

Ahlers AG, Herford

ISIN DE0005009708 and DE0005009732



INTERIM REPORT

on the first three months of fiscal 2006/07
(December 1, 2006 to February 28, 2007)

BUSINESS DEVELOPMENT IN THE FIRST THREE MONTHS OF FISCAL 2006/07

1. BUSINESS AND GENERAL CONDITIONS

The return to growth in the German clothing industry achieved in 2006 an increase of 0.3 percent. Prospects for 2007 are optimistic according to a survey by German Fashion Modeverband e.V., Cologne, which has forecasted rising sales for German fashion companies, driven by exports.

2. RESULTS OF OPERATIONS, NET ASSETS AND FINANCIAL POSITION

RESULTS OF OPERATIONS After having sold the eterna Group and acquired an equity interest and trademark rights in Baldessarini in fiscal 2005/06, the Ahlers Group got off to a modest start in the new fiscal year (2006/07), with sales for the first three months amounting to EUR 62.4 million after EUR 64.8 million in the prior-year period. One reason for the sales decline was the absence of domestic seasonal orders for winter goods during the months of December and January; another reason was later deliveries on the production side. In addition, delivery dates were scheduled earlier in the previous fiscal year than in the reporting year. In March, we were able to reduce the sales deficit. By the end of March, sales had reached the previous year's level. The Group has an export ratio of 46.7 percent (previous year: 45.3 percent). Once again, exports to Eastern Europe were particularly encouraging, with growth of 23.4 percent.

KEY MANAGEMENT AND FINANCIAL INDICATORS

		Q1 2006/07	Q1 2005/06
Sales	in EUR million	62.4	64.8
Gross margin	in %	46.60	48.10
EBITDA	in EUR million	2.6	5.6
EBIT	in EUR million	1.4	4.3
EBIT margin	in %	2.32	6.59
Profit margin	in %	3.23	3.71
Net working capital*	in EUR million	100.5	112.2
Return on investment	in %	0.81	1.11

* Net working capital is defined as current assets minus cash and cash equivalents, securities and current trade payables.

Income from continuing business operations before taxes declined by EUR 1.9 million to EUR 1.8 million, down from EUR 3.7 million a year earlier. The decrease was primarily due to the sales decline at the end of the first quarter. Profit after taxes amounted to approximately EUR 2.0 million, a decline of about approximately EUR 0.4 million from the previous year due to a change in tax legislation. Profit margin decreased to 3.2 percent (previous year: 3.7 percent).

All three segments experienced slight sales declines in comparison with the previous year for the reasons mentioned above. Sales in the premium brands segment fell slightly by EUR 0.5 million in the first three months of the reporting year. The sales share of premium brands, which includes the Baldessarini, pierre cardin, and OTTO KERN brands, now amounts to 41.6 percent (previous year: 40.8 percent). Income before taxes dropped from a total of EUR 1.9 million to EUR 0.1 million due to start-up losses incurred for Baldessarini. Sales and earnings also decreased slightly in the jeans & workwear segment. Sales revenues decreased by EUR 0.3 million to EUR 16.6 million, and earnings for this segment fell to EUR 1.7 million from EUR 2.1 million a year earlier. The men's & sportswear segment did not register growth either, with sales revenues declining by EUR 1.6 million to EUR 19.7 million in the first quarter (previous year: EUR 21.3 million). The negative contribution to Group earnings by this segment was reduced to approximately EUR 0.05 million (previous year: EUR -0.2 million).

NET ASSETS AND FINANCIAL POSITION The Group's balance sheet structure remained sound as of February 28, 2007. Total assets increased from EUR 217.3 million to EUR 249.1 million. Equity represented 66.9 percent of total assets (previous year: 41.9 percent).

Cashflow from operating activities decreased by approximately EUR 0.9 million to EUR -9.8 million (previous year: EUR -8.9 million). This net cash outflow was due to seasonal factors, as the deliveries just made resulted in an increase of trade receivables of EUR 5.0 million while trade liabilities declined by EUR 5.0 million in the first three months.

