

Hawesko Holding AG

Hamburg

ISIN DE0006042708

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Three-month report to 31 March 2006

Hamburg, 4 May 2006

Highlights in € (millions)	1st quarter		+/-
	1.1.–31.3. 2006	1.1.–31.3. 2005	
Group sales	69.0	62.2	+11.0%
Result from operations (EBIT)	3.0	2.0	+50.2%
Consolidated earnings	1.9	0.8	+142.9%

Dear shareholders,

If we take our first-quarter sales as an indication of the general economic climate in Germany, German consumers were in a reasonably good mood. The Hawesko Group had a good first quarter in 2006. Compared to the same period in the previous year, sales rose by more than a tenth, and the result of operations increased by a good 50 percent. Our net consolidated earnings even increased by one-and-a-half times. Thus the earnings per share of € 0.18 in the previous year's quarter rose most recently to € 0.43. All three business segments contributed to the rise in sales. With regard to the operating result, *Jacques' Wein-Depot* reached last year's level, while these figures increased in the wholesale segment by 69% and by 77% in the mail order segment.

Of course, this success is primarily the result of the rigorous implementation of our Group strategy over the past several years. Building on this solid foundation, in 2006 we are implementing further measures to improve our market penetration and our profitability. Still – the latest positive developments at Hawesko match the obviously lighter mood in Germany. This impression is supported by statistical data: The ifo business climate index, at 99.6 in December, rose to 105.9 in April, while the GfK consumption climate index rose from 3.8 in January to 5.5 in May. The research institutes also anticipate noticeable contributions from private consumers to the economic growth this year.

Products such as wine in particular indicate that things in Germany are indeed improving. Thus, after years of the "cheap is cool" cult, many consumers are once again looking for quality in their products, and not just bargain prices. The desire for quality means that transparency and information are also in demand – these are service aspects to which we have traditionally given priority. In this regard we have positioned the Hawesko Group to reap the benefits of the new consumer emphasis on quality.

The best example of the new quality orientation is the renaissance of German wines, whose particular strengths and authenticity – think of the Rieslings – are in greater demand internationally than they have been for 70 years. The Rieslings in particular demonstrate how to avoid the pitfalls of mass production and the accompanying decline in quality and competitiveness: it is necessary to emphasize the special features of the wine-growing area, the individuality of the wine-grower, and to maintain uncompromisingly the quality and unique character of the wine. This love and respect for the product also distinguishes the philosophy of the Hawesko Group.



The absolute volume, the sheer quantity of wine is *the* primary problem in the global wine market today. In the European Union alone, the excess production amounts to 4 billion bottles. In order to gain control of the no longer saleable glut, Bordeaux wine-growers, for example, have recently decided to distill industrial-grade alcohol out of up to 30 million hectoliters of wine. On the other hand, the renowned châteaux which have always valued quality and individuality are still doing a good business.

At Hawesko, we are focusing on our strengths: providing consumers interested in wine with useful information about the advantages of high-quality wines and meeting their taste preferences based on our many years of experience in purchasing. We do everything to purchase products that our customers actually want to buy.

This is one factor – but one of key importance – in our success. Other factors include our efforts at the organizational and financial levels. For instance, we have optimised our tax structure and are continuously reducing our costs. The results of our work in this regard are visible in the current business development – the results of the first quarter.

Our rather conservative assumptions with regard to the development of consumer spending currently remain the basis for our budget this year. We do not believe it is the time to make any substantial changes in it yet: We are assuming a slight increase in sales and EBIT in 2006 taken on the basis of our current activities. Adding the costs for the pilot run of our new specialist retail concept, the Group's EBIT in total should then be a few hundred thousand euros below that of the previous year. In view of the mounting indications of an economic recovery, some market participants already believe these assumptions to be obsolete – and I do not exclude the possibility that they may be right in the end. Should the upturn in consumption last into the Christmas season, which is the most important time of year for us, we will certainly benefit – and profit – greatly.

Best regards,

Alexander Margaritoff
Chief executive

Sales and Result

In the first three months of 2006, the Hawesko Group increased its sales by 11.0% to €69.0 million; in the first quarter of the previous year, the figure was €62.2 million. In the quarter under review, the sales figures for the individual segments are as follows: the specialist wine-shop segment posted €22.0 million, an increase of 3.1% over the same period of the previous year; sales in the wholesale segment amounted to €24.9 million, i.e. 23.2% higher than in the same quarter of the previous year (€20.2 million); the mail order segment achieved sales of €22.1 million, up from €20.6 million in the same quarter of the previous year, an increase of 7.3%.

