COMBINED GROUP MANAGEMENT REPORT AND MANAGEMENT REPORT

of Hawesko Holding Aktiengesellschaft for the 2017 financial year

COMPANY PROFILE

BUSINESS MODEL OF THE GROUP

The Hawesko Group specialises in trading quality wines at the superior and premium end of the market. In 2017 it posted sales of € 507 million, with 91% of the total generated in Germany (previous year: likewise 91%). The group has several subsidiaries in other European countries. It comprises a holding company, which handles corporate and administrative tasks as the top-level entity, as well as the three operating brand units or segments Omni-Channel (specialist wine-shop retail segment), Digital (distance-selling segment) and B2B (wholesale/distribution segment). Omni-Channel and Digital reach end customers along a variety of sales channels, while the B2B brand unit supplies the catering trade and retailers. All three brand units enjoy leading positions within their respective markets. The group structure is characterised by a balance between non-central units and corporate functions. Key factors behind the company's success include long-standing, trust-based relationships with top wine producers all over the world. There are agreements in place which secure the group companies the exclusive distribution rights for Germany for many renowned wines and vineyards. There are in addition business relationships with a large proportion of consumers in Germany who are interested in high-class wine.

A NATIONWIDE PRESENCE AND AN ATTRACTIVE INTERNATIONAL POSITION

The group management has its registered office in Hamburg. The management of the Digital brand unit (distance-selling segment) relocated from Tornesch to Hamburg in the year under review. The subsidiary *Wein & Vinos* is sited in Berlin, and *WirWinzer* in Munich. The management of the Omni-Channel brand unit (specialist wine-shop retail segment) with the brand *Jacques' Wein-Depot* is based in Düsseldorf. *Jacques' Wein-Depot* enjoys a presence throughout Germany with 306 outlets. Themanagement of the B2B brand unit (wholesale/distribution segment) is located in Bonn. From there, it coordinates the group's B2B activities throughout Germany. There are in addition B2B subsidiaries in Austria and Switzerland.

AN ARRAY OF BRANDS – THREE BRAND UNITS – ONE TOP-PERFORMING GROUP

With its eighteen strong private labels, the Hawesko Group enjoys a broad-based presence in the various market segments of the wine trade. That provides a degree of risk diversification and renders the business model of the group correspondingly robust. Hawesko Holding AG will continue to reinforce its brands and optimise its customer centricity. Usefully bundled corporate services and highperformance platforms support the brands and therefore deliver a high degree of process and cost efficiency. These platforms are state of the art and promote the growth, competitiveness and profitability of the individual brands. This provides an ideal environment for the strategic advancement of the group.

As the group parent, Hawesko Holding AG does not itself conduct operations, and instead performs management tasks in the areas of corporate strategy, central financing and central cash management, as well as risk management.

GOALS AND STRATEGIES

The cornerstones of the group's long-term strategy are the following:

- We focus on the premium and fine wine segment: We supply a discerning clientele with outstanding products and offer a very high calibre of service.

- We build on the long-term trend towards superior quality: The appeal of exclusive wines rubs off on the entire wine trade, because they embody culture, possess charisma and represent values. They are desirable to the wine connoisseur and the object of rising expectations. This explains why the Hawesko Group has been concentrating its market activities on this high-end segment for many years.

- We nurture ties with the best wine producers in the world: The Hawesko Group holds exclusive distribution rights for over 4,000 wines, including many of the world's best-known labels. This unique range can only be nurtured and developed if we maintain an ongoing, engaged dialogue with the producers, whose ranks include many of the most regarded winemakers in the world. As part of that dialogue we address current developments and identify future trends. We will thus establish the basis of trust that enables the group to hold onto the best producers and thus gain access to the best wines.

- We offer value for money, not cut-price products: The Hawesko Group offers its customers highquality products that are handled in a way that respects the nature of the product, specialist advice and high service commitment and quality, along with an expert, differentiated marketing approach for its suppliers. It consciously sets itself apart from mass selling of cheap goods. The numerous awards we have received provide documentary evidence of our successful efforts to provide quality and establish benchmark-setting standards for the entire trade.

- Our focus is the German market: Germany is among the biggest wine markets in the world in the price categories above € 5.00 per bottle. By virtue of having been involved in that market for decades, the Hawesko Group brands have built up a strong position. Over a number of decades, they have developed and nurtured business relationships with more than two million wine-loving customers. The Hawesko Group consequently gives producers unique access to their target group. Building on its strong position in the domestic market, the Board of Management will systematically step up activities outside Germany and is therefore always actively looking for attractive business opportunities abroad, too.

- We seek profitable growth: Both when developing and realising new distribution and marketing concepts and when expanding existing concepts, long-term profitability remains an important goal. We therefore focus on the management indicators of profit margin and ROCE.

MANAGEMENT SYSTEM: STRATEGIC GROWTH, RATE-OF-RETURN AND FINANCING TARGETS

The Hawesko Group's targets for growth, rate of return and liquidity are:

- *Sales growth:* 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 expanding, the group's sales should rise. Our goal is to continuously increase the market share of the Hawesko group.

- *Profit margin:* The EBIT margin is to be increased to 7% over the long term.

- *ROCE:* The return on capital employed (before tax) should always be at least 16%.

- *Free cash flow:* A liquidity surplus is to be generated from business operations so that adequate financial resources are available for capital expenditure and for paying appropriate dividends. This indicator is considered primarily at group level on the basis of the cash pooling agreements with the principal subsidiaries.

The goal of economic management within the Hawesko Group is profitable growth alongside a systematic, sustained rise in corporate value. The development in sales and earnings therefore supplies important benchmarks for the internal management system. The sales performance is gauged on the basis of the year-on-year growth rate. Improving it is a high priority. The earnings performance is assessed using the profit indicator EBIT (earnings before interest and taxes) and the EBIT margin, along with their development. These two indicators reflect the short-term operating performance of the group and of the individual segments. In setup or reorientation phases they may depart temporarily from the benchmark.

The return on capital employed (ROCE) is an ongoing method of measuring how profitably business is performing in relation to the capital required to run it. The aim of the Hawesko Group is to earn the costs of capital raised on the capital market (see under "Financial position") in every segment of the group. The group therefore reasserts that it will only invest in those areas of business that generate value and therefore exceed their costs of capital in the long term.

In addition to this value-oriented indicator, free cash flow is used as a liquidity-oriented indicator. This ensures that adequate financial resources will continue to be available for day-to-day business operations and future growth, and that an appropriate dividend for earnings per share can continue to be paid. The sustained optimisation of working capital and effective investment management will perform a crucial role here (see under "Management and control" below).

No non-financial performance indicators are used in the management of the group.

EMPLOYEES

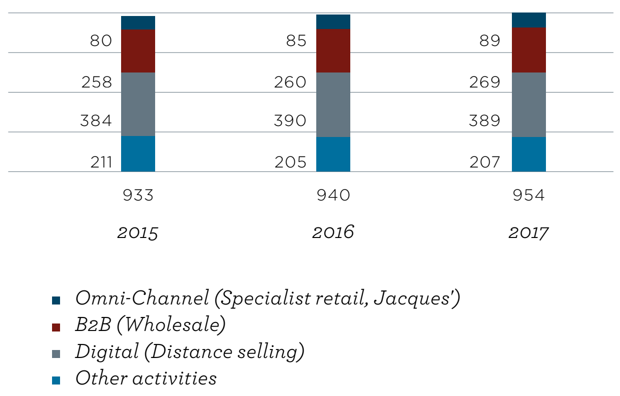
The group employed an average of 954 people in the 2017 financial year, predominantly in Germany. The total for the previous year was 940. Women make up 49% of the group's workforce (previous year: 52%), and the figure for its management is 25% (2016: 23%). The proportion of women in the management tier was to be increased to 25% by 30 June 2017; this target was achieved.

Expenditure on training and advancement measures in the year under review amounted to € 0.4 million (previous year: € 0.5 million).

On 31 December 2017, 404 (prior-year reporting date: 396) employees of the group belonged to the pension fund. As in the previous year, collectively negotiated employer subsidies amounted to € 0.1 million in the year under review.

Further information on employee matters is provided in the separate Corporate Social Responsibility Report (www.hawesko-holding.com/en/corporate-governance).

EMPLOYEES
(ANNUAL AVERAGE)



RESEARCH AND DEVELOPMENT

As a trading company, the Hawesko Group does not perform research and development in the narrower sense. The cost of developing exclusively marketed vintages in partnership with renowned wine producers – including the registration and protection of brands – amounted to € 0.2 million in 2017 (previous year: € 0.1 million).

PARTICULARITIES OF THE WINE TRADE IN RESPECT OF THE GROUP

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 database, which covers a substantial portion of the people in Germany who are interested in high-quality wines. Expertise in warehousing and transport logistics specialising in the product wine equally constitutes a major asset.

The specialist wine-shop retail and distance-selling segments in Germany and Austria and supplying Sweden numbered almost 1.5 million end customers in 2017 (2016: likewise 1.5 million). The average spend of those customers during the past year was € 214 (previous year: just under € 213) net. The customer base of the wholesale segment comprises around 16,000 customers (unchanged from the previous year), predominantly in Germany; they are made up of grocery retailers, specialist wine retailers and the catering branch.

Long-established relations with the best vintners in the world are another important success factor. The exclusive distribution rights for certain leading brands in individual sales markets are also of significance. The Hawesko Group holds the distribution rights for Germany for such producers as Marchesi Antinori, Domaines Barons de Rothschild (Lafite), Louis Jadot, Penfolds, Taittinger and Torres.

Hawesko is able to capitalise on a major advantage thanks to its special logistics arrangements, in other words the warehousing, handling and dispatching of its wines to customers in a manner that befits such a sensitive, high-quality product. For the group's distance-selling logistics, it has a fully airconditioned delivery centre at Tornesch, where the processes are tailored exclusively to the specific nature of wine and to distance-selling trade with consumers. *IWL Internationale Wein Logistik GmbH* also handles logistics for the *Wein-Wolf*. Integration of the warehouse yields synergy benefits in the form of higher warehouse capacity utilisation and more flexible personnel deployment thanks to scope for combining the movements of goods for the distance-selling and wholesale segments. In the specialist wine-shop retail area, on the other hand, predominantly third-party service providers are used because in this instance the processes are more in line with the established norm in logistics.

Information on environmental matters is provided in the separate Corporate Social Responsibility Report (www.hawesko-holding.com/en/corporate-governance).

ECONOMIC REPORT

GENERAL AND INDUSTRY-SPECIFIC ECONOMIC ENVIRONMENT

German economy maintains vigorous growth in 2017

The business cycle in 2017 was characterised by vigorous growth. Initial calculations by the Federal Statistical Office indicate an average of 2.2% growth in price-adjusted gross domestic product (GDP) for the year compared with the previous year. This marks a rise compared with 2016, when the growth rate was 1.9%. As well as capital expenditure, consumer spending was the major driver of the economy. Price-adjusted consumer spending was up 2.0% (previous year: likewise 2.0%).

The consumer confidence index compiled by Gesellschaft für Konsumforschung (GfK) started January 2017 at just under ten points and climbed to almost eleven points over the course of the year. GfK sees consumer spending in Germany as on an upward trajectory and expects real growth of two percent. It notes that consumers are prepared to treat themselves and buy more expensive products.