As of the end of February 2007, capital expenditure totaling EUR 1.7 million (previous year: EUR 2.1 million) had been undertaken for replacement equipment, shop systems, and shop fittings as well as for other assets (EUR 0.9 million).

3. EVENTS AFTER THE BALANCE SHEET DATE

No events of special significance occurred between the close of the first quarter and preparation of the interim report of Ahlers AG.

4. RISK REPORT

No changes with respect to risks related to future developments have occurred since the start of the new fiscal year. The statements made in the risk report of the 2005/06 consolidated financial statements (pages 26 et seq.) remain valid.

5. OUTLOOK

FUTURE ECONOMIC CONDITIONS All signs point to a continuation of the economic upturn in 2007, though the upward trend is likely to be weakened by restrictive fiscal policies. The clothing industry will have to overcome major challenges again in 2007. The increase in value added tax will dampen domestic demand, which had just been starting to recover. A survey conducted at the end of 2006 by German Fashion Modeverband e.V., Cologne, underlines the positive mood among German clothing companies. The survey forecasts rising sales, spearheaded by exports. Given this situation, we can expect an improved sales trend in the coming years, particularly for exports. Significant growth opportunities are arising in the Eastern European markets, particularly in Russia in the area of branded articles. In Germany, we will have to rely increasingly on our own retail activities and franchise systems.

The Ahlers Group will continue to invest in the future during the coming fiscal years. For the most part, this will involve capital expenditure for rationalization, replacements, retail activities, and shop systems. Investment in logistics and key IT projects are also planned.

ANTICIPATED RESULTS OF OPERATIONS On the basis of the slow start to the year and pre-season order figures for the spring/summer 2007 season, we are currently forecasting a rise in sales of approximately 3 percent for fiscal 2006/07, including sales from the Baldessarini business. This estimate is based on pre-season orders already received for the fall/winter 2007 season. A well-founded forecast for fiscal 2007/08 cannot be made at present. However, we expect that sales will continue to increase moderately due to rising export revenues.

Neither the results of fiscal 2005/06 nor the results from continuing business operations can be used as a basis for comparison when predicting earnings due to the many special items reported in the past year. Our efforts will be aimed at moving the areas that have been experiencing losses into the black. We believe that we will achieve a significant improvement in results from continuing business operations in fiscal 2006/07. In the medium term, we will focus on steadily increasing our pre-tax profit margin.

The Ahlers Group will continue to pursue a dividend policy oriented towards Group profits, and will justify investor confidence with satisfactory dividends in the future.

ANTICIPATED FINANCIAL POSITION The balance sheet of the Ahlers Group will continue to show a sound equity position in fiscal years 2006/07 and 2007/08. Following the planned dividend distribution of EUR 42.8 million, the Ahlers Group will have an equity-to-assets ratio of approximately 50 percent.

We will continue to invest in line with our corporate strategy in order to:

- Optimize floor space management and retail capability
- Increase the share of exports
- Optimize our brand portfolio
- Improve procurement and logistics
- Continue to expand our premium brands segment to at least 50 percent of Group sales.

Our main priority will be to increase earnings. In addition, we remain open for interesting acquisition opportunities in the area of men's outerwear. Any companies we consider should be full-line suppliers and internationally marketable. The Ahlers Group will have sufficient funds in 2006/07 to finance any planned investments.

GENERAL STATEMENT ON ANTICIPATED DEVELOPMENT Following the series of one-time special items during the fiscal year just ended, which had both positive and negative effects on the financial performance, financial position, and cashflow of the Ahlers Group, we are optimistic that the Group will continue to operate from a financially sound position in the future.

6. PERFORMANCE OF AHLERS SHARES

During the first three months of fiscal 2006/07, the common and preferred shares of Ahlers AG were not able to continue the positive trend of the past fiscal year. At the end of the quarter, common shares were quoted at EUR 16.05 and preferred shares at EUR 16.48. The share price has recovered during the course of March, with both share classes increasing by 7.6 percent over the price at the end of fiscal 2005/06 as of March 27, 2007.

