**AHLERS AG**

Annual Report 2016/17

December 1, 2016 - November 30, 2017

# Ahlers AG

- was established by Adolf Ahlers in 1919 and listed as a joint stock corporation in 1987
- is family-run in the third generation by Dr. Stella A. Ahlers
- is one of the biggest listed European manufacturers of menswear
- produces fashion under seven brands, tailored to its respective target groups
- generates 69 percent of its sales revenues from premium brands
- produces 7,000,000 fashion items per year
- manufactures one third of the production volume in its own factories
- employs some 2,000 people
- generates 13 percent of its sales with own retail operations

# The product segments

- Premium Brands
- Jeans, Casual & Workwear

# The strengths

- Fast-growing brands which are positioned at the upper end of the clothing market
- High product expertise
- Distribution presence all throughout Europe
- Solid financial position characterised by high equity

# The strategy for 2018

- Growth driven by the Pierre Cardin, Baldessarini and Pioneer Authentic Jeans brands
- Growth in conjunction with specialist retailers national and international
- Growth in the e-commerce space on marketplaces, in the Wholesale segment and through the company's own online shops
- Optimised procurement and logistics

Premium brands

BALDESSARINI

- An international brand in the upper premium segment
- Baldessarini stands for stylish and masculine design, the finest quality materials and modern silhouettes

pierre cardin

- Ladieswear and menswear in the premium segment
- Francophile, cosmopolitan and modern with stylish looks for business and leisure

OTTO KERN

- The lifestyle brand in the premium segment
- Sophisticated designs and high-quality fashion for every occasion with a touch of extravagance

Jeans, Casual & Workwear

PIONEER® AUTHENTIC JEANS

- Casual and modern jeanswear for men and women
- Denim in authentic washes with perfect fits and matching tops

Pionier® JEANS & CASUALS

- A casual brand for men of calibre
- Sporty and trendy, casual and well-groomed

Pionier WORKWEAR

- Workwear for professionals
- Corporate fashion for the skilled and industrial trades and the services sector
- Certified to DIN ISO 9001

JUPITER®

- High-quality sportswear jackets for the upper mid-market
- The perfect marriage of design and functionality

| | | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | Change |
|---|---|---|---|---|---|---|---|
| **Consolidated financial statements** | | | | | | | |
| Sales | EUR million | 246.7 | 257.1 | 241.9 | 237.8 | 235.9 | -0.8% |
| thereof abroad | % | 45.7 | 45.2 | 44.9 | 45.3 | 46.2 | 0.9 PP |
| Gross profit | EUR million | 124.3 | 128.3 | 119.0 | 116.9 | 117.1 | 0.2% |
| as a percentage of sales | % | 50.4 | 49.9 | 49.2 | 49.2 | 49.6 | 0.4 PP |
| EBITDA | EUR million | 12.6 | 14.6 | 8.7 | 9.2 | 8.3 | -9.8% |
| EBIT | EUR million | 7.3 | 9.2 | 2.4 | 4.0 | 3.0 | -25.0% |
| Net income | EUR million | 5.6 | 6.0 | 1.4 | 2.5 | 1.9 | -24.0% |
| Depreciation, amortisation and impairment losses | EUR million | 5.3 | 5.4 | 6.3 | 5.2 | 5.3 | -1.9% |
| Cash flow from operating activities | EUR million | 1.5 | 10.9 | 13.4 | 4.9 | 10.2 | 108.2% |
| Balance sheet total | EUR million | 182.4 | 190.4 | 180.6 | 181.6 | 181.2 | -0.2% |
| Non-current assets | EUR million | 62.2 | 60.7 | 62.1 | 62.0 | 63.5 | 2.4% |
| Equity | EUR million | 109.3 | 110.3 | 105.3 | 103.9 | 102.1 | -1.7% |
| Equity ratio | % | 59.9 | 57.9 | 58.3 | 57.2 | 56.4 | -0.8 PP |
| Number of employees (annual average) | | 2,194 | 2,226 | 2,093 | 2,042 | 2,062 | 1.0% |
| **The share** | | | | | | | |
| Market capitalisation | EUR million | 158.6 | 153.4 | 109.0 | 95.9 | 82.2 | -14.3% |
| Earnings per share | EUR | 0.38 | 0.42 | 0.08 | 0.17 | 0.13 | -23.5% |

# Table of contents


| | |
|---|---|
| **1. TO OUR SHAREHOLDERS** | **4** |
| Letter of the CEO | 4 |
| Report of the Supervisory Board | 6 |
| Corporate Bodies | 10 |
| The Share | 12 |
| Corporate Governance Report | 15 |
| **2. COMBINED MANAGEMENT REPORT** | **22** |
| General information about the group | 22 |
| - Business model | 22 |
| - Objectives and strategy | 40 |
| - Research and development | 42 |
| - Controlling system | 42 |
| - Employees | 43 |
| - Sustainability report | 44 |
| Economic report | 50 |
| - Macroeconomic and industry-specific situation | 50 |
| - Business performance | 50 |
| - Earnings, net worth and financial position | 52 |
| - Segment report | 57 |
| Report of Ahlers AG | 59 |
| Post balance sheet events | 63 |
| Forecast | 63 |
| Risk and opportunity report including financial instruments | 67 |
| Internal control and risk management system | 71 |
| Other disclosures | 72 |
| - Compensation report | 72 |
| - Takeover-related information | 74 |
| - Corporate governance statement | 77 |
| - Forward-looking statements | 77 |
| - Related party disclosures | 77 |
| **3. CONSOLIDATED FINANCIAL STATEMENTS OF AHLERS AG** | **78** |
| Balance sheet | 78 |
| Income statement | 80 |
| Statement of comprehensive income | 80 |
| Cash flow statement | 81 |
| Statement of changes in equity | 82 |
| Notes to the consolidated financial statements | 83 |
| Proposal for the appropriation of profits | 120 |
| Responsibility statement | 120 |
| Audit opinion | 121 |
| **4. ADDITIONAL INFORMATION** | **126** |
| Ahlers collection | 126 |
| History of Ahlers AG | 132 |
| Financial calendar | 133 |

# Letter of the CEO

DEAR SHAREHOLDERS, DEAR LADIES AND GENTLEMEN,

The past fiscal year again presented us with difficult and challenging conditions. In spite of a good economic situation in Germany and other European countries as well as high spending propensity on the part of consumers, the clothing business remained difficult due to declining footfall in city centres, changes in consumer behaviour and the resulting shift in purchases to online shops. As in the two previous years, German fashion retailers recorded a 1.5 percent drop in sales. The moderate 6 percent increase in online clothing revenues was insufficient to close this gap. Add to this the early start of discounts and promotions, which weighed on the average price of apparel.

