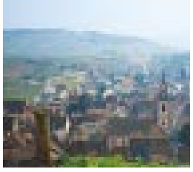
Annual Report

1998

Hawesko Holding Aktiengesellschaft

H A W E S K O H O L D I N G A G

KEY DATA FOR THE HAWESKO GROUP

(For explanatory notes on the individual items, see glossary, page 60)

Figures in DM million (figures for shares in DM)	1998	(Pro forma) 1997	1997*	1996*	1995*
Net sales	303.0	277.1	277.1	239.4	210.6
Gross profit	143.6	129.7	129.8	113.2	102.5
– as % of net sales	47.4%	46.8%	46.8%	47.3%	48.7%
Operating result before depreciation (EBITDA)	40.5	34.7	34.7	33.0	32.3
– as % of net sales	13.4%	12.5%	12.5 %	13.8%	15.3%
Depreciation	5.3	3.8	4.3	3.6	3.3
Operating result (EBIT)	35.2	30.9	30.4	29.4	29.0
– as % of net sales	11.6%	11.2%	11.0%	12.3%	13.8%
Consolidated net income for the year	20.3	16.9	20.2	19.7	19.3
DVFA/SG earnings	21.8	--	21.1	20.2	19.8
Cash flow for the year	25.9	--	25.8	13.2	--
Investments	5.5	--	8.1	3.3	3.8
Dividend distribution for the current year (Holding AG)	11.7	--			
Fixed assets	29.0	29.0	27.5	23.8	24.2
Current assets	105.0	88.2	88.2	70.0	61.6
Equity less distributed dividends	47.6	20.6	19.0	35.4	35.6
– as % of balance-sheet total	35.3%	17.5%	16.3%	37.7%	41.4%
Total assets	134.7	117.6	116.1	93.8	85.9
Capital employed	90.7	72.0	68.6	57.9	46.2
DVFA/SG earnings per share	4.96	--	5.28	5.04	4.95
Dividend per share	2.65	--	--	--	--
– plus German tax credit	0.83	--	--	--	--
Total shares, million	4.4	--	4.0	4.0	4.0
Year-end share price, in DM	93.00				
in euro	47.55	--	--	--	--
Total employees (average for the year)	353	328	325	227.5	213

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

HAWESKO
HOLDING AG

100%	100%	90%
Hanseatisches Wein & Sekt Kontor	Probieren wie beim Winzer JACQUES' WEIN-DEPOT	CWD CHAMPAGNER & WEIN DISTRIBUTIONSGESELLSCHAFT

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A Strong Alliance

Dear Shareholders,

I am pleased to present you with *Hawesko Holding AG's* first annual report. 1998 was an eventful year for the Hawesko Group:

- In May 1998 *Hawesko Holding AG* went public. In doing so, we have become the first and only German wine specialist listed on the stock exchange – an important step in the history of our company, which opens up new perspectives for us in our sector.

- The past financial year was also very successful from an operating point of view: sales were up 9.4%, to DM 303.0 million, while the operating result (EBIT) went up even more, 13.9%, to DM 35.2 million.

Chairman of the Management Board
Alexander Margaritoff

- Along with the new listing on the stock exchange, we have built up the group by bringing together three distribution channels under one umbrella – mail-order, retailing and wholesale. As a result, we have unique and wide-reaching coverage of the market for premium wines and champagne in Germany.

When my father started the mail-order business *HAWESKO* in the 1960s, the company was a pioneer in marketing premium wines. Then, as now, three factors were important for the success of the company: great products, a sense of what customers want and an organisation that gets the product to our customers efficiently. Keeping the company focussed on these points has made the *HAWESKO* mail-order business into the leading company in its market segment.

The Hawesko Group will continue in this direction: our focal point is the dialogue with our customers, be it through our mailings, in our call center for the mail-order business or face-to-face in the *Jacques' Wein-Depot* retail outlets. We are continuing to develop our distribution channels by

- introducing key accounts for the restaurant and retail trade in our wholesale business,
- realizing the full potential for customers in retailing and mail-order, and
- building up our presence on the internet.

In doing so, we aim to increase the quality of our customer service.

The success story that began years ago with the founding of *HAWESKO* mail-order and *Jacques' Wein-Depot* is set to continue. We apply new technology and modern management methods to an age-old business – the trade with a wonderful product: wine.

My colleagues on the Board of Management and I would like to thank you for your support and confidence in the company. Particular thanks are due to our customers, many of whom are shareholders: Customer satisfaction is the measure of all our activities. We would also like to thank our staff and employees, as well as the agency partners of *Jacques' Wein-Depot*. Together, we will continue to work towards our goal of being the best in the trade.

Yours sincerely,

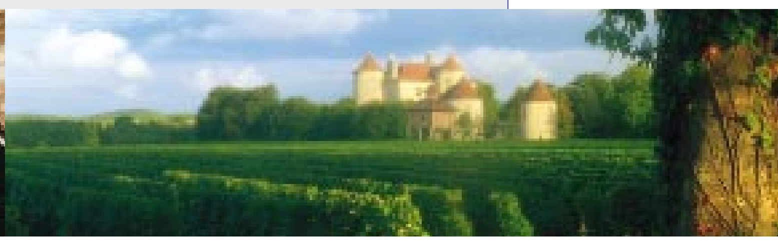
A. Margaritoff

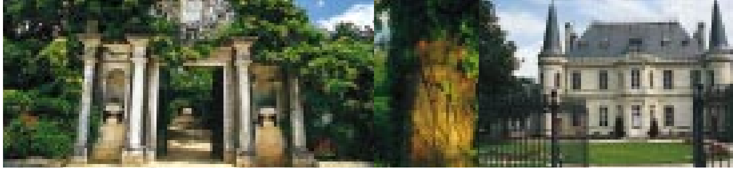
Alexander Margaritoff
Chairman of the Management Board

Rules and advice on storing wine

For anyone who is genuinely keen to store wine in the right conditions but does not have a cellar with a constant temperature, our best advice would be to purchase a wine storage refrigerator, in which wine is protected against vibration and maintained at a constant temperature. However this is, of course, a rather costly affair. So what must you do to store wine in the ideal conditions and to enjoy it at its best?

Wine should always be stored lying down, to make sure the cork does not dry out. Exposure to temperature fluctuations may harm wine in the long term, and should be avoided. For this reason, a conventional refrigerator is unsuitable for storing wine for any length of time. The temperature inside tends to fluctuate constantly by a few degrees, and moisture is drawn out of the wine. It is better to store wine in an odour-free cellar. It is important to ensure that the cellar's atmosphere is not too dry, too warm or too damp. If the cellar is on the dry side, suspend a humidifier in the room. If it is too warm, insulate any exposed heating pipes; if the atmosphere in the cellar is very humid, wrap wine bottles in cellophane to prevent the labels from peeling off.





Wine mail order: Hanseatisches Wein- und Sekt-Kontor HAWESKO

HANSEATISCHES WEIN- UND SEKT-KONTOR HAWESKO

Figures in DM million	1998	1997
Net sales	176.1	164.2
Operating result (EBIT)	21.0	16.8
Capital employed (on closing date)	66.0	51.4
Investments in fixed assets	2.4	6.3
Address database	700,000	600,000
Employees (average for the year)	302	279

A RANGE OF WINES FOR DISCERNING TASTES

Hanseatisches Wein- und Sekt-Kontor HAWESKO is the largest wine mail order house in Germany. This is the result of the successful marketing of our high-quality range of wines. With its high-quality range of around 1,250 different wines, *HAWESKO* specifically targets customers with discerning tastes. Since its establishment in 1964, *HAWESKO* has become the largest German importer of upmarket French and Italian wines.

In the 1998 financial year, consolidated sales rose by 7.3% to DM 176.1 million. The operating result rose to DM 21.0 million (only limited comparison with the previous year is possible, due to the restructuring of the group). Capital employed, defined as total assets less interest-free liabilities and short-term provisions, grew by 28.4% over the same period. This rate of increase is attributable in the main to inventories. The administrative building was extended in fiscal 1997, as a result of which investments in property, plant and equipment in the 1998 financial year decreased by DM 3.9 million against 1997.

INTENSIVE COMMUNICATION WITH THE CUSTOMER – THE BASIS FOR SUCCESS

One of the principal foundations of *HAWESKO'S* success is its extensive knowledge of customer preferences. A modern electronic data processing system assists the task of recording all relevant sales data for each individual customer, making it possible to analyse purchasing patterns. Offers can thus be tailored to the tastes of individual customers, generating strong bond to the customer.

HAWESKO'S efficient marketing and communication approach is one of the vital factors behind its success. The customer is given a helping hand to facilitate the process of choosing wines: the main catalogue of over 130 pages, brochures appearing regularly on specific topics and the special publications provide a broad range of information to advise him. The complete range can also be ordered over the Internet. Product information can be called up on *www.hawesko.de*. Any customer looking for personal sales advice can also contact staff at the company's in-house call centre on all weekdays, including at the weekend. Specially trained wine advisors take customers' orders over the phone and are able to give useful advice. These staff are trained to treat customer satisfaction as their overriding objective.

QUALITY, SERVICE AND A SENSIBLE PRICE

HAWESKO succeeds in providing service and outstanding quality at an affordable price. The company's long-standing ties with suppliers assure high quality and place it at a vitally important competitive advantage. The new central logistics building, with fully automated high-bay store, gives the company a further edge over the competition. This facility assures efficiency and flexibility, at low costs.