The sales increase of the specialist wine-shops (*Jacques' Wein-Depot*) was achieved despite external circumstances which did not encourage business, including the especially long winter and difficult traffic conditions in many parts of Germany. As of 31 March 2006, there were 258 *Jacques' Wein-Depot* outlets (two more than in the previous quarter). Seven of these were operating in Austria (as of 31 December 2005: seven). Four additional new locations were under lease in Germany but not yet opened. Compared to the first quarter of 2005, like-for-like sales rose by 3.1%. The average sales receipt declined, but the purchasing frequency increased considerably. The number of active customers once again rose this quarter.

The strong sales increase in the wholesale segment was due primarily to an upturn in sales of Bordeaux wines, to the first-time delivery of subscription wines from Baron Philippe de Rothschild S.A. and to the lively demand for Italian wines. Furthermore, successful limited sales offers were conducted as part of our active inventory management.

The mail order segment experienced extremely high demand especially in the month of January, and carried out extensive deliveries of subscription Bordeaux wines as well. Both of these factors contributed significantly to the sales increase in the period under review. The number of orders as

well as the average price per bottle ordered rose; on the other hand, the average number of bottles per order declined from that of the same period in the previous year. The number of active customers also declined slightly. Internet sales rose by 24% compared to the same period in the previous year, accounting for approximately 12% of sales in the mail order segment.

Consolidated gross profit rose in absolute terms by €1.6 million to €27.1 million, but declined by 1.7 percentage points relative to sales, as the large increase in the wholesale segment's portion of Group sales – with smaller margins compared to the Group's end-consumer segments – manifested itself in the Group mix. Other results from operations increased by €0.2 million to €2.7 million, which was due primarily to cost reimbursements from third parties in the wholesale segment. Personnel expenses declined in absolute terms as well as relative to sales, from 10.7% to 9.6%; this reflects structural optimisation measures implemented in the mail order segment as well as greater efficiency in the wholesale segment. The miscellaneous operating expenses include primarily advertising, commissions and delivery costs. The expenses for advertising amounted to 8.4% of sales, compared to 8.3% in the previous year; for commissions this figure was 7.8% compared to 8.2% in the previous year, and for delivery costs it was 3.7%, down from 3.8% in the previous year. Overall, other operating expenses amounted to €19.4 million (previous year: €18.2 million): they increased less than sales and amounted to 28.2% of sales, down from 29.3% in the same period of the previous year – a result of consistent cost management.

The consolidated operating result (EBIT) rose by 50% to €3.0 million (previous year: €2.0 million). The specialist wine-shop segment, consisting almost exclusively of *Jacques' Wein-Depot*, achieved an operating result of €1.6 million, on the same level with last year's figure of just under €1.7 million. The sales increases in the other segments meant that the operating result of the wholesale segment rose to €0.8 million, (previous year: €0.5 million), while the figure for the mail order segment increased to €1.3 million (previous year: €0.7 million).

Due to yet another reduction in borrowings, the interest expense declined to €0.3 million, compared with the figure from the previous year (€0.4 million). The effect of the fair-value measurement (primarily from the application of IAS 39) was positively reflected in the financial result at just under €0.5 million; In the previous year, this had led to a charge of €0.1 million (the previous year's figure was restated due to the application of IAS 32, according to which the possible claim to compensation for minority interests in the limited liability capital of unincorporated subsidiaries is stated as a liability; see also Note 3 to the 2005 consolidated financial statements). The result from ordinary activities thus increased by €1.7 million to €3.3 million. The tax rate of the Group in the period under review declined to 40.8%, down from 49.4% in the same period of the previous year. Consolidated earnings after taxes and deductions for minority interests increased from €0.8 million in the previous year to €1.9 million. Dilution of the earnings per share is not possible; it amounts to €0.43, up from €0.18 in the previous year, based on 4,402,498 shares in circulation in the reporting period, and 4,416,496 shares in circulation in the same period of the previous year.