Against this background, it is gratifying to see that we were able to grow the revenues from our continued brands – Baldessarini, Pierre Cardin, Otto Kern as well as Jupiter and Pioneer, Pionier Jeans & Casual and Pionier Workwear – by 0.9 percent against the downward trend in the German market. In Central and Eastern Europe including Russia, revenues even grew by as much as 6.6 percent. Revenues from our own Retail operations increased by 2.3 percent and e-commerce revenues soared by 22 percent. Thus, we met our revenue forecast. Operating cash flow also showed a positive trend, picking up by over 100 percent to EUR 10.2 million against the background of reduced inventories and net working capital and increased merchandise availability.

We are still not satisfied with the past fiscal year, especially with regard to our bottom line. Although we remained confident throughout the year that we would meet our earnings forecasts, it turned out that increased discounts and higher order-picking expenses in the fourth quarter, especially in the e-commerce segment, precluded us from meeting our earnings forecast and sent earnings dropping below the prior year level.

We have meanwhile initiated measures to grow at all earnings levels in the fiscal year 2017/18, also with the help of improved procurement and strict cost discipline. What is more, we will aim to further reduce our net working capital and keep our cash flow at a high level. Most importantly, however, we will do everything to grow our revenues profitably against the slow market trend.

In the quickly changing fashion market, strong brands and excellent products are needed to convince consumers in both physical and online stores. The successful Futureflex jeans from Pierre Cardin are a case in point. Their Elasthan content of 5 percent makes them ultra comfortable while retaining their authentic denim look.

We have launched special partnership schemes such as our "Customer Success Concept" to support our retail partners in managing our sales spaces and help them make their stores more attractive by means of pop-up shops, shop window offerings and visual merchandising at the point of sale. At the same time, we support our customers' online activities by providing them with digital content. It must be our aim for the future to enable consumers to buy our products online or offline at any time at our customers' stores, on digital marketplaces or in our own online shops.

The market situation requires us to change our structures. We are therefore introducing a new ERP system, optimising our logistic processes and creating new jobs in the online segment. Moreover, we are looking at ways to use digitisation already at the development stage of our collections.

The changes in the market are calling for a high level of open-mindedness and flexibility from our staff. I would like to take this opportunity to thank them for their readiness and their commitment in the past fiscal year.

My thanks also go to you, dear shareholders, for your patience and your loyalty in these challenging times.

With a view to making our share more attractive, we will propose to the Annual Shareholders' Meeting on April 24, 2018 in Düsseldorf to convert the preferred shares into common shares. This step is designed to increase the liquidity of the Ahlers shares at the stock exchange and to implement the "one share, one vote" principle. We hope you will support this move and stay loyal to our company in the future.

Yours

S. Ahlers

Dr. Stella A. Ahlers
Chief Executive Officer

# Report of the Supervisory Board

## DEAR LADIES AND GENTLEMEN,

In the fiscal year 2016/17, the Supervisory Board performed all tasks incumbent on it under applicable laws, the company statutes, the rules of procedure and standards of good corporate governance. It closely monitored the economic and financial performance of the company and its strategic orientation. The Supervisory Board continuously advised the Management Board and monitored its management activities. In doing so, it constantly satisfied itself that all actions taken were legal and proper and served their intended purpose. The Management Board fulfilled its information duties and regularly provided the Supervisory Board with timely and comprehensive written and verbal information on the situation of the Group. The Management Board reported in detail on the company strategy and its plans and budgets, the current business trend, the earnings and financial position, the human resources situation, the risk situation and compliance-related matters. The reports also contained information on deviations from previously reported targets and objectives as well as deviations in the business trend from the company's plans and projections as well as the reasons for such deviations. The strategic orientation of the company was discussed and agreed with us. The Supervisory Board was directly and immediately involved in all decisions of fundamental importance for the Ahlers Group. Where required by law, the statutes or the rules of procedure, the Supervisory Board granted its approval for individual business transactions. The Supervisory Board actively monitored the situation of the company and liaised regularly with the Management Board, also outside the meetings. At the same time, there was a lively exchange of information and ideas between the CEO and the Chairman of the Supervisory Board.

**Focus of the Supervisory Board meetings**

The Supervisory Board held four meetings in the fiscal year 2016/17, all of which were attended by all members.

The main item on the agenda of the Supervisory Board meeting on December 8, 2016 were the plans and budgets for the fiscal year 2016/17 as well as the Group's medium-term planning. Detailed plans for our brands, the Group's staff, investments, marketing and cash flows were discussed. The declaration of conformity and the report of the Compliance Officer are other regular items on the agenda of the December meeting. In addition, the chairpersons of the Audit Committee and the Marketing Committee informed the Supervisory Board members about the matters discussed at the latest meetings of their respective committees.

At its meeting on February 27, 2017, the Supervisory Board primarily addressed the 2015/16 financial statements. The Management Board presented the financial statements and the situation of the Group and the company. The auditor reported on the audit of the consolidated and the separate financial statements and their results and answered the Supervisory Board's questions. After the discussion, the Supervisory Board approved the 2015/16 financial statements as well as the dividend proposal. The invitation to the Annual Shareholders' Meeting and to the separate meeting of the preferred shareholders were discussed and approved. The participants in the meeting discussed the solid risk situation of Q4 2015/16, whereupon the Supervisory Board approved the risk report for the period ended November 30, 2016. The Management Board then reported on the performance in the first nine months of the fiscal year. The Supervisory Board decided to initiate an approval procedure for non-audit services of the auditor in the context of the EU reform of the statutory audit. The Supervisory Board members agreed a time-table for a faster year-end accounting process. As of the present reporting year, the Annual Report will be published within 90 days from the end of the fiscal year, which is in compliance with the recommendations of the German Corporate Governance Code.

At the Supervisory Board meeting held after the Annual Shareholders' Meeting on May 3, 2017, the Management Board presented the current business situation, the order situation for autumn/winter 2017 and the forecast for the fiscal year 2016/17; the content of this presentation was then discussed by both boards. The Supervisory Board asked the Management Board to report on the progress made in relocating Baldessarini to the Herford headquarters which was decided on in December 2016. The Supervisory Board members also decided to leave the targets for the share of women on the Supervisory Board and the Management Board unchanged at 30 percent for the period until June 2022 (for more information, please refer to the Corporate Governance Report on page 15).

At the meeting on September 14, 2017, the Management Board initially presented the current business situation, the outlook on the next fiscal year and the order situation for the 2018 spring/summer season. The members of both bodies discussed the progress made in reducing the net working capital. The committees reported, inter alia, on the state of the ERP (enterprise resource planning) project, the status of the internal audit projects and the latest amendments to the Corporate Governance Code. The Supervisory Board approved the focal points for the 2016/17 audit proposed by the Audit Committee.

