



Annual Report

2005



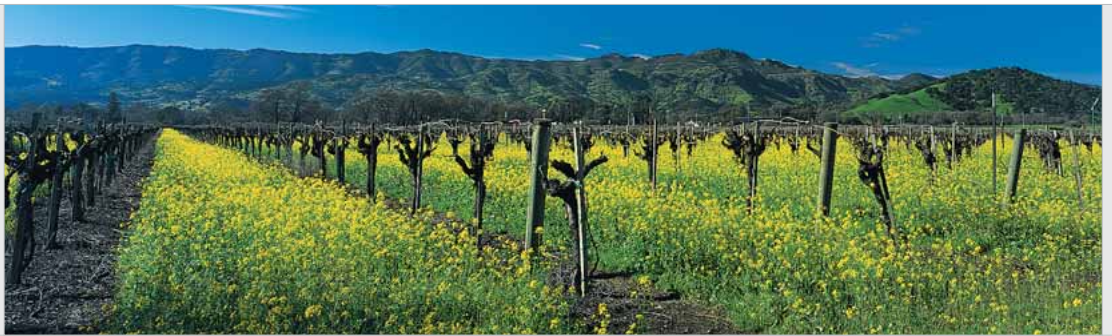
NUMBER 1 IN THE TRADE WITH PREMIUM WINES

*Number 1 in the trade
with premium wines – three strong
divisions, optimally integrated:*



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

SUCCESS WITH PREMIUM WINES: SUBSTANTIAL, PROFITABLE, LASTING



	2005	2004	
GROUP SALES (<i>in € million</i>)	287.0	285.8	+ 0.4%
GROUP EBIT (<i>in € million</i>)	18.9	16.8	+ 12.4%
EARNINGS PER SHARE (<i>in €</i>)	2.44	1.29	+ 89.1%
ROCE	18%	15%	+ 3% POINTS

Letter to the shareholders



*Alexander Margaritoff speaking with Jean Durup,
owner of Château de Maligny, Chablis*

Dear shareholders and friends of the company.

In 2005 our ship, Hawesko Holding AG, has remained on its steady course: profitable growth. However – and this has been the case for the last several years – we would like to make faster headway, but the water currents, that is, the general consumer climate in Germany, remain difficult and allow only for a relatively slow pace. The German retail sector remained in the doldrums in 2005 and the trade in wine registered a 2.3% decline in Germany on the whole. While the hard-discounting supermarkets were able to show a slight increase in wine sales, other distribution channels for wine – especially specialty shops, mail order and direct sales – were still strongly affected by consumer restraint.

Against this general trend, the Hawesko Group stands out positively: With a sales increase of € 1 million we have grown to € 287 million. The continuous improvements in marketing, which we have kept up for years now, are paying off. In all three distribution channels we have gained a significant number of new customers: In our specialty wine shops, 80,000; in mail order, more than 50,000. Wholesale was able to post a gratifying sales increase of 9% up to € 103 million.



*...with Christian Mouiex, Grand Seigneur of Pétrus, Pomerol (above left),
and with Franck Mähler-Besse, managing director and co-owner
of Château Palmer, Margaux (above right)*

Our stationary wine shops made +0.5%, which is quite good in the context of the total wine market in Germany. With regard to the slowdown in our mail-order division, it is worth taking a second look: We decided to give up sales in Austria and some unprofitable sales in Christmas gifts business; this is made up for by successes in more important, long-term areas of the business, like our premium mail order wine offer under *Carl Tesdorpf*, which was able to increase sales by more than 10%, and the wine club “VinoSelect”, which has doubled its sales.

In this continuing phase of stagnation, market consolidation has been another big topic in 2005: We have been able to gain market share. In EBIT we posted a strong increase in profits: from € 17 million to nearly € 19 million. This once again improved the group's key financial figures. Thus we were able to increase free cash flow from € 14 million to € 17 million and to reduce our indebtedness to banks, which amounted to € 20.8 million in the previous year, to below € 10 million. This significant improvement in our business development also gave the Hawesko share price a strong tail wind.



...with Wilhelm Weil, manager of Rhine valley winery Dr. Robert Weil and great-grandson of the founder (above left), with His Excellency Simeon of Saxe-Coburg and Gotha, 1943-1946 Czar of Bulgaria and 2001-2005 Prime Minister of the Republic of Bulgaria, for whom the Bulgarian Cabernet Sauvignon Reserva "Zar Simeon" was named (above)

We are also well-trimmed for 2006, as we do our best to make our approach to customers fresh and lively about how fascinating the enjoyment of wine can be – especially wines in the premium segment. There are initial signs that “cheap” is no longer so “cool”, but that quality is in demand again – which should help Hawesko in particular. We also worked very hard during the past fiscal year not only to improve the quality of our customer service, but also to lower costs by streamlining internal processes. The long-standing and friendly relationships we maintain with many producers and suppliers – the photos on these pages show a few examples of these – have also contributed once again to improving the value we deliver.

To stay with the image I have painted: The mood and the performance on board our ship are good.



...with Baron Eric de Rothschild, owner of Château Lafite Rothschild, Bordeaux (left) and Brother Paisos, monk on the Holy Mountain of Athos, Greece (above)

For this reason, the Management Board and the crew are confident that the Hawesko Group will achieve positive development in fiscal year 2006 as well. It is thus absolutely indispensable for the Group's success that we can continue to rely on extremely competent colleagues, staff members and partners. On my own behalf and on behalf of my colleagues on the Management Board, I would like to thank our staff members and depot partners as well as our wholesale partners for their hard work and commitment during the past fiscal year. Our thanks also go to the works council for their cooperation, and to our shareholders for their loyalty.

Best regards,

A handwritten signature in blue ink that reads "A. Margaritoff".

Alexander Margaritoff
Chief executive

I ADORE

Amarone...

... because for me, this is the epitome of wine: hearty, with a rich fragrance and very distinctive. Something as special as this has to be on the wine list if I want to please my guests and clients. Every single moment has its own flavor, so to speak, and the idea is to enhance it with the appropriate wine. So it's a great help to be able to choose from the thousands of wines that the Hawesko wholesale division keeps in stock – from the great and famous names to the lesser known but always first-class products – not to mention “special treasures” for which one has to search a long time elsewhere. And last but not least, the customer service that Hawesko offers genuinely deserves this label. This is where I can take for granted competent advice, reliable delivery and even catering to special wishes. **VIVI K. DILLER** club manager, Wirtschaftsclub Düsseldorf



ZENATO AMARONE DELLA VALPOLICELLA CLASSICO D.O.C.

\\ Amarone made of classical Valpolicella grapes is the jewel of Zenato winemaking. It overwhelms with voluminous elegance, thick, manifold aromas and a nice balance of concentration, fruit and tannins. Phenomenally long.





I LOVE

Sauvignon Blanc

... and I really enjoy this fresh, clean wine together with meals such as delicate asparagus dishes. Its quintessential fruitiness really comes into its own in such compositions. I have a good selection of sauvignon blancs at my local *Jacques' Wein-Depot* – as well as lots of other wines, of course. They come from renowned producers, some of whom are not yet so well known in Germany, but who are certainly worth discovering. What is it they say? Taste it for yourself, as at the vintners'! That's exactly what I like about *Jacques'*: being able to discover new things in a friendly, informal environment. And often these discoveries will be priced at a level that adds even more fun to the already enjoyable experience. **REINHARD KRAMER** *Hamburg*

SHEPHERD'S RIDGE MARLBOROUGH SAUVIGNON BLANC

\\ Shepherd's Ridge Marlborough Sauvignon Blanc is an intensive, vibrant wine: Delightful herbaceous flavours, with gooseberry and citrus notes, come together into a delicious bouquet.



COMBINED MANAGEMENT REPORT

of Hawesko Holding AG for the 2005 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 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 93% of consolidated sales are generated in the Federal Republic of Germany. Each segment 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 are key 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

General economic situation remains hostile to consumption

The provisional figures from the Federal Statistical Office show a price-adjusted 0.9% increase in gross domestic product (GDP) for 2005 compared with 2004. This reveals that growth has weakened since the previous year, when the rise in GDP amounted to 1.6%. GDP growth remains below the level for the period from 1998 to 2000.

Furthermore, the modest growth of the past four years has come almost exclusively from export trade. Private consumer spending stagnated in 2005, and the consumer climate for Germany since 2002 as measured by Gesellschaft für Konsumforschung (GfK) has now been well below the level for the preceding years.

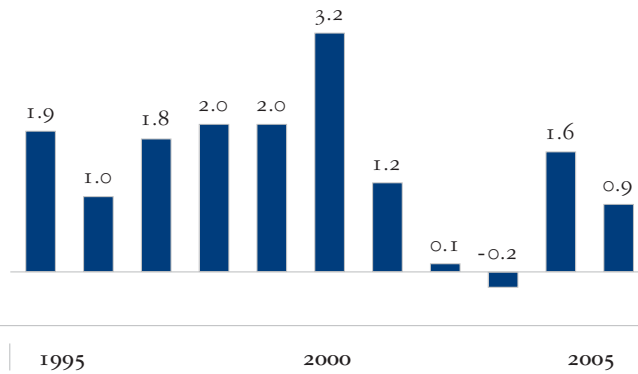
Wine market in Germany affected by slack consumption

The adverse climate of consumption and the fact that private consumer spending has remained largely flat over the past few years have affected the wine market, albeit not as dramatically as other consumer sectors. In the 1990s and up to 2002, the entire wine market in Germany enjoyed steady growth, which eventually flattened out before going into decline: by 4% in 2003, by 3% in 2004 and by 2% in 2005.

In contrast to the fortunes of the market as a whole, the lower price strata have enjoyed growth, predominantly as a result of the expanded range offered by cut-price retailers.

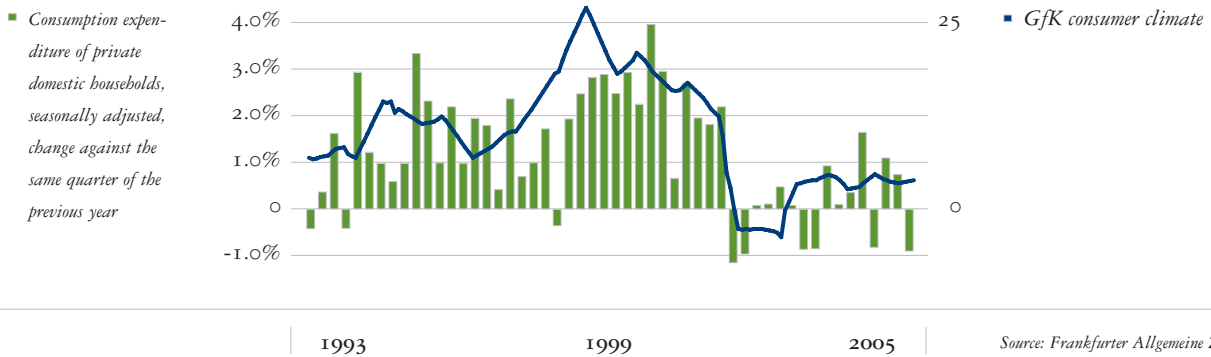
Wines commanding a price upwards of € 4.00 per bottle – in other words, those on which the Hawesko Group principally concentrates – currently account for around 17% of the overall market in terms of value.

GDP GROWTH IN %



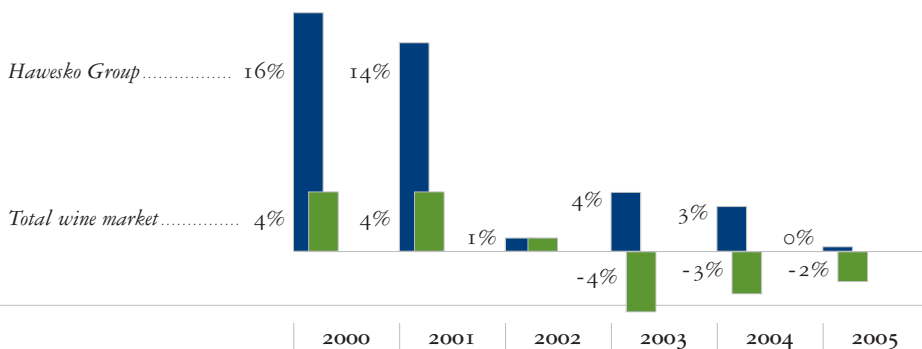
Source: Destatis

PRIVATE CONSUMPTION EXPENDITURE/CONSUMER CLIMATE



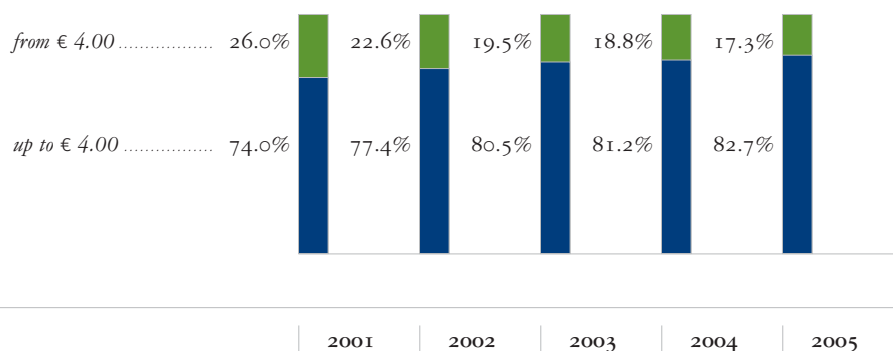
Source: Frankfurter Allgemeine Zeitung, 31 March 2005, supplemented by data from GfK and Destatis

SALES DEVELOPMENT HAWESKO GROUP/DEVELOPMENT OF THE TOTAL WINE MARKET



Source: Wine-market data of the GfK household panel, 2005

SHARE OF THE MARKET (VALUE) ACCORDING TO PRICE CLASSES



Source: GfK household panel 2005,
data inclusive of direct sales

In 2005, this price category's share of the overall market in terms of value fell, whereas wines in the € 1.00 to € 1.99 per bottle price bracket favoured by cut-price retailers captured a larger share of the market as a whole in terms of value. The volumes sold in the German wine market in 2005 were up overall. According to estimates by the Hawesko Group, this expansion of the wine market in the cut-price brackets will have introduced a growing number of consumers to wine for the first time. In the longer term, the Hawesko Group stands to benefit from any rise in quality expectations – which may initially be rather rudimentary – and its pool of potential customers will thus grow.

Fundamental oversupply on the buying market

The world wine market was generally characterised by an oversupply in 2005. The addition of new vineyards that have only recently become productive, predominantly in Australia, South Africa and the USA, is currently aggravating the market situation in EU countries, where it already suffers from chronic over-production. This development 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 classes and price brackets. In the top quality categories, on the other hand, other factors are at work in their pricing – the weather in the year of a particular vintage, the quality of the harvest, etc. – because these top-quality wines are by definition in short supply since the locations that give them their special character cannot be added to at will.

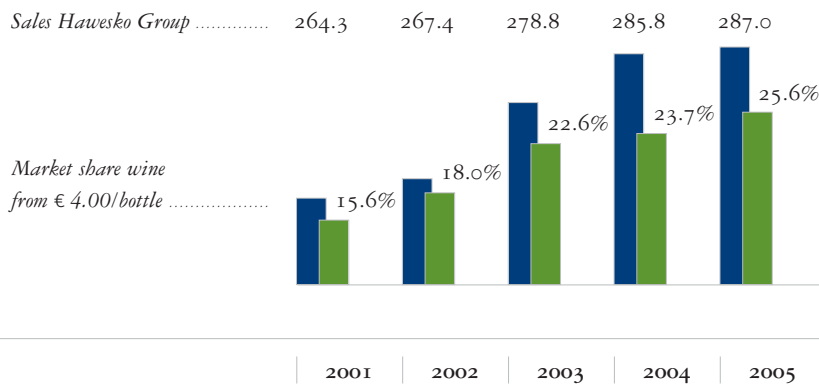
Fragmented structure of the trade in higher price brackets/quality categories

Whereas the wine market in the segment below € 4.00 per bottle in Germany is dominated by Aldi and other cut-price suppliers, the upmarket range (from € 4.00 per bottle) is characterised by a large number of smaller suppliers. An increasing concentration on large-scale forms of distribution can correspondingly be detected in the distribution of wines in the lower price brackets and quality classes; this contrasts with extensive fragmentation in the distribution of higher-priced, higher-quality wines which are the home territory of the Hawesko Group.

Rise in market shares of the Hawesko Group in recent years

The difficult domestic market and the inroads made by cut-price suppliers into the wine market – at least in lower price brackets – has forced certain market players out of the market in recent years; this process of consolidation is continuing. In the same period the Hawesko Group, by contrast, has succeeded in substantially increasing its market share for wine in the price brackets above € 4.00 per bottle, coupled with a slight increase in sales.

SALES DEVELOPMENT/MARKET SHARE HAWESKO GROUP IN € MILLION



Source: Own calculations on the basis of GfK data (inclusive of direct sales)

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 vast potential of the German market: in a study commissioned by Hawesko, 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 considerable.
- 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 37 of the Notes to the consolidated financial statements provides further information. This structure of three segments within the wine trade serves to diversify the risk within the group to a certain degree, and thus contributes towards the robustness of its business model.

