

**HAWESKO**  
HOLDING AG

# ANNUAL REPORT

1 9 9 9

HAWESKO HOLDING AKTIENGESELLSCHAFT

# HAWESKO HOLDING AG

## KEY DATA FOR THE HAWESKO GROUP

(For explanatory notes on the individual items, see glossary, page 71)

(Proforma)

Figures in DM million

(figures for shares in DM)

	1999	1998	1997	1997*	1996*	1995*
Net sales	413.8	303.0	277.1	277.1	239.4	210.6
Gross profit	179.4	143.6	129.7	129.8	113.2	102.5
– as % of net sales	43.4%	47.4%	46.8%	46.8%	47.3%	48.7
Operating result before depreciation (EBITDA)	44.0	40.5	34.7	34.7	33.0	32.3
– as % of net sales	10.6%	13.4%	12.5%	12.5%	13.8%	15.3%
Depreciation	6.6	5.3	3.8	4.3	3.6	3.3
Operating result (EBIT)	37.4	35.2	30.9	30.4	29.4	29.0
– as % of net sales	9.0%	11.6%	11.2%	11.0%	12.3%	13.8%
Consolidated net income for the year	23.1	20.3	16.9	20.2	19.7	19.3
DVFA / SG earnings	20.8	21.8	--	21.1	20.2	19.8
Cash flow for the year (gross)	36.0	24.9	--	25.8	13.2	--
Investments	27.6	5.5	--	8.1	3.3	3.8
Dividend distribution for the current year (Holding AG)	11.7	11.7	--	--	--	--
Fixed assets	52.3	29.0	29.0	27.5	23.8	24.2
Current assets	192.8	105.0	88.2	88.2	70.0	61.6
Equity less distributed dividends and minority interests	57.1	47.5	20.5	19.0	35.4	35.6
– as % of balance sheet total	23.2%	35.3%	17.4%	16.3%	37.7%	41.4%
Total assets	246.4	134.7	117.6	116.1	93.8	85.9
Capital employed	163.7	90.7	72.0	68.6	57.9	46.2
Return on total assets	19.6%	27.9%	29.2%	29.0%	32.7%	--
Return on capital employed	29.4%	43.3%	47.6%	48.1%	56.5%	--
DVFA/SG earnings per share	4.73	4.96	--	5.28	5.04	4.95
Dividend per share (without German tax credit)	2.65	2.65	--	--	--	--
Total shares	4,405,496	4,405,496	--	4,000,000	4,000,000	4,000,000
Year-end share price in DM	61.22	93.00	--	--	--	--
in euro	31.30	47.55	--	--	--	--
Market capitalisation at end of year in DM	269.7	409.7	--	--	--	--
in euro	137.9	209.5	--	--	--	--
Total employees (average for the year)	455	353	328	325	227.5	213

\* »As-if«-financial statements according to issuing prospectus



# MISSION STATEMENT

Wine is part of our culture. Culture is a living thing, and we at Hawesko endeavour to keep this aspect of our culture alive.

The market for premium wines is our home territory.

Our customers are those who enjoy and appreciate top-class wines.

Our aim is to provide innovative sales channels and a comprehensive range of services for their benefit.

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## CHAIRMAN'S LETTER

### DEAR SHAREHOLDERS AND FRIENDS OF OUR COMPANY,

1999 was a successful business year for the Hawesko Group. We improved our operating result and made significant progress towards becoming a leading specialist wine company in all of Europe. Sales including our recent acquisition, the *Wein Wolf* Group, rose by 36% to DM 414 million; even without the companies being included in the consolidated accounts for the first time, sales rose by 12%.

One source of disappointment to ourselves and above all to you, our shareholders, was without doubt the price of Hawesko shares. It is scant consolation that we were not the only company affected in this way. However, 1999 was a disappointing year worldwide for most companies with low market capitalisation. Other factors come into play in Hawesko's case. On the one hand, shares in consumer-related companies were generally out of favor. On the other, we invested in our future, at the expense of short-term profitability.

We can assume that the stock market will start to concentrate more on the promising shares of smaller companies, and not on simply the technology stocks with which it is currently focused. Hawesko's shares stand to benefit from such a development. The market for high-quality wines has ample potential. If we adhere systematically to our strategy and implement it as swiftly as possible, the price of our shares will reflect this.

You will all be aware that we have decided to concentrate on the upper segment of the wine market. This may at first glance appear to be a simple enough strategy. However, it can only succeed if a number of conditions are met. Hawesko meets these conditions. We have adhered strictly to the principles that my father espoused when founding the company over 30 years ago: top-quality products, a feeling for consumer trends, attentive care of the sensitive products we are dealing in, a perfect distribution organisation, and service tailored to customer requirements.

Our strength is that we know more about wine and about the requirements of our customers. The value of our company is based on the quality of our products, our customers and our service.

Chairman of the Management Board  
Alexander Margaritoff

Over the past two years, we have brought together our three sales channels of mail order, over-the-counter wine retailing and wholesaling to form a dynamic organisation. This facilitates the exchange of expertise. Our vision is to combine the traditional business of wine-trading with modern management, marketing and sales systems – in effect to build a bridge between the traditional and the modern.

We have already taken important steps towards achieving this goal. We will sharpen the brand image of our subsidiaries *Tesdorpf* and *Wein Wolf*, and raise our Internet profile through *winegate*. The segmented brand approach underpins our aim to exploit existing expertise in the form of our customer data bases to even greater effect in our marketing and sales work. By successfully launching a customer card, we have likewise helped *Jacques' Wein-Depot* to create a sales-oriented data base.

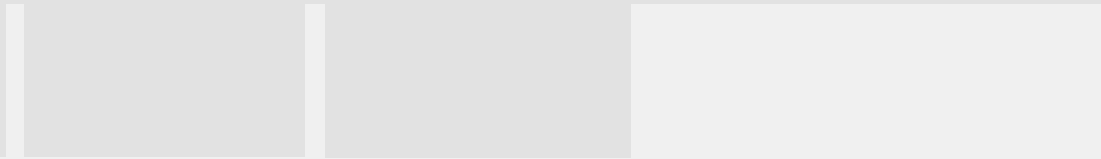
The markets in which Hawesko operates are fast-moving and intensely competitive. Thanks to our long-standing, deep relations with suppliers, we have a very firm foothold. However, in order to tackle the challenges of the future, we need a flexible, decisive, innovative management structure that is in touch with the market. And in a line of business where the qualities of the individual counts for much, we above all need committed employees with specialist knowledge and the resolve to focus entirely on serving the customer.

My colleagues on the Management Board and I are proud that Hawesko has top-rate personnel at every level of the company. We have created an environment in which creativity and dedication are universally rewarded. I would like to take this opportunity to thank all the company's employees and partners for the excellent atmosphere throughout the group and for their indispensable contribution to Hawesko's success. My thanks also include our customers and shareholders. Their satisfaction and trust are the very basis of our work. We will continue to do everything in our power to maintain our market lead and refine our strategy with a view to enhancing shareholder value.

Yours sincerely



Alexander Margaritoff  
Chairman of the Management Board



The Riesling is a universal wine; it is equally suitable as an aperitif and for accompanying fish and light meats. Mature Rieslings with a residual amount of sweetness go perfectly with meat dishes if the sauce has a sweetish hint.

## HAWESKO'S GUIDE TO GRAPE VARIETIES:

# RIESLING

Riesling is often described as the **king of wines**, and justly so. Scarcely any other variety develops such a **profound, complex blend of aromas**. Its origins remain unclear, but it is known for a fact that Riesling was widespread along the Rhine and Moselle in the 15th and 16th centuries. The Riesling is a variety which develops **magnificently** in particular in cooler regions such as Germany, where the ripening period is longer. Attempts by overseas producers to emulate the quality obtained in these latitudes have therefore mostly gone awry. Thanks to its **thick skin**, which lends it considerable resistance to rot, the Riesling grape is particularly suitable for the **production of elegant sweet wines** which are among the finest in the world. The vineyards **Weil, in the Rheingau, and Dr. Loosen, on the Moselle**, are **prime examples of class** German Rieslings which moreover offer immense potential for laying down.

“Why is wine so fascinating?

Because there are so many different kinds, and every single one is different.”

(Hugh Johnson)

## Q U A L I T Y   O N   T H E   A D V A N C E

“Old World” wines are part of Europe's culture. Until the end of the 1980s, they dominated the world market. The classic wine-producing countries France, Italy, Spain and Portugal accounted for over 85% of all wine exports. France was, and still is, regarded as the wine-producing country par excellence. High-quality clarets and Burgundies will probably never lose their prime status.

However, Europe's claim as the one-and-only home of top-quality wines is under attack. For many years now, vintners in the New World have been working hard to improve the quality of their wines, in order to compete with and surpass European producers. And they have been remarkably successful in this venture. Their share of the wine market has now reached 30%. They have adapted to the changing face of the wine market, where supreme-quality wines are increasingly in demand. This is a welcome development for the market as a whole, and in particular for the upmarket segment.

Rating systems, such as that devised by Robert Parker, are being used in an attempt to compare the quality of wines from the New and Old Worlds on a more objective footing. The Hawesko Group too uses these rating systems, as they have become an integral part of the wine scene and serve at least as a rough guide for the consumer. But we treat them with a measure of caution. Rating systems are no substitute for the magic of the individual wine-tasting, because there is ultimately always a subjective aspect to enjoying wine.

**THE QUEST FOR THE  
“PERFECT WINE”**

As part of their marketing strategy, overseas wine producers have striven to reduce the variations in taste between individual vintages, regions and locations. It remains to be seen whether this strategy will catch on in Europe. The pronounced fluctuations in the quality of wines are an important and acknowledged aspect of Western European wine culture. For many wine lovers, the quest to discover the perfect wine or a vineyard that is a hidden jewel is all part of the pleasure that wine affords. Differences in quality are a reflection of nature’s vagaries, and as such are accepted. The New World is likewise coming to recognize this. The best overseas wines are increasingly differentiating between individual locations.

It is not easy to find the “perfect wine”. The market is highly fragmented. There are innumerable producers offering thousands of different wines. In Bordeaux alone, there are more than 12,000 producers, and in the whole of Italy there are said to be more than one million vintners. From this immense pool of producers, the purchasing departments of the Hawesko Group seek out the best and most interesting for their customers.

**SUPPLIER RELATIONS  
DETERMINE THE QUALITY**

The number of wine producers worldwide is large, but the number of top producers very limited. Growing interest in high-quality wines means that the products of the latter are more and more in demand. In the light of this situation, the Hawesko Group’s promise to offer outstanding quality in conjunction with good value for money can only be fulfilled through strong relations with its suppliers. Ties that have been established over the

years, in many cases leading to exclusive agreements, guarantee us the quality and quantity we require, and give us a vital competitive edge. We enjoy such relations with wine-growers in both Europe and the New World. Hawesko was the first leading name to market Chilean and Australian wines in Germany. Our product policy is to concentrate on Europe and to play an active part in shaping the market, all the while recognising the fact that demand for premium New World wines is on the increase.

### **THE EXPANDING WINE TRADE**

Worldwide wine production is currently in the order of 255 million hectolitres (one hectolitre is one hundred litres) a year. Around 70% of this total is produced and consumed in Europe. The export share is around 30%; the international wine trade has doubled over the past 15 years. The largest exporters are France (16.4 million hl), Italy (15.6 million hl), Spain (10.7 million hl) and the USA (2.6 million hl). The leading importing nations are Germany (12 million hl), Great Britain (8.8 million hl) and France (5.6 million hl). This statistic reflects the important role played by European countries – in particular Germany as an importing nation – in the wine market. We are at home in this market.

### **THE LONG JOURNEY TO THE WINE CELLAR**

When the head of the household decides to open a good bottle of wine for the evening, he has at most to descend the steps that lead to the wine cellar. This journey is incomparably shorter than the journey that the wine has already completed upon being laid down in his cellar. The trading of high-quality wine involves a complex system of purchasing and logistics operations which critically influence product quality and service. The Hawesko Group has developed finely-tuned systems for this purpose, to ensure that they are all managed by people who have a deep affection for wine.

## **IT ALL STARTS IN THE VINEYARD**

There is an immense amount of wine on the supply side: standards differ widely, as do the types and also their typical taste. Selecting the right wines for the product range necessitates considerable expertise and a profound knowledge of the structure of the suppliers. Whoever deals in top-class wines, as the Hawesko Group does, needs long-standing relationships, based on trust, with leading producers. In the case of the 100 best chateaux in Bordeaux, the length of the relationship and the way the wine is marketed dictate how much each individual customer is able to buy.

*HAWESKO* benefits from an elaborate network of personal contacts with producers. In many cases these relations have been built up over more than 30 years and bear the hallmark of mutual trust. Our group employs 25 experts, including three graduate oenologists. They spend much of their time travelling, in order to nurture existing contacts with vintners and establish new contacts between *HAWESKO* and lesser-known wine producers who nevertheless demonstrate particular creativity.

## **MANY ARE TASTED, ONLY FEW ARE CHOSEN**

The decision as to which wine and which vintage to include in the product range is taken on the basis of a blind tasting conducted in-house. We thus ensure that the tasting conditions for all wines are effectively identical. A panel of experts assesses the quality of a wine and its market prospects. Trends in taste in the wine market are constantly shifting, and with them the range of products on offer. In recent years, New World

wines have gained an increasing share of the market. Our range includes such wines as Jim Barry and Chapel Hill from Australia, Nautilus from New Zealand, Hamilton Russell from South Africa, Casa Lapostolle and Los Vascos from Chile.

Wines for our mail order business are selected in Tornesch, just outside Hamburg; the range for the Jacques' retail outlets is chosen in Düsseldorf, and the task of deciding on the range for wholesale customers is spread between Tornesch and Bonn. Our group tests some 6,000 wines each year, of which around 500 make the grade and appear in our range.

Quality assurance measures for the wines we buy start with a visit to the vineyard and continue in our laboratories. Quality problems are rare. The vintners know us and the high standards we expect; they themselves attach considerable importance to the quality of their wines. Last year, less than 1% of wine supplied to us had to be rejected for quality reasons.

### **A SPRINGBOARD FOR FOREIGN EXPANSION**

A highly advanced logistics centre in the north of Hamburg is the focal point of our logistics and dispatch operations. This centre processes mail order business, as well as orders submitted via the Internet and express orders for wholesalers. Hermes-Versand-Service, the carrier that is part of the Otto mail order company, handles shipments on our behalf. Both our long-standing partnership with Hermes and our logistics centre that is specially designed to process wine provide us with a sound basis for extending our business outside Germany, should a suitable opportunity present itself. We will also continue to optimize the existing operating processes and bring them in line with rising requirements.

In view of the growing significance of e-commerce at *HAWESKO*, our logistics centre offers an ideal basis for handling Internet activities and the accompanying business processes them at low cost.

Since 1999 our own call centre has been increased by a team for serving key account customers and a team for Internet customers who submit their orders via the site *winegate.de*. This has been an important step, because it means that we are now able to provide customers with even more individualized service: the volume of orders rose by more than 70% in December 1999 during the seasonal business for gifts.

### **WE SET THE STANDARD FOR QUALITY AND SERVICE**

We are at home in the world of wine, and have chosen to concentrate on premium wines. We are the market leader in this segment, and will continue to strengthen this position. Demand for premium wines in Germany has been steadily on the increase for many years now. This trend will continue, as the demographics support it. Those born in the baby-boom years are now reaching an age at which wine acquires increasing importance as a luxury product. We moreover perceive scope for growth among the younger generation. Although the latter accounts for only a small share of overall demand, the cosmopolitan outlook and liberal lifestyle of members of this generation make them interesting customers for high-quality wines.