**Key activities of the committees**

The Supervisory Board has set up four committees – the Audit Committee, the Human Resources Committee, the Marketing Committee and the Nomination Committee. The committees discuss all important topics within their sphere of responsibility in detail and prepare the plenary Supervisory Board meetings. The Audit Committee held four regular meetings and a two-day strategy meeting in the past fiscal year. It has turned out to make sense to separate the meetings of the Audit Committee from the Supervisory Board meetings. This was the case with two of the four regular meetings and the two-day strategy meeting. The strategy meeting in November 2017 addressed the strategic objectives for the individual brands – based on the objectives defined in the previous year. The distribution channels were analysed and measures for achieving the targets and objectives were defined. The Audit Committee constantly monitored the changes in net working capital and looked at ways to reduce it and at further measures for achieving the objectives as well as the changes in the manufacturing structures. The Audit Committee also prepared the resolutions to be passed by the Supervisory Board such as the declaration of conformity, personnel decisions at the management level, the audit programme of the new fiscal year and the invitations to the Share holders" Meetings of the year 2017. The Human Resources Committee held two meetings in the fiscal year. Among other things, the committee prepared the appointment of Mr Götz Borchert as Director in charge of Marketing, Retail/E-commerce, Design/Product and Corporate Communications. In the new fiscal year 2017/18, the Human Resources Committee also prepared the renewal of the management contract of Dr. Ahlers, which was then approved by the Supervisory Board. The Marketing Committee held two meetings in the fiscal year 2016/17. The Nomination Committee did not meet in FY 2016/17, as the composition of the Supervisory Board remained unchanged. All committee meetings were attended by all members.

At the plenary Supervisory Board meetings, the chairpersons provided detailed reports on the work of their respective committees.

## Changes on the Supervisory Board and the Management Board

There were no changes on the Supervisory Board in the fiscal year. In January 2017, the Supervisory Board decided to appoint Mr Götz Borchert to the Management Board and to increase the number of Board members of Ahlers AG to three. Mr Borchert is responsible for Marketing, Retail/E-commerce, Design/Product and Corporate Communications. Mr Borchert had previously worked for the Group for ten years, most recently in the same function below Management Board level. Management Board Chairwoman Dr. Stella A. Ahlers is in charge of Strategy, Brands, Distribution, Compliance, Auditing and Procurement. Dr. Karsten Kölsch is responsible for Finance, IT, Human Resources as well as Logistics and International Operations.

## Corporate Governance

In the past fiscal year, the Supervisory Board again addressed the application and the further development of the corporate governance rules. For detailed information, please refer to the Corporate Governance Report on pages 15 to 20. We discussed the company's practice against the background of the German Corporate Governance Code as last amended on February 7, 2017 and adopted the declaration of conformity at our meeting on December 7, 2017. No conflicts of interest on the part of individual members of the Supervisory Board occurred. Prof. Dr. von Ah abstained from voting in the decisions taken by the Supervisory Board with regard to the company's service contracts with a member of the Supervisory Board pursuant to section 114 para. 1 of the German Stock Corporation Act (AktG), as she was affected by these decisions.

## Audit of the financial statements

In 2017, the Annual Shareholders' Meeting appointed BDO AG Wirtschaftsprüfungsgesellschaft headquartered in Hamburg (Hanover Branch) as the auditors for the fiscal year 2016/17. The auditors had issued a written statement that no relationships or circumstances exist which could raise doubts about their independence. This statement gave no cause for objections. Following their audit, the auditors issued an unqualified audit opinion for the separate and the consolidated financial statements including the consolidated management report.

The separate financial statements prepared by the Management Board in accordance with the German Commercial Code (HGB) and the consolidated financial statements prepared according to International Financial Reporting Standards (IFRS) as well as BDO's audit reports were made available to all members of the Supervisory Board in good time prior to the meeting of the Audit Committee- and the Supervisory Board's annual accounts meeting on February 14, 2018. The audit report and the main points of the audit were explained in detail by the auditors .Following thorough discussion, the Supervisory Board approved the audit result of BDO and endorsed it following a detailed review of the separate and the consolidated financial statements and the consolidated management report. The separate and the consolidated financial statements prepared by the Management Board were endorsed by the Supervisory Board. The financial statements have thus been approved. The Supervisory Board concurred with the Management Board's proposal to use the distributable profit to pay a dividend of EUR 0.15 per common share and of EUR 0.20 per preferred share.

The auditors also reviewed the Management Board's report on related party transactions and issued the following opinion:

"Based on our audit in accordance with our professional duties and judgement, we confirm that
1. the factual statements in the report are correct,
2. the consideration paid by the company for the legal transactions listed in the report was not unduly high."

The report on related party transactions and the audit report were immediately submitted to the Supervisory Board, which concurred with the result of the audit following a thorough review for completeness and accuracy. No objections were raised against the Management Board's related party disclosures.

The Supervisory Board thanks the Management Board and all employees for their work and their great personal commitment in the past fiscal year.