The Hawesko Group is organised non-centrally. This organisational structure usefully reflects the fact that the wine trade operates essentially as a people business, where 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, younger private customers (in particular the 40+ 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-Depot* outlets in situ. The dedication and expertise of these partners provide vital momentum to the company's success. Registered customers receive promotional mail shots sent out centrally, in the name of their local outlet.
- 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.

This business segment in addition includes *Viniversitaet Die Weinschule*, a company that has been offering wine seminars to a wide audience for the past three years, having evolved from an original idea to provide further training for retail partners.

A new, broad-based concept offering wines in lower price brackets is to be tested from 2006 under an entirely separate market identity. The intention is to increase the group's share of the high-volume market segment for wines costing just under € 4.00 per bottle. The plans for 2006 envisage the opening of up to five test markets, with around ten test locations in total to be opened by 2008. The markets operated under a franchise concept are to be located close to busy traffic intersections and have a floor space of around 300 m² each. Its range comprises primarily wines priced at between € 2.50 and € 4.00 per bottle.

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 and restaurants, 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) € 6.00 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 (Poland, Czech Republic, Hungary, Austria).

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, hitherto backed up by around 20 shorter promotional mail shots per year, each introducing specific offers. There are plans to reduce the number of promotional mail shots and instead produce new intermediate catalogues.
- Consolidation: the mail-order business has already achieved a high market share (in excess of 50%) in its relevant market. By way of consolidating business, it is being expanded in selected areas in addition to ongoing optimisation measures. The emphasis is currently being placed on the "VinoSelect" wine club, the internet as an ordering channel and the tapping of new customer groups for Christmas business. The instrument of active telephone marketing is also used for publicising tailor-made offers to customers who agree to this method of contact.

Strategic targets for growth and rate of return, financing targets

Hawesko'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 objective of boosting the long-term EBIT margin to 7%.
- Capital turnover: in 2000, the company set itself the objective of boosting the capital turnover to a factor in excess of 1.3.
- In 2005, the Hawesko Group set itself the 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 that growth and the distribution of profit from the free cash flow. To optimise its liquidity, it makes use of a cash pool system that combines the cash and cash equivalents of the domestic subsidiaries. Further objectives of the group involve maintaining the weighted cost of capital and the capital structure at a level that will continue to merit 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 Management Board and the heads of segments (cf. "Management and control" p. 31).

The costs of capital to be earned (cf. "Financial position" p. 24) 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, as well as deferred tax assets. The ROCE indicators for the business segments and group are as follows:

ROCE	2003	2004	2005	ANTICIPATED MINIMUM RETURN
<i>Specialist wine-shop retail</i>	30%	34%	29%	> 27%
<i>Wholesale/distribution</i>	11%	10%	14%	> 17%
<i>Mail order</i>	14%	15%	21%	> 22%
<i>Group</i>	14%	15%	18%	> 16%

The following were communicated as targets for 2005 and achieved:

OBJECTIVE		2005	ATTAINED
Sales	Year-on-year increase (€ 285.8 MILLION)	€ 287.0 MILLION (+ 0.4%)	✓
EBIT	Rise by higher rate than sales	€ 18.9 MILLION (+ 12.4%)	✓
ROCE	Year-on-year increase (15%)	18%	✓
Free cash flow	€ 10 MILLION	€ 17.1 MILLION	✓

OVERVIEW OF BUSINESS PROGRESS IN 2005

In the opinion of the Management Board, the Hawesko Group made very good progress in the 2005 financial year. Even though the general economic situation was not positive (cf. “General situation” p. 10), the Hawesko Group succeeded in improving sales by 0.4% and its operating result (EBIT) by a disproportionately high 12%, to € 18.9 million. In the wholesale segment, over and above the stimulus provided by the inclusion of the Philippe de Rothschild wines for the first full year, extensive deliveries of Italian wines resulted in above-target business progress. This compensated for the development in the mail-order segment, which performed weaker than expected as continuing reticence among consumers had a greater impact in the latter segment. Business progress in the specialist wine-shop retail segment was in line with the company management’s expectations. The net earnings of the Hawesko Group were improved more substantially than had been expected, by 89% to € 10.7 million, or € 2.44 per share. This increase is also due in part to changes to the legal structure; in particular, a profit transfer agreement has been concluded between *Jacques’ Wein-Depot* and the group parent, a move that had not yet been envisaged at the start of 2005.

The successes of the year under review are also reflected in the consolidated balance sheet as well as in the consolidated income statement. It was possible, for instance, to reduce the consolidated balance sheet total by successfully continuing with our working capital management, thus improving the capital turnover. On this basis, the ROCE was boosted from 15% in the previous year to 18% in the year under review.

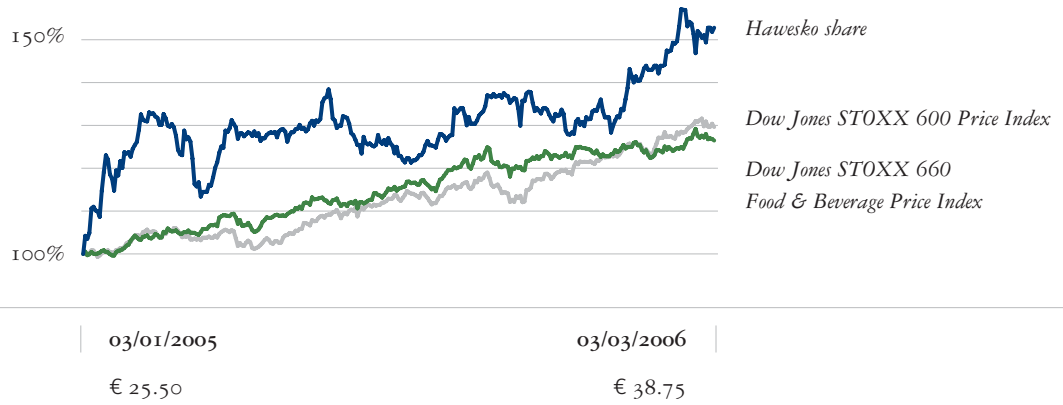
Last but not least, the Hawesko Group succeeded in increasing the free cash flow to € 17.1 million – up still further on the previous year’s already high level. The financial basis was thus established for further reducing the amounts owed to credit institutions (excluding leases) – to less than € 10 million – and for increasing the proposed regular dividend to € 6.2 million (€ 1.40 per share) as well as for proposing a bonus dividend of € 2.6 million (€ 0.60 per share) to the Shareholders’ Meeting.

Share price development

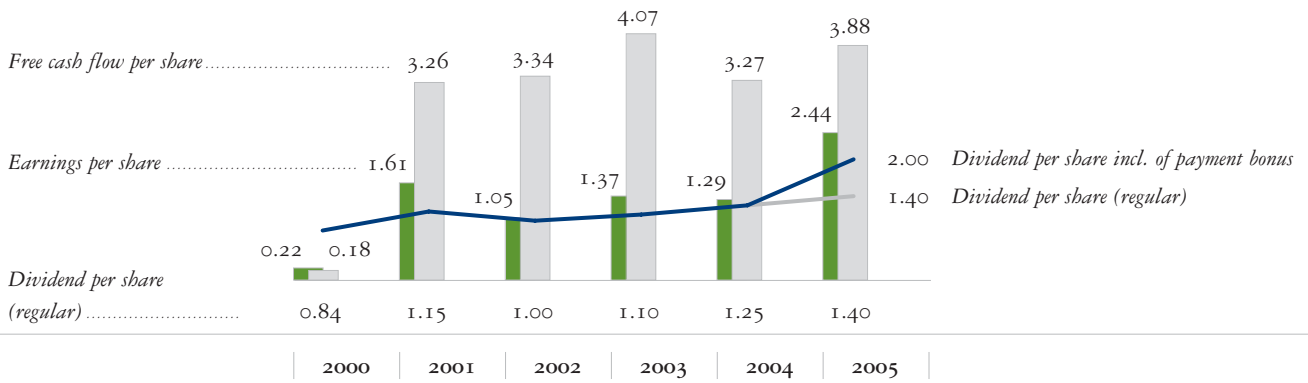
The stock markets in Germany rose substantially in 2005. Having started the year on around 4,300 points the German stock market index DAX, for instance, rose by 25% in the course of the year, closing on around 5,400 points.

The share price of Hawesko Holding AG started 2005 on € 25.50 and rose to more than € 30.00 within a very short period, ending the year on € 33.50: the company’s shares thus appreciated in value by over 30%. Up to 3 March 2006 the share price reached € 38.75.

PRICE DEVELOPMENT OF THE HAWESKO SHARE



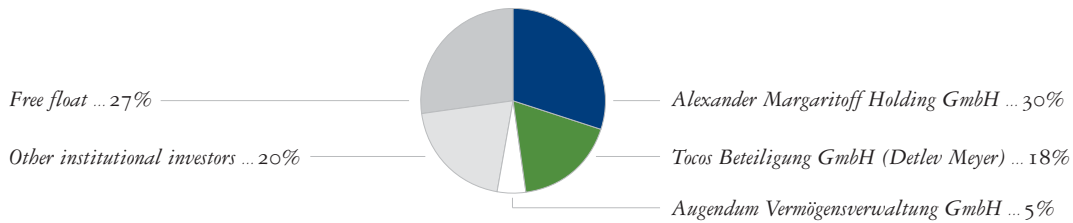
KEY DATA PER SHARE IN €



2000 to 2003: Values per share calculated in accordance with IAS 17 (2004) "Leases"

2004 and 2005: Values per share calculated in accordance with IAS 17 (2004) and IAS 32 "Financial instruments"

SHAREHOLDER STRUCTURE



Investor relations

The investor relations activities of the Hawesko Group are designed to stimulate an ongoing dialogue with fund managers, capital market operators and other representatives of the capital market. The business situation of the group and the expectations of its management are broached within this dialogue. Institutional investors in France, Italy and Scandinavian countries were welcomed as shareholders in the course of the year under review. Investor relations contacts with the corresponding foreign fund managers and with those from Luxem-

bourg were intensified. Over 140 individual meetings were held in 2005. The development of Hawesko Holding AG is regularly covered by a number of leading banks, namely Bankhaus Lampe, Berenberg Bank, Cazenove, Chevreux, Deutsche Bank, DZ BANK, GSC Research, Independent Research and M.M. Warburg.

FINANCIAL PERFORMANCE, FINANCIAL POSITION AND NET WORTH

Financial performance

Renewed increase in market share from stable sales on the basis of higher selling prices

The net sales of the Hawesko Group rose by 0.4% in the year under review, to € 287.0 million (previous year: € 285.8 million). Viewed in the context of the fact that industry experts believe the overall market for wine slipped back by a few percentage points, the Hawesko Group was thus able to increase its market share, as in the previous year. The sales total reached around 45 million bottles or units in 2005, as in the previous year. Around 93% of sales were generated in Germany. Wines from France accounted for around 40% of sales, Italian wines for some 30% and wines from Spain for approximately 10%. The group enjoyed higher sales in its specialist wine-shop retail and wholesale segments. The mail-order segment, on the other hand, suffered a downturn in sales, affecting the first quarter of 2005 in particular, above all as a result of lower demand for the products of *Hanseatisches Wein- und Sekt-Kontor*. Unlike in the previous year, the mail-order distribution channel moreover no longer generated sales proceeds from business in Austria, which has now been wound up as a result of a strategic shift.

The slight shift in the sales shares of the individual segments compared with 2004 caused the gross profit margin within the group to fall, from 41.9% in the previous year to 41.6% in the year under review. The steepest percentage increase in sales was yet again achieved by the wholesale/distribution segment, where the gross margin is comparatively small. Wholesale business nevertheless achieved a modest year-on-year improvement in its gross profit margin – and the improvement for mail-order business was quite significant.

Renewed overproportional rise in consolidated EBIT

The prior-year figures have been adjusted to take account of the retroactive change from 1 January 2005 in the recognition of two properties – the logistics centre and an office building in Tornesch near Hamburg – as finance leases instead of operating leases.

The operating result (EBIT) for the group rose by 12.4% to € 18.9 million and therefore corresponds to an operating margin of 6.6% of sales (previous year: 5.9%). The rise in earnings stemmed in the main from the restructuring of business in Austria and from higher wholesale sales. Other factors which had the effect of increasing earnings were own contributions to intangible assets (cf. p. 22), the elimination of goodwill amortisation, as envisaged in the current version of Standard 3 (Business Combinations) of IFRS (International Financial Reporting Standards) valid from 1 January 2005, and the absence of the impairment loss recognised on a one-off basis in 2004 for the subsidiary *Château Classic – Le Monde des Grands Bordeaux*. The lower depreciation and amortisation following the lower investment volume of recent years also had a positive effect in the year under review. No substantial accounting policy measures – such as sale and lease-back agreements – were implemented.

It should be noted that the one-off rise in EBIT that occurred in 2004 as a result of special factors and amounted to some € 1.3 million was more than compensated for in the year under review. This non-recurrent income in the previous year resulted from the field tax investigation conducted and concluded in 2004.

Five-year overviews of earnings development and cost structure are included on page 20.

Higher sales from specialist wine-shop retailing; EBIT down only as result of one-off effects in previous year

The net sales – sales less sales tax – of the specialist wine-shop retail business segment (*Jacques' Wein-Depot*) reached € 96.9 million in the year under review; year on year, this represents a rise of 0.5%. This upward trend is attributable to the restructuring of mail-order activities: at the start of the 2005 financial year, the *Wine Company* shops in Austria were taken over by the specialist wine-shop retail segment as *Jacques' Wein-Depot* outlets.

DEVELOPMENT IN EARNINGS € MILLION	2001	2002	2003	2004*	2005*
EBITDA	23.0	20.4	21.4	22.4	23.3
<i>Year-on-year change</i>	+9.3	-2.6	+1.0	+1.0	+1.1
<i>EBITDA margin</i>	8.7%	7.6%	7.7%	7.8%	8.1%
EBIT	17.6	14.7	15.7	17.2	18.9
<i>Year-on-year change</i>	+8.6	-2.9	+1.0	+1.5	+2.0
<i>EBIT margin</i>	6.7%	5.5%	5.6%	6.0%	6.6%
EBT	13.2	10.7	13.6	14.2	16.7
<i>Year-on-year change</i>	+8.4	-2.5	+2.9	+0.6	+2.5
<i>EBT margin</i>	5.0%	4.0%	4.9%	5.0%	5.8%
CONSOLIDATED EARNINGS	6.8	4.4	5.9	6.2	10.7
<i>Year-on-year change</i>	+5.8	-2.4	+1.5	+0.3	+4.5
<i>Consolidated earnings margin</i>	2.6%	1.6%	2.1%	2.2%	3.7%

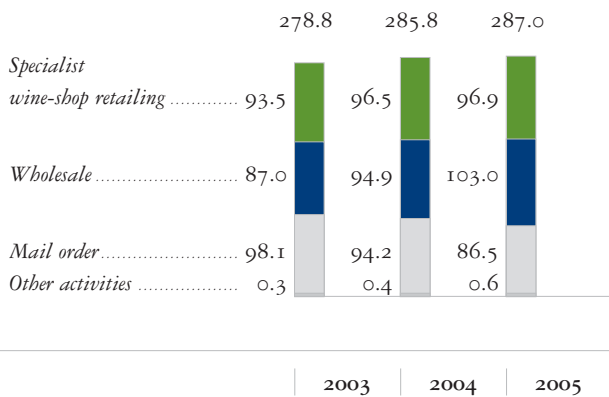
*For reasons of comparison the figures have been calculated without consideration of changes in the fair value of minority interests in the capital of unincorporated subsidiaries (cf. note 3 to the consolidated financial statements).

COST STRUCTURE (AS % OF SALES)	2001	2002	2003	2004	2005
<i>Personnel costs</i>	-9.1%	-10.1%	-9.9%	-10.2%	-9.9%
<i>Promotional costs</i>	-8.4%	-8.7%	-8.1%	-8.3%	-8.2%
<i>Distribution costs</i>	-4.1%	-4.3%	-4.1%	-4.0%	-3.9%
<i>Other operating income and expenses (balance)</i>	-11.8%	-12.2%	-12.3%	-11.6%	-11.5%
<i>Depreciation and amortisation</i>	-2.0%	-2.1%	-2.0%	-1.8%	-1.5%
TOTAL	-35.4%	-37.4%	-36.4%	-35.9%	-35.0%

Like for like, this distribution channel experienced a 0.8% downturn in sales, which had been stimulated specifically in the previous year by activities to mark the 30th anniversary of the *Jacques'*, which by their very nature could not be repeated in the year under review. The number of purchase transactions in the year under review was boosted by just over 1% compared with the previous year, though the average total purchase was slightly down on the previous year's high level as a result of the anniversary activities in that year. At the end of

the year under review there were 256 *Jacques' Wein-Depot* outlets, including seven in Austria (end of previous year: 256, including five in Austria). At 31 December 2005, rental agreements for a further four outlets had in addition been taken out. It was thus possible to strengthen the market position of *Jacques' Wein-Depot* further despite an underlying situation that if anything discouraged private consumption.

