

# Ahlers AG, Herford

ISIN DE0005009708 and DE0005009732



## INTERIM REPORT

for the first six months of the 2006/07 financial year  
(December 1, 2006 to May 31, 2007)

### BUSINESS DEVELOPMENT IN THE FIRST SIX MONTHS OF THE 2006/07 FINANCIAL YEAR

#### 1. BUSINESS AND GENERAL CONDITIONS

The upward trend in the German economy also continued at the beginning of 2007, with the upturn being driven in particular by corporate investment. The sales tax increase led private household expenditure, by contrast, to fall by 1.4 percent in the first quarter of 2007 compared with the fourth quarter of 2006. The German Textile and Fashion Association reported a corresponding decline in sales in the clothing industry at the beginning of the year, but nevertheless expects the downturn resulting from the sales tax hike to be offset as the year progresses. The ifo business confidence index for the clothing industry issued at the beginning of the year also forecasts positive developments in the sector.

#### 2. EARNINGS, FINANCIAL AND NET ASSET POSITION

#### KEY MANAGEMENT AND FINANCIAL INDICATORS

		H1 2006/07	H1 2005/06
Sales	in EUR million	121.3	116.6
Gross margin	in %	46.70	47.60
EBITDA	in EUR million	5.5	6.2
EBIT	in EUR million	3.2	3.4
EBIT margin	in %	2.61	2.95
Pre-tax profit from continuing business operations	in EUR million	3.6	2.4
After-tax profit from continuing business operations	in EUR million	3.3	1.4
Return on sales	in %	2.70	1.22
Net working capital*	in EUR million	90.0	95.9
Return on investment	in %	1.59	0.70

\*Net working capital is defined as current assets minus cash and cash equivalents, securities and current accounts payable.

**EARNINGS POSITION** Following a subdued start to the 2006/07 financial year, the earnings position of the Ahlers Group developed very positively in the second quarter. Sales at the Ahlers Group rose to EUR 121.3 million in the first half of 2006/07, equivalent to an increase of 4.0 percent on the same period in the previous year (H1 05/06: EUR 116.6m). Alongside the newly consolidated Baldessarini division, this sales growth is also attributable to the positive performance of the continuing business operations. With sales growth of 13.6 percent to EUR 58.9 million (Q2 05/06: EUR 51.9m), the second quarter made an especially marked contribution to the positive performance in the first half as a whole. One of the factors driving this substantial sales growth was the pleasing development of the international business. In particular, the Eastern European business reported significant growth of 34.2 percent, while satisfactory developments were also seen in Western Europe. This led to an increase in the Group's international share of sales, which now amounts to 46.4 percent (H1 05/06: 43.3 percent). Due to the increase in sales tax, German sales were slightly down on the previous year.

The pre-tax profit from continuing business operations rose by 54.0 percent to EUR 3.6 million (H1 05/06: EUR 2.4m). This figure includes the release of provisions for Supervisory Board compensation amounting to EUR 0.5 million. This provision had been stated in the previous financial year in connection with the increase in the dividend, to which Supervisory Board compensation is linked. However, the Supervisory Board decided to forego this part of the compensation. After-tax profit improved by EUR 1.9 million to EUR 3.3 million (H1 05/06: EUR 1.4m) and was affected not only by the positive performance of the business but also by an amendment in tax legislation. Due to the SE introductory legislation (SEStEG), a tax refund claim with a present value of EUR 1.1 million has been recognized in the current financial year. The discounted amount resulted from the corporate tax credit method previously employed and will be collected in ten equal annual installments. Earnings per share from continuing business operations therefore amounted to EUR 0.23 (H1 05/06: EUR 0.10). The return on sales rose to 2.70 percent (H1 05/06: 1.22 percent).

The three segments of the Ahlers Group showed uneven developments in the first half. Sales at the Premium Brands segment, which includes the Baldessarini, pierre cardin and OTTO KERN brands, increased from EUR 45.1 million to EUR 49.4 million. This segment's shares of overall sales therefore increased further to 40.7 percent, compared with 38.7 percent in the previous year. Pre-tax profit amounted to EUR -0.1 million, as against EUR 0.7 million in the previous year. This was chiefly due to start-up costs in the Baldessarini division. The jeans & workwear segment, which includes the PIONEER and Pionier brands, also achieved sales growth in the first half of the 2006/07 financial year. Sales rose from EUR 33.8 million in the first half of the previous year to EUR 34.4 million. Pre-tax profit increased by 25.5 percent to EUR 4.5 million (H1 05/06: EUR 3.6m). The men's & sportswear segment, which consists of the Gin Tonic, Gin Fizz and Jupiter brands, remained at the previous year's level. Declining by 0.5 percent to EUR 37.4 million, sales were only slightly down on the previous year's figure of EUR 37.6 million. This subdued sales performance is mainly due to the discontinuation of the loss-making SiSignora of the Gin Tonic brand, which could only be offset in part by the newly established Gin Fizz brand. Pre-tax profit in this segment amounted to EUR -0.8 million (H1 05/06: EUR -1.8m).