Herford, February 14, 2018

The Supervisory Board

Prof. Dr. Carl-Heinz Heuer
Chairman of the Supervisory Board

# Corporate Bodies

## MANAGEMENT BOARD

**Dr. Stella A. Ahlers**
Feusisberg (Switzerland), Chairwoman

**Götz Borchert** (since February 1, 2017)
Herford

**Dr. Karsten Kölsch**
Herford

## SUPERVISORY BOARD

**Prof. Dr. Carl-Heinz Heuer**
Chairman
Attorney, Königstein

**Prof. Dr. Julia von Ah**
Deputy Chairwoman
Tax advisor, Feusisberg
(Switzerland)

**Heidrun Baumgart**
Employee representative
Administrative assistant, Bielefeld

**Roswitha Galle**
Employee representative
Administrative assistant, Spenge

**Jörg-Viggo Müller**
Former member of the Management
board of the Ravensburger AG,
Reutlingen

**Bernd A. Rauch**
Advertising expert, Oberursel (Taunus)

**Prof. Dr. Carl-Heinz Heuer**
Chairman of the Supervisory board

## SUPERVISORY BOARD COMMITTEES

### AUDIT COMMITTEE

**Prof. Dr. Julia von Ah**
Chairwoman

**Prof. Dr. Carl-Heinz Heuer**

**Jörg-Viggo Müller**

### PERSONNEL COMMITTEE

**Prof. Dr. Carl-Heinz Heuer**
Chairman

**Prof. Dr. Julia von Ah**

**Jörg-Viggo Müller**

### MARKETING COMMITTEE

**Bernd A. Rauch**
Chairman

**Prof. Dr. Julia von Ah**

**Prof. Dr. Carl-Heinz Heuer**

### NOMINATION COMMITTEE

**Jörg-Viggo Müller**
Chairman

**Prof. Dr. Carl-Heinz Heuer**

**Bernd A. Rauch**

# The Share

**Better-than-expected stock market performance in 2016/17**

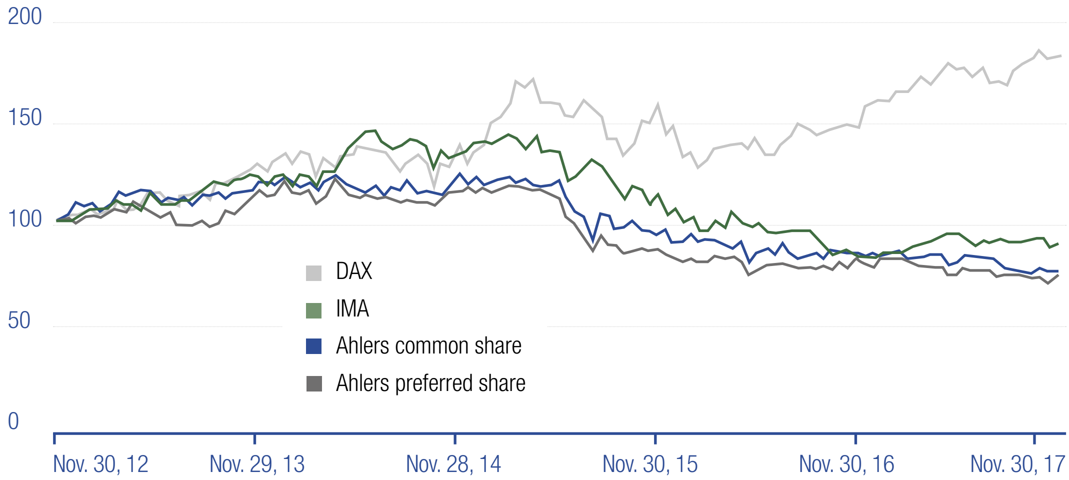
Between December 2016 and November 2017, the German stock markets performed better than expected at the beginning of the year. Germany's DAX, MDAX and SDAX stock indices showed an upward trend and little volatility in the course of the year and finished the year much higher. This trend was primarily driven by the expansionary monetary policy of the European Central Bank, which kept interest rates for alternative investments at a low level. The appreciation of the euro against the US dollar and the resulting potential adverse impact on the German export sector sent share prices falling between June and August 2017. By the end of September, however, this decline had already been offset again. During the fiscal year of Ahlers (December 1, 2016 to November 30, 2017), the DAX gained a total of 22 percent and closed the year at over 13,000 points (previous year: 10,640 points).

**Ahlers share prices decline in challenging market environment**

As in the previous year, the German clothing retail sector failed to benefit from the good economic environment in 2017. Clothing retailers' sales revenues have suffered from declining footfall in city centres. In addition, increasingly fierce discounting has reduced retailers' and manufacturers' profitability. Over the past three years, most German fashion shares therefore suffered significant price losses. Some saw their share prices drop sharply and recover temporarily, while others, including the Ahlers share, tended to decline rather continuously.

The prices of the two Ahlers shares declined successively between the May 2017 dividend payout and October 2017. They picked up moderately only in November 2017 but failed to return to the levels seen at the beginning of the fiscal year. Between the balance sheet dates of 2016 and 2017, the common shares including dividend lost a total of 13 percent (-15 percent excl. dividend). The price of the preferred shares declined by 11 percent during the same period (-14 percent excl. dividend). As a result, the company's market capitalisation dropped from EUR 96 million to EUR 82 million in the reporting period (-14 percent).

**Performance of Ahlers shares compared to the DAX and to the IMA**




IMA = unweighted index of the following German and Austrian fashion shares: Adler Modemärkte, Gerry Weber, Hugo Boss, Ludwig Beck, Tom Tailor, Wolford

**Ahlers shares achieve good dividend yields**

Ahlers maintains its consistent dividend policy, which is characterised by reliable dividend payments and high pay-out ratios, also this year. The Management Board and the Supervisory Board will propose an unchanged dividend of EUR 0.15 per common share and EUR 0.20 per preferred share to the Annual Shareholders' Meeting (previous year: EUR 0.15 and EUR 0.20). The company intends to pay out EUR 2.4 million (previous year: EUR 2.4 million). The dividend payment will thus result in a dividend yield of 2.5 percent for the common share and 3.3 percent for the preferred share based on the share price of November 2017.

**Summary of basic information on the share**

| | 2016/17 | 2015/16 |
|---|---|---|
| **Share price in EUR (Nov. 30)** | | |
| Common shares | 5.98 | 7.02 |
| Preferred shares | 6.05 | 7.00 |
| **Equity per share in EUR (Nov. 30)** | 7.36 | 7.42 |
| **Share price in EUR** | | |
| Common shares | | |
| High | 7.20 | 8.30 |
| Low | 5.75 | 6.16 |
| Preferred shares | | |
| High | 7.24 | 7.85 |
| Low | 5.40 | 6.05 |
| **Market capitalisation in EUR million (Nov. 30)** | 82.2 | 95.9 |
| **Earnings per share in EUR** | | |
| Common shares | 0.11 | 0.15 |
| Preferred shares | 0.16 | 0.20 |
| **Price/earnings ratio (Nov. 30)** | | |
| Common shares | 54 | 47 |
| Preferred shares | 38 | 35 |
| **Price/book ratio (Nov. 30)** | | |
| Common shares | 0.81 | 0.95 |
| Preferred shares | 0.82 | 0.94 |
| **Dividend in EUR million** | | |
| Nominal | 2.36 | 2.36 |
| **Dividend per share*** | | |
| Common shares | 0.15 | 0.15 |
| Preferred shares | 0.20 | 0.20 |
| **Dividend yield in % (Nov. 30)** | | |
| Common shares | 2.5 | 2.1 |
| Preferred shares | 3.3 | 2.9 |

* 2016/17: dividend proposal

**Investor relations**

In the context of various investor relations activities Ahlers regularly provides both the shareholders and all other parties interested in the company with comprehensive and up-to-date corporate information that goes beyond legal requirements.

Our Internet site at www.ahlers-ag.com contains numerous reports on the company, its product lines, its earnings and financial position as well as capital market-related topics surrounding the Ahlers share. The Annual Report, the interim report and the quarterly statements, legally required ad-hoc releases and directors' dealings notifications, information on the Annual Shareholders' Meeting as well as current press reports and company presentations are published timely in German and English on this site.

Our Annual Shareholders' Meeting on May 3, 2017 was again attended by numerous shareholders. We regularly hold detailed talks with institutional investors and analysts to inform them of the current business situation as well as our expectations, strategies and news. Every year, we hold two analysts conferences to present the Group's figures and outline the company's performance. We also attend selected investor conferences to present our company and its shares.

**Basic information**

On November 30, 2017, the share capital of Ahlers AG in an amount of EUR 43.2 million comprised 13,681,520 no-par shares and had not changed compared to the previous year. These consist of 7,600,314 common shares (including, as before, 500 registered shares with transfer restrictions) and 6,081,206 preferred shares.