SALES BY SEGMENT IN € MILLION



The operating result (EBIT) for the wine-shop segment fell from € 11.2 million to € 10.3 million in the reporting period, or by 8%. This was due in the first instance to non-recurrent income of € 0.9 million in the previous year as a result of the field tax investigation conducted and concluded in 2004. Setting aside this one-off effect in the previous year, the operating result remained constant. The well-established *Jacques'* customer card and the successful acquisition of new customers for existing outlets in particular contributed towards business stability. Costs were moreover reduced thanks to consolidation measures. Earnings were diminished by € 0.3 million as a result of restructuring measures in Austria (previous year: € 0.1 million), by € 0.2 million (previous year: € 0.3 million) as a result of training activities for *Viniversitaet Die Weinschule GmbH*, and by € 0.1 million from activities in preparation for testing the new specialist retailing concept.

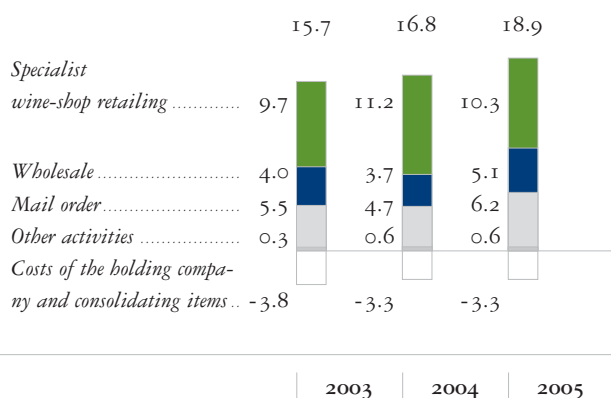
Marked increase in wholesale sales and stronger EBIT margin

The wholesale/distribution business segment achieved net sales revenues of € 103.0 million in the year under review, thus bettering the prior-year figure by 8.6%. Amid the mood of consumer reticence, which continues to have an adverse effect on top-class restaurants, the wholesale/distribution segment achieved this increase on the strength of its favourable market position. This position was further reinforced by its

ongoing success as the exclusive agent for particularly renowned products. In this connection sales specifically of Baron Philippe de Rothschild wines, which have been in the range since April 2004, made positive progress. Italian wines delivered towards the end of the year also produced additional sales of € 2.1 million. The wholesale subsidiaries operating outside Germany continued to expand dynamically and in some cases boosted their sales by a double-digit percentage, as one year previously. In France, the wholesale/distribution segment posted a leap in sales particularly of high-quality Bordeaux wines.

The operating result (EBIT) for the wholesale/distribution segment rose by 39% to € 5.1 million (previous year: € 3.7 million). This was achieved on the one hand as a result of higher sales for this distribution channel, though the general trend towards purchases of lower-priced wines continued. On the other hand, in accordance with the version of IFRS Standard 3 valid from the start of 2005, depreciation and amortisation for the segment no longer included goodwill amortisation, which had diminished EBIT by € 0.5 million in 2004. Another positive factor compared with the previous year was that net earnings were no longer diminished by an impairment loss as recognised for the subsidiary *Château Classic – Le Monde des Grands Bordeaux* in 2004.

EBIT BY SEGMENT IN € MILLION



EBIT MARGINS (IN %)	2003	2004	2005
Specialist wine-shop retailing	10.3%	11.6%	10.6%
Wholesale	4.6%	3.9%	5.0%
Mail order	5.6%	4.9%	7.1%

Mail order: Restructuring of business in Austria starts to bear fruit; Tesdorpf on course for growth

Sales (excluding sales tax) for the mail-order business segment fell to € 86.5 million in the year under review. This downturn of 8.2% was due in the first instance to lower demand from products in the standard range of *Hanseatisches Wein- und Sekt-Kontor* (excluding gifts and Bordeaux subscriptions), affecting the first quarter of 2005 in particular. The company's sales of gifts business fell yet again, though these sales were increasingly generated by higher-quality customers. *Carl Tesdorpf – Weinhandel zu Lübeck*, on the other hand, was able to post a percentage rise in sales that was just into double figures.

The subsidiary *Sélection de Bordeaux*, St-Julien-Beychevelle, that commenced operations in September 2004 and specialises in mail-order sales of Baron Philippe de Rothschild wines, achieved sales of € 0.9 million in the first full financial year of 2005 (previous year: € 0.4 million).

Despite the lingering slackness in the economy, the mail-order segment succeeded in acquiring over 54,000 new customers in the year under review (previous year: 59,000), in each case not including the normal annual attrition). Compared with the previous year, the average number of bottles per order fell by 6% and the average value per order by just over 3%; despite the general uncertainty among consumers, the frequency of purchases rose.

The operating result (EBIT) for the mail-order segment rose to € 6.2 million (previous year: € 4.7 million, adjusted to reflect the aforementioned change in the way leases are recognised). This increase was attributable on the one hand to the reorganisation of the segment's activities in Austria, which removed the factors that had diminished EBIT by a total of € 1.2 million in the previous year. The expansion of business at *Carl Tesdorpf – Weinhandel zu Lübeck* moreover boosted EBIT. Finally, the result benefited from the fact 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 as part of the introduction of a new system for optimising goods management and financial management.

Miscellaneous: Logistics EBIT again positive

The subsidiary *IWL Internationale Wein Logistik* in Tornesch, near Hamburg, complements the mail-order activities through its logistics services. It was able to increase its sales to clients outside the group in the year under review by 70%. On the basis of the process optimisation measures implemented, the costs of the logistics area were kept roughly at the previous year's level in spite of the introduction of truck tolls and fuel surcharges. The subsidiary was consequently able to report a positive EBIT for the second year in succession.

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

The prior-year figures have been adjusted to take account of the retroactive change from 1 January 2005 in the way minority interests in unincorporated subsidiaries are recognised. Minority interests in unincorporated subsidiaries where the partner may oblige the company to pay a settlement as a result of its exercising its statutory right of termination are now to be classified as borrowed capital pursuant to IAS 32. The obligation is measured at the fair value of the possible settlement entitlement and changes in the fair value are recorded in the financial result together with the net profit due to minority interests. The settlement entitlement is reported as borrowed capital under the item "Minority interest in unincorporated subsidiaries".

In the 2005 financial year, the consolidated earnings before taxes totalled € 16.2 million and were consequently up € 2.8 million on the prior-year figure as a result of lower financing expenses. The € 0.7 million reduction in financing expenses was attributable to both the fall in expenses as a result of the measurement of interest rate derivatives at market values as stipulated in IAS 39, and the decrease in amounts owed to credit institutions and the fair value change in settlement liabilities towards partners in unincorporated subsidiaries. As a result of the higher earnings before taxes and a much lower tax ratio, earnings after taxes were likewise higher, at € 10.8 million (previous year: € 5.8 million).

The tax ratio for 2005 was 33.1% (previous year: 56.8%).

This substantially lower tax ratio than in the previous year is attributable to implementation of the measures to optimise structures under company law, as approved by the 2005 Shareholders' Meeting. These measures included the conclusion of a profit transfer agreement with *Verwaltungsgesellschaft Jacques' Wein-Depot mbH* (unlimited partner within the subsidiary *Jacques' Wein-Depot KG* operating in the specialist wine-shop retail trade) and the subsequent merger of *Jacques' Wein-Depot KG* with the unlimited partner. As a result, the operative company *Jacques' GmbH* remained as a single-entity together with the parent company Hawesko Holding AG for tax purposes. This means that the position of Hawesko Holding AG's shareholders is as if they held an interest in *Jacques' Wein-Depot* directly, rather than indirectly via the parent company.

Consolidated earnings after taxes and minority interest totalled € 10.7 million (previous year: € 5.7 million).

The earnings per share amounted to € 2.44 (previous year: € 1.29). 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 rose as a result of the higher earnings of the subsidiaries, from € 15.5 million in the previous year to € 16.6 million in the year under review. Due to the unsatisfactory financial performance of *Wine Company Warenbandelsgesellschaft m.b.H.*, which has now been merged with *Wein Wolf Import & Co. Vertriebs KG*, Salzburg, Hawesko Holding AG had waived a portion of its accounts receivable from the former company in previous years. In 2005, the Salzburg-based *Wein Wolf Import & Co. Vertriebs KG* settled a portion of these written-off receivables from the former *Wine Company Warenbandelsgesellschaft m.b.H.* to the value of € 351 thousand.

The carrying amount of the derivative financial instruments that are not in a hedging relationship with variable-rate loans was recognised under other provisions, at the negative fair value of € -844 thousand at 31 December 2005. The equivalent allocation to the provision was recognised as interest expense.

The annual financial statements for Hawesko Holding AG at 31 December 2005 show a year-on-year higher net income of € 10.9 million (previous year: € 7.8 million). Following allocation of € 2.2 million to the other revenue reserves, there remains an unappropriated profit of € 8.9 million, with a profit carryforward of € 0.2 million.

The Supervisory Board and Board of Management propose to the Shareholders' Meeting that the unappropriated profit for the year be appropriated as follows: Payment of a regular dividend of € 1.40 per individual share certificate, plus a one-off bonus dividend of € 0.60 on the capital stock of € 13,249 thousand. The proposed 12% rise in the regular dividend, from € 1.25 in the previous year to € 1.40 per share for the year under review, reflects the corresponding percentage increase in the operating result (EBIT). The proposal of a bonus dividend is based on the one hand on the reduction in the tax ratio for the group from 57% in the previous year to 33% in the year under review, and on the other hand on the notably high level of free cash flow generated, which was around € 6 million higher than the level envisaged.

Financial position

Principles and aims of financial management

The principles and aims of financial management were explained under "Strategy" p. 15.

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 2005, the cash resources of the group comprised cash amounting to € 7.2 million (previous year: € 9.1 million). There exist credit facilities with a volume totalling € 35.0 million, of which € 10.0 million are available seasonally to finance Christmas business. At 31 December 2005, these credit facilities were drawn on to a level of around 11%. Overall, the Hawesko Group reported short-term and long-term borrowings amounting to € 19.4 million at that reporting date. Of this total, € 6.3 million are 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 € 10.2 million.

According to group calculations, the costs of the equity and borrowed capital made available to the group are currently 8.0%. They comprise the weighted costs of the equity capital of 8.3% on the one hand, and of the borrowed capital of 5.25% on the other. In calculating the cost of equity, the group works on the basis of a long-term risk-free interest rate of 5% and a risk premium of 5.5% at beta = 0.6.

Composition of borrowings at 31 December 2005:

	SHORT-TERM € MILLION	SHORT-TERM %	LONG-TERM € MILLION	LONG-TERM %	TOTAL € MILLION
<i>Due to banks</i>	5.4	65.1	2.9	34.9	8.3
<i>Finance leases</i>	0.9	8.1	10.2	91.9	11.1
TOTAL	6.3	32.5	13.1	67.5	19.4

Composition of borrowings at 31 December 2004:

	SHORT-TERM € MILLION	SHORT-TERM %	LONG-TERM € MILLION	LONG-TERM %	TOTAL € MILLION
<i>Due to banks</i>	16.7	80.3	4.1	19.7	20.8
<i>Finance leases</i>	0.9	7.5	11.1	92.5	12.0
TOTAL	17.6	53.7	15.2	46.3	32.8

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 52.

In the year under review, the net debt owed was reduced by € 11.3 million to € 12.9 million. The € 12.0 million reduction in amounts due to banks contributed in particular to this development.

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

€ MILLION	2005	2004
<i>Due to banks</i>	8.3	20.8
+ <i>finance leases</i>	11.1	12.0
+ <i>provisions for pensions</i>	0.7	0.5
= GROSS DEBT OWED	20.1	33.3
- <i>cash</i>	-7.2	-9.1
= NET DEBT OWED	12.9	24.2

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

Liquidity analysis

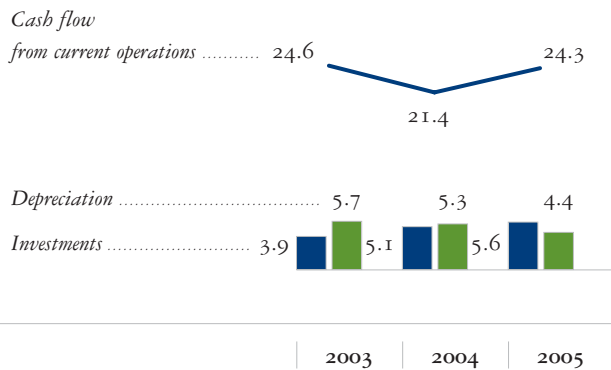
Consolidated cash flow

€ MILLION	2005	2004
<i>Cash flow from current operations</i>	+ 24.3	+ 21.4
<i>Cash flow from investing activities</i>	- 5.2	- 4.8
<i>Cash flow from financing activities</i>	- 21.0	- 21.8

The consolidated cash flow from current operations rose by € 2.9 million to € 24.3 million. The increase results largely from the higher earnings compared with the previous year. The cash flow from investing activities includes cash outflows for property, plant and equipment and intangible assets amounting to € 5.5 million. These resources were used predominantly for the launch of a new stock administration, goods management and financial accounting system on an SAP basis in the mail-order segment that is currently under way and is likely to be completed in 2006. The cash outflow to reduce borrowings amounted to € 12.5 million.

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, rose by € 2.7 million to € 17.1 million.

INVESTMENTS/DEPRECIATION/CASH FLOW IN € MILLION



Investment analysis: focus of capital expenditure on wine-shop and mail-order segments

The Hawesko Group spent € 5.6 million on intangible assets, in property, plant and equipment and financial assets in the year under review (previous year: € 5.1 million). In relation to sales, the investment ratio is thus 2.0% (previous year: 1.8%).

Capital expenditure on property, plant and equipment totalled € 2.5 million (previous year: € 4.1 million) and was principally for the modernisation of the *Jacques' Wein-Depot* outlets (€ 0.9 million) in the specialist wine-shop retail segment.

The capital expenditure on intangible assets of € 3.0 million (previous year: € 0.5 million) in the main related to the launch of new stock administration, goods management and financial accounting software in the mail-order segment and in logistics, which began in the year under review.

Financial position

Consolidated balance sheet: renewed rise in equity ratio

In a departure from previous years, in accordance with the IFRS standards valid from 1 January 2005 the balance sheet has been prepared on the basis of maturities. Non-current assets and liabilities are fundamentally defined as those having a maturity of over one year, and current assets and liabilities fundamentally as those with a maturity of one year or less. As a result of the aforementioned switch in the method of recognition of the leases on two buildings from operating leases to finance leases, the carrying amount of these properties was included retroactively under the balance sheet item property,

plant and equipment from 2005. This resulted in a rise in property, plant and equipment of € 10.5 million. On the equity and liabilities side, the lease rental is capitalised: the portion with a maturity of less than one year is allocated to and recognised as short-term borrowings, and the portion with a maturity of over one year to long-term borrowings.

The prior-year figures have moreover been adjusted to take account of the retroactive change from 1 January 2005 in the way minority interests in unincorporated subsidiaries are recognised (cf. "Consolidated net income" p. 23). The settlement entitlement of minority interests is reported together with the net profit due to minority interests as borrowed capital under the item "Minority interest in unincorporated subsidiaries".

The group's balance sheet total was reduced from € 165.3 million in the previous year to € 162.6 million. This corresponds to a decrease of 2%.

The non-current assets were marginally down on the previous year at € 56.6 million (€ 58.7 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). The deferred tax assets item fell by € 1.6 million following netting of additions and disposals.

STRUCTURE OF THE CONSOLIDATED BALANCE SHEET – ASSETS	2005		2004	
	€ MILLION	%	€ MILLION	%
NON-CURRENT ASSETS				
<i>Intangible assets</i>	8.6	5%	6.8	4%
<i>Property, plant and equipment</i>	24.3	15%	25.6	15%
<i>Financial assets</i>	0.2	0%	0.7	0%
<i>Deferred tax assets</i>	19.2	12%	20.8	13%
<i>Other</i>	4.3	3%	4.8	3%
	56.6	35%	58.7	35%
CURRENT ASSETS				
<i>Inventories</i>	57.5	35%	59.7	36%
<i>Trade receivables</i>	38.7	24%	35.9	22%
<i>Cash and other current assets</i>	9.8	6%	11.0	7%
	106.0	65%	106.6	65%
BALANCE SHEET TOTAL	162.6	100%	165.3	100%

STRUCTURE OF THE CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES	2005		2004	
	€ MILLION	%	€ MILLION	%
SHAREHOLDERS' EQUITY				
<i>Subscribed capital (adjusted pursuant to IFRS)</i>	8.9	5%	8.9	5%
<i>Capital reserve</i>	5.9	4%	5.9	4%
<i>Revenue reserve</i>	33.0	20%	30.6	19%
<i>Balancing item</i>	0.0	0%	0.0	0%
<i>Unappropriated group profit</i>	22.3	14%	19.9	12%
<i>Minority interest</i>	0.3	0%	0.2	0%
	70.4	43%	65.4	40%
MINORITY INTEREST IN UNINCORPORATED SUBSIDIARIES	3.0	2%	2.8	1%
NON-CURRENT LIABILITIES				
<i>Provisions</i>	0.9	1%	0.8	0%
<i>Non-current portion of borrowings</i>	13.1	8%	15.2	9%
<i>Other non-current liabilities and deferred tax liabilities</i>	5.2	3%	5.6	4%
	19.2	12%	21.6	13%
CURRENT LIABILITIES				
<i>Current portion of borrowings</i>	6.3	4%	17.6	11%
<i>Trade payables</i>	38.2	23%	32.7	20%
<i>Other liabilities</i>	25.5	16%	25.2	15%
	70.0	43%	75.5	46%
BALANCE SHEET TOTAL	162.6	100%	165.3	100%

Current assets eased back from € 106.6 million to € 106.0 million, in the first instance as a result of the € 2.0 million fall in cash. On the other hand, trade receivables rose by 7.8%, in particular as a result of increased business activity in the wholesale segment at the end of the year.

