciplined repositioning and reinvention of the Southern Comfort brand on a global scale. New packaging, formula improvements, regular price increases in key markets, revamped positioning, and a new global creative strategy have increased the brand's relevance to young adult consumers – and more than doubled its gross profit contribution since fiscal 2001. In fiscal 2008, Southern Comfort's three largest non-U.S. markets – the U.K., South Africa, and Australia – achieved solid gains in gross profit and volume, balancing a challenging year in the U.S.

Finlandia Vodka. Finlandia was born in Finland and introduced in the U.S. in the 1970s as the first premium imported vodka. Since we acquired a majority interest in Finlandia in fiscal 2003, the brand has grown rapidly outside the U.S. We continue to see dramatic growth in volumes and gross profits, particularly in Poland, Russia, and other parts of Central and Eastern Europe. During the year, Finlandia was recognized by *Spirits Business*, a U.K.-based magazine, as the "fastest growing global spirit brand."

Casa Herradura. Our most recent acquisition, Casa Herradura, truly establishes our presence in the Mexican market. Importantly, it also gives us the ultra-premium Herradura and premium el Jimador tequila brands, which we are working hard to expand around the world. In addition, the New Mix el Jimador tequila-based ready-to-drink product, the category leader in Mexico, continued to gain market share.

We have increased the balance of our brand portfolio across the globe. Brown-Forman's wine and spirits brands are enjoyed in countries large and small – from the world's major industrialized


COMFORT


GAVE
Bottled
1870


FINLANDIA
Vodka of Finland


OLD TIME
Old
No.7
BRAND


SoCo
& Lime
Trinkt man 4+1.
4 Einheiten SoCo. 1 Einheit Lime Juice.
Eiskalt.


TAXI

nations to tiny regions most people could not find on a map. With our rapid international expansion, the principal markets for our brand portfolio now include not only the U.S., but the U.K., Australia, Mexico, Poland, Germany, Spain, Canada, France, Czech Republic, Italy, South Africa, China, Japan, and Russia.

United States. The world's third-largest country in both size and population, with over 300 million people, the U.S. claims the world's largest and most technologically powerful economy. We sell our broadest brand portfolio in the U.S., with 34 brands competing in the wine and spirits categories. We continue to see tremendous growth potential in this dynamic market, where in last year's difficult economy, total distilled spirits still grew over 3% to 182 million cases and total table wines grew 4% to 294 million cases.

United Kingdom. The U.K., with a population of just over 60 million, is one of five Western European countries with trillion-dollar economies. This market has delivered 20 consecutive years of volume growth, and represents the largest market outside the U.S. volumetrically for Jack Daniel's, Southern Comfort, Fetzer wines, Bonterra, Chambord, Tuaca, and Woodford Reserve. Jack Daniel's remains the largest-selling whiskey in the U.K.'s on-premise channel as a result of consistent, award-winning advertising and an innovative sales organization that we share with Bacardi.

Australia. Australia has a population of more than 20 million people and boasts a strong economy with 16 consecutive years of economic expansion. Ready-to-drink products are a major part of this market, reflecting its outdoor lifestyle. Our portfolio there includes ready-to-drink line extensions for two of our global brands, Jack Daniel's & Cola and Southern Comfort & Cola – both of which grew faster than our overall portfolio.

Mexico. With the world's 12th largest economy and a population of nearly 110 million, this culturally diverse country represents an excellent opportunity for the expansion of our business into Latin America. With the recent acquisition of Casa Herradura, we have expanded our route to marketing in this important and growing part of the world. Our tequila base provides a platform to introduce Jack Daniel's and other brands to new consumers.

Germany. Germany, with a population of more than 80 million people, claims the largest economy in Europe and fifth-largest in the world. A change in our route to market in fiscal 2006 has given us greater control over our brand development and better access to consumers, which has led to accelerated growth in this market. Our depletions have grown at a compound annual growth rate in the mid-single digits over the last five years. Today, Germany ranks as the No. 3 market for Jack Daniel's and the No. 6 market for Southern Comfort in volumetric terms.

JACK DANIEL'S REMAINS THE LARGEST-SELLING WHISKEY IN THE U.K.'S ON-PREMISE CHANNEL AS A RESULT OF CONSISTENT, AWARD-WINNING ADVERTISING AND AN INNOVATIVE SALES ORGANIZATION THAT WE SHARE WITH BACARDI.

FETZER VALLEY OAKS

In fiscal 2008, Fetzer launched its Green Tour, a mobile wine experience that showcases the vineyard's sustainability efforts while producing award-winning wines. The U.S. Environmental Protection Agency recognized Fetzer with a 2007 "Best of the Best" award for actions taken to protect the earth's ozone layer.

Jack Daniel's Family of Brands

Established in 1866, Jack Daniel's is still crafted at America's oldest registered distillery in the small town of Lynchburg, Tennessee, using the finest grains and pure, iron-free water from our cave spring. The family of brands includes Jack Daniel's Old No. 7 Brand Tennessee Whiskey (Black Label and Green Label), Jack Daniel's Single Barrel Tennessee Whiskey, and Gentleman Jack Rare Tennessee Whiskey, as well as the Jack Daniel's & Cola and Jack Daniel's Country Cocktails lines of ready-to-drink products.

Finlandia Vodka

Finlandia vodka is made from ingredients born from the purity of Finland's nature. In addition to its classic premium vodka, the brand family includes a popular line of Finlandia Fusion flavored vodkas in Lime, Mango, Cranberry, Wild Berries, Redberry, and Grapefruit.

Southern Comfort Liqueurs

"Southern Comfort" was used to describe bartender M.W. Heron's secret blend of fruit, spice, and whiskey flavors, first served in New Orleans in 1874. Today, more and more consumers around the world are simply calling for "SoCo" and making this iconic brand part of their legendary nights with great friends.

Casa Herradura Tequilas

One of the world's oldest and most respected producers of tequila, Casa Herradura has handcrafted the finest tequila in the historic village of Amatitán, Jalisco, in the heart of Mexico's tequila region since 1870. The family of brands includes ultra-premium Herradura in Silver, Reposado, Añejo, and Extra Añejo (Selección Suprema) expressions; premium el Jimador in both Blanco and Reposado expressions, and limited edition Añejo; and the tequila-based ready-to-drink brand, New Mix.

Fetzer Wines

Founded in 1968, Fetzer Vineyards has been named Winery of the Year nine times by *Wine & Spirits* magazine. Fetzer produces a broad array of popular varietals, including Cabernet Sauvignon, Chardonnay, Gewurztraminer, Sauvignon Blanc, Riesling, Merlot, Pinot Grigio, Pinot Noir, Shiraz/Syrah, Syrah Rose, White Zinfandel, and Zinfandel.

Canadian Mist Blended Canadian Whisky

The third-largest selling Canadian whisky in the U.S., Canadian Mist is a smooth, light-tasting whisky that's triple distilled and sources its water from Canada's Georgian Bay, one of the world's cleanest, freshest water sources.

Korbel California Champagnes*

Celebrating its 125th anniversary during the 2008 fiscal year, Korbel California Champagne is America's symbol of celebration and the No. 1 selling premium sparkling wine in the U.S.

Bolla Wines

Bolla authentically crafts both popular varietal and classic Veronese wines from Northern Italy's Veneto region. Also marking its 125th anniversary this year, Bolla has been a top-selling Italian wine brand in the U.S. for more than 40 years.

* Brands that we represent in the U.S. and other select markets.

Early Times Kentucky Whisky

Early Times' proprietary formula and unique aging process create a smooth, mellow, flavorful whisky. The Early Times Mint Julep has been the official drink of the Kentucky Derby for 21 consecutive years.

Bonterra Vineyards Wines

Bonterra Vineyards, the world's leading producer of premium wines crafted from 100% organically grown grapes, is committed to making world-class quality wines through respect for the earth, the vineyard, and the environment.

Sonoma-Cutrer Wines

Since the first vintage release in 1981, Sonoma-Cutrer has been crafting world-class expressions of Chardonnay. In this year's *Wine & Spirits* magazine restaurant poll, it was the top-selling Chardonnay at U.S. white tablecloth restaurants for the 17th time in 19 years and reclaimed its No. 1 ranking as the overall preferred on-premise brand, regardless of varietal, for the sixth time in 10 years.

Five Rivers Wines

Inspired by the spirit of California's Central Coast, Five Rivers wines engage consumers with a distinct wine experience with award-winning Chardonnay, Cabernet Sauvignon, Pinot Noir, and Pinot Grigio varietals.

Tuaca Liqueur

Crafted in the coastal town of Livorno, Italy, Tuaca liqueur features a unique taste profile with hints of vanilla and natural citrus essences. When served icy cold, it's a smooth drink with a unique twist.

Chambord Liqueur

The luxurious taste of Chambord – the rich, intense flavor of black raspberries mingled with a hint of honey and creamy vanilla – makes it one of the world's most versatile liqueurs, and an unparalleled addition to both cocktails and culinary creations.

Woodford Reserve Kentucky Straight Bourbon Whiskey

Award-winning Woodford Reserve, a super-premium, small-batch bourbon of exceptional richness and character, is produced at the historic Woodford Reserve Distillery located in the heart of Kentucky's Bluegrass Region.

Old Forester Kentucky Straight Bourbon Whiskey

Recognizing the need for quality whiskey, company founder George Garvin Brown developed Old Forester, the company's original brand. Known as "America's First Bottled Bourbon," Old Forester ensured consistent quality in every bottle … a promise that continues today.

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 premium wine that allows women to find and express their inner beauty at all occasions.

(Remaining portfolio: Bel Arbor Wines, Don Eduardo Tequila, Eleven Tongues Wines, Fontana Candida Wines, Gala Rouge Wines, Jekel Vineyards Wines, Michel Picard Wines, Pepe Lopez Tequila, Sanctuary Wines, Stellar Gin, Virgin Vines Wines*, and Wakefield Wines*)

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

Year Ended April 30,		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
CONTINUING OPERATIONS											
Net Sales	$	1,446	1,542	1,572	1,618	1,795	1,992	2,195	2,412	2,806	3,282
Gross Profit	$	741	812	848	849	900	1,024	1,156	1,308	1,481	1,695
Operating Income	$	279	296	320	326	341	383	445	563	602	685
Income from Continuing Operations	$	176	187	200	212	222	243	339	395	400	440
Weighted Average Shares used to calculate Earnings per Share											
– Basic		137.2	137.0	137.0	136.7	134.7	121.4	121.7	122.1	122.9	122.5
– Diluted		137.4	137.2	137.1	137.0	135.1	122.0	122.5	123.4	124.2	123.6
Earnings per Share from Continuing Operations											
– Basic	$	1.28	1.36	1.46	1.55	1.65	2.00	2.79	3.24	3.26	3.59
– Diluted	$	1.28	1.36	1.46	1.55	1.65	1.99	2.77	3.20	3.22	3.55
Gross Margin		51.2%	52.6%	53.9%	52.5%	50.1%	51.4%	52.7%	54.2%	52.8%	51.6%
Operating Margin		19.3%	19.2%	20.3%	20.2%	19.0%	19.2%	20.3%	23.3%	21.5%	20.9%
Effective Tax Rate		36.0%	35.9%	35.8%	34.1%	33.6%	33.1%	32.6%	29.3%	31.7%	31.7%
Average Invested Capital	$	681	889	1,016	1,128	1,266	1,392	1,535	1,863	2,431	2,747
Return on Average Invested Capital		26.7%	22.0%	20.7%	19.3%	18.0%	18.5%	23.0%	21.9%	17.4%	17.2%
TOTAL COMPANY											
Cash Dividends Declared per Common Share	$	0.58	0.61	0.64	0.68	0.73	0.80	0.92	1.05	1.17	1.29
Average Stockholders' Equity	$	855	976	1,111	1,241	1,290	936	1,198	1,397	1,700	1,668
Total Assets at April 30	$	1,735	1,802	1,939	2,016	2,264	2,376	2,649	2,728	3,551	3,405
Long-term Debt at April 30	$	46	33	33	33	629	630	351	351	422	417
Total Debt at April 30	$	290	259	237	200	829	679	630	576	1,177	1,006
Cash Flow from Operations	$	213	241	232	249	243	304	396	343	355	534
Return on Average Stockholders' Equity		23.4%	22.1%	20.7%	18.1%	18.7%	27.1%	25.7%	22.9%	22.9%	26.4%
Total Debt to Total Capital		24.0%	19.8%	16.6%	13.2%	49.4%	38.3%	32.5%	26.9%	42.8%	36.8%
Dividend Payout Ratio		39.5%	38.5%	38.1%	41.4%	41.1%	38.2%	36.1%	40.0%	36.8%	35.8%

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.