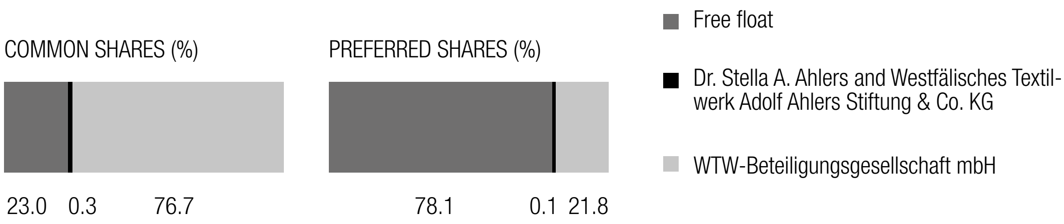
| | Total number of shares | Common shares | Preferred shares |
|---|---|---|---|
| as of Nov. 30, 2017 | 13,681,520 | 7,600,314 | 6,081,206 |
| as of Nov. 30, 2016 | 13,681,520 | 7,600,314 | 6,081,206 |
| Security code number | | 500970 | 500973 |
| International Securities Identification Number (ISIN) | | DE0005009708 | DE0005009732 |

**Shareholder structure**

The shareholder structure changed moderately in the course of the year. CEO Dr. Stella A. Ahlers, reported the purchase of 23,200 common shares and 53,470 preferred shares through WTW-Beteiligungsgesellschaft mbH in the fiscal year. No other member of the Management Board or Supervisory Board traded in shares of Ahlers AG during the past fiscal year. As of the balance sheet date, WTW-Beteiligungsgesellschaft mbH held 76.7 percent (previous year: 76.4 percent) of the common shares of Ahlers AG) and 21.8 percent of the preferred shares, compared to 20.9 percent as of the prior year reporting date. As in the previous year, Dr. Stella A. Ahlers and Westfälisches Textilwerk Adolf Ahlers Stiftung & Co. KG together directly held 0.3 percent of the common shares and 0.1 percent of the preferred shares. Adolf Ahlers Familienstiftung in Speicher (CH) is the general partner of Westfälisches Textilwerk Adolf Ahlers Stiftung & Co. KG. Dr. Stella A. Ahlers is the authorised representative of Adolf Ahlers Familienstiftung. Apart from Dr. Ahlers, no other member of the Boards owned shares in the company on the reporting date.

As of November 30, 2017, Ahlers AG held no own shares. 23.0 percent (previous year: 23.3 percent) of the common shares and 78.1 percent (previous year: 79.0 percent) of the preferred shares were widely held.

**Shareholder structure (as of November 30, 2017)**




**Proposal to consolidate the different share types**

On February 7, 2018, the Supervisory Board and the Management Board passed the general resolutions to convert the preferred shares into common shares. The resolution is to be submitted for voting to the Annual Shareholders' Meeting and to the separate meeting of the preferred shareholders, which will both be held in Düsseldorf on April 24, 2018. The consolidation of the shares will simplify the share structure of Ahlers AG and comply with the "one share – one vote" principle of good corporate governance. Moreover, all shares are to become registered shares. The conversion of the preferred shares and the resulting concentration on registered common shares as the single share type represent a strategic step aimed at increasing Ahlers AG's financial flexibility in the capital market. The liquidity and, consequently, the attractiveness of the Ahlers share are expected to increase.

The relative shares represented by the totality of shares in Ahlers AG will not be changed as a result of the consolidation. All preferred shares and the 500 registered shares with transfer restrictions and the right to appoint a Supervisory Board member are to be converted into registered voting common shares. The higher dividend entitlement of the preferred shares will no longer apply. The percentage of free floating common shares increased from 23.0 percent to 47.5 percent. The company's share capital remains unchanged at EUR 43,200,000.00 and continues to be divided into 13,681,520 shares also after the conversion.

# Corporate Governance Report

The German Corporate Governance Code defines important legal provisions for the management and supervision of German listed companies and contains nationally and internationally accepted standards of good and responsible corporate governance. The Management Board and the Supervisory Board of Ahlers AG base their work on these principles in order to establish and maintain shareholders', employees' and customers' trust in the sustainable development of the company through transparent and understandable activities as well as proper accounting.

On the following pages, the Management Board reports – also in the name of the Supervisory Board – on corporate governance at Ahlers AG. This report includes, as part of the management report, the corporate governance statement pursuant to sections 298a, 315 para. 5 of the German Commercial Code (HGB) in conjunction with article 80 of the Introductory Act to the Commercial Code (EGHGB) and the compensation report pursuant to clause 4.2.5 of the German Corporate Governance Code on the compensation of the Management Board and the Supervisory Board.

## Corporate governance statement

### Declaration of conformity and basic values

Ahlers AG largely complies with the recommendations of the "Government Commission on the German Corporate Governance Code" published by the Federal Ministry of Justice and Consumer Protection in the official section of the electronic Federal Gazette as amended on February 7, 2017. Due to specific features, Ahlers AG did not comply with all of the recommendations. The Management Board and the Supervisory Board jointly issued the declaration of conformity pursuant to section 161, para. 1, sentence 1 of the German Stock Corporation Act (AktG) on December 7, 2017. This declaration is permanently available to all interested parties on the company's website at www.ahlers-ag.com. The declaration of conformity reads as follows:

"Since its last declaration of compliance dated December 8, 2016 and with the exceptions noted therein, Ahlers AG has complied with the recommendations of the German Corporate Governance Code (Code) as amended on May 5, 2015 as well as with the subsequent version as amended on February 7, 2017. In the future Ahlers AG will comply with the recommendations of the German Corporate Governance Code as last amended on February 7, 2017, with the exception of the following recommendations:

### 3.8 D&O insurance without deductible for members of the Supervisory Board

Ahlers AG has taken out adequate insurance for its directors and officers to cover the D&O risk. The Management Board and Supervisory Board members of Ahlers AG perform their functions in a responsible manner and in the interest of the company. A significant deductible, which would have to be the same for all Supervisory Board members to comply with the principle of equality, would have very different impacts on the individual members depending on their private income and wealth situation. In case of an emergency, a less wealthy member could get into serious financial difficulties, which would not be fair in view of the fact that all members have the same duties.

### 5.1.2 Age limit for members of the Management Board
### 5.4.1 Age limit and length of membership for members of the Supervisory Board

Ahlers AG has not defined age limits for the members of the Management Board and the Supervisory Board, as the membership of these two bodies is based on qualifications and performance, which cannot be assessed using standardised age limits. Nor has a limit for the length of membership been fixed for the members of the Supervisory Board. According to the members of the Management Board and the Supervisory Board, the quality of the work of a member of the Supervisory Board tends to grow with increasing length of membership. Therefore we are of the opinion that a resignation from the Supervisory Board after a fixed maximum period does not make sense.

#### 5.4.6 Compensation for committee membership and individualised reporting of the compensation for members of the Supervisory Board

According to the statutes of Ahlers AG compensation is paid only to the chairs of Supervisory Board committees but not to simple members of such committees. The company is of the opinion that this function is covered by the general compensation of the Supervisory Board members.