**FINANCIAL AND NET ASSET POSITION** The Ahlers Group continued to report a robust balance sheet structure as of May 31, 2007. Total assets amounted to EUR 206.1 million, compared with EUR 201.9 million in the previous year. The equity ratio has improved significantly from 45.7 percent to 60.6 percent, but is nevertheless lower than the equity ratio reported at the end of the first quarter (66.9 percent) as a result of the dividend distribution amounting to EUR 42.8 million.

At EUR -2.0 million, the cash flow from operating activities is down on the previous year's figure (H1 05/06: EUR 2.9m).

The Ahlers Group invested a total of EUR 3.3 million in the first half of the financial year (H1 05/06: EUR 2.4m from continuing business operations), of which EUR 1.0 million account for investments in financial assets. Other investments focused on shop systems, store facilities, replacement investments and also on other assets.

### 3. EVENTS AFTER THE BALANCE SHEET DATE

No events of special significance for the Group occurred between the close of the second quarter and the compilation of the report for the first half of the 2006/07 financial year.

### 4. RISK REPORT

The months from December 2006 to May 2007 did not witness any major changes compared with the risks and opportunities presented in the management report and group management report accompanying the 2005/06 annual financial statements.

### 5. EMPLOYEES

Ahlers AG had a total global workforce of 2,933 employees as of May 31, 2007 (H1 05/06: 2,926 from continuing business operations). Of this total, 763 employees were in Germany (H1 05/06: 726 from continuing business operations) and 1,505 in Eastern Europe (H1 05/06: 1,572 from continuing business operations). The decline in Eastern Europe is attributable to restructuring measures at Polish production locations.

### 6. RESTRUCTURING OF THE MANAGEMENT BOARD

The company's increased involvement in the brand and luxury division has been accompanied by a new management structure at Ahlers AG. From August 1, 2007, the Management Board of Ahlers AG, which previously comprised three members, will only have two members. Dr. Karsten Kölsch will commence his activities as CFO at the beginning of August and together with Dr. Stella A. Ahlers (CEO) will form the Management Board of Ahlers AG. Current CFO Oliver Galling will move to the holding company, which holds a majority of the shares in Ahlers AG. As a divisional board member, he will continue to work in the area of risk management and internal audit at Ahlers AG. Bruno Leder will continue as the divisional board member responsible for procurement and logistics.

### 7. PERFORMANCE OF THE AHLERS SHARES

The common and preferred shares of Ahlers AG showed a subdued performance as a result of the dividend-related downturn following the Annual General Meeting at the end of the first half. The common share was listed at EUR 13.42 as of May 31, while the preferred share was quoted at EUR 13.47. The Annual Shareholders' Meeting held on May 3, 2007 approved the payment of a dividend of EUR 2.95 per common share and EUR 3.00 per preferred share.

In the second quarter of 2006/07, a total of 600,000 preferred shares were sold off-market by Westfälisches Textilwerk Adolf Ahlers KG, Herford, represented by Jan A. Ahlers, in order to increase the level of free float and to enhance the attractiveness of the preferred share. Westfälisches Textilwerk Adolf Ahlers KG still holds 20.6 percent of the preferred shares, which means that the level of free float has increased to 79.4 percent. As of May 31, 2007, a total of 50.9 percent of the shares in Ahlers AG were attributable to Jan A. Ahlers, a member of the Supervisory Board, pursuant to the German Securities Trading Act (WpHG).

## 8. OUTLOOK

**FUTURE ECONOMIC CONDITIONS** The economic upturn is set to continue both in the euro area and in Germany. While moderate growth is forecast for the euro area, the Kiel Institute for the World Economy (IfW) expects German GDP to grow by 3.2 percent in 2007. Given that the level of disposable income will grow substantially in real terms with the rise in employment levels, consumer expenditure can also be expected to show a further recovery. The German clothing industry is confident about the future. According to a survey undertaken by GermanFashion Modeverband, a sector association, the German clothing industry expects to see robust sales growth, mainly driven by exports, in 2007.