In the discussion below, we review Brown-Forman's consolidated financial condition and results of operations for the fiscal years ended April 30, 2006, 2007, and 2008. We also predict our anticipated financial performance, make 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, 2008, their related notes, and the important disclaimer regarding forward-looking statements on page 51.

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 producer and marketer of fine-quality consumer beverage alcohol products, including Jack Daniel's and its family of brands; Southern Comfort; Finlandia; Tequila Herradura; el Jimador Tequila; Canadian Mist; Fetzer, Bolla, Bonterra, and Sonoma-Cutrer wines; and Korbel California 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; gin; and ready-to-drink products.

OUR MARKETS

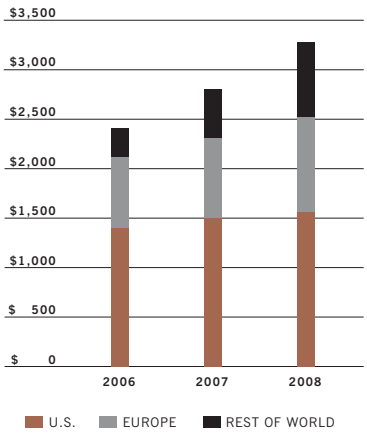
We sell our brands in more than 135 countries. For the first time in our company's history, in fiscal 2008 more than half of total sales came from markets outside of the U.S. But our largest and most important single market remains the U.S., where 48% of our net sales were generated in fiscal 2008, compared to 53% in fiscal 2007. Our sales grew 31% outside the U.S. when compared to fiscal 2007, while sales in the U.S. grew 4%.

Net sales in Europe, our second largest region, grew 17% in fiscal 2008, influenced in part by a weaker U.S. dollar as well as by solid underlying growth in a number of markets, particularly in Eastern Europe. Europe represented 29% of total net sales in fiscal 2008. Net sales from the rest of the world (outside Europe and the U.S.) were up 55% in fiscal 2008 and now constitute 23% of our total net sales. The double-digit increase in net sales reflects the acquisition of Casa Herradura and its related sales outside of the U.S., primarily in Mexico, and solid growth for several other brands in our portfolio in Australia, Canada, Latin America, and various Asian markets.

International expansion continues 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 85% of the overall growth in consolidated net sales in fiscal 2008 and constituted approximately 52% of our total reported net sales for the year. Fifteen years ago, just prior to the adoption of our strategic initiative to expand our international footprint, net sales outside the U.S. contributed less than 20% of our total net sales. Today, the principal international markets for our brands include the U.K., Australia, Mexico, Poland, Germany, Spain, Canada, France, the Czech Republic, Italy, South Africa, China, Japan, and Russia. 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, services, and manpower purchased and paid in local currencies. On a net basis, we sell more in local currencies 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.

Consumer demand for premium brands in the U.S. continued to expand this past year, but at a lower growth rate than in fiscal 2007, reflecting the challenging economic environment and softening on-premise trends. However, positive demographic trends, continued consumer interest in spirits-based cocktails, and some consumers' trading up to premium offerings helped maintain the growth for premium spirits in the U.S. We anticipate that this environment will continue in the U.S., but consumer preferences can change quickly and could affect our performance if we do not respond quickly to changing industry and competitive dynamics. In the short term, the uncertain economic conditions in the U.S. and other key markets linked to the U.S., such as Western Europe and Mexico, could also hurt our performance.

NET SALES BY GEOGRAPHY
(in millions)



OUR BRANDS

Over the past several years, we delivered growth in sales and earnings by expanding our portfolio geographically, by introducing new brand offerings, by adding new brands via acquisitions, by taking price increases, and by divesting non-core businesses. Our divestiture of our former consumer durables businesses, completed in fiscal 2007, allows us to focus on optimizing opportunities in the beverage business.

We seized upon two opportunities in fiscal 2007 to further strengthen our portfolio by buying Chambord liqueur and the Casa Herradura brands (including el Jimador, Herradura, New Mix tequila-based ready-to-drink, Antiguo, and Suave 35). These brands contributed to our growth in sales in the fiscal year and met our other expectations for the year. These brand additions in the premium or super-premium spirits categories, in high-priority markets, complement and fit well in our portfolio of premium brands. We anticipate that brands from these acquisitions will provide long-term earnings growth at rates at or above our historical average, strengthening our growth profile.

Our brand portfolio approached 36 million nine-liter cases in depletions (shipments from distributors to retailers) in fiscal 2008. We also had 10 brands with depletions exceeding one million nine-liter cases.

Jack Daniel's Tennessee Whiskey remains the most important brand in our portfolio and one of the largest, most profitable spirits brands in the world, based on our review of industry data. Global depletions for Jack Daniel's increased 4% in fiscal 2008, approaching 9.5 million nine-liter cases, driven by strong growth outside the U.S.

A positive long-term environment for premium spirits, increased levels of advertising and promotional support, and Jack Daniel'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 percent of our total earnings is derived from Jack Daniel's, and the brand's growth is vital to our overall marketplace strength. Accordingly, it remains our primary 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 continued in fiscal 2008, and favorable demographic trends in the U.S. and around the world. We believe this brand has continued global growth potential and upward pricing opportunities.

The Jack Daniel's family of brands, which includes Jack Daniel's Tennessee Whiskey, Gentleman Jack, Jack Daniel's Single Barrel, and the Jack Daniel's & Cola ready-to-drink (measured on a drinks-equivalent basis) crossed the 10 million case mark – and together grew volumes at an impressive 6% rate globally, with reported net sales advancing 12%. These brands are an increasingly important source of annual growth. Our recently repackaged Gentleman Jack brand was the fastest-growing brand in our portfolio, growing over 40%, with volumes well in excess of 200,000 nine-liter cases in fiscal 2008. A very recent development – an increase in the tax on ready-to-drink products in Australia – will likely create some headwinds in fiscal 2009 because Australia is our largest and most significant market for Jack Daniel's & Cola. The brand is also important to our continued growth in the Asia-Pacific region.

Southern Comfort and Finlandia are the next two most important brands for us. Southern Comfort delivered 6% growth in net sales on flat volumes, as solid growth outside the U.S. was offset by declines in the U.S. (the brand's largest market). Finlandia surpassed Southern Comfort in volumetric terms in fiscal 2008, with its depletion trends accelerating 16%, led by strong growth in Poland (the brand's largest market, at over 800,000 nine-liter cases) and Russia. In contrast to Jack Daniel's and Southern Comfort, we sell nearly 90% of Finlandia's 2.8 million nine-liter cases outside of the U.S. We expect both Southern Comfort and Finlandia to contribute significantly to our long-term growth.

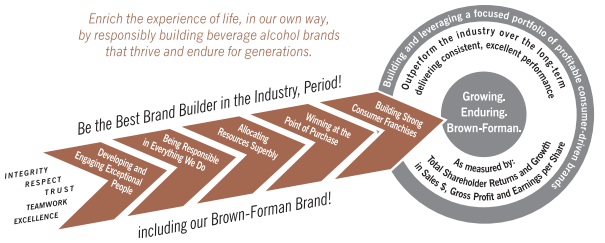
Our mid-priced brands had mixed results during fiscal 2008. Depletions increased for Fetzer's Valley Oaks wines and Korbel California Champagnes, but decreased for Bolla, Canadian Mist, and Early Times. These large, off-premise-driven category leaders remain important contributors to our earnings and cash flow, and compete in extremely price-competitive categories that will likely intensify in the short term with the difficult economic environment in the U.S. While these brands could benefit from consumers trading down or from a shift of on-premise sales to off-premise sales during a soft economy, we have only modest growth expectations for most of these brands.

Our brands that compete in the super-premium price category expanded significantly with the acquisitions of Chambord and the Casa Herradura brands. These acquired brands accounted for approximately 40% of total net sales growth in fiscal 2008. We believe these super-premium brands and the developing brands in our portfolio represent significant worldwide growth opportunities for us. While volume growth rates for super-premium brands in the U.S. are not as high as they have been over the last several years, we continue to experience double-digit depletion growth for several of our brands priced in this category, including Bonterra, Gentleman Jack, and Woodford Reserve. Each of these brands reported global net sales gains of at least 20% in fiscal 2008. In addition, Tuaca, Sonoma-Cutrer, and Chambord continued to register solid depletion gains and combined to grow net sales at a double-digit rate. We remain encouraged by the growth prospects for these brands and believe they have the potential to contribute meaningfully to our future earnings, especially as we expand the Casa Herradura tequila brands across our geographic portfolio.

OUR ROUTE-TO-CONSUMER STRATEGY

Introduced five 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. Our strategies grow from this overarching objective.

A critical component of our brand-building strategy is a multifaceted program designed to ensure that consumers can find our products whenever and wherever they have an opportunity to choose a premium beverage alcohol brand. We use a variety of distribution models around the world to implement this program. 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. We own and operate our distribution network in several markets, including Australia, China, the Czech Republic, Korea, Mexico, Poland, and Thailand. In the United Kingdom and Germany, we have joined forces with another supplier, Bacardi, to sell our and their products. In all of these 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.



The distribution environment in the U.S. continued to change this past year, with a number of distributor consolidations. In the U.S., we formed a sales alliance with Bacardi and Remy Cointreau in a few key states. Our alliance provides for focused sales teams within our distributors in these states to sell the strong, complementary portfolio of the three companies, while we each continue our own unique, independent brand building to supplement the distributor's effort. We have been evaluating options to further this alliance in other parts of the U.S.

During fiscal 2008, we decided to combine our brand portfolio in Mexico. Effective June 1, 2008, we began to integrate our existing brands into the sales and marketing operation we acquired with Casa Herradura. Meanwhile, over the next 12 to 24 months, several of our distribution contracts in Europe will expire. We are carefully reviewing our distribution arrangements in these markets, and as always, we will seek out strategies and/or partnerships that can improve our in-market brand-building efforts.

OUR COMPETITION

Our brands operate in a highly competitive industry. We compete against many global, regional, and local brands in several categories and price points of beverage alcohol, but our portfolio is skewed to the premium end of the industry. Trade information indicates that we are one of the largest wine and spirits suppliers in the U.S. based on revenues.

OUR EARNINGS OUTLOOK

Our fiscal 2009 earnings outlook of $3.73 to $3.98 per diluted share reflects our expectations for continued solid international growth, improving trends for both Jack Daniel's and Southern Comfort in the U.S., and strong growth from Casa Herradura brands in the U.S. Additionally, we have incorporated anticipated increases in raw material and fuel costs as well as continued leverage from prior investments in selling, general, and administrative expenses into our 3% to 10% operating income growth expectations for the year. This outlook also reflects our expectations for a higher effective tax rate, the benefits of the fiscal 2008 share repurchase, and lower interest expense. As a result, we currently expect fiscal 2009 earnings per diluted share growth of 5% to 12%.

RESULTS OF OPERATIONS

Our total company diluted earnings per share were $3.56 in fiscal 2008, all but $0.01 of which came from continuing operations. The following discussion of our results from continuing operations excludes the results related to the former Consumer Durables segment, which we have segregated from continuing operations and reflected as discontinued operations for all periods presented. See "Discontinued Operations" on page 29.

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, 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 or state-owned operators, 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, so retailers can sell more (or less) of our products to consumers than distributors buy from us during any given 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 understanding the underlying health and financial results of our brands and business. The beverage alcohol industry generally uses depletions (defined on page 22) to approximate consumer demand. We also utilize syndicated data and monitor inventory levels in the trade to confirm that depletions are representative of consumer demand.

FISCAL 2008 COMPARED TO FISCAL 2007

Net sales approached $3.3 billion, a record in fiscal 2008, and an increase of 17% over net sales in fiscal 2007. For the first time in our history, sales outside the U.S. constituted more than half (52%) of the total; just five years ago, sales outside the U.S. constituted less than 30% of our total sales. This shift in the geographic mix of our sales reflects an accelerating demand for our portfolio in markets outside the U.S., the effect of acquired brands, and the benefits of a weaker U.S. dollar. Over 85% of the $476 million increase in our net sales for fiscal 2008 came from markets outside the U.S.