The Management and Supervisory Boards of Ahlers AG will propose a dividend increase to EUR 2.95 for common shares (previous year: EUR 0.95) and EUR 3.00 for preferred shares (previous year: EUR 1.00) to the Annual Shareholders' Meeting to be held on May 3, 2007. This corresponds to a dividend yield of 17.5 percent for common shares and 17.8 percent for preferred shares based on the price at the end of the fiscal year. Ahlers AG is thus letting its shareholders participate in the good results achieved in fiscal 2005/06 due to disposal of the eterna Group. Even after distribution of the dividends totaling EUR 42.8 million, the Ahlers Group will have an equity-to-assets ratio of approximately 50 percent, a significant improvement over the previous year (34.0 percent).

7. EMPLOYEES

As of the end of February 2007, the Ahlers Group employed 2,920 persons worldwide (previous year: 3,055), 734 thereof in Germany (previous year: 729) and 1,539 in Eastern Europe (previous year: 1,672).

The decline in the number of employees was primarily attributable to the restructuring of Polish production operations.

8. FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements, which are subject to a number of uncertainties that could cause actual results to differ materially from expectations of future developments should one or more of these uncertainties, whether specified or not, materialize or if the assumptions underlying the statements above prove to be incorrect.

Consolidated income statement for the first quarter of fiscal 2006/07

	Q1 2006/07 EUR'000	Q1 2005/06 EUR'000
Continuing business operations		
1. Sales	62,382	64,754
2. Decreases or increases in inventories of finished goods and work in progress	1,955	-459
3. Other operating income	385	660
4. Cost of materials	35,260	33,151
5. Personnel expenses	13,390	13,239
6. Other operating expenses	13,509	13,002
7. Depreciation, amortization, and impairment losses on property, plant, and equipment, intangible assets and other non-current assets	1,113	1,294
8. Interest and similar income	600	81
9. Interest and similar expenses	284	609
10. Pre-tax profit from continuing business operations	1,766	3,741
11. Income taxes	-247	1,337
12. After-tax profit from continuing business operations	2,013	2,404
 Discontinued business operations		
13. Pre-tax profit from discontinued business operations	-	2,562
14. Net income for the period	2,013	4,966
of which attributable to:		
– Shareholders of Ahlers AG	1,980	4,898
– Minority interests	33	68
 Earnings per share (in EUR)		
– from continuing business operations	0.14	0.17
– from discontinued business operations	–	0.18

Consolidated balance sheet as of February 28, 2007

ASSETS	Feb. 28, 2007	Feb. 28, 2006	Nov. 30, 2006
	EUR'000	EUR'000	EUR'000
A. Non-current assets			
I. Property, plant, and equipment			
1. Land, land rights, and buildings	22,054	41,916	22,289
2. Technical equipment and machines	1,420	3,548	1,568
3. Other equipment, plant and office equipment	9,508	11,773	9,659
4. Payments on account and plant under construction	261	505	171
	33,243	57,742	33,687
II. Intangible assets			
1. Industrial property rights and similar rights and assets	11,904	8,010	12,033
2. Payments on account	100	448	100
	12,004	8,458	12,133
III. Other non-current assets			
1. Securities	–	126	–
2. Other loans	456	435	457
3. Other financial assets	121	287	253
4. Other assets	16,210	2,543	15,355
	16,787	3,391	16,065
IV. Deferred tax assets	2,347	2,216	2,199
Total non-current assets	64,381	71,807	64,084
B. Current assets			
I. Inventories			
1. Raw materials and consumables	16,993	17,095	17,686
2. Work in progress	336	421	307
3. Finished goods and merchandise	31,298	39,864	29,056
	48,627	57,380	47,049
II. Trade receivables	48,523	59,798	43,558
III. Other current assets			
1. Other securities	569	572	572
2. Receivables from affiliates	25	27	25
3. Current income tax claims	8,694	1,920	6,710
4. Other assets	5,465	5,138	6,237
	14,753	7,657	13,544
IV. Cash and cash equivalents	72,769	20,701	76,812
Total current assets	184,672	145,536	180,963
	249,053	217,343	245,047

