Hawesko Holding AG
Hamburg

Securities Code 604 270
Reuters HAWG.F

Nine-month interim report at 30 September 2000

Hamburg, 2 November 2000

Highlights
(in DM millions,
in accordance with IAS)

	3rd Quarter (1.7.–30.9.) 2000	3rd Quarter (1.7.–30.9.) 1999	Nine Months (1.1.–30.9.) 2000	Nine Months (1.1.–30.9.) 1999
Group sales	**91.3**	**71.3**	**277.1**	**213.9**
– excluding acquisitions	*69.6*	*60.5*	*215.7*	*212.8*
Ordinary result (EBIT)	**–4.9**	**1.0**	**–0.9**	**13.2**
– excluding acquisitions	*–5.1*	*0.9*	*–2.3*	*13.1*
Net profit	**–5.9**	**–1.5**	**–5.1**	**4.5**
– excluding acquisitions	*–5.4*	*–0.7*	*–4.3*	*5.3*

Dear Shareholders,

In the third quarter of the current fiscal year, the Hawesko Group achieved an increase in sales of 28% compared to the same period in the previous year – and that despite the fact that the third quarter of our fiscal year always tends to be the weakest. Adjusted for the acquisition of the Wein Wolf Group in September 1999, the Group posted a sales increase of 15%. The main drivers of this organic growth were primarily the stationary retail division (*Jacques' Wein-Depot*) and the mail order/e-commerce division. In the latter division we had to take start-up costs for our new activities and to master a difficult market environment. This led to a decline in our result, upon which I will elaborate in the following section.

In all of its divisions, the Hawesko Group views itself as an innovative marketer of high-quality wines. In the mail order/e-commerce division, our main business under *Hanseatisches Wein- und Sekt-Kontor* has a strong position in the market. We are currently expanding this position even further: with the increased activities of *Carl Tesdorpf – Weinhandel zu Lübeck* in the upper segment of the market, our entry into the Austrian market and finally, the acceleration of our online business under the logo of *Winegate*. These promising new activities naturally incur start-up costs. Simultaneously, we have noticed in the main part of the business over the course of the current fiscal year that the customers' purchasing behavior in the wine market is still quite reserved after the peak of the millennium. The combination of these factors led to a negative third-quarter result. You, my fellow shareholders, can be sure that your management board will implement all necessary measures in order to ensure a more balanced relationship between sales growth and the development of business results in the future.

Despite these challenges in the mail order/e-commerce division, we have laid additional cornerstones for positive business development in the third quarter:

- The acquisition of the Bordelaisian *Le Monde des Grands Bordeaux – Château Classic*, which is scheduled to be consolidated as of the fourth quarter. This company provides us with the status of a privileged local Bordeaux dealer and increases our competence in the special and important business of retail with top-class Bordeaux wines;
- The entry of the *Wein Wolf Group* into the Polish market through the acquisition of a majority interest in a smaller local wholesale firm. The upward trend in the Polish economy creates good conditions for stronger demand for high-quality wines in that country; this shareholding will let us participate in that development;
- The success of *Jacques' Wein-Depot*: *Jacques' Wein-Depot* posted a 15% increase in sales compared to the third quarter of 1999, and is preparing for the first openings in Austria in the fourth quarter;
- The sustained positive development of sales through the Internet. Online sales through *Winegate* were twelve times higher than in the previous year. In the quarter under review, a *Winegate* print campaign was carried out in various magazines and newspapers and continually optimized, and was additionally supported by online advertising. In addition, new partnerships were formed with the Verlagsgruppe Handelsblatt, the Süddeutscher Verlag and the Axel-Springer-Verlag.

The traditionally weakest quarter of the fiscal year is now behind us – in a year which has not been easy for the Hawesko Group overall. In view of this, our forecast for the results of the entire year – in particular compared to the partially high expectations of the capital market – is cautious. We expect sales of approximately DM 450 million. The achievement of a satisfactory result depends primarily on the Christmas sales proceeding well and smoothly. We have implemented numerous optimization measures in order to ensure this.