Ahlers AG does not report the compensation of the Supervisory Board individually. The compensation of the Supervisory Board comprises fixed and variable components, which are published. The Management Board and the Supervisory Board of Ahlers AG are of the opinion that this information is sufficient to assess whether the compensation of the Supervisory Board as a whole, as well as its individual components, are appropriate. In addition, the compensation paid by the company to the members of the Supervisory Board for personal achievements that are not related to their work on the Supervisory Board is shown separately and individually.

Ahlers AG
Herford, December 7, 2017

The Management Board The Supervisory Board“

## Information on corporate governance practice

### Declaration of conformity and basic values

Ahlers AG attaches great importance to good corporate governance, which is primarily based on the provisions of the German Stock Corporation Act and the German Corporate Governance Code. The Supervisory Board and the Management Board manage and controll the company in a responsible manner with the aim of creating sustainable value. This also includes the effective and forward-looking management of risks (also see information on risk management in the Group management report). The Management Board and the Supervisory Board have committed them- selves to complying with legal provisions and observing the recommendations of the German Corporate Governance Code in accordance with the annual declaration of conformity. Internal controlling, reporting and compliance structures are reviewed, refined and adjusted to changing conditions on an ongoing basis. The company’s value statement, which is binding for all members of the company, ensures that the compliance and corporate governance policies are firmly anchored throughout the Group. The value statement is publicly available for all interested parties at www.ahlers-ag.com.

### Female representation

According to section 76 para. 4 s. 1 AktG, the Management Board of companies that are listed on the stock exchange or subject to co-determination, should define targets for the share of women at the two management levels below the Management Board. On September 18, 2015, the Management Board defined a female representation target of at least 30 percent for the two management levels below the Management Board. The deadline for the achievement of the target has been set for June 30, 2017 in accordance with section 76 para. 4 s. 3 AktG and section 25 para. 1 s. 2 EGAktG. On May 3, 2017, the Management Board stated that the target had been reached within the deadline and decided to leave the target at the respective management levels unchanged at 30 percent. As of the 2016/17 reporting date, 147 people worked at the two management levels below the Management Board (previous year: 149). The share of women stood at 36 percent, compared to 38 percent on the prior year reporting date. The effective date for achieving and reviewing the new targets is June 30, 2022.

Pursuant to section 111 para. 5 s. 1 and 5 AktG, the Supervisory Board of companies that are listed on the stock exchange or subject to co-determination should define targets for the share of women on the Management Board and the Supervisory Board. At the Supervisory Board meeting on September 18, 2015, targets of 30 percent each were defined. On the date they were defined, the targets were exceeded, as the share of women stood at 50 percent each. Consequently, a deadline for reviewing the targets was set for June 30, 2017 in accordance with section 111 para. 5 s. 3 AktG as well as section 25 para. 1 s. 2 EGAktG. At its meeting on May 3, 2017, the Supervisory Board stated that the target had been reached within the deadline and decided to leave the targets for both bodies unchanged at 30 percent. As of the 2016/17 reporting date, the share of women on the Management Board and the Supervisory Board stood at 33 percent and 50 percent, respectively. The deadline for achieving and reviewing the targets is June 30, 2022.

## Work of the Management Board and the Supervisory Board

As a listed joint stock company under German stock corporation law, Ahlers AG has a dual board structure which consists of a Management Board and a Supervisory Board. The Management Board is responsible for managing the company and the Group, while the Supervisory Board is responsible for supervising the Management Board.

The Management Board of Ahlers AG is solely responsible for managing the company and controlling the Group entities. The management task, which comprises, in particular, the definition of the company's objectives, the strategic positioning of the Group and its management and supervision as well as corporate planning and financing, is performed by the Management Board as a collective body. The members of the Management Board therefore have joint responsibility for the complete management process. Irrespective of this overall responsibility, the members of the Management Board have specific responsibility for the departments assigned to them in the rules of procedure of the Management Board. Cooperation within the Management Board is also governed by these rules of procedure.

The Supervisory Board appoints, supervises and advises the Management Board and defines the disclosure and reporting duties. The approval of the Supervisory Board is required for defined measures of fundamental importance for the company or the Group such as material investments and legal transactions. The Supervisory Board has adopted its own rules of procedure. The Chairman of the Supervisory Board coordinates the work on the Supervisory Board, leads its meetings and represents the body's interests externally. A summary of the type and scope of the Supervisory Board activity in the fiscal year 2016/17 is included in the report of the Supervisory Board.

## Annual Shareholders' Meeting

The Annual Shareholders' Meeting is the main instrument allowing shareholders to exercise their rights. It allows the shareholders to participate in important corporate decisions such as amendments to the statutes, the appropriation of profits and material structural changes affecting the foundations of the company. At the Annual Shareholders' Meeting, the shareholders elect the members of the Supervisory Board, unless these are elected by the workforce or appointed in accordance with the right to nominate members, which is laid down in the statutes, and decide on the approval of the acts of the Management Board and the Supervisory Board as well as the compensation of the Supervisory Board. Every shareholder is entitled to attend the Annual Shareholders' Meeting and to ask the Management Board and the Supervisory Board questions. Ahlers AG has issued common shares with one voting right per share as well as non-voting preferred shares. Each common share grants one vote at the Annual Shareholders' Meeting. Subject to mandatory legal provisions, the preferred shares do not grant a voting right. Pursuant to section 25 of the statutes of Ahlers AG, the preferred shares entitle their holders to a preferred dividend. Regular information is provided on the company's website at www.ahlersag.com, giving shareholders an idea of the current situation of the company. Prior to the Annual Shareholders' Meeting, the agenda and all other requisite documents are sent to the shareholders in good time and/or published on the company's website. Shareholders may have their voting right exercised by a proxy of their own choice. To facilitate the voting process for shareholders, Ahlers AG also provides representatives who are bound by instructions and exercise the voting right at the Annual Shareholders' Meeting. After the Annual Shareholders' Meeting, shareholders can find the voting results as well as the speech of the CEO on the company's website.

### Cooperation between the Management Board and the Supervisory Board

The past fiscal year again saw the Management Board and the Supervisory Board cooperate very closely. The Management Board provides the Supervisory Board with timely and comprehensive information about all relevant aspects relating to corporate planning and budgeting, the current business performance, the risk situation, risk management and compliance. Potential deviations of the business trend from the original plans are explained by the Management Board. The strategic positioning of the company is agreed between the Management Board and the Supervisory Board. Transactions of fundamental importance require the consent of the Supervisory Board. Besides the regular information provided, the Management Board and the Supervisory Board constantly exchange information on the situation of the company. Their relationship is characterised by openness and trust. This way, the Supervisory Board can assist the Management Board with advice and recommendations on the basis of sound information. All four Supervisory Board meetings in the fiscal year 2016/17 were attended by the Management Board. Meetings of the Human Resources Committee addressing amendments to the Management Board contracts, the calculation of bonuses or the appointment of Management Board members were not attended by members of the Management Board.