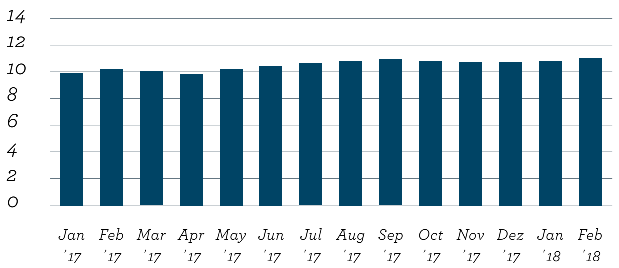
German wine market

According to figures from the German Wine Institute, the German wine market showed a downward development in 2017: consumer purchases declined 3% on the previous year in terms of volume and by 5% in terms of value. However the average price commanded by the customary 0.75 l bottle at food retailers remained unchanged year on year at € 2.19. On the other hand markedly higher prices are achieved in direct sales and from distribution by specialist and online retailers. Wines of German origin sell for an average of just above € 5.00 for the customary 0.75 l bottle – a slight increase on the previous year.

The Hawesko Board of Management puts the value of the German market at around € 8 billion, of which the upmarket segment (from € 5.00 per bottle) accounts for around € 2 billion.

GDP-GROWTH

CONSUMER CLIMATE
JANUARY 2017 TO JANUARY 2018 AND FORECAST FOR FEBRUARY



The wine market outside Germany

In 2017 the Hawesko Group achieved 9% of its sales in Austria, Sweden and Switzerland – and therefore outside Germany. The Swiss market is estimated to offer steady development potential, with a value of € 1.0 billion to € 1.5 billion – but unlike Germany, it is overwhelmingly in the upmarket segment (over € 5.00 per bottle). The size of the market in Austria is estimated at around € 1.5 billion. The total volume of the Swedish market is approx. € 2 billion.

All in all, it is a fair assessment of the wine market that wine is universally regarded as an expression of a sophisticated lifestyle and that it is therefore steadily gaining in popularity. In addition, more and more consumers are attaching greater importance to the quality of the wines they drink.

Global wine market in 2017: weak harvest pushes down production

The International Organisation of Vine and Wine (OIV) estimates wine production in 2017 at 247 million hectolitres; this would indicate a decrease of around 8% compared with 2016. On the other hand worldwide wine consumption is estimated at 243 million hectolitres, unchanged from the previous year's level. When industrial consumption is added to this figure (at a long-term average of approx. 30 million hectolitres), there is a slight demand surplus worldwide.

Demand for top-class wines in higher price categories held up. There will always be a relatively stable market for top-class wines in the top segment because it is fundamentally not possible to expand the world's choice locations; their products are accordingly usually in short supply. The determinants in the price of a vintage include above all the traditions of the wine-growing areas and vineyards, the philosophy of the vintners and winemakers along with how it is implemented, plus the weather and the quality of the harvest.

In the assessment of the Hawesko Board of Management, low harvests in many producing regions are likely to lead to price rises in 2018, above all for basic-quality products.

Non-uniform trade structure for upmarket products

In the price category below € 5.00 per bottle, the German wine market is dominated by discount grocery retailers. On the other hand the upscale market segment – i. e. the price category of € 5.00 per bottle – is covered by a large number of smaller suppliers. That portion of the market, in which the Hawesko Group also operates, is largely fragmentary in nature.

The Hawesko Board of Management identifies an important development in the German wine market in the growth of the digital sales channel (e-commerce), especially for the price category from € 5.00. The Board of Management anticipates that e-commerce sales will rise by a high single-digit to low double-digit percentage over the next few years. The Hawesko Group made preparations for this development at an early stage and has improved its digital footprint at both group and segment level.

Market share of the Hawesko Group continues to grow

Every year since the start of this millennium, the Hawesko Group has outperformed the overall wine market in its home market Germany. 2017 is again no exception in that respect: sales growth in Germany again outstripped that of the market, reaching 5.8%. The Hawesko Board of Management estimates the group's market share at around 25–26% in the upmarket segment (prices per bottle of more than € 5.00), and at 4% of the overall market.

BUSINESS PERFORMANCE AND FINANCIAL PERFORMANCE

Overall statement on 2017 business performance and economic situation

Consolidated sales for 2017 up 5.4%, crossing threshold of half a billion euros for first time

The Hawesko Board of Management is more than satisfied with the 2017 business performance: while it had expected sales to be up 5% on the previous year (€ 481 million), in actual fact the total sales figure of € 507 million marginally outstripped the expected growth rate, rising by 5.4%. Both the latest acquisitions and organic growth contributed to this development. Even after stripping out the contributions of the acquisitions *WirWinzer* as well as *WeinArt* and *Grand Cru Select*, organic sales were up 2.4% on the previous year.

The Distribution segment – B2B – enjoyed the highest growth rate of 7.2% (after adjustment for the acquisitions *WeinArt* and *Grand Cru Select*: 1.1%). The B2C segments Omni-Channel (*Jacques'*) and Digital achieved growth rates of 4.1% and 4.8% respectively (after adjustment for the acquisition of *WirWinzer*: 2.1%).

EBIT exceeds € 30 million – another record

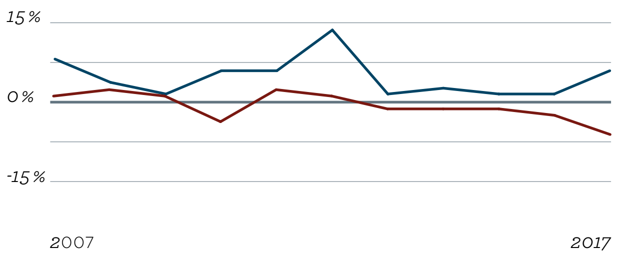
The reported EBIT for 2017 is € 30.4 million and therefore not merely an all-time high, but above the € 30 million mark for the first time. It is particularly worth noting that profitability has remained stable in spite of the expansion. Because of an array of non-recurring factors mainly related to the consequences of the change of control in 2015 and therefore to associated personnel matters in 2016, it is helpful to provide adjusted figures for the previous financial year: on this basis there was an absolute rise in EBIT of 4.6% from € 29.1 million to € 30.4 million, with a constant EBIT margin of 6.0%.

In the Omni-Channel segment (*Jacques'*), EBIT on the previous year's level despite the continuing growth, due to higher expansion and ERP roll-out costs. Distance selling (Digital brand unit) achieved a 9% increase in EBIT in the year under review, an overproportional rise compared to sales – after adjustment for the costs of the transformation process from traditional mail-order to modern online trading in the previous year – and accomplished operating improvements especially at *HAWESKO*. In the B2B area (wholesale segment), too, the rise in EBIT of 15% was steeper than sales growth. This figure benefited especially from the outstanding performance by the Italy specialist *Weinland Ariane Abayan*. Again at the start of 2018, the Board of Management is increasingly able to focus its attention on long-term growth topics, considers the group to be in robust health and is confident about the medium and long-term outlook for further business development.

Alternative performance indicators that are not all governed by IFRS are used in the following in analysing the net worth, financial position and financial performance. The indicators used by Hawesko Holding AG are:

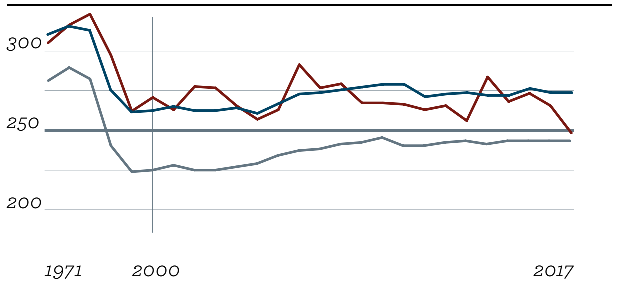
	Definition	
Sales	Sales revenues	**2017:** € 507 million
EBIT	Operating result	**2017:** € 30 million
EBIT margin	EBIT divided by sales revenues	**2017:** 6%
Adjusted EBIT 2016	EBIT Board of Management change Restructuring of Tornesch location EBIT loss from acquisition of *WirWinzer* in 2016 EBIT adjusted	**2016** € 29.6 million € –2.2 million € +1.5 million € +0.2 million **€ 29.1 million**
ROCE	EBIT divided by capital employed; see page 45	**2017:** 20%
Adjusted ROCE 2106	Adjusted EBIT divided by capital employed	**2016:** 21%
Free cash flow	See page 52 below	**2017:** € 2.8 million

DOMESTIC SALES AND DEVELOPMENT HAWESKO GROUP / TOTAL GERMAN WINE MARKET



- *Hawesko Group domestic sales (%)*
- *Total German wine market (%)*

WORLD WINE PRODUCTION AND COMSUMPTION
(MILLIONS OF HECOLITERS)



- *Consumption*
- *Production*
- *Total use incl. destillation*

(Source OIV, Conference de presse 24 octobre 2017)

The following targets and long-term rate of return targets for 2017 were declared in the 2016 Annual Report. The table below indicates to what extent they were achieved or not achieved.

	Objective	2017	Attained
Sales	Sales growth of 5% compared with previous year (€ 481 million) including acquisitions *WirWinzer* as well as *WeinArt* and *Grand Cru Select*; Stronger growth than the German wine market (2017: –5%)	€ 507 million (+5.4%, in Germany +5.8%)	✓ ✓
EBIT	Operating result (EBIT) slightly above € 30 million	€ 30.4 million (+2.7%)	✓
EBIT margin	Long-term margin of 7% of sales or, for 2017, approx. 6% of sales	6%	– ✓
ROCE	Achieving the long-term minimum target return (16%) or, for 2017, approx. 21%	20%	✓ –
Free cash flow	Free cash flow in the order of € 16–18 million	€ 2.8 million	–

Financial performance

2017: record sales and EBIT

2017 saw the net sales of the Hawesko Group grow more strongly than in previous years, rising by 5.4% from € 480.9 million to € 507.0 million. The online sales component of B2C business – an important growth driver for the group – rose by an overproportional 14.7% to € 98.6 million. *WeinArt* and *Grand Cru Select* were included in consolidation for the first time from 1 January 2017 with combined sales of € 10.4 million. From 1 October 2016 *WirWinzer* was included in consolidation with sales of € 1.6 million in 2016; sales for the full financial year of 2017 came to € 6.0 million. Wines from France accounted for a total of 24% of sales (previous year: 25%), Italian products for 30% (previous year: 29%), Spanish wines for 20% (previous year: 20%) and German products for around 11% (previous year: 10%). About 91% of sales were generated within Germany, with year-on-year growth reaching 5.8% domestically. The overall sales volume came to 74 million bottles or units (previous year: 72 million).

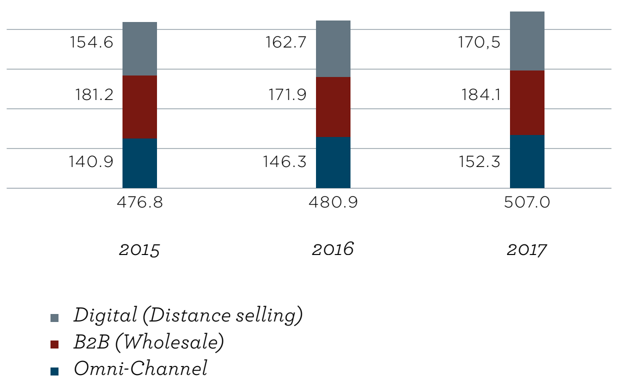
Further growth initiatives to promote sustained sales growth over the next few years were kicked off in the year under review: a 51% interest in *WeinArt Handelsgesellschaft mbH* was acquired with effect from 1 January 2017. *WeinArt* has specialised in the trading of wines of the highest quality grade, especially French products from Bordeaux and Burgundy. *WeinArt* also holds a 75% interest in *Grand Cru Select Weinhandelsgesellschaft mbH*, which sells exclusive products from Bordeaux, Burgundy and Champagne to the wholesale trade. This acquisition extended the business model, product range and customer segments of the group. Furthermore the online marketplace *WirWinzer*, which was fully consolidated from 1 October 2016, was included in this reporting period for a first full financial year.

