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Questioning Market Leaders For Long Term Investors

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CEO/COMPANY INTERVIEW

CHARLES BEIGBEDER

Self Trade

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Self Trade (7505.PA)



CHARLES BEIGBEDER comes from «Ecole Centrale de Paris» (from 1984 to 1988) where he got a Master of Science in engineering, a dual major in Mathematics and Physics. He was really interested in aeronautical and space fields. After a period at MATRA MARCONI SPACE, he joined PARIBAS and later Credit Suisse First Boston when he worked in investment banking in Paris. Then, he went to London in 1994 to work in MC-BBL Securities Limited, as Associate Director, where he was

responsible for the coverage of French companies and financial institutions. In 1997, he came back to France to create SelfTrade, which is one of France's leading providers of online investment services and is in the process of establishing branches in other strategic European markets.

SECTOR – FINANCIAL SERVICES

(KAL022)TWST: May we start with a company profile, a brief introduction to Self Trade, a little bit of history; take me through the IPO.

Mr. Beigbeder: The company was incorporated in November 1997, and we launched our activities in December 1998. There was basically a 13-month period where we had to recruit people, raise more funds, obtain licences, for example, and then we launched in France in December 1998. Our concept is very simple; we provide tools to consumers to enable them to better manage their financial assets, whether they're investors in the stock exchange or in mutual funds or in life insurance products. We focus on financial assets. We do that through the web, through WAP, through minitels. One of the marketing gimmicks we used at the beginning to get recognised was that we imported the flat fee concept from the US. In our industry, revenues come from the commissions that are charged on each transaction

posted by the consumer. Instead of charging a percentage of the size of the transactions, we decided to charge a flat fee amounting to EUR14.95 per transaction. That was very new and it broke a taboo that was prevailing at the time. Then we added several features to the Website, like a mutual fund supermarket and access to the US market, and we recently launched in Italy (April 2000) and in Spain and the UK last month. We are now in four countries, with local presence with people dedicated to marketing, customer support and back-office. Some IT also is localised, but the main IT infrastructure resides in Paris. That is the way it works; it's a centralised organisation with technical help based in each big city where we operate, help that is in charge of links with the local markets and local sub-custodians.

TWST: Your target client base is the retail market, is that right?

Mr. Beigbeder: Absolutely. One day we will build something that could be attractive to



Self Trade

Ticker (exchange)

7505.PA (PARIS)

Price close 18-July-2000

EUR8.09

12 Months Price Range

N/A

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Corporate Business Description

Self Trade is one of the foremost providers of online investment services in France and is currently expanding into the UK, Germany, Spain and Italy. In 1999, the company registered one of the most rapid growth performances in its sector. In December 1998, Self Trade launched operations in France and at the end of its first year had become the number three provider of investment services through the Internet in France (in terms of number of accounts) and the number one provider in terms of trades over the Internet.

In addition, in April 2000, Self Trade launched operations in Italy, where it has forged strategic alliances with strong local companies, such as Omnitel and La Fondiaria, one of the leading Italian insurance companies. In May 2000, Self Trade accelerated its expansion into Europe by offering its services in Spain and the UK.

Through its Internet sites, Self Trade provides high-quality investment services, such as access to financial information, investment decision making tools, mutual funds and, of course, brokerage services at prices which management believes are among the most attractive in the markets in which it operates. By offering a large range of products and services, Self Trade allows its customers to manage their financial assets independently online.

At year-end 1999, Self Trade had opened 11,160 accounts and generated revenue of EUR9.2 million.

In Q1 2000, alone, Self Trade generated revenues at EUR11.7 million, for a growth rate of 136% over Q4 1999. At the end of June 2000, the number of accounts had tripled, to a total of 29,847 and revenues reached EUR22.9 million.

SELF TRADE IS THE BEST ONLINE BROKER IN FRANCE

Self Trade Ranked France's Number One Online Broker and Among Top 10 in Europe By BlueSky Ratings

Paris – 30 June 2000 – Self Trade is the Number One online broker in France according to recently released research by BlueSky International Marketing, Inc. The announcement was made after BlueSky conducted an extensive research and analysis of more than 1200 online brokering companies in nine European countries: Germany, Belgium, Spain, France, Ireland, Italy, Netherlands, the United Kingdom and Switzerland.