The major factors driving our fiscal 2008 sales increase were:

		Growth vs. 2007
• Acquisitions		7%
• Foreign exchange		4%
• Underlying net sales growth:		6%
Volume	*4%*	
Price/Mix	*2%*	
Reported net sales growth		17%

In the table above, "Acquisitions" refers to the effect our Chambord and Casa Herradura acquisitions, which occurred in May 2006 and January 2007, respectively, had on our results. Significant acquisitions can make year-to-year comparisons difficult to understand. We believe disclosing the effect of these acquisitions separately clarifies the underlying year-to-year changes and provides helpful information in forecasting and planning our growth expectations.

"Foreign exchange" refers to net gains and losses incurred by our sales and purchases in currencies other than the U.S. dollar. We disclose this separately to explain our business growth on a constant dollar basis, because exchange rate fluctuations distort the underlying growth of our business (both positively and negatively). To filter out the effect of foreign exchange fluctuations, we translate current year results at prior year rates. In fiscal 2008, the weaker U.S. dollar benefited our net sales, gross profit, operating income, and earnings per share but hurt our advertising and selling, general, and administrative expenses. Although foreign exchange volatility is a reality for a global company, we routinely review our company performance on a constant dollar basis. We believe that separately identifying the effect foreign exchange has on each major line item of the consolidated statement of operations makes our underlying business performance more transparent.

Fiscal 2008 was another solid year for Jack Daniel's Tennessee Whiskey, as volume increased for the 16th consecutive year, approaching 9.5 million nine-liter cases. Consumer demand continued to expand for this iconic, authentic American whiskey, as the brand added 375,000 nine-liter cases globally to its already large base, growing more than 4% over the prior year. Depletions expanded 8% outside the U.S., with geographically

diverse, broad-based gains in many markets, while net sales grew nearly 17%. The most notable case increases were in the U.K. (the brand's largest market outside the U.S., where annual volumes now approach 1 million nine-liter cases), France, Poland, Russia, Romania, and Turkey. Both volumes and net sales improved in the low single digits in the brand's largest market, the U.S.

The overall distilled spirits category in the U.S. continued to grow during fiscal 2008. Industry trends, as measured by National Alcohol Beverage Control Association (NABCA) data, indicate total distilled spirits volume grew 3.1% for the 12 months ending April 30, 2008, while Jack Daniel's in the U.S. grew about 1% for the same period. In our opinion, several factors contributed to the industry-lagging growth for Jack Daniel's in this key market:

- Jack Daniel's crossed the $20 and $40 price points in most U.S. markets on its two key sizes. We have seen temporary volume declines for this brand when it crossed through key price points before, and, as in the past, we expect a rebound this time, too.
- "Trading down" has been affecting this brand recently, which derives its high-volume, premium-price business from a consumer franchise representing a broad range of household incomes. When economic times are challenging, as we are seeing in the U.S. today, some of our consumers seek cheaper alternatives.
- Some consumers have "traded across" to other premium brands as our competition discounted more deeply.
- To a lesser extent, "trading up" has also affected performance; we believe our recently repackaged Gentleman Jack brand benefited from this shift, showing strong growth for the year.

We have planned numerous initiatives to ensure Jack Daniel's continues its relevance in the current competitive consumer environment. As a result, we believe that Jack Daniel's growth rate in the U.S. will improve in fiscal 2009 and more closely approximate that of the distilled spirits category generally. However, if Jack Daniel's growth rate in the U.S. does not improve, it could reduce our earnings expectations for fiscal 2009.

Performance for the rest of the Jack Daniel's family of brands was also strong. Growing 10%, Jack Daniel's ready-to-drink products passed the 3 million nine-liter case mark in the year and are now approaching 3.3 million nine-liter cases on the strength of Jack Daniel's & Cola sales in Australia. Meanwhile, Gentlemen Jack was the fastest-growing brand in our portfolio, growing over 40% with volumes well in excess of 200,000 nine-liter cases in fiscal 2008.

Finlandia continues to be a major, and growing, contributor to our international expansion. Since taking a majority stake in Finlandia in fiscal 2003, we have added more than 1 million cases to the brand's annual depletions. Over 95% of this incremental volume has been in international markets. The brand was a major driver of growth for us in fiscal 2008. Global volumes advanced 16%, surpassing Southern Comfort in volumes sold, while net sales gained 33%, reflecting volume gains, price increases, and the benefit of a weak U.S. dollar. Strong double-digit growth in many parts of Europe, particularly Poland, the brand's largest market (where we sold over 800,000 nine-liter cases of the brand), and Russia (where we added over 100,000 nine-liter cases) fueled the brand's growth for the year.

While Southern Comfort global depletions were flat in fiscal 2008, the brand's net sales grew 6%, reflecting continued premium pricing in the U.S. and the benefits of a weaker dollar. Southern Comfort registered solid volume gains in the U.K. (the brand's largest market outside the U.S.), South Africa, and Australia. Low single-digit volume declines in the U.S. on a volumetric basis were more than offset by the effect of price increases, which led to net sales growth of more than 1% in the brand's largest market.

Overall volume performance was mixed for the other brands in our portfolio. Bonterra, Chambord, Woodford Reserve, and Sonoma-Cutrer experienced high single-digit or double-digit increases. Fetzer Valley Oaks and Korbel California Champagnes registered low single-digit depletion growth. Canadian Mist, Bolla, and Early Times recorded modest depletion declines in fiscal 2008.

The following table highlights worldwide depletion results for our major brands during fiscal 2008:

	Nine-liter Cases (000s)	*% Change vs. 2007*
Jack Daniel's	9,450	4%
New Mix RTDs[1]	4,340	NA
Other RTDs[2]	3,675	9%
Finlandia	2,835	16%
Southern Comfort	2,460	0%
Fetzer Valley Oaks	2,355	2%
Canadian Mist	1,895	(3%)
Korbel Champagnes	1,305	2%
Bolla	1,130	(3%)

(1) New Mix is a tequila-based RTD (ready-to-drink) brand we acquired in January 2007 as part of the Casa Herradura acquisition, and sold exclusively in Mexico.

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

Gross profit is one of our key performance measures. The same factors described above that boosted revenue growth also fueled gross profit growth. In fiscal 2008, gross profit grew $214 million, or 14%, to approximately $1.7 billion. The table below summarizes the major factors driving the gross profit growth for the year.

		Growth vs. 2007
• Acquisitions		4%
• Foreign exchange		4%
• Underlying gross profit growth:		6%
Volume	*4%*	
Price/Mix	*2%*	
Reported gross profit growth		14%

Underlying gross profit growth of 6% was fueled primarily by solid consumer demand for Jack Daniel's, Finlandia, Jack Daniel's & Cola, and Gentleman Jack. Price increases on several brands, including Jack Daniel's, Southern Comfort, Finlandia, Canadian Mist, Early Times, Sonoma-Cutrer, and Korbel Champagne, also contributed to the underlying growth in gross profit.

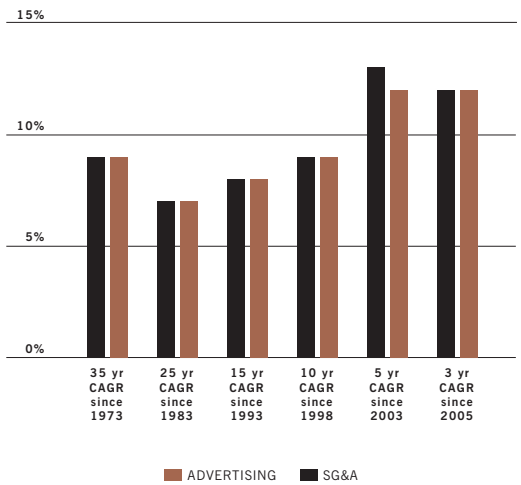
Gross margin declined from 52.8% in fiscal 2007 to 51.6% in fiscal 2008. The major reason for this decline was the full-year effect of the addition of Casa Herradura results. The gross margins for Herradura and el Jimador on sales in the U.S. are above our overall average margin; however, gross margins on both these brands and on New Mix (a tequila-based ready-to-drink product) and agency brands acquired as part of this acquisition are all considerably lower in Mexico. Gross margins for the year were also suppressed by high raw material and fuel costs, which were nearly offset by price increases on several of our brands in selected markets. Over the long term, as the mix of our tequila business shifts toward more U.S. revenue, we expect gross margins to improve, though rising raw material and fuel costs will likely put pressure on margins in the short term.

Advertising expenses were up $54 million, or 15%, as we continued our long track record of investing to build our brands. Spending behind acquired brands (Chambord and the Casa Herradura brands) and the weaker U.S. dollar contributed to the increase in spending for the year. On a constant-exchange basis, and excluding the effect of acquisitions on a comparable basis, advertising investments were up 6%, reflecting incremental spending behind Jack Daniel's, Southern Comfort, Finlandia, and other brands, including Woodford Reserve, Bonterra, and Sonoma-Cutrer.

	Growth vs. 2007
• Acquisitions	5%
• Foreign exchange	4%
• Underlying advertising growth	6%
Reported advertising growth	15%

LONG-TERM OPERATING EXPENSE INVESTMENT TRENDS

(CAGR: Compound Annual Growth Rate)



Selling, general, and administrative expenses increased $57 million, or 10%, influenced by these factors:

	Growth vs. 2007
• Acquisitions	6%
• Foreign exchange	1%
• Underlying SG&A growth	3%
Reported SG&A growth	10%

Inflation of salary and related expenses was a primary factor contributing to the underlying increase in selling, general, and administrative expenses. This underlying increase in selling, general, and administrative expenses is significantly lower than recent years, as we leveraged the past several years of incremental investments in this area to support our global route-to-market efforts. The graph on this page reflects our consistently strong investments in our overall operating expenses over several long-term periods. These increases in advertising and selling, general, and administrative expenses essentially mirrored growth in gross profit over the same periods.

Amortization expense increased $3 million in fiscal 2008. Before we acquired Casa Herradura in January 2007, the U.S. distribution rights for the Herradura brand had been granted to another party through December 31, 2011. After purchasing Casa Herradura, we acquired those distribution rights from that party for $25 million, which we are amortizing on a straight-line basis through December 31, 2011. The increase in the amortization expense for fiscal 2008 reflects the 12 full months of amortization of the cost of acquiring those distribution rights compared to the last three months of fiscal 2007.

Other income decreased $17 million in fiscal 2008, due primarily to the absence of an $11 million gain we had recognized in fiscal 2007 on the sale of an Italian winery used in producing Bolla wines to Gruppo Italiano Vini (GIV). The Bolla brand remains a part of our portfolio, though we moved the responsibility for producing these Italian wines to GIV, an Italian company, during fiscal 2007.

Operating income for fiscal 2008 improved 14%, or $83 million. Positive factors driving operating income growth were higher consumer demand for Jack Daniel's Tennessee Whiskey, Jack Daniel's & Cola, and Finlandia, particularly outside the U.S., and excellent growth in the U.S. for Gentleman Jack. Improved volumes and profits from several other brands, largely focused in the U.S., including Bonterra, Jack Daniel's Single Barrel, Woodford Reserve, and Tuaca, also contributed to income growth. Additionally, benefits from a weaker U.S. dollar and the incremental profits from the Casa Herradura and Chambord acquisitions in fiscal 2007 boosted year-over-year growth in operating income. Margin expansion, driven by price increases, offset the rising costs of raw materials and fuel. Comparisons to the prior year were also affected by the absence of the $11 million gain recognized in fiscal 2007 on the sale of winery assets. The following chart summarizes the major factors driving our 14% growth in operating income and identifies our underlying operating income growth for fiscal 2008 of 8%, which while lower than our growth rate in recent years, is consistent with our long-term, 15-year growth rate in operating income.

	Growth vs. 2007
• Foreign exchange	5%
• Acquisitions	3%
• Absence of prior year net gain on sale of winery property	(2%)
• Underlying operating income growth	8%
Reported operating income growth	14%

Interest expense (net) increased $25 million compared to fiscal 2007, primarily reflecting the financing of the Casa Herrudura acquisition.

Effective tax rate reported in fiscal 2008 was 31.7%, unchanged from fiscal 2007. During fiscal 2008, our effective tax rate was favorably affected by an increase in the net reversal of previously recorded income tax provisions for items effectively settled, compared to last year. This positive factor was offset primarily by additional taxes related to a tax law change in Mexico (effective January 1, 2008) and the absence of benefits received in fiscal 2007 from investments in tax-exempt securities.