The organic sales of the group were lifted mainly by the continuing high level of customer activity at *Jacques' Wein-Depot*, in the Distribution segment by the outstanding performance of the Italy specialist *Weinland Ariane Abayan* and the expanded range of *Wein Wolf*, but also by the higher quality of customers at *Wein & Vinos* in the Digital segment. Furthermore, the long-established systematic approach to acquiring new customers and the expansion of online business group-wide lifted sales.

The gross profit margin in the year under review came to 42.0% (previous year: 42.5%). The decline in gross profit for the group is attributable first and foremost to the higher proportion of B2B sales as well as the inclusion of the online marketplace *WirWinzer* and the tendency of the margins to be lower in its marketplace business model.

Personnel costs comprised wages and salaries as well as statutory, collectively negotiated and voluntary social contributions. This item was just slightly up on the prior-year level in the year under review, at € 57.3 million (€ 56.4 million). After adjustment for non-recurring personnel matters in the previous year and personnel expenses for the acquired businesses, it shows a reduction of € 1.3 million. This is mainly attributable to the structural adjustments at *HAWESKO* in 2016. The 2017 financial year brought an overall decrease in the personnel expenses ratio compared with the previous year to 11.3% of sales (11.7%). The cost/income ratio net of the above personnel matters came to 11.3% in the previous year.

SALES BY SEGMENT
(€ MILLION)



Rounding differences possible

Advertising expenses amounted to € 40.0 million (previous year: € 39.2 million); the level in proportion to sales consequently declined slightly to 7.9% compared with the previous year (8.2%). The advertising expenses include outlay for the acquisition of new customers and the reactivation of former customers. This outlay is designed to broaden the business basis of the group year by year: 340,000 new customers were recruited for the end consumer segments in 2017 – 5% more than in the previous year (323,000).

The delivery costs for the group climbed € 0.9 million to € 22.9 million. The delivery costs ratio declined slightly to 4.5% (previous year: 4.6%).

Higher group EBIT thanks to increased organic profitability

The operating result (EBIT) of the Hawesko Group came to € 30.4 million (previous year: € 29.6 million) in the year under review. After elimination of the acquisition *WirWinzer* in the year under review and in the previous year, EBIT actually showed a rise of € 1.9 million, which thus financed the start-up losses of this growth initiative.

DEVELOPMENT IN EARNINGS € million	**2014**	**2015**	**2016**	**2017**
EBIT	**20.1**	**20.1**	**29.6**	**30.4**
– Year-on-year change	–11.1%	+0.4%	+47.1%	+2.7%
– EBIT margin	4.2%	4.2%	6.2%	6.0%
EBT	**21.4**	**19.0**	**28.3**	**28.8**
– Year-on-year change	–15.5%	–10.8%	+48.8%	+1.6%
– EBT margin	4.5%	4.0%	5.9%	5.7%
CONSOLIDATED NET INCOME EXCLUDING NON-CONTROLLING INTERESTS	**14.8**	**12.2**	**18.5**	**18.5**
– Year-on-year change	–8.5%	–17.7%	+51.8%	–0.4%
– Net margin	3.1%	2.6%	3.9%	3.6%

COST STRUCTURE as % of sales	**2014**	**2015**	**2016**	**2017**
Personnel costs	–11.1%	As reported: –12.5% Adjusted: –11.2%	As reported: –11.7% Adjusted: –11.3%	–11.3%
Advertising costs	–8.8%	–8.2%	–8.2%	–7.9%
Delivery costs	–4.5%	–4.4%	–4.6%	–4.5%
Other operating income and expenses (balance)	–11.9%	–10.8%	–10.3%	–10.7%
Depreciation and amortisation	–1.4%	–1.5%	–1.5%	–1.6%
TOTAL	**–37.7%**	**–37.4%**	**–36.3%**	**–36.0%**

EBIT-MARGINS as % of sales	**2014**	**2015**	**2016**	**2017**
Over-the-counter specialist wine retailing	11.1%	11.2%	11.2%	10.7%
Wholesale	2.8%	3.3%	4.5%	4.9%
Distance selling	5.7%	7.4%	5.8%	6.0%

Positive influence of EBIT performance on return on capital employed: (ROCE)

As a key component of the return on capital employed (ROCE), the development in EBIT also has a major influence on this indicator.

The indicator ROCE is calculated as follows in the Hawesko Group: EBIT (€ 30.4 million) divided by the average capital employed of € 154.9 million [(capital employed in previous year + capital employed in current year) divided by 2]. The average capital employed is calculated from the balance sheet total (31 December 2017: € 259.7 million, 31 December 2016: € 231.3 million) plus capitalised lease commitments (average value: € 34.3 million) less interest-free liabilities including deferred tax assets and provisions (average value: € 110.3 million) as well as cash and cash equivalents (average value: € 12.2 million).

CALCULATION OF ROCE € '000	**01/01–31/12 2015**	**01/01–31/12 2016**	**01/01–31/12 2017**
EBIT (OPERATING RESULT)	**20,132**	**29,619**	**30,418**
Balance sheet total	219,820	231,288	259,734
less			
– Cash	14,459	13,581	10,736
– Deferred tax assets	1,782	2,506	2,211
– Interest-free liabilities	99,076	106,562	114,065
SUBTOTAL	**104,503**	**108,639**	**132,722**
plus: capitalised lease commitments	32,200	33,649	34,874
Capital employed (reporting date current year)	136,703	142,288	167,596
Average capital employed (over the year)	137,312	139,496	154,942
ROCE	14.7%	21.2%	19.6%

The ROCE ratios for the business segments and group are as follows:

ROCE	**2014**	**2015**	**2016**	**2017**	*Anticipated minimum return*
Omni-Channel (specialist wine-shop retail)	43%	42%	40%	37%	> 27%
B2B (wholesale/distribution)	9%	11%	16%	18%	> 17%
Digital (distance selling)	20%	26%	19%	19%	> 22%
Group	Adjusted: 18% Reported: 15%	Adjusted: 20% Reported: 15%	Adjusted: 21% Reported: 21%	20%	> 16%

NB The adjusted figure excludes one-off consultancy costs.

Consolidated net income

The financial result shows a net expense of € 1.6 million (2016: € 1.3 million). There was an expense of € 1.9 million in the year under review (previous year: € 1.8 million) from the subsequent measurement of financial liabilities at 31 December 2017 according to IAS 39 for two put options in respect of Hawesko Holding AG. The consolidated earnings before taxes for the 2017 financial year came to € 28.8 million, up on the prior-year figure of € 28.3 million. The effective tax rate rose from 31.4% in the previous year to 33.4% in the year under review. The higher tax expense meant that earnings after taxes fell to € 19.2 million (previous year: € 19.4 million).

The consolidated net income excluding non-controlling interests amounted to € 18.5 million (previous year: € 18.5 million). After adjustment for the provisions for personnel explained above in the previous year and the result from subsequent measurement according to IAS 39, the consolidated net income reached € 20.4 million; the corresponding prior-year figure was € 19.5 million.

Earnings per share were € 2.06, as in the previous year. After adjustment, the figure would have been € 2.27; for the previous year it would have been € 2.17 (also adjusted). The figures for both the year under review and the previous year are based on 8,983,403 shares.

BUSINESS PERFORMANCE OF THE BRAND UNITS (SEGMENTS)

Omni-Channel (specialist wine-shop retail):

Renewed rise in sales at Jacques' Wein-Depot – accelerated expansion and higher investment in IT systems

Net sales for the specialist wine-shop retail segment (*Jacques' Wein-Depot*) grew by 4.1% in the year under review to € 152.3 million. Like for like, and excluding online sales, the rise in sales was 2.7%. It served 847,000 active customers in 2017, an increase of almost 4% on the previous year (816,000). The rate of sales growth of 4.1% was slightly above the average for the past ten years. This was achieved thanks to a variety of factors, including intensified advertising activities and successful drives to retain, reactivate and acquire customers (e.g. new smartphone app and free shipping for a spend of more than € 50). The average spend was equally up on the previous year, mainly as a result of a higher e-commerce share. In 2017 *Jacques' Wein-Depot* acquired 128,000 new customers (previous year: 118,000).

At 31 December 2017 there were 306 *Jacques' Wein-Depot* outlets in Germany (previous year: 298); rental agreements for three further outlets had been taken out at the reporting date. There are no outlets outside Germany. Nine new shops were opened, one was relocated and one was closed.

The operating result (EBIT) for the segment came to € 16.4 million for the period under review, unchanged from the previous year. The flat result compared with the previous year was caused by the up-front expenditure needed for the more rapid expansion and by higher investment in the renewal of IT systems.

ROCE for the segment declined to 37% (previous year: 40%).

B2B (wholesale/distribution):

Acquisitions markedly accelerate growth compared with previous years – higher efficiency and profitability for core business

The B2B area enjoys consistently steady demand within core business, which is underpinned principally by the encouraging economic situation in Germany. In addition, there were well-received offers to mark the company anniversary at *Weinland Ariane Abayan*. The net sales of the wholesale/distribution segment for the year under review were up 7.2% on the previous year, at € 184.2 million (€ 171.9 million). More than three-quarters of this gain was attributable to the first-time consolidation of *WeinArt* and *Grand Cru Select* (from 1 January 2017); organic growth amounted to 1.1%. The subsidiary *Weinland Ariane Abayan* with its range of high-quality Italian wines was a growth driver. Other contributing factors included the expanded range at *Wein Wolf* and the continuing trend towards German wines. International business (Switzerland and Austria) expanded year on year by 2.3% to € 34.5 million.
The EBIT earned by all B2B brands came to € 9.0 million and was therefore well above the figure for the previous year (€ 7.8 million), underpinned by domestic business. Here, too, *Weinland Ariane Abayan* was the biggest contributor. International business was slightly down on the previous year. The stock sell-off of *Château Classic*, in liquidation in the year under review of 2017, no longer generated any significant sales proceeds, as in the previous year.

The EBIT margin for the segment rose by 0.4 percentage points overall compared with the previous year and reached 4.9%.

ROCE for the wholesale segment rose from 16% to 18% as a result of the better earnings.

Digital (distance selling):

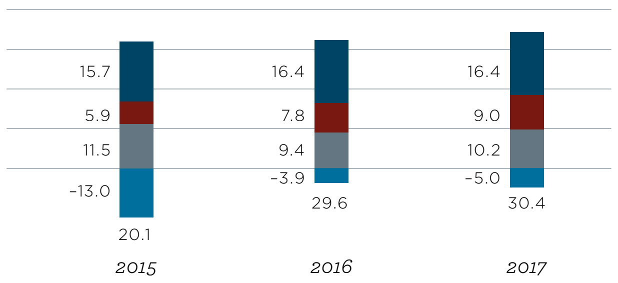
Segment profits from e-commerce growth – improved efficiency in core business provides basis for further growth

Sales for the Digital operating segment (distance selling) rose by 4.8% in 2017 to € 170.5 million. The figure for *HAWESKO* remained constant. The other brands, but *Wein & Vinos* and *Carl Tesdorpf* in particular, increased their respective sales totals year on year. *Wein & Vinos* conducted even broaderbased advertising and achieved sales of € 48.2 million (previous year: € 46.0 million). *Carl Tesdorpf* succeeded in increasing sales from core business by 12%, with higher deliveries of Bordeaux subscription wines sold in advance. Sales for *The Wine Company* (distance selling to Sweden) after conversion into euros increased by around 1% compared with the previous year. *WirWinzer* was included in consolidation from 1 October 2016, reporting sales of € 1.6 million for the final quarter of 2016 and then € 6.0 million for the full 2017 financial year. Like for like, this represents growth of 50%.

