



REPORT AND FINANCIAL STATEMENTS
AT DECEMBER 31, 1989

BOARD OF DIRECTORS' REPORT

MARTINI & ROSSI S.P.A.

General information

Shareholders,

During 1989, your company continued to operate within the context of its corporate role of coordinating the subsidiary operating companies, managing financial resources, controlling and administering the company's trademarks, and taking payment of dividends, royalties and production revenues.

Progress continued towards the creation of increasingly harmonious growth of the local facilities at our foreign subsidiaries, to prepare them for the specific marketing requirements of the products of the subsidiary Martini & Rossi I.V.L.A.S. S.p.A., and to reduce fixed overheads.

Work continued in the technical sector in new product research, improvement of existing products and monitoring of the production of Martini & Rossi I.V.L.A.S. S.p.A. and of our licensees in the countries where our products are made.

At December 31, 1989 the company employed 8 persons (the same as at December 31, 1988), divided as follows:

- Executives 6
- White collar 2

Relations with subsidiary and associated companies

Martini & Rossi I.V.L.A.S. S.p.A Turin - The company produces and sells vermouth and other alcoholic beverages for the domestic and export markets.

The following highlights emerge from the 1988 Financial Statements approved by the Ordinary Shareholders' Meeting of May 4, 1989:

- Domestic Market. Although the overall downtrend of alcoholic beverage consumption was even more marked than the previous year (- 3.5% overall and - 6.2% in the vermouth market in particular), the Company managed to recover market shares in the shrinking sectors, and to increase sales more than proportionately in the emerging sectors.

- Export Markets. Export sales continued to increase in spite of the falling dollar, and accounted for 33.3% of total sales.

- Structural costs. During the year operations aimed at reducing running costs continued, and this, combined with our pricing policy and control of raw materials prices enabled us to improve Company margins and to increase our advertising effort.

- Purchases. Market prices for the raw materials used by the company, particularly alcohol and wines for vermouth, enjoyed a favourable trend; overall purchase prices fell by about 4%.

- Advertising. Advertising expenditure was extremely heavy during the year, the increase over the previous year being 9.2%.

Net sales reached 288.8 billion, up 5.7% from 1987.

Capital spending totalled Lire 6.6 billion, mainly financed by the expansion and reorganisation of the sparkling wine division, the acquisition of plant and machinery leading to the rationalisation of the manufacturing process and the reduction of manufacturing costs.

The subsidiary's good performance during 1989 enabled your Company to collect a gross dividend of Lire 20,350,000,000, equal to Lire 3,700 per share.

1989 presented a number of difficulties for your subsidiary.

The continuing downturn in the markets of our sector, both domestic and international, did not permit us to fully achieve the targets set by the Company.

The insufficient increase of certain products, due to the drop in the market, and the significant investment in advertising and promotion in favour of sales, resulted in a slight decrease in the Company's profitability, although it remained high, and above the average for the sector.

During the same year the Ordinary Shareholders' Meeting of December 22, 1989 approved the extraordinary distribution of reserves amounting to Lire 40,040,000,000, payable in two lots: Lire 20,240,000,000 on December 27, 1989 and Lire 19,800,000,000 on January 15, 1990.

This operation is part of a more general policy of the "Martini Group" which provides for the allocation of financial resources to companies responsible on a corporate level for their management, so gearing up for possible future action in the sector in which your company operates, in order to combat the strategies of competitors, and to be increasingly competitive in all the markets we work in.

Monterosa S.r.l. Turin - The company did not operate on the market in 1988 or 1989.

1988 closed with a loss of Lire 3,446,120 which, as resolved by the Shareholders' Meeting, was made up from the Extraordinary Reserve and, in part, from the Legal Reserve.

During 1989 the company remained completely inactive; the year is expected to close with a slight loss.

Italian Export Service S.p.A. - I.E.S. Genoa - During 1988, this subsidiary continued its dealings in State Monopoly products, Soldano perfumes and other sundry products on foreign markets and in the duty-free sector.

During the year, sales of State Monopoly products proved buoyant, and excellent results were recorded on the French market and in airport duty-free shops.

The net profit for the year reached Lire 643,722,056, enabling your company to collect a dividend of Lire 224 million.

The 1989 results should repeat the favourable trend of the previous year, in spite of the problems posed by the continuing crisis in the world tobacco market.

Martini Sportline S.r.l. Turin - During 1988 the company continued with the programming and execution of marketing and advertising operations aimed at increasing the popularity of the brand name on the Italian market.

Brand diversification was extremely successful, thanks to the satisfactory results of ventures with Postal Market S.p.A. to market a collection of clothing known as "The Martini Racing Collection" with "Omega-Tissot" for watches and with the "Lozza" company for sun-glasses.

The profit for the year came to Lire 2,150,222 and was carried forward, as resolved by the Ordinary Shareholders' Meeting.

During 1989, the subsidiary continued its activities in line with the previous year; it is however expected to close the year with a slight loss due to extraordinary cost items.

Martini & Rossi de Colombia S.A. - 1988 closed with a loss for the company of 8,298,315 Colombian Pesos. The result, although still a loss, showed a considerable improvement on 1987, due to the transformation which took place during the year: the subsidiary was structured as a representative company with control over product quality, while marketing activities were transferred to local importers.

The loss was made up from pre-established reserves.

Operatively speaking, 1989 did not differ greatly from the previous year. The loss was however somewhat lower (approximately 5,500,000 Colombian pesos).

Restructuring did not give the hoped-for results, on account of the sharp contraction in sales by the licensee, resulting in lower royalty payments than forecast. In this context, management of the company has become extremely critical and costly, and the possibility of closing it during 1990 is being taken into consideration.

Martini & Rossi S.A. (Pty.) Cape Town - During 1988, the company operated regularly, although operations were adversely conditioned by the continuing problems in the country. What is more, during the year the company was reorganised, which considerably reduced structural costs.

1988 closed with a profit of 5,488.37 Rands.

During 1989, the new structure was consolidated and the year is expected to close with a profit.

Martini & Rossi (Australia) Ltd. Sydney - After the refinancing by your company and the restructuring undertaken during the year under examination, 1988 represented a year of fundamental importance for the Australian company.

In fact the new organisation, based on the importation of products from Italy, enables us to forecast that the Company will find a stable balance in the very short term: 1988 closed with a profit of A\$ 12,840.

1989 will probably produce a break-even result.

Japan Europe Trading Company Ltd Tokyo (JET) - The year that closed at March 31, 1988 recorded a profit of 20,718,041 Yen, according to the established plan for the expansion of your company on the Japanese market. In line with this strategy, and in order to make it even more effective, the sales structure was strengthened during 1989. This investment in human resources will certainly give results in the medium term; however, in spite of this effort, the year that closed at March 31, 1990 is expected to show a profit of approximately 1,000,000 Yen.

Internationale Getranke Vertriebs Aktiengesellschaft (I.G.V.A.) Wien - The Austrian company reported a profit for 1988 of 2,080,501 Austrian Schillings on ordinary operations, and distributed to your company a dividend of Lire 33,415,196.

As part of the process of rationalisation of the investment portfolio, your company's shares in IGVA were transferred to companies of the "Martini Group" during 1989. This operation produced a surplus of Lire 374.5 million.

Italian Leading Brands Promotion Corporation - New York - 1988 closed with a profit of \$ 2,248. The company, which supplies marketing services and monitors sales of the subsidiary Martini & Rossi I.V.L.A.S. S.p.A. in the United States, continued operating normally in 1989.

St. Raphael S.A. Paris - The company closed 1988 with a net profit of FF 1,520,207, in spite of the large provision set aside for restructuring costs and an increase in financial costs due to the acquisition of the entire share capital of "Veuve Amiot" S.A. and of an important shareholding in the "Companie Française des Grands Vins - CFGV" S.A.

During 1989 operating management saw a considerable improvement in the net profit (approximately FF 82,000,000), due not only to ordinary operations but above all to the surplus generated by the sale of the company headquarters in the centre of Paris.

Société Anonyme Noilly Prat Marseille - The company closed 1988 with a loss of FF 1,773,432, caused mainly by the effects on the year's results of the restructuring policy adopted, in order to achieve more satisfactory medium term results through a reduction in overheads and a more aggressive approach to the market.

In the context of the rationalisation of the investment portfolio, your shares in Noilly Prat S.A. were transferred during 1989 to the French subsidiary Martini & Rossi S.A.F., producing a surplus of Lire 313.4 million.

Martini & Rossi Ltd London - The company continued to trade profitably on the British market. 1988 recorded a net profit of £ 6,113,397, while sales increased by 21.1%.

A dividend of £ 2,100,000 was distributed, on a par with that of the previous year, and representing 100% of the share capital.