GIFTS BUSINESS: ENDING THE YEAR WITH A BOOM

Around Christmas time, a comprehensive gifts service is available to *HAWESKO* customers, with particular emphasis placed on corporate gifts. A special catalogue of around 30 pages includes a wide range of ideas and articles which make ideal mail-order Christmas presents. *HAWESKO* mails the items of the customer's choice. Personalised greeting cards can be enclosed if desired. Gifts business represents a lucrative supplementary source of revenue. The optimisation of internal procedures is helping to use resources even more rationally, thereby implementing further improvements in this area of business. Although end-of-year business constitutes a major organisational challenge, we are able to process peak levels of orders and deliver goods punctually.

STRATEGIC EMPHASIS

The basic tenets of *HAWESKO'S* future strategic emphasis are to extend and nurture relations with existing customers, through specific customer development and loyalty schemes, to tap fresh potential for custom and to concentrate on gaining new customers who can be served profitably. There are plans to expand abroad in the medium term.

The right drinking temperatures for good wines

It doesn’t actually take much to enjoy drinking wine: a suitable glass, and a bottle of wine that is at the right temperature. There is a fundamental distinction to be made between the serving and drinking temperature. In other words, the wine should always be served between one and two degrees cooler than the temperature at which it is to be drunk, because it warms up rapidly once in the glass or in a bottle standing on the table.

RECOMMENDED DRINKING TEMPERATURES:

8°C Straightforward white wines (e.g. Galestro, Vinho Verde, South African Chenin Blanc) and, particularly in the summer, semi-sparkling wines (Prosecco)

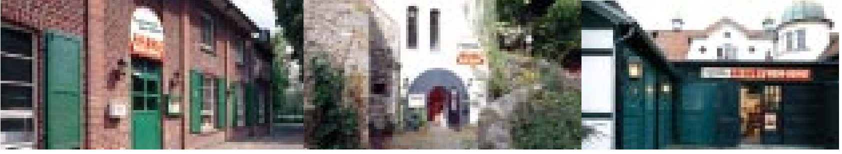
10°C Light white wines (e.g. Swiss Chasselas, young Riesling, Grüner Veltiner, Pinot Grigio, white Zinfandel), and also non-vintage champagne

12°C Complex, heavier white wines (e.g. Chardonnay, Meursault, Austrian Sauvignon (Styria), vintage champagne, subtle sweet wines), also rosé and light red wines

14°C Straightforward, young red wines (e.g. Valpolicella, Beaujolais, Pinot Noir from Alsace) and port wines

16°C Full-bodied, young red wines (e.g. young Cabernet Sauvignon, Chianti Classico, red Burgundy, Bordeaux)

18°C Heavy, mature red wines (e.g. Barolo, Hermitage, Cabernet Sauvignon Reserve)



Specialist wine retailing: Jacques´ Wein-Depot

JACQUES´ WEIN-DEPOT

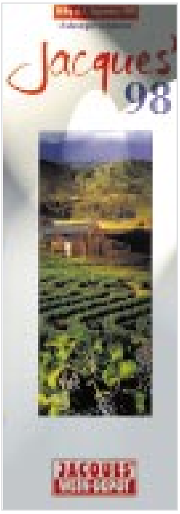
Figures in DM million	1998	1997
Net sales	111.9	101.6
Operating result (EBIT)	13.7	13.0
Capital employed (on closing date)	13.5	9.5
Investments in fixed assets	2.8	1.8
Number of outlets (year-end)	148	130
Employees (average for the year)	40	41

WINE IS AN EXPERIENCE, NOT JUST A PRODUCT

Tasting wine free of charge, as at the vintner, and receiving individual advice: these are the elements on which the success of *Jacques' Wein-Depot* has been built.

On this basis, consolidated sales were boosted by 10.1% in 1998, to DM 111.9 million, and the operating result rose to DM 13.7 million (only limited comparison with the previous year is possible, due to the restructuring of the group). Capital employed was up 42.1% to DM 13.5 million as a result of the expansion in business operations. Investments of DM 2.8 million (+ 55.6% compared with the prior-year figure) were made in connection with the opening of 18 new *Jacques' Wein-Depot* outlets in 1998, and as part of a more intensive drive to modernise existing retail outlets. As a result of these measures, three-quarters of all outlets now have facilities that are no older than two years.

Long-term supply agreements secure a vital purchasing advantage for the *Jacques' Wein-Depot* outlets, a fact reflected in numerous exclusive offers. Direct imports and regular quality checks by the company's own laboratory help *Jacques' Wein-Depot* to maintain high quality standards for the wines it sells.



PERSONAL, EXPERT CUSTOMER ADVICE

More than 150 *Jacques' Wein-Depot* outlets in large and medium cities throughout Germany are currently run by over 110 independent retail partners (trade representatives). They have a deep knowledge of the individual tastes and preferences of their clientele, assuring flexible, customer-oriented service. Customers are able to select at leisure their personal favourites from the range of over 200 wines, with 15 new wines being presented every month. The customer address database currently contain over 350,000 addresses (previous year: 313,000).

To maintain and build on these strategic competitive advantages, training and advancement measures are treated as a very high priority for *Jacques' Wein-Depot*. The range of measures includes regional further-training courses and regular opportunities to exchange ideas with the Düsseldorf-based management. In 1998, 24 retail partners of *Jacques' Wein-Depot* enrolled to take part in a specialist training course leading to a qualification as expert wine advisor, including an examination sponsored by the Chamber of Trade and Commerce at the School of Wine and Sommeliers in Koblenz.

HIGH QUALITY AT LOW PRICES

The individual outlets receive back-up services from the *Jacques' Wein-Depot* head offices in Düsseldorf. Here, partners are given active support on matters of purchasing/stock management, quality control, marketing/distribution and computerised administration. These services significantly boost the cost efficiency of the individual *Jacques' Wein-Depot* outlets. Other advantages are that shop opening hours are short and operating costs can be kept down. As a result, high-quality wines can be offered for sale at reasonable prices.

CONTINUING TO CAPITALISE ON GROWTH PROSPECTS

Jacques' Wein-Depot will be celebrating its 25th anniversary in October 1999. The company has emerged as Germany's leading specialist retailer of wine, now with over 150 retail outlets in around 100 cities. Over the past four years, 41 new wine outlets have been opened. The focal points of this expansion were the metropolitan areas Hamburg, Frankfurt, Munich, Stuttgart and Cologne/Bonn/Düsseldorf. The company is specifically aiming to establish a comprehensive retail network in large and medium-sized cities. Its target is to have 200 outlets by the end of 2000.

25 Jahre
JACQUES'
WEIN-DEPOT

Champagne – the tingling taste of luxury

The méthode champenoise – the champagne method – was discovered just under three hundred years ago. This method involves prompting a second fermentation of the wine inside the bottle, with the cork already in place, to generate effervescence. This technique is so complicated that it took over a century before it had reached maturity. The patience with which the technique of fermentation in the bottle was brought to modern-day standards of precision was worth the trouble. Champagne embodies wine at its most exclusive. Its tiny bubbles and aroma are beyond compare. »I am drinking stars,« exclaimed Dom Pérignon, the monk who lent his name to what is possibly the best-known champagne of all, upon savouring a glass for the very first time.

All wines can be given a sparkle by the champagne method. However, there is more to champagne than merely the method. The quality of the wine is absolutely critical. Only the wines produced in France's most northerly vineyards, in the Champagne region, are of such outstanding quality. The wine grown here was considered among the best in France long before the method of transforming it into champagne had been discovered.



Wine wholesale trade: CWD Champagner- und Wein-Distributionsgesellschaft

CWD CHAMPAGNER- UND WEIN-DISTRIBUTIONSGESELLSCHAFT

Figures in DM million	1998	1997
Net sales	15.0	11.3
Operating result (EBIT)	0.9	0.5
Capital employed (on closing date)	5.5	1.9
Investments in fixed assets	0.1	0.0
Address database	18.000	15.000
Employees (average for the year)	11	8

SUPPLIER TO CATERERS AND SPECIALIST WINE RETAILERS

CWD Champagner- und Wein-Distributionsgesellschaft is the youngest company in the Hawesko Group. Since its founding in 1986, it has progressed to become a leading importer and wholesaler of high-quality wines and champagnes. *CWD* is able to offer its customers a comprehensive range of some 1,000 wines from all over the world, together with champagnes, sparkling wines and spirits.

In the 1998 financial year, *CWD* reported an increase in consolidated sales of 32.7% to DM 15.0 million and a DM 0.4 million rise in the operating result to DM 0.9 million. Capital employed rose to DM 5.5 million (previous year: DM 1.9 million).

Inventories have been increased in anticipation of brisk demand for high-quality Bordeaux wines and champagne for celebrations to mark the arrival of the new millennium. The volume of accounts receivable has risen as a consequence of rapid expansion and the resulting increase in external sales.

STRONGER MARKET POSITION AS THE KEY TO A GREATER COMPETITIVE EDGE

The high quality standards of the Hawesko Group likewise apply to its wholesale subsidiary. *CWD*'s clients include large, top-class hotels, and also smaller award-winning restaurants, together with wine retailers and specialist stores. A particular advantage for *CWD*'s customers is that numerous products that have already sold well by mail order can be purchased by hoteliers and restaurant chefs via *CWD*.

CWD offers its customers an extensive range of high-quality products. It is meanwhile steadily building on its market position as exclusive importer for numerous top wines and champagnes. The company has, for example clinched contracts as the sole distributor of Bollinger and Maxims champagnes in Germany.

Many leading wines of worldwide origin are sold exclusively by *CWD*. These include Bouchard Père et Fils, Burgundy, France; Fonseca Port, Douro Valley, Portugal; Los Vascos, Domaines Rothschild (Lafite), Chile; Laroche, Chablis, France, and many others.

The corporate ties with *HAWESKO* secure the company a competitive advantage in various areas. There are particular synergy benefits in the field of logistics, in the use of modern data processing systems and in the product-range policy.