The measures to acquire new customers were again a success. 211,000 new customers (including 40,000 for *WirWinzer*) were acquired (previous year: 205,000; including 12,000 for *WirWinzer* consolidated from fourth quarter of 2016). In each case the figures do not include the customary annual attrition. At 31 December 2017 the distance-selling segment therefore had 840,000 active customers on its books; for this purpose, an active customer is defined as someone who has placed at least one order in the past 24 months (the figure at the prior-year reporting date was 800,000).

So-called subscription business is conducted mainly in this segment and relates almost exclusively to top-class Bordeaux wines. These are pre-sold shortly after the harvest and delivered approximately two years later, once the wine has been bottled. In the year under review the distance-selling segment realised sales of € 1.4 million upon shipping of the 2014 vintage (previous year: € 0.5 million for the 2013 vintage). Sales were therefore just below the long-term average. The subsidiary *Carl Tesdorpf – Weinhandel zu Lübeck* with its very distinct brand profile concentrates on the top-end segment of the wine market. Its range prioritises very exclusive wines and rarities, and the target customer group is highly discerning wine connoisseurs. Sales overall were increased by € 1.2 million compared with the previous year to € 11.4 million.

EBIT BY SEGMENT
(€ MILLION)



- *Omni-Channel (Specialist retail, Jacques')*
- *B2B (Wholesale)*
- *Digital (Distance selling)*
- *Costs of the holding company, other, and consolidating items*

The online share of sales for the distance-selling segment again rose, from 51% in the previous year to 55% in the year under review (or to 54% after elimination of *WirWinzer*; previous year: 50%).

The operating result (EBIT) for the segment climbed to € 10.2 million in the year under review; a result of € 9.4 million had been achieved in the previous year. The main reasons for the increase were last year's higher investment in digital resources and the restructuring of the Tornesch location in the previous year at a cost of € 1.5 million. The conversion work is ongoing but already had a positive impact in the year under review. EBIT growth at segment level was held back by the consolidation of the online marketplace *WirWinzer*, which is not yet profitable because of the typical rapid growth in the start-up phase. After adjustment, i.e. core business excluding *WirWinzer*, EBIT for distance selling was increased by € 0.5 million. *Wein & Vinos*, *The Wine Company* and *Carl Tesdorpf – Weinhandel zu Lübeck* broadly maintained their operating result at the previous year's level.

ROCE for the distance-selling segment came to 19%, as in the previous year.

Nearly balanced operating result (EBIT) for logistics

The subsidiary *IWL Internationale Wein-Logistik* in Tornesch complements the distance-selling and wholesale activities through its logistics services. In the period under review, the operating result (EBIT) came to € –0.1 million (previous year: balanced).

Holding-company costs

The reported costs for the holding company and consolidating items in the group amounted to € 5.0 million for 2017 (previous year: € 3.8 million). The prior-year figure included net income of € 2.2 million from the reversal of the provision for personnel in fulfilment of contractual obligations in respect of the now-deceased former Chief Executive Officer, while there was an opposite effect from the expenses resulting from the exit of the former Chief Financial Officer. Net of these effects, personnel and project costs declined.

FINANCIAL POSITION

Principles and aims of financial management

The principles and aims of financial management were explained earlier in the section "Management system: strategic growth, rate-of-return and financing targets".

Capital structure

The capital requirements of the Hawesko Group comprise the capital expenditure on fixed assets and the financing of operating activities. For these purposes, the group finances itself largely through shortterm bank loans, finance leases and the cash flow that it generates from operations. At 31 December 2017 the cash resources of the group comprised cash amounting to € 10.7 million (previous year: € 13.6 million). Within time-unlimited credit lines for the financing of current business operations (working capital), there exist short-term credit facilities with a volume totalling € 50.0 million. At the reporting date these credit facilities were 36% utilised. There were no non-current liabilities in respect of banks. The Hawesko Group reported short-term and long-term borrowings amounting to € 20.6 million at 31 December 2017 (previous year: € 11.9 million). Of this total, € 20.1 million (€ 11.1 million) is due within the next twelve months. The rise stemmed from the financing of growth-led acquisitions and the higher working capital, for example. The long-term and short-term borrowings consist predominantly of bank loans from German banks on the basis of credit agreements. The contractual obligations of Hawesko Holding AG within these have always been met. The existing credit facilities moreover assured adequate cash levels at all times during the year under review. The long-term borrowings included finance lease liabilities of € 0.5 million.

According to internal calculations, the costs of the equity and borrowed capital made available to the group are currently 5.1%. They comprise the weighted costs of the equity capital of 6.3% on the one hand, and of the borrowed capital of 1.6% on the other. In calculating the cost of equity, the basis used is a long-term risk-free interest rate of 1.1% and a risk premium of 6.5% at a beta factor of 0.6.

COMPOSITION OF BORROWINGS AT 31 DECEMBER 2017	*Short-term € million*	*Short-term %*	*Long-term € million*	*Long-term %*	*Total € million*
Due to banks	19.7	100.0	–	–	19.7
Finance lease	0.3	38.6	0.5	61.4	1.2
TOTAL	**20.1**	**97.6**	**0.5**	**2.4**	**20.6**

Rounding differences are possible

COMPOSITION OF BORROWINGS AT 31 DECEMBER 2016	*Short-term € million*	*Short-term %*	*Long-term € million*	*Long-term %*	*Total € million*
Due to banks	10.7	100.0	–	–	10.7
Finance lease	0.4	33.3	0.9	66.7	1.3
TOTAL	**11.1**	**93.3**	**0.9**	**6.7**	**11.9**

Rounding differences are possible

The short-term loans mainly consist of rolling borrowings denominated in euros and Swiss francs, in each case with a maturity of between one and three months. Please refer to the Notes to the consolidated financial statements for the terms of the borrowings and details of the finance leases.

At 31 December 2017 there was net debt of € 11.0 million (previous year: net liquidity of € 0.5 million). The causes were the increased inventories of goods and the cash outflow for the acquisition of the majority interest in *WeinArt* and *Grand Cru Select*.

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

€ million	**2017**	**2016**
Due to banks	19.7	10.7
+ Finance leases	0.9	1.2
+ Provisions for pensions	1.1	1.1
= GROSS DEBT OWED	**21.7**	**13.1**
– Cash	-10.7	-13.6
= NET DEBT OWED	**11.0**	**-0.5**

Rounding differences are possible

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

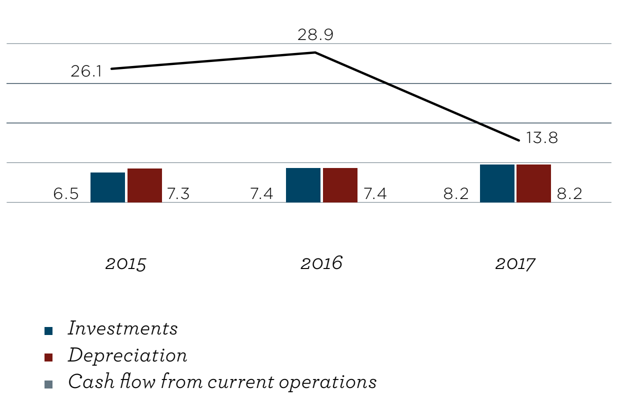
Investment

The Hawesko Group had invested € 8.2 million in intangible assets and in property, plant and equipment in the year under review (previous year: € 7.4 million). In relation to sales, the investment ratio was thus approximately 1.6% (previous year: 1.5%).

The investments in intangible assets came to € 4.3 million (previous year: € 3.5 million) and were attributable to acquired software (including for the modernisation of the ERP software in the Omni-Channel segment, the online shops in distance selling and the group BI software at Hawesko Holding).

Investments in property, plant and equipment in 2017 totalled € 3.9 million (previous year: € 3.9 million). The specialist wine-shop retail segment accounted for a sizeable portion of this amount, at just under € 1.7 million, which was incurred in connection with the expansion and modernisation of individual locations. Other investments in property, plant and equipment – for replacement and expansion investment – came to just under € 1.0 million in the wholesale segment and to just under € 1.0 million for distance selling. The miscellaneous segment moreover invested almost € 0.3 million in property, plant and equipment.

INVESTMENTS / DEPRECIATION / CASH FLOW
(€ MILLION)



Liquidity analysis

CONSOLIDATED CASH FLOW € million	**2017**	**2016**
Cash flow from current operations	+13.8	+28.9
Cash flow from investing activities	–10.5	–15.4
Cash flow from financing activities	–6.2	–14.3

The consolidated cash flow from current operations fell from € 28.9 million in the previous year to € 13.8 million in the year under review. Higher working capital led to this indicator falling.

The year under review saw the cash flow from investing activities change from a prior-year € –15.4 million to € –10.5 million. The cash flow from investing activities for 2017 featured – alongside the acquisition of the majority interest in *WeinArt* and *Grand Cru Select* in the year under review (€ 3.4 million) – cash outflows for property, plant and equipment and intangible assets amounting to € 7.4 million. The investments in intangible assets in the same year (€ 4.3 million) were mainly in respect of optimising Internet business. Capital expenditure on property, plant and equipment (€ 3.9 million) mainly comprised the expansion and modernisation of retail outlets in the Omni-Channel brand unit (specialist wine-shop retail segment), as well as group-wide expansion and replacement investment.

The free cash flow (total of cash flows from current operations and investing activities less interest paid) fell from € 13.1 million to € 2.8 million. The fall was the result of the lower cash flows from current operations.

The cash flow from financing activities mainly reflected the payment of dividends (€ –11.7 million) as well as the raising of short-term loans.

NET WORTH

STRUCTURE OF THE CONSOLIDATED BALANCE SHEET – ASSETS	**2017**		**2016**	
	€ million	*% of balance sheet total*	*€ million*	*% of balance sheet total*
NON-CURRENT ASSETS				
Intangible assets	41.9	16%	39.0	17%
Property, plant and equipment	20.5	8%	20.9	9%
Investments accounted for using the equity method	3.4	1%	3.3	1%
Other financial assets	0.1	0%	0.2	0%
Deferred tax	2.2	1%	2.5	1%
Other non-current assets	7.4	3%	7.5	4%
	75.6	**29%**	**73.4**	**32%**
CURRENT ASSETS				
Inventories	110.8	43%	91.0	39%
Trade receivables	52.0	20%	46.5	20%
Cash and other current assets	21.4	8%	20.4	9%
	184.1	**71%**	**157.9**	**68%**
BALANCE SHEET TOTAL	**259.7**	**100%**	**231.3**	**100%**

Rounding differences possible

The balance sheet total for the group came to € 259.7 million in 2017 (previous year: € 231.3 million). This represents an increase of 12.3%.

Optimisation of Internet business prompted growth in intangible assets. The long-term advance payments for inventories matched the prior-year figure (under “Other”) because demand for the 2016 Bordeaux vintage showed no change from the previous 2015 vintage. The portion of advance payments for the 2015 Bordeaux vintage that was still long-term in 2016 was reclassified as scheduled to the corresponding short-term item because the wines in question will be delivered in the coming twelve months.

Current assets climbed from € 157.9 million to € 184.1 million, in the first instance because of the enlarged group of consolidated companies and the buildup of inventories. In addition, current advance payments on inventories went up because demand for the 2015 Bordeaux vintage was higher than for the previous 2014 vintage. Trade receivables climbed from € 46.5 million in the previous year to € 52.0 million, mainly as a result of orders for year-end business being received later than in the previous year. The investing activities, along with the increase in working capital, were the reason for a fall in cash.