Diluted earnings per share reached a record $3.55, up 10% over fiscal 2007. Performance for the year benefited from solid growth for Jack Daniel's and Finlandia and improved volume and profits from Jack Daniel's & Cola ready-to-drink product, sold primarily in Australia, and Gentleman Jack. Reported earnings were also helped by a weaker U.S. dollar, and the benefit of share repurchases. Partially offsetting these gains were the expected dilutive effect of the Casa Herradura transition and the absence of a gain on the sale of winery property.

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-based awards under it. In Note 1, under "Stock-Based Compensation" we describe how the plan is designed to avoid diluting earnings per share.

FISCAL 2007 COMPARED TO FISCAL 2006

Net sales increased 16%, or $394 million, fueled by (then) record sales for Jack Daniel's, Southern Comfort, and Finlandia, reflecting higher volumes and margin expansion related to price increases in various markets. The benefit of a weaker U.S. dollar and our acquisitions of Chambord and Casa Herradura in fiscal 2007 also contributed to the increase in net sales. Jack Daniel's registered growth for the 15th consecutive year, as demand expanded more than 6% globally, adding 525,000 nine-liter cases, for a total of over 9 million nine-liter cases. For the second consecutive year, worldwide depletions for Finlandia grew 15%, fueled by volume growth in Poland (the brand's largest market) and double-digit increases in numerous other markets, including Israel, Russia, and the U.K. Southern Comfort worldwide depletions grew 3%, with mid-single-digit gains in the U.S. and South Africa. Several other brands experienced growth in sales during fiscal 2007, including Jack Daniel's & Cola ready-to-drink product, Gentleman Jack, Jack Daniel's Single Barrel, Bonterra, Sonoma-Cutrer, Woodford Reserve, Fetzer Valley Oaks, and Korbel.

Gross profit grew 13%, or $173 million. This growth resulted from the same factors that generated revenue growth. 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%. 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 increased 12%, or $38 million, as we expanded our brand-building activities behind Jack Daniel's, Southern Comfort, Finlandia, Gentleman Jack, Bonterra, Tuaca, and Sonoma-Cutrer. Spending behind acquired brands (Chambord and the Casa Herradura brands) coupled with the negative impact of a weaker U.S. dollar contributed to the increase in spending for the year.

Selling, general, and administrative expenses increased 14%, or $66 million, driven by higher compensation and postretirement costs and route-to-market changes made during fiscal 2006 that resulted in incremental infrastructure costs in fiscal 2007 from our businesses in Germany and Australia. In addition, our acquisitions of Chambord and Casa Herradura contributed to the year-over-year increase in selling, general, and administrative expenses.

Other income decreased $28 million in fiscal 2007, due primarily to the absence of the following items:

- $14 million in consideration received from LVMH Moët Hennessy Louis Vuitton for the early termination of our distribution and marketing rights to the Glenmorangie family of brands;
- a $25 million gain related to a contractual fee paid to us by Pernod Ricard following their decision to exit a joint venture arrangement with us in Australia (we now own 100% of this distribution arrangement in this country); and
- a $5 million gain on the sale of winery assets in Monterey, California.

Partially offsetting the absence of these items that occurred in fiscal 2006 was an $11 million gain we recognized on the sale of an Italian winery used in producing Bolla wines to Gruppo Italiano Vini (GIV). GIV, an Italian company, produces these Italian wines for us while the Bolla brand name remains in our portfolio.

Operating income reached a (then) record $602 million in fiscal 2007, growing $39 million, or 7%, reflecting 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.

Interest expense (net) increased $12 million compared to fiscal 2006, reflecting the financing of the Casa Herrudura acquisition.

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

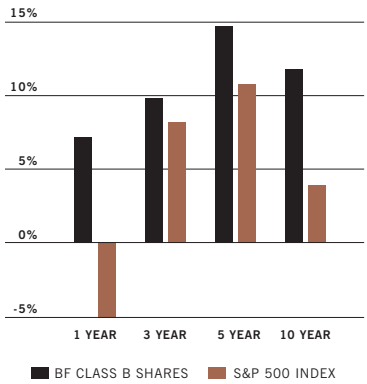
Diluted earnings per share increased 1% to $3.22 in fiscal 2007. This growth resulted from the same factors that generated operating income growth, though it was tempered by higher interest expense related to the financing of the Casa Herradura acquisition and a higher effective tax rate in fiscal 2007.

OTHER KEY PERFORMANCE MEASURES

Our primary goal is to increase the value of our shareholders' investment consistently and sustainably over the long-term. 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.

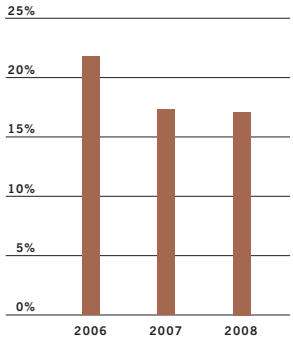
Total shareholder return. An investment made in Brown-Forman Class B stock over terms of one, three, five, and 10 years would have outperformed the returns of the total S&P 500 over the same periods. Specifically, a $100 investment in our Class B stock on April 30, 1998, would have grown to nearly $300 by the end of fiscal 2008, assuming reinvestment of all dividends and ignoring personal taxes and transaction costs. This represents an annualized return of nearly 12% over the 10-year period, compared to a 4% annualized increase for the S&P 500. A more recent investment in Brown-Forman outstripped the market even further, with our Class B stock yielding a return of 8% over the one-year period ended April 30, 2008, compared to a 5% decline for the S&P 500.

COMPOUND ANNUAL GROWTH IN TOTAL SHAREHOLDER RETURN
(as of April 30, 2008, including dividend reinvestment)



Return on average invested capital. Our return on average invested capital remains very healthy, particularly considering current market conditions. While our returns have recently trended lower, with a slight decline in fiscal 2008 to 17.2%, our results continue to outpace those of nearly all of our competitors. While we have registered record earnings over the past three years, our recent returns have been diluted by the investments made to acquire Chambord liqueur and Casa Herradura. We believe that our return on average invested capital will increase next fiscal year and continue to improve over the long term, given our positive outlook for earnings growth and careful management of our investment base. Further, we expect our most recent acquisitions to build and enhance our returns, as the new brands have considerable growth potential.

RETURN ON AVERAGE INVESTED CAPITAL



BUSINESS ENVIRONMENT FOR WINE AND SPIRITS

Generally. We expect the business climate for distilled spirits to remain solid in the U.S. and our major markets outside the U.S. over the next several years. We are encouraged by the favorable demographic trends in the U.S. Wine and spirits combined have taken market share in beverage alcohol from beer in the U.S. over the last decade. The trend toward premium products also continues, which helps many of our brands.

We see enormous potential for continued growth in the global marketplace. The demographics are strongly in our favor. We have experienced tremendous success in our global expansion since we began the effort almost 15 years ago. While markets outside the U.S. accounted for less than 20% of our net sales in fiscal 1994, in fiscal 2008, for the first time in our company's history, net sales outside the U.S constituted over 50% of our total net sales. Yet our business today accounts for less than 1% of the global beverage alcohol market. We expect our growth in markets outside the U.S. to surpass our growth in the U.S. We see great opportunity in emerging markets such as Central and Eastern Europe, Russia, and China, as well as countries that some might consider to be developed markets.

We believe our business will benefit from the contributions of Herradura, el Jimador, and other tequila brands we acquired in fiscal 2007, first in the U.S. and Mexico, and then in markets in other parts of the world. We believe these brands have the potential to become significant engines of growth for our business over the next decade and beyond. We expect their consumer appeal and authenticity will enable us to build on our brand-building strengths.

Nevertheless, a slowing economy and less disposable income in the U.S. and other key markets linked to the U.S., such as Western Europe and Mexico, and higher costs for energy and raw materials, temper somewhat our view of the near-term business environment in these markets.

As with spirits, favorable demographic trends should help the top-line growth of our wine brands. However, acceptable profitability remains a challenge for our wine products, due to margin pressure and high fixed costs. We continue to pursue opportunities to improve our overall wine cost structure and the performance of our brands.

Public attitudes, government policies. Our ability to market and sell our beverage alcohol products depends heavily on society's attitudes toward drinking and government policies that flow from those attitudes. This is not just a U.S. issue, but one we see increasingly in Europe and around

the world. 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 spirits and wine brands. Our marketing code 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 United States, the Wine Institute, and the European Forum for Responsible Drinking, among others. We contribute significant resources to The Century Council, an organization that we and other spirits producers created to combat drunk driving and underage drinking. In Europe, we are an active member of similar organizations, including the Portman Group and the Drinkaware Trust in the United Kingdom.

Illegal alcohol consumption by underage 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 by better educating consumers about beverage alcohol and by setting a good example through moderate drinking than by restricting alcohol advertising and sales or by imposing punitive taxes.

Legal or regulatory measures against beverage alcohol (including its advertising and promotion) could hurt our sales. Regulatory measures are a particular concern currently in Europe, where the European Union and many of its member countries are devoting increased attention to more restrictive alcohol policies. In the U.S., distilled spirits are at a marked disadvantage to beer and wine in taxation, access to network television advertising, and in the number and type of sales outlets. Achieving greater cultural acceptance of our products and parity with beer and wine in taxation and access to consumers are major goals that we share with other distillers.

Notably, the World Health Organization (WHO) has begun a major alcohol policy-making process intended to produce a global strategy to combat the misuse of alcohol. While the WHO's global strategy will not carry the force of law, the organization is highly influential, particularly in the developing world. We believe its alcohol policy recommendations will be taken seriously and probably adopted into law in many WHO member states. We are committed to working with the WHO during this policy-making process to ensure that its global strategy is based on sound science and recognizes the critical distinction between the use and abuse of beverage alcohol.

Policy objectives. We believe that beverage alcohol should be regarded like other beneficial products, such as food, pharmaceuticals, and automobiles – all of which can be hazardous if misused by the consumer. Therefore, we encourage the proper use of our products and discourage misuse 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, law enforcement, and other concerned stakeholders.

We also seek recognition that distilled spirits, wine, and beer are all forms of beverage alcohol, and should be treated on an equal basis by government. Generally speaking, however, and especially in the U.S., distilled spirits are subject to 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" for beverage alcohol.

We also seek, for the convenience of our customers, Sunday sales in those U.S. 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 and tax reforms. No legislation to increase U.S. federal excise taxes on distilled spirits is currently pending, but future excise tax increases are always possible, as are tax increases or changes levied on the broader business community. From time to time, some city and state legislatures increase beverage alcohol taxes. The cumulative effect of such tax changes over time likely would hurt sales. Changes to the U.S. presidency and Congress may lead to significant increases in taxes paid by beverage alcohol producers, as well as the business community at large.

Increased tax rates, advertising restrictions, burdensome labeling requirements, and outmoded product standards affect beverage alcohol in many of our international markets as well. In the past, those changes have not been significant to our overall business, but as our sales outside the U.S. continue to grow and tax regimes in international markets become increasingly onerous for our products, this risk becomes more pronounced. For instance, the Australian government recently and unexpectedly imposed a significant excise tax increase on spirits-based ready-to-drink products, which could impede sales of Jack Daniel's & Cola in that brand's largest market.

The litigation climate. Courts have dismissed most of the recent putative class action lawsuits against spirits, beer, and wine manufacturers, including Brown-Forman, which alleged that our marketing causes illegal alcohol consumption by persons under the legal drinking age. The cases not dismissed have been withdrawn voluntarily, and that series of litigation is concluded. However, the attorneys general in a number of U.S. states continue to investigate the trade marketing practices of beverage alcohol producers and wholesalers. Lawsuits or governmental investigations similar to these could hurt our business and the overall industry.

Distribution strategy. We use a variety of business models to market and distribute our products. In the U.S., we sell our products to wholesalers through the mandatory three-tier system. In a number of other countries, we rely on other spirits producers to distribute our products. Consolidation among spirits producers overseas or wholesalers in the U.S. could hinder the distribution of our wine and spirits products in the future, but to date this has rarely happened. Wholesalers and distributors 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 the cost of purchasing goods and services in our other markets. This year, a weaker U.S. dollar helped our earnings, particularly in the U.K., Continental Europe, and Australia. We have hedged the majority of our exposure to foreign exchange fluctuation in 2009 by entering into foreign currency forwards and option contracts. However, if the U.S. dollar appreciates significantly, any portion not hedged would affect our business negatively.