LIABILITIES AND EQUITY	Feb. 28, 2007 EUR'000	Feb. 28, 2006 EUR'000	Nov. 30, 2006 EUR'000
A. Equity			
I. Subscribed capital	43,200	43,200	43,200
II. Capital reserve	15,024	15,024	15,024
III. Retained earnings	106,390	30,159	104,410
IV. Currency translation adjustments	-359	232	-239
Equity attributable to shareholders of Ahlers AG	164,255	88,615	162,395
V. Minority interests	2,338	2,473	2,333
Total equity	166,593	91,088	164,728
B. Non-current liabilities			
I. Pension provisions	6,389	7,266	6,398
II. Other provisions	6,307	2,375	6,451
III. Financial liabilities			
1. Other financial liabilities	19,261	25,309	19,297
2. Minority interests in partnerships	3,553	3,887	3,531
	22,814	29,196	22,828
IV. Trade payables	1,183	–	1,198
V. Other liabilities	57	64	57
VI. Deferred tax liabilities	2,730	4,755	2,675
Total non-current liabilities	39,480	43,656	39,607
C. Current liabilities			
I. Current income tax liabilities	2,073	7,128	2,025
II. Other provisions	3,031	4,351	2,072
III. Financial liabilities	10,979	41,871	4,662
IV. Trade payables	10,795	12,070	15,804
V. Other liabilities			
1. Liabilities to affiliates	2,408	1,979	3,104
2. Other liabilities	13,694	15,200	13,045
	16,102	17,179	16,149
Total current liabilities	42,980	82,599	40,712
Total liabilities	82,460	126,255	80,319
	249,053	217,343	245,047

Consolidated cashflow statement for the first quarter of fiscal 2006/07

	Q1 2006/07 EUR'000	Q1 2005/06 EUR'000	Q1 2005/06 EUR'000
Net income for the period	2,013		4,966
Depreciation, amortization, and impairment losses of non-current assets	1,113		1,712
Change in deferred taxes	-93		34
Change in non-current provisions	-153		-
Change in minority interests in partnerships and other non-current liabilities	6		54
Change in other provisions	959		826
Gains/losses from the disposals of non-current assets, net	7		-259
Increase in inventories and other current and non-current assets	-8,477		-6,005
Decrease in other current liabilities	-5,129	-11,767	-10,231
Cashflow from operating activities		-9,754	-8,903
Cash receipts from disposals of items of property, plant, and equipment	22		276
Payments for investment in property, plant, and equipment	-724		-2,010
Payments for investments in intangible assets	-76		-60
Cashflow from investing activities		-778	-1,794
Repayment/additions of non-current financial liabilities	-36		538
Cashflow from financing activities		-36	538
Net change in cash and cash equivalents		-10,568	-10,159
Effects of changes in the scope of consolidation and exchange rates		84	-177
Liquid funds as of December 1		73,325	-9,895
Liquid funds as of February 28		62,841	-20,231

COMPOSITION OF LIQUID FUNDS

	Balance as of Feb. 28, 2007 EUR'000	Balance as of Nov. 30, 2006 EUR'000	Change EUR'000
Cash and cash equivalents	72,769	76,812	-4,043
Other securities	569	572	-3
Short-term financial liabilities	-10,497	-4,059	-6,438
	62,841	73,325	-10,484

Consolidated statement of changes in equity for the first quarter of fiscal 2006/07

in EUR'000

Equity attributable to shareholders of Ahlers AG								
	Subscribed capital					Minority interests	Total Equity	
	Common shares	Preferred shares	Capital reserve	Retained earnings	Adjustment item for currency translation	Total Group shareholdings		
Balance as of Dec. 1, 2005	24,000	19,200	15,024	25,261	226	83,711	2,449	86,160
Net income				4,898		4,898	68	4,966
Dividends paid				—		—	—	—
Exchange differences					6	6		6
Other changes							-44	-44
Balance as of Feb. 28, 2006	24,000	19,200	15,024	30,159	232	88,615	2,473	91,088
Balance as of Dec. 1, 2006	24,000	19,200	15,024	104,410	-239	162,395	2,333	164,728
Net income				1,980		1,980	33	2,013
Dividends paid				—		—	—	—
Exchange differences					-120	-120		-120
Other changes							-28	-28
Balance as of Feb. 28, 2007	24,000	19,200	15,024	106,390	-359	164,255	2,338	166,593