Consolidated equity rose year on year by € 5.0 million to € 70.4 million. The equity ratio (prior to the distribution of profit) consequently rose from 39.6% to 43.3% of the balance sheet total. The € 2.4 million rise in the revenue reserve to € 33.0 million is the result of allocations from the previous year's unappropriated profit.

Long-term provisions and liabilities fell by € 2.3 million to € 19.2 million. In particular borrowings were reduced by € 2.1 million in the year under review, to € 13.1 million. As there were no new long-term borrowings, this item fell as a result of the scheduled repayments.

Short-term provisions and liabilities fell by € 5.5 million. The € 11.3 million fall in short-term borrowings was the main reason here; these liabilities now total € 6.3 million. This marked fall is attributable above all to the improved financial performance, in conjunction with the high free cash flow.

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 again improved in the year under review, to 1.8 (previous year: 1.7). This change is attributable both to the lower balance sheet total and to the increased sales.

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* are fundamentally rented and are therefore not reported under fixed assets. *Jacques'* operates 256 wine shops in Germany and Austria, with a sales area of between 100 m² and 200 m² per shop, predominantly in 1b locations.

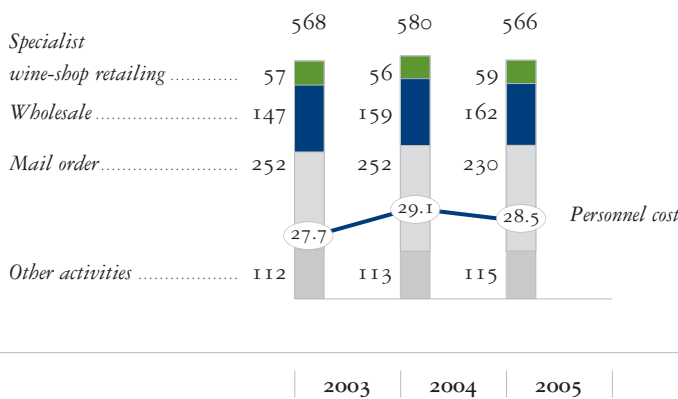
The principal intangible assets of the group that do not qualify for recognition in the financial statements come under the category of relationships with customers and suppliers. This means in particular the customer file, which covers a substantial portion of the group of people in Germany who are interested in high-quality wines. The warehousing and transport logistics are a further major asset. Finally, the software created within the group for steering order processing and streams of goods also represents an asset that cannot be recognised in the accounts.

The specialist wine-shop retail and mail-order segments serve around one million private customers in Germany and Austria. These customers make purchases averaging € 180.00 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.

TOTAL EMPLOYEES/PERSONNEL COST IN € MILLION



EMPLOYEES

The Hawesko Group regards its employees as a key asset in achieving lasting business success.

The group employed an average of 566 people in the 2005 financial year, predominantly in Germany (previous year: 580). The average employee total was down slightly on the previous year as a result of the cessation of mail-order activities in Austria at the end of 2004. In the other business segments, the employee totals were on a par with the previous year.

The employee structure, on the basis of function, is as follows: 51% of employees were engaged in the marketing/distribution/customer service areas, 23% in administration and IT, 18% 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 fell by 2.1% in the year under review to € 28.5 million. The personnel cost ratio eased off slightly to 9.9% (previous year: 10.2%).

Depending on the company 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.

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 2005, 296 employees of the group belonged to this pension fund. Collectively negotiated employer subsidies amounted to € 0.1 million in the year under review.

Employees were moreover able to acquire shares in Hawesko Holding AG in the 2005 reporting year under the employee profit-sharing scheme. All eligible employees were offered shares at a discount on the stock market price. Around 9% of employees took up this offer.

The Hawesko Group generates a high proportion of its revenue and earnings from Christmas Business (cf. "Risk report" p. 32). In this connection, considerable flexibility is demanded of all employees particularly in the mail-order business area in view of the volume of gifts business towards the end of the year, if we are to achieve the high standards of customer service and satisfaction that we expect. A company agreement has therefore been reached with the employee council, envisaging the introduction of annual working hours in those areas that are highly dependent on seasonal volumes. This measure enables peaks in demand for capacity to be served economically and compensated for at other times where the volume of business is slacker, without the standard of service suffering.

Well trained employees are indispensable in achieving the high standards that our markets and customers expect. In the Hawesko Group, training is therefore provided both in line with requirements, predominantly in commercial vocations, and specific further training provided in the form of courses designed to develop the individual's qualifications profile.

Internal training courses are in addition offered, predominantly in goods management and in the handling of user software. Expenditure on training and advancement measures in the year under review amounted to € 0.2 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 Management Board of Hawesko Holding AG views the economic situation of the Hawesko Group as very healthy at the time of writing in February 2006. The recent development of the Hawesko Group again underlines the robustness 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 is thus able to increase its sales and income and gain further market shares even in a generally economically unfavourable situation such as that which was prevalent in the year under review. The Management Board regards this positive business development in 2005 – particularly in the wholesale/distribution segment – as an endorsement of its chosen course. Improved economic efficiency, i.e. the increased percentage return on sales (EBIT margin) was the outcome of targeted cost management in the year under review. 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 generating a high free cash flow and keeping borrowings down to an appropriate level. The improvements to the balance sheet achieved in the reporting period, in conjunction with the healthy financial performance, mean that this objective was achieved. In 2005, the group enjoyed higher profitability, a lower level of tied-up capital and a lower tax expense ratio.

Its high quality as an investment and confidence with regard to future prospects are moreover the reason for the recent changes in Hawesko's shareholders.

LEGAL STRUCTURE OF THE GROUP

Hawesko Holding AG has been listed on the stock exchange since May 1998. The Management Board Chairman, Alexander Margaritoff, is its biggest shareholder, 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 now 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.

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.

Two new group companies were established in the year under review: these are *Multi-Weinmarkt GmbH* which, as a fully owned subsidiary of *Jacques' Wein-Depot Wein-Einzelhandel GmbH*, is testing the new large-scale concept (cf. "Strategy" p. 14), and *Universal Wines Kft*, Budapest, which, as a 66% subsidiary of the joint venture *Global Eastern Wine Holding GmbH* (50% shareholding of *Wein Wolf Holding GmbH & Co. KG*), is establishing wine wholesale business in Hungary.

The Hawesko Group is essentially divided into three largely independent business segments (cf. "Strategy" p. 13).

MANAGEMENT AND CONTROL

Since 2004, each segment has been headed by a director (“head of segment”) who, in conjunction with the Management Board, 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 Management Board or, in the case of the specialist wine-shop retail segment, is a member of the Management Board, and his remuneration is also determined on the basis of attainment of the agreed targets. Key components are sales, EBIT and EBT targets, as well as tied-up capital.

The Management Board uses ROCE as the basis for its steering approach. The minimum rates of return targeted were outlined above under “Strategy”. The ROCE targets and the development of the individual segments on the basis of these targets form part of the strategy and reporting discussions on a temporary basis, probably until 2007; these parameters are subsequently to become part of the annual evaluation and the basis used for bonus payments. This will further refine objectives and target attainment checks, as greater emphasis will be placed on the return on capital employed over and above sales increases and EBIT margins, and the responsibility for attaining targets will be clearly apportioned below Management Board level.

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

DEPENDENCE REPORT

Hawesko Holding AG was potentially a dependent company of Alexander Margaritoff Holding GmbH until the reduction in the shareholding of Alexander Margaritoff Holding GmbH to 30.19% on 29 June 2005. The sole proprietor of Alexander Margaritoff Holding GmbH is Alexander Margaritoff. The Management Board of Hawesko Holding AG could consequently be obliged pursuant to Section 312 of German Stock Corporation Law to prepare an annual report on relationships

with Alexander Margaritoff Holding GmbH and Alexander Margaritoff. In a report on the relationships with Alexander Margaritoff Holding GmbH and Alexander Margaritoff up until 29 June 2005, the Management Board declared conclusively for the period up until 29 June 2005 that Hawesko Holding AG received appropriate consideration for all reportable transactions, based on the circumstances known to it at the time each of those transactions was carried out. Measures to the disadvantage of the company upon the instructions or in the interests of Alexander Margaritoff or Alexander Margaritoff Holding GmbH in the year under review up until 29 June 2005 were not taken or were forborne.

ENVIRONMENTAL REPORT

To the extent that the Hawesko Group does not possess production facilities of its own, as a trading company, the corresponding environmental standards are 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 financial year.

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. It 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 annually. 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 93% 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 we buy 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; they themselves moreover 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 Management Board believes that the prospect of such regulations becoming law is slight. The Management Board 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 Management Board believes that the impact on the Hawesko Group's gifts business would be only slight; 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 euro zone. It is to be expected that the proportion of wines imported from overseas will continue to grow; these wines are to some extent traded in US dollars. 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 used for hedging. 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. Arbitration proceedings were initiated in the *Wein Wolf* Group in the year under review. 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.

Nor is the company 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 documentation is currently being supplemented and updated in order to respond with sufficient speed in the event of system failures or problems. 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 in-house system (see below). 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 year under review for the introduction of new goods management and financial accounting software will continue with the evaluation of suitable software.

Within the mail-order segment, customer orders and movements of goods are controlled by software developed by the company itself. The system used is backed up by two servers, with the result that the system can be kept operational in the unlikely event of one server failing entirely. 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. To keep the IT up to date, a new stock administration, goods management and financial accounting system on an SAP basis is to be introduced in the course of the current financial year of 2006, then taking the place of the software system developed by the company itself.

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 Management Board, each head of segment submits reports focusing on any special situations – whether positive or negative – in addition to current business progress. If the Management Board 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 years. The principal sales market is likely to remain the Federal Republic of Germany; the markets in Austria, Poland, the Czech Republic and Hungary will also be of significance, but to a lesser degree. Nor is the adoption of new methods envisaged. A new concept in specialist wine-shop retailing could incorporate new services if the test envisaged for 2006 demonstrates this concept to be successful (cf. "Strategy" p. 14).

General economic situation

Future overall economic developments: prospects of stimulating private consumption

The economic prospects for Germany improved in particular in the first four weeks of the current year. For 2006, at least, the positive trend should continue, with the result that 1.75% growth in gross domestic product is expected for the year as a whole. It is likewise to be expected that the rise in the VAT rate from 16% to 19% on 1 January 2007 announced by the new German government will prompt private consumers likewise to bring purchases forward. This could provide a positive stimulus for the retail sector and the wine trade.

Future situation in the trade

In the opinion of the Management Board 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 2006 and 2007. The Hawesko Group remains outstandingly placed to respond to the aforementioned trends profitably. Its corporate planning assumes that a basic scenario of predatory competition with no growth in the market to speak of. In this phase of consolidation, the Hawesko Group stands to gain further market shares.

Anticipated financial performance

The Management Board expects to see a low single-figure percentage rise in sales in the next two financial years. It envisages the following as the main pillars of growth: on the one hand an increase in sales for *Jacques' Wein-Depot* – both at its existing outlets and through the planned opening of between six and eight outlets per year – and on the other hand the sales contribution of the new, large-scale specialist retailing concept that is currently in the test phase. If this concept has not fulfilled our expectations with regard to its sales contribution and profitability after two years, it will not be pursued any further; in the latter instance there will be no longer-term costs to the group. The Baron Philippe de Rothschild wines for which we are the exclusive wholesale distributor and the expansion of existing international activities should in addition continue to generate sales growth in the next two years. The mail-order segment will be pursuing an income-driven policy in the next two years, and thus consciously not seek to push up sales purely by increasing volume.

As matters stand, the Management Board expects the consolidated operating result for 2006 to be something more than € 18 million. This forecast takes account of the fact that the test for the new specialist retailing concept will diminish EBIT by an anticipated € 0.9 million, above all due to personnel costs and other operating expenses – the latter in particular for rents and leases. The company's management expects that 2007 will bring at least a slight rise in EBIT, in the first instance because the start-up costs for the new test markets will no longer be burdening the operating result to any significant degree.

Provided an EBIT of the magnitude mentioned above is achieved in the 2006 financial year, the pre-tax earnings for 2006 should be on a par with the previous year thanks to the lower borrowing costs. The item "taxes on income and deferred tax expenses" includes one-off positive effects in 2005, with the result that the tax ratio for the group in 2006 will stabilise at around 40%, compared with approx. 33% in 2005. The 2006 financial year is consequently expected to yield consolidated earnings of € 9.3 million to € 9.6 million, i.e. a level of 10% to 15% down on the consolidated earnings for 2005, with a free cash flow for 2006 of € 10 million to € 11 million. In 2007, an upswing in the operating result should push the consolidated earnings back up to the level of 2005 and produce a free cash flow of € 10 million to € 14 million.

As matters stand, if business progress remains positive the dividend is expected to be at least on a par with this year's regular dividend (€ 1.40), though this is dependent on attaining both the planned earnings and an adequate free cash flow.

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 2006 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 specialist retailing concept (between three and four locations) and on IT investments for the mail-order and logistics area.

Opportunities

In February 2006, early indicators such as the ifo business barometer and the GfK index of consumer confidence point towards a possible recovery in private consumption in Germany. Among other factors, the forthcoming football World Cup might improve consumer confidence, at least temporarily, and thus prompt a rise in wine consumption. Any improvement in the economic situation and in consumer confidence should provide the Hawesko Group with an opportunity to achieve sales growth above the anticipated level. It would thus be in a position to exceed the operating result for 2005 in the 2006 financial year. In February 2006, the Management Board rates the likelihood of this scenario materialising at 33%.

A successful outcome to the piloting of the new specialist retailing concept could tap further sales potential for wine in price brackets of € 2.00 upwards. Considering the fact that the price bracket between € 2.00 and € 4.00 per bottle 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 2006, the Management Board 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 provide a boost to earnings in the medium term.

As a result of optimised processes especially in the mail-order and logistics areas, costs could be reduced further, potentially improving the operating result still further. An improvement in earnings of € 100 thousand or more is considered to be possible from 2007, and as at February 2006 the chances of this being achieved are put at 25%.

Furthermore, the advertising frequency at *Hanseatisches Wein- und Sekt-Kontor* is being decreased as a result of the introduction of intermediate catalogues, with attendant opportunities and risks to customers' purchasing behaviour. As at February 2006, the Management Board believes that these opportunities and risks balance each other out.

One area of uncertainty is the scheduled increase in VAT. An increase from 2007 could prompt people to bring purchases of wine forward to 2006, when prices will still be lower. On the other hand, there is a risk of wine purchases falling in 2006 if consumers already begin to exercise greater restraint in anticipation of the higher prices they will face as a result of the VAT rate increase from 1 January 2007.

Overall statement on the anticipated development of the group

In light of the above individual factors, the assessment of the wine market's development and an expansion of existing international activities as scheduled, the Management Board considers sales growth for the Hawesko Group in the order of 1% to 5% to be realistic for each of the next two years.

Improved economic efficiency, i.e. the increased percentage return on sales (EBIT margin) and the return on capital employed (ROCE), are the focus of attention for the Hawesko Group over the coming years.

It is focusing on the one hand on the target for all group companies to generate positive operating results (EBIT) in the near future. The Management Board is confident of thus permanently achieving the target EBIT margin of 7% for the Hawesko Group within the next five years.

On the other hand, the return on capital employed (ROCE) for the group is to be maintained above the group target of 16% over the next few years as a result of ongoing working capital management, even after taking account of capital expenditure on new activities or restructuring measures.

