

Ahlers AG, Herford

ISIN DE0005009708 and DE0005009732



INTERIM REPORT

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

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

According to figures from the German Federal Statistics Office, sales in the German clothing industry declined a total of 0.5 percent in the first six months of 2006, despite an increase of 1.5 percent in exports.

Sales and earnings of the Ahlers Group have been characterized by significant one-time effects in the current fiscal year. In the first nine months of the current fiscal year, Ahlers AG achieved sales of EUR 224.4 million (prior-year period: EUR 239.5 million). Foreign sales increased by 4.7 percent to EUR 92.6 million. Exports accounted for 41.3 percent of Group sales (prior-year period: 36.9 percent). Income from ordinary activities increased significantly to EUR 82.7 million from EUR 16.8 million in the prior-year period. Earnings after taxes also rose, climbing from EUR 9.7 million to EUR 79.1 million.

The main occurrence during the third quarter of our fiscal year was the sale of the eterna Group. The sales decline was primarily due to the fact that sales were no longer posted from the eterna Group for the months of July and August 2006. The sale of the eterna Group led to extraordinary profits of approx. EUR 78.0 million. Special depreciation totaling EUR 7.4 million was also incurred on trademark rights as well as buildings in Germany and abroad based on impairment tests.

Without taking into account the figures from the eterna Group or the special effects in the current or previous fiscal year, sales and income from ordinary activities were approximately at the previous year's levels.

Ahlers' three segments differed in terms of development, with all three segments generating sales growth abroad. The premium brands segment was especially affected by the sale of the eterna Group, which resulted in sales revenues for the first nine months declining 10.4 percent to EUR 117.2 million. However, premium brands still had a sales share of 52.2 percent (prior-year period: 54.6 percent). Due to the one-time effects of the sale of the eterna Group, earnings before taxes increased to EUR 80.9 million from EUR 13.0 million in the prior-year period. The jeans & workwear segment did not reach the previous year's sales and earnings levels in the first nine months of the current fiscal year, with sales revenues declining by EUR 1.1 million to EUR 50.0 million. Earnings in this segment fell to EUR 5.2 million from EUR 6.3 million in the prior-year period. In the men's & sportswear segment, sales revenues declined slightly to EUR 57.0 million from the prior-year level of EUR 57.3 million. Fortunately, the decrease in this segment only reduced net income by approx. EUR 1.7 million (prior-year period: reduce EUR 2.3 million).

Driven by one-time effects, cashflow exceeded the prior-year figure significantly, increasing to EUR 91.6 million from EUR 14.7 million.

Capital expenditure amounted to EUR 4.0 million in the first nine months of the current fiscal year (prior-year period: EUR 4.2 million).

EMPLOYEES At the end of August 2006, the Ahlers Group employed 2,903 employees worldwide (prior-year: 3,912). Of that number, 723 were employed in Germany (prior-year: 933) and 1,571 in Eastern Europe (prior-year: 2,415). The decline in employee figures was attributable mainly to the sale of eterna Mode AG, Passau, and eterna s.r.o., SK-Bánovce.

SHARES The share prices of both preferred and common shares of Ahlers AG have not yet been able to make up for the reduction after payment of the dividends. Common shares have increased 4.6 percent and preferred shares 3.9 percent in the current fiscal year.

At the end of the quarter, common shares stood at EUR 15.22 and preferred shares at EUR 15.30.

Ahlers AG increased the dividends paid for each share class by EUR 0.05. At the end of July 2006, EUR 0.95 was distributed for each common share (prior-year: EUR 0.90) and EUR 1.00 for each preferred share (prior-year: EUR 0.95) for the past 2004/05 fiscal year. This reflects a distribution volume totaling EUR 14.0 million.

The dividend yield is above average for listed German companies at 6.2 percent for common shares and 6.5 percent for preferred shares.

