HAWESKO
HOLDING AG

Annual Report 2006

NUMBER 1 IN THE TRADE WITH PREMIUM WINES

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– THREE STRONG DIVISIONS, OPTIMALLY INTEGRATED

SPECIALIST WINE-SHOP RETAIL | MAIL ORDER | WHOLESALE/DISTRIBUTION

	2006	2005	
GROUP SALES (in € million)	**302.6**	287.0	+5.4%
GROUP EBIT (in € million)	**18.6**	18.9	–1.7%
EARNINGS PER SHARE (in €)	**1.23**	1.22*	+0.8%
ROCE	**18%**	18%	–

** adjusted to reflect the share split performed in October 2006*

SUCCESS WITH PREMIUM WINES – SUBSTANTIAL, PROFITABLE, LASTING

Contents

LETTER TO THE SHAREHOLDERS

Dear shareholders and friends of our company,

2006 brought the long-awaited economic recovery in Germany. After several years of below-average growth, gross domestic product grew by almost 3% last year – the highest rate of growth since 2000. This welcome development went hand in hand with a noticeable improvement in consumer confidence. The inflation-adjusted spending of private households had been caught in a relentless downward spiral in previous years; 2006, by contrast, marked a return to real growth for retail traders.

The wine market in Germany mirrored this development. With spending on wine having dwindled by an average of 3% p.a. between 2003 and 2005, this trend was finally reversed in 2006. The fact that our market segment has latterly increased its share of the overall market is particularly satisfying. Premium wines – in other words, wines costing more than € 4 per bottle – had surrendered over one-third of their share of the overall wine market between 2001 and 2005. The strong head wind with which we had to contend in recent years now finally appears to have turned to our advantage.

Last year, we were for instance able to boost our group's growth to more than 5% and yet again increase our market share. Developments in our wholesale segment, which expanded by over 16% to € 120 million, were particularly pleasing. The large number of exclusive products that we have succeeded in adding to the range in recent years is paying off. The specialist wine-shop retail segment likewise performed better than expected, with growth of 4%. The opening of six new *Jacques' Wein-Depot* shops and three *multiwein* stores, plus nearly 80,000 new customers, were responsible for this success. Only in the mail-order segment did revenue fall short of the previous year's level by 6%, for a variety of reasons; we are not satisfied with this development and have therefore taken measures to improve the situation.

Consolidated earnings were again increased, even though we invested extensively in measures to acquire new customers in 2006, conducted a large number of capital investments and substantially improved our processing and logistics structures. We succeeded in improving our earnings per share slightly to € 1.23. This positive development also resulted in our share price – adjusted to reflect the share split – rising from € 16.75 to € 20.40 in the course of the year.

On the basis of the Hawesko Group's healthy development in the 2006 financial year, we will be proposing a 21% increase in the regular dividend to the Shareholders' Meeting, from € 0.70 to € 0.85 per share. This proposal will enable our shareholders to participate in the positive development, maintain continuity in the level of dividend and allow scope for further increases in future years.

We remain distinctly optimistic for 2007. Despite the increase in the VAT rate, a slight rise in retail revenue is expected in Germany. The "cheap is cool" fad seems to be losing its appeal. Rooting out bargains is no longer the ultimate pastime. Quality once again matters – including in the wine market. This wind of change should bring us further impetus for growth in the future.

We will also once more be stepping up our investment in attracting new customers and in new sales channels such as our "VinoSelect" wine club activities and internet business in 2007. Last but not least, we will continue to focus on outstanding quality standards and perfect customer service, because by treating these as our priorities we have succeeded in securing excellent results even in times of economic difficulty. Achieving continued success in 2007 will depend, as always, on being able to rely on highly competent employees and partners.

I and my colleagues on the Board of Management would like to thank our employees, retail partners and wholesale network for their hard work and dedication in the 2006 financial year. Our thanks are also due to the employee council for its cooperation, and to our shareholders for their faithful support.

Yours sincerely,

Alexander Margaritoff
Chairman of the Board of Management

COMBINED MANAGEMENT REPORT

of Hawesko Holding AG for the 2006 financial year

Hawesko Holding AG has its origins in the wine mail-order company *Hanseatisches Wein- und Sekt-Kontor*, founded in 1964, and the wine specialist retailer *Jacques' Wein-Depot*, which was established in 1974. Hawesko Holding AG was created on 1 January 1998 through the contribution of these companies, together with the wine wholesaler *CWD Champagner- und Wein-Distributionsgesellschaft*. In 1999 a majority shareholding of 90% was acquired in the *Wein Wolf* Group, one of the leading wine wholesalers in Germany. Since then, the Hawesko Group has been Germany's leading supplier of high-quality wines and champagnes.

The Hawesko Group trades wines of superior quality and offers them expertly to consumers (in the "specialist wine-shop retail" and "mail-order" segments) or retailers (in the "wholesale/distribution" segment). Approximately 91% of consolidated sales are generated in the Federal Republic of Germany. Each of the group's business segments is a leader in its respective market. Long-standing relations with top wine producers and numerous exclusive distribution rights in Germany for wines of worldwide repute constitute the mainstays of the company's business. The principal locations are Hamburg and Tornesch (management headquarters, administrative offices and logistics for the mail-order segment), Düsseldorf (administrative offices for the specialist wine-shop retail segment under the umbrella of *Jacques' Wein-Depot*) and Bonn (administrative offices for the wholesale/distribution segment). The *Jacques' Wein-Depot* sales outlets are spread throughout the country. There moreover exist international branches for wholesale trade (Poland, Czech Republic, Hungary, Austria, France) and of *Jacques' Wein-Depot* (Austria).

GENERAL SITUATION

IMPROVED GENERAL ECONOMIC SITUATION PROVIDES RAY OF HOPE FOR PRIVATE CONSUMPTION

The German economy grew vigorously in 2006: according to provisional calculations by the Federal Statistical Office, price-adjusted gross domestic product (GDP) rose by 2.7% in 2006 compared with 2005. Growth of this magnitude was last registered in 2000 (+3.2%), and the previous year's growth rate was likewise easily bettered. For the first time since 2003, impetus for growth in 2006 came to a greater extent from within Germany, where investment activity increased and consumption strengthened. Private consumer spending grew by 0.8%, after having stagnated in 2004 and 2005 with a rate of increase of just +0.1% in each instance.

The consumer climate index as measured by Gesellschaft für Konsumforschung (GfK) accordingly moved upwards in 2006, almost regaining the level that was normal at the start of the millennium. The easing back of consumer confidence identified at the start of 2007 was triggered by the VAT rate increase. The propensity to make large purchases has weakened somewhat.

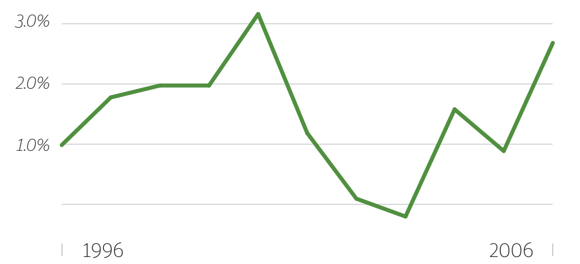
TURNAROUND FOR GERMAN WINE MARKET

After a fall in the total value of the German wine market for three years in a row, the trend was finally reversed in the year under review. GfK's findings reveal that the negative trend of –4% (2003), –3% (2004) and –2% (2005) was then followed by growth of 3% in 2006. The fact that the volume of wine sold on the wine market rose less sharply, by 1.5%, is an indication of a rise in the average price. The wine trade was consequently able to benefit from the more favourable climate of consumption in Germany in 2006. It also benefited from other trends: demand for champagnes, the 2005 Bordeaux vintage and top German Rieslings, for example, rose worldwide.

The situation in the top segment of the German wine market has therefore improved, even though the market as a whole continues to be dominated by the continuing encroachment of discount supermarkets. Over the past five years, the latter have succeeded in increasing their share of the market's volume from around one-third to about half.

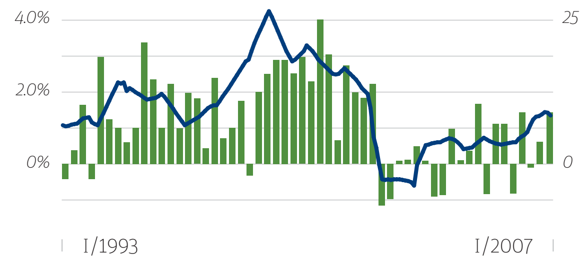
According to GfK's findings, wines commanding a price upwards of € 4.00 per bottle – in other words, those on which the Hawesko Group principally concentrates – accounted for around 17% of the overall market in terms of value in 2005. This price category accounted for as much as 26% of the total in 2001. No comparable figures are available for 2006, though the Board of Management of Hawesko Holding AG believes that the market share of wines priced at € 4.00 and upwards did not decrease, but if anything rose during the year under review.

GDP GROWTH in %



(Source: Destatis)

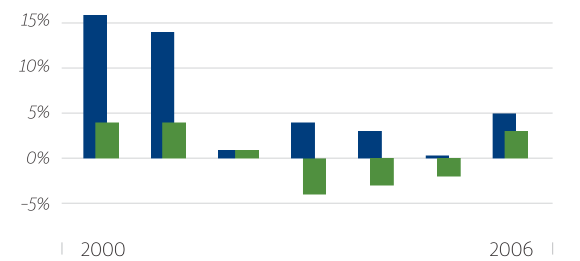
PRIVATE CONSUMPTION EXPENDITURE/CONSUMER CLIMATE



- Consumption expenditure of private domestic households, seasonally adjusted, change against the same quarter of the previous year (in %)
- GfK consumer climate

(Source: Frankfurter Allgemeine Zeitung, 31 March 2005, supplemented by data from GfK and Destatis)

SALES DEVELOPMENT HAWESKO GROUP in %



- Hawesko Group
- Total wine market

(Source: Wine-market data of the GfK household panel)

Oversupply on the buying market dwindling

Supply again far outstripped demand on the global wine market in 2006. The higher rate of growth in grapevine areas in Australia, South Africa, South America and the USA is exacerbating the market situation in European Union countries, which are already suffering from now chronic over-production. However, there are signs that the situation is improving: the volumes of harvests in Australia and the USA have latterly been smaller, and demand for wine outside the EU is growing.

The current over-supply is having an impact above all on basic-quality wines and the lower price brackets of the wine market. A degree of pressure on prices can likewise be detected in the mid-range quality categories and price brackets. On the other hand, other factors are at work in the pricing of top quality categories, because top-quality wines are by definition in short supply since the locations that give them their special character cannot be expanded at will. The most important factors governing top-quality wines are the weather conditions for the vintage, the quality of the harvest, the winemaker's philosophy and how this is realised with the year's harvest.

Fragmented trade structure fragmented in higher price brackets/quality categories

The wine market in the segment below € 4.00 per bottle in Germany is dominated by discount supermarkets such as Aldi, whereas a large number of smaller suppliers are active in the upmarket range from € 4.00 per bottle. By contrast, the distribution of higher quality categories – which is the home territory of the Hawesko Group – remains extensively fragmented.

Market shares of the Hawesko Group continue to grow

The consolidation of the German wine market in recent years was caused by a difficult domestic economy and the inroads made by discount supermarkets into the wine market. The withdrawal of certain market players has helped the Hawesko Group to increase its market shares in many areas. The market research data for 2006 for the higher-priced category above € 4.00 per bottle is only comparable to previous data to a limited degree. The Hawesko Group assumes that it succeeded in increasing its market share in this price segment in 2006.

STRATEGY

CORNERSTONES OF THE GROUP'S STRATEGY

- *Focusing on the top segment:* offering a discerning clientele outstanding products, coupled with a very high standard of service.
- *Building on the long-term trend towards superior quality:* the appeal of top wines rubs off on the entire wine trade, because they embody culture, possess charisma and represent values. This is what makes them desirable to the wine connoisseur and transforms them into the benchmark of rising expectations. As a consequence, the market must be tackled via the segment of high-quality wines first. Hawesko therefore focuses on that segment.
- *Nurturing ties with the best wine producers in the world:* the Hawesko Group's ranges comprise over 4,000 exclusive products. The range can only be managed appropriately by remaining in constant dialogue with the producers in order to address market trends and topical developments. This establishes the basis of trust that enables us to hold onto the best producers and thus guarantees us access to the best wines.
- *Value for money – not cut-price policies:* the Hawesko Group offers its customers high-quality products and corresponding service at fair prices, and provides an expert, differentiated marketing approach for its suppliers. It consciously sets itself apart from bulk sales of cheap goods. Its successful striving for quality and for setting the standard in the trade has also been acknowledged in the form of numerous awards, such as the 2004 German Mail Order Congress Prize for the best mail-order catalogue, and the 2005 Meininger Award for the best-managed wine company in Germany.
- *Concentrating on the considerable potential of the German market:* in a study commissioned by Hawesko in 2001, the consultancy firm Roland Berger established that there are around 8 million wine drinkers in Germany who match the customer profile of the Hawesko Group. The group currently reaches around 15% of this group, with the result that the number of potential customers of the group is very high.

- *Profitable growth:* to maintain profitability throughout the process of the company's growth, the Hawesko Group is systematically prospecting for new customers and continuously developing and realising new sales and marketing concepts.

THREE INDEPENDENT BUSINESS SEGMENTS

The subsidiaries of the Hawesko Group are largely grouped into three business segments: specialist wine-shop retail, wholesale/distribution, and mail order; there in addition exists a "miscellaneous" segment. The Segment Report in section 36 of the Notes to the consolidated financial statements provides further information. Being active in three segments of the wine trade gives the group a degree of risk diversification and makes its business model correspondingly robust.

The Hawesko Group is organised non-centrally. One benefit of this organisational structure is that it reflects the fact that the wine trade operates essentially as a people business. Nurturing and exploiting personal contacts with both producers and customers is what matters.

Specialist wine-shop retail

Via the market presence of *Jacques' Wein-Depot*, the specialist wine-shop retailing approach adopts the following strategic coordinates:

- *Target group:* the segment addresses affluent private customers with a higher level of education (in particular the 35 to 60 age bracket) who want to discover more about wine. They are already familiar with the varieties and producing regions, and prefer complex, interesting wines. Under the motto "taste and choose, as at the vintners", *Jacques'* offers them the opportunity to taste around 200 wines in the range – a model that emphasises they are under no obligation to buy adds to their enjoyment of wine.
- *Market segment:* upmarket wines of authenticated quality, available exclusively at *Jacques'*; average value € 6.00 per bottle, with a focal price bracket of € 4.00 to € 8.00.
- *Distribution:* there exists a system of independent partners (trade representatives) who run the *Jacques' Wein-Depots* outlets in situ. The dedication and expertise of these partners provide vital momentum to the company's success.
- *Growth:* through the acquisition of new customers for the existing outlets (the promotional measures for which are handled centrally) and through measured expansion of the network of outlets, via the opening of new establishments.

A new concept offering wines in lower price brackets has been tested since 2006 under the entirely separate market identity of *multiwein*. The intention is to increase the Hawesko Group's share of the high-volume market segment for wines costing just under € 4.00 per bottle. In the final quarter of 2006, *Multi-Weinmarkt GmbH* opened the first three test stores in Münster, Zwickau and Cologne. Three further stores each with a sales area of between 300 and 500 m^2 were to be opened in Berlin, Hamburg and Bonn in the first third of 2007. Some ten test locations are to be opened by 2008. The focal price bracket of its wine range is € 2.50 to € 4.00; there is no overlap between these wines and other products offered by the group.

Wholesale/distribution

This segment consists of several subsidiaries, each of which has specialised in particular product areas and has a separate identity. Their goal is to be expert partners to both demanding producers and discerning retailers.

- *Target group:* catering trade, specialist wholesalers and retailers, department stores as well as upmarket segments of the food retailing trade.
- *Market segment:* upmarket and premium wines; average value (wholesale) € 7.00 per bottle, with a bandwidth from € 2.00 to € 1,000.00.
- *Distribution:* trade agencies and direct mail-order sales.
- *Growth:* by acquiring new customers on the basis of the particular appeal of a range that includes many renowned exclusive wines, and by stepping up international activities (particularly in Austria and in Eastern European countries).

Mail order

The mail-order segment comprises the subsidiaries *Carl Tesdorpf – Weinhandel zu Lübeck, Hanseatisches Wein- und Sekt-Kontor* and *Sélection de Bordeaux*.

- *Target group:* the segment focuses on wealthy, somewhat older private customers (in particular in the 50+ age bracket) who have discerning tastes in wine, regard themselves as sophisticated connoisseurs and would also like to deepen their knowledge of wine. The range is in addition aimed at business customers who are looking for gifts for customers, particularly at Christmas.
- *Market segment:* upmarket and premium wines; average value € 7.00 per bottle, with a bandwidth from € 4.00 to € 1,000.00.
- *Distribution:* a main catalogue (spring/summer and autumn/winter issues) is sent out to the customer base twice a year, backed up by around 20 shorter promotional mail shots per year, each introducing specific offers.
- *Selective expansion:* the mail-order business has already achieved a high market share (in excess of 50%) in its relevant market. Business is being expanded in selected areas in addition to ongoing optimisation measures. The emphasis is currently being placed on the "VinoSelect" wine club, the sales channel of the internet and the tapping of new customer groups for Christmas business. The instrument of active telephone marketing is also used for publicising tailormade offers to customers who agree to this method of contact.

STRATEGIC TARGETS FOR GROWTH AND RATE OF RETURN, FINANCING TARGETS

The Hawesko Group's growth and rate of return targets are as follows:

- *Sales:* the sales growth of the Hawesko Group should always be higher than that of the market as a whole. Even if the overall market is not growing, the group's sales should rise. The Hawesko Group consequently has the objective of constantly expanding its market share.
- *Profit margin:* in 2000, the company set itself the long-term objective of boosting the EBIT margin permanently to 7%.
- *Capital turnover:* in 2000, the company set itself the long-term objective of increasing the capital turnover to a factor in excess of 1.3.
- In 2005, the Hawesko Group set itself the long-term objective of achieving a minimum return on capital employed of 16%.

Financing strategy

As part of its financing strategy, the Hawesko Group endeavours to ensure that there are adequate financial resources available to finance both its ongoing business operations and its organic growth. It aims to finance both that growth and, in principle, the distribution of profit from the free cash flow. To optimise its liquidity, the group makes use of a cash pool system that combines the cash and cash equivalents of the domestic subsidiaries. Further objectives of the group involve permanently keeping the weighted cost of capital and the capital structure at a level that will continue to guarantee it a bank rating of "investment grade" standard. To assure this and in order to continue paying a dividend in keeping with the earnings per share, it is necessary to continue generating an adequate free cash flow. The sustained optimisation of working capital will thus remain a priority target of the Board of Management and the heads of segments (cf. "Management and control", page 24).

The costs of capital to be earned (cf. under "Financial position", page 17) are the focus of corporate steering activities in all segments of the group. This is to ensure that only investments that generate value or exceed their minimum return are made. The minimum rates of return targeted for the individual segments are gauged by the indicator of return on capital employed (ROCE). In the Hawesko Group, ROCE is calculated as follows: EBIT divided by the average capital employed, in other words by the balance sheet total plus capitalised lease commitments less interest-free liabilities and provisions. The ROCE indicators for the business segments and group are as follows:

ROCE	2004	2005	2006	Anticipated minimum return
Specialist wine-shop retail	34%	29%	29%	› 27%
Wholesale/distribution	10%	14%	15%	› 17%
Mail order	15%	21%	15%	› 22%
Group	15%	18%	18%	› 16%

The following were communicated as targets for 2006 and achieved or not achieved as indicated:

	Objective	2006	Attained
Sales	Year-on-year increase (€ 287.0 million), higher growth than the market itself (2006: +3.4%)	€ 302.6 million (+5.4%)	✔
EBIT	Achieving a level above € 18.0 million in spite of start-up costs for the *multiwein* pilot scheme	€ 18.6 million (–1.7%)	✔
EBIT margin	Achieving 7% of sales	6.1%	–
Capital turnover	Permanently exceeding a factor of 1.3	1.8	✔
ROCE	Achieving the long-term minimum target return (16%)	18%	✔
Free cash flow	€ 10.0 million	€ 5.6 million	–

The fact that the long-term EBIT target margin of 7% was missed in the year under review is attributable to the establishment of *multiwein* in the specialist wine-shop retail segment and to an IT-system changeover in mail-order trade. The failure to meet the free cash flow target was largely due to the late receipt of orders in the mail-order business segment, which resulted in a high level of receivables being carried over beyond the reporting date.