Balance sheet

Compared to the figure at 31 December 2005, the balance sheet total for 31 March 2006 declined by €20.5 million to €142.2 million. This is due primarily to the decline in trade receivables of €16.4 million. This item typically reaches its highest level at 31 December. Compared to the figure of €142.9 million at 31 March of the previous year, the balance sheet total at the end of the first quarter of 2006 was almost unchanged.

Shareholders' equity declined by €6.9 million compared to the end of 2005, due primarily to the reclassification of the funds for the proposed dividends as miscellaneous liabilities. Long-term borrowings were reduced by €0.7 million in the period under review. Compared to the figures at 31 March of the previous year, long-term borrowings were reduced by €2.0 million and the short-term borrowings by €9.2 million, which in the latter case corresponds to a reduction of 59%.

Investments in the first quarter of 2005 amounted to €1.9 million (previous year: €0.7 million). These are related mainly to the preparation for the introduction of an SAP-based merchandising

and financial accounting system, which is expected to be completed by 1 July 2006, and infrastructural improvements in logistics.



Cash Flow Statement and Capital Spending

Cash flow from current operations amounted to €0.2 million for the period under review and was thus below the figure for the same period of the previous year (€1.7 million). This is due to the repayment of short-term liabilities which was higher compared to that made in the same period of the previous year.

The item "Net outflow of funds for investment activities" includes the payment of a loan granted to a member of the management board in the amount of €1.5 million. It was completely repaid in the second quarter of 2005.

Outlook

The management board of Hawesko Holding AG believes that the relevant long-term trends will continue during the current fiscal year: increasing professionalism in the world of wine, increasingly discerning consumers, a concentration of consumption in Europe and a rise in production outside of Europe are likely to be the dominant factors in the wine trade. The Hawesko Group remains in an outstanding position to respond to these trends profitably. Its corporate planning assumes a basic scenario of predatory competition with no market growth to speak of. In this anticipated phase of consolidation, the Hawesko Group stands to gain further market share.

Based on this scenario, the management board expects an increase in sales for the current fiscal year in the low single-digit percentage range. The main pillars of growth are expected to be an increase in sales at *Jacques' Wein-Depot* and the sales contribution of the new, large-scale specialist retail concept that is currently in the test phase. In addition, the Baron Philippe de Rothschild wines, for which we hold exclusive wholesale distribution rights and the expansion of the existing international operations should continue to generate sales growth over the next two fiscal years. The mail order segment will be pursuing an income-driven policy in the next two years to generate sales, and will therefore consciously refrain from seeking to increase sales purely by increasing volume.

Based on the aforementioned scenario, the management board expects that the operating result of the Group will be something above €18 million in 2006. Included in this forecast is a charge on EBIT which is expected to result from the test of the new specialist retail concept and will affect primarily personnel costs and other operating expenses. Assuming that EBIT in this magnitude is achieved, the pre-tax result should remain at the level of the previous year in 2006, thanks to lower borrowing costs. The item "taxes on income and deferred tax expenses" includes non-recurring positive effects in 2005, so that the tax ratio for the Group in 2006 will stabilise at around 40%, compared with 33% in 2005. Free cash flow of €10 million to €11 million is forecast for 2006.

In the first four months of 2006, early indicators such as the ifo business climate index and the GfK consumption climate index show that private consumption in Germany could revive. Should an upturn in the economic cycle and consumer mood actually occur, the Hawesko Group has a solid chance of achieving sales growth above the level anticipated in the aforementioned basic scenario. The company would thus be able to achieve an operating result in the current 2006 fiscal year higher than that for 2005.



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Profit and loss statement (as per IFRS)

(in € millions, rounding differences are possible)

	1.1.–31.3. 2006	1.1.–31.3. 2005
Sales revenues	69.0	62.2
Decrease (increase) in finished goods inventories	0.1	0,0
Other production for own assets capitalised	0.3	—
Other operating income	2.7	2.5
Cost of purchased goods	–41.9	–36.7
Personnel expenses	–6.6	–6.7
Depreciation and amortisation	–1.1	–1.1
Other operating expenses	<u>–19.4</u>	<u>–18.2</u>
Result from operations (EBIT)	3.0	2.0
Financial result		
Interest earnings/expenditures	–0.3	–0.4
Earnings/expenses from fair-value measurement	0.5	–0.1
Investment income	<u>0.0</u>	—
Result from ordinary activities	3.3	1.5
Taxes on income and deferred tax expenses	<u>–1.3</u>	<u>–0.8</u>
Result after taxes	1.9	0.8
Profit due to minority interests	<u>–0.0</u>	<u>–0.0</u>
Consolidated earnings	<u>1.9</u>	<u>0.8</u>
Earnings per share (in €, undiluted)	0.43	0.18
Earnings per share (in €, diluted)	—	—
Average number of shares in circulation (Numbers in thousands, undiluted)	4,403	4,416
Average number of shares in circulation (Numbers in thousands, diluted)	4,403	4,416



