ahlers

AHLERS AG

Half Year Report 2007/08

AHLERS AG

HALF YEAR REPORT 2007/08
(December 1, 2007 to May 31, 2008)

BUSINESS DEVELOPMENT IN THE FIRST SIX MONTHS OF FISCAL 2007/08

1. BUSINESS AND GENERAL CONDITIONS

The European economy essentially performed well in the first half of 2008, with GDP growth exceeding the long-term average and unemployment continuing to decline. However, a drop in retail sales pointed to a turnaround already in the first three months of the year. In the second quarter, there were more and more signs which suggested that the upturn of the past years would come to an end. As a result, the forecast for euro-zone GDP growth was downgraded from 2.6 percent in 2007 to 1.8 percent in 2008, with a further decline projected for 2009 (Commerzbank forecast); the latest unemployment statistics also came in below expectations. Private consumption was adversely affected by the poorer outlook and the increase in energy and food prices. Retail sales consequently declined by 3 percent in Germany and also fell appreciably in the rest of Western Europe.

In the same period, German clothing manufacturers still benefited from the optimism that prevailed when orders were placed in the second half of 2007 as well as from growth in international markets. According to the German Fashion association, German menswear manufacturers reported a 4.2 percent increase in sales in the first half of 2008; this was the result of moderate growth in Germany and stronger growth abroad.

2. EARNINGS, FINANCIAL AND NET WORTH POSITION

Ahlers reports impressive 7 percent increase in sales
A 7 percent growth rate means that the Ahlers Group clearly exceeded this industry average, reporting a 4 percent increase in domestic sales revenues and an 11 percent rise in foreign sales. The latter now account for 48 percent of total sales revenues (previous year: 46 percent). Total sales amounted to EUR 129.6 million, up from EUR 121.3 million. As expected, sales declined moderately in the second quarter, because deliveries in the first quarter were made much earlier.

Premium segment grows by 20 percent
The increase in Group sales was primarily driven by a 20 percent rise in sales in the premium segment, which now accounts for 46 percent of the total business (previous year: 41 percent). All three brands, pierre cardin, Baldessarini and Otto Kern, achieved strong growth and confirmed our strategy to further expand this segment.

Sales in the jeans & workwear segment increased by 2 percent in the same period. As in the first quarter of 2008, Pioneer Jeans and Pionier Workwear performed very well, which is reflected in growth rates of +7 percent and +9 percent, respectively. Service revenues for retailers and sales of Pionier Sportive showed a negative performance. Sales in the men's & sportswear segment declined by 5 percent, which was primarily attributable to the Jupiter brand.

Due to the higher sales in the premium and jeans & workwear segments, earnings increased as well (EBIT before off period effects). The men's & sportswear segment reported stable earnings, primarily because of a better gross profit margin.

SALES BY SEGMENTS

in EUR million	H1 2007/08	H1 2006/07	Change
premium brands*	59.3	49.5	19.8%
jeans & workwear	34.9	34.4	1.5%
men's & sportswear	35.4	37.4	-5.3%
Total	**129.6**	**121.3**	**6.8%**

* incl. „Other" EUR 0.2 million (previous year: EUR 0.2 million)

EBIT BEFORE OFF PERIOD EFFECTS

in EUR million	H1 2007/08	H1 2006/07	Change
premium brands	0.4	-0.6	–
jeans & workwear	4.1	3.7	10.8%
men's & sportswear	-1.4	-1.4	0.0%
Total	**3.1**	**1.7**	**82.4%**

EARNINGS POSITION

Operating result before off period effects up by 82 percent

Gross profit (+8 percent) increased at a slightly higher rate than sales (+7 percent). This was primarily attributable to the weakness in the USD, which made purchases in the Far East cheaper. At the same time, the Polish Zloty appreciated against the Euro. In conjunction with high pay rises, this made our production in Poland more expensive, pushing up personnel expenses by EUR 0.9 million. The other increases in personnel expenses were due to the planned expansion of the retail activities and the start-up of the Baldessarini premium line, which is just being presented to retailers. In total, personnel expenses increased by 10 percent to EUR 29.1 million. At EUR 26.6 million, other operating expenses remained largely unchanged (previous year: EUR 26.2 million). Operating expenses including personnel expenses and depreciation rose by 6 percent, i.e. less strongly than sales revenues.