OVERVIEW OF BUSINESS PROGRESS IN 2006

In the opinion of the Board of Management, the Hawesko Group made good overall progress in the 2006 financial year. With the underlying economic situation more favourable than in previous years (see "General economic situation" above, page 6) and the resulting positive consequences for the wine market, the Hawesko Group succeeded in increasing its sales by 5.4%. The year under review witnessed extensive outlay (for example the start-up costs for *multiwein* and the costs of renewing the IT platform) designed to strengthen financial performance in the future. The operating result (EBIT) nevertheless reached € 18.6 million and was consequently above the anticipated level of € 18.0 million. The wholesale segment benefited from more lively demand e.g. from the catering trade, and thus achieved earnings that were above the original expectations. The specialist wine-shop retail segment, too, developed better than expected thanks to good Christmas business. The success of these two segments compensated for the performance of the mail-order segment, where advertising activities were temporarily curtailed during an IT changeover; the response rates to promotional mailings were moreover lower than anticipated. The net earnings of the Hawesko Group thus bettered the prior-year level, even if the tax expense ratio rose as expected compared with the previous year – from 33% to 37%. Consolidated earnings after taxes and minority interest amounted to € 10.8 million or € 1.23 per share, compared with € 10.7 million or € 1.22 per share in the previous year (figures per share adjusted to reflect the share split performed in October 2006, see below).

The consolidated balance sheet is affected particularly by the accumulated receivables in the mail-order segment at the end of the year, which were € 4.0 million higher than envisaged. Despite the resulting rise in the balance sheet total, it was possible to achieve an ROCE of 18%, as in the previous year, and thus to keep it above the target level of 16%.

The Hawesko Group generated a free cash flow of € 5.6 million in the year under review. The high level of receivables carried over beyond the reporting date was reduced in the first few weeks of 2007. Thanks to the continuing low debt level, the proposed regular dividend can be increased to € 7.5 million (€ 0.85 per share) (previous year € 6.2 million or € 0.70 per share plus a bonus payment of € 2.6 million or € 0.30 per share; figures in each case adjusted to reflect the share split).

SHARE PRICE DEVELOPMENT

The stock markets in Germany continued to rise sharply in 2006. The German stock market index DAX, which had started the year on around 5,400 points, gained 22% in the course of the year, ending the final day's trading on about 6,600 points.

Hawesko Holding AG carried out a two-for-one share split on 20 October 2006. The increased trading volume of Hawesko shares that this measure prompted is intended to further enhance their appeal to investors.

The price of Hawesko Holding AG's shares rose from a figure of € 16.75 (adjusted to reflect the share split) on the first trading day of 2006 to nearly € 23.25 in June, closing the year on € 20.40. This represented a gain of 22% over the year in question.

INVESTOR RELATIONS

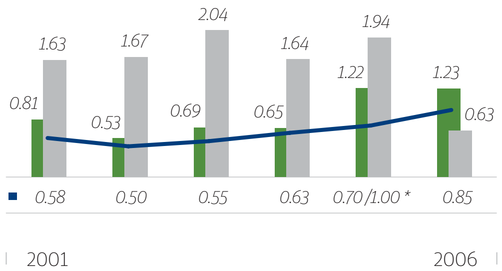
The investor relations activities of the Hawesko Group are designed to stimulate an ongoing dialogue with fund managers and other institutional investors, as well as with other capital market participants and representatives. The business situation of the group and the expectations of its management are broached within this dialogue. The shareholders of Hawesko Holding AG include institutional investors in Germany, France, Italy, Scandinavia and the United Kingdom. Contacts with them remained healthy over the year under review, and were further deepened. A total of 84 individual meetings were held with these investors in 2006. Hawesko in addition held five company presentations in Frankfurt am Main, including at the DVFA Small Cap Conference and the German Equity Forum. Hawesko held two presentations in London: at Dresdner Kleinwort's Mid & Small Cap Day, and at HSBC's German Retail & Consumer Conference. The development of Hawesko Holding AG is regularly covered by a number of leading banks, namely Bankhaus Lampe, Berenberg Bank, Deutsche Bank, DZ BANK, GSC Research, Independent Research and M.M. Warburg.

PRICE DEVELOPMENT OF THE HAWESKO SHARE in %

- Hawesko share
- Dow Jones 600 Food & Beverage Price Index
- Dow Jones 600 Price Index
- DAX Index

(adjusted to reflect the share split performed in October 2006)

KEY DATA PER SHARE in €

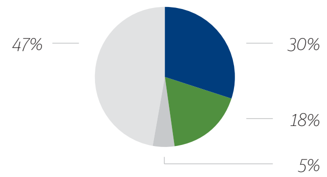


** incl. of bonus payment*

- Earnings per share
- Free cash flow per share
- Dividend per share

(adjusted to reflect the share split performed in October 2006)

SHAREHOLDER STRUCTURE in %



- Alexander Margaritoff Holding GmbH
- Tocos Beteiligung GmbH (Detlev Meyer)
- Augendum Vermögensverwaltung GmbH
- Institutional and private investors (free float)

FINANCIAL PERFORMANCE, FINANCIAL POSITION AND NET WORTH

FINANCIAL PERFORMANCE

Sales growth above the market average secures higher market shares

The net sales of the Hawesko Group rose by 5.4% in 2006, from € 287.0 million to € 302.6 million. The sales volume amounted to around 46 million bottles or units in the year under review. The German market generated around 91% of sales. Wines from France accounted for around 40% of sales, Italian wines for approximately 30% and wines from Spain for some 10%. Whereas the group posted higher sales for its specialist wine-shop retail and wholesale/distribution segments, the mail-order segment experienced a downturn in sales. The weaker demand for the products sold by *Hanseatisches Wein- und Sekt-Kontor*, in particular in the second and third quarters, is partly attributable to a temporary reduction in the pertinent advertising activities during an IT-system changeover.

DEVELOPMENT IN EARNINGS

€ million	2004	2005	2006
EBITDA	**22.1**	**23.3**	**22.9**
– Year-on-year change	–	+5.2%	–1.8%
– EBITDA margin	7.7%	8.1%	7.6%
EBIT	**16.8**	**18.9**	**18.6**
– Year-on-year change	–	+12.4%	–1.7%
– EBIT margin	5.9%	6.6%	6.1%
EBT	**13.4**	**16.2**	**17.3**
– Year-on-year change	–	+21.0%	+7.0%
– EBT margin	4.7%	5.6%	5.7%
CONSOLIDATED EARNINGS	**5.7**	**10.7**	**10.8**
– Year-on-year change	–	+88.6%	+0.7%
– Consolidated earnings margin	2.0%	3.7%	3.6%

COST STRUCTURE

as % of sales	2004	2005	2006
Personnel costs	–10.2%	–9.9%	–9.5%
Advertising costs	–8.3%	–8.2%	–7.9%
Delivery costs	–4.0%	–3.9%	–3.7%
Other operating income and expenses (balance)	–11.6%	–11.5%	–11.8%
Depreciation and amortisation	–1.8%	–1.5%	–1.4%
TOTAL	**–35.9%**	**–35.0%**	**–34.3%**

The slight shift in the sales shares of the individual segments compared with 2005 caused the gross profit margin within the group to fall, from 41.6% in the previous year to 40.4% in the year under review. The steepest percentage increase in sales was yet again achieved by the wholesale/distribution segment, where the profit margin is comparatively small. The specialist wine-shop retail and mail-order segments enjoyed a slight year-on-year increase in their gross profit margins, whereas the margin for wholesale business was able just to hold its ground.

Consolidated EBIT at prior-year level despite burdens

The operating result (EBIT) of the Hawesko Group amounted to € 18.6 million (previous year: € 18.9 million) in the year under review. Consolidated EBIT for 2006 represents an operating margin of 6.1% of sales (2005: 6.6%). The EBIT for the year under review was diminished on the one hand by the start-up costs for the new *multiwein* concept, which amounted to € 0.7 million, and on the other hand by the operational efforts involved during a changeover of the IT-system in the mail-order segment. There were positive effects largely from increased sales in the specialist wine-shop retail segment (where the gross profit margin showed a slight improvement as well) and in the wholesale segment. Other factors which served to boost earnings were the cost savings realised in the human resources and advertising areas through restructuring measures. As a proportion of sales, personnel costs fell from 9.9% in the previous year to 9.5% in the year under review, and advertising costs from 8.2% to 7.9%. No sale and lease-back agreements or other substantial accounting policy measures were implemented in the year under review.

Sharp growth for specialist wine-shop retail, with above-average rise in EBIT despite start-up costs

The net sales (sales less sales tax) of the specialist wine-shop retail business segment (in essence *Jacques' Wein-Depot*) were boosted by 4.4% in the year under review to € 101.2 million. Like for like, the rise in sales was 3.4%.

Growth was driven mainly by the sharp increase in the number of purchase transactions. This figure increased by more than 5% on the previous year, whereas the average till receipt was less than 1% down on the prior-year figure. In the final four weeks of the year alone, store traffic was up 13%.

At the end of the year under review there were 260 *Jacques' Wein-Depot* outlets, including five in Austria (end of previous year: 256, including seven in Austria). At 31 December 2006, rental agreements for a further two outlets had in addition been taken out. Amid an increasingly favourable climate for private consumption, *Jacques' Wein-Depot* was able to secure an even stronger competitive position. Three stores in the new *multiwein* sales format were in addition opened in the last third of the year.

The operating result (EBIT) for the wine-shop segment rose from € 10.3 million to € 11.6 million in the reporting period, or by 13.0%. This increase was prompted above all by the growth in sales coupled with the slight year-on-year improvement in the gross profit margin. As in previous years, the well-established *Jacques'* customer card and the successful acquisition of new customers for existing outlets in particular contributed towards business stability. EBIT was diminished by the activities for testing the new *multiwein* specialty store retail concept (€ 0.7 million), by activities in Austria (€ 0.1 million; previous year: € 0.3 million) and by training activities for *Viniversitaet Die Weinschule GmbH* amounting to € 0.3 million (previous year: € 0.2 million).

Wholesale/distribution generates substantially higher sales, with EBIT margin unchanged

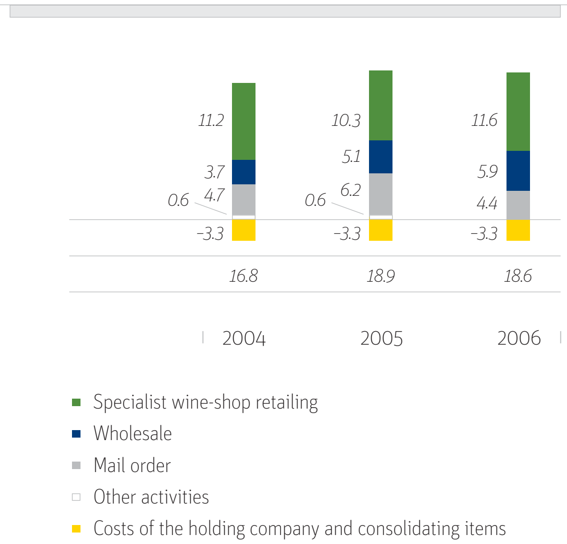
The net sales of the wholesale/distribution segment was 16.1% higher than in the previous year, at € 119.6 million – even though a major order for Italian wines in 2005 had added € 2.1 million to sales in that year. The wholesale/distribution segment's strong position in the market consequently yielded renewed high growth, in light of swelling consumer confidence in 2006. Further top vintners who ideally complement the product portfolio were added to the *Wein-Wolf*-range. Sales of Baron Philippe de Rothschild wines, which have been in the range since April 2004, continued to make positive progress. Sales of champagne likewise picked up noticeably.

Wein Wolf has also been successful in Austria and the Czech Republic with its activities based around the discerning business concept of "a wealth of individuality". In France, the wholesale/distribution segment enjoyed increasing sales in particular from high-calibre Bordeaux wines after focusing its company *Château Classic – Le Monde des Grands Bordeaux* on internet business.

The operating result (EBIT) for wholesale and distribution rose by 15%: from € 5.1 million in the previous year to € 5.9 million in the year under review. This in essence reflects the sales growth via this sales channel. The average selling price per bottle was around one euro up on the previous year, at approx. € 7.00.

SALES BY SEGMENT in € million

EBIT BY SEGMENT in € million



EBIT MARGINS

as % of sales	2004	2005	2006
Specialist wine-shop retailing	11.6%	10.6%	11.5%
Wholesale	3.9%	5.0%	4.9%
Mail order	4.9%	7.1%	5.4%

IT-system changeover and costs of SAP launch dominate mail order

Net sales for the mail-order business segment fell to € 81.4 million in 2006. This downturn of 5.8% was above all due to weaker demand in *Hanseatisches Wein- und Sekt-Kontor's* regular business (excluding gifts and Bordeaux subscription). This reduced level of demand was also attributable in part to the absence of mail shots during an IT-system changeover, affecting the third quarter in particular. Sales from the company's gifts business showed a slight decrease, though the average revenue per order was higher. *Carl Tesdorpf – Weinhandel zu Lübeck* was unable to match its prior-year sales growth, among other reasons because of the IT changeover.

The French subsidiary *Sélection de Bordeaux* specialises in mail-order sales of Baron Philippe de Rothschild wines and again achieved sales of € 0.9 million in the 2006 financial year (previous year: € 0.9 million).

The mail-order segment gained 53,000 new customers in the year under review (previous year: 54,000; in each case excluding the normal annual attrition). Compared with the previous year, the average number of bottles per order rose by 1% and the average value per order dipped by just under 3%; the frequency of purchases fell.

The operating result (EBIT) for the mail-order segment declined to € 4.4 million (previous year: € 6.2 million). In assessing EBIT, it should be noted that own contributions to both purchased and internally produced intangible assets (in the first instance directly allocable personnel costs) amounting to € 0.9 million were capitalised in the previous year in preparation for the introduction of an SAP-based merchandising system. In the year under review, this amount was € 0.8 million. Depreciation amounting to € 0.1 million of the total production for own assets capitalised moreover diminished the mail-order segment's EBIT for the first time. Notwithstanding this, the lower sales already mentioned and one-off costs in connection with the IT-system changeover were responsible for the downturn in the operating result.

Lower third-party business and IT changeover limit logistics EBIT

The subsidiary *IWL Internationale Wein Logistik* in Tornesch, near Hamburg, complements the mail-order activities through its logistics services. To a minor extent it also performs logistics services on behalf of customers outside the group. These external sales fell by 34% in the year under review. The lower volume of orders for the mail-order companies within the group and one-off costs in connection with the aforementioned IT-system changeover prompted a year-on-year downturn in EBIT, from € 0.6 million to zero.

At group level, the costs for the holding company and consolidating items amounted to € 3.3 million in the year under review, compared with € 3.3 million in the previous year.

Consolidated net income

In the 2006 financial year, the consolidated earnings before taxes totalled € 17.3 million and were consequently up € 1.1 million on the prior-year figure as a result of a better financial result. The € 1.5 million improvement in the financial result was mainly attributable to one-off proceeds from the sale of interest rate derivatives no longer required. Despite the higher earnings before taxes, earnings after taxes remained at € 11.0 million (previous year: € 10.8 million) due to the higher effective tax rate.

The effective tax rate for 2006 was 36.7%, compared with 33.1% in the previous year (cf. No. 12 in the Notes to the consolidated financial statements). This rise is attributable to the particularly low effective tax rate in the previous year, which resulted from the fact that it had become possible to capitalise deferred tax on the tax loss carryforward for trade tax of Hawesko Holding AG (the parent company) in 2005 in connection with its fiscal restructuring. These deferred taxes are released at the rate of € 0.4 million per year.

Consolidated earnings after taxes and minority interest totalled € 10.8 million in the year under review (previous year: € 10.7 million).

The earnings per share amounted to € 1.23 (2005: € 1.22, adjusted to reflect the share split). There are no further outstanding convertible bonds or conversion rights; at present there is consequently no scope for dilution of the earnings per share.

Net income of the parent company and proposal on the appropriation of earnings

The income statement of Hawesko Holding AG, as parent company of the group, is dominated by its holding activities and – unlike the consolidated income statement – is prepared in accordance with the German Commercial Code. The result from shareholdings fell as a result of the lower earnings of the subsidiaries, from € 16.6 million in the previous year to € 15.4 million in the year under review. A write-down of € 10.0 million was taken on the book value of the mail-order subsidiary *Hanseatisches Wein- und Sekt-Kontor HAWESKO GmbH*. This, together with other expenses and taxes, resulted in net income of € 1.7 million (previous year: € 10.9 million). Following withdrawal of € 5.8 million from other revenue reserves, there ensues an unappropriated profit of € 7.6 million, with a profit carryforward of approximately € 0.1 million.

The Supervisory Board and Board of Management propose to the Shareholders' Meeting that the unappropriated profit for the year be appropriated for the distribution of a regular dividend of € 0.85 per individual share.

FINANCIAL POSITION

Principles and aims of financial management

The principles and aims of financial management were explained above on page 10 under "Strategy".

Financing analysis

The capital requirements of the Hawesko Group comprise the capital expenditure on property, plant and equipment and intangible assets, the financing of operating activities and the payment of the dividend. For these purposes, the Hawesko Group finances itself largely through working capital credit, finance leases and the cash flow from operations that it generates. At 31 December 2006, the cash resources of the group comprised cash amounting to € 5.5 million (previous year: € 7.2 million). There exist credit facilities with a volume totalling € 34.5 million, of which € 10.0 million is available seasonally to finance Christmas business. At 31 December 2006, these credit facilities were drawn on to a level of around 23%. Overall, the Hawesko Group reported short-term and long-term borrowings amounting to € 21.4 million at that reporting date. Of this total, € 10.2 million is due within the next twelve months. The short-term borrowings consist predominantly of bank loans from German banks on the basis of credit agreements. The long-term borrowings show above all liabilities from finance leases amounting to € 9.2 million.

According to group calculations, the costs of the equity and borrowed capital made available to the group are currently 6.8%. They comprise the weighted costs of the equity capital of 7.0% on the one hand, and of the borrowed capital of 5.4% on the other. In calculating the cost of equity, the group works on the basis of a long-term risk-free interest rate of 4.25% and a risk premium of 4.5% at beta = 0.6.

COMPOSITION OF BORROWINGS AT 31 DECEMBER 2006:

	Short-term € million	Short-term %	Long-term € million	Long-term %	Total € million
Due to banks	9.2	82.1	2.0	17.9	**11.2**
Finance leases	1.0	9.8	9.2	90.2	**10.2**
TOTAL	10.2	47.7	11.2	52.3	**21.4**

COMPOSITION OF BORROWINGS AT 31 DECEMBER 2005:

	Short-term € million	Short-term %	Long-term € million	Long-term %	Total € million
Due to banks	5.4	65.1	2.9	34.9	**8.3**
Finance leases	0.9	8.1	10.2	91.9	**11.1**
TOTAL	6.3	32.5	13.1	67.5	**19.4**

The short-term loans are rolling borrowings denominated in euros, in each case with a maturity of between one and three months. The interest rate risk is hedged by means of derivative interest-rate hedging tools at group level. The terms of the long-term borrowings and details on the recognition of the financial derivatives as well as of the finance leases are shown in the Notes to the consolidated financial statements, from page 54.

In the year under review of 2006, the net debt owed rose by € 3.7 million to € 16.6 million. The € 2.9 million rise in amounts due to banks lay behind this development.

The following table shows the development in the net debt owed:

€ million	2006	2005
Due to banks	11.2	8.3
+ finance leases	10.2	11.1
+ provisions for pensions	0.7	0.7
= GROSS DEBT OWED	**22.1**	**20.1**
– cash	–5.5	–7.2
= NET DEBT OWED	**16.6**	**12.9**

Off-balance-sheet financial instruments, such as loan asset sales, are not used.

Liquidity analysis

CONSOLIDATED CASH FLOW

€ million	2006	2005
Cash flow from current operations	+12.7	+24.3
Cash flow from investing activities	-5.6	-5.2
Cash flow from financing activities	-8.8	-21.0

The consolidated cash flow from current operations fell by € 11.6 million to € 12.7 million. This downturn resulted on the one hand from a rise in advance payments for subscriptions to Bordeaux wines, which were particularly high in view of the desirability of the 2005 vintage. On the other hand the reduced operating cash flow was attributable to higher trade receivables, which reflected above all the sales growth of the wholesale segment. Late receipt of orders in the mail-order business segment in addition resulted in a high level of receivables being carried over beyond the reporting date. The cash flow from investing activities includes cash outflows for property, plant and equipment and intangible assets amounting to € 5.9 million. These resources were used predominantly for the introduction of a new SAP-based stock administration, goods management and financial accounting system in the mail-order segment that was started in 2005 and completed in the year under review.