**EXPECTED EARNINGS POSITION** On the basis of macroeconomic conditions and of current advance order figures we expect to see a positive performance in the 2006/07 financial year. We continue to see above-average growth potential in Eastern Europe. Russia in particular offers additional opportunities in the field of brand clothing. In Germany, we will increasingly press ahead with proprietary retail activities and franchise systems in order to exploit future growth potential. Alongside the expansion of our export ratio, the optimization of our brand portfolio and the expansion of the Premium Brands segment form key elements in our corporate strategy. Top priority is also being accorded to achieving improvements in procurement and logistics.

We therefore currently expect to see moderate sales growth of around three percent, including sales at Baldessarini, in the 2006/07 financial year. While the past financial year was affected by several positive and negative one-off factors, we aim in the current financial year to achieve a marked improvement in our key profit figures from continuing business operations. Overall, we aim to generate ongoing improvements in our pre-tax return on sales in the medium term.

The Ahlers Group will continue to distribute an attractive dividend to its investors in future in order to honor the trust they have placed in the company.

**EXPECTED FINANCIAL POSITION** The balance sheet structure of the Ahlers Group will continue to show a solid debt/equity ratio in coming financial years as well. In the interests of our corporate strategy and of exploiting promising growth opportunities, we will continue to make acquisitions in interesting cases in future. These will involve men's outerwear and full-range suppliers and will be suitable for marketing on an international level. The Group has sufficient financial resources available to make suitable acquisitions in the current financial year.

# Consolidated income statement for the 1st half and 2nd quarter of 2006/07

	H1 2006/07 EUR'000	H1 2005/06 EUR'000	Q2 2006/07 EUR'000	Q2 2005/06 EUR'000
<b>Continuing business operations</b>				
1. Sales	121,297	116,604	58,915	51,850
2. Decreases or increases in inventories of finished goods and work in progress	-1,522	-5,987	-3,477	-5,528
3. Other operating income	2,431	1,285	2,046	625
4. Cost of materials	63,089	55,139	27,829	21,988
5. Personnel expenses	26,497	25,414	13,107	12,175
6. Other operating expenses	27,128	25,184	13,618	12,182
7. Depreciation and amortization of property, plant and equipment, intangible assets and other non-current assets	2,321	2,723	1,208	1,429
8. Interest and similar income	1,164	174	563	93
9. Interest and similar expenses	713	1,264	429	655
10. <b>Pre-tax profit from continuing business operations</b>	3,622	2,352	1,856	-1,389
11. Income taxes	342	932	588	-405
12. <b>After-tax profit from continuing business operations</b>	3,280	1,420	1,268	-984
<b>Discontinued business operations</b>				
13. After-tax profit from discontinued business operations	-	4,907	-	2,345
14. <b>Net income for the period</b>	3,280	6,327	1,268	1,361
of which attributable to:				
– Shareholders of Ahlers AG	3,294	6,216	1,315	1,318
– Minority interests	-14	111	-47	43
<b>Earnings per share</b> (in EUR)				
– from continuing business operations	0.23	0.10	0.09	- 0.07
– from discontinued business operations	-	0.34	-	0.16

# Consolidated balance sheet as of May 31, 2007

ASSETS	May 31, 2007 EUR'000	May 31, 2006 EUR'000	Nov. 30, 2006 EUR'000
<b>A. Non-current assets</b>			
I. Property, plant, and equipment			
1. Land, leasehold rights and buildings	21,792	41,366	22,289
2. Technical equipment and machines	1,525	3,431	1,568
3. Plant and office equipment	9,645	11,638	9,659
4. Payments on account and plant under construction	532	444	171
	33,494	56,879	33,687
II. Intangible assets			
1. Industrial property rights and similar rights and assets	11,652	8,088	12,033
2. Payments on account	100	101	100
	11,752	8,189	12,133
III. Other non-current assets			
1. Securities	–	225	–
2. Other loans	859	435	457
3. Other financial assets	119	287	253
4. Other assets	16,386	2,693	15,355
	17,364	3,640	16,065
IV. Deferred tax assets	2,400	2,241	2,199
<b>Total non-current assets</b>	<b>65,010</b>	<b>70,949</b>	<b>64,084</b>
<b>B. Current assets</b>			
I. Inventories			
1. Raw materials and commodities	24,124	22,937	17,686
2. Work in progress	218	292	307
3. Finished goods and merchandise	27,964	34,301	29,056
	52,306	57,530	47,049
II. Accounts receivable	38,712	43,303	43,558
III. Other current assets			
1. Other securities	565	573	572
2. Receivables from affiliates	25	26	25
3. Current income tax claims	6,763	1,622	6,710
4. Other assets	5,124	6,256	6,237
	12,477	8,477	13,544
IV. Cash and cash equivalents	37,567	21,636	76,812
<b>Total current assets</b>	<b>141,062</b>	<b>130,946</b>	<b>180,963</b>
	<b>206,072</b>	<b>201,895</b>	<b>245,047</b>

