

Opening comments to conference call of Hawesko Holding AG

Six-month interim report

26 July 2002

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 and Australia.

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.

Let me say a few words about the general shape of the German economy and in particular the consumer situation in Germany:

We have had a very, very rough time in Germany as regards private consumption, which has been extremely sluggish. In fact, the first half of the year has been so bad that it is hardly comparable with any other previous year since World War II. In January and February we were asked why our outlook which we gave at the time was not more bullish. We had at that time already thought that the first half of the year would be difficult.

In fact January and February were very difficult for us at Hawesko. In March and April we had a big upturn and May, although not great, was not a reason for reconsidering the forecast. We stuck to our forecast because we had the feeling that the worst was over at the end of February. And because the months of March, April and May were getting stronger and stronger we took it as a signal of the beginning of the recovery, which had been expected in Germany for the second half of the year. For that to prove true June would have had to be a good month and in fact that was not the case. In the mail-order business we had a mailing which had very poor response, we had sluggish development in the retail business and the entire mood in the economy has changed during the month of June. The indicators that are regularly published by the Ifo Institute were all pointing upwards until roughly end of May and took a very strong dip in June. In fact in the newspapers today the latest

figures on the Ifo business climate for July have been published and against all expectations these figures are negative again and the expectations and the general mood in the economy has deteriorated.

This is the situation in Germany at the moment: weak business combined with a dramatic fall in share prices. According to a recently released study there is a direct effect between fall in share prices and fall in consumption, particularly in the well-to-do households. Generally speaking the whole situation is pretty lousy at the moment and everybody is now looking towards the month of September when we have general elections in this country. People are obviously hoping for a change in government, because at the moment - as many CEO's are saying – things can't really be worse if you look at the immediate and short-term mood in the economy. People who have thought that the second half would bring the up-swing are holding back their comments at the moment. The situation is not very funny. Although one must say for us at Hawesko that things have not really changed in the medium to long-term expectations and they are not affected by this situation at the moment. There are many dynamic factors in our market in the top-wine business the developments are still speaking for us. That is completely unchanged, but the immediate and actual situation of the market and the economy are not good. But perhaps before we talk about the outlook for the second half of this year. I would like to ask Mr Ohlzen to comment on the details of each of the segments:

Mr Ohlzen:

Good afternoon. I will start with the group sales. The Hawesko Group posted sales of € 57.5 million in the second quarter, which is a decrease of 4 per cent against the second quarter of 2001.

Again, as in the past two years, the second quarter of this year was stronger than the first: The typical pattern in the 1990s was a stronger first quarter.

Another interesting point is that, for the first time in this quarter, Jacques' Wein-Depot was the strongest segment in the Hawesko Group, with a 37% share of group sales. The next segment, mail-order, had a 34% share of group sales.

Gross margin on the Group level in the second quarter of 2002 was 43.2 %, up from 41.1 % of sales in the second quarter of 2001. This increase in gross margin has to do with the product sales mix, with higher-margin products making more of the sales.

Operating profit – EBIT – , though, was down by about 33% against 2001. A certain amount of business volume was planned for and not realized in the weak trading environment. Especially personnel costs which went up by about € 800 thousand against Q2 2001, rose as a percentage of sales from 9.1% to 11%.

After deducting finance expenses of € 815 thousand, tax expense of € 650 thousand and profit due to minority interests of € 150 thousand, the Group showed a net profit for the second quarter of 2002 of € 586 thousand, against € 1.3 million last year.

Now in greater detail the business lines:

- **Mail-order/E-commerce** had sales of € 19.3 million in the second quarter, down 11% against last year. Sales of *Hanseatisches Wein- und Sekt-Kontor* were € 15.8 million (second quarter 2001: € 17.2 million) Tesdorpf sales amounted to € 1.5 million (second quarter 2001: € 1.1 million), sales in Austria were € 620 thousand (second quarter 2001: € 560 thousand), and *Château Classic – Le Monde des Grands Bordeaux* made sales of € 1.5 million (second quarter 2001: € 2.9 million).
- Mail-order/E-Commerce EBIT in the second quarter was just under € 600 thousand, against € 900 thousand in the second quarter of 2001. The EBIT margin for this segment was 3%.