We aim to corner an above-average share of the anticipated growth in the wine market. Our strategy is simple but consistent. We offer wines that represent excellent value for money. The service that we provide makes the customer's decision to choose us as his source for wine an easy one.

Our marketing and sales work is supported by a detailed customer data base. We know the individual requirements of our customers and are able to propose products that reflect their preferences. Thanks to our customer proximity, we are able to identify new trends and actively adjust our business in response to them.

### **MANY ROADS LEAD TO THE CUSTOMER**

The wine market and its sales channels are multi-faceted. We reach our customers in the upper market segments by a variety of means. Firstly, through our catalogue of 500 wines and champagnes, as well as a range of 300 delicatessen items and accessories. The addition of this special section to our catalogue has prompted an increase in the response rate. We have also obtained access to a growing, affluent group of customers via new media. Around half of the customers who place orders via *winegate.de* are new customers with an extensive knowledge of wine. Catalogue-based or Internet orders can be delivered the next day, if desired. Our customers can in addition select extra services such as morning, afternoon or Saturday delivery. If they require advice, they can contact our special call centre staffed by trained wine advisors. Our mail order business won a comparative test conducted by the German wine magazine "Weinwelt".

## **THERE'S NO SUBSTITUTE FOR A TASTING**

The wine-tasting counter is the focal point of every *Jacques' Wein Depot* retail outlet. This is where our customers can consult our expert shop proprietors, or taste a wine with which they are unfamiliar – entirely without commitment. This relaxed atmosphere is what makes shopping at *Jacques'* such a pleasant experience.

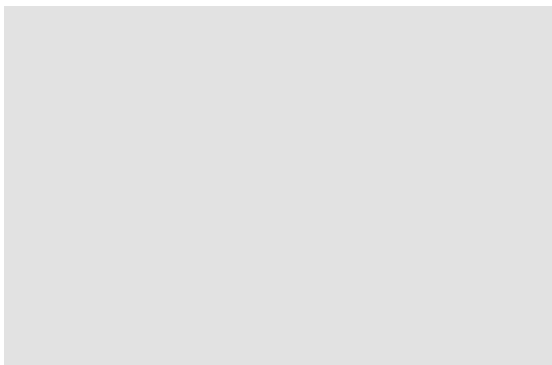
To mark the 25th anniversary of *Jacques' Wein-Depot* last October, we introduced a loyalty card. Around half of addresses in the *Jacques'* customer file, of which there are more than 400,000, have now been verified. Over 70% of sales are already registered on the new customer card. The customer data obtained in this way enable our sales and marketing activities to be aligned even more closely with the relevant target groups.

*Jacques' Wein-Depot* presents newly discovered wines every month, and regularly invites its customers to taste new items in its range. Our retail partners make sure that there is always something at new happening at *Jacques'*.

## **ASPIRING TO WINE'S HALL OF FAME**

Absolute top-class wines are expensive, and beyond the pockets of many wine drinkers. However, for the true connoisseur the sky is the limit. The 300-year-old Lübeck-based wine merchant *Weinhaus Carl Tesdorpf*, which is part of our group, is to be developed into a specialist for this type of wine.

The company *Wein Wolf* gives us a foothold in the world of haute cuisine. Obtaining a presence at leading restaurants is important to us, because it is only here that the potential customer will become acquainted with outstanding wines. Following the acquisition of a 90% shareholding in *Wein Wolf* in 1999, the number of our quality brand names doubled, with the addition of Spain's Torres and Taittinger champagne. *Wein Wolf* has now taken our business into Austria, giving us our first foothold in a market outside Germany.



Wholesale customers who would like to buy great wines and champagnes such as Bouchard, Norton and Bollinger without having to go through representatives can choose from *CWD*'s extensive range, with the option of diverse services that have been made possible by our ultramodern logistics system. Rapid delivery – even of small amounts – renders it unnecessary to hold extensive stocks. This gives us a genuine advantage over our competitors.

### **INTERNET – WE'RE PART OF IT**

We have been online since November 1999 with our website *winegate.de*. This already represents the second generation of e-commerce for us, and is characterized by user convenience and a high standard of customer service. The relaunch was linked to the announcement of an extensive partnership with Miles & More international: for all orders which qualify for air miles, customers of *winegate.de* collect miles for their Lufthansa Miles & More account. E-commerce sales mushroomed in the final quarter of 1999, rising six-fold to DM 1.2 million. A drive is currently in under way to promote *winegate.de*, with English and French versions scheduled for launch in the course of 2000.

### **HAWESKO – A LIVING, BREATHING ORGANISM**

Our marketing and sales strategies are not dogmatic. We are sensitive to shifting customer requirements, and are swift and thorough in registering changing consumer patterns, so that we can respond swiftly and flexibly. We are not afraid to be experimental in our marketing and advertising measures. If we make mistakes, we correct them immediately. Markets are dynamic – and so are we.

With its smooth, velvety character, merlot is the ideal accompaniment to succulent meat dishes such as beef or mild-flavoured game. As a component of a great claret, it can also be served with stronger-flavoured meat dishes.

## HAWESKO'S GUIDE TO GRAPE VARIETIES:

# MERLOT

The **Bordelais** is of course automatically associated with the merlot grape, which in fact originated from this region. In conjunction with cabernet sauvignon and cabernet franc, it gives the great wines of the **Médoc** or **St. Émilion** their fragrance and smoothness, and it is actually the dominant grape in some **Pomerols**, such as the incomparable **Château Petrus**. Merlot is an easy variety for the viticulturist to handle, as it ripens early and, provided its yield is suitably restricted, results in a wine of outstanding quality characterised by a **mild, pleasing acidity and a moderate amount of tannin**. These pleasing properties have also been recognised by overseas producers, who are increasingly switching to this variety of grape. In the New World, merlot is generally used to produce single-variety wines, with perhaps one exception: in South Africa, it is blended with cabernet sauvignon, as in the Bordeaux region, with potentially magnificent results as demonstrated by the **Grangehurst Winery**. Outstanding wines made exclusively from merlot include **Cuvaison**, in Napa Valley, and **Casa Lapostolle** in Chile, which produces the excellent Cuvée Alexandre.

## TRADE – »IT'S A PEOPLE BUSINESS«

Dedicated, skilled, obliging staff who are receptive to the customer's wishes are the key to a successful enterprise. *Hanseatisches Wein- und Sekt-Kontor*, *Jacques' Wein-Depot* and *Wein Wolf* all started out as small companies in which the founder was individually involved in meeting customers' requirements. It is our aim to preserve this spirit of enterprise at *Hawesko Holding AG* as it evolves into a sizeable group of companies. Whether contacting us by phone or calling in at a *Jacques'* retail outlet, we want our customers to sense that they are receiving expert service and are valued as individuals.

We attach considerable importance to one-to-one discussions and inter-personal contacts between our employees. An atmosphere of mutual recognition and concurring objectives fosters creativity. Individual incentive grows, and one good idea leads to another. We want our employees to share a deep sense of involvement in our strategies, and to develop complete concepts from the mosaic of individual ideas.

### **A GROUP-WIDE NETWORK OF KNOWLEDGE**

In 1999, the second year of the group's existence, the focus of our personnel policies was on forging a personal bond between the members of senior and middle management. "We have to overcome fears before we can start to exploit synergy benefits" was the guiding principle of a conference held at the Düsseldorf headquarters of *Jacques' Wein-Depot*. In a relaxed atmosphere, 60 employees holding key positions exchanged ideas and discussed the concept of a group-wide network for internal exchanges of knowledge and expertise.



We have now formed working groups spanning the individual group companies, to investigate the scope for synergy benefits in our marketing, purchasing, information technology and logistics activities. The findings of these parties are presented to the holding company's Management Board and directors at regular strategy meetings, and then translated to operative business.

Within *Jacques' Wein-Depot*, retail partners and to some extent their staff members are given further training in the form of regular internal courses and seminars. Wine tours are organised as a means of fostering communication and knowledge of wine-growing areas. In January 2000, 19 retail partners passed an examination, sponsored by the Chamber of Trade and Commerce, at the School of Wine and Sommeliers in Koblenz. A further 10 candidates will be registered by *Jacques' Wein Depot* for the next course, which will take place in the first half of 2000.

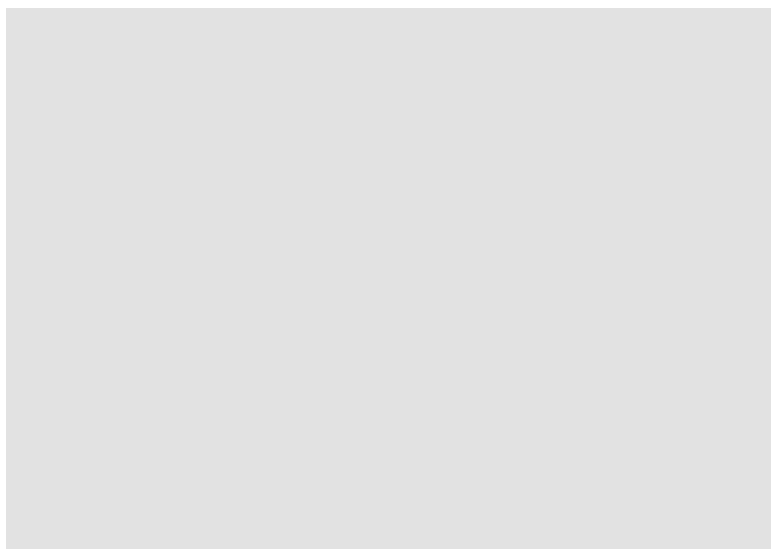
### **WE ARE CREATING JOBS**

Our need for qualified employees continues to grow. In the year under review, we created 27 new jobs at Hawesko. IT specialists and data base marketing specialists are particularly in demand. At *Jacques'*, the rapid expansion of recent years – the network of retail outlets has grown by 63 to 163 shops since 1995 – has led to a rise in the employee total. Over 100 people were recruited for the retail outlets and the headquarters. *Jacques'* in the first instance requires retail partners who run one or two shops as trade representatives, and are capable of demonstrating considerable specialist knowledge of wine when serving our customers. Irrespective of the sales channel, we have an increasing need for wine specialists who have a profound knowledge of wine-growing areas and speak one or more foreign languages. The challenge we are facing from Internet-based activities can only be met with the aid of e-commerce specialists. Details of all current vacancies can be found on [hawesko.com](http://hawesko.com).

In view of the shortage of suitable candidates in the segments that are important to us, we will step up our own measures to train specialists and train up junior management. We have taken steps to create new training schemes for the group.

### **EMPLOYEES SHARING IN OUR SUCCESS**

We continued to operate our employee profit-sharing scheme in 1999. The purpose is to allow our employees to share in the success of Hawesko and to hold onto our valued workforce. All employees were offered shares in *Hawesko Holding AG* at a discount on the quoted stock-exchange price. In the year under review, 23% of qualifying employees and 56% of management personnel took up this opportunity to invest in the company.



Chablis is the perfect accompaniment to all kinds of seafood. Chardonnays matured in new wooden barrels harmonise particularly well with fish and with choice poultry dishes.

## HAWESKO'S GUIDE TO GRAPE VARIETIES:

# CHARDONNAY

Chardonnay is without doubt the favourite variety of vintners worldwide, because no other equally elegant type of grape yields such good results on such widely differing terrain and responds so well to a wide range of viticultural methods. Legend has it that the Chardonnay originates from Cyprus, but its true homeland is of course **Burgundy**, where it produces some of the region's best wines on the **chalky soil of Meursault** or **Chablis**. In view of its adaptability, Chardonnay is now cultivated in all the world's main wine-growing regions, and overseas producers in particular have perfected the art of maturing this wine in small **oaken barrels**, or **barrisques**, adding a distinctive note of wood, caramel and vanilla to its fresh, fruity, mineral character. Delicately fresh, lighter wines can also be produced from the Chardonnay grape, for example in Northern Italy. The name **Laroche** is closely associated with top Chardonnays from **Chablis**; the Californian producer **Landmark** and the leading vineyard **Ca' del Bosco**, in Northern Italy, are leading figures in the new method of maturing Chardonnay.

**FINANCIAL CALENDAR**

Ordinary Shareholders' Meeting	June 8, 2000
Half-year report/2nd quarter	End of July 2000
Nine-month report/3rd quarter	End of October 2000
Preliminary report on 2000	Mid-February 2001

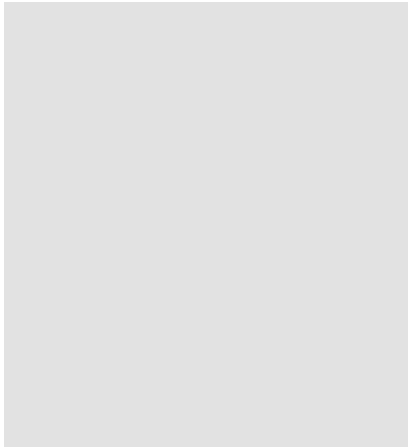
## SPECTACULAR SHARE INDEX MOVEMENTS

The German stock market celebrated a year of records in 1999. The DAX share index, which started the year on a weak 5,007 points, initially zig-zagged upwards before reaching a succession of record highs towards the end of the year. On the last trading day of 1999 it touched a year-high of 6,958.14 points. The stock exchange's euphoric mood, borne by technology stocks, continued into 2000. The DAX crossed the magic threshold of 7,000 points early in January.

**NOT ALL EXPECTATIONS FULFILLED**

Hawesko was one of the first companies to be included in the SMAX index. Its shares have been quoted in the new quality segment for "small caps" since April 26, 1999. As a SMAX company, we publish quarterly reports in German and English. We have appointed a bank as designated sponsor to ensure that there is a liquid market for Hawesko shares.

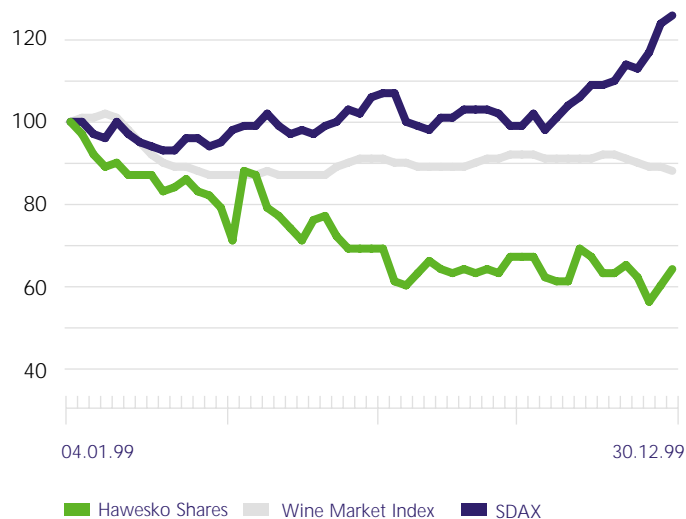
The development in the price of a Hawesko share did not keep pace with that of the DAX, MDAX and SDAX indices. Business progress in the year under review was not entirely up to expectations. This was due in part to a generally weak level of demand and the particular character of the wine market. We have moreover deliberately invested in extending and strengthening our operative business, at the expense of short-term profits.



