

## FREIXENET GROUP <sup>1</sup>

*“Optimism”*. This is the message that the owners of Freixenet wanted to convey in the annual presentation of the 2005-2006 profit/loss statement of the Group, held in November, 2006, in Amsterdam. In their view, the boycott of Cava of Catalan was increasingly an anecdote from the past and they were convinced that the 2006/2007 campaign would be *“clearly better”*. *“The situation has been put forward and the expectation is standardization,”* ensured Josep Lluís Bonet, president of the company.

Likewise, the chairman of the Regulatory Board of Cava, Gustavo García Guillamet, could not have demonstrated more optimism after announcing that the sales of the Cava manufacturing group in Spain increased by 8.3% in 2006. For the first time, consumption in the domestic market surpassed the amount of 100 million bottles, which, in the opinion of Guillamet, meant *“leaving behind a situation in which the market was distorted, which extended to the end of 2004 and 2005.”* Only one year before, domestic consumption was experiencing a drop of more than 6%, which the producers of Cava of Catalan had intended to face by increasing their exports.

In addition to the boycott, Bonet warned that other threats loomed in the sector, such as *“indiscriminate campaigns against alcohol”* and the *“lack of unity of the sector”*. Thus, the president of Freixenet appealed to all manufacturers of Cava to achieve *“greater cohesion that will enable us to go together in the direction of winning the battle because the possibilities of Cava and wine in Spain are extraordinary”*. At that point, he recalled an agreement just signed with Codorníu to bury the wine cellar war, *“the agreement has been very positive, because the two groups are in a favourable position to face a future collaboration in favour of Cava”*.

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<sup>1</sup> San Telmo International Institute, Investigation Division’s Case, Spain. Prepared by Professor Miguel Ángel Llano Irusta with the collaboration of PricewaterhouseCoopers, as a basis for discussion rather than as an illustration of proper or improper management in a given situation.  
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To stimulate sales, Freixenet asked the industry to unite, and put forth the empowerment of wine tourism as an example for keeping the Catalan region of Penedés from becoming “*a major industrial estate*”. “*In wine tourism, there is an extraordinary gold mine. We have to be smart, stay together to win that battle,*” added Bonet. One of the major challenges of Freixenet in this area was the launch of a centre for visits to the wine vault of Rene Barbier, the former Chandon, scheduled for the spring of 2007.

## **GROUP FREIXENET**

### **Situation of the Group at the end of 2006**

In December 2006, the group led by Freixenet, S.A. remained a family business that integrates the processing of Cavas Segura Viudas, S.A. (100%), Castellblanch, S.A. (100%), Canals & Nubiola, S.A. (100%), and Conde de Caralt, S.A. (100%), the wine cellar of Penedés Rene Barbier, S.A. (100%) and the processing “granvás”<sup>2</sup>, Unio Cellers Del Noia, S.A. (100%). These companies shared their facilities between Sant Sadurní d’Anoia and Torrelavit (Barcelona). The presence of the group in the area was complete with a Cavas cellar and 122 hectares of land in Sant Cugat of Sessgarrigues (Barcelona).

In other locations in Cataluña and the rest of Spain, the Group was involved in the processing of wine with Designation of Origin. Ribera Del Duero Bodegas Valdubon S.A. (88.7%), in the wine vault of Priorat, Viticulturas de Priorat, (35%), and in Viñas del Montsant, S.L. (50%); while maintaining a lease to operate and manage the “Pazo Baión” wine vault, which produces wines with Designation of Origin Rías Baixas “Vionta”.

In addition, between 2004 and 2005, it took over the assets (machinery, some brands, property, facilities, and part of the staff) from the wine vaults of Rioja Santamaría López, S.L. Freixenet entered this wine vault in the Denomination of Origin Rioja, where it planned to launch a new brand, increase the volumetric production with its own brands and boost exports. Within this policy of diversification, in 2006, it launched the brand of Rueda “Fray German” for the HORECA channel and Wine of the Land of Ribera del Jiloca “Vega del Jiloca”, both produced by machine by wine vaults located in Rueda and Jiloca respectively. The national sales network was unified in the Freixenet S.A. Commercial Group.

At the international level, the group controlled the Henri Abele wine vault (processing champagne in Reims, France), Freixenet Sonoma Caves INC. (processing of sparkling wines and wines from California in Sonoma Valley - California, USA- with annual sales of 1 million bottles), Freixenet Mexico, S.A. (processing of sparkling and table wines in Queretaro, Mexico), 60% of the Australian wine vault Wingara Wine Group (located in Melbourne, with 1,000 hectares and a production of 4.3 million bottles per year), 100% of the bordelaise Yvon Mau, S.A. (through which it participated in the wine vault of Bordeaux Grands Crus Difusión), and together with the German group Eckes, in

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<sup>2</sup> Granvás: See Annex 1.

the joint venture Eckes Freixenet Vertriebs, to distribute Cava in Germany, its main market.

Also in Switzerland it created the distributor Freixenet Alpes and expected to do likewise in Austria. It also had commercial affiliates in France, UK (where it distributed the wines of CVNE S.A.), two affiliates in the USA, Japan, Australia, China, Russia, Portugal, Italy, Canada, Mexico, Cuba and Argentina. It also imported Portuguese wines under the brand name “Quinta de Alorna”; had a joint venture with distributor Nihon Shuui Hanbai, to sell table wine in the Japanese market under the brand name “Oosama no namida” (Real Tear), distribute “Carta Nevada” in China under the local brand “Kuan Chu”, and maintained an agreement with the Uruguayan wine vault Vinos Finos Juan Carrau, through which it marketed under the brand “Arerunguá”.

Freixenet conducted in 2006 its first vintage in Mendoza (Argentina), where it had vineyards and could build a winery (developed some 1, 500 cases of wine under the brand “Viento Sur” in rented facilities). The group also marketed wines from Chile, which developed a cooperative in the Curico Valley, with the banner “Terranova” (about 20, 000 cases per year, for the UK).

## CAVA

The origin Cava is associated with the splendour of Catalan viticulture in the mid nineteenth century and the notoriety achieved by Champagne at the end of the eighteenth century. The microbiological studies of Louis Pasteur applied to wine accounted for control of the second fermentation in the bottle, and the discovery of the cork averted the loss of bubbles produced in the wine. Thus was born the traditional method or champenoise.

In this nineteenth century, several families in Sant Sadurní d’Anoia initiated the investigation of this new processing technique applied to crops in the area. The result of their studies and trials, tied to the prestigious Agricultural Catalan Institute Sant Isidre, betting on the indigenous white grape varieties. Thus was born Cava with a unique identity distinct from any other quality sparkling wine.

In 1872, Josep Raventós i Fatjó, from the historic Codornú home produced the first 3, 000 bottles of Cava, following the traditional method of second fermentation in the bottle. It was his son and heir, Mr Manuel Raventós Domenech who initiated the expansion and consolidation of the house. Other producers in the Villa began production and converted Sant Sadurní d’Anoia into the principal capital of Cava. In the 20’s, Cava was consolidated in the Spanish market reaching its high growth in the 60s, and was consolidated internationally in the 80s. At the beginning of the twenty-first century it was one of the most dynamic and prosperous wine sectors of an essentially Catalan viticulture with a production that has exceeded 200,000 bottles a year that go to consumers all over the world.