Best regards

Alexander Margaritoff
Chief Executive Officer

Sales and Results

Third Quarter

In the third quarter of 2000 (July to September), the Hawesko Group achieved total sales of DM 91.3 million, compared to DM 71.3 million in the same period of the previous year. This corresponds to an increase of 28.1%. The rise is due primarily to the integration of the *Wein Wolf Group,* which was not included in the months of July and August of the same quarter of the previous year. Adjusted for the *Wein Wolf Group*, sales rose by 15.1%. Total sales were divided as follows among the individual sales divisions: mail order/e-commerce: DM 33.6 million (+14.4% over the previous year's quarter); specialist retail: DM 31.9 million (+15.2%) and wholesale: DM 25.9 million (+81.1% including the acquisition of *Wein Wolf,* +19.4% adjusted for *Wein Wolf*).

In the mail order/e-commerce division, sales development was satisfactory overall in the third quarter. Sales of the *Hanseatisches Wein- und Sekt-Kontor* were up by 5.4% over the same quarter of the previous year, but below expectations. The e-commerce division under *Winegate* again considerably increased its sales; the online sales overall were twelve times higher than the previous year, rising to DM 2.2 million. The Austrian subsidiary *The Wine Company* is still in the start-up phase, with sales at a low level as yet. *Carl Tesdorpf – Weinhandel zu Lübeck* achieved a sales increase of 156.1% over the previous year's quarter with its main catalogue, published in June 2000. The company *Le Monde des Grands Bordeaux – Château Classic,* newly acquired at 1 September 2000, will be consolidated only in the fourth quarter of the current fiscal year, due to its minimal significance for the Hawesko Group. Accordingly, its sales are not included here.

The specialist retail division profited again in the third quarter both from higher sales in the existing stores as well as from new openings. The number of *Jacques' Wein-Depot* outlets in operation rose by five in the third quarter to a total of 185. Twelve further locations – half of them in Austria – were secured under lease. Like-for-like sales rose by 6% compared to the third quarter of the previous year.

The wholesale division posted the largest increase in sales in the third quarter of all the business units compared to the previous year's quarter. This is primarily due to the structure, i.e. to the consolidation of *Wein Wolf* in accordance with the International Accounting Standards (IAS) as of 2 September 1999. However, the existing wholesale business under *CWD Champagner und Wein-Distribution* was also satisfactory, with a sales increase of 19.4%, due to the intensification of customer service initiated in 1999.

The operating result (EBIT) of the Group in the third quarter amounted to a loss of DM 4.9 million, compared to a small profit of DM 1.0 million under IAS in the same quarter of the previous year. The mail order/e-commerce division thereby posted a result of DM –6.7 million (comparable period in the previous year: DM –1.2 million). This is due to the increased expenditures for advertising, especially for the print media campaign for *Winegate,* as well as the investment in the development of *Carl Tesdorpf* and the development of our presence in the Austrian market. The operating result in the specialist retail division (*Jacques' Wein-Depot*) rose by 7.8% to DM 3.0 million, not quite matching sales development – this was due primarily to the increased advertising expenditures. The wholesale division achieved an operating result of DM 0.1 million, which was below that of the comparable period in the previous year (DM 0.9 million); this decline is the consequence of a change in the accounting methods for group cost allocations.

The First Nine Months

The Hawesko Group increased its sales in the first nine months of fiscal year 2000 over the comparable period in the previous year by 30.2% under IAS to DM 277.1 million. Adjusted for the acquisition of *Wein Wolf,* Group sales rose by 6.8%. The business units achieved the following sales in this period: mail order/e-commerce: DM 105.9 million (DM 108.5 million, –2.4%); specialist retail (*Jacques' Wein-Depot*): DM 95.4 million (DM 82.1 million, +16.2%); wholesale: DM 75.7 million (DM 22.2 million, +241.0%; adjusted for the *Wein Wolf* acquisition +25.3%).