LIABILITIES AND EQUITY	May 31, 2007 EUR'000	May 31, 2006 EUR'000	Nov. 30, 2006 EUR'000
<b>A. Equity</b>			
I. Subscribed capital	43,200	43,200	43,200
II. Capital reserve	15,024	15,024	15,024
III. Retained earnings	64,904	31,477	104,410
IV. Currency translation adjustments	-653	79	-239
<b>Equity attributable to shareholders of Ahlers AG</b>	<b>122,475</b>	<b>89,780</b>	<b>162,395</b>
V. Minority interests	2,302	2,402	2,333
<b>Total equity</b>	<b>124,777</b>	<b>92,182</b>	<b>164,728</b>
<b>B. Non-current liabilities</b>			
I. Pension provisions	6,222	7,266	6,398
II. Other provisions	6,323	2,375	6,451
III. Financial liabilities			
1. Other financial liabilities	19,172	25,114	19,297
2. Minority interests in partnerships	3,704	3,940	3,531
	22,876	29,054	22,828
IV. Accounts payable	1,158	–	1,198
V. Other liabilities	57	64	57
VI. Deferred tax liabilities	2,788	4,812	2,675
<b>Total non-current liabilities</b>	<b>39,424</b>	<b>43,571</b>	<b>39,607</b>
<b>C. Current liabilities</b>			
I. Current income tax liabilities	1,184	2,279	2,025
II. Other provisions	2,869	3,002	2,072
III. Financial liabilities	12,339	32,181	4,662
IV. Accounts payable	12,979	12,824	15,804
V. Other liabilities			
1. Liabilities to affiliates	773	1,622	3,104
2. Other liabilities	11,727	14,234	13,045
	12,500	15,856	16,149
<b>Total current liabilities</b>	<b>41,871</b>	<b>66,142</b>	<b>40,712</b>
<b>Total equity and liabilities</b>	<b>81,295</b>	<b>109,713</b>	<b>80,319</b>
	<b>206,072</b>	<b>201,895</b>	<b>245,047</b>

# Consolidated cash flow statement for the 1st half of 2006/07

	H1 2006/07		H1 2005/06	
	EUR'000	EUR'000	EUR'000	EUR'000
Net income for the period		3,280		6,327
Depreciation and amortization of non-current assets	2,321		3,555	
Change in deferred taxes	-89		67	
Change in non-current provisions	-303		-	
Change in minority interests in partnerships and other non-current liabilities	133		107	
Change in other provisions	797		-524	
Gains/losses from the disposals of non-current assets (net)	-27		-282	
Increase in inventories and other current and non-current assets	-650		9,271	
Decrease in other current liabilities	-7,435	-5,253	-15,649	-3,455
<b>Cashflow from operating activities</b>		-1,973		2,872
Receipts from disposals of items of property, plant and equipment	283		348	
Payments for investment in property, plant and equipment	-2,154		-2,873	
Payments for investments in intangible assets	-111		-147	
<b>Cashflow from investing activities</b>		-1,982		-2,672
Dividend payment	-42,800			
Repayment/additions of non-current financial liabilities	-125		343	
<b>Cashflow from financing activities</b>		-42,925		343
Net change in cash and cash equivalents		-46,880		543
Effects of changes in the scope of consolidation and exchange rates		-169		-254
Liquid funds as of December 1		73,325		-9,895
<b>Liquid funds as of May 31</b>		26,276		-9,606