## A COMMITMENT TO OUR SHAREHOLDERS

Our entrepreneurial decisions are driven by the goal of enhancing the value of the company in the long term. We are convinced that our strategy is taking effect and that Hawesko will develop into the largest market operator and player for premium wines both in Germany and abroad. The share price and, correspondingly, the company's market value will benefit from such a development. It is moreover clearly in the management's own interests to see that the share price makes sound progress. The members of the Management Board control 30,1% of the share capital. The success of the share options scheme moreover depends on the performance of Hawesko shares. It must out-perform the MDAX, which has been chosen as the reference index. Members of the Supervisory Board hold a total stake in the company of 1,3%.

## DEVELOPMENT IN THE PRICE OF HAWESKO HOLDING AG SHARES



Sources: Deutsche Börse AG, "Wine Business Monthly"

The Wine Market Index is drawn up monthly on the basis of the market value of Beringer Wine Estates, Canandaigua Brands, Chalone Wine Group, Geerlings & Wade, LVMH Moët Hennessy Louis Vuitton, Robert Mondavi Corporation, Ravenswood Winery, R.H. Phillips, Scheid Vineyards, Golden State Vintners and Willamette Valley Vineyards, and published in the American periodical Wine Business Monthly.

## OPEN COMMUNICATION

We regard investor relations as a focused, on-going form of communication with the financial community. We provide in-depth information for our shareholders, investors and all interested parties on the development of the group and the expectations of the management. All company reports and bulletins can be called up in two languages (English and German) on [www.hawesko.com](http://www.hawesko.com).

In more than 30 personal meetings and presentations held in 1999, the Management Board discussed the company's strategy and prospects with over 150 financial analysts and fund managers.

The Hawesko Group is currently under coverage by a number of leading banks, including Bayerische Hypo- und Vereinsbank, Cazenove & Co, Deutsche Bank, DG Bank, Dresdner Kleinwort Benson, M.M. Warburg & Co and Schroders Securities. In the year under review, Hamburger Sparkasse included Hawesko shares in its research for the first time. We are endeavouring to interest other banks in placing Hawesko in their research coverage.

## KEY FIGURES 1999 (Prior-year figures in brackets, from 2nd quarter 1999 including *Wein Wolf*-Group)

		1st quarter		2nd quarter		3rd quarter		4th quarter		Year
Sales revenues	DM million	76.2	(73.5)	87.0	(59.9)	82.1	(55.6)	168.6	(114.0)	413.8 (303.0)
EBIT	DM million	7.8	(9.7)	5.8	(4.5)	2.3	(0.0)	21.5	(21.1)	37.4 (35.2)
Net profit	DM million	5.2	(6.1)	3.3	(0.7)	0.6	(-0.2)	14.0	(13.7)	23.1 (20.3)
<b>Share price</b>										
Highest	€	50.00	(-)	43.40	(48.32)	34.00	(49.60)	34.00	(49.95)	
Lowest	€	38.58	(-)	33.00	(44.48)	29.10	(44.48)	27.00	(41.82)	
Trading volume		172,939		287,495		208,727		322,055		
(shares)		(-)		(1,291,576)		(546,276)		(427,819)		

With its considerable finesse and high tannin content, cabernet sauvignon goes well with all stronger-tasting beef or lamb dishes; mature cabernet sauvignons are also the perfect accompaniment to game.

## HAWESKO'S GUIDE TO GRAPE VARIETIES:

# CABERNET SAUVIGNON

Cabernet sauvignon is considered the finest and most noble red-wine grape in the world. Research conducted at the University of Bordeaux revealed that it is probably a cross which occurred naturally between cabernet franc and sauvignon blanc, and it is of course indigenous to the **Médoc in the Bordeaux region**, where it is used in some of the greatest red wines in the world, such as **Château Mouton-Rothschild**. As a late-ripening variety, cabernet sauvignon flourishes in a mild, warm climate and is therefore grown almost without exception in warmer regions; the wine-growing countries of the New World in particular produce some outstanding wines from this grape. The typical characteristics of this variety are its bouquet of blackcurrants, paprika and pepper. With its finesse, its complex aromas and its expressive tannin content, cabernet sauvignon **harmonises ideally with other types of grape**, and wine producers almost everywhere copy the approach used for top clarets by blending it with other varieties. Tremendous single-variety cabernets are produced by **Shafer in California's Napa Valley, Chapel Hill in Australia**, and also for example by the **Golan Heights Winery in Israel**.

## MANAGEMENT REPORT

*Hawesko Holding AG* has its origins in the wine mail order company *Hanseatisches Wein- und Sekt-Kontor*, founded in 1964, and the wine specialist retailer *Jacques' Wein-Depot*, which was established in 1974. *Hawesko Holding AG* was created on January 1, 1998 through the contribution-in-kind of these companies' shares, together with those of the wine wholesaler *CWD Champagner- und Wein-Distributionsgesellschaft*. In the 1999 financial year, a majority shareholding of 90% was acquired in the *Wein Wolf* Group, one of the leading wine wholesalers in Germany. The strategy of the Hawesko Group is to consolidate its undisputed market lead as Germany's largest supplier of premium wines and champagnes, and to spread its success to foreign markets.

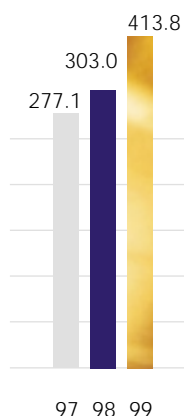
### **ECONOMIC SITUATION**

In 1999, the German economy was weaker than in the previous year. Real gross domestic product grew by only 1.4% (1998: 2.2%), and private consumption rose by 2.0% (1998: 2.3%). The trend towards proportionately higher demand for services continued. Consumption of high-quality wines and champagnes is only marginally dependent on the health of the economy as a whole. Wine and champagne are considered luxury goods and are purchased by consumers whose buying power is largely unaffected by fluctuations in the state of the economy.

The German wine market continued to make progress in 1999. Overall sales of wine rose by 1% to 4% (according to which data are used), and growth in sales of upmarket wines (bottles costing over DM 10) was higher. Trends which have been in evidence for some years were sustained: international competition is leading to a gradual broadening of the range of wines available, with more and more overseas wines appearing on the scene, and demand is shifting from white wine to red wine. According to the Geisenheim Research Institute for Wine, within the entire German drinks market, wine is the only sector in which a marked increase in spending was recorded.

**CONSOLIDATED SALES**

in DM million

**SALES AND RESULT**

In the 1999 financial year, sales of all divisions of *Hawesko Holding AG* developed positively. Net sales for the group rose by 36.5% to DM 413.8 million. This figure includes DM 74.0 million from the consolidation of the *Wein Wolf* Group, which was acquired on April 1, 1999. Excluding the acquisition of the *Wein Wolf* Group, sales rose by 12.1% thanks to higher sales volume (29 million bottles or units, as against 26 million in the previous year). Almost 100% of sales were generated in Germany.

The gross profit margin for the group was down 4.0 percentage points on 1998 to 43.4%, largely as a result of the first-time consolidation of the *Wein Wolf* Group. This strengthening of the wholesale division alters our profit and cost structures, with the lower gross profit margin being balanced out by lower costs as a percentage of sales. Excluding the effect of the *Wein Wolf* Group, the margin fell slightly on account of the higher levy payable for the Grüner Punkt recycling mark.

Personnel costs for the group represented 8.5% of sales, i.e. improved by 0.4 percentage points as a result of the change in cost structures following the takeover of *Wein Wolf*. Excluding the effects of the first-time-consolidation, the personnel costs ratio remained unchanged from 1998.

Other operating expenses amounted to 28.1% of sales, as in 1998. Excluding *Wein Wolf*, this ratio was higher at 30.3%, due to higher advertising spending and handling costs for business in the run-up to Christmas.

Overall, the operating result (EBIT) for the group improved by 6.3% to DM 37.4 million, corresponding to an operating margin of 9.0% of sales (1998: 11.6%). Excluding the *Wein Wolf* Group, the operating margin was 8.9%. This year-on-year fall is attributable to the increase in other operating expenses for various projects, described in further detail under »Research and development costs« (see page 30). The operating result (EBIT) for the group constitutes the operating results (EBITs) of the three divisions, less central administrative costs for the holding company and consolidating items which amounted to DM - 4.1 million in 1999 (1998: DM - 2.8 million). The prior-year data have been adjusted accordingly (cf. "Segment reporting" in the Notes).

All company divisions made a positive contribution to the overall result: In the mail order sector, sales rose by 10.5% overall, to DM 194.6 million. The acquisition of *Carl Tesdorpf GmbH*, Lübeck, represented a strategically important step in the year under review: this long-established wine trading company can boast a tradition stretching back over 300 years, and will in future be positioned as a supplier of ultra-premium wines. Within the mail order sector, 48,000 (1998: 42,000) new customers were acquired through normal business, and 38,000 (1998: 32,000) new customers through gifts business, offering considerable potential for future sales and further improving the customer structure. In November 1999, *HAWESKO* launched a new website under the name *winegate.de*. Online sales for the full business year totalled DM 1.9 million, with the new website accounting for DM 1.2 million of this total.

The operating result (EBIT) in the mail order sector fell by 22.8% to DM 17.2 million. This reversal was due to higher expenses in connection with a new customer service campaign, the preparation of a more extensive winter catalogue, the new market positioning of *Carl Tesdorpf* and the new Internet website (see section "Research and development costs" page 31).

The specialist retail trade sector (*Jacques' Wein-Depot*) boosted its net sales by 13.4% to DM 126.9 million. On a like-for-like basis – adjusting for new outlets – the growth in sales was 8.1%. The positive development in sales is partly due to the nationwide introduction of the *Jacques'* customer card. The network of outlets was extended by the opening of 15 new locations and comprised 163 (148) outlets at the end of the year. A further nine retail outlets had moreover already been rented by the end of the year, and have now likewise opened. The modernisation programme was maintained, and three-quarters of outlets now have facilities that are no more than three years old.

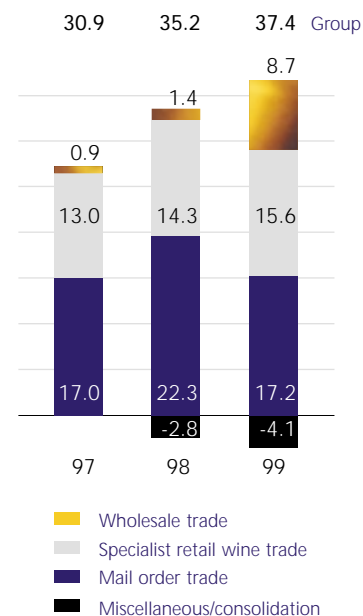
The operating result (EBIT) improved by 9.2% to DM 15.6 million. Despite the decision to bring forward the introduction of the customer card in 1999, the operating margin remained virtually unchanged from the previous year.

**SALES BY DIVISION**

in DM million



**EBIT** in DM million

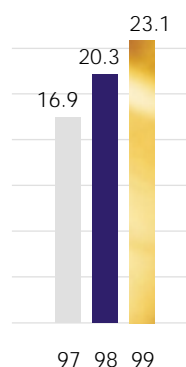


In the wholesale trade sector, sales increased six-fold to DM 92.3 million, largely as a result of the consolidation of the *Wein Wolf* Group's figures for three-quarters of the year. *CWD Champagner Wein Distributionsgesellschaft* generated internal growth of 22.6% to DM 18.3 million. The two wholesaling concepts complement each other well, and continue to be run separately: the *Wein Wolf* Group places the emphasis on distribution to the top-rank catering trade, and *CWD* is a flexible wholesale mail order company.

The operating result (EBIT) in the wholesale trade sector rose to DM 8.7 million following the acquisition of the *Wein Wolf* Group. The *Wein Wolf* Group contributed DM 7.5 million to the operating result in the nine months during which it belonged to the group, and *CWD* DM 1.2 million (1998: DM 1.4 million).

#### CONSOLIDATED NET INCOME

in DM million



#### CONSOLIDATED NET INCOME

Consolidated earnings before taxes on income were DM 33.9 million, 14.9% higher than in the previous year. The *Wein Wolf* Group contributed DM 6.6 million to earnings; the previous year's figure included an extraordinary expense of DM 3.4 million for the initial public offering. Taxes on income for the group remained nearly unchanged at 32%. Consolidated net income rose by 13.4% to DM 23.1 million.

Consolidated earnings according to DVFA/SG are calculated as follows:

	Gross DM '000	Net DM '000
Consolidated net income		23,071
Plus: deferred tax harmonisation		282
Less: balancing item for result of acquired company		1,965
Adjusted consolidated earnings		21,388
Less: release of special item with an equity portion	127	74
Less: profit due to minority interests		465
<b>DVFA / SG earnings</b>		<b>20,849</b>
Total shares ('000)		4,405
DVFA / SG earnings per share		4.73
Earnings per share after deduction of minority interests without adjustment for result of acquired company		5.12

In accordance with DVFA/SG recommendations, the consolidated earnings are initially to be increased by deferred tax income on accumulated losses brought forward. The *Wein Wolf*-Group was consolidated for the first time from September 2, 1999; its contribution to net income from April 1, 1999 to that time was acquired as well, and has been deducted as a balancing item. After this adjustment, the consolidated earnings total DM 21.4 million and are DM 0.6 million below the prior-year figure. The adjusted earnings per share are DM 4.73 (1998: DM 4.96), and the earnings per share before adjustment – but after deduction of profit due to minority interests – DM 5.12. As the 44,000 and 33,000 options issued in connection with convertible bonds cannot be exercised until 2001 and 2002 respectively, no diluted figure for earnings per share has been calculated.

#### **PROPOSAL ON THE APPROPRIATION OF EARNINGS**

The distributable net income for the year for *Hawesko Holding AG* is shown as DM 20.9 million; this is 1.8% down on the previous year. Of this sum, DM 9.2 million will be allocated to other revenue reserves. It will be proposed to the Ordinary Shareholders' Meeting that the remaining profit of DM 11.7 million be distributed in full in the form of dividend payments.

in DM '000	1999	1998
Cash flow from current operations	+ 10,449	- 214
Cash flow from investment activities	- 24,360	- 5,467
Cash flow from financing activities	+ 9,093	+ 14,713

#### **CASH FLOW (CALCULATED ACCORDING TO DRS 2)**

The cash flow from current operations, adjusted for changes in the consolidated companies, rose by DM 10.7 million to DM 10.4 million (previous year: DM -0.2 million). This improvement was largely attributable to the increase in gross cash flow of around 41% to DM 36.0 million. The operative inflow of funds entirely covers investment in tangible assets of DM 7.2 million. Including the new acquisition of the *Wein Wolf* Group, the invested cash flow has increased five-fold to DM 24.4 million. Financing of acquisitions resulted in significantly higher borrowings.

## CONSOLIDATED BALANCE SHEET

The rise in the balance sheet total of DM 134.7 million to DM 246.4 million is largely as a result of the takeover of the *Wein Wolf* Group. On the assets side, current assets account for around 78% of the balance sheet total. On the equity and liabilities side, the share of borrowed capital rose from around 51% to approximately 65%. This change reflects the increased need for capital as a result of the acquisition of the *Wein Wolf* Group.

Fixed assets rose by 80% to DM 52.3 million. This item includes goodwill of DM 15.4 million resulting from the first-time consolidation of the *Wein Wolf* Group on September 2, 1999, which will be amortised with an effect on profits over a period of 15 years. Tangible assets increased to DM 6.1 million, mainly as a result of the larger reporting entity.