As a result of the strong sales growth, the slightly higher gross profit margin and the moderate increase in expenses, the operating result before off period effects rose by 82 percent.

Positive special effects in the first half of the previous year make it difficult to compare the Group result. In H1 2006/07, the company released bonus provisions for the Management and the Supervisory Board which had been established following the sale of eterna but were not paid out. Due to this off period income in an amount of EUR 1.5 million last year and an insignificant amount this year (+ EUR 0.1 million), the operating result including special effects dropped to the previous year's level of EUR 3.2 million.

Immediately after the sale of eterna and before the high special dividend payout in May 2007, the Group received interest income of EUR 0.5 million, while financial expenses of EUR 0.9 million had to be paid in H1 2008. Due to the capitalisation of corporate income tax assets under the SEStEG in an amount of EUR 1.1 million, the previous year's tax ratio dropped to 9 percent before returning to a "normal" level of 25 percent this year. As a result of both effects, Group profit after tax declined from EUR 3.3 million to EUR 1.7 million.

EARNINGS POSITION

in EUR million	H1 2007/08	H1 2006/07	Changes
Sales	**129.6**	**121.3**	**6.8%**
Gross profit	61.4	56.7	8.3%
in % of sales	47.4%	46.7%	
Personnel expenses	-29.1	-26.5	9.8%
Balance of other expenses/income	-26.6	-26.2	1.5%
Depreciation, amortisation, and impairment losses	-2.6	-2.3	13.0%
EBIT before off period effects	**3.1**	**1.7**	**82.4%**
Off period effects	0.1	1.5	–
EBIT	3.2	3.2	0.0%
Financial result	-0.9	0.4	–
Income taxes	-0.6	-0.3	100.0%
Net income for the period	**1.7**	**3.3**	**-48.5%**

FINANCIAL AND NET WORTH POSITION

Solid equity ratio of 51 percent

Even after the high special dividend paid out in the previous year and this year's payout of EUR 9.7 million, the Ahlers Group remains solidly financed with an equity ratio of 51 percent and net liquidity of EUR 4.3 million (previous year: EUR 26.3 million).

With a view to improving product availability, the Management started to lift inventory levels in mid-2007, which enabled it to make more precise and earlier deliveries. This and the decline in on the spot sales from stock in the first half of 2008 pushed up inventories by EUR 11.6 million. Trade receivables remained stable despite the increase in sales. Moreover, the percentage of uninsured receivables declined noticeably.

In the first half of 2008, Ahlers increased its investments in shop systems and retail fittings. As a result, fixed asset investments rose by EUR 1.3 million.

KEY MANAGEMENT AND FINANCIAL INDICATORS

in EUR million	H1 2007/08	H1 2006/07	Change
Sales	129.6	121.3	6.8%
Germany	67.3	65.0	3.5%
Western Europe	35.7	34.0	5.0%
Central/Eastern Europe/Other	26.6	22.3	19.3%
Gross profit	61.4	56.7	8.3%
as a percentage of sales	47.4%	46.7%	
EBITDA	5.8	5.5	5.5%
EBIT	3.2	3.2	0.0%
Net income for the period	1.7	3.3	-48.5%
Earnings per share (in EUR)	0.12	0.23	
Working Capital	90.9	78.0	16.5%
Equity ratio (in %)	51.4%	60.6%	

3. POST BALANCE SHEET EVENTS

No events of special significance occurred between the end of the first half year and the preparation of the interim report.

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 2006/07 consolidated financial statements remain valid.

5. EMPLOYEES

On May 31, 2008, the Ahlers Group‘s headcount comprised 2,928 employees, up by 32 compared to the same point in time one year earlier (+1 percent). In Germany, 44 new jobs were created mainly in the retail, collection development and production management areas. In Poland, the number of employees declined by 71, as production was scaled down. Some of these activities were relocated to our plant in Sri Lanka (+49 employees).