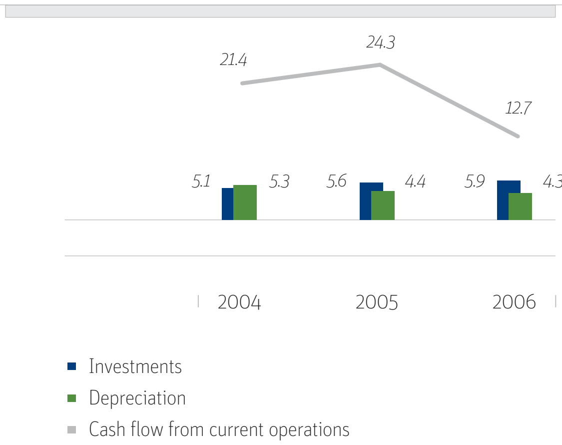
The free cash flow (total of cash flows from current operations and investing activities less interest paid), which serves as an important indicator within the Hawesko Group, decreased by € 11.5 million to € 5.6 million.

Investment analysis

The Hawesko Group invested € 5.9 million in intangible assets, in property, plant and equipment and in financial assets in the year under review (previous year: € 5.6 million). In relation to sales, the investment ratio is thus 2.0%, as in the previous year.

Capital expenditure on property, plant and equipment totalled € 3.0 million (previous year: € 2.5 million), the bulk of which (€ 1.1 million) was used for the modernisation of the *Jacques' Wein-Depot* outlets in the specialist wine-shop retail segment. The capital expenditure on intangible assets of € 2.9 million (previous year: € 3.0 million) mainly related to the launch of new stock administration, merchandising and financial accounting software in the mail-order segment and in logistics, which the company embarked on in the previous year and was completed in the year under review.

INVESTMENTS/DEPRECIATION/CASH FLOW in € million



STRUCTURE OF THE CONSOLIDATED BALANCE SHEET

ASSETS in € million	**2006**	as % of balance sheet total	**2005**	as % of balance sheet total
NON-CURRENT ASSETS				
Intangible assets	10.6	6%	8.6	5%
Property, plant and equipment	23.5	14%	24.3	15%
Financial assets	0.3	0%	0.2	0%
Deferred tax assets	15.3	9%	19.2	12%
Other	7.6	4%	4.3	3%
	57.3	**33%**	**56.6**	**35%**
CURRENT ASSETS				
Inventories	61.2	36%	57.5	35%
Trade receivables	44.8	26%	38.7	24%
Cash and other current assets	8.6	5%	9.8	6%
	114.6	**67%**	**106.0**	**65%**
BALANCE SHEET TOTAL	**171.9**	**100%**	**162.6**	**100%**

EQUITY AND LIABILITIES in € million	**2006**	as % of balance sheet total	**2005**	as % of balance sheet total
SHAREHOLDERS' EQUITY				
Subscribed capital (adjusted pursuant to IFRS)	8.9	5%	8.9	5%
Capital reserve	5.9	3%	5.9	4%
Revenue reserve	35.3	21%	33.0	20%
Balancing item	0.0	0%	0.0	0%
Unappropriated group profit	22.1	13%	22.3	14%
Minority interest	0.3	0%	0.3	0%
	72.5	**42%**	**70.4**	**43%**
MINORITY INTEREST IN UNINCORPORATED SUBSIDIARIES	**3.0**	**2%**	**3.0**	**2%**
NON-CURRENT LIABILITIES				
Provisions	1.0	1%	0.9	1%
Non-current portion of borrowings	11.2	6%	13.1	8%
Other non-current liabilities and deferred tax liabilities	8.6	5%	5.2	3%
	20.8	**12%**	**19.2**	**12%**
CURRENT LIABILITIES				
Provisions	0.0	0%	0.0	0%
Current portion of borrowings	10.3	6%	6.3	4%
Advances received	3.7	2%	5.2	3%
Trade payables	43.5	25%	38.2	23%
Other liabilities	18.1	11%	20.3	12%
	75.6	**44%**	**70.0**	**43%**
BALANCE SHEET TOTAL	**171.9**	**100%**	**162.6**	**100%**

FINANCIAL POSITION

Equity ratio remains at high level

The consolidated balance sheet total rose from € 162.6 million in the previous year to € 171.9 million in the year under review. This represents an increase of 5.7%.

The non-current assets were marginally up on the previous year at € 57.3 million (€ 56.6 million). This item substantially comprises goodwill from the consolidation of the *Wein Wolf* Group (€ 4.5 million) and *Château Classic – Le Monde des Grands Bordeaux* (€ 0.2 million) as well as *Carl Tesdorpf – Weinhandel zu Lübeck* (€ 0.3 million). In view of the very good 2005 Bordeaux vintage, the long-term advance payments for inventories in particular were higher. The deferred tax assets item fell by € 3.9 million.

Current assets rose from € 106.0 million to € 114.6 million. This was attributable in the main to the higher trade receivables, which reflected above all the sales growth of the wholesale segment. The rise in receivables is in addition due to the late receipt of orders in the mail-order business segment, which resulted in a high level of receivables being carried over beyond the reporting date.

Consolidated equity rose year on year by € 2.1 million to € 72.5 million. In view of the higher balance sheet total, the equity ratio (prior to the distribution of profit) fell slightly from 43.3% to 42.2% of the balance sheet total. The € 2.3 million rise in the revenue reserve to € 35.3 million is the result of allocations from the previous year's unappropriated profit.

Long-term provisions and liabilities were up € 1.6 million to € 20.8 million. This is principally attributable to the increase in advances received, which were particularly high in view of the much sought-after 2005 Bordeaux vintage. Borrowings, on the other hand, were reduced by € 1.9 million in the year under review, to € 11.2 million. As there were no new long-term borrowings, this item fell as a result of the scheduled repayments.

Short-term provisions and liabilities rose by € 5.6 million. This development was attributable on the one hand to the higher trade payables and on the other hand to the higher short-term borrowings.

The financial position is not affected to any significant degree by the differences between market values and the assets and debts recognised in the accounts. No off-balance-sheet financial instruments exist.

No companies were acquired or sold in the period under review.

The capital turnover was 1.8, as in the previous year.

There exist no substantial assets used that are leased but not recognised in the balance sheet. In the specialist wine-shop retail segment, the wine shops operated by *Jacques' Wein-Depot* and *multiwein* are fundamentally rented and are therefore not reported under fixed assets. Of the total of 263 locations in Germany and Austria at the end of the year under review, 260 were operated by *Jacques'* and three by *multiwein*.

The principal intangible assets of the group that do not qualify for recognition in the financial statements come under the category of relationships with customers and suppliers. This means in particular the customer file, which covers a substantial portion of the group of people in Germany who are interested in high-quality wines. The warehousing and transport logistics are a further major asset.

The specialist wine-shop retail and mail-order segments serve around one million private customers in Germany and Austria. These customers make purchases averaging € 182.00 net per year. The customer base of the wholesale segment comprises around 12,000 customers, predominantly in Germany; they are made up of grocery retailers, specialist wine retailers and the catering branch.

Long-standing relations with the world's best vintners are a further asset in the wine trade. The exclusive distribution rights for certain leading brands in individual sales markets are also of significance. The Hawesko Group has the distribution rights for Germany for the producers Marchesi Antinori, Baron Philippe de Rothschild, Domaines Barons de Rothschild (Lafite), Penfolds, Rosemount, Taittinger and Torres.

Hawesko is at a considerable advantage thanks to its special logistics arrangements, in other words the warehousing, handling and dispatching to customers of its wines in a manner that befits such a sensitive, high-quality product. For its mail-order logistics, the group has a fully air-conditioned delivery centre where the processes are tailored precisely to the specific nature of mail-order trade with consumers. In the specialist wine-shop retail and wholesale areas, on the other hand, third-party service providers are used for the most part, as the processes in this instance are closer to the established norm in logistics.

EMPLOYEES

The positive development and sustained business success of the Hawesko Group depend critically on the expertise, experience and motivation of its employees.

The group employed an average of 551 people in the 2006 financial year, predominantly in Germany; this compares with 566 in the previous year. The slight decrease in the employee total is attributable to structural changes in the mail-order segment. In the other business segments, the employee totals were on a par with the previous year.

The employee structure for the year under review, on the basis of function, is as follows: 51% of employees were engaged in the marketing/distribution/customer service areas, 19% in administration and IT, 22% in logistics, and 8% in purchasing and procurement.

Personnel expenses comprise wages and salaries, as well as statutory, collectively negotiated and voluntary social contributions. Personnel costs rose by 0.6% in the year under review to € 28.7 million. The personnel cost ratio eased slightly to 9.5% (previous year: 9.9%).

Depending on the subsidiary that employs them, the employees of the Hawesko Group are entitled to a variety of retirement benefit arrangements. These include options to convert part of their pay into pension contributions, collectively negotiated retirement benefits and voluntary employer commitments.

TOTAL EMPLOYEES/PERSONNEL COST in € million

Hawesko Holding AG is a member of the Pensionskasse des Handels pension fund. Our membership paves the way for providing all domestic employees of the Hawesko Group with effective retirement benefit arrangements, including cover for invalidity and surviving dependants. The combination of employer subsidies and a component taken directly from the individual employee's salary makes it possible to build up a stable provision for old age through contributions that are exempt from tax and social insurance. At 31 December 2006, 278 employees of the group belonged to this pension fund. Collectively negotiated employer subsidies amounted to € 0.1 million in the year under review.

Well trained employees are indispensable in achieving the high standards that our markets and customers expect. The Hawesko Group therefore both provides training in line with requirements, and specific further training. Traineeships are predominantly in commercial vocations. Since the 2006 financial year, these have included the newly created vocation of "dialogue marketing commercial clerk", where the emphasis of training is placed on equipping people to plan, organise and steer customer contacts. The objective here is to develop and preserve long-term customer contacts. Employees who have completed this specialist training are deployed in the call centre and sales areas of mail-order operations. The further training measures available within the Hawesko Group are based on courses designed to develop the personal performance profiles of individual employees. Employees are in addition offered internal training courses, focusing predominantly on goods management and on the handling of user software. Expenditure on training and advancement measures in the year under review amounted to € 0.1 million.

RESEARCH AND DEVELOPMENT

As a trading company, the Hawesko Group does not perform research and development in the narrower sense. The costs of developing exclusively marketed vintages in conjunction with renowned wine producers – including the registration and protection of brands – does not amount to more than € 100 thousand per year.

OVERALL STATEMENT ON THE ECONOMIC SITUATION

The Board of Management of Hawesko Holding AG views the economic situation of the Hawesko Group as healthy at the time of writing in February 2007 and is of the opinion that the group is well equipped to continue growing. It was able to benefit from overproportional sales growth and higher earnings before taxes in the year under review. The recent development of the Hawesko Group thus underlines the sustainability of the business model, by means of which it offers its wine suppliers attractive channels of marketing and its customers a combination of optimum benefit and a very extensive product range. It has achieved a position that allows it to profit disproportionately from an improvement in the general economic situation and to increase its market shares. The Board of Management regards the positive business development in 2006 – especially in the specialist wine-shop retail and wholesale/distribution segments – as an endorsement of its chosen course. While the accelerated sales growth of course temporarily imposes a burden on profitability (EBIT margin), this will in all probability give the Hawesko Group a lasting competitive advantage in the medium term.

The quality of Hawesko Holding AG as a company – and therefore also as an investment – includes its ambitious working capital management, which is practised with the objective of sustainably generating free cash flow and keeping borrowings down to an appropriate level. The downturn in the free cash flow experienced in the 2006 financial year is attributable to the accelerated growth, in conjunction with reporting-date effects. The financial result nevertheless enjoyed a marked improvement in the year under review, thanks to the continuing low level of tied-up capital.

LEGAL STRUCTURE OF THE GROUP

Hawesko Holding AG has been listed on the stock exchange since May 1998. The subscribed capital amounting to € 13,249,488 is divided into 8,832,992 ordinary bearer shares in the form of individual share certificates, all of which are equipped with identical rights and obligations. The company is not aware of any restrictions affecting voting rights or the transfer of shares. Equally, no other classes of share exist. Under the articles of incorporation the Board of Management is, with the approval of the Supervisory Board, authorised to increase the capital stock by up to a total of € 6,600,000, by issuing new ordinary bearer shares in the form of individual share certificates. A shareholders' resolution furthermore authorises it to acquire treasury shares amounting in total to up to 10% of the capital stock by 30 November 2007; the renewed granting of such an authorisation is to be proposed to the next Shareholders' Meeting. Detailed particulars on the issue and acquisition of shares are provided in section 21 of the Notes to the consolidated financial statements.

An amendment to the articles of incorporation requires a shareholders' resolution carried by at least three-quarters of the capital stock represented.

No key agreements that are conditional on a change of control following a takeover bid have been reached. There are no compensation agreements with members of the Board of Management or employees in the event of them handing in their notice in the event of a takeover bid, being dismissed for no valid reason or terminating employment.

The Board of Management Chairman, Alexander Margaritoff, is the biggest shareholder of Hawesko Holding AG, with 30.2% of the shares. He is followed by Detlev Meyer – who acquired his 17.9% shareholding in Hawesko in 2005 via Tocos Beteiligung GmbH and is a member of the Supervisory Board – and Michael Schiemann, who acquired a 5.0% shareholding via Augendum Vermögensverwaltung GmbH. The remaining approx. 47% of the shares are owned by German and international funds and private investors. There are no employee shares as defined in Sections 289 Para. 4 No. 5, 315 Para. 4 No. 5 of German Commercial Code.

The Hawesko Group has a holding-company structure, with the parent company Hawesko Holding AG holding 100% or a majority of the shares in the operative subsidiaries, whose activities are predominantly in the wine trade. In the case of the subsidiaries where the shareholding is not 100%, the director responsible generally holds a minority interest. The parent company Hawesko Holding AG and a majority of the subsidiaries (15) have their registered office in the Federal Republic of Germany; they are consequently subject to the laws of that country, which decisively influence the framework conditions for their business operations. The subsidiaries not based in Germany all have their registered office within the European Union. No substantial factors influencing business need be mentioned.

A new subsidiary requiring consolidation was established in the year under review: the company in question is *Deutschwein Classics GmbH & Co. KG*, which, as a subsidiary of *Wein Wolf Import GmbH & Co. KG*, is involved in the wholesaling of German wines.

The Hawesko Group is essentially divided into three largely independent business segments (cf. "Strategy", page 9).

MANAGEMENT AND CONTROL

Independent responsibility for the running of the company and for the appointment of representatives for transactions with third parties rests with the Board of Management of Hawesko Holding AG. The Board of Management comprises three members and reaches its decisions by majority vote. Each member is in charge of individual areas of responsibility, irrespective of their collective responsibility for the management of the group.

The Supervisory Board appoints the members of the Board of Management. Members of the Board of Management may be appointed for a maximum of five years. The reappointment or extension for a maximum of five years requires a renewed resolution by the Supervisory Board.

The Board of Management is overseen and advised by the Supervisory Board. In accordance with the articles of incorporation the Supervisory Board comprises six members, elected by the Shareholders' Meeting. In accordance with the legal requirements, the Supervisory Board is informed regularly, promptly and comprehensively by the Board of Management of all plans, business developments and risks that are of relevance to the company. The Board of Management coordinates the strategic emphasis of the company with the Supervisory Board.

The shareholders exercise their right to have a say in the running and supervision of the company through the Shareholders' Meeting. Every share in Hawesko Holding AG carries one vote. The principle of "one share, one vote" is practised to its logical conclusion, as there are no caps on the number of voting rights which may be held by one shareholder, nor any special voting rights. Every shareholder is entitled to take part in the Shareholders' Meeting, to comment there on the individual agenda items and to demand information on matters concerning the company, insofar as this is needed for the correct assessment of a matter being brought before the Shareholders' Meeting.

Since 2004, each business segment of Hawesko Holding AG has been headed by a director ("head of segment") who, in conjunction with the Board of Management, is responsible for defining and attaining the segment targets and possesses authority to issue instructions within the segment. The head of segment reports to the Board of Management or, in the case of the specialist wine-shop retail segment and also the mail-order segment since July 2006, is a member of the Board of Management, and his remuneration is moreover determined on the basis of attainment of the agreed targets. The key components here are sales, EBIT and EBT targets, as well as tied-up capital.

The Board of Management uses EBIT and ROCE as the basis for its steering approach. The minimum rates of return targeted were outlined above under "Strategy". The targets and the development of the individual segments on the basis of these benchmarks form part of the regular strategy and reporting discussions. By incorporating EBIT margins and the return on capital employed into the objectives and target attainment checks, responsibility is clearly apportioned to the heads of segments below Board of Management level.

The Notes to the consolidated financial statements contain full details of the members of the Board of Management and Supervisory Board.

Pursuant to Section 161 of German Stock Corporation Law, the Board of Management and Supervisory Board of publicly quoted stock corporations shall declare each year that the recommendations of the Government Commission on the German Corporate Governance Code, published in the official section of the electronic Federal Official Gazette by the Federal Ministry of Justice, have been complied with, or declare which recommendations have not been or will not be complied with. This declaration is printed in the Annual Report (page 65) and is published on the internet at http://www.hawesko.com › Investor Relations › Corporate Governance, both in its current version and in older versions.

REMUNERATION REPORT

The remuneration of Board of Management members comprises a fixed and a variable component. The criteria by which the appropriateness of remuneration is gauged comprise the tasks of the individual Board of Management member, his personal performance and the economic situation, success and future prospects of the company compared with its context.

The variable component comprises a performance-related payment that is fundamentally based on the net income; there is no component with a long-term incentivising effect. The remuneration payments to the Board of Management are indicated in section 40 of the Notes to the consolidated financial statements.

The Supervisory Board's remuneration was supplemented by a variable component by shareholders' resolution dated 8 June 2000, paid in addition to the fixed component. The Supervisory Board members currently receive a fixed payment of € 4,200.00 per year plus reimbursement of expenses (as well as any VAT, if due, on their Supervisory Board activities). Each Supervisory Board member in addition receives € 1,050.00 in attendance fees for each full or committee meeting attended. The Chair receives twice this amount, and the Deputy Chair one and a half times it. The remuneration payments to the Supervisory Board are indicated in section 40 of the Notes to the consolidated financial statements.

The shares held by members of the Board of Management and Supervisory Board are indicated in section 40 of the Notes to the consolidated financial statements. Pursuant to Section 15a of German Securities Trading Law, the members of the Board of Management and Supervisory Board are obliged to disclose significant acquisitions or disposals of shares in Hawesko Holding AG. In the year under review Sven Ohlzen, the company's Finance Director until 31 December 2006, sold a total of 2,328 shares in Hawesko Holding AG at an average price of € 41.90 (value indicated prior to the 2-for-1 share split).

ENVIRONMENTAL REPORT

As a trading company the Hawesko Group does not possess production facilities of its own, and the corresponding environmental standards are therefore of only indirect significance to it. Within the context of its purchasing activities, the Hawesko Group encourages its suppliers to apply environmentally friendly practices in the cultivation and vinification of their wines. Many suppliers receive these suggestions positively and are having their processes certified accordingly. The Hawesko Group moreover recycles materials such as cartons and corks.

REPORT ON POST-BALANCE SHEET DATE EVENTS

NO OCCURRENCES OF PARTICULAR NOTE AFTER END OF FINANCIAL YEAR

No occurrences which are of particular significance to the assessment of the net worth, financial position or financial performance of Hawesko Holding AG and of the Hawesko Group occurred after the end of the year under review.

RISK REPORT

RISK MANAGEMENT AND RISK REPORT

In the context of its sales operations, the Hawesko Group is exposed to the risks that go hand in hand with entrepreneurial activity. It has established a modern, comprehensive risk management system that is continually being refined. This system is implemented as a means of informing the decision-makers in good time of potential problems. The risk management system consists of monthly controlling/reporting procedures and the compilation of a risk inventory twice a year. Both instruments are coordinated and comprise a key aspect of group steering activities.

In addition to the general business risk, the group is exposed to the following risks:

Risks from the economy in general

The Hawesko Group generates approx. 91% of its sales in the Federal Republic of Germany. Germany's macroeconomic fortunes exercise considerable influence on the propensity of the population to consume and therefore on the business development of the Hawesko Group. The Hawesko Group companies are able to dissociate themselves to a limited degree from the general macroeconomic trend by focusing their marketing activities as accurately as possible on those who are interested in its product range. These people generally have an above-average income and therefore respond less sensitively than the average consumer to cyclical fluctuations. Specifically the general development of private consumption nevertheless remains one of the most influential parameters for the activities of the Hawesko Group.

Risks from the trade

The risks from the trade include in particular:

- *Wine as a natural product – procurement risks*

Wine is a product of nature which accordingly exhibits variations in quality from year to year, and from variety to variety, depending on the weather, the individual locations and the fermenting processes. This variation affects prices and influences demand for individual products. On the strength of its many years of experience in the wine market, the Hawesko Group is able to limit the impact of these risks, but can never exclude them entirely.

