

Opening comments to conference call of Hawesko Holding AG

Nine-month interim report

30 October 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, New York as well as in the Asia-Pacific region for the first time.

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

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

The focus of our activity and efforts in this year is on profitability, and I can say that this has been very successful so far, as the figures undoubtedly show.

We had very good sales growth even in this third quarter, which is traditionally the weakest in the year for us. Third quarter sales were up 14 per cent. Profits also rebounded: operating profit – that is to say EBIT – showed a dramatic swing from DM –4.9 million to DM 1.9 million.

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. Nonetheless, we have now raised our forecast to sales over DM 510 million (the original forecast was DM 495 million) and our guidance on operating profit – EBIT – to over DM 26 million (at the beginning of the year it was around DM 23 million). These numbers are meant to give a lower boundary. Last year's high expenses that we had because of starting new activities will not be recurring this year.

I will talk to you further about the outlook for the rest of the year and a glimpse into next 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 105 million in the third quarter, which is an increase of 14 per cent against the third quarter of 2000. *Wein Wolf* is in the sales figures of both this year and last year, partly new in this quarter's sales figure is *Le Monde des Grands Bordeaux* with a sales contribution of DM 4 million; last year *Le Monde* was included only for the month of September with DM 1 million in sales.

Gross margin on the Group level in the third quarter of 2001 was 41 per cent of sales, almost exactly the level of last year's third quarter.

Operating profit showed a dramatic upturn, from a negative DM 4.9 million in last year's third quarter up to a positive DM 1.9 million this year. This had mostly to do with lower advertising expense in the mail-order / e-commerce segment. On the Group level, personnel expenses were nearly one-half of a percentage point lower relative to sales at 10.8 per cent of sales, and other operating expenses represented only 30.6 per cent of sales, as opposed to over 37.5 per cent last year. The biggest factor in this was advertising expense which – at 8.7 per cent of sales – was significantly below last year's level of advertising expense of 15.5 per cent of sales. The effectiveness of our advertising spend has improved, both in the existing business and in the new activities.

The financing charge in the third quarter totalled DM 2.5 million: this charge is relatively high, on the order of an extra DM 1 million, due to IAS 39 (the "mark to market" rule) and swap contracts relating partly to Euro/Swiss Franc exchange rates and partly to interest rate developments. The turbulence in the financial markets has caused both the central banks to lower interest rates and market participants to move into the Swiss Franc: these two developments have decreased the value of our hedging instruments.

The tax item in the third quarter is actually not an expense, but a slightly positive item of DM 0.3 million. The tax rate for the entire year had been estimated at 43.5 per cent, this estimate has been lowered to 43 per cent flat. Minority interests were only DM 40 thousand, leaving the Group net result for the quarter at negative DM 350 thousand.

Now in greater detail the business lines:

- **Mail-order/E-commerce** had sales of DM 38.7 million in the third quarter, up 12 per cent against last year. Sales of *Hanseatisches Wein- und Sekt-Kontor* – including E-commerce – were DM 32.3 million (third quarter 2000: DM 30.3 million) Tesdorpf sales amounted to DM 1.4 million (third quarter 2000: DM 2.7 million), and sales in Austria were just under DM 1 million (third quarter 2000: DM 0.5 million). *Le Monde des Grands Bordeaux* contributed DM 4.1

million to sales (third quarter 2000: DM 1 million). E-Commerce sales were DM 2.4 million (third quarter 2000: DM 2.2 million).

- Mail-order/E-Commerce EBIT in the third quarter was a negative DM 300 thousand, against negative DM 7.2 million in the third quarter of 2000. This year's third quarter operating result is also better than either the third quarter of 1999 and 1998.

For the full year 2001 sales growth to over DM 205 million is very likely. The Christmas business will largely determine how much over this mark we will go. For the EBIT margin we think we might end the year somewhere around 4.5 per cent of sales, a bit higher if things go well.

Now let's have a look at the

- **Wine shop sales (Jacques' Wein Depot):** these were DM 35.3 million in the third quarter, up 11 per cent against last year, the EBIT margin was at just under 9 per cent. Like-for-like sales growth was 5 per cent in the quarter. For the full year of 2001 we expect the EBIT margin to be above the 10 per cent level, probably in the mid-range between 10 and 11 per cent.
- In **wholesale** we were able to post a 20 per cent increase in sales. The new Antinori wines continue to do well. There was weakness in wholesale sales after the 11 September attacks. *Wein-Wolf* contributed DM 27.3 million in sales to the third quarter (the previous year: DM 21.7 million). EBIT remained level in the quarter at DM 0.1 million, the EBIT margin was thus about one-half of one per cent of sales in the third quarter. We continue to expect to land at something between 4 and 5 per cent on segment sales for the full fiscal year 2001.