In this regard Martini & Rossi collected a dividend of Lire 2,208,350,000 in July 1989.

During 1989, as a result of the restructuring and strengthening of the distribution network through the creation of a new marketing company with our partners Bacardi and Bass, the Company partially reshaped its activities, increasing manufacturing activities through the acquisition of the processing assets of our new partners.

Forecasts for 1989 point to a lower net profit than in 1988, whereas the dividend should be stable at the level of previous years.

Peter Mielzynski Agencies Ltd Toronto - The company continued to back up the distribution of Martini products on the Canadian market, closing the year with a profit of \$Can 360,316 at at March 31, 1989.

S.A.E.S. S.p.A. Turin - The company that operates in the retailing sector through its subsidiary "La Rinascente S.p.A." and in that of tourism, sport and real estate through "Sestrieres S.p.A.", succeeded in expanding its activities satisfactorily.

In the former sector, "La Rinascente" achieved sales of over Lire 2,938 billion, an increase of 8.2%. In the tourism and real estate sector, where the subsidiary "Sestrieres S.p.A." operated, an increase in income of approximately 24% was achieved.

In 1988, as part of the diversification of its activities, your subsidiary created the company ARC UNION ITALIA, in which SAES controls about 34%. 1988 closed with a net profit of Lire 18.7 billion, an increase of 13% over the previous year, which enabled your company to collect a dividend of Lire 1,069,250,000.

During 1989 results should show a slight improvement over 1988 figures.

NOTES TO THE FINANCIAL STATEMENTS

Accounting principles

Whereas, in the evaluation of the Financial Statements, criteria have been adopted conforming with the provisions of Art. 2425 of the Italian Civil Code, and identical to those of the previous year, we will illustrate the principles adopted below:

– **Buildings, plants, machinery and furniture** have been evaluated at cost with the monetary revaluation adjustment carried out as laid down by law and shown below.

Standard depreciation has been calculated by applying the maximum rates established by the Decrees of 29/10/1974 and 31/12/1988, reducing the rates to 50% in the case of assets that came into operation during the year. For accelerated depreciation, calculated on the cost of depreciable assets that came into operation during the last three years, the maximum rates were applied as established by Art. 68 of law 597/73 (15% for 1987) and Art. 67 of the Taxation Law revised by Decree no. 40 of 1/3/1990 (equal to the ordinary rate for acquisitions during 1988 and 1989).

The ordinary rates applied to the various categories of assets are as follows:

Assets	Rates assets coming into operation up to 31/12/88	Rates assets coming into operation in 1989
– Buildings used as laboratories	3	3 (1.5)
– Furniture and fittings	12	12 (6.0)
– Electronic machinery	18	20 (10.0)
– Equipment	20	20 (10.0)

The total depreciation rates applied are considered to be correct in relation to the deterioration of the assets.

For the purposes of Art. 10 of Law 72 dated 19/3/1983, we certify:

– that the monetary evaluation has been carried out in respect of the assets still on the books:

	Revaluation as per law 576 dated 2/12/75	Revaluation as per law 72 dated 19/3/83
Buildings	8,992,348	274,000,000
Laboratory equipment	–	34,040,506
Investments in associated companies	571,081,875	17,100,000,000
	580,074,223	17,493,990,553

– **The Laboratory equipment warehouse** inventories have been valued at purchase prices.

– **Fixed income securities and investments** have been valued at purchase cost, and, where the securities are quoted on the stock exchange, the company's directors have taken stock exchange performance into account in their evaluation and adjusted the book value where they considered it appropriate.

– **Investments** in subsidiary and associated companies constitute financial investments and are valued at purchase cost, weighted by the directly applicable accessory charges adjusted in previous years:

– increase, for the revaluation as per Law 576/1975 clause 5 and Law 72/1983 clause 4;

– decrease, for the adjustment to market values of companies quoted on the stock exchange.

Valuations have been made on a prudential basis, and take into account the income capacity of the investee companies. Where companies are quoted on the stock exchange the market price was also taken into account.

The "Provision for losses on investments" account previously created remains unchanged, and as it is no longer needed to cover the losses of the Australian subsidiary, it is considered sufficient to cover any losses of the Columbian subsidiary.

– **Portfolio investments** are valued at the cost of acquisition, increased by directly applicable accessory charges.

The valuation conforms with the requirements of prudent valuation and the performance of the shares on the stock exchange or the market.

– **Receivables** have been entered in the Financial Statements at par value and have been adjusted through a provision under liabilities for presumed losses on receivables totalling Lire 31,599,306 as per Art. 71 of law 917 of 22/12/1986 and the (taxed) doubtful account reserve totalling Lire 395,552,842 for customers undergoing bankruptcy proceedings at December 31, 1987. The total fund adequately covers the risk of losses on doubtful accounts.

– **The Personnel severance indemnity reserve** and **Supplementary personnel pension provision** are entered under liabilities in the Income Statement for a value that fully covers the Company's debt to employees and retired staff, in respect of the sums maturing in the name of individual employees and under the terms of current legislation, current labour contracts and company regulations. The supplementary pension provision is calculated on the basis of actuarial valuations (posticipated annuities) determining the technical reserves to be allocated to cover pension payments.

Examination of Financial Statement entries

We will now analyse Financial Statement items in detail and variations occurring during the year:

Balance sheet

ASSETS

Industrial buildings - The value of this account remains unchanged at Lire 317,059,010.

Office furniture and equipment - This item remained unchanged at Lire 30,343,546.

Laboratory equipment - The value of this item rose from Lire 760,928,441 to Lire 808,870,104 due to the following variations:

increase
for the acquisition of new equipment L. 50,491,663

decrease
for the sale of assets L. 2,550,000

Electronic office machinery - The value of this account remained unchanged at Lire 82,124,285.

Laboratory material inventories - The value of this item decreased by Lire 857,250, from Lire 38,869,850 to Lire 38,012,600, and represents the value of chemicals for analysis which had not been utilised at December 31, 1989.

Fixed income securities - This item increased from Lire 13,034,718,500 to Lire 35,988,348,500 due to the following movements:

increases following acquisitions	L. 27,060,686,308
decreases following sales	L. 4,014,456,308
decrease following the loss in value of some of the securities in the portfolio on the basis of the valuation carried out on the average stock exchange price in the last quarter of 1989	L. 92,600,000

Investments - There was a fall of Lire 1,886,549,868 from Lire 131,440,141,575 to Lire 129,553,591,707 due to the following movements:

- sale of 32,000 shares in Noilly Prat & Martini & Rossi S.A.F. - Saint Ouen	L. 1,779,417,600
- sale of 38,817 shares in I.G.V.A. - Vienna, as follows:	
35,217 shares to General Beverage Europe B.V. -	
The Netherlands	L. 97,196,514
3,600 shares to General Beverage Finance N.V. -	
Curacao	L. 9,935,754

Trade receivables - This item increased by Lire 2,562,425,653, from Lire 522,947,778 to Lire 3,085,373,431, as a result of the sale of investments in I.G.V.A. and Noilly Prat.

Payment of the sum arising from the sale of the above investment was received on January 15, 1990.

Receivables from the subsidiary and associated companies - This item increased by Lire 21,616,155,656 from Lire 5,681,656,150 to Lire 27,297,811,806.

The largest receivables are those from the subsidiary Martini & Rossi I.V.L.A.S. S.p.A. for dividends collected on January 15, 1990 totalling Lire 19,800,000,000, for the provision of services and production revenues amounting to Lire 2,759,075,631, and for cash advances for Lire 1,610,917,085, and the interest-earning loan with JET, our subsidiary, for Lire 3,057,815,000.

Sundry receivables - This item was up Lire 14,207,854,911, from Lire 19,934,064,249 to Lire 34,141,919,160, for credits with the tax office for withholding taxes paid and tax credits on dividends due to the higher dividends collected.

The major contributing factors to this amount are credits with the tax office for withholding taxes paid and tax credits for previous years totalling Lire 4,065,016,450, withholding taxes on interest and dividends for Lire 4,489,897,600, tax credits on dividends for Lire 23,919,665,484, and VAT credits to be recovered for Lire 331,731,000.

Accrued income - This entry in the Financial Statements stands at Lire 797,177,940 compared with Lire 461,668,646 the previous year.

The account includes interest on Government securities and on the loan to the subsidiary JET due during the year, the amount of which will appear next year.

We certify that accrued income has been calculated analytically with the application of criteria of strict temporal pertinence in agreement with the Board of Auditors and in accordance with the law.

Liquidity in cash and at banks - Bank accounts and cash fell by Lire 12,298,016 from Lire 635,521,596 to Lire 623,223,580 as a result of normal operations.