6. PERFORMANCE OF AHLERS SHARES

On May 30, 2008, Ahlers shares were trading at EUR 10.28 (common share) and EUR 10.22 (preferred share). At the end of May 2008, the share prices were down 23 percent and 24 percent, respectively, on the prices recorded one year earlier (EUR 13.42 and EUR 13.47). Factoring in the dividend of EUR 0.65 and EUR 0.70, respectively, the prices of both share types declined by 19 percent.

7. OUTLOOK

Future economic conditions

As described in chapter 1, the outlook for the Western European economy is deteriorating. Real disposable incomes are declining and consumers are becoming more pessimistic, which is an important factor for clothing purchases. Only Eastern Europe continues to see strong growth, with rates slightly below the previous year’s level. Retailers had based their orders for the autumn/winter collections in spring on the reduced sales expectations and lowered their purchasing limits.

Profitability outlook: Sales and EBIT to grow

Based on the order situation for autumn/winter 2008, we project moderately rising sales for the next six months and sales growth in the medium single-digit range for the year as a whole. The aim is to generate EBIT growth before special effects. On the basis of today’s knowledge, Group profit after tax will be below the previous year’s level due to the effects on the financial result and the tax ratio described in chapter 2 “Earnings position”. In the second half of 2007, in which hardly any special effects occurred, the Ahlers Group generated earnings after tax in an amount of EUR 6.4 million. The management aims to achieve earnings in a similar amount in the second half of 2008.

Financial and net worth position remains solid

From today‘s point of view nothing points to a material change in the Group‘s solid financial position. The Group should be able to finance its slightly increased investments in fixed assets from its cash flow. Current asset growth should slow down and become further aligned with sales growth.

The company remains on the lookout for further acquisitions which fit in with the Ahlers brand portfolio and are suitable to support the Group‘s sales and profit growth particularly at the international level.

Consolidated balance sheet

as of May 31, 2008

ASSETS

in KEUR	May 31, 2008	May 31, 2007	Nov. 30, 2007
A. Non-current assets			
I. Property, plant, and equipment			
1. Land, land rights and buildings	21,217	21,792	21,554
2. Technical equipment and machines	2,013	1,525	1,819
3. Other equipment, plant and office equipment	12,288	9,645	11,255
4. Payments on account and plant under construction	115	532	209
	35,633	**33,494**	**34,837**
II. Intangible assets			
1. Industrial property rights and similar rights and assets	11,871	11,652	11,762
2. Payments on account	10	100	10
	11,881	**11,752**	**11,772**
III. Other non-current assets			
1. Other loans	736	859	588
2. Other financial assets	124	119	139
3. Other assets	18,163	16,386	17,611
	19,023	**17,364**	**18,338**
IV. Deferred tax assets	3,022	2,400	2,503
Total non-current assets	**69,559**	**65,010**	**67,450**
B. Current assets			
I. Inventories			
1. Raw materials and consumables	24,051	24,124	22,341
2. Work in progress	418	218	412
3. Finished goods and merchandise	39,401	27,964	37,959
	63,870	**52,306**	**60,712**
II. Trade receivables	38,669	38,712	44,850
III. Other current assets			
1. Other securities	15,558	565	556
2. Receivables from affiliates	23	25	24
3. Current income tax claims	6,066	6,763	6,917
4. Other assets	6,617	5,124	6,896
	28,264	**12,477**	**14,393**
IV. Cash and cash equivalents	39,748	37,567	60,954
Total current assets	**170,551**	**141,062**	**180,909**
Total assets	**240,110**	**206,072**	**248,359**