Headquarter and miscellaneous costs together with consolidation items amounted to a net charge in the quarter of about DM 1.0 million. Expect this to be a couple of ticks higher for the fourth quarter.

Compared to the end of 2000 the **balance sheet** mainly shows the effects of a reduction in trade accounts receivable and cash. Compared to the same closing date last year, the 30th of September 2000, it is interesting to note that total assets are at about the same level at this time last year while bank borrowings are DM 14 million less.

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

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. Perhaps I should just recapitulate on a few things that we have mentioned and reported on this quarter:

- The first item was that we are integrating our E-commerce activities under the name of Hawesko. As you will recall we had our E-mail activities under Hawesko as well as under Winegate and we found out over the last 12 or 18 months that it makes little sense to run these two segments separately, and that it was better to integrate them into one approach which is now the Hawesko Internet site. We found that customers for Winegate and for Hawesko were very similar. We also found that it was essential to approach customers not only via Internet but also via print mail and all the other instruments that we use in our normal direct mail-order business. We have put these two together and we also profit from the fact that we can now offer the entire product range to our Internet customers. We have the entire know-how at our disposal and we believe that we will be able to give our customers a much better service and raise a number of synergies by putting these Internet activities under one roof.
- The second important development is that we have come a very good way ahead in developing our own labels. At the beginning of the year we said that this was going to be one of our main focus to establish own brands that would allow us to raise the overall margin of our company. We have launched a number of products, the latest one is a Greek wine called "Mount Athos" - on which we had a mailing a couple of weeks ago - which is extremely successful. We are really very satisfied with the development of producing own labels and by doing that raising our margin in the short-term but this is also a medium- to long-term operation where we believe that we will be able to increase our profitability substantially.
- The third major event as regards to our direct mail-order operation is that we were able to gain Mr. Paul Smyth as new director for the "Hanseatisches Wein- und Sekt-Kontor". Mr. Smyth is an extremely well qualified direct mail specialist who has more than ten years' experience in the German mail-order and E-commerce business. As I have been doing these two jobs, namely director of the "Hanseatisches Wein- und Sekt-Kontor" as well as CEO over the last years, this will allow me now to concentrate much more fully on bringing the entire Hawesko Group forward because I will no longer be director of the "Hanseatisches Wein- und Sekt-Kontor"; therefore I will be able to concentrate on my CEO activities. I think that that is a very good solution for the entire company.

These are the three main things that we have reported on over the last few months in the mail-order Business.

Jacques' Wein-Depot, our shop-business, has also been very successful, as you have seen from our figures. One particularly successful development has been our customer magazine where we have now just sent the third issue to our customers and here again we see that the last few weeks have been extremely successful at *Jacques' Wein-Depot*. This is a direct consequence of the new customer magazine which is very well received by our customers.

In the wholesale business as of the first of January of this year we have the exclusivity for Antinori products at Wein Wolf . This has given us a tremendous boost in sales and a rise in profits which I believe will also extend into the next year. One consequence of the Antinori deal was that we obviously have much more attention from producers around the world than we have had before. Another consequence has been that we are now as of next year the exclusive distributors of Penfolds wines of Australia. Penfolds wines are perhaps the best regarded wines of Australia and we are very proud to be exclusive distributors for the German market as of January next year. And this not only strengthens the Hawesko Group from the point of view of sales and profitability but it also is a signal to other top producers that we are the right partners for the distribution of their wines in Germany.

This has been a very brief overview of our activities and the development of the group in the last nine months of the year 2001. Obviously for the success of the year 2001, much depends on the Christmas business but we are very confident regarding the fourth quarter and if everything does go well then – as mentioned before – DM 26 million EBIT should be the lower end. Operating profits could – if everything goes well – even go up a bit more to perhaps DM 30 million. That is not out of reach, but we obviously have not put this in our press statement because the year is not over yet and the Christmas season is quite difficult to predict. For the year 2002 we are just in the middle of finishing the planning process. We expect sales to develop positively: sales around DM 550 million have been mentioned by some of you we don't think that that is impossible. EBIT: there has been talk of something around DM 33 million, here again that is not something that is out of reach. It is a bit to early to say anything precise about the year 2002 but we are very confident that the extremely positive development of the last nine months will continue. The thing that we have initiated in particular in the mail-order business but also at *Jacques' Wein-Depot* and in the wholesale business are all beginning to develop the way we expected them to develop. I think that the next 12 or 18 months will be very positive for our company.