STRUCTURE OF THE CONSOLIDATED BALANCE SHEET – EQUITY AND LIABILITIES	2017		2016	
	€ million	% of balance sheet total	€ million	% of balance sheet total
SHAREHOLDERS' EQUITY				
Subscribed capital of Hawesko Holding AG	13.7	5%	13.7	6%
Capital reserve	10.1	4%	10.1	4%
Retained earnings	71.2	27%	64.1	28%
Other reserves	–0.1	–0%	–0.2	–0%
EQUITY OF THE SHAREHOLDERS OF HAWESKO HOLDING AG	**94.8**	**37%**	**87.7**	**38%**
Non-controlling interests	9.9	4%	6.7	3%
	104.8	**40%**	**94.4**	**41%**
LONG-TERM PROVISIONS AND LIABILITIES				
Provisions	1.8	1%	1.9	1%
Borrowings	0.5	0%	0.9	0%
Remaining non-current liabilities and deferred tax liabilities	12.4	5%	23.2	10%
	14.8	**6%**	**26.0**	**11%**
SHORT-TERM LIABILITIES				
Minority interest in the capital of unincorporated subsidiaries	0.2	0%	0.2	0%
Borrowings	20.1	8%	11.1	5%
Advances received	8.4	3%	5.2	2%
Trade payables	64.4	25%	58.3	25%
Remaining current liabilities	47.0	18%	36.1	16%
	140.2	**54%**	**110.9**	**48%**
BALANCE SHEET TOTAL	**259.7**	**100%**	**231.3**	**100%**

Rounding differences possible

Consolidated equity amounted to € 104.8 million, compared with € 94.4 million in the previous year. Retained earnings rose to € 71.2 million compared with € 64.1 million at the prior-year reporting date. This stemmed principally from the creation of provisions from the previous year's unappropriated profit. The equity ratio (prior to distribution) represented 40% of the balance sheet total (previous year: 41%). Non-controlling interests rose predominantly because of the result of *Wein & Vinos* and the acquisitions.

The long-term provisions and liabilities amounted to € 14.8 million (previous year: € 26.0 million): the remaining non-current liabilities and deferred tax liabilities within this figure fell from € 23.2 million in the previous year to € 12.4 million at the reporting date for the year. This item includes the liability that could arise for the exercise of a put option by the minority interest in *WirWinzer*, in which a majority was acquired in the year under review of 2016. The remaining non-current liabilities and deferred tax liabilities declined overall as a result of a reclassification of the liability that could arise from the exercise of the put option of the original shareholders of *Wein & Vinos GmbH*. The latter is consequently reclassified to current liabilities in the year under review. The decrease in long-term borrowings is attributable to a section of a warehouse building accounted for as a finance lease. On the other hand, the advances received for Bordeaux subscriptions increased in the year under review. This was because of higher demand for the 2016 vintage than for the 2015 vintage, which was reported under this item in the previous year.

Current liabilities grew by € 29.3 million to € 140.2 million mainly as a result of the above reclassification of the non-current liability in respect of the original shareholders of *Wein & Vinos* and the enlarged group of consolidated companies. Short-term borrowings climbed from € 11.1 million to € 20.1 million. The causes were the increased inventories of goods and the cash flow from investing activities, which include for example the acquisition of the majority interest in *WeinArt* and *Grand Cru Select* in the year under review. Compared with the previous year, acquisitions meant that trade payables were higher at the end of the year. The portion of advances received from customers for the 2015 Bordeaux vintage that was still non-current in 2016 was transferred to a corresponding current item in 2017 because the wines will be shipped within the next twelve months. The increase reported here was attributable to the differences in quality. The remaining current liabilities were up year on year in particular as a result of higher VAT liabilities as a consequence of stronger 2017 Christmas business.

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.

There exist no substantial assets in use that are leased but not recognised on the balance sheet. In the specialist wine-shop retail segment, the *Jacques' Wein-Depot* locations are fundamentally rented and are therefore not reported under fixed assets.

There also existed contingencies and financial obligations in respect of third parties at 31 December 2017. The minimum total for non-discounted future lease and rental payments amounts to € 49.9 million (previous year: € 18.9 million). Obligations amounting to € 1.9 million (31 December 2016: € 1.3 million) from outstanding advances received for subscriptions on the books at 31 December 2017 were settled at the start of 2018.

Share price development and capital measures

Stock markets started 2017 on an optimistic note. In particular the inauguration of the new US President and associated expectations of business-friendly (tax) policies drove US stock markets up to new record highs. Following brief uncertainty in the run-up to the French presidential elections, the general upward trend gained momentum in the second quarter and the German share index DAX touched a new record high. The continuing low interest rates and high liquidity levels provided a general stimulus. The European Central Bank (ECB) stood by its expansionary monetary policy and the Federal Reserve made only modest key rate hikes, as expected. The third quarter saw initially greater fluctuations in trading prices as the war of words between the USA and North Korea was ramped up, but markets then resumed their determined course of growth from September. In Germany in particular, robust economic data, positive business results and a strengthening US dollar bolstered sentiment. Many stock market indices correspondingly reached new record highs in the fourth quarter. The Euro STOXX 50 that comprises the major eurozone blue chip stocks rose by 6% in the course of 2017, and the German leading index DAX gained 13%. It crossed the threshold of 13,000 points for the first time in October, touching a new all-time high of 13,479 on 3 November. The SDAX benchmark index for German small caps put in a similar performance: with a string of new all-time highs over the year and growth of almost 25%, it easily outstripped the DAX. The trading price of the shares of Hawesko Holding started 2017 on € 43.04 (XETRA). It touched highs in the region of € 51–52 around the time of the Shareholders' Meeting, then remained predominantly in the range of € 50–51 – a gain of 17%. It remains at this level at the time of going to press.

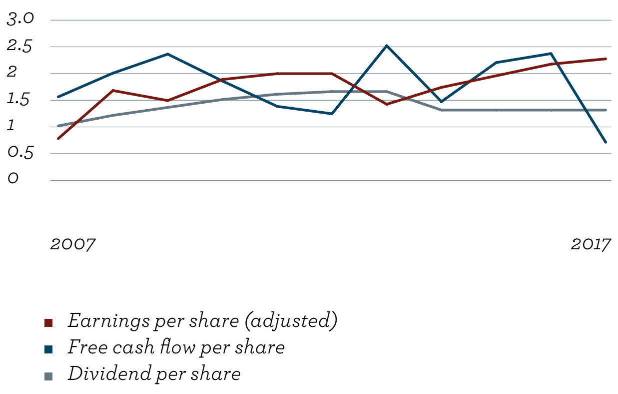
The intention is to position the shares of Hawesko Holding on the stock market as dividend-paying stock. The distribution ratio will reflect on the one hand an appropriate payout to shareholders from the profit performance and on the other hand the desire to strengthen the group's self-financing capability for its further growth, its strategic development and its long-term future.

As in the previous year, the total number of shares was 8,983,403 throughout 2017. No capital measures were carried out.

Investor relations

The investor relations activities of the Hawesko Group strive to maintain a continuing dialogue with fund managers and other institutional investors, as well as with other capital market participants and representatives. The business situation of the group and the expectations of its management are addressed through this dialogue. A total of 72 individual meetings (previous year: 69) were held with institutional investors and analysts in 2017. A Board of Management member attended 37 (previous year: 28) of these meetings. In addition, Hawesko Holding AG gave one company presentation in Hamburg and a total of three in Frankfurt am Main (previous year: three) and introduced itself to investors at an investor conference, again in Frankfurt am Main. As previously, the development of Hawesko Holding AG was regularly covered by a number of leading research institutions in 2017, including Bankhaus Lampe, Commerzbank, DZ BANK, GSC Research, M.M.Warburg & CO and Oddo–BHF Capital Markets.

KEY DATA PER SHARE
(€)



PRICE DEVELOPMENT OF THE HAWESKO SHARE

REPORT ON POST-BALANCE SHEET DATE EVENTS

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 group occurred after the end of the year under review and before the time this Annual Report went to press.

EXPECTED DEVELOPMENTS, OPPORTUNITIES AND RISKS REPORT

REPORT ON EXPECTED DEVELOPMENTS

Direction of the Hawesko Group in the next financial year

New priorities are being defined for the business policy of the group: the hitherto distinctly non-central management approach will be replaced with new structures and the activities of the subsidiaries will be coordinated more effectively. The brands of the group are to be supported more assertively, their development will be dovetailed into the overall group and an overarching management approach will be adopted. Central services will be expanded and bundled on effective platforms. These include IT, for example, and group-wide human resources management. The measures will relieve the brands of these functions, allowing them to focus more on their core business. This will pave the way for the group to consolidate and build on its already strong market position in Germany.

General economic situation

Anticipated future developments in economy as a whole

According to the IMF, the upswing in the global economy will continue in 2018. Real growth of 3.9% will actually be one tenth of a point up on the previous year. Developing economies and the USA will be the main contributors, with the US tax reform providing a stimulus particularly in the short term. At 2.7%, US GDP will therefore grow noticeably more sharply than in 2017. On the other hand China will see slightly lower growth, but still well above six percent. The IMF likewise expects a slowdown in eurozone growth, from 2.4% to 2.2%. In particular Germany (2.3%, down from 2.5%), Italy (1.4%, down from 1.6%) and Spain (2.4%, down from 3.1%) are expected to grow less strongly. Meanwhile France is expected to perform slightly better, with growth of 1.9% (up from 1.8%). The uncertainty surrounding Brexit will continue to weigh on the British economy in 2018. The already below-par growth rate is expected to weaken further to 1.5%.

Following on from the buoyant final quarter of 2017, the German economy initially started the new year on a lively and confident note. Important sentiment indicators even reached new record highs at the start of the year. Although the mood has now turned more sober, that has barely affected German economic growth. From the perspective of the German Chamber of Industry and Commerce (DIHK), Germany's economy is powering ahead at full speed. This recently prompted the DIHK to up its forecast for 2018 by 0.5 percentage points to 2.7%. After a dazzling start to 2018, according to the GfK consumer climate report consumer sentiment in Germany likewise suffered a setback in February, though from a very high starting level. Consumer optimism among Germany's citizens therefore remains high.

Based on the good overall start to 2018, the German government is more optimistic than the IMF and expects higher growth for Germany in 2018. Germany's GDP is expected to grow by 2.4% (previous year: 2.2%). The continuing buoyancy is underpinned by further growth in domestic demand. This latter is being stimulated especially by the continued rise in employment and therefore by further substantial gross wage and salary growth, as well as by rapidly accelerating equipment investment. Export trade moreover remains a mainstay of Germany's economic upturn.

The Hawesko Board of Management echoes the expectations for the German economy. It anticipates that the economic trend will remain on the whole positive throughout 2018 in Germany, which is of key importance as its domestic market. The wine market, too, should stand to benefit from this.

Future situation in the trade

The German wine market should benefit from a favourable economic tailwind in 2018 and stabilise at its current high level. The Hawesko Board of Management expects that already long-established trends in the upscale market segment will continue and be aided by demographic change. As in many other industries, the significance of online business is steadily growing in the wine trade, too. In other countries in Central Europe, the trends in wine consumption being observed fundamentally resemble the pattern in Germany.

The existing quality trends will moreover continue in 2018 and will define the market: there is growing professionalism in the world of wine, consumers are becoming increasingly discerning, and Europe will remain a focal area of global wine consumption. Outside Europe, there are already signs that wine consumption is rising – a development that is moreover set to continue. The consequence of this is that the virtues that the Hawesko Group has carefully nurtured over many decades are more important than ever as unique selling propositions in the marketplace: its extensive range of top-class wines, knowledgeable handling of the product wine, expertise in shipping and warehousing it as well as the ability to keep enthusing customers with high service commitment and quality to the benefit of customers are key to the group brands' high recognition in the wine market.

