



HAWESKO
HOLDING AG

Hawesko Holding AG

Hamburg

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Nine-month report to 30 September 2006

Hamburg, 27 October 2006

Highlights

in € (millions)

	Third quarter (1.7.–30.9.)			Nine months (1.1.–30.9.)		
	2006	2005	+/-	2006	2005	+/-
Group sales	61.7	60.9	+1%	194.6	183.8	+6%
Result from operations (EBIT)	1.0	2.1	-55%	5.9	5.3	+11%
Consolidated earnings	0.3	1.4	-78%	3.2	2.4	+34%

Dear shareholders,

Without a doubt, the mood in Germany has improved considerably over the last twelve months. Just look at the World Cup soccer championships: flags flying everywhere, high spirits, lots of visitors from all corners of the globe – a friendly, welcoming environment. Some people didn't think we were capable of it. But the stadiums withstood the onslaught, the crowds were peaceful, and there weren't any major problems.

Many of us had also wished that something else in Germany would improve along with the general mood: namely, the conditions surrounding the economy. Yet we have to recognise that the German economy is booming, despite many uncertainties. Approximately one year ago, the British weekly *The Economist* made precisely this point in a cover story. Much of what they wrote has proven to be correct. Thus numerous companies – among them Hawesko – have done their homework and are in a position to expand business from a very healthy position. I also believe that *The Economist* was correct in their description of the creativity and resourcefulness of the people in our country and their ability to adapt to change.

Why do I place such value on the current mood in Germany? Because the economy is heavily influenced by mood – and mood is closely tied to consumption, not least the consumption of a good wine. The improved atmosphere can already be felt in the German wine market: according to market research by GfK, it grew by 2.3% (by value) in the first nine months of 2006. And we at the Hawesko Group are able to register sales growth of just under 6% compared to the same period in the previous year. At the same time we increased the operating result by 11% – despite high charges due to investments needed to strengthen our corporate infrastructure still further. I believe we are on the right path.

In September we opened the first *multiwein* store, and now the second one has just opened as well. This new concept innovatively markets wines priced between €2.50 and €4.00 per bottle and

opens up additional market potential for the Hawesko Group that amounts to one third of the entire wine market in Germany. In the mail order segment we have converted to a new IT platform and put it on a secure basis for the future; among other things, this will facilitate processing orders directly from the Internet. In the wholesale segment in the third quarter, we created a specialised subsidiary for top wines from Germany, *Deutschwein Classics*. We are reaping the benefits, so to speak, of our continuing work on our extensive range of top wines.

We are already in the decisive fourth quarter when, like every year, one-third of our annual sales and more than three-quarters of our annual operating profit are achieved. The Hawesko Group has begun this crucial quarter with a comfortable lead, and I am upbeat about the further course of business to the end of the year. To return to my initial train of thought: the people in Germany and the German economy are stronger than is often believed. So, I am looking forward to Christmas and expect a really robust business development for us – and thus for you as our shareholders.

Best regards

Alexander Margaritoff
CEO

GGG

Sales and Result

Third Quarter

In the quarter under review, which covers the period from July to September 2006, the Hawesko Group increased its sales by 1.4% over the same quarter of the previous year (€60.9 million) to €61.7 million. The sales development of the individual business segments in the quarter under review progressed as described below: The stationary specialist wine retail segment (*Jacques' Wein-Depot*) achieved sales of €22.4 million, an increase of 4.9% over the same quarter of the previous year (€21.4 million). The wholesale segment increased its sales by 16.0% from €22.0 million to €25.5 million. The mail order segment posted sales of €13.7 million, ie 20.9% less than in the previous year (€17.4 million).

The sales growth of the stationary specialist wine retail segment (*Jacques' Wein-Depot*) was evenly distributed across the three months of the quarter. On 30 September 2006, 261 *Jacques' Wein-Depots* were in operation, one more than in the previous quarter and five more than on the same closing date of the previous year. Three new locations were leased at this time, but not yet open for business. In Austria, six depots were in operation at the end of the quarter under review (previous year: seven). Like-for-like sales rose by 3.5% against the third quarter of 2005. Compared to this period, the customer frequency in the quarter under review increased, while the average purchase remained stable. The number of active customers once again increased slightly. The first *multiwein* store was opened towards the end of the quarter under review; four further locations for this new stationary sales channel were under lease at 30 September 2006.