MEMORANDUM ACCOUNTS

Guarantees received from third parties/Creditors for guarantees - Deposit on the telex service for a total of Lire 5,000,000.

Taxed expenses to be recovered fiscally/Taxed reserve for tax recoveries - The total of Lire 1,023,836,918 represents all the increases included in the statutory Financial Statements for tax purposes in previous years to be recovered as a tax rebate during the year under consideration.

Our securities deposited under administration/Securities on deposit with third parties - Lire 18,126,000 of the Lire 110,332,607,782 total is for securities on deposit, Lire 35,970,222,500 is for government securities under administration with various organisations, and Lire 74,344,259,282 for shares deposited with banks.

Debtors for securities to be received/Securities to be delivered - Government securities that the company is committed to sell on a particular date for a total of Lire 1,398,647,500.

LIABILITIES

Capital stock - The total was unchanged at Lire 31,500,000,000.

Legal reserve - This item rose by Lire 1,359,354,677, from Lire 5,880,805,771 to Lire 7,240,160,448 following the 1988 provision. The reserve now stands at more than one fifth of the capital stock, and it is not intended to increase it further, in compliance with Art. 2428 of the Italian Civil Code and company articles.

Extraordinary reserve - This shows an increase of Lire 4,450,000,000 from Lire 34,820,383,000 to Lire 39,270,383,000, in compliance with the resolution of the Shareholders' Meeting on May 4, 1989.

Surplus from transfer as per art. 34 law 576/1976

Non-operating surplus as per art. 55 law 597/1973

Reserve provision as per art. 4 law 904/1977

Revaluation reserve as per law 72/1983

Merger surplus provision

The five reserves listed above are unchanged. They amount to Lire 47,064,771,977, Lire 165,265,238, Lire 19,740,000, Lire 400,000,000 and Lire 186,439,658 respectively.

Extraordinary charges provision - This item, totalling Lire 4,450,000,000, was transferred entirely to the Extraordinary reserve, as per the provision of the Shareholders' Meeting of May 4, 1989.

Dividend fluctuation reserve - This item stands at Lire 2,400,000,000 following the allocation resolved by the Shareholders' Meeting of May 4, 1989.

Declaration in compliance with art. 2 of law 649 dated 25/11/1983 - In compliance with the provisions of law 649/83, included in art. 105 of the Tax Legislation of 1986, we show the reserves and funds on the books at December 31, 1989, in accordance with the required method:

1. Reserves or other provisions constituted with profits or other income starting from the year in progress at December 1, 1983, subject to IRPEG

Legal reserve (part)	L. 2,825,844,532
Extraordinary reserve (part)	L. 16,345,951,068
Dividend fluctuation reserve (part)	L. 2,009,118,376
Merger surplus fund (part)	L. 17,536,069
Aggregate profit from previous years (part)	L. 36,057,858

2. Reserves or other provisions constituted with profits or other income starting from the year in progress at December 1, 1983, not subject to IRPEG, excluding those provided for in letters a) and b) of clause 3 of art. 2 of the above law:

Legal reserve (part)	L. 2,126,877,093
Extraordinary reserve	L. 11,396,355,376
Dividend fluctuation reserve (part)	L. 390,881,624
Merger surplus fund (part)	L. 35,160,172

3. Reserves or other funds already constituted at the end of the last year closing before December 1, 1983, or formed with profit or revenues occurring in the year:

Legal reserve (part)	L. 2,287,438,823
Extraordinary reserve (part)	L. 11,528,076,556
Merger surplus fund (part)	L. 133,743,417

4. Reserves or other funds which in the event of distribution contribute to the formation of the company's taxable income independently of the period of formation:

Transfer surplus reserve	L. 47,064,771,977
Non-operating profit reserve as per art. 55 of law 597/1973	L. 165,265,238
Reserve as per art. 4 of law 904/1977	L. 19,740,000

Reserve as per law 576 2/12/75 entirely taken up for the capital stock increase resolved by the Extraordinary Shareholders' meeting of May 5, 1977	Lire 4,500,000,000	L.	—
Revaluation provision law 72/1983 reduced to following use of Lire 17,100,000,000 for the capital stock increase as resolved by the Extraordinary Shareholders' meeting of June 5, 1984.	Lire 17,500,000,000	L.	400,000,000

5. Reserves or other funds which in the case of distribution do not contribute to the formation of shareholders' taxable income, whatever the period of formation:
– there are no reserves of this kind

Doubtful account provision for interest in arrears art. 71 Law 917 dated 22/12/1986 clause 3 - The total of Lire 18,108,720 represents the provision of interest in arrears on account of tax office receivables falling due during the year.

Depreciation reserves - Provision for losses on investments - This account remains unchanged at Lire 224,864,948. This account increased by Lire 95,525,939, from Lire 825,539,312 to Lire 921,065,251, due to the following movements:

increase			
– ordinary depreciation charged to the year		L.	53,915,724
– accelerated depreciation charged to the year		L.	44,160,215
decrease			
– deduction of accumulated depreciation for assets sold or written off during the year		L.	2,550,000

Doubtful account reserve art. 71 of law 917 dated 22/12/1986 clause 1 - The total rose from Lire 15,733,238 of the previous year to Lire 31,599,306, with an increase of Lire 15,866,068, due to the appropriation of 5% on trade receivables at 31/12/1989, in compliance with art. 71 of law 917 of 22/12/1986.

Losses on trade receivables subject to legal proceedings at 31/12/1987 - The reserve set up under the terms of art. 25 law 42 dated 4/2/1988 fell by Lire 38,562,346, from Lire 434,115,188 to Lire 395,552,842, due to sums being utilised to cover legal proceedings closed during the year.

Personnel severance indemnity reserve - This account increased by Lire 137,598,400, from Lire 571,960,820 to Lire 709,559,220, due to the following movements:

increase			
– appropriation for indemnity payments falling due during the year		L.	108,769,169
– for the transfer of personnel from Martini & Rossi I.V.L.A.S. S.p.A.		L.	76,303,877
decrease			
– for indemnity payments to personnel		L.	47,474,646

We assure you that the reserve entered in the Financial Statements fully covers the company's matured debt towards the personnel in this respect at year end.

Supplementary personnel pension provision - The fund, which represents the Company's commitment towards pensioners and staff in this respect, increased from Lire 182,767,805 to Lire 184,685,000 as a result of the following movements:

decrease:			
– for utilisation of the sum of Lire 39,368,805 as excess provision taxed at December 31, 1988;			
increase:			

– for appropriation of Lire 41,286,000 maturing during the year.

Taxation provision - This item underwent the following changes:

Total at 31/12/1988	L.	16,133,736,706
increase	L.	27,258,361,000
– for the tax provision for the year		
decrease		
– for the uptake for 1987 tax paid	L.	13,767,187,000
Reserve entered in the Financial Statements at 31/12/1989	L.	29,624,910,706

Trade payables - The total was up from Lire 403,544,966 to Lire 347,971,642, with a loss of Lire 55,573,324 due to normal operations.

Payables to subsidiary and associated companies - This item fell by Lire 132,289,374, from Lire 2,219,594,888 to Lire 2,087,305,514 due to normal operations.

Sundry payables - This item was up Lire 158,678,856 to Lire 144,951,079, with a decrease of Lire 13,727,777. This entry includes payables to the Inland Revenue.

Deferred income - The item stands at Lire 76,480,000 for amounts maturing over the year for salaries and social security payments for employees.

We declare that the accrued expenses have been calculated in detail and established according to criteria of temporal pertinence, with the agreement of the Board of Auditors as required by law.

Profit on prior years - This account stands at Lire 36,057,858, and represents retained income not distributed in 1987 and 1988.

Income Statement

Sales revenues for the year total Lire 101,549,444,756 (increasing from the previous year's total of Lire 49,542,362,410) and include:

- revenues for services rendered totalling Lire 7,461,679,125 (Lire 7,646,219,356 the previous year); they consist mainly of services rendered by the chemical laboratory and revenues for production received by your company;
- dividends collected during the year from subsidiary and associated companies or other investee companies for a total of Lire 64,565,614,946 (Lire 26,344,282,782 the previous year). When comparing the dividends collected during the year and those of previous years, it must be borne in mind that the variation is due mainly to the extraordinary payment out of Reserves resolved by the shareholders of your subsidiary Martini & Rossi I.V.L.A.S. S.p.A. on December 22, 1989, totalling Lire 40,040 million and payable in two lots, one of Lire 20,240 million in December 1989 and the other of Lire 19,800 million in January 1990.
- tax credit on dividends received totalling Lire 23,919,665,484 (Lire 13,409,688,037 the previous year);
- interest on fixed income securities maturing during the year and totalling Lire 1,782,182,741 (Lire 1,389,323,260 in the previous year);
- interest on bank receivables of Lire 46,140,531 (Lire 116,011,478 the previous year);
- interest on sundry receivables of Lire 91,084,463;
- interest on receivables from subsidiary and associated companies totalled Lire 158,648,504, for interest on the loan extended to the subsidiary JET and in the current account with the subsidiary company Martini & Rossi I.V.L.A.S. S.p.A.;
- surpluses deriving from the sale of assets and profits from dealings in investments, totalling Lire 690,058,559 (Lire 4,565,340 in the previous year); Lire 687,872,059 of this amount derives from the sale of the investments in I.G.V.A. and Noilly Prat;
- income, sundry revenues and non-operating surpluses for a total of Lire 2,795,001,598 (Lire 534,081,350 in the previous year); Lire 607,747,040 of this amount consists of royalties, Lire 1,990,410,000 of services rendered to General Beverage Management, and Lire 196,844,558 of sundry revenues and non-operating profits.
- utilisation of the sum of Lire 39,368,805 consisting of the surplus in the Supplementary Personnel Pension Provision at December 31, 1988.