### Management Board

In the fiscal year, the Management Board of Ahlers Ag was composed of two members from December 1, 2016 to January 31, 2017. As of February 1, 2017, this number increased to three members. Dr. Stella A. Ahlers (CEO) is in charge of Strategy, Brands, Distribution, Marketing (until January 2017), Compliance, Auditing and Procurement. Götz Borchert is responsible for Marketing, Retail/E-commerce, Design/Product and Corporate Communications. Dr. Karsten Kölsch (CFO) is in charge of Finance, IT, Human Resources as well as Logistics and International Operations. The members of the Management Board manage the company under their own responsibility and are exclusively committed to the interests of the company. Potential conflicts of interest must immediately be disclosed to the Supervisory Board, which was not necessary in the past fiscal year. The Supervisory Board's consent is to be obtained where a member of the Management Board intends to serve on the Supervisory Board of another company.

### Supervisory Board

Pursuant to the statutes, the Supervisory Board of Ahlers AG is composed of six members, two of whom are elected by the workforce. Three members are elected by the Annual Shareholders' Meeting. The Supervisory Board remained unchanged in the reporting year. On December 1, 2012, the holder of the registered shares as defined in section 5 para. 1 of the statutes of Ahlers AG, Westfälisches Textilwerk Adolf Ahlers Stiftung & Co. KG, appointed Bernd A. Rauch sixth member of the Supervisory Board in accordance with section 6 para. 2 of the statutes.

The Supervisory Board shall form competent committees on the basis of the company's specific situation, including an Audit Committee, which may not be chaired by the Chairman of the Supervisory Board. For details of the committees formed by the Supervisory Board of Ahlers AG and their composition, refer to page 11 in the chapter entitled "Corporate Bodies". Prof. Dr. Julia von Ah acts as an independent financial expert as defined in section 100 para. 5 of the German Stock Corporation Act (AktG) and also chairs the Audit Committee. Moreover, Mr Jörg-Viggo Müller is independent within the meaning of clause 5.4.2 sentence 2 of the German Corporate Governance Code.

Pursuant to clause 5.4.1 of the German Corporate Governance Code as last amended on February 7, 2017, the Supervisory Board shall prepare a profile of skills and expertise for the entire Board. In December 2017, the Supervisory Board therefore last modified and re-endorsed the objectives for the composition of the Supervisory Board. The full wording of the objectives that have since been in place is shown below:

„Objectives for the composition of the Supervisory Board of Ahlers AG

Against the background of

- its size (six members including four shareholder representatives and two employee representatives),
- the business segment in which the company operates,
- the size and structure of the company,

- the scope of the company's international activity as well as
- the company's stock market listing and
- its current shareholder structure

the Supervisory Board of Ahlers AG decided, on December 7, 2017, to work towards the following objectives regarding its composition:

(1) The members of the Supervisory Board should collectively have the knowledge, skills, and professional expertise required to properly perform all duties. The competencies that are considered to be material for the full Supervisory Board include
   - entrepreneurial and/or operational experience;
   - the ability to assess the correctness, efficiency, purposefulness and lawfulness of the business decisions that are to be assessed;
   - the ability to assess the annual accounts, possibly with the help of the auditor;
   - the willingness and ability to meaningfully engage with the issues at hand and
   - the ability to select and oversee management staff.

   The specific spheres of knowledge, skills and professional experience of the individual members of the Supervisory Board should complement each other in such a way that sufficient professional expertise is available at all times for the Supervisory Board's work as such and for each material division of the company to ensure that the Management Board is permanently supervised and advised in a professional and efficient manner.
(2) The Supervisory Board should have at least one member that is independent as defined in section 100 para. 5 of the German Stock Corporation Act (AktG) and has expert knowledge in the fields of accounting or annual audit.
(3) The Supervisory Board shall have at least one other member that is independent as defined in clause 5.4.2 sentence 2 of the German Corporate Governance Code (DCGK), i.e. that has no professional or personal relationship with the company, its bodies, a controlling shareholder or a company related to the latter which could give rise to a material, non-temporary conflict of interests. The Supervisory Board is of the opinion that employee representatives should not be deemed to be dependent per se but that the circumstances of each individual case are relevant.
(4) The Supervisory Board shall have no member that sits on one of the organs or performs an advisory function at a major competitor of the company or the Group.
(5) No more than two former members of the Management Board shall sit on the Supervisory Board.
(6) The Supervisory Board shall normally comprise at least one member that has special expertise with regard to the company's international activities.
(7) The Supervisory Board shall normally comprise at least two female members, including at least one shareholder representative.
(8) Candidates proposed for election to the Supervisory Board shall normally be younger than 70 years.
(9) When preparing and adopting nominations for election to the Supervisory Board to the Annual Shareholders' Meeting, the Supervisory Board will act to the best of the company's interests. The objectives defined under (6) to (8) above are therefore subject to the condition that the objectives (1) to (5) must be ensured at all times and that competent candidates for the Supervisory Board office are available at the time they are needed. Objective (7) shall be met in the medium term, i.e. there should be two female members within the next three years.
(10) The Supervisory Board will review these objectives regularly and will publish its objectives and their implementation in the annual Corporate Governance Report."

The Supervisory Board currently considers the objectives defined under (1) to (8) to be fulfilled. The objectives defined under (9) and (10) are taken into consideration as required on the respective occasions.

No material conflicts of interest requiring disclosure to the Annual Shareholders' Meeting occurred in the past fiscal year. Please refer to the details in the Supervisory Board and compensation report. In accordance with the principles of the DSW, the Supervisory Board reviews its efficiency once a year. As in the previous year, a survey was conducted for this purpose and discussed by the Supervisory Board members. Any insights gained form an integral element of the work of the Supervisory Board.

### Directors' dealings and shareholdings of the Management Board and the Supervisory Board

Pursuant to Art. 19 of Regulation (EU) No. 596/2014 of the European Parliament and of the Council dated April 16, 2014 (Market Abuse Regulation - MAR), which came into force on July 3, 2016, directors of the company or their related parties must disclose the acquisition or sale of shares in Ahlers AG or related financial instruments if they amount to at least EUR 5,000 in a calendar year (Directors' Dealings). These directors' dealings of the past fiscal year as well as the changes in the shareholdings of Dr. Stella A. Ahlers are described in detail on page 17 in the chapter entitled "The share". Ahlers AG has met its legal obligation to publish the directors' dealings and has also posted the corresponding information on the company's website. For details on the information to be provided pursuant to section 160 para. 1 No. 8 AktG, please refer to page 113.

### Transparency

Ahlers AG aims to provide all shareholders and investors with timely information on an equal treatment basis. All relevant information is therefore announced concurrently in German and English. All relevant publications such as annual and quarterly reports and statements, ad-hoc and press releases as well as company presentations are published on the company's website at www.ahlers-ag.com. The financial calendar, which is also posted on this website, shows the regular publication dates as well as upcoming capital market events. Directors' dealings, which must be announced in a timely manner pursuant to Art. 19 of the Market Abuse Regulation (MAR), are also reported on the company's website.