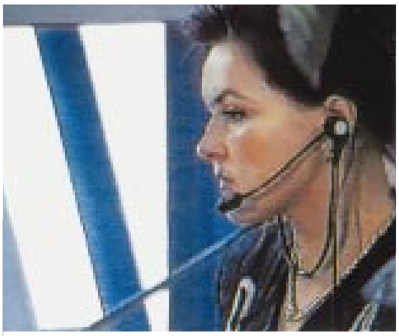
Other factors behind the company's success are the healthy costs structure, its direct marketing arrangements and its flexibility. New sales channels and the benefits of swift, flexible delivery are further advantages. *CWD* is able to deliver a customer's order within 24 hours of it being placed.

BUILDING ON LONG-TERM CUSTOMER RELATIONS

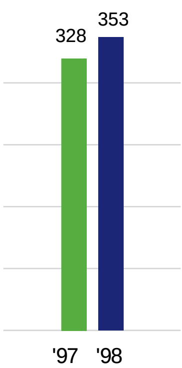
In response to the specific requirements of our various groups of customers, the restructuring of sales activities commenced at the end of 1998, with particular emphasis on key account management. The two key account areas »Catering trade« and »Wine dealers« are served by specially trained staff. By providing intensive customer support, the company is able to respond more accurately to specific customer wishes. On this basis, *CWD* will continue to strengthen its relations with over 6,000 caterers and wine retailers.

Our employees: a vital competitive factor

»The Hawesko Group's employees distinguish themselves by their outstanding skills and commitment.«



Total employees



The subsidiaries of *Hawesko Holding AG* currently employ 353 people. Of this total, 122 are employed in the trade sector, and there are 231 employees in administrative and management posts.

The Hawesko Group regards investing in the training and advancement of its employees as a sound investment in the company's own future. In order to equip employees for the increasingly complex tasks with which they are being confronted, specialist training measures were held at all levels. One particular strategic advantage of the Hawesko Group over its competitors is its specialist knowledge of the products. The ability to provide expert, specialist advice and to communicate extensive knowledge of the wines and champagnes in our range is therefore the focal point of training our sessions. Language training will become an increasing priority in future.

Around half of the employees of the Hawesko Group attended internal and external training courses and seminars in the course of the past year. Organisational developments and further-training measures are largely the responsibility of the individual subsidiaries.

GENERAL STAFF COUNCIL ESTABLISHED

There are separate staff councils for the largest individual companies within the Hawesko Group. As a result of the merger of the three subsidiaries in 1998, it became necessary to establish a general staff council. Its constitutive meeting took place in October 1998, and it comprises two commercial staff and one trade employee. There is also an economic affairs committee bringing together members of the individual staff councils. These committees will be informed of the progress of the Hawesko Group at regular meetings with the Board of Management, and will in particular discuss general aspects of personnel policy.

FLEXIBLE REMUNERATION SYSTEMS INTRODUCED

The introduction of flexible remuneration systems is intended to heighten our employees' emphasis on performance and results. These changes are already being implemented for non-tariff employees and senior executives. For many employees, a growing component of their remuneration – over and above the basic fixed pay – is linked to the attainment of target criteria within the company.

TWO-SHIFT ARRANGEMENTS TO REDUCE OVERTIME

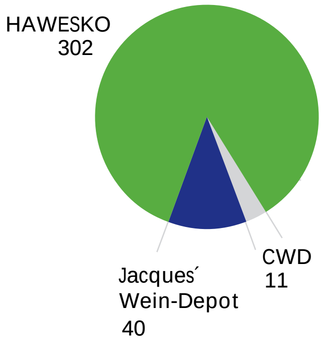
Two-shift arrangements were introduced towards the end of the year for the mail order business, in the orders processing and warehouse areas. The new arrangements provided greater flexibility and operating efficiency, and brought a significant reduction in costs. The amount of overtime worked, particularly by trade employees, was cut back significantly.

EMPLOYEES ACQUIRE SHARES IN THE COMPANY

In 1998, Hawesko Group employees were given the opportunity to acquire shares from the approved capital.

Employees and management were offered shares at a discount on the quoted price. Around 28% of employees responded to this opportunity to invest in the company through the acquisition of shares.

Total employees according to division



HAWESKO HOLDING AG

Share price development

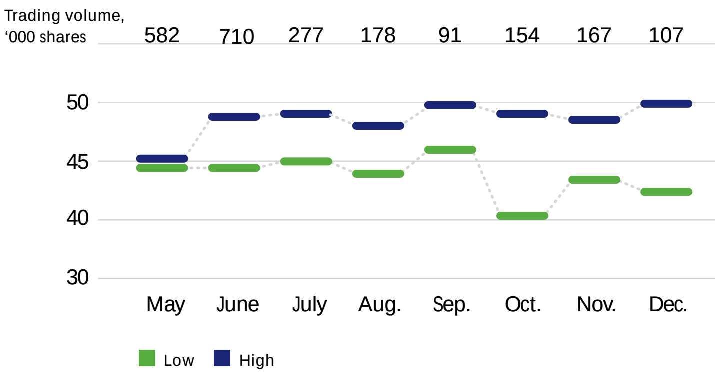
»Hawesko shares were officially quoted on the stock exchange for the first time in the year under review. In the course of 1998, Hawesko shares showed better performance than the MDAX and DAX indices.«

FINANCIAL CALENDAR

Report on the first quarter	April 28, 1999
Shareholders' Meeting in Hamburg	June 3, 1999
Interim report	Mid-August 1999
Report on the third quarter	End of October 1999
Preliminary report on 1999	Mid-February 2000

Official trading in *Hawesko Holding AG* shares on the Frankfurt and Hamburg stock exchanges commenced on May 28, 1998 following a nine-day road show in Frankfurt, Hamburg, London, New York, Boston, Düsseldorf, Paris and the Netherlands. The price range, according to the book-building method, was fixed at DM 79.00 to 92.00, with the initial subscription price DM 87.00. During the road show, the Board of Management attended 34 appointments, establishing over 110 personal contacts with fund managers and analysts. The shares available for placement were five-times over-subscribed.

Hawesko share price, monthly average
in Euro



Source: Deutsche Börse AG (order book trading volume)

SHAREHOLDER STRUCTURE

The total number of shares is approximately 4.4 million. According to research conducted by *Hawesko,* at the end of 1998 the shareholder structure was as follows: Herr Alexander Margaritoff and family 32%; US and British funds and investors 28%; private individuals in Germany 22%; German funds 16%; other 2%.

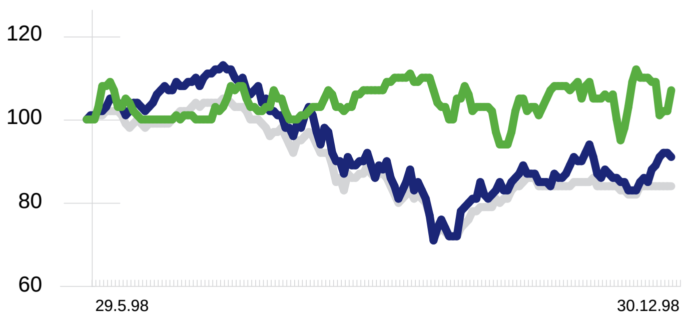
FURTHER DEVELOPMENT OF INVESTOR RELATIONS ACTIVITIES

Since the initial public offering, over 50 meetings have been held with 100 fund managers and financial analysts, to explain the company's strategy and business progress. From 1999, an employee will be assigned the specific task of nurturing investor relations and will support the Board of Management in its dialogue with the capital market.

DIVIDEND FOR 1998

The Supervisory Board and Board of Management will propose the distribution of dividends totalling DM 11.7 million for the 1998 financial year. This is equivalent to DM 2.65 per share, of which DM 0.72 will be exempt from taxes for German investors and DM 1.93 will allow a German tax credit of DM 0.83. Subject to the resolution being passed by the Shareholders' Meeting on June 3, 1999, the dividend will be available from June 4, 1999 via appointed paying agents (banks).

Development in the price
of Hawesko Holding AG shares



HAWESKO HOLDING AG

MANAGEMENT REPORT

»In the year under review, the Hawesko Group further strengthened its market position. With consolidated sales of DM 303.0 million, we are able to report consolidated net income of DM 20.3 million.«

Hawesko Holding AG, seated in Hamburg, has coordinated the activities of three companies since January 1, 1998: *Hanseatisches Wein- und Sekt-Kontor* HAWESKO (mail-order trade), *Jacques' Wein-Depot* (specialist retail trade) and *CWD Champagner- und Wein-Distributionsgesellschaft* (wholesale trade). In the course of the restructuring of the group, the status of these companies was changed to that of unincorporated firms with the legal form of a limited partnership with a limited liability company (GmbH & Co. KG).

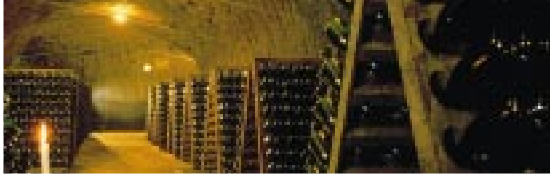
The group's core business is the sale and distribution of wine, champagne and sparkling wine and, to a minor extent, spirits, accessories and delicatessen goods. Mail-order and specialist retail trade on the one hand and the supplying of the catering and specialist wine trades on the other hand bring together three sales channels under one corporate roof.

The Hawesko Group is now the market leader for mail-order and retail wines, and among Germany's leading importers of high-class wines.

DEVELOPMENTS IN THE WINE MARKET

Wine has been enjoying increasing popularity since 1996. Whereas sales of alcoholic drinks as a whole, and spirits in particular, have been on the decrease for many years as a result of the inroads made by alcohol-free drinks, since 1996 per capita wine consumption has been rising again, after a lengthy period in decline (1995 = 22.1 litres, 1996 = 22.8 litres, 1997 = 22.9 litres). The number of German households buying wine has likewise been steadily increasing since 1996; this provides a healthy basis for continued growth in the wine market (source: GfK, Geisenheim Research Institute).