CONSOLIDATED STATEMENT OF INCOME

for the period from 1 January to 31 December 2005 (IFRS)

NOTES	1/1-31/12/2005 €'000	1/1-31/12/2004 €'000
SALES REVENUES	287,049	285,848
<i>Increase/decrease in finished goods inventories</i>	- 147	37
<i>Other production for own assets capitalised</i>	940	-
<i>Other operating income</i>	13,311	14,511
<i>Cost of purchased goods</i>	- 167,552	- 166,224
<i>Personnel expenses</i>	- 28,486	- 29,084
<i>Depreciation and amortisation</i>	- 4,358	- 5,282
<i>Other operating expenses</i>	- 81,721	- 82,933
<i>Other taxes</i>	- 103	- 24
RESULT FROM OPERATIONS	18,933	16,849
<i>Financial result</i>	- 2,786	- 3,458
<i>Investment income</i>	53	-
RESULT FROM ORDINARY ACTIVITIES	16,200	13,391
<i>Taxes on income and deferred tax expenses</i>	- 5,359	- 7,606
RESULT AFTER TAXES	10,841	5,785
<i>Profit due to minority interests</i>	- 115	- 99
CONSOLIDATED EARNINGS	10,726	5,686
<i>Earnings per share (basic) in €</i>	2.44	1.29

CONSOLIDATED BALANCE SHEET

at 31 December 2005 (IFRS)

ASSETS	NOTES	31/12/2005 €'000	31/12/2004 €'000
NON-CURRENT ASSETS			
<i>Intangible assets</i>	15.	8,546	6,809
<i>Tangible assets</i>	16.	24,306	25,602
<i>Financial assets</i>	17.	238	709
<i>Advance payments for inventories</i>	18.	3,201	3,600
<i>Receivables and other fixed assets</i>	19.	1,064	1,151
<i>Deferred tax assets</i>	21.	19,213	20,782
		56,568	58,653
CURRENT ASSETS			
<i>Inventories</i>	18.	57,540	59,703
<i>Trade receivables</i>	19.	38,746	35,936
<i>Other fixed assets</i>	19.	2,597	1,835
<i>Cash in banking accounts and cash on hand</i>	20.	7,165	9,140
		106,048	106,614
		162,616	165,267

SHAREHOLDERS' EQUITY AND LIABILITIES	NOTES	31/12/2005 €'000	31/12/2004 €'000
SHAREHOLDERS' EQUITY			
<i>Subscribed capital of Hawesko Holding AG</i>	22.	13,249	13,249
<i>Group adjustment acc. to IFRS</i>		-4,366	-4,366
		8,883	8,883
<i>Capital reserve</i>	23.	5,867	5,867
<i>Revenue reserve</i>	24.	32,958	30,553
<i>Balancing item from currency translation</i>		8	-6
<i>Unappropriated group profit</i>	25.	22,419	19,891
<i>Minority interest</i>	26.	300	235
		70,435	65,423
MINORITY INTEREST IN THE CAPITAL OF UNINCORPORATED SUBSIDIARIES			
	27.	2,959	2,797
LONG-TERM PROVISIONS AND LIABILITIES			
<i>Provisions for pensions</i>	28.	678	521
<i>Other provisions</i>	30.	262	266
<i>Borrowings</i>	31.	13,121	15,209
<i>Advances received</i>	32.	2,380	3,331
<i>Other liabilities</i>	32.	2,129	1,406
<i>Deferred tax liabilities</i>	29.	642	821
		19,212	21,554
SHORT-TERM PROVISIONS AND LIABILITIES			
<i>Other provisions</i>	30.	31	2
<i>Borrowings</i>	31.	6,278	17,608
<i>Advances received</i>	32.	5,226	5,413
<i>Trade payables</i>	32.	38,154	32,653
<i>Other liabilities</i>	32.	20,321	19,817
		70,010	75,493
		162,616	165,267

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period 31 December 2003 to 31 December 2005

€'000	SUBSCRIBED CAPITAL	CAPITAL RESERVE	REVENUE RESERVES	ADJUSTMENT RESULTING FROM CURRENCY TRANSLATION	UNAPPRO- PRIATED GROUP PROFIT	MINORITY INTEREST	SHARE- HOLDERS' EQUITY
31/12/2003	8,850	5,762	25,687	-9	24,742	218	65,250
<i>Adjustment from the application of IAS 17 (2004) at 1 Jan. 2004</i>					-825		-825
<i>Capital increase from convertible bond</i>	33	105			—	—	138
<i>Appropriation to revenue reserves</i>			4,866		-4,866	0	0
<i>Dividends</i>					-4,846	-83	-4,929
<i>Currency translation differences</i>				3		0	3
<i>Consolidated earnings</i>					5,686	99	5,785
31/12/2004	8,883	5,867	30,553	-6	19,891	235	65,423
<i>Adjustments for changeover to euro</i>					—	1	1
<i>Change in consolidated companies</i>					43	-3	40
<i>Appropriation to revenue reserves</i>			2,745		-2,745	0	0
<i>Treasury shares</i>			-340			—	-340
<i>Dividends</i>					-5,496	-66	-5,562
<i>Currency translation differences</i>				14		19	33
<i>Consolidated earnings</i>					10,726	115	10,841
31/12/2005	8,883	5,867	32,958	8	22,419	300	70,435

CONSOLIDATED CASH FLOW STATEMENT

for the period from 1 January to 31 December 2005 (IFRS)

NOTES	1/1-31/12/2005 €'000	1/1-31/12/2004 €'000
Result from ordinary activities 36.	16,200	13,391
+ Depreciation of intangible and tangible assets (net of write-ups)	4,358	4,530
+ Interest result 36.	2,786	3,458
+/- Result from the disposal of intangible and tangible assets	-20	-7
+/- Change in inventories	2,561	2,323
+/- Change in receivables, other assets and prepaid expenses	-3,071	-4,261
+/- Change in provisions	182	-2,024
+/- Change in liabilities (excluding borrowings)	5,242	7,526
- Taxes on income paid out 36.	-3,970	-3,534
= NET INFLOW OF PAYMENTS FROM CURRENT OPERATIONS	24,268	21,402
- Acquisition of subsidiaries	-35	-25
- Outpayments for tangible assets and intangible assets	-5,523	-4,689
- Outpayments for the purchase of securities	-	-405
+ Inpayments from the disposal of intangible and tangible assets	332	352
+ Inpayments from the disposal of financial assets	1	2
= NET FUNDS EMPLOYED FOR INVESTING ACTIVITIES	-5,225	-4,765
- Outpayments for dividend	-5,496	-4,846
- Outpayments to minority interests*	-382	-382
+ Inpayments from capital increase	40	105
+ Inpayments from the sale of treasury shares	149	-
- Payment of finance lease liabilities	-887	-834
+/- Change in borrowings	-12,480	-13,655
- Interest paid out and received 36.	-1,962	-2,207
+ OUTFLOW/INFLOW OF NET FUNDS FROM FINANCING ACTIVITIES	-21,018	-21,819
= NET DECREASE/INCREASE OF FUNDS	-1,975	-5,182
+ Funds at start of period	9,140	14,322
= FUNDS AT END OF PERIOD 36.	7,165	9,140

*Including outpayments to minority interests in unincorporated subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

of Hawesko Holding AG for the 2005 financial year

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 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.

In connection with the reorganisation of the International Accounting Standards Board (IASB) in April 2001, the statutory accounting requirements previously referred to as "International Accounting Standards (IAS)" have been renamed "International Financial Reporting Standards (IFRS)", though the IASB resolved that all previously published IAS are to remain valid. The expression "IFRS" is generally used below to denote the accounting standards. Those standards which had already been approved and which remain valid are, however, still referred to as "IAS".

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. Measurements which are based solely on tax law requirements are not included in the consolidated financial statements. The standard reporting date for all group companies is 31 December 2005.

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

The sums reported are always quoted in thousand euros (€'000), unless otherwise indicated.

The consolidated financial statements prepared by the Board of Management are to be established at the Supervisory Board meeting devoted to the annual accounts on 30 March 2006 and released for publication.

The audited combined management report for the group and the parent company and the annual financial statements at 31 December 2005 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. CHANGES TO IASB ACCOUNTING STANDARDS

The standards that had been revised or newly issued as part of the "Improvement Project" were applied in the preparation of the consolidated financial statements at 31 December 2005. The changes to the accounting standards were fundamentally applied retrospectively, except where specific transitional arrangements envisage prospective application.

The comparative figures for the 2004 financial year contained in the consolidated financial statements for the 2005 financial year therefore differ to some extent from the figures published in the previous year in the consolidated financial statements at 31 December 2004. The principal changes from the first-time application of the revised or newly published standards relate to the following.

As a result of application of IAS 36 (2004) "Impairment of Assets", IAS 38 (2004) "Intangible Assets" and IFRS 3 (2004) "Business Combinations" for the first time, the amortisation of goodwill from the consolidation of capital ceases to apply from 1 January 2005. In accordance with the transitional provisions in IFRS 3 (2004), the accumulated amortisation at 31 December 2004 is netted against the acquisition cost. From that point on, goodwill is to be tested annually for impairment pursuant to IAS 36 (2004). IFRS 3 is to be applied for the first time prospectively, with the result that no adjustment to prior-year figures takes place. There are no adjustments affecting previous years as a result of application of IAS 38 (2004).

IAS 17 (2004) "Leases" now stipulates clearly that for leases on land with buildings, the land and building components are to be considered separately for lease classification purposes. As a result of the clarification, the building components of two leases which had previously been classified as operating leases in conjunction with the land components are now reported as finance leases. IAS 17.68 permits the retrospective application to all leases. The application of IAS 17 (2004) results in the following adjustments:

€'000	2005	2004
<i>Tangible assets</i>	9,480	10,470
<i>Deferred tax assets</i>	611	588
<i>Shareholders' equity</i>	-1,012	-932
<i>Borrowings</i>	11,103	11,990
<i>Depreciation and amortisation</i>	-990	-990
<i>Rental and leasing</i>	1,622	1,622
<i>Result from operations</i>	632	632
<i>Interest expense</i>	-736	-788
<i>Result from ordinary activities</i>	-104	-156
<i>Deferred tax assets</i>	40	61
<i>Result after taxes</i>	-64	-95
<i>Earnings per share (basic) in €</i>	-0.01	-0.02

The effects on the periods prior to 2004 are not stated, as the work involved in establishing them would be inordinate. However, the effects prior to 2004 are not likely to differ substantially from those established for 2004 and 2005.

In 2005 the IASB published changes to the standards IFRS 6 "Exploration for and Evaluation of Mineral Assets", IAS 19 "Employee Benefits" and IAS 39 "Financial Instruments: Recognition and Measurement", which are to be applied to financial years beginning on or after 1 January 2006. Earlier application is permitted, but the company has not taken up this option. No substantial effect on the net worth, financial position and financial performance is expected.

In 2005, the International Financial Interpretation Committee (IFRIC) published two new interpretations IFRIC 4 "Determining Whether an Arrangement Contains a Lease" and IFRIC 5 "Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds", which are to be applied for financial years beginning on or after 1 January 2006. Earlier application is permitted, but the company has not taken up this option. No significant effect is expected as a result of their application.

3. REPORTING CHANGES FOR THE COMPARATIVE PERIOD

In the 2005 financial year, changes were made to the recognition and measurement principles compared with the comparative period, as a result of which the financial position and financial performance are presented more clearly and the application of certain standards is clarified.

Minority interests in the limited liability capital of unincorporated subsidiaries where the partner may oblige the company to pay it a settlement as a result of its exercising its statutory right of termination are now classified as borrowed capital pursuant to IAS 32. The settlement claim is reported as borrowed capital under the item "Minority interest in the capital of unincorporated subsidiaries". The obligation is measured at the fair value of the possible settlement claim and changes in the fair value are recorded in the interest result together with the net profit due to minority interests. The following reporting changes were made to the consolidated financial statements at 31 December 2005:

€'000	2005	2004
<i>Intangible assets</i>	398	398
<i>Shareholders' equity</i>	-2,561	-2,399
<i>Minority interest in the limited liability capital of subsidiaries</i>	2,959	2,797
<i>Other operating income</i>	–	-259
<i>Depreciation and amortisation</i>	–	-57
<i>Result from operations</i>	0	-316
<i>Financial result</i>	-483	-489
<i>Result from ordinary activities</i>	-483	-805
<i>Taxes on income and deferred tax expenses</i>	–	–
<i>Result after taxes</i>	-483	-805
<i>Profit due to minority interests</i>	495	245
<i>Consolidated earnings</i>	12	-560
<i>Earnings per share (basic) in €</i>	0.00	-0.13

Certain matters such as customer-specific obligations that had been shown under other provisions in the previous year were moreover reclassified as liabilities in the consolidated financial statements at 31 December 2005. The other provisions reported at 31 December 2004 were therefore reduced by € 5,076 thousand in the consolidated financial statements at 31 December 2005 and the liabilities increased by the same amount.

4. CONSOLIDATED COMPANIES

The **group** under Hawesko Holding AG, with its head offices in Hamburg, comprises a total of 20 German 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. This total has not changed since the previous year. Six (previous year: five) 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 contract dated 29 July 2005, *Jacques' Wein-Depot Wein-Einzelhandel GmbH & Co. KG* accrued to *Verwaltungsgesellschaft Jacques' Wein-Depot Wein-Einzelhandel m.b.H.* after an exchange of limited-liability shares in the unincorporated subsidiary (the KG) for shares in the incorporated subsidiary (the GmbH) and renamed *Jacques' Wein-Depot Wein-Einzelhandel GmbH*. The entry on the Commercial Register was made on 11 August 2005.

Multi-Weinmarkt GmbH was established by the company agreement dated 5 August 2005. The entry on the Commercial Register was made on 26 August 2005.

The shareholding in *Sélection de Bordeaux SARL* has risen from 90% to 100% since the previous year.

The shareholding in the indirect participation *Sommelier S.A. Spółka Akcyjna* has risen from 70% to 86.8%.

FULLY CONSOLIDATED SUBSIDIARIES	REGISTERED OFFICE	SEGMENT	SHAREHOLDING %
DIRECT PARTICIPATION			
<i>Hanseatisches Wein- und Sekt-Kontor HAWESKO GmbH & Co. KG</i>	Hamburg	Mail order	100.0
<i>Jacques' Wein-Depot Wein-Einzelhandel GmbH</i>	Düsseldorf	Specialist wine-shop retail	100.0
<i>CWD Champagner- und Wein-Distributionsgesellschaft mbH & Co. KG</i>	Hamburg	Wholesale	100.0
<i>Wein Wolf Holding GmbH & Co. KG</i>	Bonn	Wholesale	90.0
<i>Verwaltungsgesellschaft Hanseatisches Wein- und Sektkontor HAWESKO m.b.H.</i>	Hamburg	Miscellaneous	100.0
<i>IWL Internationale Wein Logistik GmbH</i>	Tornesch	Miscellaneous	100.0
<i>Sélection de Bordeaux SARL (formerly Edition Reiss SARL)</i>	St-Julien, Beychevelle (France)	Mail order	100.0
<i>Jacques' Wein-Depot Wein-Einzelhandel GmbH</i>	Vienna (Austria)	Specialist wine-shop retail	100.0
<i>Le Monde des Grands Bordeaux Château Classic SARL</i>	St-Christoly, Médoc (France)	Wholesale	90.0
INDIRECT PARTICIPATION			
<i>Viniversitaet Die Weinschule GmbH</i>	Meerbusch	Specialist wine-shop retail	100.0
<i>Multi-Weinmarkt GmbH</i>	Düsseldorf	Specialist wine-shop retail	100.0
<i>Weinland Ariane Abayan GmbH & Co. KG</i>	Hamburg	Wholesale	85.0*
<i>Gebr. Josef und Matthäus Ziegler GmbH</i>	Freudenberg	Wholesale	100.0*
<i>Alexander Baron von Essen Weinhandels GmbH</i>	Tegernsee	Wholesale	84.85*
<i>Wein Wolf Import GmbH & Co. Verwaltungs KG</i>	Bonn	Wholesale	100.0*
<i>Wein Wolf Import GmbH & Co. Vertriebs KG</i>	Bonn	Wholesale	100.0*
<i>Wein Wolf Import GmbH & Co. Vertriebs KG</i>	Salzburg (Austria)	Wholesale	100.0*
<i>Carl Tesdorpf GmbH</i>	Lübeck	Mail order	90.0
<i>Sommelier S.A. Spółka Akcyjna</i>	Warsaw (Poland)	Wholesale	86.8*
<i>Winegate New Media GmbH</i>	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 ventures *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. Further details of the pro rata values at which the joint venture is included in the consolidated financial statements are given in section 38.

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

NON-CONSOLIDATED SUBSIDIARIES	REGISTERED OFFICE	SHAREHOLDING %	NET EARNINGS € '000
"Chateaux et Domaines" Weinhandelsgesellschaft mbH	Hamburg	100.0	0
Wein Wolf Import GmbH	Bonn	100.0	5
Wein Wolf Holding Verwaltungs GmbH	Bonn	100.0	1
Weinland Ariane Abayan Verwaltungs GmbH	Hamburg	85.0	1
Verwaltungsgesellschaft Wein Wolf Import GmbH	Salzburg (Austria)	100.0	-9
Verwaltungsgesellschaft CWD Champagner- und Wein-Distributionsgesellschaft m.b.H.	Hamburg	100.0	-1

In view of its minor economic significance, the 50% shareholding in *Vera Maria Bau Consulting GmbH*, Bonn, was not consolidated. The net earnings of this company in 2005 were € 6 thousand.

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.

The *consolidation of capital* is always 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. For business combinations effective from 1 January 2004 IFRS 3 is to be applied.

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 lower 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.

Write-ups on and depreciation of shares in group companies from individual financial statements are reversed in the consolidated financial statements.

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).

5. RECOGNITION AND MEASUREMENT PRINCIPLES

Intangible assets acquired for consideration are measured at acquisition cost.

Self-constructed intangible assets are capitalised at the allocable cost of production which arose during the development phase, after the time that their technological and commercial feasibility was established, up to the time of their completion.

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. Low-value assets are fully expensed in the year of acquisition.

Plant under finance leases is capitalised within fixed assets at the present value of the minimum lease payments 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:

<i>Buildings</i>	18 to 50 years
<i>Leasehold improvements</i>	7 to 10 years
<i>Other fixtures and fittings, tools and equipment</i>	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.

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.

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 *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 rate at which they were acquired or at the company's internal exchange rate. 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 consolidated annual financial statements of economically independent foreign group companies are treated in accordance with IAS 21. 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.