Products from many different producers were once again the source of the sales increase in the wholesale segment; there were strong increases particularly in the sales of Philippe de Rothschild wines. As already mentioned in the six-month report, champagne sales are also on the upswing. The segment also benefited from the continuing recovery of the restaurant and catering sector in Germany. Business with large-scale customers is growing rapidly. The subsidiary company based in Bordeaux, *Château Classic – Le Monde des Grands Bordeaux*, once again enjoyed particular success in the quarter under review.

The decline in sales in the mail order segment was caused primarily by the switchover of the IT system of this business segment, which necessitated a reduction in the relevant advertising activities during this quarter. The *VinoSelect* wine club continued to be expanded as planned. The number of active mail order customers remained stable. On the other hand, the number of orders declined. The average price per bottle sold fell slightly, as well as the number of bottles per order.

Internet sales rose in the third quarter of 2006, making up 12% of the segment sales, an increase of roughly one percentage point over the third quarter of the previous year.

Compared to the previous year, gross profit for the Group declined in the third quarter relative to sales by 1.2 percentage points to 39.9%. The higher share of wholesale sales in consolidated group sales is responsible for this development. Other operating income of € 3.0 million (same quarter in the previous year: € 2.6 million) consisted primarily of rental and leasing income at *Jacques'* as well as advertising allowances. The other capitalised own assets of less than €0.1 million were related to the introduction of a new SAP-based merchandising system. Personnel expenses in the third quarter increased only slightly; relative to sales they increased by 0.3 percentage points due to the decline in sales in the mail order segment. Other operating expenses include primarily advertising, delivery costs and commissions. Relative to sales, advertising expenditures remained at 8.3%, nearly unchanged from the previous year's level; an increase in expenditures in the wholesale segment was largely compensated by the reduction in the mail order segment. Delivery costs increased from 3.9% to 4.0% of sales. Expenditures for commissions increased relative to Group sales – from 8.6% to 9.1% – as they were incurred in the segments with the strongest sales growth, namely specialist retail and wholesale. Overall, other operating expenses in the quarter under review amounted to €18.9 million (same quarter in the previous year: €17.8 million); the absolute increase resulted from the higher expenses for commissions, advertising and cost of selling space. The Group's operating (EBIT) margin declined from 3.5% in the third quarter of the previous year to 1.6% in the current quarter.

The consolidated result of operations (EBIT) in the third quarter of 2006 declined to €1.0 million (previous year: €2.1 million). The contributions of the business segments to the result from operations can be broken down as follows: The specialist wine retail segment (*Jacques' Wein-Depot*) accounted for €2.1 million (same quarter in the previous year: €1.7 million); this includes start-up costs of €0.3 million for the development of the new *multiwein* specialist store concept. The operating result in the wholesale segment amounted to €0.3 million, down from €0.4 million in the comparable quarter of the previous year; this was due on the one hand to costs incurred from special advertising activities – such as those related to the 25-year anniversary of *Wine Wolf* and the successful project at the World Equestrian Games in Aachen – and on the other hand from the start-up of the new subsidiary company *Deutschwein Classics*. The mail order segment posted an operating result of €–0.6 million (previous year: €0.7 million); this decline is due to the changeover of the IT system, to increased logistics costs and to a modified advertising plan.

The continued reduction in financial indebtedness once again reduced interest expenditures; this time to €0.4 million, down from €0.5 million in the same quarter of the previous year. The effects of the application of the International Financial Reporting standard (IFRS, primarily IAS 39, "Fair-value valuation" and IAS 32; with regard to the latter, please refer to Note 3 in the Group accounts in the 2005 Annual Report) resulted in a slightly negative effect of less than €0.1 million for the financial result (same quarter of the previous year: slightly positive effect). The result before taxes on income reflects primarily the decline in EBIT, amounting to €0.6 million after €1.7 million in the same quarter of the previous year. The tax expense increased from 12% in the same period of the previous year to 44% in the period under review; it must be taken into account that in the third quarter of the previous year the profit and loss transfer agreement between *Jacques Wein Depot* and the parent company had just taken effect and had the effect of a large reduction in tax expense. Consolidated earnings after taxes and deductions for minority interests thus amounted to €0.3 million (€1.4 million). The profit pro share amounted to €0.04, down from €0.16 in the previous year. This is based on the number of 8,805,996 shares (after the share split) (previous year: 8,832,992, adjusted to take account of the share split).

First nine months

In the first nine months of fiscal year 2006, the Hawesko Group achieved sales of €194.6 million, corresponding to an increase of 5.9% over the same period in the previous year. Due to the higher share of sales accounted for by the wholesale segment, the gross profit margin – as at the half-year point – was slightly more than one percentage point below the figure for the previous year. The result of operations (EBIT) amounted to €5.9 million, 10.6% higher than the EBIT of the same period in the previous year (€5.3 million).