The Hawesko Group is not dependent on specific suppliers. In no individual instance do the sales generated by products from a single producer exceed the level of 5% of consolidated sales.

Assured quality puts the Hawesko Group at a decisive advantage, specifically in light of recent media reports on sales of wine at German cut-price supermarkets. Assuring the quality of the wines the group buys starts with a visit to the vineyard where they are produced, and continues with tests conducted in the laboratories of the Hawesko Group. Quality problems are rare. The vintners know Hawesko and the high standards it expects; moreover, they themselves attach considerable importance to the quality of their wines. In the year under review, only an insignificant proportion of deliveries was rejected for quality reasons.

- *The competition – sales risks*

There is increasing competition within the wine market, both from specialist niche suppliers and from larger, financially strong groups. Within this context, the Hawesko Group is pursuing the strategy of consolidating its market position on the basis of high-quality products through its expertise in database marketing, and of strengthening this position both in Germany and abroad.

The Hawesko Group is not dependent on specific customers. In no individual instance do the sales generated by a single customer exceed the level of 5% of consolidated sales.

- *Seasonal business*

The Hawesko Group publishes its business results each quarter. These results reflect fluctuations that are attributable to the seasonal nature of its business. In particular the sales and results for the individual quarters fluctuate e.g. as a result of the number of advertising mail shots, the frequency of which is determined on the basis of when the various public holidays fall each year. The Hawesko Group in addition regularly generates a large portion of its sales and earnings in the final quarter of the year. Gift business in the run-up to Christmas generally accounts for around 5% of consolidated sales. The result particularly for the third quarter of each year reflects the costs of assembling selections and pre-packaging goods, as well as increased handling costs in view of the greater volume of incoming goods.

- *Debate on banning alcoholic beverages advertising within the EU*

There has been a long-running debate in the European Union on whether the advertising of alcoholic beverages should be restricted. The Board of Management believes that the prospect of such regulations becoming law is slight. The Board of Management believes that it is even less likely that any such regulations, were they to come into force, would also include wine, as there is proof that wine is beneficial to the health when enjoyed in moderation. The introduction of such a regulation would have a significant influence on the business of the Hawesko Group.

- *Deposit on drinks containers*

A deposit on disposable drinks containers was introduced in Germany in January 2003. As a result of the review of the Packaging Ordinance in 2004, as matters stand it is no longer expected that deposits will be introduced for wine bottles.

- *Lowering of the tax-exempt limit for gifts*

The German government is currently discussing a lowering of the tax-exempt limit for gifts to business associates. If the limit were to be lowered, the Board of Management believes that the impact on the Hawesko Group's gifts business would be only slight, as it accounts for approx. 5% of consolidated sales.

Financial risks

There exist a number of financial risks within the Hawesko Group. These include in particular influences from exchange rate and interest rate movements, as well as the non-payment and liquidity risk.

The member companies of the Hawesko Group are importers of wines traded internationally, and as such are affected by exchange rate movements outside the eurozone. The refinancing of the Hawesko Group's capital requirements in essence takes the form of loans which are predominantly taken out at current interest rates, with interest rate derivatives (caps and swaps) used for hedging. These interest rate derivatives are used only to a modest degree, with the result that the company believes they do not involve any particular risk. As the market value of these hedging instruments is to be taken into account pursuant to IAS 39, this may lead to fluctuations in the financial result.

Efforts are made within the context of central liquidity management activities to keep sufficient funds available to the Hawesko Group for ongoing business and for capital expenditure. The risks from receivables are limited by credit checks and credit management systems.

Legal and fiscal risks

The company is unaware of any legal or arbitration proceedings, whether pending or anticipated, which have a significant influence on the economic situation of the Hawesko Group. Legal proceedings initiated in the *Wein Wolf* Group in the previous year are currently still in progress. The subject matter of the proceedings is the withdrawal for nonperformance from a contract to introduce new goods management and financial accounting software. A provision has been formed as a precautionary measure.

The company is not aware of any fiscal risks which have a significant influence on the economic situation of the Hawesko Group.

IT risks

The IT infrastructure within the Hawesko Group reflects the structure according to the sales segments of specialist wine-shop retail, wholesale/distribution and mail order. IT systems are modernised and extended on the basis of existing plans. On a group-wide scale, IT risks are largely excluded by means of redundant hardware and back-up systems. Risks e.g. as a result of attacks by hackers or viruses are kept to a minimum by multi-level firewalls.

In the specialist wine-shop retail segment, the individual outlets are connected to the head office in Düsseldorf by a computer-aided goods management and marketing system using ISDN dial-up connections. Failures may occasionally occur at individual tills, but this does not constitute a risk that threatens the existence of the entire company. Any such failures are rectified within four hours on the basis of a service package agreement with the company Wincor-Nixdorf. The entire system has been running without problems since 2001. The system is capable of accommodating further growth in the network of outlets without it being likely that a significant risk could occur.

Electronic data processing is used within the wholesale segment for administration, goods management and accounting purposes; one wholesale subsidiary uses the mail-order system. The IT risks to business are rated as marginal. In order to keep the electronic data processing technology up to date, the selection process started in the previous year for the introduction of new goods management and financial accounting software will continue with the evaluation of suitable software.

In the mail-order area, customer orders and movements of goods have been controlled by a new stock administration, merchandising and financial accounting system on an SAP basis since midway through 2006. The call centre's telecommunications system is complemented by a back-up system which ensures that business operations can continue in the event of the main system failing. In such an event, the system supplier guarantees to repair the main system within no more than 24 hours. The risk of business operations being entirely paralysed by a total breakdown is rated as minor both for the customer ordering and goods system and for the telecommunications system.

Management risks

Smaller sales companies within the Hawesko Group are run by managing partners. The loss of such a manager would have a considerable impact on the business of the subsidiary in question. This would, however, not pose a threat to the existence of the Hawesko Group. Apart from this, no substantial management risks are identifiable at present.

Other risks

Business is influenced to a substantial degree by the ability of the Hawesko Group and its subsidiaries to maintain agreements as the exclusive distributors of renowned wine producers. If such an agreement were not to be extended, sales would suffer in the short term.

No other substantial risks, such as environmental risks, are currently identifiable.

OTHER RISK MANAGEMENT SYSTEM/ OPPORTUNITIES MANAGEMENT SYSTEM

At the monthly meetings of the Board of Management, each head of segment submits reports focusing on any special situations – whether positive or negative – in addition to current business progress. If the Board of Management believes that a challenge or opportunity render particular measures necessary or advisable, it is able to initiate them promptly.

OVERALL STATEMENT ON THE RISK SITUATION OF THE HAWESKO GROUP

By way of overall assessment of the risk situation, as matters stand and on the basis of the information known, it can be established that there exist no risks that pose a threat to the survival of the company, nor are any such risks identifiable in the future.

REPORT ON EXPECTED DEVELOPMENTS

DIRECTION OF THE HAWESKO GROUP IN THE SUBSEQUENT TWO FINANCIAL YEARS

No fundamental changes to the business policy of the Hawesko Group are expected in the next two financial years. The principal sales market is likely to remain the Federal Republic of Germany; the markets in Austria, Poland, the Czech Republic and France will also be of significance, but to a lesser degree. Nor is any fundamental change to business processes or the type of business envisaged.

The complete relocation of the wholesale/distribution segment's logistics operations to Tornesch is scheduled for mid-2007. The mail-order segment's logistics operations are already based there.

GENERAL ECONOMIC SITUATION

Future overall economic developments: private consumption robust

Following on behind the economic developments of 2006, which turned out better than expected, the prospects for Germany in the current year remain good. Experts believe that the labour market will be characterised by rising employment and higher collectively negotiated pay settlements: this should provide greater leeway for private consumption, in spite of the increase in the VAT rate. Factors such as these could further brighten the economic climate. All in all, the positive trend should continue in 2007, with the result that growth in gross domestic product is expected to reach 1.7% for the year as a whole (according to the forecast of the Hamburgisches WeltWirtschaftsInstitut – HWWI – dating from February 2007).

Future situation in the trade: slight growth expected

In the opinion of the Board of Management of Hawesko Holding AG, the relevant long-term trends will also continue over the next two years: growing professionalism in the world of wine, increasingly discerning consumers, a concentration of consumption in Europe and a rise in production outside Europe are likely to continue to dominate the wine trade in 2007 and 2008. The Hawesko Group remains outstandingly placed to respond to the aforementioned trends profitably. Its corporate planning assumes a basic scenario of slight market growth of about 1% per annum. In this phase of consolidation, the Hawesko Group both stands to increase its market shares and enjoy higher growth.

ANTICIPATED FINANCIAL PERFORMANCE

The Board of Management expects to see a single-figure percentage rise in sales in the next two financial years. The group's growth is likely to be underpinned by all its business segments. This includes an anticipated increase in sales for *Jacques' Wein-Depot* – both at its existing outlets and through the planned opening of between eight and ten outlets per year– and also the sales contribution of the new, large-scale specialist retailing concept of *multiwein* that is still in the test phase. If this concept has not fulfilled our expectations with regard to its sales contribution and profitability once the test phase has ended in 2009, it will not be pursued any further; in the latter instance there will be no longer-term costs to the group. The wines for which we are the exclusive wholesale distributor – such as Philippe de Rothschild – and the expansion of sales of German wines should in addition continue to generate sales growth in the next two financial years. The mail-order segment is also likely to contribute towards sales growth in the next two years, on the basis of the intensified acquisition of new customers.

As matters stand, the Board of Management expects the consolidated operating result for 2007 to remain on the same level of the previous year. This forecast takes account of the fact that the continuing test for the new *multiwein* concept in the specialist wine-shop retail segment is likely to diminish EBIT, as will the intensified efforts to acquire new customers in the mail-order segment. The company's management expects to see a rise in EBIT between 2007 and 2008 above all because the advertising costs for mail-order business are then likely to fall.

Assuming EBIT for the 2007 financial year reaches the aforementioned level, the pre-tax earnings for 2007 will not quite match the figure for the year under review due to a declining financial result. The effective tax ratio for 2007 is expected to remain at around 40% though it could rise as a result of negative one-off effects as part of the corporate tax reform. The 2007 financial year is consequently expected to yield consolidated earnings of € 9.5 million to € 10.0 million before negative one-off effects from the corporate tax reform. The free cash flow for 2007 will probably be in excess of € 10 million. In 2008, a higher operating result should likewise push the consolidated earnings back above the level of 2006 and produce a free cash flow again in excess of € 10 million.

As matters stand, if business progress for 2007 remains positive the dividend is expected to be at least on a par with the regular dividend proposed for the year under review (€ 0.85), though this is dependent on both the planned earnings and an adequate free cash flow being attained.

ANTICIPATED FINANCIAL POSITION

It is assumed in the Hawesko Group's financial planning that capital expenditure on property, plant and equipment and intangible assets and on the working capital, as well as dividend payments, can be financed from ongoing cash flow.

As matters stand, the net debt owed by the Hawesko Group will fall as a result of the scheduled repayments on the long-term borrowings and on liabilities from finance leases.

Capital expenditure on property, plant and equipment and intangible assets in the 2007 financial year is likely to be in the order of € 4 million. As well as the opening of new *Jacques' Wein-Depot* outlets, the intended focus of spending will be on the opening of new establishments for testing the new specialty store concept (up to five new locations) and on investments logistics area.

No long-term investments or acquisitions are currently planned.

OPPORTUNITIES

At the time of writing in February 2007, the forecasts for private consumption in Germany are mixed. Whereas for example the basic scenario forecast by HWWI assumes that consumption will remain flat in 2007, WestLB's experts perceive potential for positive surprises in private consumption. The fact remains that the business progress of the Hawesko Group in January 2007 did not reveal any signs of the feared slump in consumer confidence following the VAT rate increase.

With regard specifically to the wine market, an as yet unpublished study by Vinexpo and the International Wine and Spirits Record (IWSR) predicts that the global trend towards growing wine consumption will continue unabated until 2010, if anything gaining momentum in higher price brackets (from USD 5.00 per bottle). The German wine market, too, should benefit from this, with the result that further positive impetus for demand for high-quality wines appears possible.

According to advance reports on the Vinexpo/IWSR study, it forecasts a rise in demand of more than 4% in Germany between 2005 and 2010 in the price category of € 4.00 to € 8.00 per bottle, and a jump in demand of over 12% in the price category of more than € 8.00 per bottle. If trends of broadly this magnitude actually materialise and the more positive consumer climate is sustained for longer, the Hawesko Group will have every prospect of achieving sales growth in excess of the anticipated level as early as 2007. It would thus be in a position to improve on the operating result of 2006 even in the current financial year. As at February 2007, the Board of Management assesses the likelihood of this scenario materialising at 33%.

If the tests for the new specialty store retail concept *(multiwein)* should prove successful, the Hawesko Group could tap into additional sales potential in price brackets from € 2.00 per bottle. Considering the fact that the price bracket between € 2.00 and € 4.00 accounts for over one-third of the total wine market in Germany, the prospects of this new concept generating additional sales of several million euros are good. As at February 2007, the Board of Management puts the chances of this concept's test phase proving a success at 50%.

If the Hawesko Group were to be able to secure exclusive distribution rights for further renowned producers, depending on the sales volumes in question this could result in a further rise in sales and, in the medium term, boost earnings.

One source of uncertainty is the possible longer-term effect of the increase in VAT. As a result of the higher prices faced by consumers, their spending on wine compared with the year under review could fall.

OVERALL STATEMENT ON THE ANTICIPATED DEVELOPMENT OF THE GROUP

In light of the above individual factors and the assessment of the wine market's development, the Board of Management considers sales growth for the Hawesko Group in the order of 3% to 5% to be realistic for each of the next two years.

For the next few years, the spotlight will be on boosting the economic efficiency of the Hawesko Group. It will be gauged on the one hand in terms of a steady improvement in the percentage return on sales (EBIT margin). On the other hand it envisages permanently attaining a return on capital employed (ROCE) above the target level of 16% even though investment in new activities or in restructuring measures will diminish earnings. A long-term working capital management approach is vitally important in this connection. The group's strategy furthermore aims to see every subsidiary post a positive operating result (EBIT) in the medium term. The Board of Management is confident of thus achieving the target EBIT margin of 7% for the Hawesko Group's existing activities within the next five years and maintaining it at that level in the long term.

CONSOLIDATED FINANCIAL STATEMENTS

of Hawesko Holding AG for the 2006 financial year

Contents

CONSOLIDATED STATEMENT OF INCOME

for the period from 1 January to 31 December 2006 (IFRS)

	Notes	1/1–31/12/2006	1/1–31/12/2005
		€'000	€'000
SALES REVENUES	6.	**302,638**	**287,049**
Increase/decrease in finished goods inventories		309	–147
Other production for own assets capitalised		774	940
Other operating income	7.	13,979	13,311
Cost of purchased goods		–180,391	–167,552
Personnel expenses	8.	–28,671	–28,486
Depreciation and amortisation	9.	–4,263	–4,358
Other operating expenses	10.	–85,643	–81,721
Other taxes		–130	–103
RESULT FROM OPERATIONS		**18,602**	**18,933**
Financial result	11.	–1,275	–2,786
Investment income		–	53
RESULT FROM ORDINARY ACTIVITIES		**17,327**	**16,200**
Taxes on income and deferred tax expenses	12.	–6,361	–5,359
RESULT AFTER TAXES		**10,966**	**10,841**
Profit due to minority interests		–160	–115
CONSOLIDATED EARNINGS		**10,806**	**10,726**
Earnings per share (basic) in €	13.	1.23	1.22

CONSOLIDATED BALANCE SHEET

at 31 December 2006 (IFRS)

ASSETS	Notes	31/12/2006	31/12/2005
		€'000	€'000
NON-CURRENT ASSETS			
Intangible assets	14.	10,630	8,546
Tangible assets	15.	23,516	24,306
Financial assets	16.	285	238
Advance payments for inventories		6,432	3,201
Receivables and other fixed assets	18.	1,135	1,064
Deferred tax assets	20.	15,339	19,213
		57,337	**56,568**
CURRENT ASSETS			
Inventories	17.	61,180	57,540
Trade receivables	18.	44,847	38,746
Other fixed assets	18.	1,769	2,134
Accounts receivable from taxes on income		1,247	463
Cash in banking accounts and cash on hand	19.	5,506	7,165
		114,549	**106,048**
		171,886	**162,616**

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	31/12/2006	31/12/2005
		€'000	€'000
SHAREHOLDERS' EQUITY			
Subscribed capital of Hawesko Holding AG	21.	13,249	13,249
Group adjustment acc. to IFRS		–4,366	–4,366
Subscribed capital		8,883	8,883
Capital reserve	22.	5,867	5,867
Revenue reserve	23.	35,286	32,958
Balancing item from currency translation		14	8
Unappropriated group profit	24.	22,091	22,419
Minority interest	25.	366	300
		72,507	**70,435**
MINORITY INTEREST IN THE CAPITAL OF UNINCORPORATED SUBSIDIARIES	26.	**2,948**	**2,959**
LONG-TERM PROVISIONS AND LIABILITIES			
Provisions for pensions	27.	683	678
Other provisions	29.	304	262
Borrowings	30.	11,184	13,121
Advances received	31.	7,413	2,380
Other liabilities	31.	867	2,129
Deferred tax liabilities	28.	356	642
		20,807	**19,212**
SHORT-TERM PROVISIONS AND LIABILITIES			
Other provisions	29.	74	31
Borrowings	30.	10,253	6,278
Advances received	31.	3,749	5,226
Trade payables	31.	43,482	38,154
Accounts payable from taxes on income		451	2,287
Other liabilities	31.	17,615	18,034
		75,624	**70,010**
		171,886	**162,616**

CONSOLIDATED CASH FLOW STATEMENT

for the period from 1 January to 31 December 2006 (IFRS)

		Notes	1/1–31/12/2006	1/1–31/12/2005
			€'000	€'000
	Result from ordinary activities	35.	17,327	16,200
+	Depreciation of intangible and tangible assets (net of write-ups)		4,263	4,358
+	Interest result	35.	1,275	2,786
–	Result from the disposal of intangible and tangible assets		–5	–20
+/–	Change in inventories		–6,871	2,561
–	Change in receivables and in other assets		–5,893	–3,071
+	Change in provisions		90	182
+	Change in liabilities (excluding borrowings)		6,873	5,242
–	Taxes on income paid out	35.	–4,350	–3,970
=	**NET INFLOW OF PAYMENTS FROM CURRENT OPERATIONS**		**12,709**	**24,268**
–	Acquisition of subsidiaries		–50	–35
–	Outpayments for tangible assets and intangible assets		–5,868	–5,523
+	Inpayments from the disposal of intangible and tangible assets		317	332
+	Inpayments from the disposal of financial assets		2	1
=	**NET FUNDS EMPLOYED FOR INVESTING ACTIVITIES**		**–5,599**	**–5,225**
–	Outpayments for dividend		–8,806	–5,496
–	Outpayments to minority interests *		–546	–382
+	Inpayments from capital increase		–	40
+	Inpayments from the sale of treasury shares		–	149
–	Payment of finance lease liabilities		–943	–887
+/–	Change in borrowings		3,025	–12,480
–	Interest paid out and received	35.	–1,499	–1,962
=	**OUTFLOW/INFLOW OF NET FUNDS FROM FINANCING ACTIVITIES**		**–8,769**	**–21,018**
=	**NET DECREASE/INCREASE OF FUNDS**		**–1,659**	**–1,975**
+	Funds at start of period		7,165	9,140
=	**FUNDS AT END OF PERIOD**	35.	**5,506**	**7,165**

* *including outpayments to minority interests in unincorporated subsidiaries*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 31 December 2004 to 31 December 2006 (IFRS)

€'000	Subscribed capital	Capital reserve	Revenue reserves	Adjustment resulting from currency translation	Unappropriated Group profit	Minority interest	Shareholders' equity
31/12/2004	**8,883**	**5,867**	**30,553**	**–6**	**19,891**	**235**	**65,423**
Adjustments for changeover to euro	–	–	–	–	–	1	1
Change in consolidated companies	–	–	–	–	43	–3	40
Appropriation to revenue reserves	–	–	2,745	–	–2,745	–	–
Treasury shares	–	–	–340	–	–	–	–340
Dividends	–	–	–	–	–5,496	–66	–5,562
Currency translation differences	–	–	–	14	–	19	33
Consolidated earnings	–	–	–	–	10,726	115	10,841
31/12/2005	**8,883**	**5,867**	**32,958**	**8**	**22,419**	**300**	**70,435**
Appropriation to revenue reserves	–	–	2,328	–	–2,328	–	–
Dividends	–	–	–	–	–8,806	–95	–8,901
Currency translation differences	–	–	–	6	–	1	7
Consolidated earnings	–	–	–	–	10,806	160	10,966
31/12/2006	**8,883**	**5,867**	**35,286**	**14**	**22,091**	**366**	**72,507**

DEVELOPMENT OF CONSOLIDATED ASSETS

at 31 December 2006 (IFRS)

€'000	Acquisition or manufacturing cost: Position at 1/1/2006	Additions	Disposals	Write-ups	Transfers	Position at 31/12/2006
ASSETS						
I. INTANGIBLE ASSETS						
1. Software	4,536	2,858	–16	–	2,753	10,131
2. Goodwill	8,589	–	–180	–	–	8,409
3. Advance payments	2,753	–	–	–	–2,753	–
	15,878	**2,858**	**–196**	**–**	**–**	**18,540**
II. PROPERTY, PLANT AND EQUIPMENT						
1. Land and buildings	31,027	462	–104	–	–13	31,372
2. Other fixtures and fittings, tools and equipment	18,599	2,536	–1,833	–	12	19,314
3. Construction in progress	59	12	–59	–	1	13
	49,685	**3,010**	**–1,996**	**–**	**–**	**50,699**
III. FINANCIAL ASSETS						
1. Shares in affiliated companies	157	50	–	–	–	207
2. Participating interests	18	–	–	–	–	18
3. Securities	10	–	–	–	–	10
4. Other loans	53	–	–3	–	–	50
	238	**50**	**–3**	**–**	**–**	**285**
	65,801	**5,918**	**–2,195**	**–**	**–**	**69,524**

Accumulated depreciation						Residual carrying amount	
Position at 1/1/2006	Additions	Disposals	Write-ups	Transfers	Position at 31/12/2006	Position at 31/12/2006	Position at 31/12/2005
3,904	745	–16	–	–	4,633	5,498	632
3,428	29	–180	–	–	3,277	5,132	5,161
–	–	–	–	–	–	–	2,753
7,332	**774**	**–196**	**–**	**–**	**7,910**	**10,630**	**8,546**
12,809	1,444	–97	–	–1	14,155	17,217	18,218
12,570	2,045	–1,588	–	1	13,028	6,286	6,029
–	–	–	–	–	–	13	59
25,379	**3,489**	**–1,685**	**–**	**–**	**27,183**	**23,516**	**24,306**
–	–	–	–	–	–	207	157
–	–	–	–	–	–	18	18
–	–	–	–	–	–	10	10
–	–	–	–	–	–	50	53
–	**–**	**–**	**–**	**–**	**–**	**285**	**238**
32,711	**4,263**	**–1,881**	**–**	**–**	**35,093**	**34,431**	**33,090**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

of Hawesko Holding AG for the 2006 financial year

PRINCIPLES AND METHODS APPLIED IN THE CONSOLIDATED FINANCIAL STATEMENTS

Hawesko Holding AG has its registered office in Hamburg, Germany. It is entered on the Commercial Register at the Local Court of Hamburg under number 66708. The activities of the group include in particular the trading and sale of wines, champagnes and other alcoholic drinks to consumers and re-sellers. The companies under the corporate umbrella of Hawesko Holding AG cover the sales forms specialist wine-shop retailing, wholesaling and mail order.