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 exchange-rate hedging transactions, as well as interest hedging transactions such as currency options, forward exchange transactions, interest-rate caps, interest-rate and currency swaps, and also 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.

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.

No includable or excludable but *disclosable events occurring after the balance sheet date*, as defined in IAS 10, occurred.

6. SALES REVENUES

€'000	2005	2004
<i>Specialist wine-shop retail</i>	96,944	96,451
<i>Wholesale</i>	103,025	94,857
<i>Mail order</i>	86,469	94,179
<i>Miscellaneous</i>	611	361
	287,049	285,848

7. OTHER OPERATING INCOME

€'000	2005	2004
<i>Rental income</i>	5,778	5,878
<i>Advertising expense subsidies</i>	2,812	2,652
<i>Income from cost refunds</i>	1,999	1,911
<i>Income from the liquidation of provisions</i>	684	1,315
<i>Miscellaneous</i>	2,038	2,755
	13,311	14,511

8. PERSONNEL EXPENSES

€'000	2005	2004
<i>Wages and salaries</i>	24,303	24,866
<i>Social security and other pension costs</i>	4,183	4,218
<i>– of which in respect of old age pensions</i>	(258)	(136)
	28,486	29,084

The employee benefit expenses include payments from defined contribution plans totalling € 100 thousand (previous year: € 73 thousand) and defined benefit plans totalling € 158 thousand (previous year: € 63 thousand).

In the year under review, employees within the Hawesko Group were offered shares from treasury stock (between 50 and 750 per employee) at a unit price of € 22.93. The market price was € 32 at the time of the offer. 6,502 shares in total were acquired by the employees.

9. DEPRECIATION AND AMORTISATION

€'000	2005	2004
<i>Goodwill from the consolidation of capital</i>	–	777
<i>Intangible assets</i>	836	623
<i>Property, plant and equipment</i>	3,522	3,882
	4,358	5,282

10. OTHER OPERATING EXPENSES

€'000	2005	2004
<i>Advertising</i>	23,662	23,783
<i>Commissions to partners</i>	23,837	23,734
<i>Delivery costs</i>	11,112	11,342
<i>Rental and leasing</i>	7,588	7,637
<i>IT and communication costs</i>	2,378	2,519
<i>Legal and consultancy costs</i>	1,272	1,308
<i>Other personnel expenses</i>	779	1,161
<i>Miscellaneous</i>	11,093	11,449
	81,721	82,933

11. FINANCIAL RESULT

€'000	2005	2004
<i>Interest income</i>	147	233
<i>Interest expense</i>	-1,317	-1,619
<i>Interest for finance leases</i>	-736	-788
<i>Changes in fair value of interest hedging transactions</i>	-397	-794
<i>Net profit for the year due to minority interests in unincorporated subsidiaries</i>	-495	-245
<i>Fair value changes in the minority interest in the capital of unincorporated subsidiaries</i>	12	-245
	-2,786	-3,458

12. INVESTMENT INCOME

The dividends from non-consolidated subsidiaries (€ 53 thousand) are shown under this item.

13. TAXES ON INCOME AND DEFERRED TAX EXPENSES

€'000	2005	2004
<i>Current tax</i>	3,970	5,087
<i>Deferred taxes</i>	1,389	2,519
	5,359	7,606

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	2005	2004
<i>Current year</i>	3,919	4,235
<i>Previous years</i>	51	852
	3,970	5,087

Expenses for deferred tax are attributable to the following:

€'000	2005	2004
<i>From restructuring measures with an effect on taxes</i>	938	2,405
<i>From loss carryforwards</i>	199	470
<i>Other temporary differences</i>	-211	-356
<i>From the change in the uniform tax rate for the group</i>	463	—
	1,389	2,519

The actual tax expense for the year 2005 of € 5,359 thousand is € 733 thousand lower than the anticipated tax expense of € 6,092 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: 38.65%) and is obtained as follows:

<i>Trade tax</i> <i>(average municipal factor 360%)</i>	15.25%
<i>Corporation tax</i> <i>(25% of profits after trade tax)</i>	21.19%
<i>Solidarity surcharge</i> <i>(5.5% of corporation tax)</i>	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	2005	2004
<i>Anticipated tax expense</i>	6,092	5,175
<i>Use of tax loss carryforwards on basis of a single-entity relationship for trade tax</i>	-2,017	—
<i>Remeasurement of deferred taxes</i>	463	—
<i>Reclassification of minority interest</i>	191	360
<i>Tax expenses/income unrelated to the accounting period</i>	51	852
<i>Nonrecognition of fiscal loss carryforwards</i>	67	853
<i>Nondeductibility of remuneration for co-entrepreneurs in unincorporated subsidiaries</i>	166	142
<i>Nondeductibility of 50% of permanent debt interest for trade tax</i>	78	77
<i>Trade tax income and expenses which cannot be credited</i>	—	265
<i>Nondeductibility of amortisation of goodwill from the consolidation of capital</i>	—	300
<i>Income from the subsequent consolidation of the intra-group merger of Wine Company</i>	—	-100
<i>Other tax effects</i>	268	-318
Actual tax expense	5,359	7,606
Effective tax rate %	33.08	56.80

14. 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.

	2005	2004
<i>Consolidated earnings (€'000)</i>	10,726	5,686
<i>Average number of shares ('000)</i>	4,399	4,411
Basic earnings per share (€)	2.44	1.29

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

15. INTANGIBLE ASSETS

The development in intangible assets in the year under review and in the previous year is shown in the consolidated assets movement schedule on pages 60 and 61.

€'000	31/12/2005	31/12/2004
<i>Software</i>	632	982
<i>Other intangible assets</i>	179	363
<i>Goodwill from the consolidation of capital</i>	4,982	4,982
<i>Advance payments and construction in progress</i>	2,753	482
	8,546	6,809

The item "Advance payments and construction in progress" includes on the one hand internally furnished and externally sourced advance consideration for the commissioning envisaged for 2006 of a new stock administration, goods management and financial accounting system on an SAP basis (€ 2,099 thousand). On the other hand the own and third-party contributions to the continuing development of internally produced software for recording orders and processing customers was capitalised (€ 477 thousand). The conditions for its recognition as an asset according to IAS 38 are satisfied cumulatively. As well as the third party services purchased, the directly allocable personnel costs have been carried as the costs of production.

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

€'000	ACQUISITION COST	ACCUMULATED DEPRECIATION 31/12/2005	CARRYING AMOUNT 31/12/2005
<i>Wein Wolf Group</i>	6,690	2,209	4,481
<i>Le Monde des Grands Bordeaux C.C. SARL</i>	615	426	189
<i>Carl Tesdorpf GmbH</i>	457	181	276
<i>CWD Champagner- und Wein-Distributionsgesellschaft mbH & Co. KG</i>	47	11	36
<i>Sélection de Bordeaux SARL (formerly Edition Reiss SARL)</i>	-19	-19	0
	7,790	2,808	4,982

No impairment losses pursuant to IAS 36 were recognised in the reporting period.

16. PROPERTY, PLANT AND EQUIPMENT

The development in property, plant and equipment for the year under review and for the previous year is shown in the consolidated assets movement schedule on pages 60 and 61.

€'000	31/12/2005	31/12/2004
<i>Land and buildings, including buildings on third-party land</i>	18,218	19,401
<i>Other fixtures and fittings, tools and equipment</i>	6,029	5,975
<i>Advance payments and construction in progress</i>	59	226
	24,306	25,602

The carrying amounts of the land and buildings in finance lease totalled € 9,480 thousand at 31 December 2005 (previous year: € 10,470 thousand).

17. FINANCIAL ASSETS

The development in financial assets for the year under review and for the previous year is shown in the consolidated assets movement schedule on pages 60 and 61.

€'000	31/12/2005	31/12/2004
<i>Shares in affiliated companies</i>	157	123
<i>Participating interests</i>	18	18
<i>Securities</i>	10	10
<i>Other loans</i>	53	558
	238	709

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	31/12/2005	31/12/2004
<i>Wein Wolf Import GmbH</i>	26	26
<i>Wein Wolf Holding Verwaltungs GmbH</i>	26	26
<i>"Chateaux et Domaines"</i>		
<i>Weinhandelsgesellschaft mbH</i>	26	26
<i>Weinland Ariane Abayan Verwaltungs GmbH</i>	20	20
<i>Verwaltungsgesellschaft CWD Champagner- und Wein-Distributionsgesellschaft m.b.H.</i>	25	25
<i>Verwaltungsgesellschaft Wein Wolf Import GmbH, Salzburg (Austria)</i>	34	—
	157	123

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

The other loans totalling € 53 thousand (previous year: € 558 thousand) relate to one (previous year two) loans:

€'000	31/12/2005	31/12/2004	TERM	INTEREST RATE
<i>Shares loan</i>				
<i>DZ Bank</i>	–	504		
<i>Loan to employee</i>	53	54	SEPT. 2009	6%
	53	558		

18. INVENTORIES

€'000	31/12/2005	31/12/2004
<i>Raw material and consumables used</i>	927	752
<i>Work in progress</i>	2,403	2,526
<i>Finished goods and merchandise</i>	47,915	52,286
<i>Advance payments</i>	9,496	7,739
	60,741	63,303

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

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

19. RECEIVABLES AND OTHER FIXED ASSETS

€'000	31/12/2005	31/12/2004
<i>Trade receivables (gross)</i>	39,477	36,823
<i>Less individual allowances</i>	-731	-887
<i>Trade receivables</i>	38,746	35,936
<i>Due from affiliated companies</i>	11	3
<i>Due from participating interests</i>	80	48
<i>Other receivables and other fixed assets</i>	3,570	2,935
	42,407	38,922
<i>Of which with a term of:</i>		
– up to 1 year	41,343	37,771
– over 1 year	1,064	1,151

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 subsidiary *Global Wines Prague*, Prague (Czech Republic).

Other receivables and other fixed assets:

€'000	31/12/2005	31/12/2004
<i>Tax refund claims</i>	642	694
<i>Receivables from trade representatives</i>	421	466
<i>Rent deposits</i>	758	781
<i>Miscellaneous</i>	1,749	994
	3,570	2,935

20. CASH IN BANKING ACCOUNTS AND CASH ON HAND

Cash in banking accounts and cash on hand totalling € 7,165 thousand (previous year: € 9,140 thousand) relates substantially to balances with banks.

21. DEFERRED TAX ASSETS

€'000	31/12/2005	31/12/2004
<i>Previous year</i>	20,782	23,444
<i>Increase</i>	1,647	296
<i>Decrease</i>	-3,216	-2,958
	19,213	20,782

Deferred tax assets are made up as follows:

€'000	31/12/2005	31/12/2004
<i>Temporary differences:</i>		
– from restructuring measures with an effect on taxes	17,888	19,269
– from the fair value measurement of derivative financial instruments	693	508
– Other	501	674
<i>Fiscal loss carryforwards</i>	131	331
	19,213	20,782

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 nine years.

Amortisation is performed at the rate of € 2,232 thousand per year for the above companies.

Deferred tax credits totalling € 128 thousand (previous year: € 331 thousand) were reported for fiscal loss carryforwards of unlimited use. On the basis of the medium-term profit forecasts, it can be expected that the deferred tax credit balances can be realised in the foreseeable future. There are in addition as yet unused fiscal loss carryforwards totalling € 5,710 thousand for which no deferred tax assets have been reported on the balance sheet.

Deferred tax credit balances totalling € 693 thousand (previous year: € 508 thousand) are reported as a result of the recognition of derivative financial instruments at fair value.

A sum of € 2,318 thousand is expected to be realised from the deferred tax assets within twelve months.

22. SUBSCRIBED CAPITAL

The subscribed capital of Hawesko Holding AG in the commercial accounts amounts to € 13,249,488.00, and is divided into 4,416,496 ordinary bearer shares in the form of individual share certificates. As a result of the issue of 11,000 new shares each with a nominal value of € 3.00 in the 2004 financial year from authorised but unissued capital, the subscribed capital was increased pursuant to Section 200 of German Stock Corporation Law.

The treasury shares reported under other loans as a shares loan in the previous year were returned in the 2005 financial year. Over and above this, no treasury shares were acquired in the 2005 financial year. A total of 13,498 treasury shares were held at 31 December 2005.

TOTAL SHARES	2005	2004
<i>Opening inventory</i>	4,416,496	4,405,496
<i>Shares issued</i>	–	11,000
<i>Treasury shares</i>	- 13,498	–
<i>Closing inventory</i>	4,402,998	4,416,496

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 2005.

Authorisation to acquire treasury shares

At the Ordinary Shareholders' Meeting on 20 June 2005, Hawesko Holding AG was given authorisation until 30 November 2006 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 floor-traded 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 floor-traded 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. 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. This authorisation, including the existing authorisation pursuant to Section 4 Para. 5 of the articles of incorporation, applies to a total of 10% of the company's capital stock.

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.

23. CAPITAL RESERVE

€'000	31/12/2005	31/12/2004
<i>Capital reserve</i>	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 totals € 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.

24. REVENUE RESERVE

€'000	31/12/2005	31/12/2004
<i>Revenue reserve</i>	32,958	30,553

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 have in addition been deducted from the revenue reserve, in agreement with IAS 32.

25. 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 € 8,886 thousand (previous year: € 5,647 thousand).

The individual components of the equity and its development in the years 2004 and 2005 are shown in the consolidated statement of movements in equity on page 39.

26. 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).

27. 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.

28. PROVISIONS FOR PENSIONS

For old-age pension purposes, five (previous year: six) active employees, one retired employee (previous year: –) and one former employee (previous year: one) of the Hawesko Group 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 € 158 thousand (previous year: € 63 thousand) in the year under review. The expense comprises service cost of € 18 (previous year: 17) thousand, interest expense of € 26 (previous year: 26) thousand, payments made of € 1 (previous year: –) thousand and an actuarial loss of € 113 (previous year: 20) thousand.

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

%	2005	2004
<i>Discounting rate</i>	4.00	5.10
<i>Expectancy trend</i>	1.00	0.80
<i>Pensions trend</i>	2.00	1.60

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.

29. 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 IN €'000	31/12/2005	31/12/2004
<i>Fixed assets</i>	291	333
<i>Inventories</i>	274	270
<i>Trade receivables</i>	114	115
<i>Other fixed assets</i>	56	110
<i>Miscellaneous</i>	-93	-7
	642	821

30. OTHER PROVISIONS

€'000	01/01/2005	DRAWN (D) LIQUIDATED (L)	ALLOCATED	31/12/2005
<i>Provisions for personnel</i>	268	75 (D) 7 (L)	107	293

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

The provisions with a term of up to one year total € 31 thousand. The provisions with a term of between one and five years total € 159 thousand. The provisions with a term of over five years total € 103 thousand.

31. BORROWINGS

€'000	31/12/2005	31/12/2004
<i>Banks</i>	8,296	20,827
<i>Finance lease</i>	11,103	11,990
	19,399	32,817
<i>Of which with a term of:</i>		
– up to 1 year	6,278	17,608
– 1 to 5 years	7,367	7,263
– over 5 years	5,754	7,946

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
<i>Open-ended</i>	25,000
31/07/2006	10,000
	35,000

The interest rates of short-term loans raised in 2005 were between 2.85% and 3.48%.

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

ORIGINAL AMOUNT €'000	31/12/2005 €'000	TERM	INTEREST RATE
9,868	3,947	30/09/2009	5.92%
511	153	31/12/2008	5.50%

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

The finance lease liabilities at 31 December 2005 can be reconciled as follows:

€'000	TERM UP TO ONE YEAR	TERM OVER ONE AND UP TO FIVE YEARS	TERM OVER FIVE YEARS	TOTAL
<i>Minimum lease payments</i>	1,622	6,488	7,157	15,267
<i>Interest component</i>	680	2,082	1,402	4,164
<i>Principal repaid</i>	942	4,406	5,755	11,103

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. 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.

32. OTHER LIABILITIES

€'000	31/12/2005	31/12/2004
<i>Advances received</i>	7,606	8,744
<i>Trade payables</i>	38,154	32,653
<i>Other liabilities</i>	22,450	21,223
	68,210	62,620
<i>Of which with a term of:</i>		
– up to 1 year	63,701	57,884
– 1 to 5 years	4,509	3,804
– over 5 years	–	932

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 2006 and 2007.

The advances received include liabilities with a term of between 1 and 5 years totalling € 2,380 thousand (previous year: € 3,331 thousand).

The other liabilities include liabilities with a term of between 1 and 5 years totalling € 2,129 thousand (previous year: € 473 thousand). There no longer exist any other liabilities with a term of over 5 years (previous year: € 932 thousand).

