

Ahlers AG, Herford

ISIN DE0005009708 and DE0005009732



INTERIM REPORT

on the first six months of fiscal 2005/06
(December 1, 2005, to May 31, 2006)

BUSINESS DEVELOPMENT IN THE FIRST SIX MONTHS OF FISCAL 2005/06

Rising sales are expected for German clothing companies in 2006, especially in exports, according to a survey by German Fashion Modeverband e.V.

After getting off to a good start in fiscal 2005/06, Ahlers Group sales softened in the second quarter. Between March and May 2006, sales revenues only reached EUR 72.1 million (prior-year period: EUR 74.9 million). An extremely weak April contributed in particular to this decline in sales. Nonetheless, strong exports enabled the Ahlers Group to increase total sales revenues by 2.1 percent to EUR 158.0 million in the first six months (prior-year period: EUR 154.8 million). Sales in Germany declined by 3.7 percent while exports increased by 12.3 percent, accounting for 39.9 percent of Group sales (prior-year period: 36.3 percent). Income from ordinary activities grew by 4.6 percent and amounted to EUR 10.7 million at the end of the first six months (prior-year period: EUR 10.2 million). Net income rose from EUR 5.9 million to EUR 6.3 million. The EBT margin increased to 6.6 percent (prior-year period: 6.5 percent).

The three segments differed in terms of development. Sales in the premium brands segment grew 3.9 percent in the first six months, resulting in a sales share of 54.7 percent (prior-year period: 53.8 percent). Earnings before taxes increased from EUR 7.3 million to EUR 8.9 million. The jeans & workwear segment maintained sales at the prior-year level in the second quarter, though the segment still saw a decline for the first six months of EUR 0.6 million to EUR 33.8 million. Earnings in this segment decreased to EUR 3.7 million (prior-year period: EUR 4.3 million). In contrast, sales in the men's & sportswear segment rose, but by only 1.8 percent to EUR 37.6 million (prior-year period: EUR 36.9 million) due to a weak second quarter. This segment contributed to a drop in Group earnings of approximately EUR 1.8 million (prior-year period: loss of EUR 1.2 million).

Cashflow exceeded the prior-year figure by approximately EUR 0.8 million, increasing to EUR 9.9 million. Capital expenditure amounted to EUR 2.6 million in the first six months of the current fiscal year (prior-year period: EUR 2.4 million).

On May 31, 2006, Ahlers AG signed a purchase agreement for the sale of all shares in eterna Mode AG, Passau, to the financial investors of the Alpha Group. The purchase price amounted to EUR 120 million based on the debt-free enterprise value.

Included in the sale was the production facility in Slovakia, eterna s.r.o., Bánovce, which is operated exclusively for eterna Mode AG. The transaction was executed on June 30, 2006. Until that time, Ahlers AG is entitled to both sales and income.

The goal of the sale is to strengthen the market presence of Ahlers AG on a sustained basis and to thus establish the conditions for further optimization of the brand portfolio. The sale will also enable Ahlers AG to take advantage of opportunities for acquiring new international brands in the men's clothing sector.

With regard to the brands owned by Ahlers AG, a further verticalization and internationalization of the distribution organization is planned. High priority will be placed on the cost-intensive expansion of the Group's own retail business in particular. "eterna Mode AG is an extremely well-positioned company; however, it is less suited to our strategy of a verticalization transcending brands and product lines in the Ahlers Group," said Dr. Stella A. Ahlers, Chairman of the Board of Directors of Ahlers AG. "We therefore believe that eterna will be able to develop better as an independent stock corporation and that we can also obtain an attractive purchase price that will give the Ahlers Group a high level of flexibility with regard to our further corporate direction."

eterna Mode AG with registered offices in Passau has been part of the Herford-based Ahlers AG since 1996. Its 2004/05 sales exceeded EUR 80 million.

EMPLOYEES At the end of May 2006, the Ahlers Group employed 3,854 persons worldwide (prior-year: 3,892). Of that number, 904 were employed in Germany (prior-year 906) and 2,322 in Eastern Europe (prior-year: 2,422). As of June 30, 2006, the sale of eterna Mode AG, Passau, and of eterna s.r.o., SK-Bánovce, reduced the number of employees to approximately 930.