Self Trade was ranked Number One as identified by independent research carried out by a team of expert web users at BlueSky International. The team examined more than 350 features and functions on each site, including ease of navigation, user friendliness, simplicity and customer service. Each site was rated individually in terms of quality of the user's experience.

"Self Trade moved into the leading position in France by broadening its product range to include an extensive mutual fund centre," explains Suzan Nolan, president of BlueSky International. "Mutual funds are a preferred investment vehicle for many investors, particularly in France. Self Trade is not the first broker to sell funds online in France, but the combination of its excellent stock brokerage services with the new fund centre gives the private investor powerful tools and information with which to make investment decisions."

Commenting on the award, Self Trade COO Stéphane Prunet said, "As an established online broker in France, we have Self Trade experience and know-how that benefits the individual investor. Being ranked the leader by an independent company like BlueSky is a wonderful endorsement. Consumers have the reassurance that they can take advantage of the superior quality of service and range of Internet services at Self Trade."

An explanation of the methodology and criteria used for the ratings can be found on www.blueskyinc.com.

Self Trade Innovates

Since its creation, Self Trade led the industry in innovation:

- Strategy and development fully based on the Internet: over 90% of orders placed online.
- First in France to offer a flat-fee commission regardless of the amount of the order.

Self Trade considers that, among online investment firms, it is:

- One of the first in France to enable the placing of orders from a mobile telephone (WAP).
- One of the first in France to offer access to a wide range of mutual funds with reduced front end loads.

Extraordinary Growth

Since its opening in 1998, Self Trade has established its position in the French market, and management considers the company to be:

- No. 1 e-commerce site in France in terms of revenues over the Internet in December 1999 (Journal du Dimanche).
- No. 1 Internet trading site in France in terms of number of orders executed at year-end 1999.
- No. 3 online investment services provider in terms of number of accounts at year-end 1999 (The Association of Online Brokers).
- In 2000, Self Trade is preparing its expansion into Europe. In Q2 2000, Self Trade launched its Italian, Spanish and British operations, and the Company will soon launch in Germany.

some, for instance, professional investor, or professional agents like IFAs, but for the moment we really target the retail markets.

TWST: Can you give me a feeling for how important the retail investor is in Europe?

Mr. Beigbeder: Roughly, it is one European out of four or five, who is a typical investor. Those one out of four or five Europeans have somewhere in their banking account, some kind of saving scheme, usually in the form of a savings account — that means it's just cash which would be remunerated by their bank. Some are a bit more sophisticated and would already have subscribed to some mutual funds, some will have subscribed to a life insurance product or a unit-linked product; and then some of them would have shares. We are interested in that entire universe of customers, and our message is that it is much simpler to manage your financial wealth through using new technologies — notably the Internet — because you can instantaneously have on the screen a complete description of your different assets, and you can arbitrate between these assets very quickly and very cheaply.

TWST: How many people do you anticipate switching their share dealing activity, their investment activity to an online broker? How is the market evolving for you?

Mr. Beigbeder: Analysts estimate that the total number of online accounts in Europe amounted to 1.4 million at the end of 1999, and it should reach 10.5 million at the end of 2002, so it's a good growth market, and maybe even underestimated.

TWST: Can you give me an assessment of the business climate for you? What changes do you anticipate taking place in online broking? What will catalyse this avalanche of online traders, online investors?

Mr. Beigbeder: In each country, we have seen the emergence of new firms, most of them controlled by big banks or traditional brokers. What we will see is that, in each nation and at the European level, there will be five or six firms dominating the sector and getting an 80% market share. These firms will have a different marketing position, but they will roughly offer the same type of services. They will have to cover the whole spectrum of financial investment services including some mutual funds, life insurance and shares and cash. Then some of them might be more ambitious and even go towards e-banking and be a kind of one-stop shop covering all financial services, including also consumer loans, mortgages and even non-life insurance. But Self Trade is not a believer in that strategy at the moment.