The operating result (EBIT) of the first nine months amounted to DM –0.9 million (prior year: DM 13.2 million). The sales divisions thereby posted the following operating results: mail order/e-commerce: DM –8.3 million (DM 6.1 million); specialist retail (*Jacques' Wein-Depot*): DM 9.3 million (DM 8.3 million, +11.2%); wholesale: DM 2.3 million (DM 1.8 million, +27.3%; adjusted for the *Wein Wolf* acquisition –79.9%). The operating results in the mail order/e-commerce and wholesale divisions was primarily influenced be the business development in the first quarter of 2000, and in the mail order/e-commerce division, also by the investment expenditures for the development of *Carl Tesdorpf – Weinhandel zu Lübeck,* the Austrian business and the e-commerce unit.

Financial expenditures – due primarily to the acquisition of *Wein-Wolf* – rose from DM 1.8 million in the same period of the previous year to DM 4.0 million. The ordinary result (before taxes) thus showed a greater decline to DM –4.9 million (DM 11.4 million). After the deduction of third-party interests, based on the International Accounting Standards, the Group result amounted to DM –5.1 million (DM 4.5 million). Thus the earnings per share amounted to DM –1.15 (Euro –0.59), compared to DM 1.03 (Euro 0.53) in the period between January and September 1999. These figures are based on a total number of 4,405,496 shares.

Balance Sheet

The balance sheet total as at 30 September 2000 declined compared to that of 31 December 1999 by DM 2.4 million to DM 299.2 million. This difference results from, on the one hand, the decline in receivables from deliveries and services – the high point of which is generally reached on 31 December – and, on the other hand, it is the result of the increase in inventory which reflects the preparation for Christmas sales. On the liabilities side of the balance sheet, the development compared to the status of 31 December 1999 is characterized by an increase of financial indebtedness as well as a reduction in liabilities resulting from deliveries and services and other liabilities.

In the first nine months of fiscal year 2000, investments amounted to DM 10.7 million (DM 22.6 million). These consist mainly of expenditures for the enlargement of the logistics center in Tornesch as well as for the expansion of *Jacques' Wein-Depot*. The enlargement of the logistics center is being financed through a sale-and-lease-back procedure that will be completed in the fourth quarter of 2000, so that the Group will regain liquidity of DM 1.4 million by the end of the year.

Cash Flow

Gross cash flow in the period under review amounted to DM –0.9 million, down from the same period in the previous year (DM 17.4 million). This is due primarily to the lower net profit. The monies paid out due to regular business activities, at DM 14.8 million, amounted to only half of the figure of the previous year, which is due mainly to the lower increase in inventories in the period under review.

Outlook

Sales of approximately DM 450 million are expected for the entire fiscal year 2000. This cautious forecast takes into account an optimized progression of the fourth quarter based on the previous year's experience with regard to peak loads and the Christmas business in particular.

In the fourth quarter, the development of *Winegate* into Germany's leading online site for wine will be further accelerated, whereby the burden of advertising expenditures will decline. Other promising projects currently being implemented include the development of the Austrian operations, the accelerated promotion of the premium brand *Tesdorpf* in the mail order division, and last but not least the expansion of the *Jacques' Wein-Depot* network.

At the moment, the management board is following the business development very closely, especially in the mail order/e-commerce division, in order to be able to implement measures to secure the result in a timely fashion. However, from today's standpoint, the current capital market expectations with regard to this year's results will not be fulfilled. For fiscal year 2001, a 10% sales increase and a higher increase in profits is expected.

Accounting under International Accounting Standards (IAS)

Since 1 January 2000, Hawesko Holding AG draws up its accounts under the principles of the International Accounting Standards Committee (IAS). By using the IAS method, Hawesko can better satisfy the needs of the investors for international comparability.

The comparative figures for 1999 have been adjusted accordingly. The main differences concern the treatment of taxes on income under IAS. The capitalization of conversion losses in fiscal supplementary accounts through the integration of the subsidiaries in Hawesko Holding AG results in deferred taxes, which, according to IAS, lead to a higher income tax burden. Also of material significance are different goodwill valuations from first-time consolidation, which lead to lower amortization charges. The changeover to IAS produces a significantly higher total in the consolidated balance sheet. This is mainly due to deferred taxes booked to assets and allocated directly to revenue reserves from the contribution of subsidiaries to Hawesko Holding AG at 1 January 1998. Further details about the accounts under IAS may be found in our 1999 annual report, pp. 64 ff..