The reasons behind this development are the more widespread awareness of healthy living, coupled with the priority of connoisseur goods and quality of life for affluent households who are less susceptible to fluctuations in the economy. Wine is of growing importance as an



expression of individual lifestyle; above-average growth rates are to be expected particularly in higher quality and price segments.

The consumer trend towards international wines, in particular red wine, is evident from the current consumption statistics. The share of total wine consumption in Germany for foreign wines rose from 48% in 1996 to 51% in 1997. The increasing share of red wine is reflected in the percentile increase in the quantities purchased by private households; this share rose from 33 percent in 1994 to around 45 percent in 1998 (source: GfK, German Wine Institute).

CONSOLIDATED SALES REVENUES RISE TO DM 303.0 MILLION

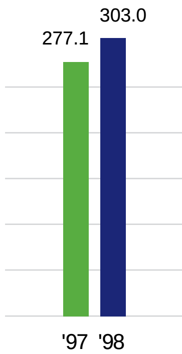
The Hawesko Group recorded positive developments in all areas of business in the past financial year. Consolidated net sales revenues for 1998 rose by 9.4%, from DM 277.1 million to DM 303.0 million. The group was thus able to extend and consolidate its market lead in Germany. .

The mail order company *Hanseatisches Wein- und Sekt-Kontor HAWESKO* saw its external sales increase by 7.3% to DM 176.1 million last year. It adopted a different strategy for acquiring new customers in 1998, focusing more specifically on *HAWESKO'S* main target group of discerning wine connoisseurs. This policy boosted average sales per purchase by new customers by almost 50%.

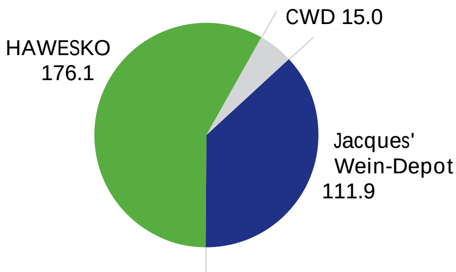
In the retail trade segment, 1998 sales revenues for *Jacques' Wein-Depot* rose by 10.1%, from DM 101.6 million to DM 111.9 million (+ 3.5% after eliminating network expansion). The higher rate of expansion was the main factor behind this development: 18 new retail outlets were opened in 1998 (previous year: 13). At the end of 1998, there were altogether 148 outlets (previous year: 130) in 96 German cities.

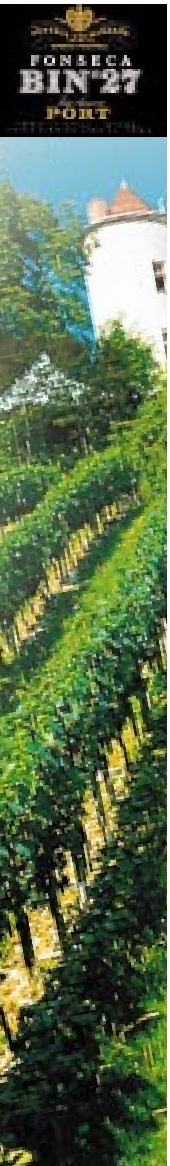
The wholesale company *CWD Champagner- und Wein-Distributionsgesellschaft* achieved above-average growth. External sales rose by 32.7% to DM 15.0 million. Higher sales of Bordeaux and champagnes, and also the increased level of business from key accounts, were the principal factor behind this development.

Consolidated sales
DM million

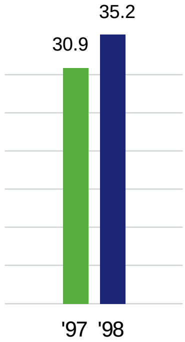


Sales by division
DM million





EBIT, group
DM million



DEVELOPMENT IN OPERATING RESULTS ACCORDING TO DIVISION

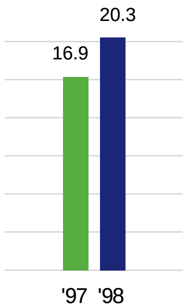
The operating result (EBIT) for the group was boosted by 13.9% to DM 35.2 million (previous year: DM 30.9 million), with a slight improvement in the gross profit margin.

The prior-year figures quoted below for the operating results of the individual companies only allow limited comparison with those of the financial year under review, on account of the creation of the holding-company structure in 1998:

- In the mail order sector, *Hanseatisches Wein- und Sekt-Kontor Hawesko* completed the financial year with an operating result of DM 21.0 million (previous year: DM 16.8 million); the EBIT margin was 11.9% (previous year: 10.2%).
- *Jacques' Wein-Depot* recorded an operating result of DM 13.7 million (previous year: DM 13.0 million). Despite increased expenditure on the renovation and modernisation of retail outlets totalling DM 1.5 million, the EBIT margin was maintained at a high level (1998: 12.2%, previous year: 12.8%).
- The operating result for *CWD Champagner- und Wein-Distributionsgesellschaft* in the year under review was DM 0.9 million (previous year: DM 0.5 million), representing an EBIT margin of 6.0% (previous year: 4.4%).

CONSOLIDATED NET INCOME

Consolidated net income
DM million



Consolidated earnings for 1998 before income taxes totalled DM 29.5 million, slightly down on the previous year's figure of DM 29.7 million. Despite the burden of DM 3.4 million from the extraordinary result, the previous year's result was almost emulated. Taxes on income for the group averaged only 31.1%, as the change in the legal form of the consolidated subsidiaries to unincorporated firms realized goodwill values which are amortised exclusively in the tax balance sheets over 15 years. After taxes on income, there remains a consolidated net income for the year of DM 20.3 million (previous year: DM 16.9 million).

CONSOLIDATED EARNINGS ACCORDING TO DVFA / SG

	Gross DM '000	Net DM '000
Consolidated net income		**20,347**
Plus: extraordinary result (expense)	3,356	1,600
Earnings following adjustment		21,947
Less: profit due to minority interests		100
DVFA/SG earnings		**21,847**
Total shares		4,405,496
DVFA / SG earnings per share		4.96

The extraordinary result relates to expense incurred in connection with the initial public offering and for essential conversion and restructuring measures in preparation for the IPO. The calculation of the DFVA result is already based on the new DVFA guidelines which will apply from the 1999 financial year on. It therefore has not been adjusted for the amortisation of goodwill from initial consolidation in the commercial accounts.

NET INCOME FOR THE YEAR FOR HAWESKO HOLDING AG

The net income for the year for *Hawesko Holding AG* amounts to DM 21.2 million. Following the allocation of DM 9.5 million to other revenue reserves, there remains an unappropriated profit for the year of DM 11.7 million. Subject to ratification by the Shareholders' Meeting, it will be distributed in full in the form of dividend payments.

SUMMARY OF CASH FLOW STATEMENT

The Hawesko Group's cash flow for the year, which is calculated from the consolidated net income, depreciation and the change in long-term provisions, totalled DM 25.9 million. No comparison with the previous year is possible, as the group only came into being on January 1, 1998.

SUMMARY OF FUNDS STATEMENT FOR THE HAWESKO GROUP

in DM '000	1998
Cash flow for the year acc. to DVFA/SG	25,888
Other outflow of funds from operations	– 26,102
Outflow of funds from current operations	**– 214**
Outflow of funds from investment activities	**– 5,467**
Inflow of funds from financing activities	**5,387**
Distribution of profit to third parties	– 100
Change in liquidity	**– 394**
Funds at start of period	2,011
Funds at end of period	**1,617**

CONSOLIDATED BALANCE SHEET

Fixed assets rose only slightly to DM 62 thousand. Whereas tangible assets were significantly higher as a result of first-time investments in new retail outlets and in the data processing infrastructure, intangible assets fell by virtually the same amount. The latter item was affected in particular by depreciation of goodwill amounting to DM 533 thousand for companies included in the consolidated financial statements for the first time; this goodwill is depreciated over a period of 15 years with an effect on the current-period results.

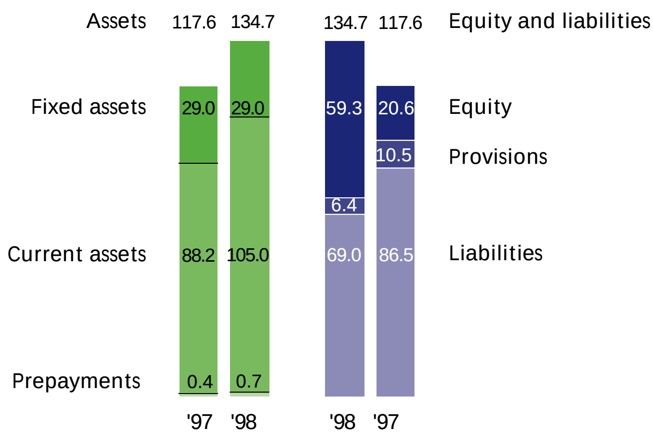
The increase in inventories, including payments on account and advances from customers, is on the one hand due to the group's expansion and attributable on the other hand to the specific policy of buying in high-quality Bordeaux wines. Stocks of champagne were moreover increased, to cushion the impact of anticipated purchase price increases. Stock in trade rose overall by DM 21.8 million.

The decrease in accounts receivable (trade debtors), despite higher sales revenues, can be explained in particular by the greater efficiency in processing important pre-Christmas orders.

Equity within the group (see glossary) following the distribution of profit rose by DM 27.0 million as a result of the capital increase and the retention of corporate earnings. Equity climbed to 35.3% of the balance sheet total (previous year: 17.5%).

Liabilities were reduced by DM 17.6 million to DM 69.0 million in the year under review.