Expenditure and losses for the year, including initial and final laboratory material inventories, total Lire 31,835,461,494 (Lire 22,355,268,875 the previous year), made up as follows:

- operating costs totalling Lire 4,310,517,585 (Lire 3,202,201,531 the previous year) for salaries and social security charges, employee severance indemnities maturing, provision for the pension reserve, depreciation and utilisation of laboratory materials;
- financial charges, losses and non-operating losses on securities of Lire 159,298,950 (Lire 383,263,165 the previous year);
- provision for losses on receivables in compliance with art. 67 of law 917 dated 22/12/1986 totalling Lire 15,866,068;
- tax charges for the year amounting to Lire 27,270,361,000 including tax credits on dividends received of Lire 23,919,000,000 (Lire 13,737,943,660 the previous year);
- sundry costs and non-operating losses of Lire 79,417,891 (Lire 8,938,977 the previous year).

We would inform you that, for the purposes of art. 2429 bis of the Italian Civil Code, there were no outstanding events in the early months of 1990; your company continued its normal operations and during the month of January received the second part of the extraordinary payment out of reserves from the subsidiary Martini & Rossi I.V.L.A.S. S.p.A.

Proposal for the distribution of profits

Shareholders,

the Financial Statements that we submit for your approval close with a profit of Lire 69,713,983,262 (Lire 27,187,093,535 in 1988).

We propose the following distribution:

profit on the year	L.	69,713,983,262
– Dividend of Lire 83,000 on each of the 450,000 shares, subject to withholding tax	L.	37,350,000,000
– Dividend fluctuation reserve	L.	32,300,000,000
– Carried forward	L.	63,983,262

for the Board of Directors,
The Chairman and
Managing Director

Gregorio Rossi di Montelera

BOARD OF AUDITORS' REPORT

Shareholders,

in compliance with art. 2342 of the Italian Civil Code the Board of Directors has entrusted us with the Financial Statements for 1989 now submitted to your examination, together with their Report and explanatory analytical data.

The Board's report accords with the various legal requirements, and outlines operations and prospects, reviewing differences in individual items compared to last year.

The Balance Sheet can be broken down into the following items from the Financial Statements (excluding the Memorandum accounts):

- Assets	L. 232,763,855,669
- capital stock, specific reserves and liabilities	L. 163,049,872,407
giving a surplus of	L. 69,713,983,262
Which is balanced in the results of the Income Statement:	
- revenues	L. 101,587,457,356
- expenditure	L. 31,873,474,094
and closes with an operating profit of	L. 69,713,983,262

The Memorandum accounts illustrated in the Financial Statements total Lire 112,760,092,200 and do not require comment.

The assets and liabilities shown in the Balance Sheet have been calculated according to the provisions of art. 2425 of the Italian Civil Code and according to monetary revaluation laws already passed.

In particular we would note:

- fixed assets were increased at cost value by Lire 50,491,663 and reduced upon disposal at book value by Lire 2,550,000.

The normal depreciation attributable to the year totalled Lire 53,915,724 and accelerated depreciation Lire 44,160,215 at the rates and following the criteria as illustrated by the Board.

Total depreciation entered in the Financial Statements corresponds to over 74% of the value of investments in fixed assets.

- laboratory material inventories have been calculated at cost price, as in previous years.

- fixed income securities have been valued at cost, taking performance in recent months into account for those quoted on the stock exchange; the purchase cost has been indicated for equity investments.

- investments in subsidiary and associated companies have been valued at purchase cost and adjusted by monetary revaluation and, in the case of shares quoted on the stock exchanges, adjusted downwards to market values when necessary. The provision for losses on investments remained unchanged among the liabilities in the financial statements.

- trade receivables and payables are valued at nominal value. The sum of Lire 38,562,346 from the reserve for losses on trade receivables subject to legal proceedings, was utilised to cover positions closed during the year.

The doubtful accounts reserve as per art. 71 of law 917/86 was increased by Lire 15,866,068 and is sufficient to cover risks of insolvency.

- accrued income and accrued expenses, totalling Lire 797,177,940 and Lire 76,480,000 were calculated in detail with our agreement in accordance with the law. They were calculated with the application of the criteria of temporal pertinence in order to distinguish costs and revenues charged to this year from those of other years.

- the personnel severance indemnity reserve was increased by lire 185,073,046, being the amount maturing during the year and for the transfer of personnel from subsidiary and associated companies, and a total of Lire 47,474,646 was utilised for indemnity payments to employees leaving the company.

The reserve was calculated in detail and covered the company's debt maturing on this account at year end.

- Lire 39,368,805 was taken from the supplementary pension fund because of the excess provision made at December 31, 1988, and increased by Lire 41,286,000 as the amount maturing during the year. The total in the account covers the full amount of the company's commitment in this regard towards employees and pensioners.

- the taxation reserve was taken up in the amount of Lire 13,767,187,000 for taxes attributable to prior years and increased by Lire 27,270,361,000 for taxes on the year.

In line with your resolution, the new Dividend fluctuation reserve was established, and the Provision for extraordinary charges was transferred to the extraordinary reserve, having fulfilled its purpose.

Revenue and expenditure items were entered in the Income Statement on the basis of their relevance to operations and their pertinence to the year.

During the year we made periodic checks in compliance with legal requirements, and participated at the Board of Directors' meeting. We certify that the books of account were regularly kept and updated and that the Board acted in conformity with the law and Company Articles. We therefore express our favourable opinion regarding the approval of the Financial Statements at December 31, 1989, together with the proposal for the distribution of the profit on the year.

The Auditors

Renato Marena
Carlo Moiso
Riccardo Rota

BOARD OF DIRECTORS' REPORT

MARTINI & ROSSI I.V.L.A.S. S.P.A.

General information

Shareholders,

The national and international situation in which your company operated in 1989 saw a marked downward trend in the consumption of alcoholic beverages in general. In spite of the crisis in the market, sales volumes increased overall by 2.3% over 1988, and net revenues reached and passed the goal of Lire 300 billion (302.1), increasing by 4.6% over the previous year.

Before turning to the analysis and trends of the individual markets, we believe that it is important to review the social and economic situation of the year that has just closed for a clearer assessment of the goals reached by your company during the year under examination:

– **National market** - our sector shrank by a further 2.3% with trends differing in the various product lines:

- vermouths – 7.7%
- bitters – 2.2%
- whiskies – 4.8%
- brandies – 5.1%

Sparkling wines alone added a note of cheer in this situation, growing by 2.3%.

– **International markets** - The same generalised downward trend in the consumption of alcoholic beverages was apparent in other countries although the situation varied greatly from one to another.

One positive sign in 1989 was the fact that the dollar held up well, unlike 1988, enabling us to improve business in those countries where your company operates in that currency.

The macro-economic figures of "Enterprise Italy" in 1989, against a background of political and fiscal instability, show the following results compared to 1988:

- Gross Domestic Product + 3.4%
- Imports + 9.2%
- Exports + 8.5%
- Internal demand + 3.8%
- Family consumption + 3.3%
- Gross investment in fixed assets + 5.2%

Inflation speeded up considerably, but stabilised at about 6.3% at the end of 1989, while the balance of payments on current account rose sharply from 1988 levels, to reach Lire 13,500 billion at year end.

On an international level, we must also mention events in Eastern Europe which could have a positive influence in future on the development of your company, enabling us to increase production and sales of our products.

Shareholders,

In this general context, 1989 closed, as we have said, with net sales of Lire 302.1 billion (288.8 in 1988), an increase of 4.6%. The net operating profit, after the appropriation of Lire 13.1 billion to the Taxation provision, was Lire 21.5 billion (against Lire 24.8 billion in 1988).

