

Opening comments to conference call of Hawesko Holding AG

Six-month interim report

26 July 2000

Mr Sven Ohlzen, Chief Financial Officer

Welcome, this is Sven Ohlzen. Thanks to all of you for taking part, in addition to those of you from Germany we also have participants in London and New York, which is the reason we are holding this call in English.

My colleague on the management board, Bernd Hoolmans, is on the line joining us from Düsseldorf. Our Chief Executive Alexander Margaritoff has appointments out of the country. He sends his apologies for not being able to participate.

The six-month interim report was sent to you all by email and has been available on our hawesko.com corporate site, we have isolated the second quarter with respect to the P&L figures to help your analysis.

When we look back at the first half year of 2000, we have to say that we were surprised by the weak first quarter, but that we have made good progress on the projects we described on pages 34 and 35 in the annual report: in building up E-Commerce under Winegate, in building up Tesdorpf as a premium wine house and in going into Austria.

The highlights of the second quarter were:

- First, mail-order picked up again after the weak first quarter, E-commerce is going strong.
- Second, Jacques' wine shops are continuing their great performance with strong like-for-like gains and new openings.
- Third, wholesale has had good growth in both Champagner Wein Distribution with Tchibo as a new customer, and through the first-time consolidation of Wein Wolf.

I will speak about the outlook for the rest of this year and touch on next year a little bit, but first I would like to go into some more detail on each of the segments:

The Hawesko **Group** posted sales of DM 93.5 million in the second quarter, an increase of 42.9 % against the second quarter of 1999. Most of this increase is due to the first-time consolidation of Wein Wolf. If we factor out the Wein Wolf acquisition, the Group posted an increase of 13.3 % against the second quarter of 1999. I would like to remind you that we are reporting this year under International Accounting Standards, so the acquisition of Wein-Wolf will not come into the comparable numbers for last year until late in the third quarter, from September.

In the sequential analysis against the first quarter of 2000 you will see that the second quarter has been stronger than the first quarter this year, which is not a typical pattern: Normally the first quarter is the second strongest in the year. This is an indication of the special situation this year after the millenium.

Gross margin on the Group level in the second quarter of 2000 was down by 3.9 percentage points against last year's second quarter, mostly due to the first consolidation of Wein Wolf, which - as you know - is a wholesaler with different margins. Taking out the effect of Wein Wolf, gross margin was down 0.5 percentage points because of the loyalty card at Jacques and a big deal in wholesale.

Group operating profit in the second quarter – EBIT – was DM 1.3 million with Wein Wolf, and DM 1.0 million without Wein Wolf, meaning an EBIT margin on group level of 1.3% for the second quarter. The EBIT in 1999's second quarter was DM 4.4 million under IAS, group EBIT margin in Q2 of 1999 was 6.8%. The decline has mostly to do with the mail-order segment, which had structural costs for Tesdorpf, Austria and the Internet of about DM 4.5 million.

After deducting DM 1.2 million interest charge and a small tax charge, net profit for the second quarter in 2000 was just slightly positive.

We won't go into the full half-year data here because it is written into the report.

The business lines developed as follows:

- **Mail-order** had sales of DM 35.3 million in Q2, up 3.2 % on the second quarter of 1999, of which sales over the internet were DM 2.7 million. E-commerce sales were up over 900 % against the same quarter of last year. Tesdorpf sales amounted to DM 1.5 million, and the Austrian start-up sales were DM 0.7 million.

Mail-order EBIT in the second quarter was a negative DM - 1.6 million, against a positive DM 2.0 million in Q2 of 1999. Aside from the structural costs of DM 4.5 million as mentioned above, we had additional advertising expenditure of about DM 1.0 million, mainly for a summer Megakatalog which is about one-third bigger as last year's "normal" summer catalog which did not have the large specialty-food and delicatessen part. We' ll come back to the topic of the Megakatalog in a moment.

For the full year 2000 on mail-order EBIT margin we expect to come out somewhere below the 5 %-level on segment sales, which includes the structural costs for developing this part of the business, especially Winegate with a negative effect on operating profit of nearly DM - 10 million.

- **Jacques' Wein Depot** had sales of DM 32.3 million in the second quarter, up about 17.5 % on second-quarter 1999, and the EBIT was also up by the same measure. EBIT margin remained steady at 10.3 % of sales against Q2 of 1999. 10 new depots were opened, against

4 new openings in the second quarter of 1999. The Jacques' loyalty card continues to be a great success and allows Jacques' to grow like-for-like in an otherwise subdued trading environment. For the full year of 2000 we expect the EBIT margin to be above the 10% level.

- In **wholesale** the biggest effect was the first-time inclusion of Wein Wolf, boosting sales in the second quarter to DM 25.9 million. Our existing business, CWD Champagner Wein Distribution, had sales of DM 6.5 million, up 72% on second quarter 1999. This organic growth was due to gaining Tchibo as a new wholesale customer with a small special assortment of wines that are sold through their chain of coffee shops. This added about DM 3 million to sales in the second quarter.