Consolidated balance-sheet structure
incl. unappropriated profit for the year, in DM million



INVESTMENTS

The Hawesko Group invested a total of DM 5.5 million in the year under review, compared with DM 8.1 million in the previous year.

This decrease against the previous year is mainly due to the extension work carried out on an office building in 1997.

A total of DM 5.0 million was invested in acquisitions and replacements of tangible assets, in particular for the expansion of retail outlets and for the data processing infrastructure.

RISK MANAGEMENT

As part of its corporate steering activities, the entire Hawesko Group already uses modern controlling instruments to monitor and draw attention to risks. The regular reports submitted to the company management cover numerous key data, enabling the company to respond promptly to changes in the general situation.

There are two other significant risks besides competition which could affect the future progress of the group.

The availability of high-quality wines is intrinsically limited. Thanks to good relations with producers in the wine-growing areas, the Board of Management anticipates that, as, in the past, the company's sources of high-quality wines will remain secure, even if production conditions become more difficult.

The status of the retail agency partners is that of a trade representative. After changes in special legislation there is a possibility these could be qualified as being similar to employees of the company. The Board of Management, however, believes that the contractual arrangement with the agency partners as well as the activities actually performed by them fulfill the criteria of being independent representatives.

To meet the additional requirements imposed on joint stock corporations by legislation on corporate controlling and transparency, (KonTrag), a working group was set up last year. The objective is to combine the existing instruments into a consistently documented risk management system by the end of 1999. Specific risks are being categorized and evaluated, and the responsibilities for them are being assigned within the company.

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

According to market research findings, demand for wines at the higher end of the market will continue to grow over the next few years. The business segments of *Hawesko Holding AG* are without exception geared up to handling this trend.

On the strength of business progress in the first few months of the current year, the Board expects to see a positive development in all areas of business in the 1999 financial year.

In order to maintain the group's growth in sales and earnings, the following strategic priorities have been set:

- Specifically targeting new customers who can be served profitably, tapping fresh potential for sales and opening up new sales channels
- Developing differentiated customer loyalty and incentive schemes
- Tailoring wholesale sales concepts to key account clients in the catering and specialist retail trades
- Maintaining a course of expansion for over-the-counter retail sales of wine
- Extending mail order business to other countries in the medium term

On this basis, we expect sales for the current fiscal year to rise by around 10%. Notwithstanding any exceptional occurrences, the consolidated net income should continue to rise.

The company has been working on the changeover to the euro since the end of 1997. The timetable envisages the retention of the Deutschmark as the currency in which the Hawesko Group conducts transactions until the end of the transitional phase on December 31, 2001. Throughout this transitional phase, invoice and cash till totals will be quoted in Euro in addition to Deutschmarks.

Adequate measures have been taken to avoid any disruptions from the turn of the millennium. The Board of Management anticipates no risks for the Hawesko Group in this respect.


FONSECA
PORT

Annual Financial Statements

1998

Hawesko Holding Aktiengesellschaft

CONTENTS

Consolidated Balance Sheet

ASSETS	Notes	31.12.1998 DM '000	(Proforma) 01.01.1998 DM '000
FIXED ASSETS			
Intangible assets	(1)	8,451	8,910
Tangible assets	(2)	20,468	19,945
Financial assets	(3)	127	129
		29,046	**28,984**
CURRENT ASSETS			
Inventories	(4)	90,909	72,267
Less advances from customers		– 14,574	– 17,755
		76,335	*54,512*
Accounts receivable and other assets	(5)	27,010	31,652
Liquid funds		1,617	2,011
		104,962	**88,175**
PREPAYMENTS		703	469
		134,711	**117,628**

EQUITY AND LIABILITIES	Notes	31.12.1998 DM '000	(Proforma) 01.01.1998 DM '000
EQUITY			
Subscribed capital	(6)	22,027	20,000
Capital reserve	(7)	16,462	0
Revenue reserve	(8)	9,565	0
Consolidated net profit for the year	(9)	11,137	455
Minority interests	(10)	100	100
		59,291	**20,555**
PROVISIONS			
Provisions for pensions		495	214
Provisions for taxation		1,475	3,728
Other provisions	(11)	4,442	6,552
		6,412	**10,494**
LIABILITIES	(12)		
Bonds		224	0
Due to banks		30,673	102
Trade accounts payable		28,297	24,960
Other liabilities		9,814	61,517
		69,008	**86,579**
		134,711	**117,628**

Consolidated Statement of Income

	Notes	1998 DM '000	(Proforma) 1997 DM '000
Sales revenues	(14)	303,049	277,055
Other operating income	(15)	8,793	8,520
Cost of purchased goods		– 159,413	– 147,363
Personnel expenses			
Wages and salaries		– 23,022	– 20,946
Social security and other pension costs		– 3,911	– 3,645
– of which in respect of old age pensions: DM 77 thousand (previous year: DM 93 thousand)			
Depreciation of intangible fixed assets and tangible assets		– 5,260	– 3,765
Other operating expenses	(16)	– 85,040	– 78,954
Other interest and similar income		131	89
Interest and similar expenses		– 1,861	– 1,165
RESULTS FROM ORDINARY ACTIVITIES		**33,466**	**29,826**
Extraordinary result	(17)	– 3,356	0
Taxes on income	(18)	– 9,194	– 12,825
Other taxes		– 569	– 108
NET INCOME FOR THE YEAR		**20,347**	**16,893**
Advance distribution of profit		0	– 16,620
Group result carried forward		455	182
Net profit for the year due to minority interests		– 100	0
Allocation to the revenue reserve		– 9,565	0
UNAPPROPRIATED NET PROFIT FOR THE YEAR		**11,137**	**455**

Cash Flow Statement for the Hawesko Group

	1998 DM '000	
Consolidated net income	20,347	
Depreciation of intangible and tangible assets	5,260	
Change in long-term provisions	281	
CASH FLOW FOR THE YEAR (DVFA / SG)	**25,888**	
Other changes in provisions	– 4,369	
Changes in balance sheet items:		
Inventories, receivables and other assets	– 17,264	
Liabilities	– 4,469	
OUTFLOW OF FUNDS FROM CURRENT OPERATIONS		**– 214**
Outpayments for investments	– 5,501	
Inpayments from asset disposals	34	
OUTFLOW OF FUNDS FROM INVESTMENT ACTIVITIES		**– 5,467**
Inpayments from capital increases	18,490	
Change in financial liabilities	– 13,103	
INFLOW OF FUNDS FROM FINANCING ACTIVITIES		**5,387**
		– 294
Distribution of profit to third parties	– 100	
CHANGE IN LIQUIDITY		**– 394**
Funds at start of period	2,011	
FUNDS AT END OF PERIOD		**1,617**

Balance Sheet of Hawesko Holding AG

ASSETS	Notes	31.12.1998 DM '000	31.12.1997 DM '000
FIXED ASSETS			
Tangible assets	(2)	15	0
Financial assets	(3)	120,001	119,900
		120,016	**119,900**
CURRENT ASSETS			
Inventories	(4)	22	0
Accounts receivable and other assets	(5)	72,746	0
Cash in banking accounts		0	100
		72,768	**100**
PREPAYMENTS		97	0
		192,881	**120,000**

EQUITY AND LIABILITIES	Notes	31.12.1998 DM '000	31.12.1997 DM '000
EQUITY			
Subscribed capital	(6)	22,027	100
Capital reserve	(7)	116,462	0
Revenue reserve	(8)	9,565	0
Unappropriated profit for the year (previous year: loss)	(9)	11,674	– 1
		159,728	**99**
CONTRIBUTIONS MADE FOR THE IMPLEMENTATION OF THE PLANNED CAPITAL INCREASE	(6),(7)	0	119,900
PROVISIONS			
Provisions for taxation		481	0
Other provisions	(11)	1,347	1
		1,828	**1**
LIABILITIES	(12)		
Bonds		224	0
Due to banks		30,673	0
Due to affiliated companies		274	0
Other liabilities		154	0
		31,325	**0**
		192,881	**120,000**

Statement of Income for Hawesko Holding AG

	Notes	1998 DM ‘00035	1997 DM ‘000
Other operating income	(15)	736	0
Personnel expenses			
Salaries		– 2,301	0
Social security and social maintenance costs		– 12	0
Depreciation of tangible assets		– 7	0
Other operating expenses	(16)	– 767	– 1
Investment income – of which from affiliated companies: DM 29,081 thousand (1997: DM 0 thousand)		29,119	0
Other interest and similar income – of which from affiliated companies: DM 1,576 thousand (1997: DM 0 thousand)		1,632	0
Interest and similar expenses		– 1,204	0
RESULTS FROM ORDINARY ACTIVITIES		**27,196**	**– 1**
Extraordinary result	(17)	– 1,439	0
Taxes on income	(18)	– 4,067	0
Other taxes		– 450	0
NET INCOME FOR THE YEAR (PREVIOUS YEAR: NET LOSS FOR THE YEAR)		**21,240**	**– 1**
Accumulated losses brought forward		– 1	0
Allocation to the revenue reserve		– 9,565	0
UNAPPROPRIATED PROFIT (PREVIOUS YEAR: LOSS)		**11,674**	**– 1**

Notes to the Consolidated Financial Statements and Notes for the 1998 Financial Year

The annual financial statements of *Hawesko Holding AG* for the 1998 financial year and the consolidated financial statements are explained together in the following notes; unless otherwise indicated, they apply to both financial statements.