These goals were achieved by attempting to control the shrinking sectors of the market and to considerably improve those in expansion through a vigorous sales policy, with stepped up advertising in support of products, careful management of purchase prices and containment of structural overheads.

Analysis of the results enables us to identify the following trends:

Italian market

The domestic market was the most strongly hit by the drop in consumption.

As mentioned above, the market fell by 2.3% overall, with certain commodity sectors hit harder than others: vermouth (– 7.7%), whisky (– 4.8%), cognac/brandy (– 5.1%); only the sparkling wine sector increased by 2.3%.

In this clearly unfavourable situation, the company achieved the following sales:

	1988	1989	% var.
Revenues (Lire/million)	191,963	196,075	+ 2.1
of which:			
- vermouth	102,099	99,330	- 2.7
- sparkling wines	33,611	36,705	+ 9.2
- others	56,252	60,040	+ 6.7

These results show that while in the vermouth sector the fall was significantly smaller than the drop in the market, in the other sectors the increase was more than proportional while in certain sectors, such as whiskies, there was a reversal in the trend (+ 0.5%).

We must also note that in the second half of the year under consideration, a policy was adopted to extend our direct retailing by the improved placing of the entire range of our products. We also endeavoured to strike a better balance in our consumer prices.

The process of rejuvenation of the sales network and rationalisation of the central commercial organisation progressed, through the creation of a team of "promoters" with the specific role of highlighting our products, getting the price right for the market and including specific intervention at sales outlets.

This strategy will certainly be developed fully during 1990.

Foreign markets

Sales trends were favourable in 1989 in nearly all the markets in which the company operates, as the following table shows:

	1988	1989	% variation
Total sales (Lire/million)	95,918	105,713	+ 10.2
of which:			
- North America market	57,996	62,245	+ 7.3
- North European market	23,847	25,425	+ 6.6
- East European market	4,239	4,734	+ 11.7
- Others	9,835	13,309	+ 35.3

The positive results in terms of sales volumes were further improved by the fact that the value of the dollar increased from its 1988 levels.

We should however point to the good result recorded in Far Eastern markets which is not entirely unconnected to the fact that certain local production has ceased, opening the way for direct imports of our products from Italy. This enabled the company to further improve both its image and the quality of the products themselves in these countries (Australia, New Zealand, Greece, etc.).

Export sales accounted for 35% of total business (33.3% in 1988; 32.1% in 1987).

Structural costs

Great care and attention went into the management of overheads, which can be considered to be at an acceptable level.

Advertising and promotional expenditure increased significantly, reaching 19.9% of sales (17.8% in 1988), an increase of 18% over the previous year.

This was made necessary to provide greater support to the sale of our products and to enhance brand awareness among consumers.

Purchases of materials

Purchase of raw, auxiliary and utility materials was satisfactory, and overall purchase prices were up 6% from 1988.

The breakdown of the main commodity classes shows the following variations compared with the previous year:

- Wines for vermouth: + 11%
- Muscatel: + 4%
- Italian alcohol: + 0.6%
- Alcohol from abroad: + 4.8%
- Italian sugar: + 5.9%
- Sugar from abroad: + 13.8%
- Packaging materials: + 4.2%

The careful pricing policy, control of prices paid for raw materials and the containment of structural costs have enabled your company to maintain and/or improve its profit margins on its products, in spite of the significant increase in advertising spending.

Capital spending/Depreciation

The company's capital spending totalled Lire 9,251 million, including the new car fleet for the sales organisation, while disposals amounted to Lire 2,541 million, due mainly to the sale of the obsolete vehicle fleet. Major capital spending operations involved:

- completion of work in the sparkling wine sector, which will enable the Pessione plant to adequately meet future demand from the rapidly developing domestic and foreign markets;
- the refurbishment of the older part of the plant, to create a reception centre which is in line with the image of the company and its products.

The main projects regarded:

- Packaging of the new china bottle
- Rinsers for bottling lines
- Restructuring of sparkling wine bottling line (pallet loaders and unloaders)
- Automatic herb weighing and relative warehouse
- New water reservoir to cover processing requirements
- Restructuring of the "Historical plant"
- New car fleet.

We also inform you that during the year under examination, on June 28, 1989, the European Community (FEOAG) approved our application for a contribution equal to 25% of investments in the wine sector, which, when the work is finished, should bring your company an unconditional contribution of approximately Lire 2,900. We are awaiting approval of the same application from the Ministry of Agriculture, which should bring a further financial subsidy for the same value as that approved by the EEC.

The following table shows the major operating costs (in Lire/millions), and the relative indices that have influenced the year in question:

	1988		1989	
	total	% of sales	total	% of sales
Cost of raw materials	105,275	36.46	113,736	37.65
Total cost of personnel	42,036	14.56	44,756	14.82
Industrial costs	11,399	3.95	11,720	3.88
Marketing, distribution and advertising costs	82,864	28.70	91,991	30.46
Administrative overheads	10,904	3.78	13,234	4.38
Depreciation	5,625	1.92	5,112	1.69

Financial management

The operating profit was positively influenced by financial operations, aimed in particular:

- at optimising returns on the company's liquidity. Interest income from the management of the investment portfolio and from the cash flow generated totalled Lire 8,846 million (Lire 10,040 million in 1988)
- at protecting exchange rates in the foreign currencies in which your company operates.

Current liquidity, represented by the following items in the financial statements: banks (deposits and overdrafts), cash on hand, fixed income securities, which amounted to Lire 74,368 million at December 31, 1988, totalled Lire 53,423 million at December 31, 1989.

The reduction was due principally to the extraordinary payment at the end of 1989 resolved by the Ordinary Shareholders' Meeting of December 22, 1989, as part of the extraordinary distribution of retained earnings which, including adjustment tax, amounted to Lire 41,447 million.

This operation forms part of the policy of financial reinforcement of the parent company in the light of possible future commitments, made necessary by the need to strengthen and safeguard our products' presence on the market.

It was established that the sum of Lire 40,040 million before tax was to be paid in two lots:

- the first, of Lire 20,240 million, payable from December 27, 1989 (paid December 27, 1989);
- the second, of Lire 19,800 million, payable from January 15, 1990 (paid January 15, 1990).

The reserves freely utilised to finance this operation were represented by:

- Dividend fluctuation reserve L. 2,600 million
- Retained earnings L. 83 million
- Extraordinary reserve L. 34,374 million
- Legal reserve (exceeding the limits set by art. 2428 of the Italian Civil Code) L. 4,390 million

Performance is illustrated in the following table which analyses the year's operations more closely:

	Financial Statements 31/12/1988	Financial Statements 31/12/1989
Cash flow comprising the year's profit before appropriations not requiring financial expenditure and depreciation (in Lire/millions)	30,463	26,604
Surplus of sight and current liquidity (excluding inventories) over the total of all liabilities (in Lire/millions)	109,810	64,651
Ratio of total sight and current liabilities to the total of all liabilities	1.68	1.41
Ratio of total working capital (inventories + sight and current liquidity) to the total of all liabilities	2.08	1.80
Ratio of stockholders' equity (capital stock, reserves, provisions and depreciation) to fixed assets	2.63	2.02

Employees fell slightly during 1989 from 576 at December 31, 1988 to 551 at December 31, 1989, broken down as follows:

- managers 36
- white collar 293
- blue collar 222

It must be noted that staff cooperation at all levels and in all categories was of fundamental importance in achieving targets: we extend our sincerest thanks to them all.

NOTES TO THE FINANCIAL STATEMENTS

Accounting principles

Under the terms of art. 2425 of the Italian Civil Code, we outline the evaluation criteria adopted to calculate items in the Financial Statements, which are identical to those adopted in the previous years and have been agreed with the Board of Auditors wherever this was necessary:

– **fixed assets** were valued at cost increased by directly attributable accessory charges, and including, in the case of qualifying assets, adjustments performed in the past on the basis of the law.

They also include capitalised internal costs calculated on the basis of particular operating criteria.

Values have been adjusted through the entry of the depreciation provision under liabilities.

The amount of ordinary depreciation on fixed assets was established by applying the maximum coefficients indicated in the Decrees dated 29/10/1974 and 31/12/1988; assets that came into use during the year were depreciated at 50% of the ordinary rate.

Accelerated depreciation on assets that came into use in the last three years was calculated by applying the maximum coefficients under the terms of art 68 of law 597/73 (15% for 1987) and art. 67 of the General Tax Law updated by Decree no. 40 of 1/3/1990 (once the ordinary rate for assets acquired in 1988 and 1989).