Hawesko Holding AG
Profit and Loss Statement i.a.w. International Accounting Standards (IAS)

(in DM millions, not certified; rounding differences possible)	1.1.–30.9. 2000	1.1.–30.9. 1999
Sales revenues	**277.1**	**212.8**
Cost of purchased goods	–161.4	–117.4
Gross profit on sales	**115.7**	**95.4**
Other operating income	11.6	6.8
Personnel expenses	–29.2	–20.9
Depreciation and amortization	–5.6	–4.8
Other operating expenses	–93.4	–63.3
Income from operations (EBIT)	**–0.9**	**13.2**
Financial expense	–4.0	–1.8
Profit from ordinary activities	–4.9	11.4
Taxes on income and other taxes	–0.1	–6.6
Group profit	**–5.0**	**4.8**
Minority interest	–0.1	–0.3
Net profit	**–5.1**	**4.5**
Earnings per share in DM	**–1.15**	**1.03**

Hawesko Holding AG
Consolidated Balance Sheet i.a.w. International Accounting Standards (IAS)
(in DM millions, not certified)

	30.9.2000	31.12.1999
Assets		
Fixed assets	49.2	45.3
Inventories	149.9	133.0
Other current assets	44.7	73.6
Deferred taxes	54.1	48.4
Prepaid expenses	1.3	1.3
Total	**299.2**	**301.6**
Liabilities		
Equity	96.8	110.6
Provisions	5.9	7.6
Financial debts	129.9	92.6
Accounts payable and other liabilities	66.6	90.7
Total	**299.2**	**301.6**

Hawesko Holding AG
Cash Flow Statement i.a.w. International Accounting Standards
(in DM millions, not certified)

	1.1.–30.9. 2000	1.1.–30.9. 1999
Profit from ordinary result before taxes	–5.0	11.3
Depreciation of fixed assets	5.8	4.8
Change in provisions	–1.7	1.3
Subtotal: Cash flow for the period	**–0.9**	**17.4**
Other outflow of funds from current operations	–13.9	–45.0
Subtotal: Inflow/outflow of funds from current operations	**–14.8**	**–27.6**
Net outflow of funds from investment activities	**–10.6**	**–22.6**
Net inflow/outflow of funds from financing activities	**21.0**	**43.7**
Net change in liquidity	–4.4	–6.6
Funds at beginning of period	6.1	10.9
Funds at end of period	1.7	4.3

Business Segments (in DM millions

1.1.–30.9.2000	Mail order/ E-commerce	Specialist retail	Whole-sale	Other/ Transition	Group
Sales revenues	111.6	95.4	80.4	–10.3	277.1
– External	**105.9**	**95.4**	**75.7**	**–**	**277.1**
– Internal	5.7	0.0	4.6	–10.3	–
Income from operations (EBIT)	**–8.3**	**9.3**	**2.3**	**–4.1**	**–0.9**

1.1.–30.9.1999	Mail order/ E-commerce	Specialist retail	Whole-sale	Other/ Transition	Group
Sales revenues	114.0	82.1	26.3	–9.6	212.8
– External	**108.5**	**82.1**	**22.2**	**–**	**212.8**
– Internal	5.5	0.0	4.1	–9.6	–
Income from operations (EBIT)	**6.1**	**8.3**	**1.8**	**–3.0**	**13.2**

Other Information

	1.1.– 30.9. 2000	1.1.–30.9. 1999
Employees (average during the period)	365	350

Calendar:

–	Preliminary Report on Fiscal Year 2000	Mid-February 2001
–	Balance Sheet Press Conference / Publication of the Annual Report 2000 First Quarter 2001 / Three-month Report	Early May 2001
–	Annual General Meeting 2001	Mid-June 2001

Published by: Hawesko Holding AG
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