



To Our Shareholders, Customers, Partners, and other Friends:

Fiscal 1998 was a challenging year for Robert Mondavi, but also one of accomplishment and growth. Despite a temporary shortage of Woodbridge Chardonnay, the top-selling varietal of our largest brand, we achieved record sales and earnings for our fourth consecutive year. It is testament to the enduring strength of our brand and to the depth of consumer loyalty to Woodbridge, the quality leader in popular premium wines, that Woodbridge sales rebounded once we had adequate supplies.

I bring this up at the outset of my letter not only because of its impact on our fiscal 1998 results, but because it underscores our uncompromising commitment to quality. In all that we do – from the vineyard to the bottle, from Woodbridge to Opus One, from California to Chile, France and Italy – quality is first and foremost at Robert Mondavi, both defining our Company and unifying our entire family of wines. Even faced with a shortfall of premium grapes, we never considered diminishing the quality of our Woodbridge Chardonnay to keep bottles on the shelf, as any short-term sales gains would have been more than offset by the long-term damage to our reputation.

Fiscal 1998: Growth but at a Slower Pace

Let me put our Company's financial performance for fiscal 1998 in context of the key trends in the premium wine industry, in particular the increasingly competitive environment in our markets. Demand for premium wines in the United States remains healthy, although sales growth has slowed somewhat recently due to the grape supply shortage that the California wine industry has faced since the low-yielding harvests of 1995 and 1996. While shipments of California premium wines in the United States grew 7% during the past year, sales of higher-priced wines and the export segment grew faster than the market overall.

For the fiscal year ended June 30, 1998, our shipments grew 5% and net revenues grew 8%, both below our historical trends. By way of comparison, over the previous three years our compounded annual growth rate was 19% in shipments and 22% in net revenues. The slowdown in fiscal 1998 was due to the Woodbridge Chardonnay shortage and its effect on the other Woodbridge wines. While we anticipated this shortage, we did not expect the decline in retail support for the other Woodbridge varietals, which hurt sales of the entire brand during the shortage period.

With the exception of Woodbridge, shipments and net revenues for the rest of our brands increased 14% and 13%, respectively, this past year. In fact, each of our other brands – Robert Mondavi Winery, Opus One, Robert Mondavi Coastal, Byron Vineyard & Winery, La Famiglia di Robert Mondavi, Vichon Mediterranean, Luce, Lucente, Seña and Caliterra – outpaced the growth in their respective premium wine category. For example, sales of our imported brands, Luce, Vichon Mediterranean, Seña and Caliterra, grew 59%, twice as fast as domestic sales of all imported premium wines.

Gross margin increased from 44.8% to 46% in fiscal 1998 due to modest gains in wine prices and lower grape and bulk wine costs. After two years of rapid escalation, grape prices began to stabilize in fiscal 1998 due to the vast 1997 harvest – the largest in California history. Higher operating expenses offset our gross margin increase, however, as we continued to invest in building our brands, expanding production facilities, and introducing and marketing new wines. As a result, operating expenses rose to 27.7% of net revenue, about one percentage point higher than last year's level but below our five-year average of 30%. The bottom line for fiscal 1998 was a 3% increase in net income to \$29 million, or \$1.83 per share.

A Year of Accomplishment

While our financial results reflect the challenges of 1998, the success of our brands reflects the year's many accomplishments. Today, our eleven brands have top-selling wines at virtually every price segment

in the premium wine category. With wine quality as the unifying foundation of all our brands, we constantly strive for innovation in the vineyard and wine cellar, in packaging and design, and in marketing and outreach to customers. Our goal is to distinguish our image and brands in the minds of our wholesale and retail partners as well as our ultimate customer, the individual wine consumer.

Here are a few of our Company's accomplishments over this past year:

- ✳ Building on its tradition of excellence and innovation, our flagship Robert Mondavi Winery introduced two new wines: a very special I-Block Fume Blanc, which comes from a single block of our To-Kalon Estate vineyard, the oldest Sauvignon Blanc vines in the Western Hemisphere; and our Stag's Leap District Cabernet Sauvignon, the fifth wine in our Napa Valley District Program.
- ✳ We have just begun the first steps of a major remodeling of the Robert Mondavi Winery. This project will enhance the experience of the more than 300,000 consumers who visit the Winery each year, expand production capacity of our reserve and district wines and result in the finest wine making facility in the world.
- ✳ For the third year in a row, *Impact Magazine* named Robert Mondavi Coastal – our food-friendly wines in the mid-priced segment – as one of its “Hot Brands.”
- ✳ While the supply shortage and subsequent sales rebound dominated the news at Woodbridge, we recently completed an important evolution of the Woodbridge package design and began test-marketing Twin Oaks, a brand extension. Designed for restaurants to expand on-premise business, Twin Oaks has been favorably received and is already a recommended wine of choice on the wine lists of many casual dining restaurants, including such leading chains as the Olive Garden and The Cheesecake Factory.
- ✳ In a remarkable first full year of sales, our Vichon Mediterranean Chardonnay has become the number one French white wine in the United States. These new wines from the Languedoc-Roussillon region in Southern France were also honored as the only French

“Hot Brand” by *Impact Magazine*. To build on this momentum, we recently established a permanent office in Montpellier, France and now have a general manager and a local oenologist to work on-site with our French production partners to ensure ongoing wine quality and value.