Anticipated financial performance

The Board of Management of Hawesko Holding continues to strive for sustained, long-term, profitable growth. The following estimates do not take account of the potential acquisition of shares in subsidiaries. It expects the group to achieve approximately 3% organic sales growth in the 2018 financial year. Growth for all three brand units Omni-Channel (specialist wine-shop retail, *Jacques'*) Digital (distance selling) and B2B (wholesale) should lie within this range.

Group EBIT is expected to be in the range of € 32–33 million in 2018, corresponding to an EBIT margin of about 6.2% (2017: 6.0%). For the Omni-Channel brand unit, an EBIT margin of approx. 10–11% (2017: 10.7%) is the target, with Digital expected to achieve an EBIT margin in the range of 7% (2017: 6.0%) and B2B a figure of just over 6% (2017: 4.9%).

The financial result forecast by the Board of Management shows a net expense in the order of € 0.2–0.5 million (2017: € 1.6 million). The profit due to non-controlling interests is anticipated to be in the range of € 0.8–1.2 million (2017: € 0.7 million). The consolidated net income after taxes and noncontrolling interests is expected to come in at around € 19–20 million (2017: € 18.5 million). The Board of Management anticipates a free cash flow for 2018 of around € 16–18 million, compared with € 2.8 million in 2017, with ROCE staying constant year on year at 20%. As usual, the Board of Management will promptly communicate its expectations and the outlook for the future in the next quarterly reports and the interim report.

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.

Net debt at 31 December 2017 was € 11.0 million. The company's plans envisage a balanced figure by the 2018 reporting date.

Capital expenditure on property, plant and equipment and intangible assets in the 2018 financial year is likely to undercut the previous year's level (€ 8.2 million) by 5–10%. Alongside the planned investment spending on optimising Internet business and IT, the capital expenditure is earmarked for modernisation and expansion in the specialist wine-shop retail segment, and for expansion and replacement investment in the wholesale and direct-selling segments.

There are no other long-term investments or acquisitions currently planned, because the relatively short-term nature of such decisions makes it inadvisable to build them into the basic scenario as fixed components. As before, the Hawesko Group has adequate financial leeway for handling a potential acquisition in accounting terms.

Overall statement on the anticipated development of the group

In light of the above individual factors and the assessment of the wine market's performance, the Board of Management considers a steady upward development in the Hawesko Group to remain realistic. Sales growth is being given greater priority and ranks alongside improving the EBIT margin. The Board of Management continues to aim for profitable growth with a long-term return on sales of around 7%. Consistently exceeding a return on capital employed (ROCE) of 16% remains an important benchmark. As before, the attainment of financial targets is the outward manifestation of an effective business model and will only succeed if due regard is likewise paid to the human dimension of economic activity: satisfied customers, motivated employees, and fair treatment of and by business partners are all values which give our business that vital authenticity, and which the Hawesko Board of Management deems are worthy of continuing to advocate.

RISK REPORT

Risk management system

The core tasks of the Board of Management of Hawesko Holding include the strategic management of the group. Based on intensive observation of the competitive environment, changes and developments to national and international markets and the business environment are analysed. The group management translates the findings of these analyses into a plan of action for safeguarding and building on the company's success over the long term.

In the context of its activities in its sales markets, the Hawesko Group is exposed to the fundamental risks that go hand in hand with entrepreneurial activity. Risks are defined as events or possible developments within and outside the group that can adversely affect the companies and the attainment of the corporate targets, and/or restrict the entrepreneurial leeway of Board of Management members and managing directors. The Board of Management has established a modern, comprehensive risk management system (RMS) that is moreover undergoing continuous refinement. The early identification of risks is of major significance and is normally achieved by means of an early warning system implemented group-wide. Its binding principles are laid down in a risk management guideline.

The RMS for the Hawesko Group covers all subsidiaries; risks are assigned to standard, predefined categories and documented in a risk inventory. The risks identified are then evaluated on the basis of their probability and the loss they would involve. They are managed by defining and regularly examining countermeasures to limit the risks identified. The RMS processes are identical for the entire group and are controlled by the risk manager and the risk management representatives in the operating segments.

Description of the key features of the internal control and risk management system for financial reporting purposes for the group parent and group

The internal system of control for the group companies and for group financial reporting is a key component of the reporting system and therefore of the internal management and control system. In addition, it serves as the basis for assuring compliance with both internal and external requirements.

As part of the internal system of control, the risk management system methodically records and evaluates the risks identified as part of the risk inventory conducted annually. In respect of group financial reporting, the aim of the risk management system is to reflect the risks appropriately in the consolidated financial statements (e. g. through the creation of provisions) and thus to limit the risk of incomplete presentation of the net worth, financial position and financial performance. Further notes on the risk management system are given in the Risk Report.

The Supervisory Board, in this context specifically the Audit and Investment Committee of Hawesko Holding AG, is involved in the financial reporting process for the group parent and group, and deals with such matters as key questions of financial reporting, risk management as well as with the audit mandate and its priorities.

The internal system of control in respect of the financial reporting process

The clear structures of organisation, control and monitoring installed within the Hawesko Group focus on the complete and accurate recording of all business transactions that are relevant for financial reporting purposes. The application of uniform recognition and measurement principles for the companies included in the consolidated financial statements, taking account of the requirements of the International Financial Reporting Standards (IFRS), is assured by the specifications in the accounting guidelines of the Hawesko Group.

The general organisation of the Accounting department and the involvement of the divisions participating in the processes that are relevant for financial reporting purposes are handled in such a way that there is an appropriate degree of separation between approval, executive, invoicing and controlling functions for a company of this size and sphere of activity. This separation of functions enables extensive preventive and disclosing controls in all material business processes throughout the group that have been implemented by the management, based on an assessment of the inherent risk of the individual processes and the controlled environment in question. The manual controls are supplemented by corresponding IT process controls and suitable IT authorisation concepts.

Complex questions of measurement such as are needed e.g. for measuring provisions for pension or derivative financial instruments, or for performing purchase price allocations, are examined in consultation with external independent specialists.

The internal system of control in respect of the consolidation process

The processes that are relevant for financial reporting purposes are recorded in local standard bookkeeping systems for the separate financial statements of the subsidiaries. For preparation of the consolidated financial statements, the separate financial statements as well as supplementary standardised information are fed into the consolidation software COGNOS, using a corresponding authorisation concept, and examined by Group Accounts. The internal control and risk management system of Hawesko Holding AG is designed to ensure that financial reporting by the company and by all companies included in the consolidated financial statements is uniform and in agreement with the legal and statutory requirements as well as internal guidelines.

All consolidation processes as well as the reconciliation of the local separate financial statements with IFRS accounting standards are carried out and documented by the "Corporate Finance" central department. The internal and external data required for the Notes to the consolidated financial statements and management report is also evaluated and consolidated at group level. The effectiveness and adequacy of Group Accounting in preparing the accounts are overseen directly by the Finance Director and the individuals appointed by him to perform that task within Group Accounts.

Risks

In addition to the general business risk, the group is exposed to the risks explained below. Over a twoyear horizon these are classified in descending order as A, B and C risks depending on the anticipated loss, as shown in the following diagram. The losses stated are a net view of the impact on EBIT.

Public debate on alcohol and advertising bans or restrictions

For quite some time the European Union has been debating whether to restrict the advertising of alcoholic beverages throughout the EU; in Sweden the discussion intensified in autumn 2016. Even if such measures were to be decided, Hawesko's Board of Management believes that an advertising ban for alcoholic products would probably not result in lower wine consumption in the medium term. Depending on what specific form any restrictions on advertising were to take, such an advertising ban could nevertheless have a significant impact on the business operations of the Hawesko Group. Based on its market position and product range, however, the Board of Management considers that the group would barely be affected by a public debate aimed at encouraging consumption of alcohol only in moderation.

The risk from the public debate on alcohol and advertising bans or restrictions is classified as an A risk, with a low probability.

Loss (€ million)	5) Very low (0 to <10)	4) Low (10 to <25)	3) Moderate (25 to <50)	2) High (50 to <75)	1) Very highh (75 to 100)
1) Very high (>5)	B	A	A	A	A
2) High (2,5 to ≤5)	B	B	A	A	A
3) Moderate (1 to ≤2,5)	B	B	B	A	A
4) Low (0,25 to ≤1)	C	C	B	B	A
5) Very low (up to 0,25)	C	C	C	C	B

Possibility (%)

Dependence on the business cycle

The Hawesko Group generates 91% of its sales in the Federal Republic of Germany. Germany's macroeconomic fortunes exercise considerable influence over the propensity of the population to consume and therefore over the business development of the Hawesko Group.

9% of consolidated sales were achieved outside Germany in the year under review. The neighbouring countries Austria and Switzerland account for around three-quarters of those sales.

The risk from dependence on the business cycle is classified as an A risk with a medium probability.

Wine as a natural product – marketability and fitness for consumption, quality, possible negative effects

Wine is a product of nature which accordingly exhibits variations in quality from year to year, and also depending on variety and location, under the influence of 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 it 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.

Quality assurance for the wines we buy starts with a visit to the vineyard where they are produced, and continues with tests conducted on the end product in the laboratories of the Hawesko subsidiaries. Quality problems are rare. The vintners know the Hawesko Group and the high standards it expects; moreover, they pride themselves on the quality of their wines. If a breach of the current laws or guidelines on consumer or product protection should nevertheless occur and should this result in a recall campaign or sales ban for the product in question, this could in turn entail additional costs. Such a breach by a competitor could equally have a media impact that could spread to the whole wine industry, including the Hawesko Group. In such an instance, lost sales would be feared.

In the year under review, only an insignificant proportion of deliveries was rejected by the Hawesko Group's companies for quality reasons.

The risk from the constellation marketability and fitness for consumption, quality, possible negative effects is classified as an A risk with a low probability.

Public debate on duty on alcohol

For some years it has been debated in the European Union whether higher duty should be levied on alcoholic beverages throughout the EU. Even if such measures were to be decided, Hawesko's Board of Management believes that higher duty for alcoholic products would probably not result in lower wine consumption in the medium term.

The risk from the public debate on duty on alcohol is classified as a B risk with a very low probability.

Management risks and personnel 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.

The future economic development of the Hawesko Group depends to a high degree on the dedication and performance of the employees. The group responds to growing competition for highly qualified specialists and managers by nurturing close contacts with selected professional institutes and through personnel development measures. It counters the risk of being unable to hold onto valued employees in the long term by providing focused employee development.

The risk from the management and personnel area is classified as a B risk with a moderate probability.

Data protection as well as protection of data against unlawful actions

The statutory requirements under the Federal Data Protection Act were adopted by the Hawesko Group and implemented in its business operations. The Hawesko specialist wine-shop retail and distance-selling segments each acquire a considerable portion of their new customers by methods covered by the “list privilege”, but have equally for many years been committed to the responsible use of customer data that goes beyond the statutory requirements. Core aspects include regular training for employees on the Federal Data Protection Act, a tighter user rights concept, the logging of all access to personal data compliance with the regulations concerning the storage of customer data on mass storage media. In addition there is regular optimisation of the internal processes (including with external expert support) and of the IT infrastructure.

The data protection area is closely intertwined with information security, a topic that is regulated by the Compliance Guideline of Hawesko Holding. Data protection audits as well as regular IT security checks have been and are carried out.

The risk from the data protection area is classified as a B risk, with a very low probability.