The commercial entity of the Hawesko Group was created as of December 31, 1997/ January 1, 1998 through the contribution of the shares of *Hanseatisches Wein- und Sekt-Kontor Hawesko GmbH*, Hamburg (100%), *CWD Champagner und Wein Distributionsgesellschaft mbH*, Hamburg (90%) and *Jacques' Wein-Depot Wein-Einzelhandel GmbH*, Düsseldorf (100%) into the former company FUBA Beteiligungs-Aktiengesellschaft, Frankfurt am Main, which until then had not conducted any business operations. The limited liability (GmbH) companies, which had been brought into FUBA as contributions in kind, were converted into limited partnerships (GmbH & Co. KG) retroactively to January 1, 1998, FUBA Beteiligungs AG was renamed *Hawesko Holding Aktiengesellschaft* and its seat transferred to Hamburg.

1. GENERAL PRINCIPLES

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

1998 is the first financial year for which *Hawesko Holding* has prepared consolidated financial statements. The prior-year figures for the group are pro forma figures, for purposes of evaluation of the development of the company's net worth, financial position and earnings.

2. CONSOLIDATED COMPANIES

The list of investment holdings at December 31, 1998, pursuant to § 313 Para. 2 of German Commercial Code, constitutes part of the annual financial statements. This list shows the companies included in the consolidated financial statements, together with the level of shareholding, equity and net income for the year.

In addition to the parent company *Hawesko Holding AG*, with its head offices in Hamburg, the fully consolidated companies include the following subsidiaries:

- *Hanseatisches Wein- und Sekt-Kontor Hawesko GmbH & Co.KG,* Hamburg (*Hawesko*)
- *Jacques' Wein-Depot Wein-Einzelhandel GmbH & Co.KG,* Düsseldorf *(JWD)*
- *CWD Champagner und Wein Distributionsgesellschaft mbH & Co.KG,* Hamburg (CWD)
- Verwaltungsgesellschaft Hanseatisches Wein- und Sekt-Kontor *HAWESKO* m.b.H., Hamburg
- Verwaltungsgesellschaft Jacques' Wein-Depot Wein-Einzelhandel m.b.H., Düsseldorf
- »Chateaux et Domaines« Importgesellschaft für französische Weine m.b.H., Hamburg
- CW Champagner und Wein Importgesellschaft, Hamburg

The option pursuant to § 296 Para. 2 of German Commercial Code of not including a subsidiary in the consolidated financial statements in view of its minor importance was not exercised.

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 value, insofar as these related to the difference between the contributed values specified in the contribution-in-kind agreements and the lower equity of the subsidiary. The remaining differences were offset against the capital reserves created at *Hawesko Holding AG* in the context of the contribution of assets, with no effect on profit.

Equity shares in fully consolidated companies held by parties outside the group are shown separately within the equity position 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:

■ 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** brought into *Hawesko Holding AG* are valued at fixed contribution values or at the going-concern values for tax purposes. The remaining 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 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 principally shown at the amounts 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 BALANCE SHEET AND CONSOLIDATED BALANCE SHEET

FIXED ASSETS

The development in fixed assets for the 1998 financial year is shown in the respective fixed-asset movement schedules.

(1) INTANGIBLE ASSETS

In DM '000	Group 31.12.1998	(Pro forma) 1.1.1998
Software	496	474
Goodwill from the individual financial statements	388	436
Goodwill from the consolidation of capital	7,467	8,000
Payments on account	100	0
	8,451	**8,910**

The differences on the assets side of DM 108 million resulting from the initial consolidation of *HAWESKO*, *JWD* and *CWD* at January 1, 1998 were capitalised as goodwill at DM 8 million in line with their economic value, and are amortised over a period of 15 years with an effect on profit, in accordance with § 309 Para. 2 of German Commercial Code. The annual effect on profit from this goodwill amortisation amounts to DM 533 thousand. Otherwise, the capitalised differences (DM 100 million) have been offset against the capital reserves. Goodwill totalling DM 8 thousand which resulted from the initial consolidation of other companies in the consolidated goup was written off in full in the financial year.

(2) TANGIBLE ASSETS

In DM '000	Group 31.12.1998	(Pro forma) 1.1.1998	Hawesko Holding AG 31.12.1998	31.12.1997
Land and buildings, including buildings on third-party land	15,389	15,908	0	0
Other fixtures and fittings, tools and equipment	4,928	3,938	15	0
Payments on account and construction in progress	151	99	0	0
	20,468	**19,945**	**15**	**0**

CURRENT ASSETS

(3) FINANCIAL ASSETS

in DM '000	Group 31.12.1998	Group (Pro forma) 1.1.1998	Hawesko Holding AG 31.12.1998	Hawesko Holding AG 31.12.1997
Shares in affiliated companies	0	0	120,001	119,900
Other loans	127	129	0	0
	127	**129**	**120,001**	**119,900**

Shares in affiliated companies include the shares held by *Hawesko Holding AG* in the subsidiaries included in the consolidated financial statements.

Other loans refer to a loan for real estate, secured by a land charge. It was repaid according to schedule in 1998.

(4) INVENTORIES

in DM '000	Group 31.12.1998	Group (Pro forma) 1.1.1998	Hawesko Holding AG 31.12.1998	Hawesko Holding AG 31.12.1997
Raw materials and supplies	1,122	879	22	0
Goods	60,289	45,357	0	0
Payments on account	29,498	26,031	0	0
	90,909	**72,267**	**22**	**0**
./. Less advances from customers	– 14,574	– 17,755	0	0
	76,335	**54,512**	**22**	**0**

The increase in goods has resulted on the one hand from the group's expansion, and on the other hand from the specific policy of buying in high-quality Bordeaux wines. Stocks of champagne were moreover increased to cushion the impact of anticipated purchase price increases.

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 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.

(5) ACCOUNTS RECEIVABLE AND OTHER ASSETS

in DM '000	Group 31.12.1998	Group (Pro forma) 1.1.1998	Hawesko Holding AG 31.12.1998	Hawesko Holding AG 31.12.1997
Accounts receivable (trade debtors)	24,931	30,550	0	0
Due from affiliated companies	0	0	72,678	0
Other assets	2,079	1,102	68	0
	27,010	**31,652**	**72,746**	**0**

The decrease in accounts receivable (trade debtors) is attributable in particular to improvements in processing business during the Christmas season. The accounts receivable (trade debtors) item also shows outstanding invoices issued by *JWD* to its agency partners. As *Hawesko Holding AG* only assumed its holding function in 1998, there were no amounts due from affiliated companies in the previous year.

All accounts receivable and other assets have a residual term of up to one year.

EQUITY

(6) SUBSCRIBED CAPITAL

in DM '000	Hawesko Holding AG
Position at 31.12.1997	100
Increase from contributions from previous year	19,900
Increase in financial year	2,027
Position at 31.12.1998	**22,027**

The subscribed capital reported for *Hawesko Holding AG* amounts to DM 22,027,480 (previous year: DM 100,000). In the previous year, a sum of DM 19,900,000 reported under the item »Contributions made for the implementation of the planned capital increase« appears on the 1998 balance sheet as subscribed capital.

The subscribed capital is made up as follows:

	Number	DM '000
Ordinary bearer shares in the form of individual share certificates	**4,405,496**	**22,027**

In addition to the capital increase of DM 19,900 thousand approved by resolution in the previous year but not entered into the Commercial Register until the year in review, the subscribed capital of *Hawesko Holding AG* was increased by DM 2,027 thousand in the 1998 financial year.

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 shareholdings in companies.

Finally, the subscription right may be excluded for a portion 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, with the result that the approved capital as at December 31, 1998 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.

The convertible bonds were subscribed to the value of DM 220,000 in the 1998 financial year by eligible management employees of the Hawesko Group. The interest rate is 4% p.a. The issue price is specified as 100%. The bond falls due on December 31, 2001. 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 weeks, beginning with the third working day for banks following the Ordinary Shareholders' Meeting of the company in the year 2001, but no earlier than April 1, 2001 and no later than September 1, 2001.

(7) COMPOSITION OF CAPITAL RESERVE

in DM '000	Group		Hawesko Holding AG	
		(Pro forma)		
	31.12.1998	1.1.1998	31.12.1998	31.12.1997
Capital reserve	**16,462**	**0**	**116,462**	**0**

The capital reserve for the group includes the premium from the capital increase in the course of the year and from the issue of shares to employees. The figure of DM 100 million moreover shown for *Hawesko Holding AG* is the result of the contribution in kind of shares in the subsidiaries and was offset against differences on the assets side in the course of capital consolidation for the group. In 1997, this amount of DM 100 million, together with a further sum of DM 19.9 million shown as subscribed capital for the year under review, was reported under the item »Contributions made for the implementation of the planned capital increase«.

(8) REVENUE RESERVE

in DM '000	Group		Hawesko Holding AG	
		(Pro forma)		
	31.12.1998	1.1.1998	31.12.1998	31.12.1997
Other revenue reserves	**9,565**	**0**	**9,565**	**0**

An amount of DM 9,565 thousand was transferred to other revenue reserves on the basis of § 58 Para. 2 Sentence 1 of German Stock Corporation Law.

(9) UNAPPROPRIATED PROFIT FOR THE YEAR

in DM '000	Group 31.12.1998	Group (Pro forma) 1.1.1998	Hawesko Holding AG 31.12.1998	Hawesko Holding AG 31.12.1997
Net income/net loss for the year	20,347	16,893	21,240	– 1
Advance distribution of profit	0	– 16,620	0	0
Retained profits/ accumulated losses brought forward	455	182	– 1	0
Net profit for the year due to minority interests	– 100	0	0	0
Allocation to other revenue reserve	9,565	0	9,565	0
Unappropriated profit for the year	**11,137**	**455**	**11,674**	**– 1**

(10) MINORITY INTERESTS

The balancing item for minority interests in the consolidated balance sheet relates to the 10% equity share (excluding the pro rata profit for the year) in *CWD* of Société Jacques Bollinger S.A., Ay-Champagne, which does not belong to the Hawesko Group.