DISCONTINUED OPERATIONS

SUMMARY OF OPERATING PERFORMANCE

(Dollars in millions, except per share amounts)	2006	2007	2008
Net sales	$166	$ 50	$ —
Operating expenses	(178)	(53)	—
Impairment charge	(60)	(9)	—
Transaction costs	(10)	(1)	—
Loss before income taxes	(82)	(13)	—
Income tax benefit	7	2	—
Net loss from discontinued operations	$ (75)	$ (11)	$ —
Loss per share:			
Basic	(0.62)	(0.09)	—
Diluted	(0.61)	(0.09)	—

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. The fiscal 2007 loss included a pre-tax impairment charge of $9 million. The majority of this impairment related to our decision 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 selling costs.

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 reflected 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 its ultimate sale.

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 2008, our cash flow from operations and cash on hand enabled us to fund capital expenditures of $53 million (including property, plant, and equipment and technology software investments), to distribute $362 million to our shareholders (including dividends and the special distribution in May 2007), and to repurchase $223 million of our stock.

CASH FLOW SUMMARY

(Dollars in millions)	2006	2007	2008
Operating activities	$343	$ 355	$ 534
Investing activities:			
Acquisitions	—	(1,045)	2
Sale of discontinued operations	205	12	—
Net (purchase) sale of short-term securities	(160)	74	86
Additions to property, plant, and equipment	(51)	(58)	(41)
Other	3	(21)	(19)
Subtotal Investing Activities	(3)	(1,038)	28
Financing activities:			
Net (repayment) issuance of debt	(55)	597	(172)
Acquisition of treasury stock	(3)	—	(223)
Special distribution to stockholders	—	—	(204)
Dividends paid	(128)	(143)	(158)
Other	26	33	21
Subtotal Financing Activities	(160)	487	(736)
Foreign exchange effect	—	4	10
Change in cash/cash equivalents	$180	$(192)	$(164)

Cash provided by operations was $534 million in fiscal 2008 compared to $355 million in fiscal 2007. This increase was driven by higher earnings and a reduction in working capital requirements compared to fiscal 2007, including a refund of taxes received in fiscal 2008 related to the acquisition of Casa Herradura.

Cash provided by investing activities in fiscal 2008 increased $1,066 million compared to fiscal 2007, reflecting the $794 million acquisition of Casa Herradura (including fees) in January 2007 and the $251 million acquisition of Chambord in May 2006.

Cash used for financing activities increased by $1,223 million, primarily reflecting a $769 million change in net debt compared to fiscal 2007 and a $204 million special distribution to shareholders in May 2007. The increase in cash used for financing activities also reflects the repurchase of $223 million of our common stock during fiscal 2008.

In comparing fiscal 2007 with fiscal 2006, cash provided by operations increased $12 million, as a reduction in cash used for discontinued operations following the sale of Lenox, Inc. in fiscal 2006 and higher earnings were partially offset by an increase in working capital requirements. Cash used for investing activities increased by $1,035 million in fiscal 2007, reflecting the acquisitions of Chambord and Casa Herradura for a total of

$1,045 million. Cash provided by financing activities increased by $647 million, reflecting the issuance of both commercial paper and long-term debt to finance the acquisition of Casa Herradura.

FISCAL 2008 CASH UTILIZATION

Capital expenditures. Investments in property, plant, and equipment were $51 million in fiscal 2006, $58 million in fiscal 2007, and $41 million in fiscal 2008. 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 2009 to be $65 to $75 million, a significant 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 behind Casa Herradura. We also plan to continue to invest in technology to understand our consumers better and to sharpen our focus on cost-cutting initiatives to combat rising raw material and fuel costs. We expect to fund fiscal 2009 capital expenditures with cash provided by operations.

Share repurchases. 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 was repaid in March 2008 with existing commercial paper capacity.

In November 2007, our Board of Directors authorized the repurchase of up to $200 million of outstanding Class A and Class B common stock subject to market and Securities and Exchange Committee rules, and certain other conditions. We completed the $200 million repurchase plan in March 2008.

Under the plan, we repurchased a total of 2,977,250 shares (42,600 of Class A and 2,934,650 of Class B) for $200 million. The average repurchase price per share, including commissions, was $68.76 for Class A and $67.17 for Class B.

Separately, under an agreement approved in May 2007 by a committee of our Board of Directors composed exclusively of non-family directors, approximately $22 million in share repurchases was purchased from one or more trusts beneficially owned by a Brown family member. Additionally, approximately $1 million was paid in exchange for shares surrendered by two employees to satisfy income tax withholding obligations, in accordance with our policy.

Liquidity. We access short-term capital markets by issuing commercial paper, backed by a bank credit agreement for $800 million that expires in fiscal 2012. This credit agreement provides us with an immediate, continuing liquidity source. At April 30, 2008, we had no outstanding borrowings under it.

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

Acquisitions. 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 those 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 and fees, was $794 million, which we 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 million of commercial paper, $400 million of which was subsequently replaced with long-term debt.

In May 2007, we ended our joint ventures in the tequila business with the Orendain family of Mexico. We had shared ownership of the "Don Eduardo" and other Orendain trademarks and related intellectual property with the Orendain family since 1999 through two joint venture companies: Tequila Orendain de Jalisco (TOJ) and BFC Tequila Limited (BFCTL). TOJ produced the tequila and held the trademarks in Mexico. BFCTL owned the trademarks for all markets excluding Mexico. Upon ending the joint ventures, we acquired the remaining portion of the global trademark for the Don Eduardo super-premium tequila brand that we did not already own. In exchange, we paid $12 million to the other shareholders of TOJ and BFCTL and surrendered to them our interest in all other Orendain trademarks previously owned by these two companies. Although we expect to continue to grow the Don Eduardo brand, these two former joint ventures were not material to our consolidated results of operations or financial position.

Special distribution. 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 $1.653 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 stating 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, employee benefit plans, and borrowing arrangements that we enter into in the normal course of business (see Notes 5, 7 and 12 to the accompanying consolidated financial statements). The following table summarizes the amounts of those obligations as of April 30, 2008, and the years when those obligations must be paid:

LONG-TERM OBLIGATIONS[1]

(Dollars in millions)	Total	2009	2010-2013	After 2013
Long-term debt	$ 421	$ 4	$414	$ 3
Interest on long-term debt	68	21	47	—
Grape purchase obligations	107	29	57	21
Operating leases	56	17	35	4
Postretirement benefit obligations[2]	7	7	n/a	n/a
Agave purchase obligations[3]	n/a	n/a	n/a	n/a
Total	$659	$ 78	$553	$28

(1) Excludes reserves for tax uncertainties as we are unable to reasonably predict the ultimate amount or timing of settlement

(2) As of April 30, 2008, we have unfunded pension and other postretirement benefit obligations of $105 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 $7 million of expected contribution in fiscal 2009. 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.

(3) As discussed in Note 5 to the accompanying consolidated financial statements, we have obligations to purchase agave, a plant whose sap forms the raw material for tequila. 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. However, as of April 30, 2008, based on current market prices, obligations under these contracts totaled $22 million.

We expect to meet these obligations with internally generated funds.

MARKET RISKS

We are exposed to market risks arising from adverse changes in commodity prices affecting the cost of our raw materials and energy, foreign exchange rates, and interest rates. We try to manage risk responsibly through a variety of strategies, including production initiatives and hedging strategies. 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 contracts below and also provide a sensitivity analysis.

See Note 5 to our consolidated financial statements for details on our grape and agave purchase obligations, which are also exposed to commodity price risk, and "Critical Accounting Estimates" for a discussion of our pension and other postretirement plans' exposure to interest rate risks.

See "Important Information Regarding Forward-Looking Statements" (page 51) for details on how economic conditions affecting market risks also affect the demand for and pricing of our products.

Foreign exchange. We estimate that our foreign currency revenues will exceed our foreign currency expenses by $470 million in fiscal 2009. To the extent that this foreign currency exposure is not hedged, our results of operations and financial position improve when the U.S. dollar weakens against foreign currencies and decline when the dollar strengthens against them. However, we routinely use foreign currency forward and option contracts to hedge our foreign exchange risk. If these contracts work as intended, we will not recognize any unrealized gains or losses on them until we recognize the underlying hedged transactions in earnings. At April 30, 2008, our foreign currency hedges had a notional value of $342 million and a net unrealized loss of $9 million.

With our hedging program, we estimate that, for the currencies in which we do business, if the value of the U.S. dollar were to average 10% higher in fiscal 2009 than in fiscal 2008, our fiscal 2009 operating income would decrease by $19 million. Conversely, a 10% average decline in the value of the dollar would increase operating income by $31 million.

Commodity prices. Commodity prices are affected by weather, supply and demand conditions, and other geopolitical and economic variables. We use futures contracts and options to reduce the price volatility of some commodities, primarily corn. At April 30, 2008, we had outstanding hedge positions on approximately 3 million bushels of corn with unrealized gains of $4 million. We estimate that a 10% decrease in corn prices would reduce the unrealized gain at April 30, 2008, by $2 million. We expect to mitigate the effect of increases in our raw material and energy costs through our hedging strategies, ongoing production initiatives, and select increases in prices for our brands.

Interest rates. Our short-term investments and our variable-rate debt are exposed to the risk of changes in interest rates. We offset a portion of this risk by entering into an interest rate swap which fixed the rate on $75 million of our variable-rate notes for the nine-month period ending July 1, 2008. Based on the April 30, 2008 balances of variable-rate debt and investments, a 1% point increase in interest rates would increase our annual interest expense (net of interest income on cash and short-term investments) by $6 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 and 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 estimated 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 estimated 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, vehicles, 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 estimated 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 net benefit expense and obligations, such as interest rates, return on plan assets, the rate of salary increases, expected service, and health care cost trend rates.

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. As of April 30, 2008, we have increased the discount rate for pension obligations from 6.04% to 6.64%, and for other postretirement benefit obligations from 5.98% to 6.45%. Pension and postretirement benefit expense for fiscal 2009 is estimated to be approximately $20 million, compared to $25 million for fiscal 2008. A decrease/increase in the discount rate of 25 basis points would increase/decrease the fiscal 2009 expense by approximately $2 million.

Income taxes. Our annual effective tax rate is based on our income and the statutory tax rates in the various jurisdictions where we do business. In fiscal 2008, our annual income tax rate for continuing operations was 31.7%, unchanged from fiscal 2007. During fiscal 2008, our effective tax rate was favorably affected by an increase in the net reversal of uncertain tax positions in accordance with the effective settlement of each item. This positive factor was offset primarily by additional taxes related to a tax law change in Mexico (effective January 1, 2008) and the absence of benefits received in fiscal 2007 from investments in tax-exempt securities.

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 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 we can resolve a particular matter for which we have established a reserve. 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; whereas a favorable resolution could result in either reduced cash tax payments, or the reversal of previously established reserves or some combination of these which could result in a reduction to our effective tax rate upon resolution.

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.

Brown-Forman Corporation and many other manufacturers of spirits, wine, and beer were defendants in a series of nine essentially identical putative class action lawsuits that began in 2003 seeking damages and injunctive relief for alleged marketing of beverage alcohol to underage consumers. As each of these cases has been dismissed or withdrawn, the last in November 2007, this series of litigation is concluded.

Recent accounting pronouncements. See Note 1 to the accompanying consolidated financial statements.

(Expressed in millions, except per share amounts)

Year Ended April 30,	2006	2007	2008
Net sales	$2,412	$2,806	$3,282
Excise taxes	468	588	700
Cost of sales	636	737	887
GROSS PROFIT	1,308	1,481	1,695
Advertising expenses	323	361	415
Selling, general, and administrative expenses	469	535	592
Amortization expense	—	2	5
Other income, net	(47)	(19)	(2)
OPERATING INCOME	563	602	685
Interest income	14	18	8
Interest expense	18	34	49
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	559	586	644
Income taxes	164	186	204
INCOME FROM CONTINUING OPERATIONS	395	400	440
Loss from discontinued operations, net of income taxes	(75)	(11)	—
NET INCOME	$ 320	$ 389	$ 440
Basic earnings (loss) per share:			
Continuing operations	$3.24	$3.26	$3.59
Discontinued operations	(0.62)	(0.09)	—
TOTAL	$2.62	$3.17	$3.59
Diluted earnings (loss) per share:			
Continuing operations	$3.20	$3.22	$3.55
Discontinued operations	(0.61)	(0.09)	—
TOTAL	$2.60	$3.14	$3.56

Note: Earnings (loss) per share amounts for continuing operations and discontinued operations may not add to total amount for the company due to rounding.