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Hawesko Holding AG Consolidated balance sheet (as per IFRS) (in € million, unaudited, rounding differences are possible)	31.3.2006	31.12.2005	31.3.2005
Assets			
<u>Long-term assets</u>			
Intangible fixed assets	9.3	8.5	7.0
Tangible assets	24.2	24.3	25.0
Financial assets	0.2	0.2	1.7
Advance payments for inventories	4.2	3.2	4.4
Receivables and other fixed assets	1.0	1.1	1.1
Deferred tax assets	<u>18.3</u>	<u>19.2</u>	<u>20.2</u>
	57.3	56.6	59.4
<u>Current assets</u>			
Inventories	55.1	57.5	57.4
Trade receivables	22.4	38.7	18.3
Other current assets	2.9	2.6	2.3
Cash in banking accounts and cash on hand	<u>4.6</u>	<u>7.2</u>	<u>5.5</u>
	84.9	106.0	83.4
	<u>142.2</u>	<u>162.6</u>	<u>142.9</u>
Shareholders' equity and liabilities			
<u>Shareholders' equity</u>			
<i>Subscribed capital of Hawesko Holding AG</i>	13.2	13.2	13.2
<i>Group adjustment according to IFRS</i>	<u>-4.4</u>	<u>-4.4</u>	<u>-4.4</u>
	8.9	8.9	8.9
Capital reserve	5.9	5.9	5.9
Revenue reserve	35.3	33.0	32.8
Balancing item from currency translation	0.0	0.0	-0.0
Unappropriated Group profit	13.1	22.4	12.4
Minority interests	<u>0.3</u>	<u>0.3</u>	<u>0.2</u>
	63.5	70.4	60.2
<u>Minority interest in the capital of unincorporated subsidiaries</u>	3.0	3.0	2.8
<u>Long-term provisions and liabilities</u>			
Provisions for pensions	0.7	0.7	0.5
Other long-term provisions	0.2	0.3	0.2
Borrowings	12.4	13.1	14.4
Advances received	2.3	2.4	5.2
Other liabilities	2.1	2.1	0.2
Deferred tax liabilities	<u>0.7</u>	<u>0.6</u>	<u>0.8</u>
	18.4	19.2	21.3
<u>Short-term provisions and liabilities</u>			
Short-term provisions	—	0,0	7.7
Borrowings	6.3	6.3	15.6
Advances received	1.6	5.2	0.9
Trade payables	28.7	38.2	23.3
Other liabilities	<u>20.6</u>	<u>20.3</u>	<u>11.1</u>
	57.3	70.0	58.6
	<u>142.2</u>	<u>162.6</u>	<u>142.9</u>



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Hawesko Holding AG		
Consolidated Cash Flow Statement (as per IFRS)		
(in € millions, unaudited, rounding differences are possible)	1.1.–31.3. 2006	1.1.–31.3. 2005
Result before taxes on income	3.3	1.5
Depreciation of intangible and tangible assets	1.1	1.1
Interest result	–0.2	0.5
Result from the disposal of intangible and tangible assets	–0.0	–0.0
Change in inventories	1.5	1.4
Change in other short-term assets	16.2	17.9
Change in provisions	–0.1	–1.6
Change in liabilities (excluding borrowings)	–21.2	–18.3
Taxes on income paid out	<u>– 0.4</u>	<u>– 0.8</u>
Net inflow of payments from current operations	0.2	1.7
Outpayments for loans issued	—	–1.5
Outpayments for tangible and intangible assets	–1.9	–0.7
Inpayments from the disposal of intangible and tangible assets	0.0	0.0
Inpayments from the disposal of financial assets	<u>0.0</u>	=
Net funds employed for investing activities	–1.8	–2.2
Outpayments for dividends	?	?
Outpayments to minority interests	?	?
Payment of finance lease liabilities	–0.2	–0.2
Change in other borrowings	–0.3	–2.5
Interest paid out	<u>– 0.3</u>	<u>– 0.5</u>
Outflow of net funds for financing activities	<u>–0.9</u>	<u>–3.2</u>
Net decrease of funds	–2.6	–3.7
Funds at start of period	7.2	9.1
Funds at end of period	4.6	5.5