SHARES Share prices of both common and preferred shares of Ahlers AG continued moving upward in the first six months of the fiscal year. Common shares increased more than 16 percent and preferred shares more than 14 percent. At the end of the quarter, common shares stood at EUR 16.95 and preferred shares at EUR 16.91.

At the Annual Shareholders' Meeting to be held on July 26, 2006, the Supervisory Board and Board of Directors of Ahlers AG will propose to the Meeting to increase the dividend by EUR 0.05 to EUR 0.95 (prior-year: EUR 0.90) per common share and to EUR 1.00 (prior-year: EUR 0.95) per preferred share. This reflects a distribution volume totaling EUR 14.0 million.

Due to the currently higher share price, the dividend yield has decreased slightly but it is still above the average for German listed companies at 5.6 percent per common share and 5.9 percent per preferred share.

OUTLOOK The current fiscal year had a very successful start due to the high level of advance sales for spring/summer 2006. However, sales have weakened since then due in particular to an extremely difficult April. The upward trend is likely to soften further in the coming months due to customer restraint in placing follow-up orders and the fact that advance orders for fall/winter 2006 are falling short of our expectations in some areas.

Due to the sale of eterna Mode AG and its subsidiary eterna s.r.o. as of June 30, 2006, the Group will not be able to achieve increased sales for the current fiscal year because the eterna Group will only be included for the period from December 1, 2005 to June 30, 2006. Group earnings will benefit from the high proceeds received for the sale of the eterna Group.

In the premium brands segment, we are confident of being able to increase sales in the current fiscal year – not counting the sales of eterna. From the present perspective, we expect sales in the men's & sportswear segment to be at the prior-year level. We place high priority on improving the negative earnings situation in this segment. In the jeans & workwear segment, our goal is to maintain sales at the prior-year level. We expect earnings in this segment to be just under the level of the previous year.

We will focus on the following issues in the coming years:

- Optimizing floor space management and retail activities
- Increasing the export share
- Optimizing our brand portfolio
- Improving procurement and logistics

We therefore expect to be able to distribute a satisfactory dividend in the current fiscal year as well, possibly connected with a special dividend due to the sale of the eterna Group.

NOTES This interim report was prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG), following the same accounting policies as those used in the most recent consolidated financial statements. The notes to the separate financial statements and the consolidated financial statements as of November 30, 2005 also apply to this interim report, which was prepared in accordance with GAS 6.

Rounding differences may occur in the percentages and figures which are shown in thousands and millions.

Consolidated Balance Sheet as of May 31, 2006

Assets	May 31, 2006 €'000	May 31, 2005 €'000	Nov. 30, 2005 €'000
A. Fixed assets			
I. Intangible assets			
1. Industrial property rights and similar rights and assets	7,023	7,795	7,279
2. Payments on account	101	146	448
	7,124	7,941	7,727
II. Tangible assets			
1. Land, land rights and buildings	35,794	36,454	36,640
2. Technical equipment and machines	2,177	2,151	2,145
3. Other equipment, plant and office equipment	7,521	6,300	7,657
4. Payments on account and plant under construction	444	750	311
	45,936	45,655	46,753
III. Financial assets			
1. Long-term securities	861	603	691
2. Other loans	435	434	435
3. Other financial assets	2,693	2,503	2,537
	3,989	3,540	3,663
	57,049	57,136	58,143
B. Current assets			
I. Inventories			
1. Raw materials and supplies	22,937	25,152	20,505
2. Work in progress	292	332	386
3. Finished goods and merchandise	34,301	29,420	39,168
	57,530	54,904	60,059
II. Receivables and other assets			
1. Trade receivables	43,277	41,402	50,814
2. Receivables from affiliated companies	25	913	27
3. Other assets	7,676	4,762	6,768
	50,978	47,077	57,609
III. Securities			
Other securities	573	573	575
IV. Cash on hand, bank balances	21,636	35,695	22,284
	130,717	138,249	140,527
C. Prepaid expenses	621	927	1,058
	188,387	196,312	199,728