The ordinary rates applied to the various categories are:

Asset	Rates goods coming into use up to 31/12/88	Rates goods coming into use in 1989
Industrial and commercial buildings	3	3 (1.5)
– Light constructions	10	10 (5.0)
– Tanks and autoclaves	8	8 (4.0)
– Machinery	10	10 (5.0)
– Furniture and fittings	12	12 (6.0)
– Electronic machinery	18	20 (10.0)
– Equipment	20	20 (10.0)
– Transport vehicles	20	20 (10.0)
– Cars	20	25 (12.5)

The total depreciation applied is considered to be correct in relation to the estimated useful life of the assets, and of the exploitation of their productive potential during the year.

The depreciation of **deferred charges** (costs referring to EDP programmes and basic software) of long-term utility and capitalised show no change from the previous year.

We certify that, in accordance with art. 10 of law 72 dated 19/3/1983, just one monetary revaluation – namely that specified by said law – has been effected and it concerned the following assets still on the books:

	Revaluation carried out	Revaluation of assets sold	Revaluation of assets on the books at 31/12/1988
Civil buildings	1,500,000,000	240,800,000	1,259,200,000
Civil buildings for commercial uses	1,500,000,000	30,000,000	1,470,000,000
Industrial buildings	10,984,000,000	143,880,532	10,840,119,468
Machinery	4,100,000,000	365,448,375	3,734,551,625
Total	18,084,000,000	780,128,907	17,303,871,093

We certify that, with the exception of the above, legal accounting principles as per art. 2425 of the Italian Civil Code have always been applied.

– **Inventories of raw materials, merchandise and products** have been valued at cost using the LIFO method on an annual basis, and as specified in art. 2425 of the Italian Civil Code for goods whose value was less than cost at year end;

semi-finished goods were valued at the average cost of production (directly attributable items); **advertising material, auxiliary and maintenance materials** at acquisition cost.

– **Fixed income securities and investments** have been entered in the Financial Statements at acquisition cost. The analysis of stock exchange quotations at December 31, 1989 did not reveal any particular need for adjustment as these quotations were, on the whole, higher than the values in the Financial Statements.

– **Receivables** (and payables) have been entered in the Financial Statements, suitably adjusted, bearing in mind their estimated realisable value, by liability entries covering risks and write-down.

Receivables and payables in foreign currencies are shown at the exchange rate ruling on the day they were contracted. A special reserve has been established to cover future exchange risks.

– **The employees' severance pay indemnity reserve** and the **Supplementary staff pension provision** have been entered in the Financial Statements under liabilities, the value of the entry completely covering the company's commitment in this respect towards employees and retired staff, according to the seniority payments due to individual employees, in accordance with the law, current labour contracts and company rules. The supplementary pension provision was calculated on the basis of actuarial valuations (posticipated annuities), determining the technical reserves necessary to cover the said supplementary pension. The **Agents' indemnity provision**, was fixed according to the company's commitment to individual agents due up to the end of 1989, in compliance with the current labour agreement of this category.

– **deferred and prepaid charges and accrued income** as well as estimated receivables and payables have been calculated on the basis of their pertinence to the year.

Examination of Financial Statement entries

In compliance with the law we now review individual Financial Statement entries and the differences compared with the previous year's.

Balance sheet

ASSETS

Real estate - This item shows a net increase of Lire 1,750,544,223, from Lire 36,034,562,261 to Lire 37,785,166,484. This increase is due mainly to new constructions at the Pessione plant, for a total of Lire 1,769,354,689, and a decrease following demolition of industrial buildings of Lire 18,810,466.

Light constructions - This item registered a net increase of Lire 64,766,795, from lire 988,795,201 to Lire 1,053,561,996, as a result of new constructions at the Pessione plant amounting to Lire 65,327,795 and the disposal of pre-existing constructions for Lire 561,000.

Tanks and reservoirs - The value of this item rose from Lire 6,524,598,451 to Lire 6,533,977,520 with a net increase of Lire 9,379,069 following the purchase of new tanks for Lire 12,619,052 and the disposal of pre-existing tanks for Lire 3,239,983.

Machinery - The value of this item rose from Lire 25,672,980,122 to Lire 28,627,717,284, with a net increase of Lire 2,954,737,162, resulting from the following movements:

increases:

– purchases of new machinery L. 3,588,358,505

decreases:

– sale and disposal of pre-existing machinery L. 633,621,343

Furniture - The value increased by Lire 717,879,275, from Lire 2,841,006,326 to Lire 3,558,885,601, due to the following movements:

- increase of Lire 791,853,219 for the acquisition of new assets;
- decrease of Lire 73,973,944 for the sale of pre-existing assets.

Motor Vehicles - Their value rose from Lire 3,832,223,557 to Lire 4,161,389,337, with a net increase of Lire 329,165,780, the result of the following movements:

- increase of Lire 2,075,349,103 for the purchase of new vehicles;
- decrease of Lire 1,746,183,323 for the sale of pre-existing vehicles.

Various equipment - The value of this item increased from Lire 1,091,754,939 to Lire 1,176,496,964, with a net increase of Lire 84,742,025 following the purchase of new equipment for Lire 87,442,025 and the disposal of pre-existing equipment for Lire 2,700,000.

Electronic office machinery - This item rose by Lire 799,027,267 from Lire 1,522,900,708 to Lire 2,321,927,975, with a new increase of Lire 799,027,267, resulting from the following movements:

- increase of Lire 854,086,102 due to acquisitions during the year;
- decrease of Lire 55,058,835 resulting from sales.

For all the asset categories listed above we certify that the increases correspond with real quantity increases in assets valued on the basis of costs incurred in their acquisition and that the decreases correspond with the disposal of assets on the basis of their values as entered in the previous Financial Statements.

Maintenance and repair costs have been entered among expenditure items for the year.

CED programs and software to depreciate - The value of this item rose from Lire 164,420,134 to Lire 179,107,242 as a result of the following movements:

- increase of Lire 126,670,310 for the purchase of new programs;
- decrease of Lire 111,983,202 due to depreciation at the rate of 1/5 for capital spending completed by December 31, 1987 and 1/3 for acquisitions during 1988 and 1989.

Assets not depreciable during the year - The total of Lire 67,826,951 represents costs incurred during the year for the purchase of machinery and motor vehicles which had not come into use at December 31, 1989.

Works under construction - This item totals Lire 1,419,165,831. The book value includes:

costs incurred until December 31, 1989 for the purification plant at Pessione pending delivery to the municipality of Chieri	L.	1,178,808,998
restructuring under way at the Pessione plant	L.	85,000,000
costs of infrastructures to be attributed to the industrial buildings under construction	L.	155,356,833

Inventories of raw materials, merchandise and products - Warehouse inventories rose from Lire 46,859,076,511 to Lire 50,657,833,381, with an increase of Lire 3,798,756,870 reflecting higher stocks.

The value of advertising, auxiliary and maintenance material shown among inventories should be considered as a corrective item of costs incurred under this heading during the year.

Fixed income securities - This item decreased by Lire 56,800,420,679, from Lire 100,257,198,891 to Lire 43,456,778,212 due to a new method of managing financial resources, which practically wrote off indebtedness with banks and, at the same time, following the resolution of the ordinary shareholders' meeting of December 22, 1989, led to the outlay for the payment of the first lot of the extraordinary distribution, net of withholding tax, of Lire 18,216,000,000 as mentioned above.

Investments - The total of Lire 6,983,500 is represented by the investment in the "Lavorazione Sociale Vinacce" company. The increase of Lire 847,500 over the previous year is due to the acquisition of a further 1695 shares during the year in examination.

Trade receivables - This item represents the value of trade receivables on the books, adjusted by the provisions to cover the risk of bad debts under liabilities.

The total rose from Lire 125,137,040,879 to Lire 142,362,513,807, with an increase of Lire 17,225,472,928.

Receivables from the parent company - These record a decrease of Lire 139,943,865, from Lire 2,219,162,288 to Lire 2,079,218,423. This value represents the balance on normal operations still to be settled.

Sundry receivables - The total of sundry receivables decreased by Lire 6,521,896,320, from Lire 28,534,916,593 to Lire 22,013,020,273.

This item includes all other receivables from third parties or sums advanced. The most important items are the amounts paid for withholding tax on bank interest, receivables from suppliers for advances on supplies, receivables from Public Authorities, sundry receivables for invoices still to be issued or credit notes to be received, and other receivables, IRPEG and ILOR taxes paid in advance for 1989 (Lire 13,808,528,000)

Accrued income - This item totals Lire 1,217,778,455 and refers mainly to interest receivable on government securities.

Prepaid expenses - This provisional entry under assets includes costs pertinent to next year paid in advance. They amount to Lire 82,516,985 in all.

We declare that the accrued income and prepaid expenses have been calculated in detail with the application of criteria of strict temporal pertinence in agreement with the Board of Auditors and in accordance with the law.