The EBIT margin including Wein Wolf was 4.5 % of sales in second -quarter 2000. Our existing wholesale business showed an EBIT margin of 10.0 % without Wein-Wolf. Here we continue to expect landing at something above 5 % on segment sales for the full fiscal year 2000.

Compared to the end of the first quarter, the **balance sheet** mainly shows the effects of capital spending to enlarge the logistic center in Tornesch, the expansion of Jacques' Wein-Depot and a bit of an increase of inventory. Enlarging the logistic center in Tornesch will be financed through sale- and leaseback, which will be done in the second half of this year. The Group will regain DM 3.6 million in liquidity.

All in all, the half-year still shows the effects of the post-millennium first quarter and structural costs. Sales growth is improving again.

As I said at the beginning, we are making good progress on the projects we described in the annual report:

- E-Commerce and Winegate
- expansion of Jacques' Wein-Depot
- building up Tesdorpf as the premium wine mail-order house
- entering into the Austrian market.

When we look at the second half of 2000, it is important to bear in mind the following points:

First: We don't think that the subdued trading environment of the first half in mail-order, and to some extent in wholesale, - especially just after the millenium - will play a role in the second half. We saw a stabilization of sales in the mail-order segment and we are above budget in July, as we start the third quarter. Jacques' continues ahead as it has before. Wholesale is coming up to its strongest part of the year.

Second: We are starting measures in the mail-order segment to optimize the processing costs per order. In particular,

- We have decided to go back to the normal main catalog and to do without the extra food and delicatessen part, which had made up about one-third of the content of the last two catalogs. After analyzing customer purchasing behavior, we have come to the conclusion that it does not generate sufficiently higher sales to compensate the decrease in average spend per customer and the increase in fulfillment costs.
- We will revise our standard conditions of delivery back to encourage full-case orders; this had been changed in the fourth quarter of last year.
- We will take measures to level out the peak that we experienced in December of last year, which created high costs of fulfillment. We think that we can spread out demand better in gift and normal orders so as to achieve a more even capacity utilization in this important period.

Third: Winegate is the undisputed number one online-wine site in Germany (possibly in Europe as well - comparisons are hard because we are the only company that publishes). It continues to do well. With relatively little advertising in the first half of 2000 -- the print-media campaign started only at the end of June -- the number of orders over the internet are up about five times against last year and sales, as mentioned earlier, about ten times. This has a lot to do with cooperations, especially the one with Lufthansa Miles & More, but also more recent ones such as Grüner + Jahr and Süddeutsche Zeitung. The site has been featured as the best online wine site by the German magazine "Online today", Winegate has been selected as the only online wine retailer in the McKinsey Consultants E-Commerce reference universe, and we are the only online wine site approved by the Euro-Handelsinstitut in Cologne. The advertising campaign in Germany will gain steam up towards September and October. Winegate will start its English-language site in the next couple of weeks under winegate.co.uk.

Also important to bear in mind about the future are the following points:

Fourth. Jacques' Wein-Depot continues to expand strongly both on like-for-like sales as well as new openings. We are confident that we will have 200 Depots in operation by the end of the year in Germany. The first locations have been secured in Austria and will likely open this autumn. Margins remain good.

Fifth. In wholesale the deal with Antinori is a coup for the Hawesko Group. Antinori is one of the most highly-respected wine producers in the world, and the fact that they have decided to move their business to Hawesko is a testament to our principles and marketing concepts: Namely, that Hawesko maintains a high level of quality in the marketing of wine as a unique product to a demanding group of customers. From 2001 this will bring business of about 2 million bottles per year to our Group and is the first significant synergy of the bigger Hawesko Group. The segments operating previously and independently could not offer the same advantages to Antinori as the Hawesko Group does today.

Sixth. In the back side of our operations, we will pull together the logistics of the Wein-Wolf Group and the mail-order segment in our distribution and logistics center in Tornesch in the second half of 2001. The similar handling and size of deliveries in these two parts of the business make it sensible to bring the function together and realize some more of the synergies of the whole Hawesko Group. We are beginning to integrate the purchasing function across the group as well, working region-by-region of the wine producing areas.

For these reasons, we are looking forward to the future.

Now we would like to take your questions.

[Q&A session.....]

Closing statement:

Thank you for joining us on this call.

We are looking back on a first half that was significantly influenced by the weak first quarter and the structural costs mostly in the mail-order / internet segment on the one hand, as well as the success of the Jacques' Wein-Depots on the other hand. We are making good progress both on expansion and on using the strengths of the Hawesko Group. We hope that you will stick with us if you are a shareholder during this time of building up the company, and if you are not a shareholder, we think this is an attractive time to get in. The wine business, with all its special points, is a market just asking to be structured, and we think Hawesko is the best play on it. Thank you.