Loss of the highest-volume suppliers

Business is influenced to a substantial degree by the ability of the Hawesko Group to maintain agreements securing it the status of exclusive distributor for renowned wine producers. If an existing agreement were not to be extended, sales would suffer in the short term.

The risk from the loss of the highest-volume suppliers is classified as a B risk with the probability varying from supplier to supplier.

In view of their immaterial effects, C risks are not listed individually here. No aggregation of C risks into a higher class of risk is expected because of the self-contained nature of these risks.

Over and above this, the following potential risks that are not further quantified in the risk management system (RMS) are kept constantly under observation:

Financial risks

There exist a number of financial risks within the Hawesko Group. These include in particular influences of exchange rate and interest rate movements, as well as the non-payment and liquidity risk. Risks from the use of financial instruments are not material for the Hawesko Group.

The subsidiaries of the Hawesko Group are importers of wines traded internationally, and as such are to a limited extent affected by exchange rate movements outside the eurozone. However, imports are overwhelmingly from within the eurozone. To a minor extent the refinancing of the Hawesko Group’s working capital requirements takes the form of loans which are taken out at current interest rates. Dependence on interest rate movements is thus low.

As part of centrally controlled liquidity management, it is endeavoured 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.

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

Other risks

No other substantial risks are currently identifiable.

Overall statement on the risk situation of the Hawesko Group

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 company as a going concern, nor are any such risks identifiable in the future. In the overall assessment, the group is exposed to neither higher nor lower risks than in the previous year.

OPPORTUNITIES REPORT

The currently discernible risks to the further development of the Hawesko Group are comprehensively described in the above "Risk Report" section.

At present the Hawesko Board of Management does not expect to see any further clear-cut opportunities in 2018 considering the prevailing economic environment. It currently expects consumption of high-end wines commanding a price of more than € 5.00 per bottle to remain stable over the year as a whole, or possibly to grow slightly.

The Hawesko Group enjoyed very healthy balance sheet ratios at the reporting date of 31 December 2017. The Board of Management assumes that most of its competitors do not share this financial strength.

The Board of Management perceives opportunities in the event that efforts to access new customer groups should progress especially well. This could occur organically as a result of advertising campaigns, customer acquisition methods or newly developed concepts being well received and leading to a habit of repeat purchases. However the Board of Management regards the probability of such an occurrence as on the low side (approx. 5–25%). An acquisition rate for new customer groups in excess of the planned levels could also be achieved by non-organic means, in other words through the purchase of businesses or business units. From the present perspective the Board of Management believes the probability of such a scenario to be low to medium (approx. 10–15%).

All companies in the Hawesko Group use highly refined marketing concepts. They 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 their product range. These people generally have above-average incomes and therefore respond less sensitively than the average consumer to cyclical fluctuations. Marketing partnerships are moreover conducted with renowned companies. If the group or individual segments succeed in extending these activities to other companies with suitable clientele, business performance could receive a boost.

Finally, the Board of Management is convinced that the Hawesko Group's many years of management experience specifically in the wine industry and also in respect of new sales channels provide a very sound basis for the group's continuing successful performance over the next year.

Other risk management system/opportunities management system

At the monthly meetings of the Board of Management, information on each business segment is exchanged to draw attention to any special situations – whether positive or negative – in addition to current business progress. If the Board of Management believes that a challenge or opportunity renders particular measures necessary or advisable, it is able to initiate or instruct them promptly.

LEGAL STRUCTURE OF THE GROUP AND INFORMATION REQUIRED UNDER TAKEOVER LAW

REPORT PURSUANT TO SECTIONS 289A AND 315A OF GERMAN COMMERCIAL CODE (HGB) IN CONJUNCTION WITH SECTION 120 (3) SECOND SENTENCE OF THE GERMAN STOCK CORPORATION ACT:

CONCLUDING DECLARATION OF THE BOARD OF MANAGEMENT ON THE REPORT ON RELATED PARTIES

Tocos Beteiligung GmbH holds an interest of 72.6% in Hawesko Holding AG. This constitutes a dependent relationship.

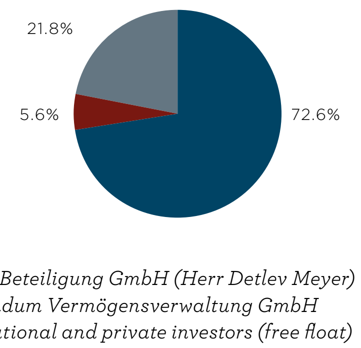
No control or profit transfer agreement exists between Hawesko Holding AG and Tocos Beteiligung GmbH. The Board of Management of Hawesko Holding AG has therefore issued a dependency report on relationships with affiliated companies pursuant to Section 312 of the German Stock Corporation Act. At the end of the report, the Board of Management has made the following declaration: "We declare that, for transactions with affiliated companies listed in the report on related parties, Hawesko Holding AG, Hamburg, received appropriate consideration based on the circumstances known to us at the time those transactions were carried out. Other measures within the meaning of Section 312 of the German Stock Corporation Act have neither been taken nor omitted."

LEGAL STRUCTURE OF THE GROUP

Hawesko Holding AG has been listed on the stock exchange since May 1998. The subscribed capital amounting to € 13,708,934.14 at the 2017 reporting date is divided into 8,983,403 no par value bearer shares, all carrying identical rights and obligations. The company is not aware of any restrictions affecting voting rights or the transfer of shares. Equally, no other classes of share exist. Under the articles of incorporation the Board of Management is, with the consent of the Supervisory Board, authorised until 18 June 2022 to increase the capital stock by up to a total of € 6,850,000.00, by issuing new no par value bearer shares. No authorisation to acquire treasury shares pursuant to Section 71 (1) No. 8 of the German Stock Corporation Act exists. An amendment to the articles of incorporation requires a shareholders' resolution carried by at least three-quarters of the capital stock represented.

The principal agreements of Hawesko Holding AG containing a clause in the event of the takeover of Hawesko Holding AG relate to agreements with various suppliers on exclusive sales rights and to bilateral credit facilities with German banks. In the event of a takeover, the respective suppliers and lenders have the right to terminate the agreement or credit facility and, if appropriate, to call in any loans.

SHAREHOLDER STRUCTURE



Since the change of control in 2015, Detlev Meyer has been the largest shareholder of Hawesko Holding AG via Tocos Beteiligung GmbH, with 72.6% of the shares; there then follows Michael Schiemann, with a 5.6% shareholding via Augendum Vermögensverwaltung GmbH. Both are resident in the Federal Republic of Germany. The remaining approx. 21.8% are held by institutional and private investors. There are no employee shares as defined in Sections 289 (4) No. 5, 315 (4) No. 5 of German Commercial Code.

The Hawesko Group has a holding-company structure, with the parent company Hawesko Holding AG holding 100% or a majority of the shares in the operating 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 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 or Switzerland all have their place of incorporation within the European Union. No substantial factors that influence business need be mentioned.

The Hawesko Group is essentially divided into three business segments (cf. “Strategy” above).

MANAGEMENT AND CONTROL

Independent responsibility for the running of the company and for the appointment of representatives for transactions with third parties rests with the Board of Management of Hawesko Holding AG. It comprises four members (in year under review: five) and reaches its decisions by majority vote. Each member is in charge of individual areas of responsibility, irrespective of their collective responsibility for the management of the group.

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

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

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

Each business segment of Hawesko Holding AG is headed by a member of the Board of Management, who is responsible for defining and attaining the segment targets and possesses authority to issue instructions within the segment.

The Board of Management uses sales growth, profit margin, ROCE and free cash flow as the basis for its management approach. The benchmarks it aims for were outlined above under “Strategy”. The targets and the development of the individual segments on the basis of these benchmarks form part of the regular strategy and reporting discussions with the managing directors of the individual group companies. By incorporating EBIT margins and the return on capital employed into the objectives and target attainment checks, responsibility is clearly apportioned to the managing directors below Board of Management level.

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

Pursuant to Section 289f of German Commercial Code, publicly listed companies are to prepare a corporate governance declaration and incorporate it into their management report as a separate section. It may also be made publicly accessible on the company’s website. This declaration, which contains the declaration pursuant to Section 161 of the German Stock Corporation Act as well as relevant disclosures on corporate management practices implemented over and above the statutory requirements, a description of the modus operandi of the Board of Management and Supervisory Board, and the composition and modus operandi of their committees, is published in the Annual Report and can also be accessed on the Internet at www.hawesko-holding.com/en/corporate-governance/

REMUNERATION REPORT

The remuneration level and system for the Board of Management are determined by the Supervisory Board based on preparatory resolutions by the Personnel and Nominating Committee and examined at regular intervals. As part of its preparations, the Supervisory Board also commissions external remuneration studies.

The remuneration of the Board of Management members comprises a fixed and a variable component. The variable component consists of a management bonus made up of both an earnings component that reflects on the medium-term performance of the company, and a component that is based on personal performance. The earnings component is based on the development in EBIT and ROCE over a three-year period, and the personal performance component reflects qualitative targets tailored to each individual. There is a defined cap on the variable remuneration. This remuneration system is applicable for all members of the Board of Management.

In 2017, as in the previous year, the remuneration did not include any stock options, stock appreciation rights which work in the same way as stock options or any other share-based components. The remuneration of the Board of Management for 2017 is show in the following tables:

BENEFITS GRANTED € '000	*Thorsten Hermelink* *Chairman*				*Alexander Borwitzky* *Member*			
	2016	**2017**	Min.	Max.	**2016**	**2017**	Min.	Max.
Fixed remuneration	450	450	450	450	240	240	240	240
Fringe benefits	12	5	5	5	11	11	11	11
TOTAL	**462**	**455**	**455**	**455**	**251**	**251**	**251**	**251**
One-year variable remuneration	–	–	–	–	–	–	–	–
MULTI-YEAR VARIABLE REMUNERATION								
for financial years 2015–2017	300	300	0	450	160	160	0	260
TOTAL	**762**	**755**	**455**	**905**	**411**	**411**	**251**	**511**
Benefit expense	–	–	–	–	–	–	–	–
TOTAL REMUNERATION	**762**	**755**	**455**	**905**	**411**	**411**	**251**	**511**

BENEFITS GRANTED € '000	*Raimund Hackenberger* *Member, from 01/03/2017*				*Nikolas von Haugwitz* *Member*			
	2016	**2017**	Min.	Max.	**2016**	**2017**	Min.	Max.
Fixed remuneration	–	250	250	250	240	240	240	240
Fringe benefits	–	8	8	8	16	15	15	15
TOTAL	–	**258**	**258**	**258**	**256**	**255**	**255**	**255**
One-year variable remuneration	–	–	–	–	–	–	–	–
MULTI-YEAR VARIABLE REMUNERATION								
for financial years 2015–2017	–	167	0	250	160	160	0	260
TOTAL	**0**	**425**	**258**	**508**	**416**	**415**	**255**	**515**
Benefit expense	–	–	–	–	5	5	5	5
TOTAL REMUNERATION	**0**	**425**	**258**	**508**	**421**	**420**	**260**	**520**

BENEFITS GRANTED € '000	*Bernd Siebdrat* *Member*				*Ulrich Zimmermann, Member,* *Leave of absence from 31/07/2016*			
	2016	**2017**	Min.	Max.	**2016**	**2017**	Min.	Max.
Fixed remuneration	480	480	480	480	848	–	–	–
Fringe benefits	11	11	11	11	13	–	–	–
TOTAL	**491**	**491**	**491**	**491**	**861**	–	–	–
One-year variable remuneration	–	–	–	–	–	–	–	–
MULTI-YEAR VARIABLE REMUNERATION								
for financial years 2015–2017	320	320	0	480	–	–	–	–
TOTAL	**811**	**811**	**491**	**971**	**861**	–	–	–
Benefit expense	2	–	–	–	30	–	–	–
TOTAL REMUNERATION	**812**	**811**	**491**	**971**	**891**	–	–	–