Segment Reporting as of February 28, 2007

(previous year: February 28, 2006)

BY BUSINESS SEGMENT (in EUR'000)

	premium brands		jeans & workwear		men's & sportswear		Miscellaneous		Total	
	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06
Sales										
from third parties	25,945	26,443	16,631	16,896	19,711	21,328	95	87	62,382	64,754
of which Germany	12,240	13,207	11,651	11,131	9,248	10,993	95	87	33,234	35,418
of which abroad	13,705	13,236	4,980	5,765	10,463	10,335	–	–	29,148	29,336
Intersegment sales	–	–	–	–	–	–	–	–	–	–
Segment result	111	1,886	1,722	2,067	-47	-157	-20	-55	1,766	3,741
thereof										
Depreciation and amortization	480	679	308	277	322	326	3	12	1,113	1,294
Other non-cash items	467	406	334	160	273	245	–	–	1,074	811
Interest income	244	37	235	20	122	24	–	–	601	81
Interest expense	122	238	45	102	117	250	–	19	284	609
Net assets	106,582	133,398	57,689	32,118	57,098	44,710	16,642	2,981	238,011	213,207
Capital expenditure	268	1,230	176	433	356	407	855	5	1,655	2,075
Liabilities	35,042	53,536	14,521	16,531	26,481	42,274	674	672	76,718	113,013

BY GEOGRAPHIC REGION (in EUR'000)

	premium brands		jeans & workwear		men's & sportswear		Miscellaneous		Total	
	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06
Germany										
Sales	12,240	13,207	11,651	11,131	9,248	10,993	95	87	33,234	35,418
Net assets	80,435	101,151	38,009	17,553	41,821	30,398	16,514	2,538	176,779	151,640
Capital expenditure	133	1,090	95	337	220	379	855	5	1,303	1,811
Western Europe										
Sales	8,238	8,821	4,097	4,735	7,291	8,061	–	–	19,626	21,617
Net assets	8,461	8,026	8,654	9,627	6,457	7,034	–	–	23,572	24,687
Capital expenditure	24	2	30	4	88	2	–	–	142	8
Central/Eastern Europe/Other										
Sales	5,467	4,415	883	1,030	3,172	2,274	–	–	9,522	7,719
Net assets	17,686	24,221	11,026	4,938	8,820	7,278	128	443	37,660	36,880
Capital expenditure	111	138	51	92	48	26	–	–	210	256

NOTES TO THE FINANCIAL STATEMENTS The interim financial statements for the first three month of fiscal 2006/07 are the first interim statements of the Ahlers Group which have been prepared in accordance with International Financial Reporting Standards (IFRS). The interim statements for the first quarter of fiscal 2006/07 comply in particular with the provisions of IAS 34 – Interim Financial Statements. Previous year figures have been adjusted retroactively.

Accounting policies and principles of consolidation have remained basically unchanged in comparison with the consolidated financial statements as of November 30, 2006. A detailed explanation of these policies has been published in the notes to the consolidated financial statements of the 2005/06 Annual Report.

This interim report for the first quarter ended February 28, 2007 has not been reviewed by an auditor.

Due to a change in tax laws based on SE introductory legislation (SEStEG), a tax claim with a present value of EUR 1.1 million was recognized in the first quarter of fiscal 2006/07. The discounted amount resulted from the corporate tax credit method previously employed and will be collected in 10 equal annual installments.

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

FINANCIAL CALENDAR

MAY 3, 2007

Annual Shareholders' Meeting in Düsseldorf (CCD.Ost)

MID-JULY 2007

Interim Report as of May 31, 2007

MID-OCTOBER 2007

Interim Report as of August 31, 2007

Herford, April 2007

The Management Board

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ahlers group



OTTO KERN



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