Liabilities and shareholders' equity	May 31, 2006 €'000	May 31, 2005 €'000	Nov. 30, 2005 €'000
A. Shareholders' equity			
I. Subscribed capital	43,200	43,200	43,200
II. Capital reserve	15,576	15,576	15,576
III. Revenue reserves			
Other revenue reserves	12,306	12,368	12,307
IV. Unappropriated retained earnings	18,211	13,654	11,982
V. Currency translation adjustment	- 5,498	- 5,054	- 5,124
VI. Minority interests	6,072	6,238	6,012
	89,867	85,982	83,953
B. Special reserves for investment subsidies	64	71	64
C. Provisions			
1. Pension provisions	5,004	5,276	5,004
2. Tax provisions	2,317	10,682	7,458
3. Other provisions	14,820	13,743	14,571
	22,141	29,701	27,033
D. Liabilities			
1. Liabilities to banks	51,663	54,733	52,602
2. Trade payables	12,606	13,160	17,333
3. Liabilities to affiliated companies	1,622	575	3,345
4. Other liabilities	6,079	7,442	10,902
	71,970	75,910	84,182
E. Deferred income	4,345	4,648	4,496
	188,387	196,312	199,728

Consolidated Income Statement

	1 st half 2005/06 €'000	1 st half 2004/05 €'000
1. Sales	157,957	154,751
2. Change in finished goods and work in progress	- 5,627	- 903
3. Other operating income	1,864	1,744
4. Cost of materials		
a) Cost of raw materials, consumables, supplies and purchased merchandise	64,854	68,558
b) Cost of purchased services	12,330	12,926
5. Personnel expenses		
a) Wages and salaries	26,472	26,287
b) Social security contributions and pension expenses	5,327	5,239
6. Depreciation of tangible and amortization of intangible assets and capitalized costs for business start-up and expansion	3,554	3,458
7. Other operating expenses	29,785	28,112
8. Income from other securities and long-term loans	8	-
9. Other interest and similar income	229	267
10. Write-downs on financial assets and marketable securities	1	1
11. Interest and similar expenses	1,410	1,047
12. Result from ordinary activities	10,698	10,231
13. Income taxes	4,106	4,176
14. Other taxes	252	189
15. Net income	6,340	5,866
Earnings per share in €	0.44	0.41

Consolidated Income Statement

	Q2 2005/06 €'000	Q2 2004/05 €'000
1. Sales	72,089	74,861
2. Change in finished goods and work in progress	- 5,542	- 6,592
3. Other operating income	802	936
4. Cost of materials		
a) Cost of raw materials, consumables, supplies and purchased merchandise	27,647	28,599
b) Cost of purchased services	5,035	5,737
5. Personnel expenses		
a) Wages and salaries	12,728	13,226
b) Social security contributions and pension expenses	2,578	2,612
6. Depreciation of tangible and amortization of intangible assets and capitalized costs for business start-up and expansion	1,861	1,486
7. Other operating expenses	14,043	13,585
8. Income from other securities and long-term loans	-	-
9. Other interest and similar income	124	151
10. Write-downs on financial assets and marketable securities	1	1
11. Interest and similar expenses	749	536
12. Result from ordinary activities	2,831	3,574
13. Income taxes	1,209	1,384
14. Other taxes	59	44
15. Net income	1,563	2,146
Earnings per share in €	0.11	0.15

Consolidated Cashflow Statement

	1 st half 2005/06 €'000	1 st half 2004/05 €'000
Net income	6,340	5,866
Depreciation/write-ups of fixed assets, net	3,555	3,235
Cashflow	9,895	9,101
Change in other provisions	-4,892	-165
Other non-cash income/expenses	-	224
Gains/losses from the disposal of fixed assets, net	-282	-7
	4,721	9,153
Increase/decrease in inventories, trade receivables and other assets	9,598	8,200
Increase/decrease in trade payables and other liabilities	-11,424	-5,281
Net cash from operating activities	2,895	12,072
Proceeds from the disposals of tangible assets	348	109
Payments for additions of tangible assets	-2,105	-1,935
Payments for additions of intangible assets	-147	-218
Payments for additions of financial assets	-327	-213
Net cash from investing activities	-2,231	-2,257
Minority interests	-49	-302
Net cash from financing activities	-49	-302
Effects of changes in the scope of consolidation and exchange rates	-325	-98
Net change in cash and cash equivalents	290	9,415

CASH AND CASH EQUIVALENTS

	May 31, 2006	Nov. 30, 2005	Change
Cash and marketable securities	22,210	22,859	-649
Liabilities to banks (short-term debt)	31,520	32,459	939
	-9,310	-9,600	290