BENEFITS PAID € '000	*Thorsten Hermelink Chairman*				*Alexander Borwitzky Member*			
	2016	**2017**	Min.	Max.	**2016**	**2017**	Min.	Max.
Fixed remuneration	450	450	–	–	240	240	–	–
Fringe benefits	12	5	–	–	11	11	–	–
TOTAL	**462**	**455**	–	–	**251**	**251**	–	–
One-year variable remuneration	–	–	–	–	–	–	–	–
MULTI-YEAR VARIABLE REMUNERATION								
for financial years 2015–2017	–	150	–	–	120	120	–	–
TOTAL	**462**	**605**	–	–	**371**	**371**	–	–
Benefit expense	–	–	–	–	–	–	–	–
TOTAL REMUNERATION	**462**	**605**	–	–	**371**	**371**	–	–

BENEFITS PAID € '000	*Raimund Hackenberger Member from 01/03/2017*				*Nikolas von Haugwitz Member*			
	2016	**2017**	Min.	Max.	**2016**	**2017**	Min.	Max.
Fixed remuneration	–	250	–	–	240	240	–	–
Fringe benefits	–	8	–	–	16	15	–	–
TOTAL	–	**258**	–	–	**256**	**255**	–	–
One-year variable remuneration	–	–	–	–	–	–	–	–
MULTI-YEAR VARIABLE REMUNERATION								
for financial years 2015–2017	–	–	–	–	120	100	–	–
TOTAL	–	**258**	–	–	**376**	**355**	–	–
Benefit expense	–	–	–	–	5	6	–	–
TOTAL REMUNERATION	–	**258**	–	–	**381**	**361**	–	–

BENEFITS PAID € '000	*Bernd Siebdrat Member*				*Ulrich Zimmermann, Member, Leave of absence from 31/07/2016*			
	2016	**2017**	Min.	Max.	**2016**	**2017**	Min.	Max.
Fixed remuneration	480	480	–	–	440	408	–	–
Fringe benefits	11	11	–	–	13	–	–	–
TOTAL	**491**	**491**	–	–	**453**	**408**	–	–
One-year variable remuneration	–	–	–	–	–	–	–	–
MULTI-YEAR VARIABLE REMUNERATION								
for financial years 2015–2017	–	180	–	–	–	–	–	–
TOTAL	**491**	**671**	–	–	**453**	**408**	–	–
Benefit expense	2	–	–	–	30	–	–	–
TOTAL REMUNERATION	**492**	**671**	–	–	**483**	**408**	–	–

The former Board of Management member Bernd Hoolmans receives a retirement pension; he was also assured an invalidity allowance. A provision totalling € 271 thousand (previous year: € 259 thousand) was recognised for this commitment at 31 December 2017. The former Board of Management member Ulrich Zimmermann is entitled to supplementary retirement pay after reaching the age of 65. The company paid an amount of € 30 thousand (previous year: € 30 thousand) into a benevolent fund for this commitment in the year under review, including € 20 thousand from salary conversion. The Board of Management member Nikolas von Haugwitz is entitled to supplementary retirement pay after reaching the age of 65. The company paid an amount of € 5 thousand into a benevolent fund for this commitment in the year under review. The Board of Management member Raimund Hackenberger took up office on 1 March 2017.

The remuneration of the Supervisory Board was supplemented by a variable component by shareholders' resolution dated 8 June 2000, paid in addition to the fixed component. The Supervisory Board members currently receive a fixed payment of € 4,200.00 per year plus reimbursement of expenses (as well as any VAT, if due, on their Supervisory Board activities). Each Supervisory Board member in addition receives € 1,050.00 in attendance fees for each plenary or committee meeting attended. The Chair receives twice this amount, and the Deputy Chair one and a half times it. The remuneration of the Supervisory Board for 2017 is show in the following table:

€ '000	*Variable remuneration*	*Fixed remuneration*	*Attendance fees*	*Remuneration for services rendered in person*	*Total*
Detlev Meyer	33	8	27	–	68
Thomas R. Fischer	19	5	16	–	40
Dr. Jörg Haas	1	0	2	–	3
Gunnar Heinemann	15	4	8	–	27
Prof. Dr.-Ing. Wolfgang Reitzle	12	3	3	–	18
Prof. Dr. Dr. Dres. h.c. Franz Jürgen Säcker	17	4	14	–	35
Wilhelm Weil	10	2	4	–	16
Kim-Eva Wempe	17	4	8	–	29
TOTAL	**124**	**30**	**82**	–	**236**

The shares held by members of the Board of Management and Supervisory Board are likewise indicated in Note 46 to the consolidated financial statements. Pursuant to Article 19 of the European Market Abuse Regulation (MAR), the members of the Board of Management and Supervisory Board are obliged to disclose significant acquisitions or disposals of shares in Hawesko Holding AG.

SUPPLEMENTARY INFORMATION ON HAWESKO HOLDING AG (IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE)

OVERVIEW OF THE 2017 FINANCIAL YEAR FOR HAWESKO HOLDING AG

Hawesko Holding AG, as the management holding company of the Hawesko Group, is dependent to a significant degree on the development of the Hawesko Group in respect of the business performance, position and expected development, together with its principal opportunities and risks.

In view of the holding structure, in a departure from the group view the most important performance indicator for Hawesko Holding AG is the net income for the period as defined under German commercial law within the meaning of DRS 20.

BUSINESS PERFORMANCE OF HAWESKO HOLDING AG

The business performance of Hawesko Holding AG is materially determined by the performance of its investments. The financial statements of Hawesko Holding AG in accordance with the regulations of commercial law serve as the basis for the dividend distribution. The statement of income and balance sheet of Hawesko Holding AG in accordance with German Commercial Code are presented below.

FINANCIAL PERFORMANCE OF HAWESKO HOLDING AG AND APPROPRIATION OF EARNINGS

Statement of income for the financial year from 1 January to 31 December 2017 acc. to German Commercial Code

€ '000	2017	2016
Other operating income	3,530	8,139
Personnel expenses		
a) Salaries	–4,085	–4,698
b) Social security and other employee benefits	–235	–264
Depreciation/amortisation of intangible fixed assets and tangible assets	–64	–84
Other operating expenses	–4,167	–3,993
Income from profit transfers	25,284	21,365
Investment income	8,263	3,347
Other interest and similar income	926	790
Expenses from losses absorbed	–259	–152
Interest and similar expenses	–399	–325
Income tax expense	–5,755	–5,123
EARNINGS AFTER TAXES	**23,039**	**19,002**
Other taxes	–1	–2
NET INCOME	**23,039**	**19,000**
Profit carryforward from previous year	894	72
Appropriation to other retained earnings	–11,500	–6,500
UNAPPROPRIATED PROFIT	**12,432**	**12,572**

The income from profit transfers consists mainly of the profits of the subsidiaries *Jacques Wein-Depot Wein-Einzelhandels GmbH* and *Hanseatisches Wein- und Sekt-Kontor HAWESKO GmbH*.

The income from investments comprises mainly the profits of *Wein Service Bonn GmbH* (formerly: W*ein Wolf Holding GmbH*), *Wein & Vinos GmbH*, *CWD Champagner- und Wein-Distributionsgesellschaft mbH & Co. KG* and *WeinArt Handelsgesellschaft mbH*.

Non-recurring amounts arose in the previous year: there was an effect which increased earnings from the reversal of a provision for personnel (ending of requirement to fulfil contractual obligations in respect of the deceased former Chief Executive Officer).

The expenses from losses absorbed result from those in respect of *IWL Internationale Wein-Logistik GmbH*.

On average over the 2017 financial year, Hawesko Holding AG had 17 (2016: 18 employees). The net income for the year is € 23.0 million, compared with € 19.0 million in the previous year. The forecast of Hawesko Holding AG was exceeded mainly thanks to the positive performance of its participating interests.

After addition of the profit carryforward from the previous year as well as an allocation to the other retained earnings, the company reports an unappropriated profit of € 12.4 million (previous year: € 12.6 million).

With regard to use of the unappropriated profit for 2017, the Board of Management proposes that a dividend of € 1.30 per share be distributed, in other words around € 11.7 million in total.

Financial position of Hawesko Holding AG

Cash flows arose in the year under review mainly as a result of financing activities involving companies of the Hawesko Group.

Net worth of Hawesko Holding AG

€ '000	31/12/2017	31/12/2016
FIXED ASSETS		
INTANGIBLE ASSETS		
Concessions acquired for consideration, industrial property rights and similar rights and values as well as licences to such rights and values	22	36
Advance payments	270	–
TANGIBLE ASSETS		
Land, equivalent rights and buildings, including buildings on third-party land	52	13
Other fixtures and fittings, tools and equipment	179	180
FINANCIAL ASSETS		
Shares in affiliated companies	108,936	104,994
Advance payments on shares in affiliated companies	–	–
Other loans	–	–
	109,460	**105,224**
CURRENT ASSETS		
RECEIVABLES AND OTHER ASSETS		
Due from affiliated companies	78,898	69,991
Other assets	5,543	2,612
BANK ACCOUNTS IN CREDIT	3,829	6,602
	88,270	**79,205**
PREPAID EXPENSES	43	61
	197,772	**184,489**

Rounding differences possible

The assets at the reporting date total € 197.8 million (previous year: € 184.5 million) and are made up predominantly of financial assets in the amount of € 108.9 million (previous year: € 105.0 million) along with receivables from affiliated companies in the amount of € 78.9 million (€ 70.0 million). The financial assets represent 55% of the balance sheet total.

€ '000	31/12/2017	31/12/2016
SHAREHOLDERS' EQUITY		
Subscribed capital	13,709	13,709
Capital reserve	64,067	64,067
Other retained earnings	78,938	67,438
Accumulated profit	12,432	12,572
	169,146	**157,786**
PROVISIONS		
Provisions for taxation	326	188
Other provisions	1,716	2,948
	2,042	**3,136**
LIABILITIES		
Due to banks	18,151	10,713
Trade payables	164	177
Due to affiliated companies	551	2,080
Other liabilities	6,587	9,705
	25,453	**22,675**
DEFERRED TAX LIABILITIES	**1,130**	**891**
	197,772	**184,489**

Rounding differences possible

The equity and liabilities side of the balance sheet comprises € 169.1 million in equity (prior-year reporting date: € 157.8 million) and provisions and liabilities of € 25.5 million (€ 22.7 million). Equity represents 86% of the balance sheet total.

RISK SITUATION OF HAWESKO HOLDING AG

As Hawesko Holding AG is extensively tied in with the companies of the Hawesko Group through such arrangements as financing and warranty commitments as well as by holding direct and indirect interests in the investments, the risk situation of Hawesko Holding AG is essentially dependent on the risk situation of the Hawesko Group. To that extent the statements on the overall assessment of the risk situation by the company's management also summarise the risk situation of Hawesko Holding AG.

FORECAST FOR HAWESKO HOLDING AG

The development of Hawesko Holding AG in its function as holding company is dependent essentially on the development of its investments. With a stable financial result, the Board of Management anticipates a slight rise in net income.

PLANNED CAPITAL EXPENDITURE BY HAWESKO HOLDING AG

In the course of carrying out capital expenditure for the Hawesko Group, Hawesko Holding AG will support the group companies by providing financial resources.

CORPORATE GOVERNANCE DECLARATION

The Corporate Governance Declaration in accordance with Section 289f of the German Commercial Code and Section 315d of the German Commercial Code is available to the public in the Annual Report and on the website of the company at www.hawesko-holding.com.