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

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

April 30,	2007	2008
ASSETS		
Cash and cash equivalents	$ 283	$ 119
Short-term investments	86	—
Accounts receivable, less allowance for doubtful accounts of $22 in 2007 and $19 in 2008	404	453
Inventories:		
Barreled whiskey	303	311
Finished goods	151	155
Work in process	198	179
Raw materials and supplies	42	40
Total inventories	694	685
Current portion of deferred income taxes	76	102
Other current assets	92	97
TOTAL CURRENT ASSETS	1,635	1,456
Property, plant, and equipment, net	506	501
Prepaid pension cost	23	23
Goodwill	670	688
Other intangible assets	684	699
Other assets	33	38
TOTAL ASSETS	$3,551	$3,405
LIABILITIES		
Accounts payable and accrued expenses	$ 361	$ 380
Accrued income taxes	27	15
Payable to stockholders	204	—
Short-term borrowings	401	585
Current portion of long-term debt	354	4
TOTAL CURRENT LIABILITIES	1,347	984
Long-term debt, less unamortized discount of $1 in 2007 and $0 in 2008	422	417
Deferred income taxes	56	89
Accrued pension and other postretirement benefits	123	121
Other liabilities	30	69
TOTAL LIABILITIES	1,978	1,680
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Common stock:		
Class A, voting, $0.15 par value (57,000,000 shares authorized; 56,925,000 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	64	74
Retained earnings	1,649	1.931
Accumulated other comprehensive income (loss):		
Pension and other postretirement benefits adjustment	(99)	(88)
Cumulative translation adjustment	46	99
Unrealized loss on cash flow hedge contracts	(4)	(6)
Treasury stock, at cost (2,833,000 and 5,522,000 shares in 2007 and 2008, respectively)	(102)	(304)
TOTAL STOCKHOLDERS' EQUITY	1,573	1,725
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,551	$3,405

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

(Expressed in millions)

Year Ended April 30,	2006	2007	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$320	$389	$440
Adjustments to reconcile net income to net cash provided by operations:			
Net loss from discontinued operations	75	11	—
Depreciation and amortization	42	44	52
Stock-based compensation expense	9	8	10
Deferred income taxes	(33)	(7)	5
Other	(2)	(11)	(3)
Change in assets and liabilities, excluding the effects of businesses acquired or sold:			
Accounts receivable	(21)	(47)	(43)
Inventories	(37)	(41)	(3)
Other current assets	(7)	(9)	(4)
Accounts payable and accrued expenses	3	14	21
Accrued income taxes	7	(20)	(12)
Noncurrent assets and liabilities	5	18	71
Net cash provided by (used for) operating activities of discontinued operations	(18)	6	—
Cash provided by operating activities	343	355	534
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of businesses, net of cash acquired	—	(1,045)	2
Acquisition of distribution rights	—	(25)	—
Acquisition of brand names and trademarks	(1)	—	(13)
Proceeds from sale of discontinued operations	205	12	—
Purchase of short-term investments	(388)	(249)	—
Sale of short-term investments	228	323	86
Additions to property, plant, and equipment	(51)	(58)	(41)
Proceeds from sale of property, plant, and equipment	7	14	6
Computer software expenditures	—	(9)	(12)
Net cash used for investing activities of discontinued operations	(3)	(1)	—
Cash (used for) provided by investing activities	(3)	(1,038)	28
CASH FLOWS FROM FINANCING ACTIVITIES			
Net change in short-term borrowings	225	178	184
Proceeds from long-term debt	—	421	—
Repayment of long-term debt	(280)	(2)	(356)
Debt issuance costs	—	(2)	—
Proceeds from exercise of stock options	19	27	11
Excess tax benefits from stock options	7	8	10
Acquisition of treasury stock	(3)	—	(223)
Special distribution to stockholders	—	—	(204)
Dividends paid	(128)	(143)	(158)
Cash (used for) provided by financing activities	(160)	487	(736)
Effect of exchange rate changes on cash and cash equivalents	—	4	10
Net increase (decrease) in cash and cash equivalents	180	(192)	(164)
Cash and cash equivalents, beginning of year	295	475	283
Cash and cash equivalents, end of year	$475	$283	$119
SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR:			
Interest	$ 21	$ 32	$ 50
Income taxes	$188	$205	$236

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

(Dollars expressed in millions, except per share amounts)

Year Ended April 30,	2006	2007	2008
CLASS A COMMON STOCK	$ 9	$ 9	$ 9
CLASS B COMMON STOCK	10	10	10
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	34	47	64
Stock issued under compensation plans	—	2	3
Stock-based compensation expense	8	6	6
Adjustment for stock option exercises	(3)	1	(9)
Excess tax benefits from stock options	8	8	10
Balance at end of year	47	64	74
RETAINED EARNINGS			
Balance at beginning of year	1,415	1,607	1,649
Net income	320	389	440
Cash dividends ($1.05, $1.165, and $1.285 per share, in 2006, 2007, and 2008, respectively)	(128)	(143)	(158)
Special cash distribution to stockholders ($1.6533 per share in 2007)	—	(204)	—
Balance at end of year	1,607	1,649	1,931
TREASURY STOCK, AT COST			
Balance at beginning of year	(147)	(128)	(102)
Acquisition of treasury stock	(3)	—	(223)
Stock issued under compensation plans	21	24	17
Stock-based compensation expense	1	2	4
Balance at end of year	(128)	(102)	(304)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)			
Balance at beginning of year	(11)	18	(57)
Net other comprehensive income	29	19	62
Adjustment to initially apply SFAS 158, net of tax of $60 (Note 12)	—	(94)	—
Balance at end of year	18	(57)	5
TOTAL STOCKHOLDERS' EQUITY	$1,563	$1,573	$1,725
COMPREHENSIVE INCOME			
Net income	$ 320	$ 389	$ 440
Other comprehensive income (loss):			
Foreign currency translation adjustment	(3)	22	53
Pension and other postretirement benefits adjustment, net of tax of $(21), $1, and $9 in 2006, 2007, and 2008, respectively	33	(1)	11
Amounts related to cash flow hedges:			
Reclassification to earnings, net of tax of $2, $(2), and $(4) in 2006, 2007, and 2008, respectively	(4)	3	7
Net gain (loss) on hedging instruments, net of tax of $(2), $3, and $6 in 2006, 2007, and 2008, respectively	3	(6)	(9)
Net other comprehensive income	29	18	62
Total comprehensive income	$ 349	$ 407	$ 502
CLASS A COMMON SHARES OUTSTANDING (IN THOUSANDS)			
Balance at beginning of year	56,782	56,829	56,870
Acquisition of treasury stock	—	—	(340)
Stock issued under compensation plans	47	41	43
Balance at end of year	56,829	56,870	56,573
CLASS B COMMON SHARES OUTSTANDING (IN THOUSANDS)			
Balance at beginning of year	65,106	65,636	66,367
Acquisition of treasury stock	(91)	—	(2,937)
Stock issued under compensation plans	621	731	589
Balance at end of year	65,636	66,367	64,019
TOTAL COMMON SHARES OUTSTANDING (IN THOUSANDS)	122,465	123,237	120,592

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

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 investments are classified as available-for-sale and recorded at cost, which approximated fair value.

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 62% 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 $126 and $150 higher than reported at April 30, 2007 and 2008, 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, vehicles, 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 estimated 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 estimated 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.

Sales discounts. Sales discounts, which are recorded as a reduction of net sales, totaled $157, $242, and $303 for 2006, 2007, and 2008, respectively.

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.

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 all 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.

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

	2006	2007	2008
Basic and diluted net income (loss):			
Continuing operations	$ 395	$ 400	$ 440
Discontinued operations	(75)	(11)	—
Total	$ 320	$ 389	$ 440
Share data (in thousands):			
Basic average common shares outstanding	122,094	122,868	122,464
Dilutive effect of non-vested restricted stock	31	59	91
Dilutive effect of stock options and SSARs	1,314	1,274	1,054
Diluted average common shares outstanding	123,439	124,201	123,609
Basic earnings (loss) per share:			
Continuing operations	$ 3.24	$ 3.26	$ 3.59
Discontinued operations	(0.62)	(0.09)	—
Total	$ 2.62	$ 3.17	$ 3.59
Diluted earnings (loss) per share:			
Continuing operations	$ 3.20	$ 3.22	$ 3.55
Discontinued operations	(0.61)	(0.09)	—
Total	$ 2.60	$ 3.14	$ 3.56

Note: Earnings (loss) per share amounts for continuing operations and discontinued operations may not add to total amount for the company due to rounding.

Stock-based awards for approximately 333,000 common shares and 756,000 common shares were excluded from the calculation of diluted earnings per share for 2007 and 2008, respectively, because the exercise price of the awards was greater than the average market price of the shares.

In November 2007, our Board of Directors authorized the repurchase of up to $200 of outstanding Class A and Class B common stock, subject to market and certain other conditions. We completed that share repurchase plan in March 2008. Under the plan, we repurchased a total of 2,977,250 shares (42,600 of Class A and 2,934,650 of Class B) for $200. The average repurchase price per share, including commissions, was $68.76 for Class A and $67.17 for Class B.

Stock-based compensation. 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 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.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. 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.

In December 2007, the FASB issued SFAS 141(R), *Business Combinations*, which establishes accounting principles and disclosure requirements for all transactions in which a company obtains control over another business.

In December 2007, the FASB issued SFAS 160, *Noncontrolling Interests in Consolidated Financial Statements*, which prescribes the accounting by a parent company for minority interests held by other parties in a subsidiary of the parent company.

In March 2008, the FASB issued SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities*, which requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements.

SFAS 157 and SFAS 159 become effective as of the beginning of our 2009 fiscal year. However, the FASB has deferred, until the beginning of our 2010 fiscal year, the effective date of SFAS 157 as it relates to nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS 141(R) and SFAS 160 become effective as of the beginning of our 2010 fiscal year, while SFAS 161 becomes effective as of the end of our 2009 fiscal year. We do not expect our adoption of these pronouncements to have a material impact 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 2006.

After we sold Lenox, we retained ownership of Brooks & Bentley, a former Lenox subsidiary 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 operating results of Brooks & Bentley and Hartmann 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 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 reflected 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 its ultimate sale.

A summary of discontinued operations follows:

Year Ended April 30,	2006	2007	2008
Net sales	$166	$ 50	$ —
Operating expenses	(178)	(53)	—
Impairment charge	(60)	(9)	—
Transaction costs	(10)	(1)	—
Loss before income taxes	(82)	(13)	—
Income tax benefit	7	2	—
Net loss from discontinued operations	$ (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.

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 believe the el Jimador ready-to-drink brand extension, New Mix, which is the category leader in the Mexican market, also has growth potential. 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.

The cost of the acquisition was $794, including transaction costs of $16, and was allocated based on management's estimates as follows:

Cash	$ 2
Accounts receivable	39
Inventories	124
Other current assets	48
Property, plant, and equipment	65
Deferred income taxes	4
Goodwill	355
Trademarks and brand names	215
Total assets	852
Accounts payable and accrued expenses	52
Long-term debt	1
Other noncurrent liabilities	5
Total liabilities	58
Net assets acquired	$794

Standard valuation procedures were used in determining the fair value of the acquired trademarks and brand names, which were determined to have indefinite lives. We expect the entire goodwill amount of $355 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, 2006	$192
Acquisition of Chambord (Note 3)	127
Acquisition of Casa Herradura (Note 3)	346
Foreign currency translation adjustment	5
Balance as of April 30, 2007	670
Casa Herradura purchase price finalization	8
Foreign currency translation adjustment	10
Balance as of April 30, 2008	$688

In May 2007, we ended our joint ventures in the tequila business with the Orendain family of Mexico. We had shared ownership of the "Don Eduardo" and other "Orendain" trademarks and related intellectual property with the Orendain family since 1999 through two joint venture companies: Tequila Orendain de Jalisco (TOJ) and BFC Tequila Limited (BFCTL). TOJ produced the tequila and held the trademarks in Mexico. BFCTL owned the trademarks for all markets excluding Mexico. Upon ending the joint ventures (which were not material to our consolidated results of operations or financial position), we acquired the remaining portion of the global trademark for the Don Eduardo super-premium tequila brand that we did not already own. In exchange, we paid $12 to the other shareholders of TOJ and BFCTL and surrendered to them our interest in all other Orendain trademarks previously owned by these two companies.