OUTLOOK The sale of the eterna Group, which took effect on June 30, 2006, was aimed at strengthening the brand presence of Ahlers AG on a sustained basis and thus establishing the conditions for further optimization of our 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. The Company made the first step in this direction on August 24, 2006. Werner Baldessarini, former CEO of Hugo Boss AG in Metzingen, and the Management Board of Ahlers AG signed an agreement on the acquisition of all shares in Baldessarini GmbH & Co. KG, Munich, as well as all rights to the Baldessarini brand, with the exception of the licensing rights to the fragrance business. The total purchase price, part of which will be payable on the basis of future sales, will be in a range from approx. EUR 6 million to EUR 9 million.

The purpose of this acquisition, which took effect on September 1, 2006, was to add a high-quality, leading premium brand in the men's top-end luxury fashion segment to the brand portfolio of Ahlers AG. Baldessarini operates on an international level and offers a full range of men's clothing. Werner Baldessarini will continue to design the collection and to head the marketing division out of Munich. Werner Baldessarini calls this move "an auspicious symbiosis, a major

responsibility and challenge to develop the luxury segment for Ahlers AG.” For the Ahlers Group, the Baldessarini purchase represents a consistent continuation of the Ahlers Group’s brand policy for the future.

Fiscal 2005/06 got off to a good start based on the high level of preseason sales for spring/summer 2006. Sales then softened due to the high level of consumer restraint in Germany in the subsequent period. In contrast with the difficult domestic situation, however, which will also affect advance orders for spring/summer 2007 in some segments, foreign sales and advance orders developed well.

As a result of the sale of the eterna Group as of June 30, 2006, from a Group perspective we do not expect to achieve an increase in sales revenues for the current fiscal year, since the eterna Group is only included in the consolidated accounts for the period from December 1, 2005 to June 30, 2006. Net income will include the high sales proceeds for 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 generated by eterna. From a present perspective, we expect sales in the men’s & sportswear segment to be at the prior-year level. Our primary goal is to improve the negative earnings situation in this segment. In the jeans & workwear segment, we expect sales and earnings to be slightly below the figure for the prior year from a current perspective.

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

- Optimizing floor space management and retail activities
- Increasing the share of exports
- 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 August 31, 2006

Assets	Aug. 31, 2006 €'000	Aug. 31, 2005 €'000	Nov. 30, 2005 €'000
A. Fixed assets			
I. Intangible assets			
1. Industrial property rights and similar rights and assets	2,694	7,461	7,279
2. Payments on account	100	146	448
	2,794	7,607	7,727
II. Tangible assets			
1. Land, land rights and buildings	21,731	36,751	36,640
2. Technical equipment and machines	987	2,061	2,145
3. Other equipment, plant and office equipment	5,171	7,023	7,657
4. Payments on account and plant under construction	482	75	311
	28,371	45,910	46,753
III. Financial assets			
1. Long-term securities	554	653	691
2. Other loans	431	434	435
3. Other financial assets	2,783	2,512	2,537
	3,768	3,599	3,663
	34,933	57,116	58,143
B. Current assets			
I. Inventories			
1. Raw materials and supplies	14,790	18,648	20,505
2. Work in progress	310	330	386
3. Finished goods and merchandise	33,018	37,685	39,168
	48,118	56,663	60,059
II. Receivables and other assets			
1. Trade receivables	47,249	59,565	50,814
2. Receivables from affiliated companies	26	874	27
3. Other assets	11,725	6,421	6,768
	59,000	66,860	57,609
III. Securities			
Other securities	574	574	575
IV. Cash on hand, bank balances	128,350	17,243	22,284
	236,042	141,340	140,527
C. Prepaid expenses	966	760	1,058
	271,941	199,216	199,728

Liabilities and shareholders' equity	Aug. 31, 2006 €'000	Aug. 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	27,549	12,345	12,307
IV. Unappropriated retained earnings	76,884	4,145	11,982
V. Currency translation adjustment	- 5,668	- 5,088	- 5,124
VI. Minority interests	6,155	6,159	6,012
	163,696	76,337	83,953
B. Special reserves for investment subsidies	64	71	64
C. Provisions			
1. Pension provisions	4,378	5,276	5,004
2. Tax provisions	1,547	5,903	7,458
3. Other provisions	14,004	15,934	14,571
	19,929	27,113	27,033
D. Liabilities			
1. Liabilities to banks	66,009	71,016	52,602
2. Trade payables	9,657	10,274	17,333
3. Liabilities to affiliated companies	1,636	581	3,345
4. Other liabilities	6,681	9,248	10,902
	83,983	91,119	84,182
E. Deferred income	4,269	4,576	4,496
	271,941	199,216	199,728