TWST: Can we, then, talk about your growth strategy? What exactly are you planning to do to respond to the changes in the industry?

Mr. Beigbeder: It's to become one of the five leaders in providing online investment services in Europe. We're now in the top 10; we need to step up and become one of the top five. We are the most advanced in this European strategy because we are already up and running in four countries, whereas the biggest in the sector are only operating in two, sometimes three countries under their brand name; so that's a good point. However, we are still lagging behind in size, number of accounts and number of trades. We have to grow, but we are quite new. However, thanks to these four countries where we operate, that now becomes four sources for clients and trades, and we have the technical, human and financial means to catch up on these delays.

Our strategy is based on three competitive advantages: one is our brand, which is self ex-

planatory, and which we try to position in a different way to the others, by using irony, for instance, in our advertising campaigns, to make sure people read our ads, see them and listen to them. The second advantage is our technology. We own it, it's a proprietary order routing system, localised in Paris. We are one of the only companies in Europe to own this technology and to operate it ourselves. We think it's crucial, because it's really the core of the business, and if we want to have a good level of reactivity and quality, this has to be operated internally. Finally, it's about speed. The fact that we are independent is a good thing, because it allows us to move more quickly than some of the large financial institutions with which we compete.

TWST: Can you take me through the planned investment programs that you will be undertaking over the next 18 to 24 months; first of all, the capex projects that you'll need to initiate?

Mr Beigbeder: Most of the projects have been initiated from scratch and through organic growth; so it's mostly salaries and some fees to consultants. But roughly, to start-up in a new country, you need a minimum of EUR5 million. Most of those investments are related to marketing, IT and start-up costs which have already been spent.

TWST: Developing the brand; tell me about how you are going to do that?

Mr. Beigbeder: It's very pragmatic, it's direct marketing; so we apply the basic rules of direct marketing. It's an industrial job now, so you have offline and online marketing. Then in each section you will have several modes, you have merchant buttons or banners or sponsorships for online, and then you have on and offline mailings, stands in tradeshows, stands sometimes in commercial centres or airports; then you have press, radio, news TV. Each time we have an ad, we as-

sess the contact cost and the acquisition cost of such an ad, because when the prospect, after having seen an ad, goes to our Website or goes to our call centre, he is always asked where does he come from, and how did he hear about Self Trade. And this is entered in our databases, so we trace the cost of each media. We monitor very carefully in order to reallocate expenses when a media begins to saturate or when it's inefficient, which can happen; but we have recorded that there is no media that is far better than another one. You have to invest everywhere, but you just have to be very careful and monitor responses very precisely.

TWST: You mentioned that your growth so far has been purely organic growth, is there any role for acquisitions in your strategy? Is there a role for partnerings or joint ventures?

Mr. Beigbeder: There are two potential roles. The first one is that we try to secure strategic alliances with strong regional players country by country; like we did, for instance, in Italy with LA FONDIARIA, which is a large Italian insurer, which gives us preferential access to their 3.5 million customers. We have secured an agreement by which, for instance, we prepare together with them commercial actions, like mailings for instance, that we send to a selection of their 3.5 million customers inviting their customers to open an account in our books at Self Trade Italia. Then, if this happens, we share the profits we make with that partner on those customers. We try to secure the same type of agreement in the rest of Europe with local partners; we're in discussions with a food retailer in France, a financial institution in the UK, a hotel group in Spain, for example, and that is the first level of potential strategic alliances. Usually, the local partner, if he wishes, can take a small stake in our company to consolidate the link; but it's not mandatory.

We could contemplate small acquisitions in Switzerland, for instance, or in Scandinavia, where we are very late, where we haven't done anything, and where it would make sense to go for external growth rather organic growth. For Benelux and Portugal, however, we would favour organic growth, because these markets will be easy to reach — through Paris for Benelux and through Madrid for Portugal because of the merger of the Amsterdam, Brussels and Paris Stock Exchanges and central securities depository. It will be easier, starting March 2001, to penetrate those markets, using our existing infrastructure; so it's a bit absurd to purchase a firm there.