Inventories – less payments on account – rose by DM 42.8 million to DM 119.2 million. This item as a share of the balance sheet total fell from around 57% to around 48%.

Accounts receivable (trade debtors) as a share of the balance sheet total rose to some 25%. The sharp increase in accounts receivable (trade debtors) of DM 36.4 million to DM 61.4 million is attributable to higher mail order sales. In 1999, the final weeks of the year accounted for an exceptionally high share of total sales for the year. Excluding the *Wein Wolf* Group, accounts receivable (trade debtors) rose by approx. DM 13.6 million.

Liquid funds amounted to around DM 7.3 million at the end of the year, and were thus DM 5.7 million up on the previous year's figure.

On the equity and liabilities side, equity less the proposed dividend payments and minority interests rose from DM 47.5 million to DM 57.1 million. Equity as a share of the balance sheet total fell from 35.3% to 23.2% as a result of the acquisition of the *Wein Wolf* Group.

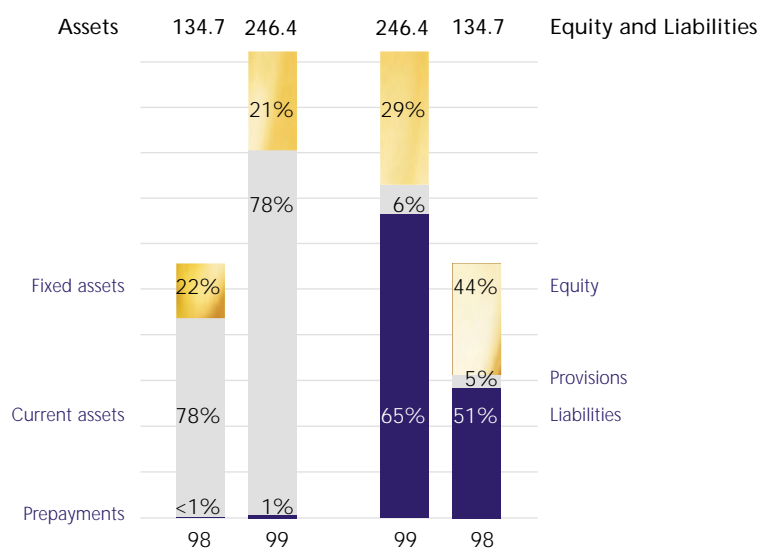
Provisions rose by DM 8.6 million to a total of DM 15.1 million. This change is largely (DM 5.0 million) due to the first-time consolidation of the *Wein Wolf* Group. Following the introduction of a customer card in the wine specialist retailing segment, it was moreover necessary to create provisions for customer bonuses, and there has been a generally greater need for provisions for cost and commercial invoices not yet received at the closing date.

Financial liabilities were up DM 61.6 million to DM 92.2 million, representing around 37% (1998: around 23%) of the balance sheet total. The additions to the consolidated companies and the resulting higher share of borrowings for the *Wein Wolf* Group accounted for the bulk of this item, at around DM 51 million.

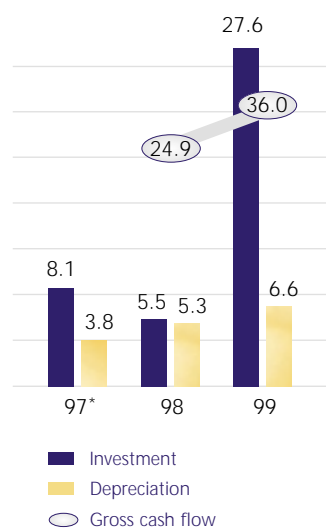
Other liabilities rose by DM 30.3 million to DM 68.6 million. This increase, in addition to the larger reporting entity, is due to the markedly greater seasonal fluctuation in current assets last year, mirrored by a corresponding rise in other liabilities on the equity and liabilities side.

### CONSOLIDATED BALANCE-SHEET STRUCTURE

in % (Balance sheet total in DM million)



**INVESTMENT, DEPRECIATION AND CASH FLOW** in DM million



\*Calculation of the cash flow for 1997 if not possible, in view of the pro forma accounts.

**TOTAL EMPLOYEES / PERSONNEL COSTS**



**INVESTMENTS**

The Hawesko Group invested a total of DM 27.6 million in intangible assets, tangible assets and acquisitions last year; this is DM 22.1 million more than in the prior year.

Investments in tangible assets rose from DM 5.0 million to DM 6.6 million, as a result of the expansion of the network of retail outlets (DM 2.4 million), additional office space (DM 1.8 million) and modernisation measures (DM 2.4 million).

DM 20.4 million was spent on acquisitions. Of this total, DM 19.9 million was spent on the acquisition of a 90% shareholding in *Wein Wolf Holding GmbH & Co. KG*, together with six subsidiaries (the *Wein Wolf Group*) and DM 0.5 million on the purchase of a 90% shareholding in the wine trading company *Carl Tesdorpf*.

**EMPLOYEES**

The Hawesko Group employed an average of 455 people in 1999, an increase of 102 on the previous year. The Hawesko Group's employee total has grown by 69 as a result of the acquisition of the *Wein Wolf Group*.

Personnel costs rose by 30.9% to DM 35.3 million. This corresponds to 8.5% of sales revenues. Sales per employee improved by 5% to DM 0.9 million.

**RESEARCH AND DEVELOPMENT COSTS**

The continuing progress of our business depends on investing suitably in the future, as well as on our enterprising employees and flexible structures. As a direct marketing company, we are on the one hand prepared to experiment, and on the other hand better placed than most to gauge and assess the success or failure of various measures. In the year under review, we completed a number of forward-looking projects which have diminished earnings in the short term:

**Extended winter catalogue for 1999 / 2000:** The regularly published main catalogue of November 1999 included around 100 extra pages, making it 250 pages long, with some 300 new articles being carried. This added DM 1 million to costs. We have obtained valuable findings on response levels, customer acceptance of new products and consumer patterns, which we will be able to take into account in this year's concept.

**Nationwide launch of the Jacques' customer card:** Following a successful test phase in the first part of 1999, we decided to launch the Jacques' loyalty card on a nationwide scale earlier than planned, in September 1999. The additional cost of this measure was DM 2 million. Its success was already in evidence by the end of the year. The higher sales volume has almost cancelled out the increased costs burdening our operating result. The customer card will enable us to monitor more closely the effectiveness of our advertising measures, and will permit the transfer of expertise in data base marketing to *Jacques' Wein-Depot*.

**Introduction of *Carl Tesdorpf GmbH* as a mail order brand for ultra-premium class:** Following the acquisition of the 300-year-old company *Carl Tesdorpf GmbH* at the start of 1999, we entirely revamped its market approach and positioned the wine trading company in the upmarket segment, with an image emphasizing the company's tradition. The cost of this measure amounted to DM 3 million, diminishing the operating result (EBIT) by half a million marks. We will push the development of this sub-area of our mail order trade in the 2000 financial year.

**Relaunch of the Internet website *winegate.de*:** we relaunched our existing website in November 1999 as *winegate.de*, with resounding success. Sales in the final quarter were up six-fold compared with the final quarter of 1998. The additional cost of this measure was DM 1 million, but the effect on the operating result (EBIT) only slightly negative. We will step up our online activities in the 2000 financial year and develop it as a springboard to internationalisation.

## RISK REPORT

In the context of its activities and as a result of the increasingly international emphasis of its sales markets, the Hawesko Group is exposed to the risks that go hand in hand with entrepreneurial activities. Modern instruments of controlling for the observation and notification of risks have been created and are used as a means of informing the decision-makers in good time of potential problems. In addition to the general business risk, we are exposed to the following risks:

**Wine as a natural product:** Wine is a natural product which intrinsically varies in quality from year to year, and from variety to variety, depending on the weather, the individual locations and the fermenting processes. These quality differences affect the market price and influence demand for individual products. On the strength of its many years of experience in the wine market, the Hawesko Group is able to limit the impact of these risks, but can never exclude them entirely.

**Competition:** There is increasing competition within the wine market. The Hawesko Group is consciously pursuing a strategy of consolidating its market position on the basis of high-quality products, with the aid of its expertise in data base marketing, and of expanding both in Germany and abroad. Some of our competitors are part of larger corporations and thus have more extensive resources than Hawesko.

**Seasonal business:** The business figures which we announce each quarter reflect the seasonal fluctuations in our business. The sales and results for the individual quarters fluctuate above all as a result of the number of advertising mail shots, the frequency of which is determined each year on the basis of when the various public holidays fall. The Hawesko Group in addition generates a large portion of its sales and result in the final quarter of the year. Gifts business in the run-up to Christmas accounts for 10% of group sales. The result for the third quarter of each year reflects the costs of assembling selections and pre-packing goods, as well as increased handling costs in view of the greater volume of incoming goods.

**Influence of exchange rate and capital market factors:** The companies of the Hawesko Group are importers of wines traded internationally, and as such are affected by exchange rate movements outside the euro zone. We anticipate that the share of wines from overseas, which are

generally traded in US dollars, will continue to increase. The refinancing of the Hawesko Group's capital requirements largely takes the form of loans which are predominantly taken out at current interest rates, with interest rate derivatives used for hedging.

**Agency structure with independent agency partners:** The retail outlets in the specialist retail trade sector are operated by independent representatives (agency partners). Following changes to German social insurance legislation, there is a risk that they could be classified as employee-like self-employed persons, or as persons in pseudo-self employment. We believe that the contractual regulation of our relationship with agency partners and the implementation of these contracts satisfy the criteria for self-employed activity.

#### **CHANGEOVER TO THE EURO**

The project launched at the end of 1997 for the changeover to the euro continues according to schedule. It is planned to retain the deutschmark as the in-house currency of the Hawesko Group until the end of the transitional period on December 31, 2001. During this transitional period, the final amount on invoices and till receipts will be indicated in euro for information purposes.

#### **DEVELOPMENTS OF PARTICULAR NOTE AFTER THE END OF THE YEAR UNDER REVIEW**

No developments which could have a significant effect on the assessment of the net worth, financial position or earnings of *Hawesko Holding AG* and of the Hawesko Group occurred after the end of the financial year under review.

## OUTLOOK

The forecasts that economic growth in Germany will reach 2.5% in 2000 have gained substance at the start of the year. Private consumption is expected to rise by 2.1%. Although consumption of premium wines is only marginally dependent on the general economic situation, a favourable economic climate does bolster demand. The market for premium wines and champagnes will continue to grow.

We expect that consolidated sales for 2000 will reach DM 470 million to DM 480 million. The emphasis of our strategy will be as follows:

- **Development of a separate e-commerce segment:** Internet activities are being transferred to a separate stock corporation within the group, under the brand name of *Winegate*. *Winegate* will not only function as a separate sales channel, but will also advise on the development of further e-commerce activities within the group. *winegate.de* will be extended in the course of 2000 by the addition of Internet sites in English and French. *Winegate AG* will be able to exploit extensive synergy benefits by virtue of sharing the group's wine logistics, data base marketing and long-standing relationships with suppliers. We anticipate e-commerce sales in excess of DM 10 million in 2000, with the consolidated operating result (EBIT) being diminished by approximately the same amount as a result of measures to develop the brand. We not only expect high growth rates in this area over the next few years, but also positive cross-selling effects that will benefit our established business areas.

- **Entry into the Austrian market:** We are planning to launch mail order business in Austria in the early part of 2000, with a product range tailored to the Austrian market. We predict sales in the region of DM 4 million to DM 5 million, with a negative effect of DM 1 million to DM 2 million on consolidated earnings (EBIT) in the first year, 2000. We expect a positive effect in one to two years. There is considerable demand for high-quality wines in the Austrian market. We are a specialist in this area.
- **Expansion of the top brand *Carl Tesdorpf GmbH*:** The drive which was started in 1999 to develop *Carl Tesdorpf GmbH* into the leading operator in the ultra-premium sector will continue in 2000. Its range focuses on very high quality wines costing more than DM 50 per bottle. We forecast sales of DM 9 million to DM 10 million for Tesdorpf and a negative effect on consolidated earnings (EBIT) of DM 1 million. We expect this area of business to show a profit from next year.
- **Faster expansion of *Jacques' Wein-Depot*:** Even after having opened 15 new retail outlets in 1999, we still perceive considerable scope for expansion. Decisive factors in further extending the network will be finding the right locations and obtaining the premises we require. There were already 170 outlets in operation by the end of March 2000, and a further 14 already rented, with the result that the original objective of extending the network to 200 by the end of the year appears attainable. This rate of expansion means that the consolidated earnings (EBIT) may be diminished by up to DM 1 million more than in 1999.

These effects on the operating result (EBIT) are offset in part by higher sales and earnings. We anticipate that the operating result for the group as a whole for the 2000 financial year will be down on 1999. However, with this basis to build on, EBIT should rise from 2001 on.

Investments in tangible assets are likely to reach DM 8.5 million to DM 9.5 million. We moreover intend to expand the Logistics Centre outside Hamburg: the additional investment volume of about DM 8 million will be financed by sale-and-leaseback arrangements.

Our measures have the objective of safeguarding the future of *Hawesko Holding AG* and extending its unchallenged market position as Germany's leading supplier of premium wines and champagnes to other countries in the medium term.