(11) OTHER PROVISIONS

PROVISIONS

in DM '000	Group 31.12.1998	Group (Pro forma) 1.1.1998	Hawesko Holding AG 31.12.1998	Hawesko Holding AG 31.12.1997
Provisions for personnel	2,422	3,551	965	0
Other provisions	2,020	3,001	382	1
	4,442	**6,552**	**1,347**	**1**

The provisions for personnel include in particular profit-sharing and performance-related bonuses.

Late invoices for costs and goods are the largest single item in other provisions.

(12) CONSOLIDATED LIABILITIES

LIABILITIES

in DM '000	31.12.1998	Due in up to 1 year	Due in between 1 and 5 years	Due in over 5 years	(Pro forma) 1.1.1998
Loans	224	4	220	0	0
Banks	30,673	30,673	0	0	102
Trade accounts payable	28,297	28,297	0	0	24,960
Other liabilities	9,814	9,814	0	0	61,517
– of which taxes	(7,992)	(7,992)	(0)	(0)	(8,499)
– of which in respect of social security	(795)	(795)	(0)	(0)	(832)
	69,008	**68,788**	**220**	**0**	**86,579**

The decrease in other liabilities is mainly attributable to the fact that loans for financing purposes from the former majority shareholder, METRO AG, were reported in the previous year. In the year under review, such funds were from banks.

LIABILITIES FOR HAWESKO HOLDING AG

in DM '000	31.12.1998	Due in up to 1 year	Due in between 1 and 5 years	Due in over 5 years	31.12.1997
Loans	224	4	220	0	0
Banks	30,673	30,673	0	0	0
Accounts payable	93	93	0	0	0
Affiliated companies	274	274	0	0	0
Other liabilities	61	61	0	0	0
– of which taxes	(61)	(61)	0	0	0
	31,325	**31,105**	**220**	**0**	**0**

As *Hawesko Holding AG* only assumed its holding function in 1998, there were no amounts due from affiliated companies in the previous year.

(13) OTHER FINANCIAL COMMITMENTS

in DM '000	Group 31.12.1998	Group (Pro forma) 1.1.1998	Hawesko Holding AG 31.12.1998	Hawesko Holding AG 31.12.1997
Tenancy and leasing commitments (p.a.)	7,265	7,017	0	0
Advance payments outstanding	1,350	1,720	0	0
Financial commitments from the construction of a car park	200	200	0	0
	8,815	**8,937**	**0**	**0**

Other financial commitments from tenancy and leasing contracts relate to the shop premises rented by *JWD* for the sum of DM 5,167 thousand and the *Hawesko* logistics centre for the sum of DM 1,710 thousand. Commitments relating to advance payments outstanding as at December 31, 1998 were repaid at the start of 1999.

6. NOTES TO THE STATEMENT OF INCOME

(14) SALES REVENUES

in DM '000	Group 1998	Group (Pro forma) 1997
HAWESKO (mail order trade)	176,191	164,184
JWD (specialist retail trade)	111,907	101,620
CWD (wholesale trade)	14,951	11,251
	303,049	**277,055**

(15) OTHER OPERATING INCOME

in DM '000	Group	(Pro forma)	Hawesko Holding AG	
	1998	1997	1998	1997
Rental income	6,711	5,941	0	0
Income from cost refunds	916	823	731	0
Income from the liquidation of provisions	334	319	0	0
Other	832	1,437	5	0
	8,793	**8,520**	**736**	**0**

Rental income is substantially generated by the renting out of retail outlets by *JWD* to its agency partners. Income for *Hawesko Holding AG* from cost refunds relates to group costs passed on to the subsidiaries.

(16) OTHER OPERATING EXPENSES

in DM '000	Group	(Pro forma)	Hawesko Holding AG	
	1998	1997	1998	1997
Advertising	27,850	27,364	43	0
Commissions to partners	22,815	20,798	0	0
Delivery costs	12,450	12,040	0	0
Rental and leasing expenses	7,865	6,275	11	0
Legal and consultancy costs	951	1,159	153	1
Other personnel expenses	1,590	1,426	66	0
Other	11,519	9,892	494	0
	85,040	**78,954**	**767**	**1**

Commissions to partners are sales-based payments made to *JWD's* agency partners. The largest single item among other expenses is data processing and communication costs.

(17) EXTRAORDINARY RESULT

in DM '000	Group	(Pro forma)	Hawesko Holding AG	
	1998	1997	1998	1997
Income	713	0	977	0
Expenses	– 4,069	0	– 2,416	0
	– 3,356	**0**	**– 1,439**	**0**

The extraordinary expense includes the costs of the initial public offering of *Hawesko Holding AG* and the conversion and contribution transactions required in preparation for the IPO. Extraordinary income for the most part comprises the reimbursements received in this connection from the former shareholder AKM Holding GmbH & Co. KG, a Metro Group company.

(18) TAXES ON INCOME

in DM '000	Group 1998	Group (Pro forma) 1997	Hawesko Holding AG 1998	Hawesko Holding AG 1997
Corporation income tax	3,969	8,197	4,067	0
Trade earnings tax	5,225	4,628	0	0
	9,194	**12,825**	**4,067**	**0**

The effective tax rate in relation to consolidated earnings before income tax (DM 29,541 thousand; previous year DM 29,718 thousand) is 31.1% for the year under review (previous year: 43.2%). The decrease is attributable to the fact that the goodwill realized by the conversion in legal status of the group companies can be amortised over 15 years with the effect of reducing the tax burden.

7. PROPOSAL ON THE APPROPRIATION OF EARNINGS

The annual financial statements of Hawesko Holding AG at December 31, 1998 show a net profit for the year of DM 21,240,230.53. Following allocation of DM 9,564,757.24 to other revenue reserves, 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 individual share certificate on the capital stock of DM 22,027 thousand.

8. OTHER PARTICULARS

AVERAGE EMPLOYEE TOTAL THROUGHOUT THE YEAR

Group	1998	1997
Office staff	231	226
Trade employees	122	102
	353	**328**

Hawesko Holding AG had no employees in the financial year.

TOTAL REMUNERATION AND LOANS

The remuneration of members of the Board of Management totalled DM 2,297 thousand, and that of members of the Supervisory Board DM 60 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 52 and 53.

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

	Registered office	Equity DM '000	Share-holding %	Net income 1998 DM '000
Direct participations				
Hanseatisches Wein- und Sekt-Kontor HAWESKO GmbH & Co.KG	Hamburg	10,000	100	16,896
Jacques' Wein-Depot Wein- Einzelhandel GmbH & Co.KG	Düsseldorf	1,000	100	10,826
CWD Champagner und Wein Distributionsgesell-schaft mbH & Co.KG	Hamburg	1,000	90	1,000
Verwaltungsgesellschaft Jacques' Wein-Depot Wein Einzelhandel m.b.H	Düsseldorf	48	100	1
Verwaltungsgesellschaft Hanseatisches Wein- und Sektkontor HAWESKO m.b.H	Hamburg	52	100	6
Shareholdings of HAWESKO KG				
Chateaux et Domaines Importgesellschaft für französische Weine m.b.H	Hamburg	50	100	– 2
CW Champagner und Wein Importgesellschaft m.b.H	Hamburg	52	100	2

Hamburg, March 3, 1999

The Board of Management

Margaritoff Ohlzen Hoolmans

INDEPENDENT AUDITOR'S REPORT

The accounts, the annual financial statements and the consolidated financial statements, which we have audited in the context of our professional duties, comply with the legal requirements. The annual financial statements and the consolidated financial statements present, in compliance with adequate and orderly accounting principles, a true and fair view of the net worth, financial position and results of the group. The report on the situation of the joint-stock company and of the group is in agreement with the annual financial statements and consolidated financial statements.

Hamburg, March 5, 1999

Susat & Partner oHG,
Wirtschaftsprüfungsgesellschaft

Dr. Bohl — Independent auditor

Dr. Bartels — Independent auditor

Development in Consolidated Assets at December 31, 1998

	Acquisition or manufacturing cost			
	At 01.01.1998 DM '000	Additions DM '000	Disposals DM '000	At 31.12.1998 DM '000
I. INTANGIBLE ASSETS				
1. Concessions, industrial property rights and similar rights and values, as well as licences thereto	1,274.7	384.4	0.0	1,659.1
2. Goodwill	8,765.6	7.9	0.0	8,773.4
3. Payments on account	0.0	100.0	0.0	100.0
	10,040.3	**492.3**	**0.0**	**10,532.5**
II. TANGIBLE ASSETS				
1. Land and leasehold rights and buildings, including buildings on third-party land	22,024.3	234.8	96.6	22,221.2
		58.7*		
2. Other fixtures and fittings, tools and equipment	9,636.0	4,578.6	2,025.2	12,229.4
		40.0*		
3. Payments on account and construction in progress	98.7	151.5	98.7*	151.5
	31,759.0	**5,063.6**	**2,220.5**	**34,602.1**
III. FINANCIAL ASSETS				
Other loans	129.1	0.0	2.6	126.5
	41,928.4	**5,555.9**	**2,223.1**	**45,261.1**

* Transfer

HAWESKO HOLDING AG

	Accumulated depreciation				Residual book values	
	At 01.01.1998 DM '000	Additions DM '000	Disposals DM '000	At 31.12.1998 DM '000	At 31.12.1998 DM '000	At 31.12.1997 DM '000
	800.8	362.4	0.0	1,163.2	495.9	473.9
	329.0	589.6	0.0	918.6	7,854.8	8,436.5
	0.0	0.0	0.0	0.0	100.0	0.0
	1,129.8	**952.0**	**0.0**	**2,081.8**	**8,450.7**	**8,910.4**
	6,116.1	716.7	0.1	6,832.7	15,388.5	15,908.1
	5,698.3	3,591.2	1,988.4	7,301.2	4,928.2	3,937.7
	0.0	0.0	0.0	0.0	151.5	98.7
	11,814.4	**4,307.9**	**1,988.5**	**14,133.9**	**20,468.2**	**19,944.5**
	0.0	0.0	0.0	0.0	126.5	129.1
	12,944.2	**5,259.9**	**1,988.5**	**16,215.7**	**29,045.4**	**28,984.0**