Bills for collection - This item went from Lire 385,848,439 to Lire 166,602,900, with a decrease of Lire 219,245,539.

Liquidity in cash and at banks - This item decreased by Lire 4,280,941,518, from Lire 15,238,145,740 to Lire 10,957,204,222.

We have already examined the financial situation in the preceding section of this report.

MEMORANDUM ACCOUNTS

Deposit of securities/Security depositors - These are deposits by third parties as security for the rental contract, in Government securities totalling Lire 5,000,000.

Guarantees received from third parties/Creditors for guarantees - Guarantees received totalling Lire 10,267,204,967 to guarantee payment of customs duties and the realisation of infrastructural work in the municipality of Chieri.

Taxed expenses to be recovered fiscally/Taxed reserve for tax recoveries - The total of Lire 31,687,358,382 represents all the increases included in the statutory Financial Statements for tax purposes in previous years to be recovered as a tax rebate during the year under examination.

Our securities' deposited under administration/Securities on deposit with third parties under administration - Lire 3,676,363, of the total of Lire 43,456,778,212 is represented by securities on deposits and Lire 43,453,101,849 by government securities under administration with various organisations.

Debtors for our trade receivables undergoing legal proceedings from 1/1/1988 - Credits with customers undergoing legal proceedings from 1/1/1988 - The total of Lire 2,981,130,318 represents the receivables for which legal proceedings began after January 1, 1988 and the total of which no longer appears among the assets.

Entertainment expenses to be deducted fiscally/Entertainment expenses to be deducted - The sum of lire 169,547,669 represents the total to be fiscally deducted over three years.

Depositees of our products and goods/Goods and products deposited with third parties - The total of Lire 19,873,983,020 represents the value of raw materials and finished products deposited with third parties.

Other companies' machinery and equipment on deposit/Depositees of machinery and equipment - The total of Lire 222,320,000 represents the value of other companies' machinery and tools on trial or rented on the company premises.

LIABILITIES

Share capital - The total of Lire 55,000,000,000 is unchanged from last year.

Legal reserve - This item rose from Lire 5,554,141,383 to Lire 11,000,000,000 due to the following variations:
– resolution of the ordinary shareholders' meeting of May 4, 1989
increase:

5% of 1988 operating profit	L.	1,241,881,883
– resolution of the ordinary shareholders' meeting of December 22, 1989		
increase:		
transfer from the Extraordinary reserve	L.	8,594,676,312
decrease:		
utilisation of excess sum art. 2428 of Civil Code for extraordinary distribution	L.	4,390,699,578
The total of Lire 11,000,000,000 represents one fifth of the share capital, which it is not intended to increase further, for the purposes of art. 2428 of the Italian Civil Code and Company articles.		

Revaluation reserve as per Law 72 dated 19/3/1983 - This amount is unchanged; it totals Lire 18,084,000,000.

Non-operating profit reserve art. 55 law 597/1973 - The total of Lire 344,829,089 is unchanged.

Extraordinary reserve - The value of this item decreased from Lire 62,150,000,000 to Lire 19,181,593,770, following the resolution of the ordinary shareholders' meeting of December 22, 1989, as follows:

- transfer to the Legal reserve of Lire 8,594,676,312
- utilisation of Lire 34,373,729,918 for extraordinary distribution.

Dividend fluctuation reserve - This item still stands at Lire 4,300,000,000 although during the year several movements occurred: an increase following the resolution of the ordinary shareholders' meeting of May 4, 1989 which allocated Lire 2,600,000,000 to the Reserve, and a decrease following the resolution of the ordinary shareholders' meeting of December 22, 1989, which approved the utilisation of Lire 2,600,000,000 for the extraordinary distribution.

Provision for extraordinary charges - The total of Lire 8,500,000,000 remains unchanged.

Undistributed profits - The total of Lire 105,790,097 shows a decrease of Lire 15,682,730 due to the following movements: an increase for the allocation resolved by the ordinary shareholders' meeting of May 4, 1989 of the undistributed profit of Lire 67,132,774, and a decrease of Lire 82,815,504 for the extraordinary distribution, resolved by the ordinary shareholders' meeting of December 22, 1989.

Declaration for the purposes of art. 2 of law 649 dated 25/11/1983 - In compliance with the provisions of law 649/1983 updated in art. 105 of Tax Legislation of 1986, we indicate in the following table the reserves and other funds on the books at December 31, 1989, in accordance with the required procedures:

1. Reserves or other provisions formed of profits or other income starting from the year in progress at December 1, 1983, subject to IRPEG		
Legal reserve (part)	L.	36,586,133
2. Reserves or other provisions formed of profits or other income starting from the year in progress at December 1, 1983, not subject to IRPEG, excluding those provided for in letters a) and b) of clause 3 of art. 2 of the above-mentioned law:		
Legal reserve (part)	L.	9,952,234,676
Extraordinary reserve (part)	L.	2,381,593,770
Appropriation for extraordinary charges	L.	8,500,000,000
Total	L.	20,833,828,446
3. Reserves or other provisions already formed at the end of the last year closing before December 1, 1983 or formed with profits or revenues accruing during the year, excluding those provided for in letters a) and b) of clause 3 of art. 2 of the above-mentioned law:		
Legal reserve (part)	L.	1,011,179,191
Extraordinary reserve (part)	L.	16,800,000,000
Dividend fluctuation reserve	L.	4,300,000,000
Undistributed profits	L.	105,790,097
Total	L.	22,216,969,288
4. Reserves or other provisions which, in the event of their distribution, go to form the company's income independently of the period of formation:		
Revaluation reserve as per law 72 of 19/3/1983	L.	18,084,000,000
Non-operating gains reserve as per art. 55 Decree no 597/1973	L.	344,829,089
Total	L.	18,428,829,089
5. Reserves or other provisions which, in the event of distribution, contribute to the formation of the company's taxable income independently of the period of formation:		
– there are no reserves of this nature on the books.	L.	—

Doubtful account provision for interest in arrears art. 71 Law Decree 917/1986 - Reserve set up pending tax, which increased from Lire 1,044,393,938 to Lire 1,567,796,302. The increase of Lire 523,402,364 represents the provision of interest in arrears on trade receivables falling due during the year.

Depreciation reserve - This asset adjustment account increased from Lire 52,547,535,076 to Lire 55,664,874,520, with an increase of Lire 3,117,339,444 due to the following movements:

increase		
– ordinary depreciation	L.	3,525,906,051
– accelerated depreciation	L.	1,586,369,881
total depreciation attributable to the year	L.	5,112,275,932
decrease:		
– deduction of accumulated depreciation relating to assets sold or written off during the year	L.	1,994,936,488

Doubtful account reserve art. 71, clause 1, of law 917/1986 - Reserve pending tax.

This rose from Lire 607,851,542 to Lire 691,787,645, due to the following movements:

decrease		
– fiscal utilisation for assessed losses on receivables during the year	L.	607,851,542
increase:		
– appropriation of 0.50% on total trade receivables at December 31, 1989	L.	691,787,645

Losses on trade receivables subject to legal proceedings at 31/12/1987 - The reserve set up in 1988 decreased from Lire 3,602,959,830 to Lire 3,455,862,857, due to the following movements:

decrease		
– uptake of L. 153,379,004 to cover legal proceedings which were settled during the year.		
increase		
– appropriation during the year totalling Lire 6,242,031 to cover trade receivables for which the relevant legal proceedings were already in progress at December 31, 1987.		

This provision enjoys a five year detaxation period as per art. 25 of Decree 42/1988.

The value of the provision, summed to the other doubtful account reserves for provisions of various types is considered adequate with reference to possible future losses on trade receivables.

Personnel severance pay indemnity reserve - This item increased by Lire 319,461,214 from Lire 23,675,683,242 to Lire 23,995,144,456 due to the following movements:

increase		
– appropriation for indemnity payments falling due during the year	L.	3,394,212,890
decrease:		
– utilisation for transfer of employees to the subsidiary Martini & Rossi S.p.A.	L.	76,303,877
– utilisation for payments of indemnity to employees leaving the company	L.	2,356,890,663
– severance pay indemnities advances	L.	641,557,136

Supplementary personnel pension provision - The fund fell from Lire 17,859,375,464 to Lire 17,825,537,000 due to the following movements:

decrease		
– utilisation of the taxed excess provision at 31/12/1988	L.	1,168,818,464
increase		
– appropriation during the year	L.	1,134,980,000

This item represents the company's commitment maturing during the year to providing supplementary pensions for employees and retired staff, calculated on the basis of actuarial evaluation (posticipated annuities) to determine the technical reserves to allocate to cover pension payments.