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Consolidated statement of changes in equity

in € millions, unaudited,
rounding differences are possible

	Sub- scribed capital	Capital reserve	Revenue reserves	Adjustment resulting from currency translation	Unappro- priated Group profit	Minority interest	Total
Status at 1 January 2005	8.9	5.9	30.6	-0.0	19.9	0.2	65.4
Appropriation to revenue reserves	—	—	2.7	—	-2.7	—	—
Treasury shares	—	—	-0.5	—	—	—	-0.5
Dividends	—	—	—	—	-5.5	—	-5.5
Currency translation differences	—	—	—	—	—	0.0	0.0
Period profit	—	—	—	—	0.8	0.0	0.8
Status at 31 March 2005	8.9	5.9	32.8	-0.0	12.4	0.2	60.2
Status at 1 January 2006	8.9	5.9	33.0	0.0	22.4	0.3	70.4
Appropriation to revenue reserves	—	—	2.4	—	-2.4	—	—
Treasury shares	—	—	—	—	—	—	—
Dividends	—	—	—	—	-8.8	—	-8.8
Currency translation differences	—	—	—	0.0	—	0.0	0.0
Period profit	—	—	—	—	1.9	0.0	1.9
Status at 31 March 2006	8.9	5.9	35.3	0.0	13.1	0.3	63.5

Segments (in € millions, rounding differences are possible)						
1.1.–31.3.2006	Specialist retail	Wholesale	Mail order	Miscellaneous/ Consolidation	Group	
External sales	22.0	24.9	22.1	0.1	69.0	
Operating result (EBIT)	1.6	0.8	1.3	-0.7	3.0	
1.1.–31.3.2005	Specialist retail	Wholesale	Mail order	Miscellaneous/ Consolidation	Group	
External sales	21.3	20.2	20.6	0.1	62.2	
Operating result (EBIT)	1.7	0.5	0.7	-0.9	2.0	

Notes to the Three-month Report to 31 March 2006

General principles: This report was written in accordance with International Accounting Standard (IAS) 34 according to the requirements of the current guidelines of the International Accounting Standards Board (IASB), London. This report is unaudited.

Consolidation: The consolidated group of Hawesko Holding AG remains unchanged from that listed in the 2005 balance sheet.

Balance sheet and valuation principles: (1) The balance sheet and valuation methods used correspond as a rule to those applied in the last consolidated balance sheet at the end of the fiscal year. A detailed discussion of these methods was published in the annual report for 2005. The revised IAS and IFRS were used as part of the improvement project. (2) Cyclical events which occur during the year, insofar as they are important, are accrued for based on corporate planning.

Other information: (1) Events of particular significance for the evaluation of the assets, finances and earnings of Hawesko Holding AG and the Group – as defined in IAS 10 – did not occur after the conclusion of the period under review. (2) No unforeseen development costs were incurred during the period under review. (3) The order situation remains satisfactory. (4) No changes have occurred in the composition of the management board to the date of the writing of this report. (5) The number of shares held by members of the supervisory board remains unchanged from 31 December 2005. At the writing of this report the number of shares held by the members of the management board declined by 2,328 shares compared to 31 December 2005; this figure is now 1,340,498. (6) Hawesko Holding AG currently holds 13,498 treasury shares.

Other information	1.1.–31.3. <u>2006</u>	1.1.–31.3. <u>2005</u>
Employees (average during the period)	531	552

Calendar:

Annual general meeting	19 June 2006
Ex-Dividend	20 June 2006
Second quarter/Six-month report	26 July 2006
Third Quarter/Nine-month-report	26 October 2006
Preliminary figures for 2006	End of January 2007



Published by: Hawesko Holding AG
– Investor Relations –
20205 Hamburg, Germany

Phone + 49 40 / 30 39 21 00
Fax +49 40 / 30 39 21 05
Internet:<http://www.hawesko.com>