For the full year 2002 we expect sales to be flat or only slightly down, assuming the sluggish economy continues but does not get worse. For the EBIT margin we think we can improve on last year's 5.9% and end up at something over 6% to 6.5% ; at half-year we are at a 3.7% EBIT margin. Last year's EBIT margin at half-year was 3.0%.

Now let's have a look at the

- **Wine shop sales (Jacques' Wein Depot):** they were € 21 million in the second quarter, up in total by 5% against last year. The like-for-like sales in the quarter were down 1.3% after a particularly weak June which we ascribe mostly to the world soccer championships pulling customers away from the shops, aside from the general retail malaise in Germany. The EBIT margin in the quarter was 9.5%.

For the full year of 2002 we expect sales about 10% higher than the € 85 million from last year; and the EBIT margin to be at about the 10% level.

- In **wholesale** we had to post a 6% decrease in sales, or € 1.1 million below last year's second quarter. The biggest factor in the decrease this year was not to repeat a one-off sale to a large customer, which was worth € 1.5 million in sales last year. The EBIT margin in the quarter was 6.4%, almost at the level of last year's second quarter and much improved on this year's first quarter.

We expect flat sales in this segment for the full year 2002 last year: was at a level of € 73 million, and an EBIT margin of something around 5 per cent on segment sales for the full fiscal

year 2002.

- The position "**Miscellaneous and Consolidation**" in the "Segments" section of the report on the last page relates to our company which offers wine-appreciation courses, the Viniversität; our in-house logistics and fulfillment provider, IWL Internationale Wein-Logistik, which runs the distribution center near Hamburg; as well as headquarter costs and consolidation items. This position in the second quarter was just under € 1.5 million, last year € 900 thousand. The increase in costs in the second quarter are mostly due to the introduction of a new computerized fulfillment system. This system has proven to be more difficult to implement than we anticipated, and although the interface with customers will not be damaged, we may have further extra costs associated with its implementation.

To the end of the year, we expect the items in this position to be something around € 4 million.

The **finance charge** in was € 815 thousand in the second quarter, we expect it to be just under € 3 million for the full year. The **tax charge** was € 1.1 million; you should expect a rate of about 45.3% for the total year. **Minorities share in profit** was about € 150 thousand – full year expectation about € 450 thousand, leaving **net profit** for the quarter at € 586 thousand, against € 1.3 million in the second quarter of 2001.

Compared to the end of 2001 the **balance sheet** mainly shows the effects of a reduction in trade accounts receivable and cash. The increase in inventory totalling € 6 million to 30 June 2002 is related by about € 4 million to several high-quality Italian products whose distribution rights are being taken back by its producer. We plan on converting this position back into cash by about one-half by about € 2.5 million being out by the 31 December 2002 closing date.

The **cash flow statement** shows a cash outflow from operations of € 2.7 million, against a cash inflow last year of € 3.5 million. The main reason for this is the inventory increase just mentioned. We expect our cashflow to be .between € 6 and € 8 million. For the next year, 2003, we expect the cashflow to be above € 10 million.

I now hand over to Alexander Margaritoff.

Mr Margaritoff

Yes, thank you.

Looking forward to the end of this year, we are obviously doing everything possible to push sales, to cut costs and to increase the cash flow situation in the second half of the year.

On an operational level this means:

In our Mail-order/E-commerce segment it means to continue optimizing the gross margin. Where in fact we have been quite successful in the last 6 to 12 months. We have increased gross margin by approximately 1.5% through a better product mix but also by emphasizing new products, new exclusivities and private brands.

As you perhaps know, we have got a new team of managers in our mail-order segment and they have been in charge now for almost six months. They are doing a lot of good work and in particular bringing in new ideas into the mail-order business. We are getting more more advertising "punch" on the basis of existing costs and we are also in the process of reducing advertising costs per mailing – very positive developments in the last six months.