## COMPOSITION OF LIQUID FUNDS

	Balance as of May 31, 2007 EUR'000	Balance as of Nov. 30, 2006 EUR'000	Change EUR'000
Cash and cash equivalents	37,567	76,812	-39,245
Other securities	565	572	-7
Short-term financial liabilities	-11,856	-4,059	-7,797
	<b>26,276</b>	<b>73,325</b>	<b>-47,049</b>



# Consolidated statement of changes in equity for the 1st half of 2006/07

in EUR'000

	Equity attributable to shareholders of Ahlers AG						Minority interests	Total equity
	Subscribed capital							
	Common shares	Preferred shares	Capital reserve	Retained earnings	Adjustment item for currency translation	Total Group holdings		
Balance as of Dec. 1, 2005	24,000	19,200	15,024	25,260	227	83,711	2,449	86,160
Net income				6,217		6,217	111	6,328
Dividends paid				–		–	-49	-49
Exchange differences					-148	-148		-148
Other changes							-109	-109
Balance as of May 31, 2006	24,000	19,200	15,024	31,477	79	89,780	2,402	92,182
Balance as of Dec. 01, 2006	24,000	19,200	15,024	104,410	-239	162,395	2,333	164,728
Net income				3,294		3,294	-14	3,280
Dividends paid				-42,800		-42,800	0	-42,800
Exchange differences					-414	-414		-414
Other changes							-17	-17
Balance as of May 31, 2007	24,000	19,200	15,024	64,904	-653	122,475	2,302	124,777

# Group segment reporting as of May 31, 2007 (previous year: May 31, 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	49,355	45,115	34,385	33,801	37,378	37,559	179	129	121,297	116,604
of which Germany	22,148	22,066	23,744	23,354	18,954	20,590	179	129	65,025	66,139
of which abroad	27,207	23,049	10,641	10,447	18,424	16,969	–	–	56,272	50,465
Intersegment sales	–	–	–	–	–	–	–	–	–	–
Segment result	-99	651	4,506	3,590	-758	-1,776	-27	-113	3,622	2,352
thereof										
Depreciation and amortization	976	1,433	656	609	668	651	21	30	2,321	2,723
Other non-cash items	393	786	326	342	260	493	–	–	979	1,621
Interest income	489	68	325	61	350	45	–	–	1,164	174
Interest expense	296	585	110	164	307	475	–	41	713	1,265
Net assets	91,100	123,364	41,528	30,581	46,751	41,007	17,530	3,081	196,909	198,033
Capital expenditure	718	1,954	628	537	919	529	1,032	156	3,297	3,176
Liabilities	36,574	53,658	13,939	10,861	25,232	36,220	692	643	76,437	101,382

## 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	22,148	22,066	23,744	23,354	18,954	20,590	179	129	65,025	66,139
Net assets	62,640	92,513	22,155	16,552	30,998	26,860	17,406	2,689	133,199	138,614
Capital expenditure	305	1,748	288	429	652	479	1,032	156	2,277	2,812
Western Europe										
Sales	14,767	14,232	8,600	8,491	11,910	12,094	–	–	35,277	34,817
Net assets	9,457	7,762	9,219	8,978	6,164	6,249	–	–	24,840	22,989
Capital expenditure	25	2	70	5	170	2	–	–	265	9
Central/Eastern Europe/ Other										
Sales	12,440	8,817	2,041	1,956	6,514	4,875	–	–	20,995	15,648
Net assets	19,003	23,089	10,154	5,051	9,589	7,898	124	392	38,870	36,430
Capital expenditure	388	204	270	103	97	48	–	–	755	355

**NOTES TO THE FINANCIAL STATEMENTS** These financial statements for the first six months of the 2006/07 financial year have been compiled for the first time in accordance with International Financial Reporting Standards (IFRS). In particular, the financial statements meet the requirements of IAS 34 – Interim Reporting. The previous year's figures have been adjusted retrospectively. The accounting policies and consolidation principles have remained basically unchanged on the consolidated financial statements as of November 30, 2006. A detailed description of these policies has been published in the notes to the consolidated financial statements in the 2005/06 Annual Report. The quarterly report as of May 31, 2007 has not been reviewed by the auditor.

Please note that capital expenditure in the segment reporting are shown including discontinued business operations, whereas the management report shows investments from continuing business operations.

**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.

## FINANCIAL CALENDAR

### MID OCTOBER 2007

Interim Report as of August 31, 2007

### MAY 15, 2008

Annual Shareholders' Meeting

Herford, July 2007

The Management Board

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

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