1. GENERAL PRINCIPLES

Pursuant to EU Order 1606/2002, the consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the EU at the balance sheet date. The supplementary requirements of German commercial law were additionally taken into account, pursuant to Section 315a Para. 1 of German Commercial Code.

The requirements were satisfied in full and the consolidated financial statements give a true and fair view of the net worth, financial position and financial performance.

The annual financial statements of the consolidated companies are based on standard recognition and measurement principles. For greater clarity, certain items in the income statement and balance sheet are combined; they are explained in the Notes. The standard reporting date for all group companies is 31 December 2006.

The type of expenditure format was used for the preparation of the income statement.

The sums reported are always quoted in thousand euros (€ thousand), unless otherwise indicated.

The consolidated financial statements prepared by the Board of Management have been submitted to the Supervisory Board on 21 March 2007 for signing off at the Supervisory Board meeting devoted to the annual accounts on 28 March 2007.

The audited combined management report for the group and the parent company and the annual financial statements at 31 December 2006 of Hawesko Holding AG will be filed with the Local Court of Hamburg under reference HRB 66708 and published in the Federal Gazette. Copies of the annual financial statements and the combined management report for the group and the parent company can in addition be requested directly from Hawesko Holding AG.

2. NEW IASB ACCOUNTING STANDARDS

The consolidated financial statements of Hawesko Holding AG have been prepared in accordance with all accounting standards and interpretations of the International Accounting Standards Board (IASB), the application of which for the 2006 financial year was mandatory, as published and adopted for the European Union via the endorsement process. The option of applying new standards and interpretations before they become binding is not exercised.

The following new or revised standards and interpretations are to be applied only to financial years commencing after 1 January 2006:

- IFRS 7 *"Financial Instruments: Disclosures"*
  This standard will in future take the place of sections of International Accounting Standard (IAS) 32 which have until now regulated the disclosure requirements for financial instruments. The application of IFRS 7 becomes mandatory for financial years commencing on or after 1 January 2007.
- IFRS 8 *"Operating Segments"*
  The standard will replace the previous segment reporting standard IAS 14. IFRS 8 is applicable to financial years commencing on or after 1 January 2009. This standard has not yet been recognised by the EU Commission.
- IAS 1 *"Presentation of Financial Statements"*
  In conjunction with the drafting of the new IFRS 7, the information on companies' capital pursuant to IAS 1 was expanded. The revised standard is mandatory for financial years commencing on or after 1 January 2007.
- IFRIC 7 *"Applying Restatement Approach under* IAS 29 *Financial Reporting in Hyperinflationary Economies"*
  This interpretation issued by the International Financial Reporting Interpretations Committee (IFRIC) regulates supplementary questions in connection with financial reporting in hyperinflationary economies. This interpretation applies to financial years commending after 1 March 2006.
- IFRIC 8 *"Scope of* IFRS 2*"*
  This interpretation deals with questions relating to the application of IFRS 2, which contains provisions on share-based payments. This interpretation applies to financial years commencing after 1 May 2006.

- IFRIC 9 *"Reassessment of Embedded Derivatives"*
  Questions of application regarding the separate disclosure of embedded derivatives are dealt with in this interpretation. This interpretation applies to financial years commencing after 1 June 2006.
- IFRIC 10 *"Interim Financial Reporting and Impairment"*
  This interpretation deals with questions arising in connection with the provisions of IAS 34 "Interim Financial Reporting" and those of IAS 36 "Impairment of Assets". This interpretation applies to financial years commencing after 1 March 2007. It has not yet been recognised by the EU Commission.
- IFRIC 11 *"IFRS 2 – Group and Treasury Share Transactions"*
  The interpretation deals with how to report group-wide share-based payments in the context of IFRS 2. This interpretation applies to financial years commencing after 1 March 2007. It has not yet been recognised by the EU Commission.
- IFRIC 12 *"Service Concession Arrangements"*
  This interpretation publishes a provision that deals with the financial reporting of contributions by private companies to the infrastructure. This interpretation applies to financial years commencing after 1 March 2007. It has not yet been recognised by the EU Commission.

The aforementioned new standards and interpretations will probably have no material effect on the net worth, financial position and financial performance of the group.

It is planned to apply these standards and interpretations from the point in time when they become mandatory.

3. CONSOLIDATION PRINCIPLES

The consolidated financial statements of Hawesko Holding AG include all significant domestic and foreign subsidiaries or joint ventures where the company directly or indirectly has the scope to control the financial and business policy of those companies or exercise considerable influence over them.

The consolidation of capital has until now always been performed on the basis of the time of acquisition according to the purchase method. For this method, the acquisition costs of the shares acquired are netted against the pro rata fair value of the acquired assets and debts of the subsidiary at the time of acquisition. Any remaining differences are carried as derivative goodwill on the basis of their economic content. IFRS 3 is to be applied to business combinations effective from 1 January 2004.

Goodwill from the consolidation of capital is tested regularly for impairment in subsequent periods and, if impairment is established, its carrying amount reduced to the recoverable amount.

The consolidation of joint ventures is performed on a pro rata basis according to the same principles. The goodwill arising was amortised in full in the first year of consolidation.

The contribution of the three subsidiaries *Hanseatisches Wein- und Sekt-Kontor HAWESKO GmbH & Co. KG, CWD Champagner- und Wein-Distributionsgesellschaft mbH & Co. KG* and *Jacques' Wein-Depot Wein-Einzelhandel GmbH & Co. KG* to Hawesko Holding AG on 1 January 1998 was treated as a "transaction between companies under common control". No differences arose from the consolidation of capital, as the carrying amounts of the three subsidiaries in question were retained.

Intra-group sales, charges and earnings as well as accounts receivable and payable between the consolidated companies are eliminated.

Intercompany results for inventories are eliminated unless they are of more than minor economic significance.

The positive shares in the equity and earnings of the companies consolidated in full or on a pro rata basis that are due to parties outside the group are reported under minority interest. The losses which minority shareholders are obliged to make good in excess of their negative share of the equity and earnings of fully consolidated subsidiaries are netted against the group equity in accordance with IAS 27 (2003).

The consolidated annual financial statements of economically independent foreign group companies are translated into the currency of the Hawesko Group in keeping with the concept of the functional currency. In the translation of these financial statements, all assets and debts are translated at the balance sheet date, and income and expense items at the average rate for the reporting period. All differences resulting from foreign currency translation are reported under equity with no effect on net income.

4. RECOGNITION AND MEASUREMENT PRINCIPLES

Intangible assets acquired for consideration are measured at acquisition cost.

Self-constructed intangible assets are capitalised at the costs that were incurred by them during the development phase, after the time that their technological and commercial feasibility was established, up to the time of their completion. The capitalised cost of production comprises the costs directly and indirectly allocable to the development phase.

With the exception of goodwill from the consolidation of capital, there are no intangible assets with an indefinite useful life. Other intangible assets, whether self-constructed or acquired for consideration, are depreciated throughout their useful life, starting from the time of their use, by the straight-line method (generally between three and six and a half years).

Property, plant and equipment are valued at their acquisition cost and depreciated by the straight-line method in accordance with their useful life.

Plant under finance leases is capitalised within fixed assets at the present value of the minimum lease payments or at fair value if lower, and depreciated regularly by the straight-line method. The present value of lease obligations from future lease payments is recognised as a liability.

The depreciation plan for property, plant and equipment is based on the following estimates of useful life:

USEFUL LIFE OF PROPERTY, PLANT AND EQUIPMENT:

Buildings	18 to 50 years
Leasehold improvements	7 to 10 years
Other fixtures and fittings, tools and equipment	2 to 15 years

Shares in affiliated companies and *participations* that are not consolidated for reasons of minority are classified as financial assets available for sale. They are measured at acquisition cost.

Other loans are measured at amortised cost.

Raw materials, consumables used and merchandise are measured at acquisition cost or at net realisable value. The costs include overhead costs which can be directly allocated, in addition to prime costs. They are fundamentally measured according to the moving average method. *Work in progress and finished goods* are valued at the cost of production or at net realisable value if lower.

Accounts receivable and other fixed assets are recognised at amortised cost. Any reductions for impairment necessary, which are based on the probable credit risk, are taken into account in the income statement.

Deferred taxes result from the divergent valuations in the IFRS consolidated balance sheet and the respective tax balance sheet values for these asset and liability items. Deferred tax assets on fiscally realisable loss carryforwards are capitalised if it is sufficiently likely that taxable income is to be expected in the future. They are determined on the basis of the anticipated tax rates in the individual countries at the time of realisation. These are based fundamentally on the legal provisions that are valid or approved at the balance sheet date.

Future income tax reduction claims and income tax obligations resulting from the preparation of the accounts according to IFRS are carried as deferred tax assets and liabilities.

The *income taxes receivable and payable* included in the other fixed assets and other liabilities in the previous year are reported separately in the balance sheet for the year under review. The prior-year figures have been adjusted accordingly.

The *provisions for pensions* are calculated according to the projected unit credit method pursuant to IAS 19, taking account of the anticipated pay and pension increases. Retirement benefit obligations are measured on the basis of retirement benefit appraisals. Actuarial gains and losses are recognised immediately. The interest component included in the pension costs is shown as personnel expenses together with the service cost.

The *other provisions* take account of all discernible obligations from past occurrences at the balance sheet date, and represent one current obligation where the outflow of resources is probable. The provisions are measured at the amounts that are likely to apply. Provisions are only created where a legal or de facto obligation towards third parties exists. Long-term provisions are reported at their discounted settlement value at the balance sheet date, on the basis of corresponding market interest rates.

Liabilities are always measured at the amortised cost that corresponds to the amount repayable. Long-term liabilities are measured at the present value, if substantial.

Accounts receivable and payable in *foreign currency* are translated at the exchange rate at the time of their addition. This rate is also used for determining the acquisition costs of stock in trade. The outstanding receivables in foreign currency at the balance sheet date are translated at the selling rate, and outstanding payables at the buying rate.

The derecognition of *financial assets and liabilities* held for trading is entered under the date of trading. Other financial assets and liabilities are derecognised upon their settlement.

Sales revenues and other operating income are shown at the time the service is rendered, provided the level of the income can be determined reliably and the economic benefit is likely to be accrued. The sales revenues are reduced by sales tax and any reduction in proceeds realised or anticipated.

Borrowing costs are always recorded as an expense.

In accordance with IAS 32, *financial instruments* include on the one hand primary financial instruments, such as other loans, accounts receivable and other fixed assets, and liabilities. The procedure for the recognition and measurement of these financial instruments is in accordance with IAS 39 and is described under the respective principles. On the other hand, these also include derivative financial instruments such as currency options, forward exchange transactions, interest-rate caps, interest-rate and currency swaps, and combined interest-rate/currency swaps.

Derivative financial instruments are concluded to hedge currency and interest-rate risks.

When recorded for the first time, a derivative financial instrument is measured at acquisition cost. In the case of options, this corresponds to the option premium paid. In the case of other derivative financial instruments, no payment is made upon conclusion of the transaction, with the result that the acquisition costs are nil. Transaction costs paid in connection with the acquisition of derivative financial instruments are to be recognised immediately in the income statement.

Derivative financial instruments are fundamentally classified as held for trading, with the result that the subsequent measurement is to be performed at the fair value.

Where the criteria for the recording of hedging relationships as described in IAS 39 are satisfied, the fair value changes are recognised either in the result for the period (fair value hedge) or in the accumulated other equity (cash flow hedge) with no effect on income.

If the criteria for hedging relationships for certain derivative financial instruments are not satisfied, irrespective of the economic hedging relationship, the fair value change is recognised in the result for the period.

Assets which are not inventories, deferred tax claims or financial instruments are examined regularly at the balance sheet date, in accordance with IAS 36, for evidence of any need for impairment compared with the carrying amount. A reduction for impairment is recorded if the carrying amounts are no longer covered by the value in use. The value in use corresponds to the discounted cash flows from continued use, which are determined on the basis of group planning. Discounting of the forecast cash flows is performed using a risk-adjusted interest rate on a pre-tax basis.

Preparation of the IFRS consolidated financial statements involves making *estimates and assumptions* which have an effect on the disclosure of assets and debts, the reporting of contingent liabilities at the balance sheet date and the disclosure of income and expenditure.

The principal estimates and assumptions made relate in particular to the stipulation of uniform depreciation periods throughout the group, the reductions for impairment on receivables and merchandise, and the parameters applied in the provisions for pensions. The measurement of fixed assets based on impairment tests pursuant to IAS 36 was based on planned figures for the calculation of cash flows and standardised industry figures for the determination of capitalisation rates.

The actual figures may differ from the amounts obtained by estimates and assumptions.

Contingent liabilities as defined by IAS 37 are indicated in the Notes, insofar as the outflow of resources is not improbable and the magnitude of the obligation can reliably be estimated.

CONSOLIDATED COMPANIES

5. CONSOLIDATED COMPANIES

The group under Hawesko Holding AG, with its head offices in Hamburg, comprises a total of 21 (previous year: 20) domestic and foreign companies, as well as one domestic joint venture and its foreign subsidiary, in which Hawesko Holding AG directly or indirectly holds a majority of voting rights or is solely in control. Eight (previous year: six) subsidiaries of minor overall significance for the net worth, financial position and financial performance of the group are not consolidated. Their sales represent less than 1% of consolidated sales.

By deed of 19 June 2006, amended on 27 October 2006, *Hanseatisches Wein- und Sekt-Kontor HAWESKO GmbH & Co.* underwent a change of form and was renamed *Hanseatisches Wein- und Sekt-Kontor HAWESKO GmbH*. The entry on the Commercial Register was made on 6 November 2006.

Deutschwein Classics GmbH & Co. KG was established by the company agreement dated 6 July 2006. The entry on the Commercial Register was made on 8 August 2006.

FULLY CONSOLIDATED SUBSIDIARIES	Registered office	Segment	Shareholding %
DIRECT PARTICIPATION			
Hanseatisches Wein- und Sekt-Kontor HAWESKO GmbH	Hamburg	Mail order	100.0
Jacques' Wein-Depot Wein-Einzelhandel GmbH	Düsseldorf	Specialist wine-shop retail	100.0
CWD Champagner- und Wein-Distributionsgesellschaft mbH & Co. KG	Hamburg	Wholesale	100.0
Wein Wolf Holding GmbH & Co. KG	Bonn	Wholesale	90.0
Verwaltungsgesellschaft Hanseatisches Wein- und Sekt-Kontor HAWESKO m.b.H.	Hamburg	Miscellaneous	100.0
IWL Internationale Wein Logistik GmbH	Tornesch	Miscellaneous	100.0
Sélection de Bordeaux SARL	St-Julien, Beychevelle *(France)*	Mail order	100.0
Jacques' Wein-Depot Wein-Einzelhandel GmbH	Vienna *(Austria)*	Specialist wine-shop retail	100.0
Le Monde des Grands Bordeaux Château Classic SARL	St-Christoly, Médoc *(France)*	Wholesale	90.0
INDIRECT PARTICIPATION			
Viniversitaet Die Weinschule GmbH	Meerbusch	Specialist wine-shop retail	100.0
Multi-Weinmarkt GmbH	Düsseldorf	Specialist wine-shop retail	100.0
Weinland Ariane Abayan GmbH & Co. KG	Hamburg	Wholesale	85.0*
Gebr. Josef und Matthäus Ziegler GmbH	Freudenberg	Wholesale	100.0*
Alexander Baron von Essen Weinhandels GmbH	Tegernsee	Wholesale	84.85*
Wein Wolf Import GmbH & Co. Verwaltungs KG	Bonn	Wholesale	100.0*
Wein Wolf Import GmbH & Co. Vertriebs KG	Bonn	Wholesale	100.0*
Deutschwein Classics GmbH & Co. KG	Bonn	Wholesale	76.0*
Wein Wolf Import GmbH & Co. Vertriebs KG	Salzburg *(Austria)*	Wholesale	100.0*
Carl Tesdorpf GmbH	Lübeck	Mail order	90.0
Sommelier S.A. Spólka Akcyjna	Warsaw *(Poland)*	Wholesale	86.8*
Winegate New Media GmbH	Hamburg	Mail order	100.0

* *Group shareholding lower, as there is a 10% minority interest in the subsidiary which holds the participation indirectly (Wein Wolf Holding GmbH & Co. KG).*

The joint venture *Global Eastern Wine Holding*, Bonn, and its subsidiaries *Global Wines Prague*, Prague (Czech Republic), and *Universal Wines*, Budapest (Hungary), are included in the consolidated financial statements on a pro rata basis, and allocated to the wholesale segment.

The 50% interest in *Global Eastern Wine Holding GmbH*, Bonn, which was established as a joint venture, and its 66% interest in the Czech wholesaler *Global Wines Prague*, Prague, were included in the group with effect from 1 January 2002. The average number of employees at the latter company was five in the 2006 financial year (previous year: four).

With effect from 15 September 2005 an additional 66% participating interest of *Global Eastern Wine Holding GmbH*, Bonn, was included in the group: this constitutes the Hungarian wholesaler *Universal Wines GmbH*. The average number of employees at the latter company was one in the 2006 financial year (previous year: nil).

The following particulars indicate the pro rata values at which these joint ventures were included in the consolidated financial statements, including the impact of goodwill on first-time consolidation (Czech joint venture).