As we indicated for the second half of the year, we have planned advertising activities for the acquisition of new customers. We believe that trying to acquire new customers would not have been very useful in the first half, when demand has been very sluggish.

Another important point is the Christmas business. We have increased the number of pages in our Christmas catalog. We have also changed a few things in the presentation of the catalog: for the first time we are getting customer personalization in the catalog. All these things come with a number of details which we have changed and we believe the catalog to be better and hopefully bring a greater response than in the last few years. Altogether we are increasing advertising exposure to our customers in the second half, obviously the most important part, of the year.

At Jacques' Wein-Depot the development has been very positive. In the first six months of the year we have opened 15 new shops and had 10 additional contracts in hand. Our goal was to open 25 – 30 new shops this year and we believe that we should be able to realize it. The fact that the retail situation in Germany is very difficult and that many retailers are going bust gives us an opportunity to find ideal locations more easily than in the past. We are well on track in the opening of new shops.

In addition to that in the first six months we have had one mailing less at Jacques' than in the previous year. We have postponed this mailing to the second half of the year and that should give us a kick for the second half at Jacques'. The testing mailings for the acquisition of new customers for existing shops at the end of last year and the beginning of this year is another very positive development. The first tests were extremely successful. We have had response rates of up to 2%. The consumption pattern of the customers acquired in July are as we expect them to be. This should open up the possibility for us to gain a great number of new customers, which again would increase profitability for existing shops and allow us to increase

penetration throughout Germany. This is a very positive development we are keeping a very close eye on, and hope to be able to report more about this at the end of the year.

In the wholesale part of our business we have again managed to get a few top exclusivities for the group, for instance Collavini which is a Friaul wine with a volume of about 250,000 bottles per year. We are also in the middle of negotiations for altogether four smaller but very high quality exclusivities. It is a bit too early to give names in this prospect because we are in the middle of discussing exclusive rights, but should this materialize it should give us a nice kick in particular at CWD. The fact that the economic situation is negative and that our competitors are having a very hard time gives us – as the strongest group in the retail business of top-wine in Germany – a possibility to increase market share in the long run. This difficult economic situation also has in the medium- and long-term its positive aspects. In the wholesale business we are gaining exclusivities and market-share at the expense of our competitors.

In a few words these are the things that we are planning and looking forward to in the next six months.

Before I open up the floor for questions, let me make a few statements on the development of the Hawesko shareprice over the last six months. Obviously the share-price has not caused contentment in the past few weeks and I think that no one else is more disappointed than I am with the development. When we started the year at € 17.60 and we made our forecast for 2002 we had thought that the first half of the year would be difficult. In fact compared with other consumer goods companies in Germany and in Europe the Hawesko share-price certainly does not stand alone with its re-rating. In fact if you compare the price we have started of in January with € 17.50 Hawesko has more or less come back to that level whereas other companies like Kartsadt lost 50%, Pinault Printemps lost 50% down, Metro lost 40% even companies like Douglas, Fielmann or Beate Uhse they are all down by 20-25%. This is a movement which has hit practically the entire European retail sector. The difference that we see is that although we are having a difficult time, I think that, being the strongest company in our field in Germany, we certainly can also benefit from the situation in the medium and in the long-term. We have very good structures, we are extremely well-positioned, we are working very hard on cutting costs and becoming even more efficient than we have been in the past. I think that if we get through this hard time with half way decent figures than we will close out the year on a satisfactory basis, from which we can grow in 2003 further. After this brief overview of the activities in the first half and the outlook for the rest of the year I would be very happy to answer your questions together with Sven Ohlzen and Thomas Hutchinson.

Closing statement (Mr Margaritoff):

I would like to thank you for your attention and in spite of the current environment, which is difficult, I think there are many reasons to look forward to the medium-term where we have a few good

developments and a few new things that we have started on in the first half of the year that will bare fruit in the second half of the year and I think that we should be able to develop our business in the way that we are anticipating and we are looking forward to the year 2003 which should be on much stronger basis than at the beginning of last year. Thank you very much for joining and I hope that you will join in on our next conference call