EQUITY AND LIABILITIES

in KEUR	May 31, 2008	May 31, 2007	Nov. 30, 2007
A. Equity			
I. Subscribed capital	43,200	43,200	43,200
II. Capital reserve	15,024	15,024	15,024
III. Retained earnings	63,286	64,904	71,313
IV. Currency translation adjustments	-272	-653	-506
Equity attributable to shareholders of Ahlers AG	**121,238**	**122,475**	**129,031**
V. Minority interests	2,193	2,302	2,192
Total equity	**123,431**	**124,777**	**131,223**
B. Non-current liabilities			
I. Pension provisions	5,722	6,222	5,699
II. Other provisions	6,063	6,323	5,759
III. Financial liabilities			
1. Other financial liabilities	16,773	19,172	17,119
2. Minority interests in partnerships	3,776	3,704	3,711
	20,549	**22,876**	**20,830**
IV. Trade payables	1,279	1,158	1,257
V. Other liabilities	50	57	50
VI. Deferred tax liabilities	2,458	2,788	2,136
Total non-current liabilities	**36,121**	**39,424**	**35,731**
C. Current liabilities			
I. Current income tax liabilities	972	1,184	861
II. Other provisions	2,689	2,869	2,347
III. Financial liabilities	51,899	12,339	44,173
IV. Trade payables	11,657	12,979	17,290
V. Other liabilites			
1. Liabilities to affiliates	1,196	773	3,847
2. Other liabilities	12,145	11,727	12,887
	13,341	**12,500**	**16,734**
Total current liabilities	**80,558**	**41,871**	**81,405**
Total liabilities	**116,679**	**81,295**	**117,136**
Total equity and liabilities	**240,110**	**206,072**	**248,359**

Consolidated income statement

for H1 2007/08

in KEUR	H1 2007/08	H1 2006/07
1. Sales	129,614	121,297
2. Decreases or increases in inventories of finished goods and work in progress	947	-1,522
3. Other operating income	1,381	2,431
4. Cost of materials	-69,175	-63,089
5. Personnel expenses	-29,366	-26,497
6. Other operating expenses	-27,621	-27,128
7. Depreciation, amortisation, and impairment losses on property, plant, and equipment, intangible assets and other non-current assets	-2,629	-2,321
8. Interest and similar income	1,129	1,164
9. Interest and similar expenses	-1,985	-713
10. Pre-tax profit	**2,295**	**3,622**
11. Income taxes	-585	-342
12. Net income for the period	**1,710**	**3,280**
13. of which attributable to:		
- Shareholders of Ahlers AG	1,607	3,294
- Minority interests	103	-14
Earnings per share (in EUR)	**0.12**	**0.23**

Consolidated income statement

for Q2 2007/08

in KEUR	Q2 2007/08	Q2 2006/07
1. Sales	58,359	58,915
2. Decreases or increases in inventories of finished goods and work in progress	-1,551	-3,477
3. Other operating income	874	2,046
4. Cost of materials	-28,991	-27,829
5. Personnel expenses	-14,891	-13,107
6. Other operating expenses	-13,550	-13,618
7. Depreciation, amortisation, and impairment losses on property, plant, and equipment, intangible assets and other non-current assets	-1,367	-1,208
8. Interest and similar income	557	563
9. Interest and similar expenses	-1,034	-429
10. Pre-tax profit	**-1,594**	**1,856**
11. Income taxes	600	-589
12. Net income for the period	**-994**	**1,267**
13. of which attributable to:		
- Shareholders of Ahlers AG	-1,008	1,314
- Minority interests	14	-47
Earnings per share (in EUR)	**-0.07**	**0.09**

Consolidated cash flow statement

for H1 2007/08

in KEUR		H1 2007/08		H1 2006/07
Net income for the period		1,710		3,280
Depreciation, amortisation, and impairment losses of non-current assets	2,629		2,321	
Change in deferred taxes	-198		-89	
Change in non-current provisions	327		-303	
Change in minority interests in partnerships and other non-current liabilities	87		133	
Change in other provisions	342		797	
Gains/losses from the disposals of non-current assets (net)	-90		-27	
Change in inventories and other current and non-current liabilities	3,470		-650	
Decrease in other current liabilities	-9,668	-3,101	-7,435	-5,253
Cash flow from operating activities		**-1,391**		**-1,973**
Cash receipts from disposals of items of property, plant, and equipment	677		283	
Payments for investment in property, plant, and equipment	-3,472		-2,154	
Payments for investment in intangible assets	-145		-111	
Cash flow from investing activities		**-2,940**		**-1,982**
Dividend payments	-9,680		-42,800	
Repayment of non-current financial liabilities	-346		-125	
Cash flow from financing activities		**-10,026**		**-42,925**
Net change in liquid funds		-14,357		-46,880
Effects of changes in exchange rates		-327		-169
Liquid funds as of December 1		18,942		73,325
Liquid funds as of May 31		**4,258**		**26,276**