The other liabilities are composed of the following:

€'000	31/12/2005	31/12/2004
<i>Sales tax and other taxes</i>	10,223	10,093
<i>Liabilities in respect of social insurance</i>	713	767
<i>Liabilities to employees</i>	3,225	2,931
<i>Customer bonuses</i>	3,680	3,822
<i>Derivative financial instruments</i>	1,696	1,300
<i>Liabilities to other company members</i>	354	186
<i>Due to affiliated companies</i>	65	187
<i>Miscellaneous</i>	2,494	1,937
	22,450	21,223

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

€'000	31/12/2005	31/12/2004
<i>“Chateaux et Domaines” Weinhandelsgesellschaft mbH</i>	26	26
<i>Wein Wolf Import GmbH</i>	5	61
<i>Wein Wolf Holding Verwaltungs GmbH</i>	3	40
<i>Weinland Ariane Abayan Verwaltungs GmbH</i>	3	32
<i>Verwaltungsgesellschaft CWD Champagner- und Wein-Distributions- gesellschaft m. b. H.</i>	28	28
	65	187

33. CONTINGENCIES AND OTHER FINANCIAL OBLIGATIONS

The following contingencies and financial obligations in respect of third parties existed on 31 December 2005:

€'000	31/12/2005	31/12/2004
<i>Credit by way of guarantee</i>	83	76
<i>Ordering commitments for intangible assets</i>	905	–
<i>Advance payments outstanding</i>	424	99
<i>Guarantees</i>	2,965	107

Obligations relating to advance payments outstanding as at 31 December 2005 were repaid at the start of 2006.

Hawesko Holding AG owns a one hundred percent interest in *Sélection de Bordeaux SARL*. As 50% of the company's equity capital had been used up, in June 2005 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.

For one commercial act, 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 leasing and rental payments amounts to € 9,191 thousand (previous year: € 8,039 thousand). The global obligations for lease and tenancy agreements are due as follows:

	€'000
<i>Up to 1 year</i>	6,362
<i>Over 1 year, up to 5 years</i>	1,805
<i>Over 5 years</i>	1,024
	9,191

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

34. 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 amortised cost, which 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	31/12/2005		31/12/2004	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
<i>Due to banks</i>	8,296	8,357	20,827	20,925
<i>Finance lease liabilities</i>	11,103	11,651	11,990	12,641

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.

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 and fair values of existing financial instruments are as follows:

€'000	NOMINAL VOLUME		FAIR VALUE	
	31/12/2005	31/12/2004	31/12/2005	31/12/2004
<i>Interest hedging transactions</i>	40,113	49,452	-1,696	-1,300

The terms to maturity of the interest hedging transactions are between two and five years.

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

The interest hedging transactions include one obligation in Swiss francs that is due on 13 January 2009. This results in a *foreign exchange risk* that is accounted for in the fair value.

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. There is in addition a risk from the change in short-term Swiss money market interest rates for one hedging instrument. 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.

35. EMPLOYEES

The average number of employees is as follows:

GROUP	2005	2004
	566	580

36. 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. The cash outflows from interest payments and dividends have been allocated to financing activities. The cash inflows from financing activities include interest payments made totalling € 2,076 thousand and interest payments received totalling € 114 thousand. The cash inflows from current operations of € 24,268 thousand (previous year: € 21,402 thousand) include the changes in cash and cash equivalents from operating activities. Cash and cash equivalents comprises 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	2005	2004	CHANGE
<i>Cash in banking accounts and cash on hand</i>	7,165	9,140	-1,975

37. 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 in the Czech wholesaler *Global Wines Prague*, Prague, as well as the Hungarian wholesaler *Universal Wines Kft*, Budapest. Further details of the joint venture are provided in section 38.
 - 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 & Co. KG*, *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 general-partner limited-liability company of the firm *Hanseatisches Wein- und Sekt-Kontor HAWESKO GmbH & Co KG*.
- The prior-year figures compared with those published in the consolidated financial statements at 31 December 2004 were adjusted in the consolidated financial statements at 31 December 2005 as a result of the changes to the way leases are recognised (see section 2). This essentially affects the miscellaneous segment.
- 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.

SEGMENTS 2005

€'000	SPECIALIST RETAIL	WHOLESALE	MAIL ORDER	MISCELLANEOUS	RECON- CILIATION	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	0
OTHER INCOME	7,961	4,249	2,208	975	- 2,082	13,311
– External	7,961	4,211	984	155		13,311
– Internal	0	38	1,224	820	- 2,082	0
EBIT	10,280	5,112	6,176	- 2,703		18,865
<i>Non-allocated expenses</i>						68
						18,933
<i>Interest income</i>						147
<i>Interest expense</i>						- 2,933
						- 2,786
<i>Interest result</i>						
<i>Investment income</i>						53
						16,200
RESULT FOR SEGMENTS BEFORE TAXES						16,200
<i>Taxes on income</i>						- 5,359
						10,841
RESULT AFTER TAXES						10,841
<i>Segment assets</i>	26,959	67,015	41,083	138,862	- 131,158	142,761
<i>Non-allocated assets</i>						19,855
						162,616
<i>Consolidated assets</i>						162,616
<i>Segment debts</i>	16,601	29,760	17,398	9,274	- 3,853	69,180
<i>Non-allocated debts</i>						20,342
						89,522
<i>Consolidated debts</i>						89,522
<i>Depreciation and amortisation</i>	1,611	577	880	1,290		
<i>Investment</i>	1,207	1,098	2,723	530		

SEGMENTS 2004

€'000	SPECIALIST RETAIL	WHOLESALE	MAIL ORDER	MISCELLANEOUS	RECON- CILIATION	GROUP
SALES REVENUES	96,505	97,355	98,651	13,740	-20,403	285,848
– External sales	96,451	94,857	94,179	361		285,848
– Internal sales	54	2,498	4,472	13,379	-20,403	0
OTHER INCOME	8,969	4,245	2,151	1,898	-2,752	14,511
– External	8,969	4,218	797	527		14,511
– Internal	0	27	1,354	1,371	-2,752	0
EBIT	11,223	3,670	4,655	-2,680		16,868
<i>Non-allocated expenses</i>						-19
						16,849
<i>Interest income</i>						233
<i>Interest expense</i>						-3,691
<i>Interest result</i>						-3,458
RESULT FOR SEGMENTS BEFORE TAXES						13,391
<i>Taxes on income</i>						-7,606
RESULT AFTER TAXES						5,785
<i>Segment assets</i>	26,653	62,838	41,746	144,670	-132,116	143,791
<i>Non-allocated assets</i>						21,476
<i>Consolidated assets</i>						165,267
<i>Segment debts</i>	17,085	26,130	17,397	6,875	-4,078	63,409
<i>Non-allocated debts</i>						33,873
<i>Consolidated debts</i>						97,282
<i>Depreciation and amortisation</i>	1,602	1,290	1,122	1,268		
<i>Investment</i>	2,226	1,313	799	781		

38. JOINT VENTURE SHARES

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 in the 2005 financial year was 4 (previous year: 3).

With effect from 15 September 2005 a further 66% interest in *Global Eastern Wine Holding GmbH*, Bonn, was included in the group. This constitutes the newly founded Hungarian wholesaler *Universal Wines Kft*. The average number of employees in the 2005 financial year was 0 (previous year: –).

The following particulars indicate the pro rata values at which both 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	31/12/2005	31/12/2004
<i>Non-current assets</i>	1	1
<i>Current assets</i>	975	716
Assets	976	717
<i>Shareholders' equity</i>	559	404
<i>Short-term provisions and liabilities</i>	417	313
Equity and liabilities	976	717

Share of income and expenses

€'000	31/12/2005	31/12/2004
<i>Sales revenues</i>	1,454	1,095
<i>Other operating income</i>	16	8
<i>Cost of materials</i>	-829	-648
<i>Personnel expenses</i>	-80	-44
<i>Depreciation and amortisation</i>	-1	-1
<i>Other operating expenses</i>	-234	-175
Result from operations	326	235
<i>Interest income</i>	14	11
<i>Interest expense</i>	–	–
Result from ordinary activities	340	246
<i>Taxes on income</i>	-91	-70
Consolidated earnings	249	176

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

The group companies *Hanseatisches Wein- und Sekt-Kontor HAWESKO GmbH & Co. KG*, *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.

40. 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* 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.

41. 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.

42. 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
<i>Manfred Middendorff</i>	22	8	12	4	46
<i>Prof. Dr. Dr. Dr. Franz Jürgen Säcker</i> ...	17	6	10	13	46
<i>Prof. Dr. Carl H. Habn</i>	11	4	4	—	19
<i>Jacques Héon</i>	4	4	1	—	9
<i>Angelika Jabr-Stilcken</i>	11	4	4	—	19
<i>Detlev Meyer</i>	4	4	1	—	9
<i>Hans Meyer</i>	8	4	3	—	15
<i>Total</i>	77	34	35	17	163

Annual remuneration is paid to the Board of Management in the form of a fixed and a variable component. In the year under review, remuneration totalling € 1,880 thousand (previous year: € 1,836 thousand) was paid to the Board of Management, comprising € 1,342 thousand in fixed pay and € 538 thousand in variable components.

In the 2005 financial year, one member of the Board of Management was granted a short-term loan of € 1.7 million, which was repaid in full in the aforementioned period. The corresponding interest has also been paid. There existed no loans to members of the Supervisory Board in the 2005 financial year.

The Balance Sheet includes provisions for obligations totalling € 696 thousand (previous year: € 594 thousand) to the Board of Management and Supervisory Board.

At 31 December 2005, the Supervisory Board held 789,647 (previous year: 300) and the Board of Management 1,342,826 (previous year: 1,775,826) shares – directly and indirectly – in Hawesko Holding AG, with the Chairman of the Board of Management holding 1,333,526 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.

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

It is proposed to distribute the unappropriated profit of € 8,886 thousand resulting from the annual financial statements of Hawesko Holding AG prepared at 31 December 2005 in accordance with the requirements of German Commercial Code and German Stock Corporation Law as follows: Payment of a regular dividend of € 1.40 per individual share certificate and of a one-off bonus dividend of € 0.60 per individual share certificate. The proposed total dividend amounts to € 8,833 thousand.

Hamburg, 28 February 2006

The Board of Management

Alexander Margaritoff Sven Ohlzen Bernd Hoolmans

DEVELOPMENT OF CONSOLIDATED ASSETS

at 31 December 2005

€'000	ACQUISITION OR MANUFACTURING COST					POSITION AT 31/12/2005
	POSITION AT 1/1/2005	ADDITIONS	DISPOSALS	WRITE-UPS	TRANSFERS	
ASSETS						
I. INTANGIBLE ASSETS						
1. Software	4,365	237	-130		64	4,536
2. Goodwill	8,589					8,589
3. Advance payments	481	2,749	-413		-64	2,753
	13,435	2,986	-543	0	0	15,878
II. PROPERTY, PLANT AND EQUIPMENT						
1. Land and buildings	30,783	301	-57			31,027
2. Other fixtures and fittings, tools and equipment	17,633	2,176	-1,381		171	18,599
3. Construction in progress	226	61	-57		-171	59
	48,642	2,538	-1,495	0	0	49,685
III. FINANCIAL ASSETS						
1. Shares in affiliated companies	123	34				157
2. Participating interests	18	0				18
3. Securities	10					10
4. Other loans	558		-505			53
	709	34	-505	0	0	238
	62,786	5,558	-2,543	0	0	65,801

POSITION AT 1/1/2005	ACCUMULATED DEPRECIATION					RESIDUAL CARRYING AMOUNT	
	ADDITIONS	DISPOSALS	WRITE-UPS	TRANSFERS	POSITION AT 31/12/2005	POSITION AT 31/12/2005	POSITION AT 31/12/2004
3,383	628	- 129		22	3,904	632	982
3,242	208			-22	3,428	5,161	5,346
0					0	2,753	481
6,625	836	- 129	0	0	7,332	8,546	6,809
11,382	1,477	- 50			12,809	18,218	19,401
11,658	2,045	- 1,133			12,570	6,029	5,975
					0	59	226
23,040	3,522	- 1,183	0	0	25,379	24,306	25,602
0					0	157	123
0					0	18	18
0					0	10	10
0					0	53	558
0	0	0	0	0	0	238	709
29,665	4,358	- 1,312	0	0	32,711	33,090	33,120

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 2005. 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 provides 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, 3 March 2006

Susat & Partner oHG
Wirtschaftsprüfungsgesellschaft

Graf von Kanitz
Auditor

Dr. Dannenbaum
Auditor

REPORT OF THE SUPERVISORY BOARD

In fiscal year 2005, the Supervisory Board performed the tasks for which it is responsible in accordance with legal requirements and the articles of incorporation. The Board of Management was informed on a regular basis at meetings as well as in individual conferences about the situation of the company 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 plan. 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 fiscal year 2005 the Supervisory Board met a total of four times and is convinced that the company was managed in a lawful and adequate manner. 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, market positioning in the mail-order division, the test of a new, stationary specialist retail concept, the expansion of business activities to Hungary, an evaluation of the logistics, a new IT platform in the wholesale and mail-order divisions, the opportunities in Internet sales, the approval of important individual transactions and business planning in the medium term. In addition, taking into account the reports of the Board of Management, the Supervisory Board devoted its attention to risk management in the Hawesko Group.

No conflicts of interest with regard to individual members have come to the attention of the Supervisory Board Chairman. No member of the Supervisory Board – as far as he been a member for the greater part of the reporting period – has participated in fewer than one half of the total meetings of the Supervisory Board in fiscal year 2005.

In the previous year, the Supervisory Board formed a three-member committee for matters relating to accounting and investment. This committee met three times in the year under review. There is also a committee for matters relating to personnel; it met most recently in December 2004.

The annual and consolidated financial statements as well as the combined management report of the group and the parent company for fiscal year 2005 were examined by the appointed auditors Susat & Partner oHG Wirtschaftsprüfungsgesellschaft, Hamburg, who have issued their unqualified certification thereof. Pursuant to Section 170 of the German Stock Corporation Law, the Board of Management submitted the annual and consolidated financial statements, the combined management report of the group and the parent company for fiscal year 2005, and the audit reports on the examination of the annual and consolidated financial statements as well as 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 matters discussed the annual and consolidated financial statements of Hawesko Holding AG at its meeting

on 23 March 2006 in the presence of the auditors. The Supervisory Board in its plenum discussed and examined the annual and consolidated financial statements of Hawesko Holding AG at its meeting on 30 March 2006. The Supervisory Board declared itself in agreement with the results of the audit. Based on the conclusions of its examination, the Supervisory Board raises no objections. It has ratified the annual and consolidated financial statements for 2005 pursuant to Section 171 of the German Stock Corporation Law. The annual financial statements are thus approved in accordance with Section 172 of the German Stock Corporation Law.

The Supervisory Board endorses the proposal of the Board of Management on the appropriation of the net profit for fiscal year 2005.

The appointed auditors, Susat & Partner oHG Wirtschaftsprüfungsgesellschaft, Hamburg, also examined the report prepared by the Board of Management on affiliated companies (dependent company report) up to 29 June 2005 prepared in accordance with section 312 of the German Stock Corporation Law and issued the following audit opinion:

"On completion of our audit in accordance with professional standards, we confirm that

1. the factual statements made in the report are correct,
2. the company's compensation with respect to the transactions listed in the report was not inappropriately high."

The Supervisory Board examined the dependent company report. According to the result of its examination there are no reservations regarding the completeness or the accuracy of the report. The Supervisory Board declared itself in agreement with the results of the examination of the auditor.

There are no objections to be raised to the declaration of the Board of Management at the end of the report.

Mr. Hans Meyer retired from the Supervisory Board with effect from 8 September 2005. The Supervisory Board thanks Mr. Meyer for his valued contributions and his commitment on this Board. Mr. Detlev Meyer and Mr. Jacques Héon were appointed by the court as members of the Supervisory Board on 1 November 2005 and 2 November 2005, respectively.

The Supervisory Board extends its thanks to the Board of Management, the directors, the employee councils, 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, March 2006

The Supervisory Board

Manfred Middendorff
Chairman

CORPORATE GOVERNANCE REPORT

Declaration of the Supervisory Board and Board of Management pursuant to Section 161 of the German Stock Corporation Law

Hawesko Holding AG declares its support of responsible company leadership 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 will be ensured in order to create, to obtain and to strengthen confidence in the company for its customers, business partners and shareholders. Hawesko Holding AG therefore approves of the German Corporate Governance Code – including its new version dated 2 June 2005 – and the values expressed in the code.

Most of the standards and recommendations specified in the Code have been practiced for years at Hawesko Holding AG. This will remain so in the future. Hawesko Holding AG differs from the recommendations of the Code in only the following points:

- The consolidated financial statements of Hawesko Holding AG will not be published within 90 days of the end of the fiscal year, but within approximately 120 days. This longer period is necessary to facilitate the combination of the publication of the consolidated financial statements and annual report with the report for the first three months of the next fiscal year.
- With regard to the D&O insurance contracts (Directors' & Officers' Liability) for the Board of Management and the Supervisory Board, Hawesko Holding AG does not provide for a personal liability deductible to be borne by those insured. In the case of malfeasance with prior intent the individual is personally liable.
- The remuneration of the members of the Board of Management of Hawesko AG is published in whole for the Board and split into base pay and bonus pay based on performance. It is not split out individually for each board member.
- The Supervisory Board of Hawesko Holding AG does not formally debate the structure of the remuneration system for the Board of Management as a plenum, but in the personnel committee created for that purpose.

These deviations from the recommendations of the German Corporate Governance Code remain unchanged from the previous year. Earlier declarations pursuant to Section 161 of the German Stock Corporation Act can be found at

<http://www.hawesko.com/investorrelations/index.html>.

