

Opening comments to conference call of Hawesko Holding AG

Six-month interim report

30 July 2001

Mr Alexander Margaritoff, Chief Executive Officer

Mr Sven Ohlzen, Chief Financial Officer

[operator] "May I now hand you over to Mr Alexander Margaritoff, the moderator of this conference."

Welcome, this is Alexander Margaritoff. Thank you all for taking part in this conference call, which we will be holding in English because apart from our friends in Germany we also have participants in London and New York.

I am joined by Mr Sven Ohlzen our chief financial officer, as well as Thomas Hutchinson, our Investor Relations manager.

The six-month interim report was sent to you by E-mail and has been available on our hawesko.com corporate site, we have isolated the second quarter figures with respect to the profit and loss statement to help your analysis.

We said in the past that we would focus our activity and efforts in this year on profitability, and I can say that this has been, until now, very successful as the figures undoubtedly show.

We have had very good sales growth in the second quarter even stronger than in the first quarter. Second quarter sales were up 25 per cent. Profits also rebounded: operating profit - that is to say EBIT - was up nearly 5 times against last year's second quarter. Altogether we are very confident that in the second half of the year, the development is going to be positive as well – especially because until now all three segments of our activity are doing well. Last year's high expenses that we had because of starting new activities will not be recurring this year. The big question mark remains the business at Christmas: as you know, the fourth quarter is always our busiest and most active quarter and there is always uncertainty attached to that fourth quarter. This has led us to leave our forecast for the full year unchanged for now.

I will talk to you about the outlook for the rest of the year, but first of all I would like to ask Mr Ohlzen to go into the details of each of the segments:

Mr Ohlzen:

Good afternoon. I will start with the group sales. The Hawesko Group posted sales of DM 117,3 million in the second quarter, which is an increase of 25 per cent against the second quarter of 2000. *Wein Wolf* is in the sales figures of both this year and last year, new in this year's sales figure is *Le Monde des Grands Bordeaux* with a sales contribution of DM 5.6 million in the quarter.

The second quarter of this year was even stronger than the first: The typical pattern would be a stronger first quarter.

Gross margin on the Group level in the second quarter of 2001 was 41.1 per cent of sales, down from 42.7 per cent in last year's second quarter. This has to do with the strength of wholesale within the sales mix and *Le Monde des Grands Bordeaux*, which operates with lower gross margins. Also *The Wine Company* in its start up phase.

Operating profit, though, was up nearly five times against last year's second quarter to DM 6.4 million. On the Group level, personnel expenses were one percentage point lower relative to sales at 9 per cent, and other operating expenses represented only 28 per cent of sales, as opposed to over 33 per cent last year. The biggest factor in this was advertising expense, which was just over 7 per cent of sales in this year's second quarter, against over 11 per cent of sales last year. The effectiveness of our advertising spend has improved, both in the existing business and in the new activities.

After deducting finance expenses of DM 1.5 million, tax expense of DM 2.1 million – a rate of 43.5% – and profit due to minority interests of DM 0.3 million, the Group showed a net profit for the second quarter of 2001 of DM 2.5 million, against DM 0.1 million last year.

Now in greater detail the business lines:

- **Mail-order/E-commerce** had sales of DM 42.6 million in the second quarter, up 20.5 per cent against last year. Sales of *Hanseatisches Wein- und Sekt-Kontor* – including E-commerce – were DM 33.6 million (second quarter 2000: DM 33.2 million) Tesdorpf sales amounted to DM 2.2 million (second quarter 2000: DM 1.4 million), and sales in Austria were DM 1.1 million (second quarter 2000: DM 0.7 million). *Le Monde des Grands Bordeaux* contributed DM 5.6 million to sales. E-Commerce sales were DM 3.0 million (second quarter 2000: DM 2.7 million).
- Mail-order/E-Commerce EBIT in the second quarter was DM 1.8 million, against negative DM 1.4 million in the second quarter of 2000. The improvement in the operating margin, which we were all waiting to see, has begun.

For the full year 2001 sales growth to over DM 200 million is practically assured. The Christmas business will largely determine how much over the DM 200 million mark we will go. For the EBIT margin we think we might end the year at around 4 per cent of sales.

Now let's have a look at the

- **Wine shop sales (Jacques' Wein Depot):** they were DM 39.1 million in the second quarter, up 21 per cent against last year, the EBIT margin remained at 10 per cent. Even with the first effect of the Jacques' loyalty card in the comparable numbers from last year, like-for-like sales growth is very strong at nearly 16 per cent in the quarter. For the full year of 2001 we expect the EBIT margin to be at or above the 10 per cent level.

- In **wholesale** we were able to post a 37 per cent increase in sales on the back of the new Antinori wines and a rebound in champagne sales, to DM 35.5 million. *Wein-Wolf* contributed DM 28.5 million in sales to the second quarter (the previous year: DM 19.4 million). EBIT doubled in the second quarter from DM 1.2 million last year to DM 2.4 million this year. The EBIT margin was nearly 7 per cent of sales in the second quarter. We continue to expect to land at something around 5 per cent on segment sales for the full fiscal year 2001.

Headquarter and miscellaneous costs together with consolidation items amounted to a charge in the quarter of about DM 1.8 million. We do not expect that the charge will be quite this high in the next two quarters.

Compared to the end of 2000 the **balance sheet** mainly shows the effects of a reduction in trade accounts receivable and cash.

The **cash flow statement** shows much better cash flow from current operations, the reduction of bank borrowings and the payment of the dividend.

I now hand over to Alexander Margaritoff.

Mr Margaritoff:

Yes, thank you. Well, as Mr Ohlzen indicated we feel quite confident about the course of business this year, particularly because all segments are doing quite well:

In the mail-order/e-commerce part of the business we have had excellent responses to our mailings.

We have introduced several new products such as the Spanish red wine *Marques de Sandoval*, the *Beaufleur* chardonnay and merlot wines – not to mention the entire range of *Antinori* wines in the wholesale business.

Advertising spending has gone down relative to sales, so the relationship is much more favorable this year than it was last year.

And we will have no high expenses for E-commerce marketing in the second half of 2001. In that part of the segment we have had a very good progress.

Jacques' Wein-Depot has also been very successful: double-digit like-for-like sales increases, particularly in the second quarter. We have had a very successful introduction of our customer magazine "Jacques' Journal". We have seen immediate effects on sales after sending out this magazine to our customers.

And in the wholesale business as mentioned the Antinori exclusivity has given us a real boost in sale of Italian wines in the wholesale business.

This was a brief overview of our activities and of the development of our group in the first half of the year 2001.

Closing statement (Mr Margaritoff):

I would like to thank you all for taking part in this conference call. I think that Hawesko is on the right track: We have said at the beginning of the year that we would focus on profitability: the sales are up quite strongly, profitability even more so and we will keep our eye on this profitability in the second half of the year – and in the years beyond – but we are very confident that this year is going to be excellent for our company and that the development of last year will soon be forgotten.

Thank you very much for joining and I hope that you will join in on our next conference call after the third quarter at the beginning of November.