And then, finally, it's the big picture. As Self Trade is an independent firm and not controlled by any major bank, why not also be open to a major alliance with a major European financial institution or a competitor, to build together to accelerate our goal of building the first online investment services provider in Europe ?

TWST: Let's turn to the critical issues that face an online broker and Self Trade, in particular. What's the regulatory environment for online broking in Europe?

Mr. Beigbeder: It's highly regulated. There are two types of licences that are needed to supply our services. First, you need a brokerage licence; it's a little bit like being a member of NAS. You need to be licenced to receive and transmit orders from third parties; and this is the licence that you get from one of the local regulators in Europe; and when you get that licence, then you can ask your regulator to passport that licence all around Europe. The second licence you need is not mandatory, but if you want to remain independent and to hold the assets of your customer on your balance sheet, in your books, you need to have a custody licence, and this is much more difficult to

get because it's a huge responsibility, because you are, in fact, taking financial assets on your books, and if you go bankrupt, these financial assets are lost for your customers. So it's a huge responsibility for the regulator to provide such a licence. We have obtained that licence because we wanted to remain independent, and this meant that we had to increase our shareholder funds to a sufficient level, and even get in our shareholdings so-called reference shareholder by the Bank of France, which is SEB, the Swedish banking and insurance group. A reference shareholder, again according to the Banque de France, is a shareholder that is supposed to make sure that the company in which it invests always fulfils its legal obligation and its solvability ratios. So they have 20% of our capital and 34% of our voting rights, which means that they have blocking minority. Just to finish on that, some online brokers have chosen another route and are sharing the property of their customers with a bank, therefore they don't need the custody licence. This is another mode of operation that we dislike. In that scenario, it's easier; you just need the brokerage licence and then customers open their accounts with a banking partner.

TWST: What about the issue of the security of online broking for the investor? How is that being dealt with in the European context?

Mr. Beigbeder: We have two levels of security: first is the security of assets; because we are working in a highly regulated environment, in a way regulators make sure that those assets are safe by not giving their licence to anyone, as we just said; and that's the first level of security. However, even though the regulator has provided a licence to a player, if for any reasons the player goes bankrupt, then there is usually, in every European country, an indemnification system that reimburses

customers for up to a certain amount in cash and in financial assets. And then there is the IT security. Here also there are several levels. Usually all exchanges of information between the customers and our servers, for instance, are encrypted using Netscape SLS SSL 128 bits key, which is secure enough, in theory, to avoid any problems. However, in addition to that security threshold, we don't take instruction for transfer of securities and cash over the web, or if we take some we would send a message back to the customer to make sure he really wants to move his funds or securities. So for transferring or moving funds or securities, there is a second level of security, because if a mistake happens there or if a fraud happens there, it's extremely damaging. But at the first level, if a fraud happens, if a hacker can in fact simulate a customer vis-à-vis our servers, then the only thing he can do is sabotage, he can take positions on behalf of the customer, but assets can never be transferred outside.

TWST: Essentially, he might be able to take positions so that he can move things around internally in a particular account, but he can't move funds from that account externally.

Mr. Beigbeder: Exactly. However, it has never occurred so far.

TWST: Can we have a brief word on your mandate as Chairman; what's the managerial philosophy behind Self Trade, what are the corporate and financial objectives that you set for the company?

Mr. Beigbeder: We have a Supervisory Board where the biggest shareholders of the company sit; and then we have an Executive Board, which I am chairing; and this Executive Board, in fact, defines the strategy of the firm, and takes the critical decisions when we need choices to be made in the allocations of human, technical and fi-

ancial resources between our various business units. That's what I do. I'm also in charge of relationships with the outside world, the investing world or media, and I'm also responsible for relationships with our strategic shareholders. Then the other Members of the Executive Board have the same type of responsibility; in fact one is in charge of corporate development, one is in charge of IT or back-office projects; and then we have a European Executive Committee, which is chaired by the Chief Operating Officer, and that would implement the strategy that is decided by the Executive Board. We have come to the point recently where we wanted to segregate operational and functional jobs from positions of the members of the Executive Board that needed more time to think of our strategy and to avoid being eaten by daily life.