## CONSOLIDATED BALANCE SHEET

<b>ASSETS</b>	Notes	31.12.1999 DM '000	31.12.1998 DM '000
<b>FIXED ASSETS</b>			
Intangible assets	(1)	24,720	8,451
Tangible assets	(2)	26,597	20,468
Financial assets	(3)	1,010	127
		<b>52,327</b>	<b>29,046</b>
<b>CURRENT ASSETS</b>			
Inventories	(4)	131,764	90,909
Less advances from customers	(4)	– 12,601	– 14,574
		<b>119,163</b>	<b>76,335</b>
Accounts receivable and other assets	(5)	66,268	27,010
Cheques, cash on hand, postal giro balances, cash in other banking accounts		7,329	1,617
		<b>192,760</b>	<b>104,962</b>
<b>PREPAYMENTS</b>			
		1,323	703
		<b>246,410</b>	<b>134,711</b>
<b>EQUITY AND LIABILITIES</b>			
	Notes	31.12.1999 DM '000	31.12.1998 DM '000
<b>EQUITY</b>			
Subscribed capital	(6)	22,027	22,027
Capital reserve	(7)	16,462	16,462
Revenue reserve	(8)	19,857	9,565
Consolidated net profit for the year	(9)	10,392	11,137
Minority interests	(10)	1,357	100
		<b>70,095</b>	<b>59,291</b>
<b>SPECIAL ITEM WITH AN EQUITY PORTION</b>			
		389	0
<b>PROVISIONS</b>			
Provisions for pensions		543	495
Provisions for taxation		4,637	1,475
Other provisions	(11)	9,872	4,442
		<b>15,052</b>	<b>6,412</b>
<b>LIABILITIES</b>			
	(12)		
Bonds		392	224
Due to banks		92,241	30,673
Trade accounts payable		50,573	28,297
Other liabilities		17,668	9,814
		<b>160,874</b>	<b>69,008</b>
		<b>246,410</b>	<b>134,711</b>

## CONSOLIDATED STATEMENT OF INCOME

	Notes	01.01.-31.12.1999 DM '000	01.01.-31.12.1998 DM '000
<b>SALES REVENUES</b>	(14)	413,784	303,049
Increase in finished goods inventories		291	0
Other operating income	(15)	15,697	8,793
Cost of purchased goods	(16)	- 234,387	- 159,413
Personnel expenses	(17)	- 35,252	- 26,933
Depreciation of intangible fixed assets and tangible assets		- 6,642	- 5,260
Other operating expenses	(18)	- 116,094	- 85,040
Other interest and similar income		274	131
Interest and similar expenses		- 3,630	- 1,861
<b>RESULTS FROM ORDINARY ACTIVITIES</b>		34,041	33,466
Extraordinary result		0	- 3,356
Taxes on income	(19)	- 10,872	- 9,194
Other taxes		- 98	- 569
<b>NET INCOME FOR THE YEAR BEFORE BALANCING ITEM</b>		23,071	20,347
Balancing item for result of acquired company	(20)	- 1,965	0
Group result carried forward		80	455
Net profit for the year due to minority interests		-- 437	- 100
Allocation to the revenue reserve		- 10,357	- 9,565
<b>UNAPPROPRIATED PROFIT FOR THE YEAR</b>		10,392	11,137

## CASH FLOW STATEMENT FOR THE HAWESKO GROUP

	1999 DM '000	1998 DM '000
Result for the period before extraordinary items	23,071	23,703
+ Depreciation/write-up of intangible and tangible assets	6,601	5,260
+/- Increase/decrease in provisions	6,323	- 4,088
-/+ Profit/loss from the disposal of intangible and tangible assets	- 251	4
- Increase in inventories less advances from customers	- 18,142	- 21,824
-/+ Increase/decrease in trade accounts receivable and other assets which are not classified as investment or financial activity	- 18,255	4,556
+/- Increase/decrease in trade accounts payable and other liabilities which are not classified as investment or financial activity	11,102	- 4,469
- Outpayments from extraordinary items	0	- 3,356
<b>= Cash flow from current operations</b>	<b>10,449</b>	<b>- 214</b>
Inpayments from the disposal of tangible assets / intangible assets	335	34
- Outpayments for investments in tangible assets / intangible assets	- 7,183	- 5,501
- Outpayments for investments in financial assets	- 17,512	0
<b>= Cash flow from investment activities</b>	<b>- 24,360</b>	<b>- 5,467</b>
Inpayments from capital increases	0	18,490
- Outpayments from reserves	- 1,580	0
- Outpayments for dividends	- 14,163	0
+/- Change in financial liabilities	24,836	- 3,777
<b>= Cash flow from financing activities</b>	<b>9,093</b>	<b>14,713</b>
<b>= Effective change in funds</b>	<b>- 4,818</b>	<b>9,032</b>
- Distribution of profit to third parties	0	- 100
+ Funds at start of period	10,943	2,011
<b>= Funds at end of period</b>	<b>6,125</b>	<b>10,943</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE 1999 FINANCIAL YEAR

## 1. GENERAL PRINCIPLES

The consolidated financial statements have been prepared in accordance with the specifications of the German Commercial Code and German Stock Corporation Law. In the interests of greater clarity, items are combined in the balance sheets and statements of income, but explained separately in the notes.

The annual financial statements of the consolidated companies are based on uniform accounting and valuation principles which are unchanged from the previous year. The uniform reporting date for all consolidated companies was 31.12.1999. Significant effects of the changed group of consolidated companies compared with the prior-year figures in the balance sheet and statement of income are explained in the notes to the individual items in question.

The type of expenditure format was used for the preparation of the statement of income. The proposal on the appropriation of earnings was fundamentally taken as the basis for the calculation of corporation tax.

The management report and annual financial statements at 31.12.1999 of the parent company *Hawesko Holding AG*, have been filed with the Local Court of Hamburg under reference HRB 66708 and will be published in the Federal Gazette. Copies of the annual financial statements and management report for the parent company can in addition be requested directly from *Hawesko Holding AG*.

## 2. CONSOLIDATED COMPANIES

The list of investment holdings as at December 31, 1999, pursuant to § 313 Para. 2 of German Commercial Code, constitutes part of the annual financial statements.

In addition to *Hawesko Holding AG*, with its head offices in Hamburg, at December 31, 1999 the fully consolidated companies included a total of 15 subsidiaries (December 31, 1998: 7 subsidiaries). Of the eight companies acquired since the previous year, seven were as a result of the acquisition of a 90% shareholding in *Wein Wolf Holding GmbH & Co. KG*, Bonn, to which the following companies belong:

- *Wein Wolf Import GmbH & Co. Vertriebs KG, Bonn (fully owned subsidiary)*
- *Wein Wolf Import GmbH & Co. Verwaltungs KG, Bonn (fully owned subsidiary)*
- *Weinland Ariane Abayan GmbH, Hamburg (85% shareholding)*
- *Gebrüder Josef und Matthäus Ziegler GmbH, Freudenberg (fully owned subsidiary)*
- *Alexander Baron von Essen Weinhandelsgesellschaft mbH, Tegernsee (92.5% shareholding)*
- *Wein Wolf Import GmbH & Co. Vertriebs KG, Salzburg (fully owned subsidiary)*

The impact of this acquisition on the consolidated balance sheet, the consolidated statement of income and the consolidated cash flow statement is commented on under the individual items in the notes.

*Carl Tesdorpf GmbH*, of Lübeck (90% shareholding) was also acquired in 1999. In view of the minor significance of this acquisition for the net worth, financial position and earnings situation of the group, its impact on the consolidated balance sheet, consolidated statement of income and consolidated cash flow statement is not explained separately.

The option pursuant to § 296 Para. 2 of German Commercial Code was exercised in that two subsidiaries were not included in the consolidated financial statements in view of their minor importance for the net worth, financial position and earnings situation of the group (*Wein Wolf Holding Verwaltungs GmbH*, *Wein Wolf Import GmbH*).

### **3. CONSOLIDATION PRINCIPLES**

The consolidation of capital was performed according to the book-value method. The book values of subsidiaries were offset against shareholders' capital on a pro rata basis at the time of their acquisition or first-time inclusion. The differences on the assets side were capitalised as goodwill on the basis of their economic content, insofar as these related to the difference between the specified contributed values or the actual acquisition costs and the lower equity of the subsidiary. The remaining differences as a result of the initial consolidation of group companies were offset against the capital reserves created at *Hawesko Holding AG*, with no effect on profit.

Equity shares and net profit due to minority interests in fully consolidated companies held by parties outside the group are shown separately within the equity portion in the balance sheet.

No elimination of intercompany results for inventories was carried out pursuant to § 304 Para. 3 of German Commercial Code, in view of their insignificance.

#### 4. ACCOUNTING AND VALUATION PRINCIPLES

**Intangible assets** acquired are valued at acquisition cost and depreciated regularly throughout their useful life by the straight-line method. Goodwill is principally amortised over a period of 15 years.

**Tangible assets** are valued at their acquisition cost and depreciated by the straight-line or degressive method in accordance with their useful life. A switch is made from the degressive to the straight-line method in the year in which depreciation according to the straight-line method exceeds depreciation by the degressive method. Low-value assets are fully expensed in the year of acquisition.

The depreciation plan for tangible assets is based on the following estimates of useful life:

Useful life of tangible assets	
Buildings	25 to 50 years
Buildings on third-party land	7 to 10 years
Other fixtures and fittings, tools and equipment	3 to 15 years

The **financial assets** are valued at acquisition cost.

**Inventories** are valued at acquisition cost or at the lower applicable value.

**Accounts receivable and other assets** are reported at nominal value, less individual and value adjustments and a general provision for risks where applicable.

**Provisions for pensions** are valued at the going-concern value calculated according to actuarial principles. The **other provisions** take account of all discernible risks and contingent liabilities.

**Liabilities** are always shown at the amount due.

Accounts receivable and payable in **foreign currency** are translated into DM at the rate at which they were acquired or at the company's internal exchange rate. This rate is also used for determining the acquisition costs of stock in trade. Insofar as necessary, outstanding foreign-currency accounts receivable at the balance sheet date are translated at the buying rate, and outstanding accounts receivable at the selling rate. The fixed exchange rates for the conversion of the participating currencies into euro have been taken into account.

**5. NOTES TO THE CONSOLIDATED BALANCE SHEET****FIXED ASSETS**

The development in fixed assets for the 1999 financial year is shown in the consolidated assets movement schedule.

**(1) INTANGIBLE ASSETS**

in DM '000	31.12.1999	31.12.1998
Software	626	496
Goodwill from the individual financial statements	348	388
Goodwill from the consolidation of capital	23,746	7,467
Payments on account	0	100
	<b>24,720</b>	<b>8,451</b>

The differences on the assets side of DM 108 million resulting from the initial consolidation of *Hanseatisches Wein- und Sekt-Kontor*, *Jacques' Wein-Depot* and *Champagner- und Wein-Distributionsgesellschaft* at January 1, 1998 were capitalised as goodwill at DM 8 million in line with their economic value. The capitalised differences (DM 100 million) have been offset against the capital reserves.

The differences on the assets side of DM 15,409 thousand resulting from the initial consolidation of the companies in the *Wein Wolf* Group at September 2, 1999 were capitalised entirely as goodwill.

The company *Wein Wolf Import GmbH & Co. Vertriebs KG*, Salzburg, was included in the consolidated companies at December 31, 1999. The difference on the assets side that is capitalised as goodwill is DM 486 thousand.

*Carl Tesdorpf GmbH* was consolidated for the first time at January 1, 1999 and the resulting differences on the assets side of DM 1,350 thousand likewise reported as goodwill.

Goodwill for the fully consolidated companies of the Hawesko Group is always amortised with an effect on profit over period of 15 years, on the basis of estimated economic life, in accordance with § 309 Para. 2 of German Commercial Code.

**(2) TANGIBLE ASSETS**

in DM '000	31.12.1999	31.12.1998
Land and buildings, including buildings on third-party land	19,500	15,389
Other fixtures and fittings, tools and equipment	7,087	4,928
Payments on account and construction in progress	10	151
	<b>26,597</b>	<b>20,468</b>

The addition to tangible assets solely from the takeover of the *Wein Wolf* Group is in the order of DM 4,900 thousand. In the year under review, approx. DM 1,700 thousand were invested in a new office building, including outdoor facilities.

### (3) FINANCIAL ASSETS

in DM '000	31.12.1999	31.12.1998
Shares in affiliated companies	149	0
Participating interests	45	0
Other loans	815	127
	<b>1,010</b>	<b>127</b>

90% of the increase in financial assets is attributable to the acquisition of the *Wein Wolf* Group.

The other loans are two loans which were repaid according to schedule.

### (4) INVENTORIES

in DM '000	31.12.1999	31.12.1998
Raw materials and supplies	2,034	1,122
Work in progress	4,425	0
Finished goods and merchandise	93,075	60,289
Payments on account	32,230	29,498
	<b>131,764</b>	<b>90,909</b>
Less advances from customers	- 12,601	- 14,574
	<b>119,163</b>	<b>76,335</b>

The increase in inventories as a result of the *Wein Wolf* Group is approx. DM 28,400 thousand.

Work in progress was shown in the balance sheet for the first time in the year under review. The consolidated companies now include a manufacturing company in the guise of Ziegler GmbH, part of the *Wein Wolf* Group.

Payments on account relate to wines of earlier vintages which are not delivered until subsequent years. These payments on account are counterbalanced by subscription payments already received from customers, insofar as the wines in question are not intended for our own stocks. These were openly deducted from the inventories item pursuant to § 268 Para. 5 Sentence 2 of German Commercial Code. Payments on account are in part secured by bank guarantees.

### CURRENT ASSETS



**(5) ACCOUNTS RECEIVABLE AND OTHER ASSETS**

in DM '000	31.12.1999	31.12.1998
Accounts receivable (trade debtors)	61,365	24,931
Due from affiliated companies	1	0
Other assets	4,902	2,079
	<b>66,268</b>	<b>27,010</b>

The increase in accounts receivable and other assets solely from the takeover of the *Wein Wolf* Group is in the order of DM 23,500 thousand.

The sharp increase in accounts receivable (trade debtors) is attributable on the one hand to the increase in the number of consolidated companies. On the other hand, the disproportionately high level of sales in the final weeks of the year inflated this figure.

Of the other assets shown in the balance sheet, DM 1,578 thousand have a residual term of more than one year.

**EQUITY**

**(6) SUBSCRIBED CAPITAL**

As in the previous year, the subscribed capital reported for *Hawesko Holding AG* amounts to DM 22,027,480.

The subscribed capital is made up as follows: Total      DM '000

Ordinary bearer shares in the form of individual share certificates	4,405,496	22,027
--	-----------	--------

***Approved capital***

The Board of Management is authorised to increase the capital stock on one or more occasions by up to a total of DM 11,000,000 within the period ending March 31, 2003, with the approval of the Supervisory Board, by the issue of new shares against contributions in cash or in kind. The shareholders shall be granted a fundamental subscription right; the Board of Management is, however, authorised to exclude residual amounts from the shareholders' subscription right.

The Board of Management is moreover authorised to exclude the subscription right of the shareholders, with the approval of the Supervisory Board, where the nominal value of the new shares does not exceed 10% of the capital stock at the time of issue of the new shares, and the issue value of the new shares does not fall significantly below their stock market price pursuant to §186 Para. 3 Sentence 4 of German Stock Corporation Law. The Board of Management may in addition exclude a

subscription right, with the approval of the Supervisory Board, for a portion of the approved capital which does not exceed 10% of the capital stock, provided the capital increase is made by contribution in kind for the purpose of acquiring companies or participations in companies.

Finally, the subscription right may be excluded for a total amount of up to DM 440,000 in order to issue shares to employees. Insofar as the subscription right is not excluded, the shares are to be taken on by banks with the obligation to offer them for sale to shareholders.

Pursuant to the resolution of July 1, 1998 a total of 5,496 new ordinary bearer shares in the form of individual share certificates, with full dividend entitlements for the 1998 financial year and with a total value of DM 27,480, were issued to employees from the approved capital. In the 1999 financial year a small number of shares (less than 0.14% of total shares) were bought back according to § 71,2 German Stock Corporation law and offered to employees. Thus no new shares were issued to employees with the result that the approved capital as at December 31, 1999 totalled DM 10,972,520.

#### *Authorised but unissued capital*

The Board of Management is authorised to issue interest-bearing convertible bonds up to a total nominal value of DM 440,000 and with a term of at least three and at most five years on one or more occasions up to March 31, 2003, with the approval of the Supervisory Board; these give the buyer the entitlement to acquire new shares of *Hawesko Holding AG* according to the detailed specifications of the loan terms. The statutory subscription right of the shareholders is excluded. The total value of convertible bonds issued each year may not exceed the ceiling of DM 220,000.

In the 1999 financial year, further convertible bonds to the value of DM 165,000 were subscribed by eligible management employees of the Hawesko Group. The interest rate is 4.5% p.a. The issue price is specified as 100%. The bond falls due on December 31, 2002. *Hawesko Holding AG* has now issued convertible bonds with a total value of DM 385,000, as bonds to the value of DM 220,000 were already subscribed in the previous year. In accordance with the loan terms, the creditors are granted the right to exchange the bonds entirely or in instalments for *Hawesko Holding AG* shares. Each convertible bond with a nominal value of DM 5.00 may be exchanged for one company share. The conversion price per share is calculated in accordance with the loan terms on the basis of the development of the Hawesko share price in relation to the development of the MDAX over the term of the convertible bond. The option price will only be lower than the corresponding stock-market price if Hawesko shares have out-performed the MDAX after a period of three years. If the conversion right is exercised, a cash supplement amounting to

the difference between the nominal value of DM 5.00 per convertible bond and the conversion price is payable for the acquisition of each share. The right of conversion may only be exercised within a period of three and four weeks respectively, beginning with the third working day for banks following the Ordinary Shareholders' Meeting of the company in the year 2001 or 2002, but no earlier than April 1, 2001 or 2002 and no later than September 1, 2001 or 2002 as appropriate.