Agents supplementary indemnity provision - This item increased from lire 1,498,138,460 to Lire 1,700,959,667, with an increase of Lire 202,821,207 due to:

increase		
– appropriation of the amount maturing during the year	L.	300,134,406
decrease		
– utilisation for agents paid off during the year	L.	97,313,199

Exchange rate fluctuation reserve (taxed) - This item remained unchanged at Lire 130,884,628 and can be considered adequate.

Taxation provision - The item decreased by Lire 16,490,000,000 for IRPEG and ILOR payments relating to 1988, and increased by Lire 13,143,711,000 for allocation to cover taxation pertaining to the year, and for the transfer from reserves of the sum of Lire 1,407,245,000 for the adjustment tax relating to the extraordinary distribution resolved by the Shareholders' meeting of December 22, 1989.

Further provisions for taxation were not set aside relating to reserves shown in the Financial Statements because at the present moment no operations are foreseen that will envisage taxation.

Banks import/export financing account - This item decreased by Lire 40,136,315,654, from Lire 41,127,052,760 to Lire 990,737,106, due to a different policy regarding the management of financial resources, which takes into account the changing situation on the international exchange market and the opportunity for carrying out operations to eliminate dollar-related risks.

Trade payables - This item shows an increase of Lire 11,251,524,778, passing from lire 45,994,392,494 to Lire 57,245,917,272, due to normal operations.

Payables to the parent company - This item shows a balance of Lire 24,144,375,062 of which Lire 4,344,375,062 represents payables for production cost and services rendered to us by Martini & Rossi S.p.A. in 1989, and Lire 19,800,000,000 represents the remaining part of the Extraordinary distribution resolved by the Shareholders' meeting on December 22, 1989, paid on January 15, 1990.

Sundry payables - This account increased by Lire 4,607,793,892, passing from Lire 12,730,568,372 to Lire 17,338,362,264.

This entry under liabilities consists of payables to the Inland Revenue for IRPEF withholding tax on wages and salaries and fees for freelance services, for deferred payment of manufacturing tax on withdrawals of alcohol from bonded warehouses, for taxes on alcohol stocks; it also includes debts to the social security authorities for welfare contributions to be paid by December 1989, payables to agents for commissions and bonuses, end-of-year bonuses and discounts to customers, severance payments to personnel who had left at December 31, 1989, balances of seniority indemnities still due to personnel who have ceased employment.

The majority of these items was settled in the early months of 1990.

Deferred income - The total of this account stands at Lire 2,574,330,919.

This provisional liabilities account includes portions maturing over the year of costs with deferred settlement dates. It consists of the interest payable on the loan account totalling Lire 3,769,919 and salaries and related social security payments for Lire 2,570,561,000. We declare that the accrued expenses have been calculated in detail and established according to the criteria of temporal pertinence, with the agreement of the Board of Auditors as required by law.

Income Statement

In the preceding chapters we have analysed sales and revenue trends in 1989, comparing them with 1988 data. Below we will analyse the entries in the Income Statement, prepared in compliance with art. 2425 bis of the Italian Civil Code.

Net sales revenues totalled Lire 302,053,119,421 against Lire 288,754,077,948 in the previous year, an increase of 4.6%, as stated above.

Interest on fixed income securities totalled Lire 8,711,456,371. This was above all interest on Government securities which represent almost entirely the investment of company liquidity.

Interest on bank and sundry receivables totalled Lire 1,877,236,231, while that on parent company receivables reached Lire 53,003,444.

Surpluses deriving during the year from the sale of depreciable assets amounted to Lire 680,155,517. Revenues, sundry proceeds, increases in plant value due to internal work, rents, profits from dealings on investments, utilisation of the Losses on trade receivables reserve, and of the Supplementary pension reserve totalled Lire 9,824,840,493.

Operating costs, including opening and closing inventories, totalled Lire 301,707,876,788, and consisted mainly of:

- Cost of raw materials (net of variations in the inventory)	L.	113,735,869,310
- Cost of labour (including seniority payments maturing and social security payments)	L.	44,756,415,325
- Services rendered	L.	117,453,454,093
- Direct and indirect taxation on the year	L.	13,174,909,330
- Financial charges	L.	2,699,112,524
- Depreciation	L.	5,224,259,134
- Appropriation to the doubtful account provision	L.	2,986,575,446
- Appropriation to the doubtful account provision for interest in arrears	L.	523,402,364
- Sundry expenses and losses	L.	1,153,879,262

The sum of interest paid or assessed as maturing during the year regarded short-term indebtedness.

No interest liability has been capitalised on the assets side of the Financial Statements.

Appropriations to cover charges against the year were made with our agreement, according to the principle of pertinence and on the basis of our reasonable conviction.

The Income Statement closes with a profit of Lire 21,491,934,689 that balances with the figure given by the Balance Sheet.

For the purposes of art. 2429 bis of the Italian Civil Code we would inform you that in the early months of 1990 your company did not perform any extraordinary operations, but continued with normal operations as planned.

Proposal for distribution of profits.

Shareholders,

in the light of what has been illustrated above, we invite you to approve the Balance Sheet at December 31, 1989, together with the Income Statement and the present report, and we propose the following distribution of the year's profit of Lire 21,491,934,689:

Profit for the year:

– Dividend of Lire 2,800 for each of 5,500,000 shares, subject to withholding tax	L.	21,491,934,689
– Tax adjustment on profit distribution exempt from IRPEG tax	L.	15,400,000,000
– Dividend fluctuation reserve	L.	110,924,000
Carried forward	L.	5,950,000,000
	L.	<u>31,010,689</u>

for the Board of Directors
The Chairman

Gregorio Rossi di Montelera

BOARD OF AUDITORS' REPORT

Shareholders,

The draft Financial Statements at December 31, 1989 that the Board of Directors has submitted for your approval show a profit of Lire 21,491,934,689, as can be seen in the Balance Sheet and Income Statements, highlights of which are given below:

Balance Sheet

Assets	L. 359,885,673,343
Liabilities, special reserves and stockholders' equity	L. 338,393,738,654
Profit on year	<u>L. 21,491,934,689</u>

Income statement

Revenues	L. 373,857,644,858
Expenditure	L. 352,365,710,169
Profit on year	<u>L. 21,491,934,689</u>

The memorandum accounts shown under assets and liabilities in the Financial Statements balance at Lire 108,663,322,568.

In its report, the Board of Directors, in compliance with art. 2429 bis of the Italian Civil Code, has described in full the year's performance and the effects on it of the situations and prospects of the national and international markets. The Board of Directors has also commented on individual items in the Financial Statements prepared in compliance with the law, comparing them with those of the previous year.

For our part we inform you that the Financial Statements agree with entries in the books of account which were properly kept.

In particular we would specify that:

- fixed assets are entered in the Financial Statements, apart from revaluation performed in accordance with the monetary revaluation law, at cost price;
- investments and fixed income securities are valued, as shown in the Board of Directors' Report, at purchase or underwriting cost.

This criterion, of which we had previously been informed, received our approval.

- receivables in the accounting currency were entered in the Financial Statements at nominal value adjusted under liabilities by the special adjustment provision calculated on the basis of their presumed realisable value;
- the principles informing the valuation of closing inventories adopted for the purposes of Financial Statements agree with the criterion of the lesser amount between acquisition or cost price and that given by the market situation at year end as required by art. 2425 no. 2 of the Civil Code;
- depreciation attributed to the year totalling Lire 5,112,275,932, of which Lire 1,586,369,881 for accelerated depreciation as per art. 67 of law 917 dated 22/12/1986, is sufficient to cover the wear and tear of assets subject to depreciation, reasonably attributable to their usage;
- with our agreement accruals and deferrals have been calculated on the basis of the period of their presumable usage;
- accruals and deferrals have been calculated, with our agreement, on the basis of the principle of their pertinence to the year;
- the personnel severance indemnity reserve and the employees' supplementary pension provision with the allocations attributed to the Income Statement, cover what fell due in this respect to those entitled at year end;
- the appropriation to the taxation provision is sufficient for the presumed fiscal charges on the year.

The Board of Directors' Report also complies with art. 10 of Law 72 dated 19/3/1983 regarding monetary revaluation, showing assets still on the books that were the subject of monetary revaluation, indicating the revaluation values for homogeneous categories, and, in accordance with art. 105 of Decree 917 dated 22/12/1986 highlighting the classification of reserves for the purposes of the tax credit mechanism and any future potential adjustment tax charges should this reserve be distributed.

In conclusion we express our favourable opinion regarding the Balance Sheet and the Income Statement that closed on December 31, 1989, together with the proposal for the profit distribution as put forward by the Board of Directors.

The Auditors

Cesare Ferrero
Giorgio Ferrino
Riccardo Rota