The reduction in borrowings improved the interest result to €–1.0 million (comparable period in the previous year: €–1.4 million). The positive effect of €0.6 million resulting from the application of the IFRS (primarily IAS 39, "Fair-value valuation" and IAS 32; with regard to the latter, see Note 3 to the Group accounts in the 2005 Annual Report) meant that the overall charge from the financial result was considerably lower than that of the same period in the previous year, when a negative effect from the application of the IFRS in the amount of €–0.5 million was posted. The result before taxes on income increased by €2.0 million to €5.5 million. After application of the estimated tax rate of 41.1% for the entire year, consolidated earnings after taxes and deductions for minority interests amounted to €3.2 million (€2.4 million). The profit per share amounted to €0.36, up from €0.27 for the same period in the previous year. This is based on the number of 8,805,996 shares (after the share split) for the period under review, and 8,832,992 for the same period in the previous year (adjusted for the share split).

Balance sheet

The balance sheet total at 30 September 2006 was €156.8 million. This represents a decrease of €5.9 million compared to the figure at 31 December 2005, and an increase of €2.9 million compared to the figure at 30 September 2005. The difference from the figure at 31 December 2005 is due to the decline of €14.4 million in trade receivables to €24.3 million, as well as the decline in cash in banking accounts and cash on hand of €3.2 million. (Trade receivables typically reach their highest level at 31 December.) At 30 September 2006, inventories had risen by €8.8 million compared to the end of the fiscal year, primarily for reasons of seasonality; However, compared with the level at 30 September 2005, they were reduced by €2.8 million.

Shareholders' equity declined by €5.7 million compared to the figure as at 31 December 2005; this was due to the payment of the dividend. The long-term and short-term borrowings combined rose by €12.8 million in the period under review for reasons of seasonality, but declined by €7.4 million compared to the figure at 30 September 2005. Trade payables decreased for reasons of seasonality to €30.2 million.

Investments in tangible assets amounted to €4.5 million in the first nine months of 2006 (comparable period in the previous year: €2.9 million). These are related mainly to the implementation of an SAP-based merchandising and financial accounting system, to further IT investments in the mail order and logistics divisions, to fixtures and fittings at *Jacques' Wein-Depot* as well as to expenditures on replacement assets.

Cash flow statement

Cash flow from current operations in the period under review amounted to €–1.2 million, slightly above the figure for the same period of the previous year (€–1.4 million). This is due primarily to the better earnings situation. Free cash flow in the first nine months of 2006 of €–6.7 million (previous year: €–5.7 million) was calculated from the net outflow of payments from current operations (€–1.2 million), less funds employed for investment activities (€–4.3 million) and interest paid out (€–1.1 million). Because of the typical seasonal influences on the course of business throughout the year, free cash flow after nine months is usually negative.

Outlook

After the first ten months of 2006, early indicators such as the ifo business climate index and the GfK consumption climate index show that private consumption in Germany is continuing to recover. For the Hawesko management board there is no great material change in full-year 2006 targets due to the earnings weakness in the third quarter: it anticipates an increase in sales over the previous year (€ 287 million). With regard to EBIT from existing activities, the management board now assumes that the previous year's figure (€ 18.9 million) will not be surpassed. Expenditures for the start-up of new activities - in particular for the first pilot stores with the new specialist retail concept *multiwein* - will place a charge on the EBIT for 2006, as already announced. From today's standpoint the management board estimates group EBIT on the magnitude of € 18 million, whereby a normal course of business is assumed for the important pre-Christmas trading period in the fourth quarter.



Hawesko Holding AG

Profit and loss statement for the third quarter of 2006 (as per IFRS)

(in € millions, rounding differences are possible)

	1.7.–30.9. 2006	1.7.–30.9. 2005
Sales revenue	61.7	60.9
Decrease (increase) in finished goods inventories	0.3	0.2
Other production for own assets capitalised	0.1	—
Other operating income	3.0	2.6
Cost of purchased goods	–37.1	–35.9
Personnel expenses	–7.0	–6.8
Depreciation and amortisation	–1.2	–1.2
Other operating expenses	<u>–18.9</u>	<u>–17.8</u>
Result from operations (EBIT)	1.0	2.1
Financial result		
Interest earnings/expenditures	–0.4	–0.5
Earnings/expenses from the fair value valuation and IAS 32	–0.0	0.0
Investment income	=	=
Result before taxes on income	0.6	1.7
Taxes on income and deferred tax expenses	<u>–0.2</u>	<u>–0.2</u>
Result after taxes	0.3	1.5
Profit due to minority interests	<u>0.0</u>	<u>–0.0</u>
Consolidated earnings	<u>0.3</u>	<u>1.4</u>
Earnings per share (in €)	0.04	0.16
Average number of shares in circulation (Numbers in thousands)	8,806	8,833