Share of assets and debts:

€'000	31/12/2006	31/12/2005
Non-current assets	6	1
Current assets	1,382	975
ASSETS	**1,388**	**976**
Shareholders' equity	755	559
Short-term provisions and liabilities	633	417
EQUITY AND LIABILITIES	**1,388**	**976**

Share of income and expenses:

€'000	31/12/2006	31/12/2005
Sales revenues	2,064	1,454
Other operating income	31	16
Cost of materials	–1,255	–829
Personnel expenses	–112	–80
Depreciation and amortisation	–0	–1
Other operating expenses	–294	–234
RESULT FROM OPERATIONS	**434**	**326**
Interest income	18	14
Interest expense	–0	–
RESULT FROM ORDINARY ACTIVITIES	**452**	**340**
Taxes on income	–115	–91
CONSOLIDATED EARNINGS	**337**	**249**

The following subsidiaries are not included in the consolidated financial statements:

NON-CONSOLIDATED SUBSIDIARIES	Registered office	Shareholding %	Capital €'000	Net earnings 2006 €'000
"Chateaux et Domaines" Weinhandelsgesellschaft mbH	Hamburg	100.0	26	0
Wein Wolf Import GmbH	Bonn	100.0	33	7
Wein Wolf Holding Verwaltungs GmbH	Bonn	100.0	27	2
Weinland Ariane Abayan Verwaltungs GmbH	Hamburg	85.0	27	2
Verwaltungsgesellschaft Wein Wolf Import GmbH	Salzburg *(Austria)*	100.0	33	6
Verwaltungsgesellschaft CWD Champagner- und Wein-Distributionsgesellschaft m.b.H.	Hamburg	100.0	26	1
Deutschwein Classics Verwaltungsgesellschaft mbH	Bonn	76.0	24	–1
C.C.F. Fischer GmbH	Tornesch	100.0	24	–1

In view of its minor economic significance, the indirect shareholding (50%) in *Vera Maria Bau Consulting GmbH,* Bonn, was not consolidated. The net earnings of this company in 2006 were € –10 thousand.

Deutschwein Classics Verwaltungsgesellschaft mbH was established by the company agreement dated 6 July 2006. The entry on the Commercial Register was made on 7 August 2006. This subsidiary is not consolidated within Hawesko Holding AG in view of its minor significance in respect of the net worth, financial position and financial performance. The purpose of the company is to act as general partner of *Deutschwein Classics GmbH & Co. KG*. Its share capital is € 25,000.

C.C.F. Fischer GmbH was established by the company agreement dated 12 June 2006. The entry on the Commercial Register was made on 20 December 2006. This subsidiary is not consolidated within Hawesko Holding AG in view of its minor significance in respect of the net worth, financial position and financial performance. The purpose of the company is to trade in wines of any provenance and in related goods of all kinds, in all retail stages. Its share capital is € 25,000.

The complete list of investment holdings of the Hawesko Group is on file at the Hamburg Commercial Register. It can in addition be requested directly from Hawesko Holding AG.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

6. SALES REVENUES

€'000	2006	2005
Specialist wine-shop retail	101,174	96,944
Wholesale	119,642	103,025
Mail order	81,416	86,469
Miscellaneous	406	611
	302,638	**287,049**

7. OTHER OPERATING INCOME

€'000	2006	2005
Rental income	6,023	5,778
Advertising expense subsidies	3,193	2,812
Income from cost refunds	2,206	1,999
Income from the liquidation of provisions	627	684
Miscellaneous	1,930	2,038
	13,979	**13,311**

8. PERSONNEL EXPENSES

€'000	2006	2005
Wages and salaries	24,485	24,303
Social security and other pension costs	4,186	4,183
– *of which in respect of old age pensions*	(88)	(258)
	28,671	**28,486**

The employee benefit expenses include payments from defined contribution plans totalling € 83 thousand (previous year: € 100 thousand) and defined benefit plans totalling € 5 thousand (previous year: € 158 thousand).

9. DEPRECIATION AND AMORTISATION

€'000	2006	2005
Goodwill from the consolidation of capital	–	–
Intangible assets	774	836
Property, plant and equipment	3,489	3,522
	4,263	**4,358**

10. OTHER OPERATING EXPENSES

€'000	2006	2005
Advertising	23,945	23,662
Commissions to partners	25,508	23,837
Delivery costs	11,166	11,112
Rental and leasing	7,849	7,588
IT and communication costs	2,546	2,378
Legal and consultancy costs	1,114	1,272
Other personnel expenses	1,175	779
Miscellaneous	12,340	11,093
	85,643	**81,721**

11. FINANCIAL RESULT

€'000	2006	2005
Interest income	107	147
Interest expense	–955	–1,317
Interest for finance leases	–679	–736
Changes in fair value of interest hedging transactions	678	–397
Net profit for the year due to minority interests in unincorporated subsidiaries	–365	–495
Fair value changes in the minority interest in the capital of unincorporated subsidiaries	–61	12
	–1,275	**–2,786**

12. TAXES ON INCOME AND DEFERRED TAX EXPENSES

€'000	2006	2005
Current tax	2,773	3,970
Deferred taxes	3,588	1,389
	6,361	**5,359**

Paid or due taxes on income and earnings, and also deferred taxes, are reported as taxes on income.

Expenses for current tax are made up as follows:

€'000	2006	2005
Current year	3,003	3,919
Previous years	–230	51
	2,773	**3,970**

Expenses for deferred taxes are attributable to the following:

€'000	2006	2005
From restructuring measures with an effect on taxes	2,524	938
From loss carryforwards	128	199
Other temporary differences	936	–211
From the change in the uniform tax rate for the group	–	463
	3,588	**1,389**

The actual tax expense for the year 2006 of € 6,361 thousand is € 154 thousand lower than the anticipated tax expense of € 6,515 thousand which would have resulted from the application of a tax rate to pre-tax earnings that was based on the current German legislation at the balance sheet date. The anticipated tax rate is 37.60% (previous year: 37.60%) and is obtained as follows:

Trade tax *(average municipal factor 360%)*	15.25%
Corporation tax *(25% of profits after trade tax)*	21.19%
Solidarity surcharge *(5.5% of corporation tax)*	1.16%
Total tax burden on pre-tax earnings	37.60%

The causes of the difference between the anticipated and actual tax expense for the group are as follows:

€'000	2006	2005
Anticipated tax expense	6,515	6,092
Use of tax loss carryforwards on basis of a single-entity relationship for trade tax	–112	–2,017
Remeasurement of deferred taxes	–	463
Reclassification of minority interest	160	191
Tax expenses/income unrelated to the accounting period	–230	51
Nonrecognition of fiscal loss carryforwards	–17	67
Nondeductibility of remuneration for co-entrepreneurs in unincorporated firms	156	166
Nondeductibility of 50% of permanent debt interest for trade tax	–	78
Effect of divergent national tax rates	–196	–79
Other tax effects	85	347
ACTUAL TAX EXPENSE	**6,361**	**5,359**
Effective tax rate %	36.71	33.08

13. EARNINGS PER SHARE

The earnings per share are calculated according to IAS 33 (Earnings per Share) by dividing the consolidated net income by the average number of shares in circulation (after the share split performed during the year under review).

	2006	2005
Consolidated earnings (€'000)	10,806	10,726
Average number of shares ('000)	8,806	8,797
Basic earnings per share (€)	1.23	1.22

There is no difference between the diluted and basic earnings per share.

NOTES TO THE CONSOLIDATED BALANCE SHEET

14. INTANGIBLE ASSETS

The development in intangible assets in the year under review is shown in the consolidated assets movement schedule on pages 38/39.

€'000	31/12/2006	31/12/2005
Software	5,498	632
Other intangible assets	150	179
Goodwill from the consolidation of capital	4,982	4,982
Advance payments and construction in progress	–	2,753
	10,630	**8,546**

The item "Software" includes the development of an IT system, completed during the year under review, for registering orders and processing customers in the mail-order segment at a cost of € 761 thousand by way of a self-constructed fixed asset. Part of this sum had already been reported in the previous year under the item "Advance payments and construction in progress" (€ 477 thousand). Depreciation amounting to € 49 thousand was performed.

The development in goodwill from the consolidation of capital is as follows:

€'000	Acquisition cost	Accumulated depreciation 31/12/2006	Carrying amount 31/12/2006
Wein Wolf Group	6,690	2,209	4,481
Le Monde des Grands Bordeaux C.C. SARL	615	426	189
Carl Tesdorpf GmbH	457	181	276
CWD Champagner- und Wein-Distributionsgesellschaft mbH & Co. KG	47	11	36
Sélection de Bordeaux SARL (formerly Edition Reiss SARL)	–19	–19	0
	7,790	**2,808**	**4,982**

No impairment losses pursuant to IAS 36 were recognised in the reporting period. The figures for the financial year consequently correspond to the prior-year figures. For purposes of testing for impairment, the carrying amount of the cash-generating unit is compared with its recoverable amount. The recoverable amount is determined as the value in use based on the future cash flows according to internal medium-range plans. The calculation is based on a risk-adjusted growth rate and an interest rate of 9.73% before tax.

15. PROPERTY, PLANT AND EQUIPMENT

The development in property, plant and equipment for the year under review is shown in the consolidated assets movement schedule on pages 38/39.

€'000	31/12/2006	31/12/2005
Land and buildings, including buildings on third-party land	17,217	18,218
Other fixtures and fittings, tools and equipment	6,286	6,029
Advance payments and construction in progress	13	59
	23,516	**24,306**

The carrying amounts of the land and buildings in finance lease totalled € 8,489 thousand at 31 December 2006 (previous year: € 9,480 thousand). The latter are not freely at the company's disposal.

One piece of land carries land charges totalling € 1,023 thousand as collateral for a bank loan.

16. FINANCIAL ASSETS

The development in financial assets for the year under review is shown in the consolidated assets movement schedule on pages 38/39.

€'000	31/12/2006	31/12/2005
Shares in affiliated companies	207	157
Participating interests	18	18
Securities	10	10
Other loans	50	53
	285	**238**

Shares in affiliated companies relate to the following companies, which are not consolidated in view of their minor significance for the group (cf. also the remarks on the consolidated companies):

€'000	31/12/2006	31/12/2005
Wein Wolf Import GmbH	26	26
Wein Wolf Holding Verwaltungs GmbH	26	26
"Chateaux et Domaines" Weinhandelsgesellschaft mbH	26	26
Weinland Ariane Abayan Verwaltungs GmbH	20	20
Verwaltungsgesellschaft CWD Champagner- und Wein-Distributionsgesellschaft m.b.H.	25	25
Verwaltungsgesellschaft Wein Wolf Import GmbH, Salzburg (Austria)	34	34
Deutschwein Classics Verwaltungsgesellschaft mbH	25	–
C.C.F. Fischer GmbH	25	–
	207	**157**

The participating interests (€ 18 thousand) refer to the 50% shareholding in *Vera Maria Bau Consulting GmbH*, Bonn.

The other loans totalling € 50 thousand (previous year: € 53 thousand) relate to one (previous year: one) loan to an employee. The loan accrues interest at 6% and matures in September 2009.

17. INVENTORIES

€'000	31/12/2006	31/12/2005
Raw material and consumables used	1,396	927
Work in progress	2,392	2,403
Finished goods and merchandise	52,282	47,915
Advance payments	11,542	9,496
	67,612	**60,741**

The advance payments relate to wines of earlier vintages which are not delivered until subsequent years ("subscriptions").

Inventories totalling € 569 thousand (previous year: € 961 thousand) were recognised at their net realisable value. The corresponding impairment losses, which have been booked to the result for the period, total € 31 thousand (previous year: € 132 thousand).

18. RECEIVABLES AND OTHER FIXED ASSETS

€'000	31/12/2006	31/12/2005
Trade receivables (gross)	45,619	39,477
Less individual allowances	–772	–731
Trade receivables	**44,847**	**38,746**
Income taxes receivable	1,247	463
Other receivables and other fixed assets	2,904	3,198
	48,998	**42,407**
Of which with a term of:		
– *up to 1 year*	47,863	41,343
– *over 1 year*	1,135	1,064

Other receivables and other fixed assets:

€'000	31/12/2006	31/12/2005
Due from affiliated companies	7	11
Due from participating interests	83	80
Tax refund claims	412	179
Receivables from trade representatives	355	421
Rent deposits	783	758
Accrued costs	457	559
Miscellaneous	807	1,190
	2,904	**3,198**

The amounts due from affiliated companies are owed by *Verwaltungsgesellschaft Wein Wolf Import GmbH*, Salzburg (Austria). The amounts due from participating interests are those from the joint venture *Global Eastern Wine Holding*, Bonn, and its subsidiaries *Global Wines Prague*, Prague (Czech Republic) and *Universal Wines*, Budapest (Hungary).

19. CASH IN BANKING ACCOUNTS AND CASH ON HAND

Cash in banking accounts and cash on hand totalling € 5,506 thousand (previous year: € 7,165 thousand) relates substantially to balances with banks.

20. DEFERRED TAX ASSETS

€'000	31/12/2006	31/12/2005
Previous year	19,213	20,782
Increase	0	1,647
Decrease	–3,282	–3,216
Offsetting	–592	–
	15,339	**19,213**

Due to changes in the fiscal consolidated group of Hawesko Holding AG, deferred tax liabilities shown in the previous year under the provisions (cf. Note 28) have for the first time been offset against the deferred tax assets of Hawesko Holding AG during the financial year under review.

Deferred tax assets are made up as follows:

€'000	31/12/2006	31/12/2005
Temporary differences:		
– from restructuring measures with an effect on taxes	15,363	17,888
– from the fair value measurement of derivative financial instruments	59	693
– Other	509	501
– Offsetting	–592	–
Fiscal loss carryforwards	–	131
	15,339	**19,213**

The conversion of the subsidiaries *Hanseatisches Wein- und Sekt-Kontor HAWESKO GmbH & Co. KG, CWD Champagner- und Wein-Distributionsgesellschaft mbH & Co. KG* and *Jacques' Wein-Depot Wein-Einzelhandel GmbH & Co. KG* from incorporated firms to unincorporated firms at 1 January 1998 resulted in fiscally allowable goodwill which is amortised over 15 years. Deferred tax assets with an effect on income totalling € 38,212 thousand were entered in the accounts at 1 January 1998; they are released by the straight-line method over the amortisation period, booked as an expense. The remaining temporary differences are amortised over a residual useful life of seven years. Amortisation is performed at the rate of € 2,232 thousand per year for the above companies.

No further deferred tax credit balances were reported for fiscal loss carryforwards of unlimited use (previous year: € 128 thousand). However, there remain unused fiscal loss carryforwards amounting to € 5,654 thousand (previous year: € 5,710 thousand), for which no deferred tax assets were reported in the balance sheet.

Deferred tax credit balances totalling € 59 thousand (previous year: € 693 thousand) are reported as a result of the recognition of derivative financial instruments at fair value.

A sum of € 2,642 thousand is expected to be realised from the deferred tax assets within twelve months.

21. SUBSCRIBED CAPITAL

A 2-for-1 share split was carried out in the year under review. Each Hawesko share now represents € 1.50 (previously: € 3.00) of the capital stock. The number of shares doubled accordingly to 8,832,992.

The subscribed capital of Hawesko Holding AG in the commercial accounts amounts to € 13,249,488.00, and is divided into 8,832,992 ordinary bearer shares in the form of individual share certificates.

No additional treasury shares were acquired during the 2006 financial year, and therefore the number of treasury shares held at 31 December 2006 remained at 26,996, as in the previous year, taking account of the share split.

Total shares	2006	2005
OPENING INVENTORY	**4,402,998**	**4,416,496**
Share split	+4,416,496	–
Treasury shares	–13,498	–13,498
CLOSING INVENTORY	**8,805,996**	**4,402,998**

A regular dividend of € 0.70 as well as a special dividend of € 0.30 per share (after the share split) were paid in the financial year, amounting to € 8,806 thousand in total.

The subscribed capital of the group totals € 8,883,055 (previous year: € 8,883,055) and, as a result of the contribution of the three subsidiaries *Hanseatisches Wein- und Sekt-Kontor HAWESKO GmbH & Co. KG, CWD Champagner- und Wein-Distributionsgesellschaft mbH & Co. KG* and *Jacques' Wein-Depot Wein-Einzelhandel GmbH & Co. KG* to Hawesko Holding AG – which was reported as a "transaction between companies under common control" – is € 4,366 thousand lower than in the commercial accounts.

Approved capital

The Board of Management is authorised to increase the capital stock on one or more occasions by up to a total of € 6,600,000.00 within the period ending 31 May 2008, with the approval of the Supervisory Board, by issuing new ordinary bearer shares in the form of individual share certificates against contributions in cash or in kind. The shareholders shall be granted a fundamental subscription right. With the permission of the Supervisory Board, the Board of Management is, however, authorised to exclude the shareholders' statutory subscription,

a) insofar as the exclusion of the subscription right is necessary in order to grant the bearers of convertible bonds or loans or warrants issued by the company a subscription right to the extent that they would be entitled following exercising of the warrant or conversion right or following fulfilment of the conversion obligation,

b) insofar as the capital increase for contribution in kind is made for the purpose of acquiring companies or participations in companies,

c) in the case of capital increases for cash for a partial amount of up to € 264,000.00, in order to issue shares to employees,

d) for residual amounts.

In the case of capital increases for cash, the Board of Management is moreover authorised to exclude the subscription right of the shareholders, with the approval of the Supervisory Board, if the nominal value of the new shares neither exceeds 10% of the existing capital stock at the time of the authorisation taking effect nor exceeds 10% of the existing capital stock at the time of issue of the new shares and the issue value of the new shares is not significantly below their stock market price pursuant to Section 186 Para. 3 Sentence 4 of German Stock Corporation Law. Treasury shares sold are to be added to the 10% threshold if the sale takes place with the exclusion of the subscription right, on the basis of an authorisation that is already valid or takes effect at the time of this authorisation, pursuant to Section 186 Para. 3 Sentence 4 of German Stock Corporation Law.

Insofar as the subscription right is not excluded, the shares are to be taken on by banks with the obligation to offer them for sale to shareholders (indirect subscription right).

The Board of Management is moreover authorised to specify the further content of the rights carried by the shares and the conditions of the share issue with the approval of the Supervisory Board.

In the year under review, no shares were issued from the approved capital, with the result that it totals € 6,600,000.00 at 31 December 2006.

Authorisation to acquire treasury shares

At the Ordinary Shareholders' Meeting on 19 June 2006, Hawesko Holding AG was given authorisation until 30 November 2007 to acquire treasury shares up to a maximum of 10% of the capital stock, via the stock market or via an offer of purchase extended to all shareholders. The price paid for these shares may not undercut or exceed the average share price (closing price of Hawesko Holding shares in Xetra trading or in a comparable substitute system to Xetra at the Frankfurt Stock Exchange) over the last five trading days preceding the acquisition of the shares by more than 10%.

With the approval of the Supervisory Board, the Board of Management was authorised to sell treasury shares acquired, in a manner other than via the stock exchange or an offer made to all shareholders, if the shares acquired are sold for cash at a price that is not significantly below the average share price (closing price of Hawesko Holding shares in Xetra trading or in a comparable substitute system to Xetra at the Frankfurt Stock Exchange) over the five previous trading days. This authorisation applies with the stipulation that the shares sold under exclusion of the subscription right pursuant to Sections 71 Para. 1 No. 8 Sentence 5 and 186 Para. 3 Sentence 4 of German Stock Corporation Law may not exceed a total of 10% of the capital stock, either at the time this authorisation takes effect or when it is exercised. The shares that are issued on the basis of an existing or substitute authorisation at the time of this authorisation coming into effect for the issue of new shares from approved capital pursuant to Section 186 Para. 3 Sentence 4 of German Stock Corporation Law, with the exclusion of the subscription right, are to be included when assessing the 10% threshold.

The Board of Management was moreover authorised to sell the acquired shares to third parties, excluding the subscription right of existing shareholders, if this is done with the purpose of acquiring companies or participating interests in companies.

The Board of Management was moreover authorised to redeem treasury shares with the approval of the Supervisory Board, without the need for further ratification by shareholders' resolutions.

This authorisation to acquire own shares was not exercised in the year under review.

22. CAPITAL RESERVE

€'000	31/12/2006	31/12/2005
Capital reserve	5,867	5,867

The capital reserve for the group comprises the premium from the capital increase in 1998, the issue of shares to employees and the issue of new shares from the 2001 convertible bond. The premium from the conversion of the convertible loan into Hawesko bearer shares carrying full dividend entitlements totalled € 105 thousand, i.e. € 9.58 per share.

The costs for the initial public offering of € 978 thousand were booked to the capital reserve "net of taxes", with no effect on income, in agreement with IAS 32.

23. REVENUE RESERVE

€'000	31/12/2006	31/12/2005
Revenue reserve	35,286	32,958

The group's revenue reserve includes amounts allocated in the past from earnings generated by companies included in the consolidated accounts. Treasury shares totalling € 340 thousand (previous year: € 340 thousand) have in addition been deducted from the revenue reserve, in agreement with IAS 32.