TWST: What do you see as the most important potential constraint on your growth over the next two to three years? Is it in terms of finding personnel, is it terms of accessing capital? Where would you see the biggest difficulty?

Mr. Beigbeder: In a way, it's human resources. Every day we have our vital priorities and strategic priorities, and then we have the good ideas. It's a pity that we cannot do anything about our good ideas! We have many good ideas, and we are just taken by the daily life, which means that we cannot spend any time or dedicate any resources to these good ideas; and some come from our own customers, so it's really a pity not to do anything about it. We try from time to time, but it's not that easy. That is, I think, the most frustrating thing in very high-growth companies, that you have to prioritise and sacrifice some potential new ideas of businesses.

TWST: Can you take me through the financials; what are the most important financial

ratios for a long-term investor looking at Self Trade? When is the company anticipated to be profitable? What did you set out in the IPO?

Mr. Beigbeder: In fact, we did not disclose too much at the IPO about that financial objectives, but my guess now is that we will be profitable in 2002 at the net profit level. However, we were already profitable at the net profit level in France only a year after its launch and are profitable before marketing expenses at the group level, so it's a profitable business, a very robust business model driven by, in fact, two or three factors. One is the number of accounts, of course; then it's the number of trades per account per month; and then it's the amount of revenues per trade. That's on the revenue side. Then you have to also consider another element, which is the cost of execution of any trade, and this is relatively low. So we have a good variable margin, let's say, which is always above 50% — when one we charge 100 we always make more than 50 — and then we have to pay our fixed costs and our marketing costs. Here, for instance, we are already able to, with the net revenues we generate, pay all our fixed costs; so not only, of course, all the variable costs, by definition, but also all our fixed costs, and be profitable before marketing expenses, which is a good thing. Then as we are in a very high-growth market, we have to spend a lot on marketing; so we are in the red this year, and we'll be in the red next year, but hopefully we will be in the black the year after.

TWST: What is the outlook for the three to five year horizon in terms of growth? Is it more geographies or is it other products?

Mr. Beigbeder: It's both. First we have to succeed in our European expansion plans, and become a true European brand in online consumer finance; and then we also have to expand the

scope of our services on financial assets. There are many things we could add. We must also develop something for IFAs and investment clubs, and we are developing our own family of branded mutual funds. There are many, many features to add. There is also one big challenge, which is building a pan-European cross-border trading platform, allowing, for instance, a Spanish customer to trade not only Spanish securities and US securities, but also French, Italian, British and German securities. This is the main challenge for next year. So we have a lot on the agenda. After that, the big question mark is whether it is appropriate or not to team up with an e-bank and propose the whole spectrum of financial services and products including banking, and that I am not sure. We have to wait for that.

TWST: When you sit down with analysts, and your institutional shareholders, are there any concerns or anxieties that they raise with you?

Mr. Beigbeder: What they usually raise is that we are independent, we only have 18 months of operations, and our ambitions are very large, so they question our European strategy, and they have a wait-and-see approach. Some of them say they want to see results, number of accounts, revenues in each of the countries we operate in before investing in our company. To make it brief, they don't trust us. They wait and see, then they invest a bit later; which I understand, it's a less risky approach, but they will make less money.

TWST: If you were sitting down with a potential US investor who was looking at Self Trade, could you summarise the essential mission statement for him?

Mr. Beigbeder: I would say that because we own our technology, which is unique in Europe, because we already have a recognised

brand, which is positioned differently from others. And because we are independent and we have a highly motivated team, we have all the resources to succeed and become a pan-European online investment services firm in Europe.

TWST: Thank you.

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Each executive who is the featured subject of a TWST Interview is offered the opportunity to include an Investors Brief or other highlight material to be provided and sponsored by and for the company. This interview with Charles Beigbeder, Chairman of Self Trade, is accompanied by an Investors Brief containing corporate information.