Hawesko Holding AG

Profit and loss statement for the first nine months of 2006 (as per IFRS)

(in € millions, rounding differences are possible)

	1.1.–30.9. 2006	1.1.–30.9. 2005
Sales revenue	194.6	183.8
Decrease (increase) in finished goods inventories	0.4	0.2
Other production for own assets capitalised	0.5	—
Other operating income	8.9	8.2
Cost of purchased goods	-117.0	-108.5
Personnel expenses	-20.4	-20.2
Depreciation and amortisation	-3.4	-3.4
Other operating expenses	<u>-57.8</u>	<u>-55.0</u>
Result from operations (EBIT)	5.9	5.3
Financial result		
Interest earnings/expenditures	-1.0	-1.4
Earnings/expenses from the fair value valuation and IAS 32	0.6	-0.5
Investment income	<u>—</u>	<u>0.1</u>
Result before taxes on income	5.5	3.5
Taxes on income and deferred tax expenses	<u>-2.2</u>	<u>-1.1</u>
Result after taxes	3.2	2.4
Profit due to minority interests	<u>-0.1</u>	<u>-0.0</u>
Consolidated earnings	<u>3.2</u>	<u>2.4</u>
Earnings per share (in €)	0.36	0.27
Average number of shares in circulation (Numbers in thousands)	8,806	8,833



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Hawesko Holding AG			
Consolidated balance sheet (as per IFRS)			
(in € (millions), unaudited, rounding differences possible)	30.9.2006	31.12.2005	30.9.2005
<u>Assets</u>			
<u>Long-term assets</u>			
Intangible fixed assets	10.3	8.5	7.5
Tangible assets	23.4	24.3	24.4
Financial assets	0.3	0.2	0.2
Advance payments on stocks	4.6	3.2	3.1
Receivables and other assets	1.3	1.1	1.0
Deferred tax liabilities	<u>16.6</u>	<u>19.2</u>	<u>20.9</u>
	56.5	56.6	57.0
<u>Current assets</u>			
Inventory stocks	66.4	57.5	69.2
Trade receivables	24.3	38.7	19.8
Other current assets	5.6	2.6	3.3
Cash in banking accounts and cash on hand	<u>4.0</u>	<u>7.2</u>	<u>4.5</u>
	100.2	106.0	96.8
	<u>156.8</u>	<u>162.6</u>	<u>153.8</u>
<u>Liabilities</u>			
<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	33.0
Balancing item from currency translation	0.0	0.0	0.0
Unappropriated group profit	14.4	22.4	14.0
Minority interests	<u>0.3</u>	<u>0.3</u>	<u>0.2</u>
	64.8	70.4	62.0
<u>Minority interests in the capital of unincorporated subsidiaries</u>	2.5	3.0	2.5
<u>Long-term provisions and liabilities</u>			
Provisions for pensions	0.7	0.7	0.6
Other long-term provisions	0.2	0.3	0.2
Borrowings	12.0	13.1	13.9
Advances received	7.5	2.4	2.7
Other liabilities	1.0	2.1	0.2
Deferred tax liabilities	<u>0.9</u>	<u>0.6</u>	<u>0.8</u>
	22.4	19.2	18.3
<u>Short-term provisions and liabilities</u>			
Short-term provisions	0.1	0.0	—
Borrowings	20.1	6.3	25.7
Advances received	4.1	5.2	5.2
Trade accounts payable	30.2	38.2	26.7
Other liabilities	<u>12.7</u>	<u>20.3</u>	<u>13.4</u>
	67.1	70.0	71.0
	<u>156.8</u>	<u>162.6</u>	<u>153.8</u>



Hawesko Holding AG

Consolidated Cash Flow Statement (as per IFRS)

(in € millions, unaudited, rounding differences are possible)