Development in the Assets of Hawesko Holding AG at December 31, 1998

	Acquisition or manufacturing cost			
	At 01.01.1998 DM '000	Additions DM '000	Disposals DM '000	At 31.12.1998 DM '000
I. TANGIBLE ASSETS				
Other fixtures and fittings, tools and equipment	0.0	22.6	– 4.1	26.8
II. FINANCIAL ASSETS				
Shares in affiliated companies	119,900.0	101.1	0.0	120,001.1
	119,900.0	**123.7**	**– 4.1**	**120,027.9**

Accumulated depreciation				Residual book values	
At 01.01.1998 DM '000	Additions DM '000	Disposals DM '000	At 31.12.1998 DM '000	At 31.12.1998 DM '000	At 31.12.1997 DM '000
0.0	7.2	– 4.1	11.3	15.4	0.0
0.0	0.0	0.0	0.0	120,001.1	119,900.0
0.0	**7.2**	**– 4.1**	**11.3**	**120,016.5**	**119,900.0**

Supervisory Board and Board of Management

MEMBERS OF THE SUPERVISORY BOARD

Dr. Hubertus Schwarz
Lawyer, Hamburg — from May 19, 1998 (Chairman from October 1, 1998)

Manfred Middendorff
Executive manager, Brauerei Herrenhausen KG, Hanover — from September 21, 1998 (Deputy Chairman from October 1, 1998)

Dr. Carl H. Hahn
Former Chairman of the Management Board of Volkswagen AG, Wolfsburg — from May 19, 1998

Dr. Norbert Käsbeck
Member of the Management Board of Commerzbank AG, Frankfurt am Main — from May 19, 1998

Hans Meyer
Freelance direct marketing consultant, Rheinheim — from May 19, 1998

Günter Nawrath — from May 19, 1998
Former Chairman of the Supervisory Board of Otto-Versand (GmbH & Co), Aumühle

Siegfried Kaske
Member of the Commerzbank AG, Management Board of METRO AG, Cologne (until 30.11.1998) — until May 26, 1998 (Chairman until May 19, 1998)

Dr. Wolf-Dietrich Loose
Member of the Management Board of METRO AG, Cologne — until 26. Mai 1998

Lovro Mandac
Chairman of the Management Board of Kaufhof Warenhaus AG, Cologne — until May 26, 1998

BOARD OF MANAGEMENT

Bernd Hoolmans, Alexander Margaritoff (Chairman), Sven Ohlzen

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 Wein-Einzelhandel GmbH*, Düsseldorf, as Managing Director in 1993. At *Hawesko Holding AG*, he is primarily responsible for wine retailing.

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 company operating at that time under the name of *HAWESKO* GmbH. He is a director of the mail order company *HAWESKO* and the wholesaler *CWD*. 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 from December 17, 1998

Mr. Sven Ohlzen (born 1957), of Hamburg, graduated with a degree in Economics in 1986 in Hamburg.

He joined the former *HAWESKO GmbH* in 1992, and was appointed an authorised signatory in 1993. He has been a director of the mail order company *HAWESKO* and the wholesaler *CWD* since 1998. At *HAWESKO Holding AG,* he is responsible in particular for finance and the controlling of affiliated companies.

Report of the Supervisory Board

Throughout the 1998 financial year, the Supervisory Board regularly studied the economic position of the company, and monitored and advised the Board of Management. At five meetings, the reports presented by the Board of Management were discussed in depth. The Supervisory Board was informed at all times of all significant commercial transactions and of the development in key financial data.

At the company's Shareholders' Meeting on May 19, 1998, Dr. Hubertus Schwarz, Dr. Norbert Käsbeck and Dr. Carl H. Hahn were elected to the Supervisory Board. Mr. Hans Meyer and Mr. Günter Nawrath were in addition elected to the Supervisory Board contingently. With effect from May 26, 1998, Mr. Siegfried Kaske, Mr. Lovro Mandac and Dr. Wolf-Dietrich Loose surrendered their mandates to the Supervisory Board. Mr. Manfred Middendorff was appointed to the Supervisory Board with effect from September 21, 1998.

The first three meetings, which were of the Board as constituted before May 26, were devoted primarily to questions relating to the establishment of Hawesko Holding AG and the approval of the accounts for 1997.

In addition to discussing the six-month figures, the meeting on October 1, 1998 included the election of Dr. Hubertus Schwarz as the Chairman and Mr. Manfred Middendorff as the Deputy Chairman of the Supervisory Board. Both gentlemen also constitute the Staff Committee. Subject to the approval of the Shareholders' Meeting, § 2 of the company's articles of incorporation was amended to include »and the conducting of operative transactions with the purpose of promoting the aforementioned trade with third parties«. This addition gives the company the opportunity to conduct operative transactions over and above the function of a pure holding company.

At the meeting on December 17, 1998, the Board of Management reported in depth on the current business position, the development in sales and earnings, and the corporate plans for the 1999 financial year. The medium-term strategy of the group, with a view to safeguarding steady growth, was moreover discussed at length. The observations of the Board of Management were noted and endorsed.

Other topics discussed at our meetings were the ramifications for the Supervisory Board of legislation on corporate controlling and transparency, the members of the Board of Management in representing the company towards third parties, and additions to the list of those transactions which require the approval of the Supervisory Board.

On December 17, 1998, the Supervisory Board agreed unanimously on the appointment of Mr. Sven Ohlzen as Deputy Chairman.

The auditors elected by the Shareholders' Meeting, Susat & Partner oHG, Wirtschaftsprüfungsgesellschaft, Hamburg, have issued their unqualified certification of the annual financial statements and consolidated financial statements of *Hawesko Holding AG* as at December 31, 1998, and of the combined management report for the parent company and the group. The financial statements, the combined management report for the parent company and the group, and the auditors' reports were handed out to the members of the Supervisory Board. In the presence of the auditors, these were discussed comprehensively at the meeting on March 29, 1999 devoted to approving the annual accounts.

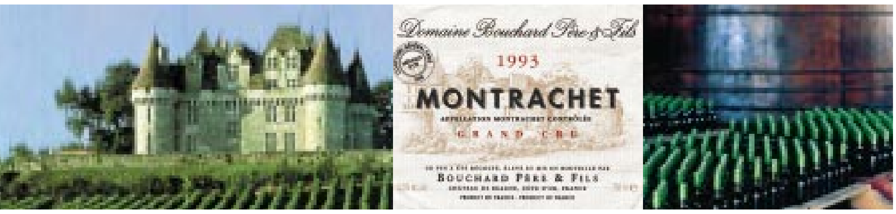
We have examined the annual financial statements and the consolidated financial statements for *Hawesko Holding AG* as submitted by the Board of Management, the combined management report for the parent company and the group, and the proposal on the appropriation of earnings, and raised no objections to these. The annual financial statements are thus approved.

The Supervisory Board takes this opportunity to thank the Board of Management, the Employee Council and all employees of the company's business partners for their commitment and highly successful work in the past financial year.

Hamburg, March 1999

Dr. Hubertus Schwarz
Chairman of the Supervisory Board

Consolidated Earnings according to IAS



Hawesko Holding AG has begun the changeover to International Accounting Standards (IAS) in 1998. These accounting principles enjoy more widespread acceptance on international capital markets and should therefore help to attract a wider circle of investors to *Hawesko Holding's* shares. As a basis for comparison for future financial years, the principal items of the consolidated statement of income are calculated as follows according to IAS:

DM million	1998 financial year
Sales revenues	**303.0**
Result from operations	**35.7**
Finance expenditure	– 1.7
Result before taxes on income	**34.0**
Income tax expense	– 13.0
Result after taxes on income	**21.0**
Profit due to minority interests	– 0.1
Result from ordinary activities	**20.9**
Extraordinary items	– 3.4
Consolidated earnings acc. to IAS	**17.5**

RECONCILIATION ACCOUNTS FROM HGB TO IAS

DM million	Notes	1998 financial year
Consolidated net income (HGB)		**20.3**
Depreciation of tangible assets	(1)	– 0.2
Amortisation of goodwill	(2)	0.5
Valuation of inventories	(3)	0.6
Provisions	(4)	0.1
Deferred taxes	(5)	– 3.8
Total adjustments		**– 2.8**
Consolidated net income (IAS)		**17.5**

(1) 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.

(2) The goodwill from initial consolidation is lower according to IAS, as a result of which total depreciation is lower.

(3) The valuation of inventories according to IAS includes overheads on a pro rata basis. The increasing level of stock in trade thus has led to a higher result.

(4) The IAS principles on the valuation of provisions for old-age pensions result in a higher expense than the HGB principles. On the other hand, the IAS bar on the formation of expenditure provisions improves the result.

(5) Deferred taxes occur as a result of the differing valuations of assets in the IAS consolidated balance sheet and the individual fiscal balance sheets, particularly as a result of capitalisation of conversion losses in the supplementary tax balance sheets (see Notes, page 46: item (18) »Taxes on income«)

The 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 commercial interest in Hawesko Holding AG

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 used in this Annual Report as a reference figure for the analysis of tied-up capital, and is defined as the balance-sheet total (for the group) or the total of asset items (for the business segments), less short-term provisions and interest-free liabilities.

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 long-term 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.

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. In the consolidated balance sheet, it is shown inclusive of the consolidated net profit for the year of DM 11.1 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.

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