As of April 30, 2007 and 2008, our other intangible assets consisted of:

	Gross Carrying Amount		*Accumulated Amortization*	
	2007	2008	2007	2008
Finite-lived intangible assets:				
Customer relationships	$ 4	$ —	$ —	$ —
Distribution rights	25	25	(2)	(7)
	$ 29	$ 25	$ (2)	$ (7)
Indefinite-lived intangible assets:				
Trademarks and brand names	$ 657	$681	$ —	$ —

Amortization expense related to intangible assets was $2 in 2007 and $5 in 2008. We expect to recognize amortization expense of $5 in 2009, $5 in 2010, $5 in 2011, and $3 in 2012. 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 total purchase obligations related to both types of contracts of $29 in 2009, $22 in 2010, $16 in 2011, $11 in 2012, $8 in 2013, and $21 after 2013.

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 10 years. As of April 30, 2008, based on current market prices, obligations under these contracts totaled $22.

We made rental payments for real estate, vehicles, and office, computer, and manufacturing equipment under operating leases of $16 in 2006, $19 in 2007, and $19 in 2008. We have commitments related to minimum lease payments of $17 in 2009, $14 in 2010, $11 in 2011, $6 in 2012, $4 in 2013, and $4 after 2013.

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, 2008, we were within this covenant's parameters. At April 30, 2008, 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,	2007	2008
3.0% notes, due in fiscal 2008	$350	$ —
Variable-rate notes, due in fiscal 2010	150	150
5.20% notes, due in fiscal 2012	250	250
Other	26	21
	776	421
Less current portion	354	4
	$422	$417

Debt payments required over the next five fiscal years consist of $4 in 2009, $154 in 2010, $4 in 2011, $253 in 2012, and $3 in 2013. The weighted average interest rate on the variable-rate notes was 5.4% and 4.0% at April 30, 2007 and 2008, respectively. In addition to long-term debt, we had short-term borrowings outstanding with weighted average interest rates of 5.3% and 2.2% at April 30, 2007 and 2008, respectively.

8. DERIVATIVE FINANCIAL INSTRUMENTS We use foreign currency options and forward contracts to protect 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, 2008, we had some forward contracts with maturities approaching two years. We designate these derivative financial instruments as 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 $406 and $342 at April 30, 2007 and 2008, respectively. We also had forward contracts hedging the fair value of a Mexican peso-denominated intercompany receivable, with a notional value of approximately $120 and $49 at April 30, 2007 and 2008, respectively. 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.

As of April 30, 2008, we have an interest rate swap contract outstanding with a $75 notional value to fix the rate on a portion of our variable-rate notes for the nine-month period ending July 1, 2008. We have designated this contract as a cash flow hedge.

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 also had outstanding exchange-traded futures and options contracts on 1 million and 3 million bushels of corn as of April 30, 2007 and 2008, respectively. As these contracts are not designated as hedges for accounting purposes, gains and losses related to them are immediately recognized in earnings.

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 commodity and 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,	2007		2008	
	Carrying Amount	*Fair Value*	*Carrying Amount*	*Fair Value*
Assets:				
Cash and cash equivalents	$283	$283	$119	$119
Short-term investments	86	86	—	—
Commodity contracts	—	—	7	7
Liabilities:				
Foreign currency contracts	4	4	10	10
Short-term borrowings	401	401	585	585
Current portion of long-term debt	354	347	4	4
Long-term debt	422	422	417	417

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

April 30,	2007	2008
Property, plant, and equipment:		
Land	$ 88	$ 88
Buildings	323	342
Equipment	446	453
Construction in process	27	24
	884	907
Less accumulated depreciation	378	406
	$506	$501
Accounts payable and accrued expenses:		
Accounts payable, trade	$118	$129
Accrued expenses:		
Advertising	65	67
Compensation and commissions	93	86
Excise and other non-income taxes	41	41
Self-insurance claims	10	10
Postretirement benefits	4	7
Interest	3	2
Other	27	38
	243	251
	$361	$380

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:

	2006	2007	2008
United States	$395	$489	$533
Foreign	164	97	111
	$559	$586	$644

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,	2007	2008
Deferred tax assets:		
Postretirement and other benefits	$71	$71
Accrued liabilities and other	9	25
Inventories	62	76
Loss carryforwards	46	32
Valuation allowance	(32)	(28)
Total deferred tax assets, net	156	176
Deferred tax liabilities:		
Trademarks and brand names	(96)	(123)
Property, plant, and equipment	(40)	(40)
Total deferred tax liabilities	(136)	(163)
Net deferred tax asset	$20	$13

The $28 valuation allowance at April 30, 2008, 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 other capital loss carryforwards that expire in fiscal 2012.

Deferred tax liabilities were not provided on undistributed earnings of certain foreign subsidiaries ($230 and $233 at April 30, 2007 and 2008, 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 $41 and $42 would have been provided as of April 30, 2007 and 2008, respectively.

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 asset or liability ("deferred tax expense"). Total income tax expense for each of the last three years was as follows:

	2006	2007	2008
Current:			
Federal	$153	$141	$154
Foreign	16	27	26
State and local	19	16	19
	188	184	199
Deferred:			
Federal	(11)	5	3
Foreign	(8)	1	4
State and local	(5)	(4)	(2)
	(24)	2	5
	$164	$186	$204

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		
	2006	2007	2008
U.S. federal statutory rate	35.0%	35.0%	35.0%
State taxes, net of U.S. federal tax benefit	1.3	1.3	1.5
Income taxed at other than U.S. federal statutory rate	(1.5)	(1.5)	(1.8)
Tax benefit from export sales	(1.6)	(1.0)	—
Tax benefit from U.S. manufacturing	(0.7)	(0.7)	(1.8)
Capital loss benefit	(2.8)	—	—
Other, net	(0.4)	(1.4)	(1.2)
Effective rate	29.3%	31.7%	31.7%

Effective May 1, 2007, we adopted FIN 48, *Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109*, which clarifies the accounting for uncertainty in tax positions. This interpretation required 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. Upon adoption, we made no adjustment to our unrecognized tax benefits.

At April 30, 2008, we had $35 of gross unrecognized tax benefits, $26 of which would reduce our effective income tax rate if recognized. A reconciliation of the beginning and ending unrecognized tax benefits follows:

RECONCILIATION OF UNRECOGNIZED TAX BENEFITS, 2007 TO 2008

Unrecognized tax benefits, May 1, 2007	$43
Additions for tax positions provided in prior periods	1
Additions for tax positions provided in current period	4
Settlements of tax positions in the current period	(7)
Lapse of statutes of limitations	(6)
Unrecognized tax benefits, April 30, 2008	$35

We record interest and penalties related to unrecognized tax benefits as a component of our income tax provision. At April 30, 2008, the gross interest and penalties provided on FIN 48 contingencies in our consolidated balance sheet was $8. Due to the above-noted settlements and lapses of statutes of limitations, we reversed certain accruals of interest and penalties during 2008. As a result, the net amount of interest and penalties that reduced our effective tax rate and is reflected in our consolidated statement of operations was approximately $1.

We file income tax returns in the U.S., including several state and local jurisdictions, as well as in various other countries throughout the world in which we conduct business. The major jurisdictions and their earliest fiscal years that are currently open for tax examinations are 1998 in the U.S., 2004 in Ireland and Italy; 2003 in the U.K.; and 2002 in Finland and Poland.

We believe it is reasonably possible that the gross unrecognized tax benefits may decrease by approximately $5 in the next 12 months because of the expiration of statutes of limitations for various state income tax positions.

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. Below, we discuss 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 post-retirement 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 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.

	Pension Benefits		*Medical and Life Insurance Benefits*	
	2007	2008	2007	2008
Obligation at beginning of year	$414	$448	$ 53	$ 53
Service cost	13	13	1	1
Interest cost	24	27	3	3
Net actuarial loss (gain)	14	(21)	—	(3)
Plan amendments	—	1	—	—
Retiree contributions	—	—	1	1
Benefits paid	(16)	(17)	(4)	(3)
Effect of Hartmann sale	(1)	—	(1)	—
Obligation at end of year	$448	$451	$ 53	$ 52

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. Net 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. (We discuss actuarial assumptions used 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 2008 of $17 and $3, respectively. Expected benefit payments over the next 10 years are as follows:

	Pension Benefits	*Medical and Life Insurance Benefits*
2009	$ 21	$ 3
2010	22	3
2011	24	3
2012	25	3
2013	26	3
2014-2018	155	16

Assets. We specifically invest in 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, 2007 and 2008, and the target allocation for 2009, by asset category, are as follows:

	Actual 2007	Actual 2008	Target 2009
Equity securities	71%	56%	57%
Debt securities	15	22	20
Real estate	6	10	8
Other	8	12	15
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 post-retirement medical or life insurance benefits.)

	Pension Benefits		*Medical and Life Insurance Benefits*	
	2007	2008	2007	2008
Fair value at beginning of year	$368	$396	$ —	$ —
Actual return on plan assets	42	16	—	—
Retiree contributions	—	—	1	1
Company contributions	2	2	3	2
Benefits paid	(16)	(17)	(4)	(3)
Fair value at end of year	$396	$397	$ —	$ —

Consistent with our funding policy, we expect to contribute $3 to our postretirement medical and life insurance benefit plans in 2009. While we may decide to contribute more, we currently expect to contribute $4 to our pension plans in 2009.

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

	Pension Benefits		*Medical and Life Insurance Benefits*	
	2007	2008	2007	2008
Assets	$396	$397	$ —	$ —
Obligations	(448)	(451)	(53)	(52)
Assets contributed after measurement date	—	1	1	—
Funded status	$(52)	$(53)	$(52)	$(52)

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

	Pension Benefits		*Medical and Life Insurance Benefits*	
	2007	2008	2007	2008
Prepaid pension cost	$ 23	$ 23	$ —	$ —
Accounts payable and accrued expenses	(1)	(4)	(3)	(3)
Accrued postretirement benefits	(74)	(72)	(49)	(49)
Net liability	$ (52)	$ (53)	$(52)	$(52)
Accumulated other comprehensive loss:				
Net actuarial loss	$148	$131	$ 9	$ 5
Prior service cost	5	5	1	1
	$153	$136	$ 10	$ 6

On April 30, 2007, we adopted SFAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. 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. 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.

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

	Before Application of SFAS 158	*Adjustments*	*After Application of SFAS 158*
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.)

	Plan Assets		*Accumulated Benefit Obligation*		*Projected Benefit Obligation*	
	2007	2008	2007	2008	2007	2008
Plans with assets in excess of accumulated benefit obligation	$396	$397	$346	$336	$396	$397
Plans with accumulated benefit obligation in excess of assets	—	—	42	45	52	54
Total	$396	$397	$388	$381	$448	$451

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.

	Pension Benefits		
	2006	2007	2008
Service cost	$13	$13	$13
Interest cost	22	24	27
Expected return on plan assets	(32)	(32)	(32)
Amortization of:			
Prior service cost	1	1	1
Net actuarial loss	8	12	12
Net expense	$12	$18	$21

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 2009 is $1 and $8, 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 gain or 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.

	Medical and Life Insurance Benefits		
	2006	2007	2008
Service cost	$1	$1	$1
Interest cost	3	3	3
Net expense	$4	$4	$4

Other comprehensive income. Since we adopted SFAS 158, changes in the funded status of our benefit plans that are not recognized in net income (as pension and other postretirement benefit expense) are instead recognized in other comprehensive income. Other comprehensive income is also adjusted to reflect the amortization of the prior service cost and net actuarial gain or loss, which is a component of net pension and other postretirement benefit expense, from accumulated other comprehensive income (loss) to net income. This table shows the amounts recognized in other comprehensive income during 2008:

	Pension Benefits	*Medical and Life Insurance Benefits*
Prior service cost	$ 1	$ —
Actuarial gain	(5)	(3)
Amortization reclassified to net income:		
Prior service cost	(1)	—
Net actuarial loss	(12)	—
Net amount recognized in other comprehensive income	$(17)	$ (3)

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:

	Pension Benefits		*Medical and Life Insurance Benefits*	
(In percent)	2007	2008	2007	2008
Discount rate	6.04	6.64	5.98	6.45
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:

	Pension Benefits			*Medical and Life Insurance Benefits*		
(In percent)	2006	2007	2008	2006	2007	2008
Discount rate	5.80	5.95	6.04	5.80	5.95	5.98
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. We determined the discount rate using a yield curve based on the interest rates of high-quality debt securities with maturities corresponding to the expected timing of our benefit payments.