	1.1.–30.9. 2006	1.1.–30.9. 2005
Result before taxes on income	5.5	3.5
Depreciation of intangible and tangible assets	3.4	3.4
Interest result	0.4	1.9
Result from the disposal of intangible and tangible assets	–0.0	–0.0
Change in inventories	–10.2	–8.9
Change in other short-term assets	14.1	16.3
Change in provisions	0.0	–0.0
Change in liabilities (excluding borrowings)	–12.1	–14.8
Taxes on income paid out	<u>–2.3</u>	<u>–2.8</u>
Net inflow of payments from current operations	–1.2	–1.4
Acquisition of subsidiaries	–0.1	–0.0
Outpayments for tangible and intangible assets	–4.5	–2.9
Inpayments from the disposal of tangible and intangible assets	0.3	0.1
Inpayments from the disposal of financial assets	<u>0.0</u>	<u>0.0</u>
Net funds employed for investing activities	–4.3	–2.8
Outpayments for dividends	–8.8	–5.5
Outpayments to minority interests	–0.6	–0.4
Inpayment from capital increase of a subsidiary	—	0.0
Inpayment from the sale of treasury shares	—	0.1
Payment of finance lease liabilities	–0.7	–0.7
Change in borrowings	13.5	7.5
Interest paid out	<u>–1.1</u>	<u>–1.5</u>
Outflow of net funds for financing activities	<u>2.3</u>	<u>–0.4</u>
Net decrease of funds	–3.2	–4.6
Funds at start of period	7.2	9.1
Funds at end of period	4.0	4.5



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Consolidated statement of changes in equity

in € millions, unaudited,
rounding differences are
possible

	Subscribed capital	Capital reserve	Revenue reserves	Adjustment resulting from currency translation	Unappropriated group profit	Minority interests	Total
Status at 1 January 2005	8.9	5.9	30.6	-0.0	19.9	0.2	65.4
Change in the consolidation group	—	—	—	—	0.0	-0.0	0.0
Appropriation to revenue reserves	—	—	2.7	—	-2.7	—	—
Treasury shares	—	—	-0.3	—	—	—	-0.3
Dividends	—	—	—	—	-5.5	-0.1	-5.6
Currency translation differences	—	—	—	0.0	—	0.0	0.0
Period profit	—	—	—	—	2.4	0.0	2.4
Status at 30 September 2005	8.9	5.9	33.0	0.0	14.0	0.2	61.9
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	-0.1	-8.9
Currency translation differences	—	—	—	-0.0	—	-0.0	-0.0
Period profit	—	—	—	—	3.2	0.1	3.2
Status at 30 September 2006	8.9	5.9	35.3	—	14.4	0.3	64.8



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Segment results for the 3rd quarter

(in € millions, rounding differences are possible)

1.7.–30.9.2006	Specialist retail	Wholesale	Mail order	Miscellaneous/ Consolidation	Group
External sales	22.4	25.5	13.7	0.1	61.7
Operating result (EBIT)	2.1	0.3	-0.6	-0.8	1.0
1.7.–30.9.2005	Specialist retail	Wholesale	Mail order	Miscellaneous/ Consolidation	Group
External sales	21.4	22.0	17.4	0.2	60.9
Operating result (EBIT)	1.7	0.4	0.7	-0.6	2.1

Nine-month segment results

(in € millions, rounding differences are possible)

1.1.–30.9.2006	Specialist retail	Wholesale	Mail order	Miscellaneous/ Consolidation	Group
External sales	67.1	76.8	50.5	0.3	194.6
Operating result (EBIT)	5.9	1.9	0.7	-2.7	5.9
1.1.–30.9.2005	Specialist retail	Wholesale	Mail order	Miscellaneous/ Consolidation	Group
External sales	64.6	64.1	54.6	0.5	183.8
Operating result (EBIT)	5.4	1.5	0.9	-2.4	5.3

Appendix to the nine-month report to 30 September 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 companies of Hawesko Holding AG has been expanded compared to the 2005 annual accounts to include *Deutschwein Classics GmbH & Co. KG*, Bonn, Germany.

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. (2) Cyclical events which occur during the year, insofar as they are important, are accrued based on corporate planning.

Other information: (1) With effect from 25 October 2006 a new partition of subscribed capital ("share split") of Hawesko Holding AG in the ratio of two-for-one was completed; the new number of shares is now 8,832,992. Other 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 and thus the number of votes held by the members of the management board declined by 4,656 to 2,680,996 (after the share split). (6) Hawesko Holding AG currently holds 26,996 treasury shares (after the share split).



Other information	1.1.–30.9. <u>2006</u>	1.1.–30.9. <u>2005</u>
Employees (average during the period)	547	562

Calendar:

Various presentations and investor conferences
in London and Frankfurt
Preliminary report on fiscal year 2006

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