24. UNAPPROPRIATED GROUP PROFIT

The unappropriated group profit includes the consolidated earnings for the financial year, the undistributed earnings from previous years and the adjustments to earnings resulting from the changeover to IFRS. The distributable profit results from the commercial accounts of Hawesko Holding AG and totals € 7,613 thousand (previous year: € 8,886 thousand).

The individual components of the equity and its development in the years 2005 and 2006 are shown in the consolidated statement of changes in equity on page 37.

25. MINORITY INTEREST

The minority interest in the consolidated balance sheet relates to minority interests in the equity and net earnings of the group companies that are consolidated in full or on a pro rata basis (see details of consolidated companies).

26. MINORITY INTEREST IN THE CAPITAL OF UNINCORPORATED SUBSIDIARIES

The minority interest in the capital of unincorporated subsidiaries comprises the possible settlement obligations at fair value and the interests in the net earnings of the group companies consolidated in full or on a pro rata basis.

27. PROVISIONS FOR PENSIONS

For old-age pension purposes, five (previous year: five) active employees, one (previous year: one) retired employee and one (previous year: one) former employee of the subsidiary *Jacques' Wein-Depot Wein-Einzelhandel GmbH* have an entitlement to supplementary retirement pay. A life-long retirement pension or disability pension and a pension for surviving dependents or orphans are granted. The total provision reported at the balance sheet date was calculated by an independent actuary according to the present value of an expectancy, in agreement with IAS 19. The allocation to the provisions for pensions amounted to € 5 thousand (previous year: € 158 thousand) in the year under review. The expense comprises service cost of € 16 thousand (previous year: € 18 thousand), interest expense of € 27 thousand (previous year: € 26 thousand), payments made of € 6 thousand (previous year: € 1 thousand) and an actuarial gain of € 32 thousand (previous year: loss of € 113 thousand).

The basic assumptions made in calculating the provisions for pensions are given below:

%	2006	2005
Discounting rate	4.25	4.00
Expectancy trend	1.00	1.00
Pensions trend	2.00	2.00

The calculations are based on the basic biometric data (probability values for death and invalidity) according to the 2005 G reference tables by Dr. Klaus Heubeck.

28. DEFERRED TAX LIABILITIES

The deferred tax liabilities are the result of temporary differences between the valuations in the fiscally relevant balance sheets and the carrying amounts in the consolidated balance sheet. The following table provides an explanation of the differences in the values of the deferred tax liabilities formed in the balance sheets:

DEFERRED TAXES

€'000	31/12/2006	31/12/2005
Fixed assets	443	291
Inventories	276	274
Trade receivables	142	114
Other fixed assets	152	56
Miscellaneous	-65	-93
Offsetting	-592	–
	356	**642**

Due to changes in the fiscal consolidated group of Hawesko Holding AG, deferred tax liabilities shown in the previous year under the provisions (cf. Note 20) have for the first time been offset against the deferred tax assets of Hawesko Holding AG during the financial year under review.

29. OTHER PROVISIONS

€'000	1/1/2006	Drawn (D) Liquidated (L)	Allocated	31/12/2006
Provisions for personnel	293	57 (D) 4 (L)	146	378

The provisions for personnel in the main consist of death benefit and partial retirement.

The provisions with a term of up to one year total € 74 thousand. The provisions with a term of between one and five years total € 304 thousand. There are no provisions with a term of over 5 years (previous year: € 103 thousand).

30. BORROWINGS

€'000	31/12/2006	31/12/2005
Banks	11,276	8,296
Finance lease	10,161	11,103
	21,437	**19,399**
Of which with a term of:		
– *up to 1 year*	10,253	6,278
– *1 to 5 years*	7,222	7,367
– *over 5 years*	3,962	5,754

The Hawesko Group has secured credit facilities as indicated in the following table, to enable it to raise short-term loans (with a term of less than one year):

Term	Credit facility in €'000
Open-ended	13,000
31/12/2006	4,000
31/01/2007	7,500
31/07/2007	10,000
	34,500

The interest rates of short-term loans raised in 2006 were between 3.40% and 4.73%.

Borrowings from banks with terms of more than one year relate to two fixed-rate loans:

Original amount €'000	31/12/2006 €'000	Term	Interest rate
9,868	2,960	30/09/2009	5.92%
511	51	31/12/2008	5.50%

The loan with the original amount of € 511 thousand is secured by a land charge of € 1,023 thousand (previous year: € 1,023 thousand).

The finance lease liabilities at 31 December 2006 can be reconciled as follows:

€'000	Term up to one year	Term over one and up to five years	Term over five years	Total
Minimum lease payments	1,622	6,971	5,053	**13,646**
Interest component	620	1,774	1,091	**3,485**
Principal repaid	1,002	5,197	3,962	**10,161**

The first is the mail-order logistics centre in Tornesch, near Hamburg, which has been leased for a total period of 22.5 years. The second is an office building, which is being used over a term of 18 years. In the case of the mail-order logistics centre, the lessor has a put option at the end of the rental period (31 March 2011) on a portion that is covered by movable equipment lease agreement. There exist purchase options for both properties at the end of the term of the contracts.

The lease has been classified as a financial lease, as the present value of the minimum lease payments in essence corresponds to the fair value of the mail-order logistics centre at the time of formation of the contract. The present value was calculated using effective interest rates ranging from 5.5% to 7%, depending on the contract.

31. OTHER LIABILITIES

€'000	31/12/2006	31/12/2005
Advances received	11,162	7,606
Trade payables	43,482	38,154
Income taxes payable	451	2,287
Other liabilities	18,482	20,163
	73,577	**68,210**
Of which with a term of		
– *up to 1 year*	65,297	63,701
– *1 to 5 years*	8,280	4,509
– *over 5 years*	–	–

The advances received in the year in progress are in respect of subscription payments collected from customers for wines which are to be delivered in 2007 and 2008.

The advances received include liabilities with a term of between one and five years totalling € 7,413 thousand (previous year: € 2,380 thousand).

The other liabilities include liabilities with a term of between one and five years totalling € 867 thousand (previous year: € 2,129 thousand). There no longer exist any other liabilities with a term of over five years, as in the previous year.

The other liabilities are composed of the following:

€'000	31/12/2006	31/12/2005
Sales tax and other taxes	7,916	7,936
Liabilities in respect of social insurance	236	713
Liabilities to employees	1,449	3,225
Customer bonuses	3,995	3,680
Derivative financial instruments	72	1,696
Liabilities to other company members	577	354
Due to affiliated companies	99	65
Miscellaneous	4,138	2,494
	18,482	**20,163**

The amounts due to affiliated companies are in respect of the following companies:

€'000	31/12/2006	31/12/2005
"Chateaux et Domaines" Weinhandelsgesellschaft mbH	27	26
Deutschwein Classics Verwaltungsgesellschaft mbH	1	–
Wein Wolf Import GmbH	5	5
Wein Wolf Holding Verwaltungs GmbH	3	3
Weinland Ariane Abayan Verwaltungs GmbH	3	3
Verwaltungsgesellschaft Wein Wolf Import GmbH, Salzburg	33	–
Verwaltungsgesellschaft CWD Champagner- und Wein-Distributionsgesellschaft m.b.H.	27	28
	99	**65**

OTHER PARTICULARS

32. CONTINGENCIES AND OTHER FINANCIAL OBLIGATIONS

The following contingencies and financial obligations in respect of third parties existed on 31 December 2006:

€'000	31/12/2006	31/12/2005
Credit by way of guarantee	105	83
Ordering commitments for intangible assets	–	905
Advance payments outstanding	112	424
Guarantees	3,287	2,965

Obligations relating to advance payments outstanding for subscriptions received as at 31 December 2006 were repaid at the start of 2007.

Hawesko Holding AG owns a one hundred percent interest in *Sélection de Bordeaux SARL*. As 50% of this company's equity capital had been used up, in June 2006 the company passed the resolution under French law to continue the business. The company is liable for any losses incurred until such time as the equity capital has been restored. The financial obligations amounted to € 347 thousand at 31 December 2006.

For one commercial act, in the previous year the subsidiary *Weinland Ariane Abayan GmbH & Co. KG* entered into a buy-back obligation by 31 March 2009 at a net purchase price of € 2,836 thousand. The company has transferred this buy-back obligation internally to two natural persons.

The minimum total for non-discounted future lease and rental payments amounts to € 8,972 thousand (previous year: € 9,191 thousand). The global obligations for lease and tenancy agreements are due as follows:

€'000	
Up to 1 year	6,466
Over 1 year, up to 5 years	1,626
Over 5 years	880
	8,972

The other financial obligations from tenancy and lease agreements relate substantially to rented shop premises for the specialist retailing of wine, and two pieces of land classified as operating leases.

33. FINANCIAL INSTRUMENTS

Primary financial instruments, which in accordance with IAS 32 include other loans, receivables and other fixed assets, as well as liabilities, result from the consolidated balance sheet. Financial instruments on the assets side are – taking into account any necessary reductions for impairment – reported at amortised cost. Financial payables are measured at the amortised cost that corresponds to the amount repayable.

The *fair value* of financial assets does not differ significantly from the carrying amount in view of the short term of these items.

The fair values of financial liabilities are shown in the following overview:

€'000	31/12/2006 Carrying amount	31/12/2006 Fair value	31/12/2005 Carrying amount	31/12/2005 Fair value
Due to banks	11,276	11,313	8,296	8,357
Finance lease liabilities	10,161	10,531	11,103	11,651

These fair values correspond to the cash flows discounted at the current interest rates.

In the case of other financial liabilities, the fair values correspond to the carrying amounts.

The *credit and non-payment risk* of financial assets corresponds to no more than the amounts shown on the assets side and is well diversified thanks to the large number of individual receivables from customers.

Currency exposure from operating activities is recorded and analysed. Decisions on the extent of forward exchange transactions are reached on the basis of the exchange rate movement.

An ***interest rate risk*** as a result of movements in the market interest rate exists in particular for receivables and payables with a term of more than one year. Such long terms are significant particularly in the case of financial payables. The ***cash flow risk*** that arises where no fixed-interest terms exist is hedged against by means of derivative interest-rate hedging tools at group level.

The ***derivative financial instruments*** used are currency options, forward exchange transactions, interest rate derivatives and combined interest-rate/currency swaps. Such transactions are concluded only with banks of excellent financial standing. Their use is restricted to the hedging of operative business.

Due to the lack of identity of maturities and the high rate of fluctuation in use between the underlying and hedging transactions, there is no close hedging relationship with the underlying transactions in the case of the interest rate derivatives and the combined interest-rate/currency swaps. They are consequently measured at fair value, with gains or losses from the change in fair value booked to income via the interest result. Obligations from the measurement of interest rate derivatives are shown under other liabilities.

The fair values relate to the liquidation (redemption) value of the financial derivatives at the balance sheet date. The nominal volume and fair values of existing financial instruments are as follows:

	Nominal volume		Fair value	
€'000	31/12/2006	31/12/2005	31/12/2006	31/12/2005
Interest hedging transactions with a positive market value at the reporting date	7,000	7,000	30	29
Interest hedging transactions with a negative market value at the reporting date	10,000	33,113	–72	–1,725

The terms top maturity of the interest hedging transactions are four years.

The derivative financial instruments concluded by the company are exposed above all to the following market risks:

Until April of the year under review, the interest hedging transactions included one obligation in Swiss francs that is due on 13 January 2009. This resulted in a ***foreign exchange risk*** up to that point that was accounted for accordingly in the fair value. This interest hedging transaction was sold in April 2006, with the result that there are no longer any interest hedging transactions involving currency exposure at the balance sheet date.

The ***interest rate risk*** principally takes the form of movements in the short-term Eurocurrency market interest rates and their relationship to long-term interest rates, which results in a change in the fair values of the financial instruments used. Falling short-term money market interest rates at the prevailing interest rates result in a fall in the fair values of the financial instruments used.

There is no evidence of a ***liquidity risk***, i.e. insufficient financial resources to pay off obligations.

As the hedging transactions were generally concluded to protect underlying transactions carrying a variable interest rate, there is only a low ***cash flow risk***.

As in the previous year, there exists no ***credit or non-payment risk***, as no premiums for the interest-rate hedging tools were capitalised and the derivative financial instruments were concluded only with top-class banks.

34. EMPLOYEES

The average number of employees was as follows:

Group	2006	2005
Commercial and industrial employees	530	549
Apprentices	21	17
	551	**566**

35. NOTES TO THE CASH FLOW STATEMENT

The cash flow statement acc. to IAS 7 was calculated using the indirect method, and comprises the stages "current operations", "investing activities" and "financing activities". The cash flow statement begins with the accounting profit. For reasons of materiality, the taxes paid have been allocated in full to current operations.

The cash outflows from interest payments and dividends have been allocated to financing activities. The cash outflows from financing activities include interest payments made totalling € 1,606 thousand and interest payments received totalling € 107 thousand. The cash inflows from current operations of € 12,709 thousand (previous year: € 24,268 thousand) include the changes in cash and cash equivalents from operating activities. Cash and cash equivalents comprise cheques, cash on hand as well as cash in banks and amounts due to banks at any time.

The composition of cash and cash equivalents is as follows:

€'000	2006	2005	Change
Cash in banking accounts and cash on hand	5,506	7,165	–1,659

36. SEGMENT REPORTING

In keeping with the requirements of IAS 14, individual data from the annual financial statements has been segmented according to business area (primary reporting format). In agreement with the internal reporting arrangements of the Hawesko Group, the segments are organised according to sales form and customer group. Segment data broken down by geographical region (secondary reporting format) has not been prepared, as over 90% of sales and assets within the Hawesko Group are allocable to Germany.

The segments comprise the following areas:

- The segment for specialist wine-shop retailing *(Jacques' Wein-Depot)* sells wine via a network of retail outlets which are run by independent agency partners. The specialist wine-shop retailing segment also includes *Viniversitaet Die Weinschule GmbH* and *Multi-Weinmarkt GmbH*.
- The wholesale segment groups together business activities with retailers; wines and champagnes are sold both by mail order *(CWD Champagner- und Wein-Distributionsgesellschaft mbH & Co. KG)* and by an organisation of trade representatives (*Wein Wolf* Group). *Le Monde des Grands Bordeaux Château Classic SARL* gives the company a presence at what must be the most important trading location for Bordeaux wines. It likewise includes the 50% interest in *Global Eastern Wine Holding GmbH,* Bonn, and its 66% interest respectively in the Czech wholesaler *Global Wines Prague*, Prague, and the Hungarian wholesaler *Universal Wines GmbH*, Budapest. Further details of the joint venture are provided in Note 5.
- The segment for mail-order trade comprises the wine and champagne mail-order division, with activities focused on the consumer. This segment also includes gifts business for corporate and private customers, based on a special catalogue. The mail-order division includes the companies *Hanseatisches Wein- und Sekt-Kontor HAWESKO GmbH, Carl Tesdorpf GmbH* and *Sélection de Bordeaux SARL*.
- The miscellaneous segment includes Hawesko Holding AG and *IWL Internationale Wein Logistik GmbH,* as well as the former general-partner limited-liability company of the renamed firm *Hanseatisches Wein- und Sekt-Kontor HAWESKO GmbH*.

The segment data has been calculated in the following way:

- Internal sales indicate the sales between segments. Intra-group sales are calculated on the basis of market prices.
- The segment result is defined as earnings before interest, taxes and any deduction for minority interest (EBIT).
- The segment assets are the sum of non-current and current assets required for current operations, excluding consolidating items within the segment and any income tax claims.
- The segment debts are the operating debts (provisions and interest-free liabilities), excluding consolidating items within the segment and income tax liabilities.
- The elimination of intra-group balances that is to be performed within a segment and the capital consolidation data (goodwill and goodwill amortisation) are allocated to the respective segments.
- There are no significant income and expenses with no cash impact in the specialist wine-shop retail, wholesale and mail-order segments.

SEGMENTS 2006

€'000	Specialist retail	Wholesale	Mail order	Miscellaneous	Reconciliation	Group
SALES REVENUES	101,208	128,107	90,970	12,949	-30,596	**302,638**
– External sales	101,174	119,642	81,416	406	–	302,638
– Internal sales	34	8,465	9,554	12,543	-30,596	–
OTHER INCOME	7,958	4,855	2,299	1,194	-2,327	**13,979**
– External	7,958	4,753	1,058	175	35	13,979
– Internal	–	102	1,241	1,019	-2,362	–
EBIT	11,619	5,879	4,407	-3,372	–	**18,533**
Non-allocated income						69
						18,602
Financial income						934
Financial expense						-2,209
Financial result						-1,275
Investment income						–
RESULT FOR SEGMENTS BEFORE TAXES						**17,327**
Taxes on income						-6,361
RESULT AFTER TAXES						**10,966**
Segment assets	31,189	72,644	48,334	143,249	-140,530	154,887
Non-allocated assets						16,999
Consolidated assets						**171,886**
Segment debts	19,389	33,322	20,153	8,396	-6,621	74,638
Non-allocated debts						22,158
Consolidated debts						**96,796**
Depreciation and amortisation	1,414	632	1,069	1,148	–	4,263
Investment	1,552	701	2,333	1,332	–	5,918

SEGMENTS 2005

€'000	Specialist retail	Wholesale	Mail order	Miscellaneous	Reconciliation	Group
SALES REVENUES	96,977	105,476	90,564	12,875	-18,843	**287,049**
– External sales	96,944	103,025	86,469	611	–	287,049
– Internal sales	33	2,451	4,095	12,264	-18,843	–
OTHER INCOME	7,961	4,249	2,208	975	-2,082	**13,311**
– External	7,961	4,211	984	155	–	13,311
– Internal	–	38	1,224	820	-2,082	–
EBIT	10,280	5,112	6,176	-2,703	–	**18,865**
Non-allocated income						68
						18,933
Financial income						147
Financial expense						-2,933
Financial result						-2,786
Investment income						53
RESULT FOR SEGMENTS BEFORE TAXES						**16,200**
Taxes on income						-5,359
RESULT AFTER TAXES						**10,841**
Segment assets	26,959	67,015	41,083	138,862	-131,158	142,761
Non-allocated assets						19,855
Consolidated assets						**162,616**
Segment debts	16,601	29,760	17,398	9,274	-3,853	69,180
Non-allocated debts						20,342
Consolidated debts						**89,522**
Depreciation and amortisation	1,611	577	880	1,290	–	4,358
Investment	1,207	1,098	2,723	530	–	5,558

37. APPLICATION OF THE EXEMPTION RULES OF SECTION 264B OF GERMAN COMMERCIAL CODE FOR UNINCORPORATED FIRMS

The group companies *CWD Champagner- und Wein-Distributionsgesellschaft mbH & Co. KG, Wein Wolf Holding GmbH & Co. KG, Wein Wolf Import GmbH & Co. Verwaltungs KG, Wein Wolf Import GmbH & Co. Vertriebs KG* and *Weinland Ariane Abayan GmbH & Co. KG* make use of the exemption rules of Section 264b of German Commercial Code for the year under review. The consolidated financial statements are also submitted to the Commercial Register for the registered office of each unincorporated firm.

38. APPLICATION OF THE EXEMPTION RULES OF SECTION 264 PARA. 3 OF GERMAN COMMERCIAL CODE FOR INCORPORATED FIRMS

The group companies *IWL Internationale Wein Logistik GmbH, Hanseatisches Wein- und Sekt-Kontor HAWESKO GmbH* and *Jacques' Wein-Depot Wein-Einzelhandel GmbH* make use of the exemption rules of Section 264 Para. 3 of German Commercial Code for the year under review. The consolidated financial statements are also submitted to the Commercial Register for the registered office of the incorporated firms.

39. DECLARATION OF CONFORMITY

The Declaration of Conformity with the German Corporate Governance Code, as specified under Section 161 of German Stock Corporation Law, has been submitted and is published on the internet on hawesko.com.

40. RELATED PARTY DISCLOSURES

In accordance with IAS 24, the following details of relationships with related parties are disclosed:

The Board of Management and Supervisory Board are to be regarded as related parties pursuant to IAS 24.5. During the period under review, there were business relationships between the Board of Management and the companies included in the consolidated financial statements.

The members of the Supervisory Board were paid the following total remuneration for their activities in the financial year:

€'000	Variable remuneration	Fixed remuneration	Attendance fees	Remuneration for services rendered in person	Total
Manfred Middendorff	17	8	23	–	48
Prof. Dr. Dr. Dr. Franz Jürgen Säcker	13	6	9	16	44
Prof. Dr. Carl H. Hahn	8	4	7	–	20
Jacques Héon	8	4	5	–	18
Detlev Meyer	8	4	9	–	22
Angelika Jahr-Stilcken	8	4	6	–	19
TOTAL	**63**	**32**	**61**	**16**	**171**

The members of the Board of Management were paid the following total remuneration for their activities in the financial year:

€'000	Fixed	Variable	Total
Alexander Margaritoff	1,043	294	1,337
Sven Ohlzen (until 31 December 2006)	372	143	515
Bernd Hoolmans	405	143	548
TOTAL	**1,820**	**580**	**2,400**

Individual members of the Board of Management were in addition granted non-cash benefits of insignificant value.