COMPOSITION OF LIQUID FUNDS

in KEUR	Balance as of May 31, 2008	Balance as of Nov. 30, 2007	Changes
Cash and cash equivalents	39,748	60,954	-21,206
Other securities	15,558	556	15,002
Current financial liabilities	51,048	42,568	-8,480
	4,258	**18,942**	**-14,684**

Consolidated statement of changes in equity

as of May 31, 2008 (previous year as of May 31, 2007)

	Equity attributable to shareholders of Ahlers AG							
	Subscribed capital				Adjustment item for	**Total**		
in KEUR	Common shares	Preferred shares	Capital reserve	Retained earnings	currency translation	**Group holdings**	**Minority interests**	**Total equity**
Balance as of Dec. 1, 2006	**24,000**	**19,200**	**15,024**	**104,410**	**-239**	**162,395**	**2,333**	**164,728**
Exchange differences					-414	-414		-414
Net income				3,294		3,294	-14	3,280
Other changes							-17	-17
Total net income for the period				**3,294**	**-414**	**2,880**	**-31**	**2,849**
Dividends paid				-42,800		-42,800		-42,800
Balance as of May 31, 2007	**24,000**	**19,200**	**15,024**	**64,904**	**-653**	**122,475**	**2,302**	**124,777**
Balance as of Dec. 1, 2007	**24,000**	**19,200**	**15,024**	**71,313**	**-506**	**129,031**	**2,192**	**131,223**
Net result from cash flow hedges					-45	-45		-45
Exchange differences					279	279		279
Net income				1,607		1,607	103	1,710
Other changes				46		46	-102	-56
Total net income for the period				**1,653**	**234**	**1,887**	**1**	**1,888**
Dividends paid				-9,680		-9,680		-9,680
Balance as of May 31, 2008	**24,000**	**19,200**	**15,024**	**63,286**	**-272**	**121,238**	**2,193**	**123,431**

Group segment reporting

as of May 31, 2008 (previous year as of May 31, 2007)

BY BUSINESS SEGMENT

	premium brands		jeans & workwear		men´s & sportswear		Miscellaneous		Total	
in KEUR	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07
Sales										
to third parties	59,121	49,355	34,938	34,385	35,393	37,378	162	179	129,614	121,297
thereof Germany	24,719	22,148	24,175	23,744	18,225	18,954	162	179	67,281	65,025
thereof abroad	34,402	27,207	10,763	10,641	17,168	18,424	-	-	62,333	56,272
Intersegment sales	-	-	-	-	-	-	-	-	-	-
Segment result	-50	-99	4,132	4,506	-1,774	-758	-13	-27	2,295	3,622
thereof										
Depreciation and amortisation	1,182	976	584	656	847	668	16	21	2,629	2,321
Other non-cash items	789	393	217	326	226	260	-	-	1,232	979
Interest income	523	489	302	325	304	350	-	-	1,129	1,164
Interest expense	962	296	344	110	679	307	-	-	1,985	713
Net assets	117,540	91,100	45,300	41,528	49,225	46,751	18,957	17,530	231,022	196,909
Capital expenditure	1,690	718	662	628	1,265	919	552	1,032	4,169	3,297
Liabilities	56,173	36,574	23,211	13,939	32,842	25,232	638	692	112,864	76,437