***Authorisation to acquire own shares***

At the Ordinary Shareholders' Meeting on June 3, 1999, *Hawesko Holding AG* was authorised until November 30, 2000 to acquire its own shares up to a maximum of 10% of the capital stock, via the stock market or via an offer of purchase extended to all shareholders. The price paid for these shares may not be more than 5% above or below the average of the daily quotations at the Frankfurt Stock Exchange over the last five trading days preceding the acquisition of the shares.

With the approval of the Supervisory Board, the Board of Management was authorised to sell own shares acquired, in a manner other than via the stock exchange or an offer made to all shareholders, if the shares acquired are sold at a price that is not significantly below the average of the daily quotations at the Frankfurt Stock Exchange over the last five trading days preceding the sale of the shares. This authorisation, including the existing authorisation pursuant to § 4 Para. 5 of the articles of incorporation, applies to a total of 10% of the company's capital stock. The Board of Management was moreover authorised to sell the shares acquired to third parties, excluding the subscription right of existing shareholders, if this is done with the purpose of acquiring companies or participating interests in companies.

The Board of Management was moreover authorised to redeem its own shares with the approval of the Supervisory Board, without the need for further ratification by the Ordinary Shareholders' Meeting.

This authorisation to acquire own shares was not exercised in the past financial year.

**(7) CAPITAL RESERVE**

in DM '000	31.12.1999	31.12.1998
Capital reserve	16,462	16,462

The capital reserve for the group includes the premium from the capital increase in the 1998 financial year and from the issue of shares to employees in the same year.

**(8) REVENUE RESERVE**

in DM '000	31.12.1999	31.12.1998
Revenue reserve	19,857	9,565

The group's revenue reserve includes earnings generated in the past by consolidated companies, insofar as these were not appropriated. A total of DM 10,357 thousand was allocated to the revenue reserve from the consolidated net income for the year. The remainder of the change is attributable to consolidating entries in the context of the consolidation of capital.

**(9) UNAPPROPRIATED PROFIT FOR THE YEAR**

in DM '000	31.12.1999	31.12.1998
Net income for the year after balancing item	21,107	20,347
Retained profits brought forward	80	455
Net profit for the year due to minority interests	- 437	- 100
Allocation to other revenue reserve	- 10,357	- 9,565
<b>Unappropriated profit for the year</b>	<b>10,392</b>	<b>11,137</b>

**(10) MINORITY INTERESTS**

The balancing item for minority interests in the consolidated balance sheet comprises minority interests in the equity and profit for the year of the fully consolidated group companies (see details of consolidated companies).

The first-time reporting of DM 389 thousand primarily constitutes a reserve for the reinstatement of original values pursuant to § 52 Para. 16 of German Income Tax Law, created in the previous year by a company within the *Wein Wolf* Group.

**SPECIAL ITEM WITH AN EQUITY PORTION****(11) OTHER PROVISIONS**

in DM '000	31.12.1999	31.12.1998
Provisions for personnel	3,800	2,422
Other provisions	6,072	2,020
	<b>9,872</b>	<b>4,442</b>

**PROVISIONS**

The increase in other provisions as a result of the acquisition of the *Wein Wolf* Group amounts to approx. DM 2,000 thousand. The rise is also partly due to cost and commercial invoices received after the balance-sheet date and to the creation of provisions for customer bonuses for *Jacques' Wein-Depot*.

## LIABILITIES

## (12) CONSOLIDATED LIABILITIES

in DM '000	31.12.1999	Due in up to 1 year	Due in between 1 and 5 years	Due in over 5 years	31.12.1998
Loans	392	7	385	0	224
Banks	92,241	74,049	8,142	10,050	30,673
Trade accounts payable	50,573	50,573	0	0	28,297
Other liabilities	17,668	16,231	1,437	0	9,814
of which taxes	(11,407)	(11,407)	(0)	(0)	(7,992)
of which in respect of social security	(1,128)	(1,128)	(0)	(0)	(795)
of which to shareholders	(1,585)	(481)	(1,104)	(0)	(100)
	160,874	140,860	9,964	10,050	69,008

Around DM 67,600 thousand of the increase in liabilities is due to the acquisition and financing of the *Wein Wolf* Group.

## (13) OTHER FINANCIAL COMMITMENTS

in DM '000	31.12.1999	31.12.1998
Tenancy and leasing commitments (per annum)	8,943	7,265
Advance payments outstanding	1,695	1,350
Financial commitments from the construction of a car park	0	200
Bill commitments	16	0
Guarantees	100	0

Other financial commitments from tenancy and leasing contracts relate to shop premises rented for specialist wine retailing and the logistics centre for mail order trade.

Commitments relating to advance payments outstanding as at December 31, 1999 were repaid at the start of 2000.

## 6. NOTES TO THE STATEMENT OF INCOME

### (14) SALES REVENUES

in DM '000	1999	1998
Mail order trade	194,611	176,191
Specialist retail trade	126,884	111,907
Wholesale trade	92,289	14,951
	413,784	303,049

The *Wein Wolf* Group, which belongs in the wholesale trade segment and was commercially taken over on April 1, 1999, generated sales of DM 73,954 thousand in the stub financial year from April 1 to December 31, 1999.

### (15) OTHER OPERATING INCOME

in DM '000	1999	1998
Rental income	7,849	6,711
Income from cost refunds	2,040	916
Income from the liquidation of provisions	1,218	334
Other	4,590	832
	15,697	8,793

Other operating income for the *Wein Wolf* Group amounted to DM 5,450 thousand in 1999. A sum of DM 127 thousand from the liquidation of the special item with an equity portion is shown here.

Rental income and the proceeds of the reimbursement of expenses are substantially generated by the renting out of retail outlets and other costs invoiced by *Jacques' Wein-Depot* to its agency partners.

The rise in other income is due to the increased significance of advertising expense subsidies by suppliers in the *Wein Wolf* Group (1999: approx. DM 2,300 thousand).

### (16) COST OF PURCHASED GOODS

The cost of purchased goods (cost of materials) for the *Wein Wolf* Group amounted to DM 53,405 thousand in the past financial year.

**(17) PERSONNEL EXPENSES**

in DM '000	1999	1998
Wages and salaries	30,298	23,022
Social security and other pension costs	4,954	3,911
of which in respect of old age pensions	(151)	(77)
	<b>35,252</b>	<b>26,933</b>

The personnel expenses of the Wein Wolf Group, which was acquired commercially on April 1, 1999, total DM 5,238 thousand including a sum of DM 4,623 thousand for wages and salaries.

**(18) OTHER OPERATING EXPENSES**

in DM '000	1999	1998
Advertising	37,200	27,850
Commissions to partners	30,004	22,815
Delivery costs	17,413	12,450
Rental and leasing	10,208	7,865
Legal and consultancy costs	1,464	951
Other personnel expenses	4,172	1,590
Other	15,633	11,519
	<b>116,094</b>	<b>85,040</b>

The *Wein Wolf* Group accounts for DM 13,273 thousand of other operating expenses, and thus contributes to the increase in this item compared with the previous year.

The rise in advertising expense is primarily due to more extensive canvassing for new gifts business, the introduction of the customer card by *Jacques' Wein-Depot*, the larger winter catalogue and the more extensive Internet presence.

Commissions to partners are sales-based payments made to *Jacques' Wein-Depot* agency partners.

Delivery costs in mail-order as well as rental and leasing costs have increased because of business expansion, rental and leasing particularly with respect to the expansion of *Jacques' Wein-Depot*.

The increase in other personnel expenses is the result of a shift in personnel requirements throughout the year, from temporary assistants to contract personnel. The largest single items among other expenses are board, travel expenses and data processing and communication costs.

**(19) TAXES ON INCOME**

in DM '000	1999	1998
Corporation income tax	4,573	3,969
Trade earnings tax	6,299	5,225
	<b>10,872</b>	<b>9,194</b>

The effective tax rate in relation to consolidated earnings before income tax (DM 33,944 thousand; previous year: DM 29,541 thousand) is 32.0% for the year under review (1998: 31.1%) and has therefore remained virtually unchanged.

**(20) BALANCING ITEM FOR RESULT OF ACQUIRED COMPANY**

The pro rata result of the *Wein Wolf* Group for the period April 1, 1999 to September 1, 1999 is shown here.

**7. PROPOSAL ON THE APPROPRIATION OF EARNINGS**

The annual financial statements of *Hawesko Holding AG* at December 31, 1999 show a net profit for the year of DM 20,861,187.69. Following allocation of DM 9,186,623.29 to other revenue reserves (§ 58 Para. 2 Sentence 1 of German Stock Corporation Law), there remains an unappropriated profit for the year of DM 11,674,564.40. With the agreement of the Supervisory Board, the Board of Management proposes to the Shareholders' Meeting that the unappropriated profit for the year be appropriated entirely as follows:

Payment of a dividend of DM 2.65 per share on the capital stock of DM 22,027 thousand.

**8. OTHER PARTICULARS**

The cash flow statement is based on Standard DRS 2 of the German Accounting Standards Committee (DRSC).

The funds comprise cheques, cash on hand as well as cash in banks and amounts due to banks at any time.

Dividend payments totalling around DM 2,500 thousand were made to minority shareholders of the *Wein Wolf* Group in the past financial year.

In the year under review, a total of DM 19,900 thousand was paid for the acquisition of the *Wein Wolf* Group. Along with this acquisition, liquid funds of around DM 1,000 thousand, assets of around DM 50,100 thousand and liabilities of around DM 41,800 thousand were taken on.

Interest payments totalled DM 4,300 thousand and taxes on income DM 9,700 thousand in the 1999 financial year.

**ADDITIONAL  
PARTICULARS ON  
THE CASH FLOW  
STATEMENT**

**SEGMENT  
REPORTING**

In keeping with the regulations of the German Accounting Standards Committee (DRSC) on segment reporting (DRS 3), individual items from the annual financial statements are segmented according to business area. In agreement with the internal reporting arrangements of the Hawesko Group, the segments are organised according to sales form and customer group.

The segments comprise the following areas:

- The segment for mail order trade comprises the wine and champagne mail order division, with activities focused on the end user. This also includes gifts business for corporate and private customers, based on a special catalogue. This business area includes the companies *Hanseatisches Wein- und Sekt-Kontor HAWESKO* and *Carl Tesdorpf*.
- The segment for specialist wine retailing (*Jacques' Wein-Depot*) sells wine via a network of retail outlets which are run by independent agency partners.
- The segment for wholesale trade groups together business with retailers; wines and champagnes are sold both by mail order (*CWD*) and by an organization of trade representatives (*Wein Wolf Group*).

The segment data have been calculated in the following way:

- Internal sales indicate the sales between segments. Intra-group sales are calculated on the basis of market prices.
- The segment result is the result before taxes and deduction of minority interests.
- In the calculation of gross cash flow, items not affecting payments such as write-ups and depreciation, as well as changes in provisions, are eliminated from the income/loss for the segment.
- The segment assets are the sum of fixed and current assets, adjusted to eliminate consolidating items within the segment.
- The segment debts are the short-term provisions for accounting purposes and non-interest-bearing liabilities, adjusted to eliminate consolidating items within the segment.

## SEGMENT REPORTING

<b>1999</b> in DM '000	Mail order trade	Specialist retail trade	Wholesale trade	Other	Reconciliation	Group
<b>SALES REVENUES</b>	202,137	126,924	99,377	0	- 14,654	413,784
- External	194,610	126,884	92,289	0	-	413,784
- Internal	7,527	40	7,088	0	- 14,654	0
Other income	2,099	9,397	5,775	2,817	- 4,099	15,989
- External	780	9,397	5,773	39	-	15,989
- Internal	1,319	0	2	2,778	- 4,099	0
<b>EBIT</b>	17,237	15,595	8,673	- 3,207	- 900	37,398
Interest income	55	4	176	2,702	- 2,662	274
Interest expense	- 1,978	- 327	- 1,232	- 2,755	2,662	- 3,630
<b>NET INTEREST RESULT</b>	- 1,923	- 323	- 1,057	- 53	0	- 3,356
<b>INVESTMENT INCOME</b>	- 1	0	0	28,038	- 28,036	0
Extraordinary income	0	0	0	0	0	0
Extraordinary expense	0	0	0	0	0	0
<b>SEGMENT RESULT</b>	15,313	15,272	7,616	24,777	- 28,936	34,042
Income from taxes on income	0	0	0	0	-	0
Expenses from taxes on income	- 2,154	- 2,849	- 2,013	- 3,856	-	- 10,872
Gross cash flow	17,180	16,581	8,686	20,824	- 27,276	35,995
Segment assets	113,930	37,562	71,368	261,758	- 239,531	245,087
Investments	4,098	2,666	2,782	18,063	-	27,609
Segment debts	32,992	23,060	26,366	2,547	- 1,826	83,139
Employees	334	40	80	1	-	455
<b>1998</b> in DM '000	Mail order trade	Specialist retail trade	Wholesale trade	Other	Transitional amount	Group
<b>SALES REVENUES</b>	183,302	111,913	22,174	0	- 14,341	303,049
- External	176,190	111,907	14,951	0	-	303,049
- Internal	7,112	6	7,223	0	- 14,341	0
Other income	1,390	8,066	61	736	- 1,460	8,793
- External	665	8,064	59	5	-	8,793
- Internal	725	1	2	731	- 1,460	0
<b>EBIT</b>	22,330	14,276	1,414	- 2,282	- 542	35,196
Interest income	63	4	9	1,632	- 1,576	131
Interest expense	- 1,748	- 374	- 113	- 1,204	1,578	- 1,861
<b>NET INTEREST RESULT</b>	- 1,685	- 370	- 104	428	2	- 1,729
<b>INVESTMENT INCOME</b>	0	0	0	29,122	- 29,122	0
Extraordinary income	0	0	0	977	- 263	713
Extraordinary expense	- 1,061	- 626	- 168	- 2,416	202	- 4,069
<b>SEGMENT RESULT</b>	19,583	13,280	1,142	25,828	- 29,722	30,111
Income from taxes on income	0	60	0	0	40	100
Expenses from taxes on income	- 2,619	- 2,464	- 143	- 4,069	-	- 9,294
Gross cash flow	13,813	12,632	658	23,080	- 28,664	21,519
Segment assets	91,960	29,928	7,553	193,213	- 188,646	134,008
Investments	2,422	2,924	81	124	-	5,551
Segment debts	24,457	17,532	1,443	4,275	- 3,779	43,928
Employees	302	40	11	0	-	353

**AVERAGE EMPLOYEE  
TOTAL THROUGHOUT  
THE YEAR**

	1999	1998
Office staff	323	231
Trade employees	132	122
	455	353

**TOTAL  
REMUNERATION  
AND LOANS**

The remuneration of members of the Board of Management totalled DM 2,113 thousand, and that of members of the Supervisory Board DM 113 thousand.

No loans were made to members of the Board of Management and Supervisory Board in the financial year under review.

The members of the Supervisory Board and Board of Management are listed on pages 61 and 62.