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:

	Medical and Life Insurance Benefits	
(In percent)	2007	2008
Health care cost trend rate assumed for next year:		
Present rate before age 65	10.0	9.0
Present rate age 65 and after	10.0	9.0

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, 2008, by $5 and the aggregate service and interest costs for 2008 by less than $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, $8, and $9 for matching contributions during 2006, 2007, and 2008, respectively.

13. SEGMENT INFORMATION The following table presents our net sales by product category and geographic region:

	2006	2007	2008
Net sales:			
Spirits	$2,049	$2,425	$2,896
Wine	363	381	386
	$2,412	$2,806	$3,282

	2006	2007	2008
Net sales:			
United States	$1,404	$1,498	$1,564
Europe	709	816	955
Other	299	492	763
	$2,412	$2,806	$3,282

Net sales are attributed to countries based on where customers are located. The net book value of property, plant, and equipment located in Mexico was $63 and $64 as of April 30, 2007 and 2008, respectively. Other 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.

Brown-Forman Corporation and many other manufacturers of spirits, wine, and beer were defendants in a series of nine essentially identical putative class action lawsuits that began in 2003 seeking damages and injunctive relief for alleged marketing of beverage alcohol to underage consumers. As each of these cases has been dismissed or withdrawn, the last in November 2007, this series of litigation is concluded.

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, 2008, awards for 4,412,000 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. 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 2006, 2007, and 2008 were $12.59, $16.46, and $15.25 per award, respectively. Fair values were estimated using the Black-Scholes pricing model with the following assumptions:

	2006	2007	2008
Risk-free interest rate	4.0%	5.0%	4.7%
Expected volatility	22.0%	16.9%	17.2%
Expected dividend yield	1.9%	1.8%	1.7%
Expected life (years)	6	6	6

Here is a summary of stock option and SSAR activity under the Plan as of April 30, 2008, and changes during the year then ended:

	Shares (in thousands)	*Weighted Average Exercise Price Per Option/SSAR*	*Weighted Average Remaining Contractual Term*	*Aggregate Intrinsic Value*
Outstanding at May 1, 2007	4,215	$ 41.48		
Granted	442	68.20		
Exercised	(1,001)	40.23		
Forfeited or expired	(77)	52.59		
Outstanding at April 30, 2008	3,579	$44.89	5.1	$84
Exercisable at April 30, 2008	2,524	$36.39	3.9	$80

The total intrinsic value of options and SSARs exercised during 2006, 2007, and 2008 was $23, $26, and $31, respectively.

We also grant restricted shares of common stock under the Plan. As of April 30, 2008, there are approximately 150,000 restricted shares outstanding, with a weighted-average remaining restriction period of 2.7 years. The following table summarizes restricted stock activity during 2008.

	Weighted Restricted Shares (in thousands)	*Average Fair Value at Grant Date*
Outstanding at May 1, 2007	122	$49.79
Granted	43	73.11
Vested	(15)	55.92
Outstanding at April 30, 2008	150	$55.86

The total fair value of restricted stock vested during 2008 was $1. No restricted stock vested during 2006 or 2007.

The accompanying consolidated statements of operations reflect compensation expense related to stock-based incentive awards on a pre-tax basis of $8 in 2006, $8 in 2007, and $10 in 2008, partially offset by deferred income tax benefits of $3 in 2006, $3 in 2007, and $4 in 2008. As of April 30, 2008, 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 2.2 years.

16. 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.

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 U.S. (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, 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.

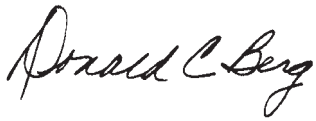
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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, 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. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of April 30, 2008, has been audited by PwC as stated in their report that appears on page 50.

Paul C. Varga
President and Chief Executive Officer



Donald C. Berg
Executive Vice President and Chief Financial Officer

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

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, 2008 and April 30, 2007, and the results of their operations and their cash flows for each of the three years in the period ended April 30, 2008 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of April 30, 2008, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing on page 49 of this Annual Report to Stockholders. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Louisville, Kentucky
June 27, 2008

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," "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 our historical experience or our current expectations or projections. Here is a non-exclusive list of such risks and uncertainties:

- continuation of the deterioration in general economic conditions, particularly in the U.S., where we earn about half of our profits, and other markets with economies linked to the U.S., including higher energy prices, declining home prices, deterioration of the sub-prime lending market, decreased discretionary income, or other factors;
- pricing, marketing, and other competitive activity focused against our major brands;
- lower consumer confidence or purchasing related to economic conditions, major natural disasters, terrorist attacks, or widespread outbreak of infectious diseases;
- tax increases, tariff barriers, or other restrictions affecting beverage alcohol, whether at the federal or state level in the U.S. or in other major markets around the world, and the unpredictability or suddenness with which they can occur;
- 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 our other major markets;
- fluctuations in the U.S. dollar against foreign currencies, especially the British pound, euro, Australian dollar, and the South African rand;
- reduced bar, restaurant, hotel, and travel business, including travel retail;
- longer-term, a change in consumer preferences, societal attitudes, or cultural trends that results in the reduced consumption of our premium beverage alcohol or our ready-to-drink products;
- changes in distribution arrangements in major markets that limit our ability to market or sell our products;
- adverse impacts relating to our acquisition strategies or our integration of acquired businesses and conforming them to our trade practice standards, financial controls environment, and U.S. public company requirements;
- price increases in energy or raw materials, including grapes, grain, agave, wood, glass, or plastic;
- changes in climate conditions, agricultural uncertainties, or other supply limitations that adversely affect the price, availability, or quality of grapes, agave, grain, glass, closures, or wood;
- termination of our rights to distribute and market agency brands in our portfolio;
- press articles or other public media related to our company, brands, personnel, operations, business performance, or prospects;
- counterfeit production of our products and any resulting negative effect on our intellectual property rights or brand equity; and
- adverse developments stemming from state or federal investigations of beverage alcohol industry marketing or trade practices of suppliers, distributors, or retailers.

BROWN-FORMAN CORPORATION BOARD OF DIRECTORS

Geo. Garvin Brown IV [1] [4]
Presiding Chairman of the Board, Brown-Forman Corporation; Vice President and Director, Jack Daniel's Europe Africa

Owsley Brown II [6]
Former Chairman, Brown-Forman Corporation, Louisville, Kentucky

Paul C. Varga [1]
Chairman and Chief Executive Officer, Brown-Forman Corporation, Louisville, Kentucky

Patrick Bousquet-Chavanne [3]
President and Chief Executive Officer, T-Ink, Inc., New York, New York

Barry D. Bramley [2] [4]
Former Chairman and Chief Executive Officer, British-American Tobacco Company, Ltd., London, England

Martin S. Brown, Jr.
Partner, Adams and Reese LLP, Nashville, Tennessee

Donald G. Calder [2] [4]
President and Chief Financial Officer, G. L. Ohrstrom & Co., Inc., New York, New York

Sandra A. Frazier
Founder and Member, Tandem Public Relations, LLC, Louisville, Kentucky

Richard P. Mayer [3] [4]
Former Chairman and Chief Executive Officer, Kraft General Foods North America (now Kraft Foods, Inc.), Northfield, Illinois

William E. Mitchell [2]
Chairman, President, and Chief Executive Officer, Arrow Electronics, Inc., Melville, New York

Matthew R. Simmons [3]
Founder and Chairman, Simmons and Company International, Houston, Texas

William M. Street [2]
Former President, Brown-Forman Corporation, Louisville, Kentucky

Dace Brown Stubbs
Private Investor, Vero Beach, Florida

James S. Welch, Jr. [1]
Vice Chairman, Brown-Forman Corporation, Louisville, Kentucky

BROWN-FORMAN CORPORATION EXECUTIVE COMMITTEE OFFICERS

Paul C. Varga [1]
Chairman and Chief Executive Officer

James S. Welch, Jr. [1]
Vice Chairman

James L. Bareuther
Executive Vice President and Chief Operating Officer

Donald C. Berg
Executive Vice President and Chief Financial Officer

Matthew E. Hamel [5]
Executive Vice President, General Counsel, and Secretary

Mark I. McCallum
Executive Vice President and Chief Brands Officer

Jill A. Jones
Senior Vice President

Philip A Lichtenfels
Senior Vice President

Jane C. Morreau
Senior Vice President

Lisa P. Steiner
Senior Vice President

Marshall B. Farrer
Vice President

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

(2) Member of Audit Committee

(3) Member of Compensation Committee

(4) Member of the Nominating Committee

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

(6) Retirement effective July 24, 2008

BROWN-FORMAN CORPORATION EXECUTIVE COMMITTEE

From left: Mark I. McCallum, Executive Vice President and Chief Brands Officer; Phoebe A. Wood, (retired) Vice Chairman and Chief Financial Officer; James L. Bareuther, Executive Vice President and Chief Operating Officer; Jill A. Jones, Senior Vice President, Managing Director Global Production; Paul C. Varga, Chairman and Chief Executive Officer; Donald C. Berg, Executive Vice President and Chief Financial Officer; Lisa P. Steiner, Senior Vice President, Director Global Human Resources; Matthew E. Hamel, Executive Vice President, General Cousel, and Secretary; Jane C. Morreau, Senior Vice President, Director Finance/Accounting and Technology; Marshall B. Farrer, Vice President, Director Latin America and Carribean; James S. Welch Jr., Vice Chairman; and Philip A. Lichtenfels, Senior Vice President and Chief of Staff

BROWN FAMILY DIRECTORS AND EMPLOYEES

From left: Geo. Garvin Brown IV, Presiding Chairman of the Board, Brown-Forman Corporation, Vice President, Director Jack Daniel's Europe Africa; Martin S. Brown, Jr., Director, Brown-Forman Corporation; J. McCauley Brown, Vice President, Director Business Services; Sandra A. Frazier, Director, Brown-Forman Corporation; Ann McCauley Williams, Market Brand Manager Jack Daniel's; Marshall B. Farrer, Vice President, Director Latin America and Caribbean; Christopher L. Brown, On Premise Manager; Clay L. Kannapell, Manager SKU Processes; Campbell P. Brown, Vice President, Director Southern Comfort Americas; Robinson S. Brown IV, Area Manager; Barbara A. Hurt, Associate Promotions Manager; Dace Brown Stubbs, Director, Brown-Forman Corporation; and Owsley Brown II, Director, Brown-Forman Corporation (retirement July 24, 2008)

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

Internet Address: www.brown-forman.com

E-mail Address: brown-forman@b-f.com

Employees
On April 30, 2008, Brown-Forman employed about 4,466 people, including approximately 331 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 3,417 holders of record of Class A Common Stock and 4,028 holders of record of Class B Common Stock as of April 30, 2008. Stockholders reside in all 50 states and in 26 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. 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, Corporate Governance and Nominating 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, Matt Hamel, 850 Dixie Highway, Louisville, KY 40210 or e-mailing him at Matt_Hamel@b-f.com

Listed
New York Stock Exchange
New York City
BFA/BFB

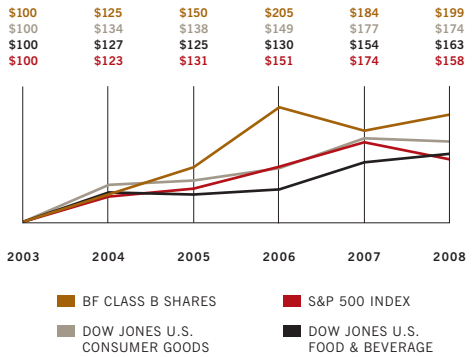
Registrar and Transfer Agent and Dividend Disbursing Agent
National City Bank
Cleveland, Ohio
E-mail Address: shareholder.inquiries@nationalcity.com

Counsel
Stoll Keenon Ogden PLLC
Louisville, Kentucky

Independent Registered Public Accounting Firm
PricewaterhouseCoopers LLP
Louisville, Kentucky

Stock Performance Graph
This graph compares the cumulative total shareholder return of our Class B Common Stock against the Standard & Poor's 500 Stock Index, the Dow Jones U.S. Consumer Goods Index, and the Dow Jones U.S. Food & Beverage Index. The graph assumes $100 was invested on April 30, 2003, and that all dividends were reinvested. The cumulative returns shown on the graph represent the value that these investments would have had on April 30 in the years since 2003.

COMPOUND ANNUAL GROWTH IN TOTAL SHAREHOLDER RETURN
(as of April 30, 2008, including dividend reinvestment)



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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BROWN-FORMAN

850 DIXIE HIGHWAY LOUISVILLE, KENTUCKY 40210 WWW.BROWN-FORMAN.COM