In the previous year, remuneration totalling € 2,298 thousand was paid to the Board of Management, comprising € 1,760 thousand in fixed pay and € 538 thousand in variable components.

Upon termination of service as a Board of Management member, the contracts of service include a standard non-competition clause for a period of two years, in conjunction with continued payment of 50% of the overall remuneration.

The contract of service of the Board of Management member Sven Ohlzen appointed until 31 December 2006 duly ends on 31 December 2007.

The Board of Management member Bernd Hoolmans was moreover granted a retirement pension from reaching the age of 65, as well as invalidity pay. A provision totalling € 128 thousand (previous year: € 127 thousand) was reported for this commitment at 31 December 2006.

There existed no loans to members of the Board of Management or Supervisory Board in the 2006 financial year.

The balance sheet includes provisions for obligations totalling € 748 thousand (previous year: € 696 thousand) to the Board of Management and Supervisory Board.

At 31 December 2006, the Supervisory Board held 1,579,494 (previous year: 1,579,294) and the Board of Management 2,680,996 (previous year: 2,685,652) shares – directly and indirectly – in Hawesko Holding AG, with the Chairman of the Board of Management holding 2,667,052 directly and indirectly.

Apart from the circumstances mentioned, there were no other significant business relations with the Board of Management and Supervisory Board in the year under review.

41. EXPENDITURE ON AUDITOR'S FEES

The expenditure on auditor's fees was made up as follows:

€'000	2006	2005
Audit of financial statements	162	172
Tax consultancy	101	99
Other services	29	19
TOTAL	**292**	**290**

42. PROPOSAL ON THE APPROPRIATION OF EARNINGS OF HAWESKO HOLDING AG

It is proposed to distribute the unappropriated profit of € 7,613 thousand resulting from the annual financial statements of Hawesko Holding AG, prepared at 31 December 2006 in accordance with the requirements of German Commercial Code and German Stock Corporation Law, as follows: payment of a regular dividend of € 0.85 per individual share. The proposed total dividend amounts to € 7,508 thousand.

Hamburg, 21 March 2007

The Board of Management

Alexander Margaritoff Bernd Hoolmans Ulrich Zimmermann

INDEPENDENT AUDITOR'S REPORT

We have audited the consolidated financial statements comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by Hawesko Holding Aktiengesellschaft, Hamburg, for the business year from 1 January to 31 December 2006. The preparation of the consolidated financial statements and group management report in accordance with the IFRS as applied in the European Union and the applicable commercial regulations as per Section 315a, Paragraph 1 of the German Commercial Code is the responsibility of the legal representatives of the company. Our responsibility is to express an opinion on the consolidated financial statements and group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW: German Institute of Auditors), in particular Section 317 of the German Commercial Code. These standards require that we plan and perform the audit so that we can assess with reasonable assurance whether the documentation is free of any errors and violations which have a substantial effect on the representation of the net assets, financial position and earnings situation provided by the consolidated financial statements and group management report in compliance with the applicable accounting regulations. Knowledge of the business activities and the economic and legal environment of the group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectivity of the internal accounting control system as well as evidence supporting the figures and disclosures in the consolidated financial statements and the consolidated status report are evaluated primarily on the basis of samples as part of the audit. The audit includes an assessment of the annual financial statements of the companies included in the consolidated financial statement, the definition of the consolidated group, the accounting and consolidation principles used and significant estimates made by the legal representatives of the group as well as an appraisal of the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our evaluation.

Our audit has not led to any reservations.

In our opinion, based on the results of our audit, the consolidated financial statements comply with the IFRS as applied in the European Union and the applicable commercial regulations as per Section 315a, Paragraph 1 of the German Commercial Code, and provide a true and fair view of the net assets, financial position and earnings of the group. The consolidated management report is consistent with the consolidated financial statements, and provides a true and fair view overall of the position of the group as well as of the opportunities and risks of future development.

Hamburg, 23 March 2007

Susat & Partner oHG
Wirtschaftsprüfungsgesellschaft

von Oertzen Auditor	Dr. Dannenbaum Auditor

REPORT OF THE SUPERVISORY BOARD

In the 2006 financial year the Supervisory Board performed the tasks for which it is responsible, in accordance with the legal requirements and the articles of incorporation; it was in addition informed by the Board of Management about the situation of the company at its meetings as well as in individual conferences, and passed the necessary resolutions. Furthermore, the Board of Management reported to the Supervisory Board on other important matters. The regular oral and written reports submitted to the Supervisory Board pertained to the overall situation of the company and current business developments as well as to the medium-term strategy of the company, including its investment, personnel, financial and earnings plans. Its deliberations focused on the economic development of the company, the group, the individual divisions and the affiliated companies, as well as the ongoing evolution of Hawesko Holding AG.

In the 2006 financial year the Supervisory Board met on a total of five occasions – including one extraordinary meeting – to assure itself of the lawful and orderly management of the company. The topics of the reports and discussions of the Supervisory Board included the current trading position of the group, the corporate governance principles and their implementation, risk management within the group, the approval of a new sales concept in the wholesale segment for German wines, the realisation of the *multiwein* specialty store concept, the development of business activities in Poland, the appointment of a new Finance Director, the significance of organic wines in the German market, the approval of important individual transactions and business planning in the medium term.

With two exceptions, all the members of the Supervisory Board were present at the meetings of the Supervisory Board. Where absent, they participated in the passing of resolutions by submitting their vote in writing. The Committee for Accounting and Investment Affairs met on two occasions, and the Committee for Personnel Affairs on four occasions. The Supervisory Board assessed its efficiency in a self-evaluation process.

Between its meetings, the Supervisory Board was given regular, up-to-date, comprehensive reports by the Board of Management on the development of the group. Considerable importance is attached to the monthly reporting system, which reports and comments on key financial data compared with the target and prior-year figures. The Supervisory Board has acknowledged the principal budgeting and accounting documents and been able to assess their correctness and appropriateness.

No conflicts of interest concerning individual members came to the attention of the Chairman of the Supervisory Board.

The company is not aware of any restrictions affecting voting rights or the transfer of shares. No key agreements that are conditional on a change of control following a takeover bid have been reached. There are no compensation agreements with members of the Board of Management or employees in the event of them handing in their notice in the event of a takeover bid, being dismissed for no valid reason or terminating employment.

The annual financial statements prepared by the Board of Management, the consolidated financial statements and the combined management report of the group and the parent company for the 2006 financial year, including the bookkeeping, were examined by Susat & Partner oHG Wirtschaftsprüfungsgesellschaft, Hamburg, appointed as auditors by the Shareholders' Meeting of 19 June 2006. The auditors did not find any cause for objection and signed off the above without qualification.

Pursuant to Section 170 of German Stock Corporation Law, the Board of Management submitted the annual and consolidated financial statements, the combined management report for the group and the parent company for the 2006 financial year and the audit reports on the examination of the annual and consolidated financial statements and the Board of Management's proposal on the appropriation of earnings to the Supervisory Board for review. The Supervisory Board Committee for Accounting and Investment Affairs inspected the documents presented at length at its meeting on 21 March 2007 and discussed them in the presence of the auditors. The full Supervisory Board discussed the management report for the parent company, the combined management report of the group, the annual financial statements and the consolidated financial statements of Hawesko Holding AG, and the auditors' audit report, at its meeting on 28 March 2007. Based on the conclusions of its examination, the Supervisory Board raises no objections. It ratifies the annual and consolidated financial statements for 2006 pursuant to Section 171 of German Stock Corporation Law. The annual financial statements are thus approved in accordance with Section 172 of German Stock Corporation Law.

The Supervisory Board endorses the proposal of the Board of Management on the appropriation of net profit for the 2006 financial year.

Sven Ohlzen left the Board of Management with effect from 31 December 2006. The Supervisory Board takes this opportunity to thank him for his many years of highly dedicated work, and extends every best wish to him for the future. Ulrich Zimmermann was appointed as a new member of the Board of Management with effect from 1 January 2007 at the meeting on 7 December 2006.

The Supervisory Board extends its thanks to the Board of Management, the employee councils, the directors, all employees of Hawesko Holding AG's affiliated companies, the *Jacques' Wein-Depot* agency partners and the distribution partners in the wholesale division for their commitment and hard work.

Hamburg, 28 March 2007

The Supervisory Board

Manfred Middendorff
Chairman

CORPORATE GOVERNANCE

Hawesko Holding AG is committed to responsible company management and supervision directed towards increasing the value of the company. The transparency of the principles of the company as well as the presentation of its continuous development are to be assured in order to create, maintain and strengthen confidence in the company among customers, business partners and shareholders.

The Board of Management and Supervisory Board monitor compliance with the German Corporate Governance Code and each year submit a Declaration of Conformity, both current and former versions of which can be called up on the internet. The overwhelming majority of the standards and recommendations specified in the German Corporate Governance Code have been practised for years at Hawesko Holding AG. This will remain so in the future.

Particulars of the remuneration of the Board of Management and Supervisory Board are to be found in the combined management report for the group and the parent company, as well as in the Notes to the consolidated and individual financial statements.

Declaration of Conformity pursuant to Section 161 of German Stock Corporation Law

Pursuant to Section 161 of German Stock Corporation Law, the Board of Management and Supervisory Board of publicly quoted stock corporations shall declare each year that the recommendations of the Government Commission on the German Corporate Governance Code, published in the official section of the electronic Federal Official Gazette by the Federal Ministry of Justice, have been complied with, or declare which recommendations have not been or will not be complied with.

The Supervisory Board and Board of Management of Hawesko Holding AG, Hamburg, declare that the aforementioned recommendations of the Government Commission on the German Corporate Governance Code have been and are complied with, with the exception that the company departs from the recommendations of the Code in the following respects:

- *Section 2.2.2 of the Code:* the Board of Management is authorised to exclude the shareholders' statutory subscription, with the permission of the Supervisory Board, in the following instances:

  (1) in order to grant bearers of convertible bonds, convertible loans or warrants issued by the company a subscription right to the extent that they would be entitled following exercising of the warrant or conversion right or following fulfilment of the conversion obligation;

  (2) insofar as the capital increase for contribution in kind is made for the purpose of acquiring companies or participations in companies;

  (3) insofar as the capital increase for cash is made for the purpose of acquiring companies or participations in companies;

  (4) to eliminate residual amounts.

  These arrangements conform to the statutory model of German Stock Corporation Law.

- *Section 3.8 of the Code:* where D&O insurance cover (Directors' & Officers' Liability) is taken out for the Board of Management and Supervisory Board, the company does not provide for an excess to be borne by those insured. This practice adopted by Hawesko Holding AG conforms to European standards.
- *Section 4.2.2 of the Code:* the Supervisory Board of the company decides on the structure of the remuneration system for the Board of Management after the Personnel Committee has prepared a recommendation.
- *Section 7.1.2 of the Code:* the consolidated financial statements of the company will be published not within 90 days of the end of the financial year, but within approximately 120 days. This longer period is advisable to facilitate the publication of the consolidated financial statements and annual report together with a report on the first quarter of the current financial year.

Hamburg, 28 March 2007

The Supervisory Board The Board of Management

BOARD OF MANAGEMENT AND SUPERVISORY BOARD

MEMBERS OF THE BOARD OF MANAGEMENT

Alexander Margaritoff, Chairman and Chief Executive Officer, Hamburg

Alexander Margaritoff (born 1952), of Hamburg, graduated from the University of Sussex, England, with degrees in Economics (B.A.) and Contemporary European Studies (M.A.). In 1981 he joined the company *Hanseatisches Wein- und Sekt-Kontor*. He is responsible for all companies in which Hawesko Holding AG has shareholdings, in particular for the wholesale and mail-order segments.

Alexander Margaritoff is a member of the Advisory Board of Deutsche Bank AG, Hamburg.

Bernd Hoolmans, Düsseldorf

Bernd Hoolmans (born 1950), of Düsseldorf, graduated in 1975 from the Justus Liebig University in Giessen with a degree in Economics. Mr. Hoolmans joined *Jacques' Wein-Depot* as the Managing Director in 1994. At Hawesko Holding AG, he is responsible primarily for the stationary specialist wine-shop retail segment.

Sven Ohlzen, Chief Financial Officer (until 31 December 2006), Hamburg

Ulrich Zimmermann, Chief Financial Officer (from 1 January 2007), Hamburg

Ulrich Zimmermann (born 1962) completed his studies in Economics with a diploma from the University of Karlsruhe (TH) in 1989. In 1998 he became Head of Finance and Group Controlling of Hawesko Holding AG. As Finance Director he bears particular responsibility for these areas as well as for logistics.

MEMBERS OF THE SUPERVISORY BOARD

The members of the Supervisory Board occupy the following posts on supervisory boards and similar regulatory bodies which must be formed in compliance with legal requirements within business enterprises:

Dipl.-Ing. Manfred Middendorff, Chairman [1] [2]

General Executive, Brauerei Herrenhausen KG, Hanover; Royal Norwegian Honorary Consul

Professor Dr. iur. Dr. rer. pol. Dr. h.c. Franz Jürgen Säcker, Deputy Chairman [2]

Director of the Institute of German and European Business, Competition and Energy Law at the Free University of Berlin, Berlin

Dr. rer. pol. Dr. h.c. (mult.) Carl H. Hahn [1]

Former Chairman of the Board of Management of Volkswagen AG, Wolfsburg

- Indesit Company s.p.a., Fabriano, Italy;
  Perot Systems Corporation, Plano, Texas, USA

Jacques Héon

Management consultant, co-founder of *Jacques' Wein-Depot*, Düsseldorf

Angelika Jahr-Stilcken [2]

Journalist Member of the Executive Board of Gruner+Jahr AG, Hamburg

- Nestlé Deutschland AG, Frankfurt am Main

Detlev Meyer [1]

Entrepreneur, Neustadt am Rübenberge

- Belux AG, Muttenz, Switzerland;
  Pius Weinwelt Verwaltung GmbH, Keitum/Sylt

[1] *Member of the Personnel Committee*

[2] *Member of the Committee on Accounting and Investment*

PARENT COMPANY STATEMENT OF INCOME OF HAWESKO HOLDING AG

for the period from 1 January to 31 December 2006

	1/1–31/12/2006	1/1–31/12/2005
	€'000	€'000
Other operating income	523	766
Personnel expenses		
a) Salaries	–2,471	–2,515
b) Social security and social maintenance costs	–96	–95
Depreciation and amortisation	–6	–5
Other operating expenses	–1,155	–1,167
Income from profit-transfer agreements	14,359	10,138
Investment income	1,745	6,457
Income from long-term financial investments	–	78
Other interest and similar income	2,121	1,759
Write-down of financial assets	–10,000	–
Expenses from loss-transfer	–701	–
Interest and similar expenses	–1,062	–2,106
RESULTS FROM ORDINARY ACTIVITIES	**3,257**	**13,310**
Taxes on income	–1,510	–2,425
Other taxes	–13	0
NET INCOME FOR THE YEAR	**1,733**	**10,885**
Profit carryforward from previous year	80	151
Withdrawals from other revenue reserves	5,800	270
Transfer into reserve for treasury shares	–	–270
Transfer into other revenue reserves	–	–2,150
UNAPPROPRIATED PROFIT FOR THE YEAR	**7,613**	**8,886**

The complete financial statements of the Hawesko Holding AG parent company, which have been drawn up according to the regulations of the German Commercial Code and German Stock Corporation Law and have received the unqualified certification of Susat & Partner oHG Wirtschaftsprüfungsgesellschaft, Hamburg, will be submitted to the electronic Federal Official Gazette and can be called up from the electronic Companies Register.

PARENT COMPANY BALANCE SHEET OF HAWESKO HOLDING AG

at 31 December 2006

ASSETS	31/12/2006	31/12/2005
	€'000	€'000
FIXED ASSETS		
Intangible assets		
Software	–	1
Property, plant and equipment		
Operating equipment and fixtures	1	10
Financial assets		
Shares in affiliated companies	61,100	71,075
	61,101	**71,086**
CURRENT ASSETS		
Receivables and other assets		
Receivables from other affiliated companies	55,019	48,511
Other assets	819	261
	55,838	**48,772**
Securities: Treasury shares	270	270
Cash in banking accounts	2,984	4,517
	59,092	**53,559**
PREPAID EXPENSES	143	165
	120,336	**124,810**

SHAREHOLDERS' EQUITY AND LIABILITIES	31/12/2006	31/12/2005
	€'000	€'000
SHAREHOLDERS' EQUITY		
Subscribed capital	13,250	13,250
Capital reserve	57,697	57,697
Revenue reserve		
1. Reserve for treasury shares	270	270
2. Other revenue reserves	24,600	30,400
Unappropriated profit for the year	7,613	8,886
	103,430	**110,503**
PROVISIONS		
Provisions for taxation	–	1,577
Other provisions	948	1,795
	948	**3,372**
LIABILITIES		
Due to banks	11,011	8,008
Trade accounts payable	51	27
Due to affiliated companies	50	28
Other liabilities	4,846	2,872
	15,958	**10,935**
	120,336	**124,810**

KEY FINANCIAL DATA OF HAWESKO GROUP

in € million	2000 [1]	2001 [1]	2002 [1]	2003 [1]	2004	2005	2006
Net sales	232.4	264.3	267.4	278.8	285.8	287.0	302.6
Gross profit	98.3	111.3	114.8	117.1	119.6	119.5	122.2
– *as % of net sales*	42.3%	42.1%	42.9%	42.0%	41.9%	41.6%	40.4%
Operating result before depreciation *(EBITDA)*	13.7	23.0	20.4	21.4	22.1	23.3	22.9
– *as % of net sales*	5.9%	8.7%	7.6%	7.7%	7.7%	8.1%	7.6%
Depreciation and amortisation	4.6	5.4	5.7	5.7	5.3	4.4	4.3
Operating result *(EBIT)*	9.0	17.6	14.7	15.7	16.8	18.9	18.6
– *as % of net sales*	3.9%	6.7%	5.5%	5.6%	5.9%	6.6%	6.1%
Consolidated earnings *(after taxes and minority interests)*	1.0	6.8	4.4	5.9	5.7	10.7	10.8
Cash flow from current operations	9.6	24.2	18.3	24.6	21.4	24.3	12.7
Cash flow from investing activities	–5.8	–6.0	–0.4	–3.6	–4.8	–5.2	–5.6
Free cash flow	0.8	14.0	14.4	17.9	14.4	17.1	5.6
Proposed dividend distribution for the current year *(parent company)*	–3.7	–5.1	–4.4	–4.8	–5.5	–8.8	–7.6
Non-current assets	71.9	70.0	66.5	59.1	58.7	56.6	57.3
Current assets	116.9	115.0	114.9	110.7	106.6	106.0	114.5
Equity less proposed dividend	54.9	54.9	60.4	61.7	59.9	61.6	64.9
– *as % of balance sheet total*	29.1%	29.7%	33.3%	36.3%	36.2%	37.9%	37.8%
Total assets	188.8	185.0	181.4	169.9	165.3	162.6	171.9
Capital employed	111.3	116.6	114.9	115.1	109.8	103.1	106.2
Return on total assets	5.0%	9.4%	8.0%	8.9%	10.1%	11.5%	11.1%
Return on capital employed	8.3%	15.1%	12.8%	13.6%	15.3%	18.4%	17.5%
Earnings per share (€) [2]	0.11	0.81	0.53	0.69	0.65	1.22	1.23
Regular dividend per share (€) [2]	0.42	0.58	0.50	0.55	0.63	0.70	0.85
Bonus dividend payment 2005 (€) [2]	–	–	–	–	–	0.30	–
Total dividend per share (€) [2]	0.42	0.58	0.50	0.55	0.63	1.00	0.85
Total shares [2] *(average number outstanding in the year, in '000)*	8,735	8,593	8,628	8,811	8,822	8,797	8,806
Year-end share price (€) [2]	7.00	8.64	7.69	10.30	12.60	16.75	20.40
Market capitalisation at end of year [2]	60.6	73.5	67.8	90.8	111.3	148.0	180.2
Total employees *(average for year)*	515	527	558	568	580	566	551

[1] *before change in classification of minority interests i.a.w. IAS 32*

[2] *adjusted to reflect the share split performed in October 2006*

Financial Calendar

9 May 2007	Annual results press conference/Three-month report 2007
10 May 2007	Analyst conference
18 June 2007	Shareholders' meeting in Hamburg/last day before ex-dividend
27 July 2007	Six-month report 2007
31 October 2007	Nine-month report 2007
End of January 2008	Preliminary business figures for 2007
End of April 2008	Publication of 2007 Annual Report, analyst conference

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