Hamburg, March 3, 2000

The Board of Management

Margaritoff

Ohlzen

Hoolmans

## STATEMENT OF INTERESTS PURSUANT TO § 313 PARA. 2 OF GERMAN COMMERCIAL CODE

	Registered office	Equity DM '000	Share- holding %	Net result 1999 DM '000
<b>DIRECT PARTICIPATIONS</b>				
Hanseatisches Wein- und Sekt-Kontor HAWESKO GmbH & Co.KG	Hamburg	10,000	100	13,605
Jacques' Wein-Depot Wein-Einzelhandel GmbH & Co.KG	Düsseldorf	1,000	100	12,391
CWD Champagner und Wein Distributionsgesellschaft mbH & Co.KG	Hamburg	1,000	90	896
Wein Wolf Holding GmbH & Co.KG	Bonn	9,011	90	4,498
Verwaltungsgesellschaft Jacques' Wein-Depot Wein Einzelhandel m.b.H	Düsseldorf	54	100	7
Verwaltungsgesellschaft Hanseatisches Wein- und Sektkontor HAWESKO m.b.H	Hamburg	54	100	4
IWL Internationale Wein Logistik GmbH (until 13.12.1999 CW Champagner und Weinimportgesellschaft mbH)	Tornesch	51	100	1
<b>INDIRECT SHAREHOLDINGS</b>				
Wein Wolf Import GmbH & Co. Vertriebs KG	Bonn	4,451	100	2,809
Weinland Ariane Abayan GmbH	Hamburg	1,283	85	783
Gebr. Josef und Matthäus Ziegler GmbH	Freudenberg	3,244	100	704
Alexander Baron von Essen Weinhandels GmbH	Tegernsee	1,091	92,5	591
Wein Wolf Import GmbH & Co. Verwaltungs KG	Bonn	842	100	285
Wein Wolf Import GmbH & Co. Vertriebs KG	Salzburg	182	100	- 233
Wein Wolf Holding Verwaltungs GmbH	Bonn	61	100	- 2
Wein Wolf Import GmbH	Bonn	60	100	3
Carl Tesdorpf GmbH	Lübeck	- 1,438	90	- 494
Chateaux et Domaines Importgesellschaft für französische Weine m.b.H	Hamburg	50	100	- 1

## DEVELOPMENT IN CONSOLIDATED ASSETS AT DECEMBER 31, 1999

	Acquisition or manufacturing cost					At 31.12.1999 DM
	At 01.01.1999 DM	Additions to consolidated companies DM	Additions DM	Disposals DM	Transfers DM	
<b>ASSETS</b>						
<b>I. Intangible assets</b>						
1. Software	1,659,094	667,506	442,572	- 204,159	13,100	2,578,113
2. Goodwill	8,773,426	0	17,245,803	0	0	26,019,229
3. Payments on account	100,000	0	96,138	- 196,138	0	0
	<u>10,532,520</u>	<u>667,506</u>	<u>17,784,513</u>	<u>- 400,297</u>	<u>13,100</u>	<u>28,597,342</u>
<b>II. Tangible assets</b>						
1. Land and buildings	22,221,189	3,611,554	1,881,913	- 134,109	53,562	27,634,109
2. Other fixtures and fittings, office and plant equipment	12,229,385	5,581,243	4,773,110	- 1,967,999	71,346	20,687,085
3. Construction in progress	151,500	0	9,500	- 13,492	- 138,008	9,500
	<u>34,602,074</u>	<u>9,192,797</u>	<u>6,664,523</u>	<u>- 2,115,600</u>	<u>- 13,100</u>	<u>48,330,694</u>
<b>III. Financial assets</b>						
1. Shares in affiliated companies	0	1,357,634	0	0	0	1,357,634
2. Participating interests	0	1,060,000	0	- 1,015,000	0	45,000
3. Other loans	126,528	1,111,385	0	- 422,559	0	815,354
	<u>126,528</u>	<u>3,529,019</u>	<u>0</u>	<u>- 1,437,559</u>	<u>0</u>	<u>2,217,988</u>
	<u>45,261,122</u>	<u>13,389,322</u>	<u>24,449,036</u>	<u>- 3,953,456</u>	<u>0</u>	<u>79,146,024</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Accumulated depreciation						Residual book values		
At 01.01.1999 DM	Additions to consolidated companies DM	Additions DM	Disposals DM	Write-ups DM	Transfers DM	At 31.12.1999 DM	At 31.12.1999 DM	At 31.12.1998 DM
1,163,237	646,027	338,062	- 204,159	0	9,170	1,952,337	625,776	495,857
918,615	0	1,006,081	0	0	0	1,924,696	24,094,533	7,854,811
0	0	0	0	0	0	0	0	100,000
<b>2,081,852</b>	<b>646,027</b>	<b>1,344,143</b>	<b>- 204,159</b>	<b>0</b>	<b>9,170</b>	<b>3,877,033</b>	<b>24,720,309</b>	<b>8,450,668</b>
6,832,673	605,383	830,533	- 134,109	0	0	8,134,480	19,499,629	15,388,516
7,301,177	3,698,767	4,467,060	- 1,858,250	0	- 9,170	13,599,584	7,087,501	4,928,208
0	0	0	0	0	0	0	9,500	151,500
<b>14,133,850</b>	<b>4,304,150</b>	<b>5,297,593</b>	<b>- 1,992,359</b>	<b>0</b>	<b>- 9,170</b>	<b>21,734,064</b>	<b>26,596,630</b>	<b>20,468,224</b>
0	1,208,133	0	0	0	0	1,208,133	149,501	0
0	0	0	0	0	0	0	45,000	0
0	40,470	0	0	- 40,470	0	0	815,354	126,528
0	1,248,603	0	0	- 40,470	0	1,208,133	1,009,855	126,528
<b>16,215,702</b>	<b>6,198,780</b>	<b>6,641,736</b>	<b>- 2,196,518</b>	<b>- 40,470</b>	<b>0</b>	<b>26,819,230</b>	<b>52,326,794</b>	<b>29,045,420</b>

**INDEPENDENT  
AUDITOR'S REPORT**

We have examined the consolidated financial statements and the group management report compiled by Hawesko Holding Aktiengesellschaft, Hamburg, for the financial year from January 1 to December 31, 1999. The preparation of the consolidated financial statements and group management report in accordance with the requirements of German commercial law and the supplementary regulations contained in the articles of incorporation is the responsibility of the company's legal representatives. Our task is to pass judgement on the consolidated financial statements and group management report, on the basis of our audit.

We have carried out our audit of the consolidated financial statements in accordance with § 317 of German Commercial Code, observing the principles of proper auditing as laid down by the German Institute of Auditors (IDW). These principles state that an audit shall be planned and conducted such that it is possible to identify with sufficient accuracy any misrepresentations and violations which could have a significant impact on the presentation of the company's net worth, financial position, earnings situation and payment transactions in the consolidated financial statements, based on the principles of proper accounting, and in the group management report. The scope of the audit was determined on the basis of a knowledge of the business activities and the economic and legal context of the group, as well as the likelihood with which particular errors were to be expected. In the context of the audit, the effectiveness of the internal controlling system and evidence of the details provided in the consolidated financial statements and group management report are examined largely on the basis of random checks. The audit encompasses an assessment of the annual financial statements of the companies included in the consolidated financial statements, and also of the scope of the reporting entity, the accounting and consolidation principles and key judgements made by the legal representatives; it in addition includes an appraisal of the overall presentation of the consolidated financial statements and group management report. We are of the opinion that our audit constitutes a sufficiently reliable basis for our findings.

No objections are made on the basis of our audit.

We are convinced that the consolidated financial statements present, in compliance with adequate and orderly accounting principles, a true and fair view of the net worth, financial position, earnings situation and payment transactions of the group. The group management report as a whole provides an accurate picture of the group's position and of its future risks.

Hamburg, March 3, 2000

Susat & Partner OHG  
Wirtschaftsprüfungsgesellschaft

Dr. Bohl  
Independent auditor

Dr. Bartels  
Independent auditor

## BALANCE SHEET OF HAWESKO HOLDING AG\*

<b>ASSETS</b>	31.12.1999 DM '000	31.12.1998 DM '000
<b>FIXED ASSETS</b>		
Tangible assets	17	15
Financial assets	138,053	120,001
	<b>138,070</b>	<b>120,016</b>
<b>CURRENT ASSETS</b>		
Inventories	33	22
Accounts receivable and other assets	119,872	72,746
Cash in banking accounts	4,478	0
	<b>124,383</b>	<b>72,768</b>
<b>PREPAYMENTS</b>	1,096	97
	<b>263,549</b>	<b>192,881</b>
 <b>EQUITY AND LIABILITIES</b>		
	31.12.1999 DM '000	31.12.1998 DM '000
<b>EQUITY</b>		
Subscribed capital	22,027	22,027
Capital reserve	116,462	116,462
Revenue reserve	18,751	9,565
Unappropriated profit for the year	11,674	11,674
	<b>168,914</b>	<b>159,728</b>
<b>PROVISIONS</b>		
Provisions for taxation	450	481
Other provisions	1,332	1,347
	<b>1,782</b>	<b>1,828</b>
<b>LIABILITIES</b>		
Bonds	392	224
Due to banks	91,254	30,673
Due to affiliated companies	342	274
Other liabilities	865	154
	<b>92,853</b>	<b>31,325</b>
	<b>263,549</b>	<b>192,881</b>

\* The complete financial statements of Hawesko Holding AG, which have received the unqualified certification of Susat & Partner OHG Wirtschaftsprüfungsgesellschaft, Hamburg, will be published in the Federal Gazette and have been filed with the Local Court of Hamburg under reference HRB 66708. Copies of this publication can be requested from Hawesko Holding AG.

## STATEMENT OF INCOME FOR HAWESKO HOLDING AG

	1999 DM '000	1998 DM '000
Other operating income	736	736
Personnel expenses		
Salaries	- 2,270	- 2,301
Social security and social maintenance costs	- 23	- 12
Depreciation of tangible assets	- 9	- 7
Other operating expenses	- 1,650	- 767
Investment income	28,036	29,119
Other interest and similar income	2,700	1,632
Interest and similar expenses	- 2,764	- 1,204
<b>RESULTS FROM ORDINARY ACTIVITIES</b>	<b>24,756</b>	<b>27,196</b>
Extraordinary result	0	- 1,439
Taxes on income	- 3,895	- 4,067
Other taxes	0	- 450
<b>NET INCOME FOR THE YEAR</b>	<b>20,861</b>	<b>21,240</b>
Accumulated losses brought forward	0	- 1
Allocation to the revenue reserve	- 9,185	- 9,565
<b>UNAPPROPRIATED PROFIT</b>	<b>11,674</b>	<b>11,674</b>

## SUPERVISORY BOARD AND MANAGEMENT BOARD

*Members of the Supervisory Board occupy the following posts on supervisory boards and similar regulatory bodies which must be formed as a legal requirement within business enterprises:*

### SUPERVISORY BOARD

**Dr. Hubertus Schwarz, Chairman**

Lawyer, Hamburg

*AmaTech Holding AG, Hamburg; DSA Deutsche Strom AG, Hamburg;*

*NoxiTest AG, Hamburg*

**Manfred Middendorff, Deputy Chairman**

General Executive, Brauerei Herrenhausen KG, Hanover

**Dr. Carl H. Hahn**

Former Member of the Board of Volkswagen AG, Wolfsburg,

*Gerling-Konzern, Speziale Kreditversicherungs-AG, Köln; Sachsenring AG, Zwickau;*

*Perot Systems Corporation, Dallas, Texas USA; MainControl, Vienna, Virginia USA*

**Dr. Norbert Käsbeck**

Member of the Board of Commerzbank AG, Frankfurt am Main,

*AMB Aachener und Münchener Beteiligung AG, Aachen; comdirect bank AG,*

*Quickborn; Commerz Grundbesitz-Investmentgesellschaft mbH, Wiesbaden;*

*Commerz NetBusiness AG, Frankfurt am Main; Commerz Finanz-Management*

*GmbH, Frankfurt am Main; Hugo Boss AG, Metzingen; Friatec AG, Mannheim;*

*MAN Aktiengesellschaft, München; Salamander AG, Kornwestheim; SÜBA Bau AG,*

*Mannheim*

**Hans Meyer**

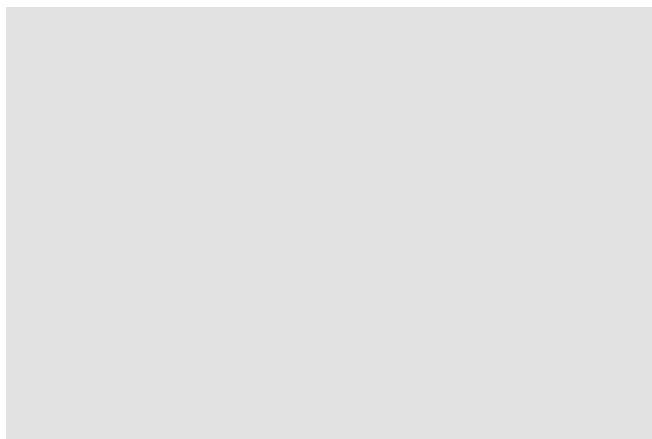
Freelance direct marketing consultant, Rheinheim

**Günter Nawrath**

Former Chairman of the Supervisory Board of Otto-Versand (GmbH & Co),

Aumühle

The members of the Supervisory Board hold a total of 56,800 shares in Hawesko Holding AG (representing 1.3% of the total shares).

**BOARD OF  
MANAGEMENT**


Alexander Margaritoff (Chairman), Bernd Hoolmans, Sven Ohlzen

**Alexander Margaritoff, Chairman**

Mr. Alexander Margaritoff (born 1952), of Hamburg, graduated from the University of Sussex, England, with degrees in Economics (B.A.) and Contemporary European Studies (M.A.).

In 1981 he joined the *Hanseatisches Wein- und Sekt-Kontor*. He is a director of this company and the wholesaler *Champagner- und Wein-Distributionsgesellschaft*. He is responsible for all companies in which *Hawesko Holding AG* has a shareholding, and in particular for the wine mail order sector.

**Sven Ohlzen, Deputy Chairman**

of Hamburg, graduated with a degree in Economics in 1986 in Hamburg.

He joined the former *Hanseatisches Wein- und Sekt-Kontor* in 1992, and was appointed an authorised signatory in 1993. He has been director of this company and the wholesaler *Champagner- und Wein-Distributionsgesellschaft* since 1998, and of *Carl Tesdorpf* since 1999. At *Hawesko Holding AG*, he is responsible in particular for finance and the controlling of affiliated companies.

**Bernd Hoolmans**

Mr. Bernd Hoolmans (born 1950), of Düsseldorf, graduated in Economics from the Justus Liebig University of Giessen in 1975.

Mr. Hoolmans joined *Jacques' Wein-Depot*, Düsseldorf, as Managing Director in 1994. At *Hawesko Holding AG*, he is primarily responsible for wine retailing.

The members of the Board of Management hold a total of 1,324,850 shares in *Hawesko Holding AG* (representing 30.1% of the total shares); they moreover have options on a total of 77,000 shares in *Hawesko Holding AG* on the basis of convertible bonds issued in the course of 1998 and 1999.

## REPORT OF THE SUPERVISORY BOARD

*Hawesko Holding AG* and the Hawesko Group operate in the wine market, which has changed fundamentally over recent decades and will continue to change. Growing demand for high-quality wines on the one hand, and the wider availability of excellent products on the other, will cause the worldwide market for high-quality wines to expand. Starting from its current position as the leading supplier of high-quality wines in Germany, the Hawesko Group will help to shape this increasingly global market.