The acquisition or sale of shares of Hawesko Holding AG or of related financial instruments, particularly derivatives, by members of the Board of Management and the Supervisory Board or other persons with management duties, who have regular access to insider information of the company and who are authorized to make important company decisions, is published at

http://www.hawesko.com/investor/wertpapier_en.pdf.

The number of shares of Hawesko Holding AG in the possession of members of the Board of Management and the Supervisory Board is stated separately for the Board of Management and the Supervisory Board in Note 42 to the consolidated financial statements as well as on Page 65 ("Board of Management and Supervisory Board").

The annual emoluments of the individual members of the Board of Management comprise fixed and variable remuneration components. As a rule, the variable proportion of the remuneration of the members of the Board of Management is based on the development of the annual net profit of Hawesko Holding AG.

In accordance with Section 16 of the corporate by-laws, the members of the Supervisory Board receive a fixed remuneration of € 4,200 annually as well as meeting fees and variable bonuses which are based on the success of the company and linked to the net income for the year. The chairman of the Supervisory Board receives double this amount, while his deputy receives one and a half times this amount. The remuneration of the Supervisory Board members is given individually for each member and listed by component in Note 42 to the consolidated financial statements. Furthermore, the remunerations paid to the members of Hawesko Holding AG for personally provided services are listed separately for each individual member there as well.

Hawesko does not currently maintain any stock option program or similar securities-oriented incentive systems.

The management of the company as well as representation in business with third parties is the sole responsibility of the Board of Management of Hawesko Holding AG. It is supervised and advised by the Supervisory Board. The Supervisory Board is informed regularly, promptly and comprehensively by the Board of Management about all matters pertaining to planning, business development and risks which are relevant to the company. The Board of Management coordinates the strategic direction of the company with the Supervisory Board.

The shareholders exercise their co-administration and supervisory rights at the annual general meeting. Each share of Hawesko Holding AG entitles the holder to one vote. Thus the principle of "one share, one vote" has been completely implemented, since there are no maximum limits for the votes of one shareholder or special voting rights. Each shareholder is entitled to participate in the annual general meeting, to speak on any agenda items and to demand information about business affairs to the extent necessary to arrive at a fair and appropriate evaluation of a topic at the annual general meeting. The Board of Management appoints a representative for the exercise of shareholders' voting rights at the general meeting as instructed by the shareholders, in order to make it easier for them to exercise their rights.

As Hawesko Holding AG understands corporate governance as a process subject to continuous optimization, the company is open to any possible improvements.

Hamburg, March 2006

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*

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.

Sven Ohlzen, *Chief Financial Officer*

Sven Ohlzen (born 1957), of Hamburg, completed his university studies in Hamburg in 1986 with a degree in Economics. In 1992 he joined the company *Hanseatisches Wein- und Sekt-Kontor* and was appointed an authorized signatory in 1993. He has been a managing director of this company since 1998. At Hawesko Holding AG, he bears particular responsibility for finance, for controllership of affiliated companies and for logistics.

Bernd Hoolmans

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.

The members of the Board of Management among themselves hold a total of 1,342,826 (previous year: 1,775,826) shares in Hawesko Holding AG (equivalent to 30.4% of the total number of shares).

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. Hahn¹⁾

Former Chairman of the Board of Management of Volkswagen AG,
Wolfsburg
– Gerling-Konzern, Atradis, Cologne; Indesit Company s.p.a.,
Fabriano, Italy; Perot Systems Corporation, Plano, Texas, USA

Jacques Héon (*from 2 November 2005*)

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

Angelika Jahr-Stilcken²⁾

Journalist Member of the Executive Board of Gruner + Jahr AG,
Hamburg
– Nestlé Deutschland AG, Frankfurt am Main

Detlev Meyer (*from 1 November 2005*)¹⁾

Entrepreneur, Neustadt am Rügenberge
– Belux AG, MuttENZ, Switzerland

Hans Meyer (*until 8 September 2005*)¹⁾

Freelance direct marketing consultant, Rheinheim

The members of the Supervisory Board hold a total of 789,647 (previous year: 300) shares in Hawesko Holding AG (equivalent to 17.9% of the total number of shares).

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 2005

	1/1-31/12/2005 €'000	1/1-31/12/2004 €'000
<i>Other operating income</i>	766	761
<i>Personnel expenses</i>		
a) <i>Salaries</i>	-2,515	-2,583
b) <i>Social security and social maintenance costs</i>	-95	-83
<i>Depreciation and amortisation</i>	-5	-4
<i>Other operating expenses</i>	-1,167	-2,414
<i>Income from profit-transfer agreements</i>	10,138	3
<i>Investment income</i>	6,457	15,486
<i>Income from long-term financial investments</i>	78	22
<i>Other interest and similar income</i>	1,759	1,965
<i>Write-down of financial assets</i>	0	-1,980
<i>Interest and similar expenses</i>	-2,106	-1,661
RESULTS FROM ORDINARY ACTIVITIES	13,310	9,512
<i>Taxes on income</i>	-2,425	-1,734
<i>Other taxes</i>	0	68
NET INCOME FOR THE YEAR	10,885	7,846
<i>Profit carryforward from previous year</i>	151	101
<i>Withdrawals from other revenue reserves</i>	270	-
<i>Transfer into reserve for treasury shares</i>	-270	-
<i>Transfer into other revenue reserves</i>	-2,150	-2,300
UNAPPROPRIATED PROFIT FOR THE YEAR	8,886	5,647

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 published in the Federal Gazette and have been filed with the Local Court of Hamburg under the reference HRB 66708. Copies of this publication can be requested from Hawesko Holding AG.

PARENT COMPANY BALANCE SHEET OF HAWESKO HOLDING AG

at 31 December 2005

ASSETS	31/12/2005 €'000	31/12/2004 €'000
FIXED ASSETS		
<i>Intangible assets</i>		
Software	1	3
<i>Property, plant and equipment</i>		
Operating equipment and fixtures	10	3
<i>Financial assets</i>		
Shares in affiliated companies	71,075	71,471
	71,086	71,477
CURRENT ASSETS		
<i>Inventories</i>		
Raw materials and supplies	–	0
<i>Receivables and other assets</i>		
Receivables from other affiliated companies	48,511	50,544
Other assets	261	295
	48,772	50,839
<i>Securities: Treasury shares</i>	270	–
<i>Cash in banking accounts</i>	4,517	6,226
	53,559	57,065
PREPAID EXPENSES	165	204
	124,810	128,746
SHAREHOLDERS' EQUITY AND LIABILITIES	31/12/2005 €'000	31/12/2004 €'000
SHAREHOLDERS' EQUITY		
Subscribed capital	13,250	13,250
Capital reserve	57,697	57,697
Revenue reserve		
1. Reserve for treasury shares	270	–
2. Other revenue reserves	30,400	28,520
Unappropriated profit for the year	8,886	5,647
	110,503	105,114
PROVISIONS		
Provisions for taxation	1,577	1,323
Other provisions	1,795	1,038
	3,372	2,361
LIABILITIES		
Due to banks	8,008	20,560
Trade accounts payable	27	164
Due to affiliated companies	28	353
Other liabilities	2,872	194
	10,935	21,271
	124,810	128,746

KEY FINANCIAL DATA OF HAWESKO GROUP

IN € MILLION	2000*	2001*	2002*	2003*	2004*	2005*
Net sales	232.4	264.3	267.4	278.8	285.8	287.0
Gross profit	98.3	111.3	114.8	117.1	119.6	119.5
- as % of net sales	42.3%	42.1%	42.9%	42.0%	41.9%	41.6%
Operating result before depreciation (EBITDA)	13.7	23.0	20.4	21.4	22.4	23.3
- as % of net sales	5.9%	8.7%	7.6%	7.7%	7.8%	8.1%
Depreciation and amortisation	4.6	5.4	5.7	5.7	5.2	4.4
Operating result (EBIT)	9.0	17.6	14.7	15.7	17.2	18.9
- as % of net sales	3.9%	6.7%	5.5%	5.6%	6.0%	6.6%
Consolidated earnings (after taxes and minority interests)	1.0	6.8	4.4	5.9	6.2	10.7
Cash flow from current operations	9.6	24.2	18.3	24.6	21.4	24.3
Cash flow from investing activities	-5.8	-6.0	-0.4	-3.6	-4.8	-5.2
Free cash flow	0.8	14.0	14.4	17.9	14.4	17.1
Proposed dividend distribution for the current year (parent company)	-3.7	-5.1	-4.4	-4.8	-5.5	-8.8
Non-current assets	71.9	70.0	66.5	59.1	58.3	56.2
Current assets	116.9	115.0	114.9	110.7	106.6	106.0
Equity less proposed dividend	54.9	54.9	60.4	61.7	62.3	64.2
- as % of balance sheet total	29.1%	29.7%	33.3%	36.3%	37.8%	39.6%
Total assets	188.8	185.0	181.4	169.9	164.9	162.2
Capital employed	111.3	116.6	114.9	115.1	109.6	102.7
Return on total assets	5.0%	9.4%	8.0%	8.9%	10.3%	11.6%
Return on capital employed	8.3%	15.1%	12.8%	13.6%	15.7%	18.4%
Earnings per share (€)	0.22	1.61	1.05	1.37	1.42	2.44
Regular dividend per share (without tax credit, €)	0.84	1.15	1.00	1.10	1.25	1.40
Bonus dividend payment 2005 (€)	—	—	—	—	—	0.60
Total dividend per share (€)	0.84	1.15	1.00	1.10	1.25	2.00
Total shares (average number outstanding in the year, in '000)	4,368	4,296	4,314	4,405	4,411	4,399
Year-end share price (€)	14.00	17.28	15.38	20.60	25.20	33.50
Market capitalisation at end of year	60.6	73.5	67.8	90.8	111.3	148.0
Total employees (average for year)	515	527	558	568	580	566

*For reasons of comparison the figures have been calculated without consideration of changes in the fair value of minority interests in the capital of unincorporated subsidiaries (cf. note 3 to the consolidated financial statements).

GLOSSARY

2004	2005
285.8	287.0
119.6	119.5
41.9%	41.6%
22.1	23.3
7.7%	8.1%
5.3	4.4
16.8	18.9
5.9%	6.6%
5.7	10.7
21.4	24.3
-4.8	-5.2
14.4	17.1
-5.5	-8.8
58.7	56.6
106.6	106.0
59.9	61.6
36.2%	37.9%
165.3	162.6
109.8	103.1
10.1%	11.5%
15.3%	18.4%
1.29	2.44
1.25	1.40
—	0.60
1.25	2.00
4,411	4,399
25.20	33.50
111.3	148.0
580	566

CAPITAL EMPLOYED is defined as the balance sheet total (for the group) plus capitalised rental obligations, less non-interest-bearing liabilities and provisions as well as deferred tax assets. This figure is used to analyse the level of tied-up capital.

EQUITY in the summary of key data is stated after deduction of the proposed dividend distribution of € 8.8 million by Hawesko Holding AG.

FREE CASH FLOW is the net of cash inflows from current operations and cash outflows for investing activities, less outpayments for interest (see Consolidated cash flow statement, page 40). Free cash flow indicates the funds which the company generates and can use to finance further growth, to pay down borrowings or to pay out as dividends to shareholders.

IFRS ACCOUNTS are consolidated financial statements prepared on the basis of the accounting rules of the International Accounting Standards Committee. The Hawesko Group has adopted these rules for the first time in the preparation of the consolidated financial statements for the 2000 financial year.

OPERATING RESULT (EBIT) represents earnings before deduction of financing (interest) costs and all taxes on income. It is commonly used as a means of calculating profitability.

OPERATING RESULT BEFORE DEPRECIATION AND AMORTISATION (EBITDA) represents earnings before deduction of financing expense (interest), depreciation and amortisation, and all taxes on income. It is often used in preference to the operating result (EBIT) as a means of comparing the profitability of companies in different countries, since it is less open to distortion by the application of differing accounting methods.

RETURN ON CAPITAL EMPLOYED (ROCE) is the operating result (EBIT) divided by the average capital employed for the previous year and the year under review.

TURNOVER OF TOTAL ASSETS expresses the relationship of sales to total assets and gives an indication of how efficiently the company is using its assets.

FINANCIAL CALENDAR

19 JUNE 2006	<i>Shareholders' meeting in Hamburg/last day before ex-dividend</i>
26 JULY 2006	<i>Six-month report 2006</i>
26 OCTOBER 2006	<i>Nine-month report 2006</i>
END OF JANUARY 2007	<i>Preliminary business figures for 2006</i>
END OF APRIL 2007	<i>Publication of 2006 Annual Report, analyst conference</i>

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1. The Board of Management of Hawesko Holding AG has submitted consolidated financial statements dated 22 May 2006 which have been appended with note 44 to the Notes to the consolidated financial statements as follows:

44. Remuneration of the auditors	
Expenses for remuneration of the auditors were as follows:	
	<u>T€</u>
Audit	172
Tax advisory	99
Other services	19

2. The supervisory board has examined and approved the above-mentioned additional note, and has now ratified the consolidated financial statements approved in March 2006 together with the addendum under point 1 above.
3. The consolidated financial statements for fiscal year 2005, with this addendum, have been issued the following audit 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 2005. 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 provides 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.

We issue this report based upon the results of our audit completed on 3 March 2006 in conformity with our duties, as well as upon our supplementary audit which related to the addition of note 44 to the Notes to the consolidated financial statements. The supplementary audit has not led to any reservations.

Hamburg, 3 March 2006
Hamburg, 23 May 2006

Susat & Partner oHG
Wirtschaftsprüfungsgesellschaft

Graf von Kanitz
Auditor

Dr. Dannenbaum
Auditor"

Report of the Supervisory Board [with supplement dated June 2006]

In fiscal year 2005, the supervisory board performed the tasks for which it is responsible in accordance with legal requirements and the articles of incorporation. The board of management was informed on a regular basis at meetings as well as in individual conferences about the situation of the company 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 plan. 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 fiscal year 2005 the Supervisory Board met a total of four times and is convinced that the company was managed in a lawful and adequate manner. 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, market positioning in the mail order division, the test of a new, stationary specialist retail concept, the expansion of business activities to Hungary, an evaluation of the logistics, a new IT platform in the wholesale and mail order divisions, the opportunities in Internet sales, the approval of important individual transactions and business planning in the medium term. In addition, taking into account the reports of the Board of Management, the Supervisory Board devoted its attention to risk management in the Hawesko Group.

No conflicts of interest with regard to individual members have come to the attention of the Supervisory Board Chairman. No member of the Supervisory Board – as far as he been a member for the greater part of the reporting period – has participated in fewer than one half of the total meetings of the Supervisory Board in fiscal year 2005.

In the previous year, the Supervisory Board formed a three-member committee for matters relating to accounting and investment. This committee met three times in the year under review. There is also a committee for matters relating to personnel; it met most recently in December 2004.

The annual and consolidated financial statements as well as the combined management report of the group and the parent company for fiscal year 2005 were examined by the appointed auditors Susat & Partner oHG Wirtschaftsprüfungsgesellschaft, Hamburg, who have issued their unqualified certification thereof. Pursuant to Section 170 of the German Stock Corporation Law, the Board of Management submitted the annual and consolidated financial statements, the combined management report of the group and the parent company for fiscal year 2005, and the audit reports on the examination of the annual and consolidated financial statements as well as 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 matters discussed the annual and consolidated financial statements of Hawesko Holding AG at its meeting on 23 March 2006 in the presence of the auditors. The Supervisory Board in its plenum discussed and examined the annual and consolidated financial statements of Hawesko Holding AG at its meeting on 30 March 2006. The Supervisory Board declared itself in agreement with the results of the audit. The Board of Management submitted on 22 May 2006 group financial statements supplemented by note 44 to the Notes to the consolidated financial statements, which has been issued an unqualified certification in a supplemental audit and examined by the Supervisory Board. The Supervisory Board declared itself in agreement with the results of the audit. Based on the conclusions of its examination, the

Supervisory Board raises no objections. It has ratified the annual and consolidated financial statements for 2005 pursuant to Section 171 of the German Stock Corporation Law. The annual financial statements are thus approved in accordance with Section 172 of the German Stock Corporation Law.

The Supervisory Board endorses the proposal of the Board of Management on the appropriation of the net profit for fiscal year 2005.

The appointed auditors, Susat & Partner oHG Wirtschaftsprüfungsgesellschaft, Hamburg, also examined the report prepared by the Board of Management on affiliated companies (dependent company report) up to 29 June 2005 prepared in accordance with section 312 of the German Stock Corporation Law and issued the following audit opinion:

"On completion of our audit in accordance with professional standards, we confirm that

1. the factual statements made in the report are correct,
2. the company's compensation with respect to the transactions listed in the report was not inappropriately high."

The Supervisory Board examined the dependent company report. According to the result of its examination there are no reservations regarding the completeness or the accuracy of the report. The Supervisory Board declared itself in agreement with the results of the examination of the auditor.

There are no objections to be raised to the declaration of the Board of Management at the end of the report.

Mr. Hans Meyer retired from the Supervisory Board with effect from 8 September 2005. The Supervisory Board thanks Mr. Meyer for his valued contributions and his commitment on this Board. Mr. Detlev Meyer and Mr. Jacques Héon were appointed by the court as members of the Supervisory Board on 1 November 2005 and 2 November 2005, respectively.

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, June 2006

The Supervisory Board

Manfred Middendorff
Chairman