Consolidated Income Statement

	Q1 – Q3 2005/06 €'000	Q1 – Q3 2004/05 €'000
1. Sales	224,422	239,519
2. Change in finished goods and work in progress	– 794	6,669
3. Other operating income	80,242	2,350
4. Cost of materials		
a) Cost of raw materials, consumables, supplies and purchased merchandise	97,913	113,595
b) Cost of purchased services	17,677	20,221
5. Personnel expenses		
a) Wages and salaries	39,421	39,980
b) Social security contributions and pension expenses	7,612	7,882
6. Depreciation of tangible and amortization of intangible assets and capitalized costs for business start-up and expansion	12,456	5,236
7. Other operating expenses	44,836	43,584
8. Income from other securities and long-term loans	8	–
9. Other interest and similar income	835	395
10. Write-downs on financial assets and marketable securities	2	1
11. Interest and similar expenses	2,141	1,675
12. Result from ordinary activities	82,655	16,759
13. Income taxes	3,211	6,791
14. Other taxes	336	248
15. Net income	79,108	9,720
Earnings per share in €	5.49	0.68

Consolidated Income Statement

	Q3 2005/06 €'000	Q3 2004/05 €'000
1. Sales	66,465	84,768
2. Change in finished goods and work in progress	4,833	7,571
3. Other operating income	78,379	606
4. Cost of materials		
a) Cost of raw materials, consumables, supplies and purchased merchandise	33,059	45,037
b) Cost of purchased services	5,347	7,295
5. Personnel expenses		
a) Wages and salaries	12,949	13,694
b) Social security contributions and pension expenses	2,286	2,643
6. Depreciation of tangible and amortization of intangible assets and capitalized costs for business start-up and expansion	8,902	1,778
7. Other operating expenses	15,052	15,472
8. Income from other securities and long-term loans	–	–
9. Other interest and similar income	606	129
10. Write-downs on financial assets and marketable securities	1	–
11. Interest and similar expenses	731	627
12. Result from ordinary activities	71,956	6,528
13. Income taxes	– 895	2,615
14. Other taxes	84	58
15. Net income	72,767	3,855
Earnings per share in €	5.05	0.27

Consolidated Cashflow Statement

	Q1 – Q3 2005/06 €'000	Q1 – Q3 2004/05 €'000
Net income	79,108	9,720
Depreciation/write-ups of fixed assets, net	12,458	5,014
Change in non-current provisions	– 12	–
Cashflow	91,554	14,734
Change in other provisions	– 2,601	– 2,753
Other non-cash income/expenses	–	224
Gains/losses from the disposal of fixed assets, net	– 209	– 3
Profits from the sale of consolidated companies	– 78,033	–
	10,711	12,202
Increase/decrease in inventories, trade receivables and other assets	– 131	– 13,174
Increase/decrease in trade payables and other liabilities	– 6,747	– 6,428
Net cash from operating activities	3,833	– 7,400
Proceeds from the disposals of tangible assets	352	211
Proceeds from the disposals of financial assets	185	–
Proceeds from the sale of consolidated companies	106,583	–
Payments for additions of tangible assets	– 3,358	– 3,545
Payments for additions of intangible assets	– 256	– 336
Payments for additions of financial assets	– 425	– 273
Net cash from investing activities	103,081	– 3,943
Dividend distribution	– 14,000	– 13,280
Minority interests	– 50	– 496
Net cash from financing activities	– 14,050	– 13,776
Effects of changes in the scope of consolidation and exchange rates	– 206	– 201
Net change in cash and cash equivalents	92,658	– 25,320