- ✱ Following the most successful launch in our Company’s history, Caliterra has quickly become the leading super-premium wine from Chile and one of the fastest growing import brands in America today, with supermarket sales alone rising 55% this past year. In March, we crushed the first Caliterra grapes at our joint venture winery called La Arboleda, located in the beautiful Colchagua Valley of Chile. La Arboleda has been designed as an estate winery with a 4,400-ton crush capacity. To leverage the growing interest in fine Chilean wines, this past spring we successfully introduced Seña, the first luxury ultra-premium wine from Chile. An extraordinary blend of Cabernet Sauvignon, Carmenère and Merlot, Seña is on its way to becoming the signature wine of Chile.
- ✱ From Italy, we began shipping the first wines from our joint venture with the Marchesi de’ Frescobaldi, whose family has been making wine for more than 700 years. Luce Della Vite, or “light of the vine” in Italian, is a unique marriage of Merlot and Sangiovese grapes carefully cultivated near the village of Montalcino in Tuscany. The inaugural release of Luce received such stellar reviews that it sold out immediately. We also introduced a second Tuscan wine in 1998, Lucente, with a goal of not only making great wines but also of building great brands to reach new consumers.
- ✱ In semi-blind tastings in six European cities, 352 members of the wine trade and press rated Byron Estate Chardonnay and Robert Mondavi Cabernet Sauvignon Reserve first in whites and reds. The judges knew which wines they were going to taste, including wines from such venerable estates as Chateau Margaux and Chateau Lafite Rothschild, but they did not know the order in which the

wines would be arranged and tasted. We are very proud of the performance of our wines, which reconfirms that they truly do belong in the company of the world's finest.

Looking Ahead

As I write this letter, we are just beginning our annual grape harvest here in Napa Valley. The harvest is a time of great anticipation, hard work and team spirit. It culminates our efforts in the vineyards and begins our efforts in the wine cellar. Following a cool, wet spring season, early reports on the 1998 harvest indicate that quality looks promising and that size should be adequate, although below last year's record-breaking crop. With the bountiful 1997 harvest and a "normal" one this year, most of the premium grape supply shortage of the past two years should now be behind us.

As we begin fiscal 1999, we expect it to be a year of moderate growth for Robert Mondavi. While our marketplace will be increasingly competitive, we are confident that our Company will continue to move closer to its long-term goal of becoming the world's preeminent producer of fine wines. The quality of our wines is at an all-time high, our inventories from the record 1997 harvest are plentiful, and our financial foundation is solid. We are producing wines in four countries and are selling our wines in over 90 countries around the globe. We are supporting our brands and dominant market positioning with innovative marketing and more radio and print advertising and public relations. Perhaps most important, we are reaching more customers than ever before through traditional distribution channels and by developing new avenues for growth.

One example of new ways that we are reaching more customers is the California wine country exhibit that we will be creating at Disney's new 55-acre California Adventure theme park adjacent to Disneyland in Anaheim, California. This partnership – which is featured on pages



24 and 25 of this report – has the potential to introduce millions of people each year to the Robert Mondavi family of wines. We are also tapping the Internet's vast potential for building our customer base and increasing brand loyalty. We are attracting over 300,000 visitors to our web site (www.robertmondavi.com) each year, in part by advertising with highly targeted on-line publications such as *winespectator.com* and Condé Nast's *epicurious.com*. Through tailored follow-up direct marketing to consumers who register on our web site, we've seen a significant increase in their loyalty, spending and consumption. Their spending on Robert Mondavi wines has increased by 55% and their consumption of our wines has increased 48%.

I invite you to read more about these exciting projects, as well as the many other ways that we reach our customers – from fine restaurants and leading international hotels to club stores, wine shops and supermarkets – on the pages that follow.

On behalf of my family and our Company, I thank you for your interest in and support of Robert Mondavi. I look forward to sharing our progress with you during the months and years ahead.



R. Michael Mondavi
President and Chief Executive Officer
August 28, 1998

(Left to right)

TIMOTHY J. MONDAVI, *Managing Director and Winegrower*

R. MICHAEL MONDAVI, *President and Chief Executive Officer*

ROBERT G. MONDAVI, *Chairman of the Board*