BY GEOGRAPHIC REGION

in KEUR	premium brands 2007/08	premium brands 2006/07	jeans&workwear 2007/08	jeans&workwear 2006/07	men´s&sportswear 2007/08	men´s&sportswear 2006/07	Miscellaneous 2007/08	Miscellaneous 2006/07	Total 2007/08	Total 2006/07
Germany										
Sales	24,719	22,148	24,175	23,744	18,225	18,954	162	179	67,281	65,025
Net assets	78,316	62,640	29,430	22,155	33,961	30,998	18,846	17,406	160,553	133,199
Capital expenditure	1,196	305	464	288	961	652	552	1,032	3,173	2,277
Western Europe										
Sales	17,405	14,767	7,810	7,852	10,524	11,376	-	-	35,739	33,995
Net assets	9,284	9,457	9,494	9,219	5,334	6,164	-	-	24,112	24,840
Capital expenditure	142	25	78	70	204	170	-	-	424	265
Central/Eastern Europe/ Other										
Sales	16,997	12,440	2,953	2,789	6,644	7,048	-	-	26,594	22,277
Net assets	29,940	19,003	6,376	10,154	9,930	9,589	111	124	46,357	38,870
Capital expenditure	352	388	120	270	100	97	-	-	572	755

8. NOTES TO THE FINANCIAL STATEMENTS

Accounting and valuation principles

The interim financial statements for the first six months of fiscal 2007/08 have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretation Committee's interpretations of the IFRS (IFRIC). The interim statements for the first six months of fiscal 2007/08 comply in particular with the provisions of IAS 34 Interim Financial Statements.

With regard to the accounting and valuation principles for new hedges, the company now fulfils the requirements for the accounting of hedging relationships pursuant to IAS 39. In the present interim financial statements, unrealised losses in an amount of EUR 45 thousand after deferred taxes from the valuation of forward exchange contracts for the hedging of cash flows from expected purchases in USD were recognised in equity for the first time not affecting the profit and loss statement. The other accounting and valuation principles and principles of consolidation are consistent with those applied in the preparation of the consolidated financial statements as of November 30, 2007. A detailed explanation of these principles has been published in the notes to the consolidated financial statements of the 2006/07 Annual Report.

This half year report for the first six months ended May 31, 2008 has not been reviewed by an auditor.

The half year report is prepared in Euros and all figures given in thousands of Euros (KEUR). Due to the fact that the report is prepared in EUR thousands, rounding differences can arise, since computations of individual items are based on figures in Euros.

Earnings per share

Earnings per share are defined as net income for the period divided by the weighted average number of shares outstanding during the reporting period. No shares existed either as of May 31, 2008, or May 31, 2007, that would have a diluting effect on earnings per share.

Contingent liabilities

Compared to the last balance sheet date on November 30, 2007, contingent liabilities were reduced as planned in the context of the company's investment activity.

Notes to the consolidated cash flow statement

Income taxes paid totalled EUR 2,117 thousand, while income taxes received amounted to EUR 2,699 thousand. Interest paid amounted to EUR 1,544 thousand and interest received to EUR 1,029 thousand.

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, materialise or if the assumptions underlying the statements above prove to be incorrect.

Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the interim management report of the group includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group for the remaining months of the financial year.

Financial calendar

DATES

Interim report Q 3 2007/08	October 14, 2008
DVFA analyst meeting in Frankfurt/Main	October 15, 2008
German Equity Forum (Deutsches Eigenkapitalforum) in Frankfurt/ Main	November 10, 2008
Balance sheet press conference in Düsseldorf	February 26, 2009
Annual Shareholders' Meeting in Düsseldorf	May 6, 2009

Herford, July 2008

The Management Board

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

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AHLERS AG

- produces menswear under several brands, tailored to its respective target groups
- is one of the leading European menswear manufacturers
- family-run in the third generation by Dr. Stella A. Ahlers
- was established by Adolf Ahlers in 1919 and listed as a joint stock corporation in 1987
- employs approximately 3,000 people
- generates 48 percent of its sales revenues in international markets
- produces approximately 12 million fashion items per year

The brands

BALDESSARINI

pierre cardin

OTTO KERN

PIONEER® AUTHENTIC JEANS

PIONIER® SPORTIVE

Pionier® workwear

JUPITER®

GIN TONIC® THE TASTE OF FASHION

GIN FIZZ® WOMAN

Ahlers AG, Herford
ISIN DE0005009708 and DE0005009732