Consolidated Statement of Changes in Shareholders' Equity

(in €'000) from December 1, 2005 to May 31, 2006

	Subscribed capital	Capital reserve	Retained earnings	Currency translation adjustment	Shareholders' equity	Minority interests	Group equity
Balance as of November 30, 2005	43,200	15,576	24,289	- 5,124	77,941	6,012	83,953
Dividends paid			-		-	- 49	- 49
Change in scope of consolidation			-		-	-	-
Other changes			- 1	- 374	- 375	- 2	- 377
Net income			6,229		6,229	111	6,340
Balance as of May 31, 2006	43,200	15,576	30,517	- 5,498	83,795	6,072	89,867

Consolidated Statement of Changes in Shareholders' Equity

(in €'000) from December 1, 2004 to May 31, 2005

	Subscribed capital	Capital reserve	Retained earnings	Currency translation adjustment	Shareholders' equity	Minority interests	Group equity
Balance as of November 30, 2004	43,200	15,576	20,427	- 5,119	74,084	6,255	80,339
Dividends paid			-		-	- 302	- 302
Change in scope of consolidation			-		-	-	-
Other changes			-	65	65	14	79
Net income			5,595		5,595	271	5,866
Balance as of May 31, 2005	43,200	15,576	26,022	- 5,054	79,744	6,238	85,982

Segment Information

BY BUSINESS SEGMENT

(in €'000) as of May 31, 2006 (previous year as of May 31, 2005)

	premium brands		jeans & workwear		men's & sportswear		Miscellaneous		Total	
	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05
Sales										
External sales	86,467	83,241	33,802	34,354	37,559	36,906	129	250	157,957	154,751
thereof Germany	50,854	52,559	23,355	24,363	20,590	21,451	129	250	94,928	98,623
thereof foreign	35,613	30,682	10,447	9,991	16,969	15,455	–	–	63,029	56,128
Intersegment sales	–	–	–	–	–	–	–	–	–	–
Segment result	8,889	7,280	3,705	4,319	–1,783	–1,237	–113	–131	10,698	10,231
Depreciation/ amortization included	2,276	2,249	545	509	703	670	30	30	3,554	3,458
Other non-cash items	–2,039	15	–1,820	25	–1,031	–206	–2	1	–4,892	–165
Interest income	129	148	57	62	43	57	–	–	229	267
Interest expense	736	711	160	49	473	251	41	36	1,410	1,047
Net operating assets	62,410	58,196	20,432	22,181	8,996	7,976	2,438	2,349	94,276	90,702
Capital expenditure	1,703	1,093	317	501	403	772	156	–	2,579	2,366
Debt	54,604	58,392	8,738	12,881	30,126	33,706	643	631	94,111	105,610

BY GEOGRAPHIC REGION

(in €'000) as of May 31, 2006 (previous year as of May 31, 2005)

	premium brands		jeans & workwear		men's & sportswear		Miscellaneous		Total	
	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05
Germany										
Sales	50,854	52,559	23,355	24,363	20,590	21,451	129	250	94,928	98,623
Net operating assets	37,421	36,735	10,064	10,878	–2,899	–2,636	2,689	2,500	47,275	47,477
Capital expenditure	1,497	879	209	411	353	404	156	–	2,215	1,694
Western Europe										
Sales	25,940	22,844	8,491	8,123	12,094	11,703	–	–	46,525	42,670
Net operating assets	7,009	4,641	6,921	7,673	5,414	4,688	–	–	19,344	17,002
Capital expenditure	2	35	5	27	2	69	–	–	9	131
Central/Eastern Europe/ Other										
Sales	9,673	7,838	1,956	1,868	4,875	3,752	–	–	16,504	13,458
Net operating assets	17,980	16,820	3,447	3,630	6,481	5,924	–251	–151	27,657	26,223
Capital expenditure	204	179	103	63	48	299	–	–	355	541

FINANCIAL CALENDAR

JULY 26, 2006

Annual Shareholders' Meeting in Düsseldorf (CCD. Süd)

MID-OCTOBER 2006

Interim Report as of August 31, 2006

MID-OCTOBER 2006

Analysts conference

Herford, July 2006

The Management Board

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Signora

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