In the light of this situation, the Supervisory Board was kept informed by the Board of Management of the company's position and business prospects both in Germany and abroad. The Supervisory Board regularly monitored and advised the Board of Management. It held four meetings in the 1999 financial year. All matters requiring its approval, as well as the commercial position of the company, were discussed in depth at these meetings. The topics discussed included the following in particular: business progress and strategy, risk management, scope for expansion and acquisitions in Germany and abroad and Approval of the purchase of the Wein Wolf Group.

The Chairman of the Supervisory Board remained in constant contact with the Board of Management. He was informed regularly of important business developments and decisions.

The exchange of opinions on the business progress and situation of the company was accompanied by detailed discussions of the profit, investment and financial plans.

The annual and consolidated financial statements, together with the management report and group management report for the 1999 financial year, have been examined by the auditors, Susat & Partner oHG, Wirtschaftsprüfungsgesellschaft, Hamburg, who have issued their unqualified certification thereof. The Supervisory Board indicates its agreement with the findings of the audit, which have revealed no cause for objection. The reports on the auditor's findings were handed out to all members of the Supervisory Board, and were discussed in the presence of the auditor at the Supervisory Board meeting dedicated to approving the accounts.

The Supervisory Board has examined and approved the annual financial statements submitted by the Board of Management as at December 31, 1999, including the management report, together with the consolidated financial statements submitted by the Board of Management as at December 31, 1999, including the group management report; the annual financial statements are thus approved.

The Supervisory Board endorses the proposal by the Board of Management on the appropriation of net earnings for the 1999 financial year, the payment of a dividend of DM 2.65 per no-par-value share and the allocation of DM 9,186,623.29 to the revenue reserves.

The Supervisory Board extends its thanks to the Board of Management, the works councils, all employees of Hawesko Holding AG's affiliated companies and the agency partners of Jacques' Wein-Depot for their commitment and hard work.

Hamburg, March 2000

The Supervisory Board

Dr. Hubertus Schwarz  
Chairman

## CONSOLIDATED FINANCIAL STATEMENTS ACC. TO THE INTERNATIONAL ACCOUNTING STANDARDS

**CHANGEOVER TO IAS** From this year on, beginning with the quarterly reports for 2000, *Hawesko Holding AG* will prepare its consolidated financial statements according to International Accounting Standards (IAS) with a discharging effect. The clearer information that they will then provide for international financial markets will satisfy our investors' requirements more fully.

The main difference for the 1999 financial year is the timing of our taking control of *Wein Wolf* in the consolidated statement of income: according to IAS, sales for the *Wein Wolf* Group are only consolidated from September 2, 1999; on the other hand, no use is made of the balancing item shown in the HGB accounts. The handling of taxes on income according to IAS is moreover fundamentally different. The capitalisation of conversion losses in fiscal supplementary balance sheets results in deferred taxes which, according to IAS standards, lead to an income tax burden that is higher by approx. DM 3.6 million.

The different goodwill values from first-time consolidation, which lead to lower amortisation, are also of substantial material significance.

The changeover to IAS produces a significantly higher total in the consolidated balance sheet. This is mainly due to deferred taxes booked to assets and allocated directly to the revenue reserves, from the contribution of subsidiaries to *Hawesko Holding AG* at January 1, 1998.

## CONSOLIDATED STATEMENT OF INCOME (ACCORDING TO IAS)

	1.1.-31.12.1999 DM '000	1.1.-31.12.1998 DM '000
<b>SALES REVENUES</b>	391,501	303,049
Increase in finished goods inventories	204	0
Other operating income	13,935	8,793
Cost of purchased goods	- 218,682	- 158,608
Personnel expenses	- 33,733	- 26,952
Depreciation	- 5,616	- 4,900
Other operating expenses	- 112,155	- 85,089
<b>RESULT FROM OPERATIONS</b>	<b>35,454</b>	<b>36,293</b>
Financing expense	- 3,081	- 1,729
<b>RESULTS FROM ORDINARY ACTIVITIES</b>	<b>32,373</b>	<b>34,564</b>
Other taxes	- 98	- 571
<b>RESULT BEFORE TAXES ON INCOME</b>	<b>32,275</b>	<b>33,993</b>
Taxes on income	- 14,197	- 14,419
<b>RESULT AFTER TAXES</b>	<b>18,078</b>	<b>19,574</b>
Profit due to minority interests	- 416	- 100
<b>CONSOLIDATED EARNINGS FROM ORDINARY ACTIVITIES</b>	<b>17,662</b>	<b>19,474</b>
Extraordinary items	0	- 1,932
<b>CONSOLIDATED EARNINGS</b>	<b>17,662</b>	<b>17,542</b>

## CONSOLIDATED BALANCE SHEET (IAS)

<b>ASSETS</b>	31.12.1999 DM '000	31.12.1998 DM '000
<b>FIXED ASSETS</b>		
Intangible assets	16,042	984
Tangible assets	28,239	21,840
Financial assets	1,010	127
	<b>45,291</b>	<b>22,951</b>
<b>CURRENT ASSETS</b>		
Inventories	133,040	91,914
Accounts receivable (trade debtors)	61,365	24,931
Other accounts receivable and other fixed assets	4,903	2,079
Cash in banking accounts and cash on hand	7,329	1,617
	<b>206,637</b>	<b>120,541</b>
<b>DEFERRED TAXES</b>	48,357	50,722
<b>PREPAYMENTS</b>	1,323	703
	<b>301,608</b>	<b>194,917</b>
 <b>EQUITY AND LIABILITIES</b>		
	31.12.1999 DM '000	31.12.1998 DM '000
<b>EQUITY</b>		
Subscribed capital	13,487	13,487
Capital reserve	17,002	17,002
Revenue reserve	62,456	56,238
Consolidated earnings	17,662	17,542
	<b>110,607</b>	<b>104,269</b>
<b>MINORITY INTEREST</b>	1,271	100
<b>PROVISIONS</b>		
Provisions for pensions	674	572
Provisions for taxation and deferred taxes	3,679	1,559
Other provisions	3,284	555
	<b>7,637</b>	<b>2,686</b>
<b>LIABILITIES</b>		
Financial debts	92,633	30,897
Advances from customers	12,601	14,574
Accounts payable (trade debtors)	50,554	27,957
Other accounts payable	26,305	14,434
	<b>182,093</b>	<b>87,862</b>
	<b>301,608</b>	<b>194,917</b>

## DEVELOPMENT IN EQUITY FOR HAWESKO GROUP (IAS)

	Subscribed capital DM '000	Capital reserve DM '000	Revenue reserve DM '000	Consolidated net income DM '000	Total DM '000
01.01.1998	11,460	540	56,238	0	68,238
Capital increase	2,027	16,462	–	–	18,489
Consolidated earnings				17,542	17,542
31.12.1998	13,487	17,002	56,238	17,542	104,269
Transfers	–	–	5,867	– 5,867	0
Dividends	–	–	–	– 11,675	– 11,675
Consolidated earnings	–	–	–	17,662	17,662
Other neutral changes*	–	–	351	–	351
31.12.1999	13,487	17,002	62,456	17,662	110,607

\* This item is largely the result of IAS adjustments affecting profits for previous years, less deferred taxes.

## CASH FLOW STATEMENT FOR THE HAWESKO GROUP (IAS)

	1999 DM '000	1998 DM '000
Result before taxes on income and extraordinary items	32,275	33,993
+ Write-up of intangible and tangible assets (balance, with write-ups)	5,575	4,900
+ Interest result	3,081	1,729
+/- Result from the disposal of intangible and tangible assets	- 251	4
- Change in inventories	- 12,949	- 19,025
+/- Change in accounts receivable, other assets and prepayments	- 16,027	4,554
+ Change in provisions	1,030	907
+/- Change in liabilities (excluding financial liabilities)	11,447	- 7,934
- Taxes on income paid	- 9,669	- 14,261
- Outpayments for extraordinary items	0	- 3,356
<b>= Net inflow of payments from current operations</b>	<b>14,512</b>	<b>1,511</b>
- Acquisition of subsidiaries less net funds acquired	- 17,512	- 51
- Outpayments for tangible assets and intangible assets	- 7,183	- 5,450
+ Inpayments from the disposal of intangible assets and tangible assets	335	34
<b>- Net funds employed for investment activities</b>	<b>- 24,360</b>	<b>- 5,467</b>
+ Inpayments from capital increase	0	18,489
- Outpayments from reserves	- 1,580	0
- Outpayments for dividends	- 14,163	0
+/- Change in financial debts	24,836	- 4,050
- Interest paid	- 4,063	- 1,452
<b>+ Inflow of net funds from financing activities</b>	<b>5,030</b>	<b>12,987</b>
<b>= Net decrease/increase in funds</b>	<b>- 4,818</b>	<b>9,032</b>
- Distribution of profit to third parties	0	- 100
+ Funds at start of period	10,943	2,011
<b>= Funds at end of period</b>	<b>6,125</b>	<b>10,942</b>

## RECONCILIATION ACCOUNTS FROM HGB TO IAS

	Notes	31.12.1999 DM '000
<b>CONSOLIDATED NET INCOME AFTER BALANCING ITEM AND MINORITY INTERESTS (HGB)</b>		<b>20,669</b>
Liquidation of special item with an equity portion	(1)	-127
Depreciation of tangible assets	(2)	298
Differences from the consolidation of capital	(3)	1,115
Valuation of inventories	(4)	129
Valuation of liabilities in foreign currency	(5)	-321
Provisions	(6)	-206
Deferred taxes	(7)	-3,895
Total adjustments		<b>-3,007</b>
<b>CONSOLIDATED NET INCOME IAS</b>		<b>17,662</b>

- (1) The formation of a special item with and equity portion is not permissible according to IAS.
- (2) According to IAS, tangible assets are without exception depreciated according to the straight-line method, whereas the consolidated financial statements according to German Commercial Code (HGB) also apply degressive methods of depreciation.
- (3) The goodwill from initial consolidation is lower according to IAS, as a result of which total depreciation is lower. Differences moreover result from the first-time inclusion of the Wein Wolf Group in the consolidated companies.
- (4) The valuation of inventories according to IAS includes overheads on a pro rata basis. The increasing level of stock in trade has thus led to a higher result.
- (5) According to IAS, it is mandatory to value items in foreign currency at the exchange rate on the balance sheet. The anticipation of exchange-rate gains from liabilities in foreign currency balances out the exchange rate gains first realised in 1999 according to HGB.
- (6) The IAS principles on the valuation of provisions for old-age pensions result in a higher expense than the HGB principles. The anticipation of expenditure through the creation of expenditure reserves, which is not permissible according to IAS, diminishes this financial year's result.
- (7) Deferred taxes occur above all as a result of the differing valuations of assets in the IAS consolidated balance sheet and the individual fiscal balance sheets, as a result of capitalisation of conversion losses in the supplementary tax balance sheets. IAS adjustments which alter the result compared with the HGB financial statements likewise result in deferred taxes with an opposite effect.

## HISTORY OF HAWESKO HOLDING AG

- 1964** Establishment of the wine mail order company *Hanseatisches Wein- und Sekt-Kontor HAWESKO* in Hamburg
- 1974** Founding of the wine retail company *Jacques' Wein-Depot* in Düsseldorf
- 1983** *Jacques' Wein-Depot* is taken over by Horten AG (subsequently acquired by Kaufhof Holding AG, and then by the Metro Group); 50 wine outlets
- 1986** The wine wholesaler *CWD Champagner- und Wein-Distributionsgesellschaft* is established
- 1989** Acquisition of a 70% interest in *Hanseatisches Wein- und Sekt-Kontor HAWESKO* and *CWD Champagner- und Wein-Distributionsgesellschaft* by Kaufhof Holding AG (part of the Metro Group)
- 1997** Opening of the new logistics centre for *Hanseatisches Wein- und Sekt-Kontor HAWESKO* and *CWD Champagner- und Wein-Distributionsgesellschaft*; 130 outlets of *Jacques' Wein-Depot*
- 1998** Consolidation of the three wine trading companies under the umbrella of the new company *Hawesko Holding AG*; IPO in May; the Metro Group no longer holds any interest in *Hawesko Holding AG*
- 1999** Hawesko acquires a 90% shareholding in the traditional wine trader *Carl Tesdorpf GmbH*, whose history stretches back 300 years, and a 90% shareholding in the *Wein Wolf* Group.

## GLOSSARY

### HERE ARE EXPLANATIONS OF SOME OF THE TERMS USED IN THIS ANNUAL REPORT:

»As-if« figures are business figures for the Hawesko Group for the years 1995, 1996 and 1997. As the group only came into being in 1998 as a result of the merger of the business activities of the wine mail order company (*Hanseatisches Wein- und Sekt-Kontor HAWESKO*), the specialist wine retailer (*Jacques' Wein-Depot*) and the wine wholesaler (*Champagne- und Wein-Distributionsgesellschaft CWD*), no consolidated financial statements exist for the previous years. The main differences between the figures in the consolidated financial statements and the as-if figures are in the balance sheet items »Fixed assets« and »Balance-sheet total«, as a result of the differing principles used for the valuation of goodwill. The items »Depreciation« and »Taxes on income« in the statement of income, and therefore »Operating result (EBIT)« and »Net income for the year«, likewise differ from the as-if figures for the same reason.

**Capital employed** is defined as the balance-sheet total (for the group), less short-term provisions and interest-free liabilities. This figure is used to analyse the level of tied-up capital. In the segment reporting the net value of segment assets less segment debts differs from capital employed because of prepayments in the consolidated balance sheet.

**Gross cash flow for the year** serves as an indication of the group's ability to finance its own investments, and is quoted in the summary of key data as a gross figure – before investments and the distribution of profit – which comprises net income for the year, depreciation, and the change in provisions.

**DVFA/SG result** is the result after taxes, adjusted to eliminate extraordinary items and one-off effects, according to the calculation methods drawn up jointly by the German Association for Financial Analysis and Investment Consultancy and the Schmalenbach Society (DVFA/SG). The result for the 1998 financial year has been adjusted to eliminate the costs incurred in preparation for and as a result of the initial public offering. In 1999 one balancing item was used for the result for the period April - August 1999 for the Wein Wolf Group, before the company had actually come under our control.

## GLOSSARY

**DVFA/SG result per share** is the DVFA/SG result divided by the number of shares (currently 4.4 million). The total number of shares was assumed to be 4 million for the purpose of calculating the as-if figures.

**Equity in the summary of key data** is stated after deduction of the proposed distributed dividends of Hawesko Holding AG totalling DM 11.7 million and the deduction of minority interests of DM 1.4 million. In the consolidated balance sheet, it is shown inclusive of the consolidated net profit for the year of DM 10.4 million. The difference is due to consolidating entries for the group.

**Operating result (EBIT)** is the operating result before deduction of financing (interest) costs and all taxes on income and other taxes. It is commonly used as a means of calculating profitability.

**Operating result before depreciation (EBITDA)** is the operating result before deduction of financing (interest) expense, depreciation and write-downs, and all taxes on income and other taxes. It is often used in preference to the operating result (EBIT) as a means of comparing the profitability of companies in different countries, since it is less open to distortion by the use of differing accounting methods.

**Pro forma figures:** in order to obtain figures against which the consolidated financial statements for 1998 can be compared, »pro forma«, or notional, consolidation was carried out.

**Return on capital employed:** is the operating result (EBIT) divided by the average capital employed for the previous year and the year under review.

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