CASH AND CASH EQUIVALENTS

	Aug. 31, 2006	Nov. 30, 2005	Change
Cash and marketable securities	128,924	22,859	106,065
Liabilities to banks (short-term debt)	45,866	32,459	– 13,407
	83,058	– 9,600	92,658

Consolidated Statement of Changes in Shareholders' Equity

(in €'000)

	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			– 13,280		– 13,280	– 496	– 13,776
Change in scope of consolidation			–		–	–	–
Other changes			–	31	31	23	54
Net income			9,343		9,343	377	9,720
Balance as of August 31, 2005	43,200	15,576	16,490	– 5,088	70,178	6,159	76,337
Balance as of November 30, 2005	43,200	15,576	24,289	– 5,124	77,941	6,012	83,953
Dividends paid			– 14,000		– 14,000	– 49	– 14,049
Change in scope of consolidation			15,230	– 220	15,010	–	15,010
Other changes			–	– 324	– 324	– 2	– 326
Net income			78,914		78,914	194	79,108
Balance as of August 31, 2006	43,200	15,576	104,433	– 5,668	157,541	6,155	163,696

Segment Information

BY BUSINESS SEGMENT

(in €'000) as of Aug. 31, 2006 (previous year as of Aug. 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	117,230	130,784	49,967	51,086	57,019	57,262	206	387	224,422	239,519
thereof Germany	66,005	80,946	34,752	36,459	30,822	33,257	206	387	131,785	151,049
thereof foreign	51,225	49,838	15,215	14,627	26,197	24,005	–	–	92,637	88,470
Intersegment sales	–	–	–	–	–	–	–	–	–	–
Segment result	80,897	12,954	5,195	6,293	–1,747	–2,297	–1,690	–191	82,655	16,759
Depreciation/ amortization included	9,044	3,406	811	796	1,034	989	1,567	45	12,456	5,236
Other non-cash items	–4,838	–316	–1,336	–1,554	–927	–885	–2	2	–7,103	–2,753
Interest income	382	223	292	92	161	80	–	–	835	395
Interest expense	1,113	1,211	250	47	715	363	63	54	2,141	1,675
Net operating assets	78,621	59,442	59,100	11,569	26,726	5,038	3,582	4,935	168,029	80,984
Capital expenditure	2,394	2,233	691	859	707	1,053	247	9	4,039	4,154
Debt	47,237	65,560	18,249	15,439	37,746	36,553	680	680	103,912	118,232

BY GEOGRAPHIC REGION

(in €'000) as of Aug. 31, 2006 (previous year as of Aug. 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	66,005	80,946	34,752	36,459	30,822	33,257	206	387	131,785	151,049
Net operating assets	55,731	34,075	47,550	2,195	14,731	–3,657	4,079	5,126	122,091	37,739
Capital expenditure	1,961	1,661	412	696	551	661	247	9	3,171	3,027
Western Europe										
Sales	37,515	36,984	12,598	11,957	18,823	18,708	–	–	68,936	67,649
Net operating assets	7,638	6,861	8,541	6,188	4,962	4,558	–	–	21,141	17,607
Capital expenditure	22	296	60	49	12	93	–	–	94	438
Central/Eastern Europe/ Other										
Sales	13,710	12,854	2,617	2,670	7,374	5,297	–	–	23,701	20,821
Net operating assets	15,252	18,506	3,009	3,186	7,033	4,137	–497	–191	24,797	25,638
Capital expenditure	411	276	219	114	144	299	–	–	774	689

FINANCIAL CALENDAR

OCTOBER 31, 2006

Analysts conference in Düsseldorf

MID-MARCH 2007

Annual earnings press conference in Düsseldorf

MID-APRIL 2007

Interim Report as of February 28, 2007

MAY 2007

Annual Shareholders' Meeting in Düsseldorf

MID-JULY 2007

Interim Report as of May 31, 2007

MID-OCTOBER 2007

Interim Report as of August 31, 2007

We will inform you of the precise date.

Herford, October 2006

The Management Board

If you have any questions regarding this interim report, please contact::

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