### Reporting and audit of the annual financial statements

The consolidated financial statements and the interim reports of Ahlers AG are based on International Financial Reporting Standards (IFRS). The separate financial statements of Ahlers AG are prepared in accordance with German Stock Corporation Act (AktG). The annual financial statements, just like the interim report and the quarterly statements for the first and third quarter, are prepared by the Management Board and audited by the Supervisory Board. As of the fiscal year 2016/17, Ahlers exercises the option to publish quarterly statements for the first and third quarter instead of a quarterly report. For the reader, these will have the same relevance and information content to assess our business performance in the reporting period. We will merely leave out information of little relevance as well as formal elements that are no longer required by law. The Supervisory Board proposes the auditor, who is elected by the Annual Shareholders' Meeting. BDO AG Wirtschaftsprüfungsgesellschaft were again appointed auditors for the fiscal year 2016/17 by the Annual Shareholders' Meeting. The auditors had previously declared their impartiality to the Supervisory Board. BDO AG has audited the company's financial statements since the fiscal year 2008/09. The Audit Committee of the Supervisory Board commissioned the auditors and defined the main aspects of the audit as well as the auditor's fee. At its meeting on February 27, 2017, the Supervisory Board decided, in the context of the specific requirements regarding statutory audits of public-interest entities (Audit Regulation), the approval procedure for permitted non-audit services by the auditor (pursuant to Art. 5 (4) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council of April 16, 2014 which came into force on June 17, 2016).

### Compensation report

The compensation report is contained in the combined management report for Ahlers AG and is shown on page 72 et seq. under "Compensation report".

# Combined Management Report

for the fiscal year 2016/17

## GENERAL INFORMATION ABOUT THE GROUP

## BUSINESS MODEL

**Group structure and organisation**

Headquartered in Herford, Germany, Ahlers AG is the parent company of the Ahlers Group, which currently comprises 31 (previous year: 35) independent companies. Each of the Group's brands is organised in a specific company. In addition, the Group maintains wholly-owned distribution companies in the most important foreign markets. At present, we have own distribution companies in 15 countries. In the Baltic states, Ahlers operates two distribution companies, which mostly run retail stores and in which we hold a 65.5 percent interest. Ahlers AG holds 49.0 percent in Jupiter Shirt GmbH, which was spun off from the Group in 2010 and develops and sells Jupiter branded shirts throughout Europe. Ahlers operates two production facilities in Poland and Sri Lanka. A list of the subsidiaries of the Ahlers Group can be found on page 86 „Shareholdings".

The liquidation of a-fashion.com GmbH i. L., Verwaltungs- und Handelsgesellschaft „Alconda" mit beschränkter Haftung i. L. and the former production company ROMEO Spolka z o.o. i. L., which had been initiated in the previous years, was completed in the fiscal year 2016/17. Moreover, GIN TONIC SPECIAL Mode GmbH was merged into Ahlers Zentralverwaltung GmbH in the fiscal year. As of the balance sheet date on November 30, 2017, all the above companies no longer formed part of the basis of consolidation. The controlling and profit-and-loss-transfer agreement between Ahlers AG and Otto Kern GmbH was terminated with effect from December 1, 2016. All other profit-and-loss transfer agreements between Ahlers AG and its subsidiaries remain unchanged (see table "Shareholdings" on page 86). Pionier Workwear Danmark A/S, DK-Haderslev, was renamed Ahlers Danmark A/S, DK-Haderslev. In the reporting year, we relocated the registered office of Baldessarini GmbH from Munich to Herford and the registered office of Ahlers Herford (Italia) S.R.L. from I-Volpiano to I-Torino.

Ahlers is organised in the form of a function matrix. Each Managing Director of a brand is responsible for the product development and distribution activities of his/her brand. Central tasks such as IT, accounting, production, logistics, marketing and controlling/legal are based in the holding company and in Ahlers Zentralverwaltung GmbH. The central departments support the individual companies with their comprehensive knowledge and help to leverage synergies within the Group by bundling similar kinds of activities and common sourcing. The retail and outlet management activities including the German multi-label stores were merged into a single entity, Ahlers Retail GmbH. Branded outlets and stores are managed by the respective brand companies.

**Ahlers joint venture in Russia**

In the current fiscal year 2017/18, Ahlers established a joint venture "Ahlers RUS" with its long-standing Russian partner. The purpose of the joint venture is to strengthen the activities of Pierre Cardin and Pioneer Authentic Jeans in Russia. The joint venture will operate eleven Pierre Cardin stores and the wholesale business together with the former partner. Ahlers thus wants to grow the wholesale business directly through its own sales organisation in Russia and optimize the stores.

**Group profile**

The Ahlers Group's seven fashion brands offer customised collections for different target groups and price segments. Very high demands are made on quality and fashion appeal. Reflecting their fashion statements, the brands have been divided into two segments – "Premium Brands" and "Jeans, Casual & Workwear".

## Premium Brands

**Baldessarini**

Established by Werner Baldessarini in 1993, Baldessarini GmbH is an international menswear brand in the premium segment, which became part of the brand portfolio of Ahlers AG in August 2006. The collections address a target group that likes to dress in a masculine, self-confident and stylish fashion. A quest for individuality, a passion for quality and a love for detail are integral elements of all Baldessarini collections. Baldessarini is available in upmarket specialist retail stores as well as in the company's own Baldessarini Stores in Germany, Europe and the Middle East. Baldessarini is additionally marketed throughout Europe by Ahlers AG's "Elsbach Denim Library" multi-label stores. Following its relaunch in summer 2016, the online shop at www.baldessarini.com was expanded to cover the entire DACH region (Germany, Austria, Switzerland).

**Pierre Cardin**

Pierre Cardin is one of the best-known brands in the world. The Pierre Cardin collections stand for perfect fits, high-quality workmanship, state-of-the-art materials and the combination of classic elegance and modern refinement.

The brand offers three target group oriented collections for specific occasions:

***FutureFlex*** combines innovative fabrics with perfect performance – thanks to their optimised elastic recovery, the fabrics retain their fit and ensure maximum wearing comfort.

***Le Bleu*** stands for stylish, high-quality materials and forward-looking design. The segment is characterised by the highest quality standards as well as clear forms and shapes.

***Denim Academy*** represents a casual lifestyle with high denim expertise.

The collection portfolio is rounded off by a large selection of high-quality models in contemporary fits. Pierre Cardin products have been made by Ahlers under license since 1992 and are available in leading European retail stores and international mono-label stores. Jeans and chinos, suits, jackets, shirts, knitwear and sportswear for men as well as jeans and chinos for women offer wearable trends with a high-quality, up-to-date and urbane signature. Since 2016, the comprehensive Pierre Cardin range has been available in the brand's online shop at www.pierre-cardin.de.

**Otto Kern**

Otto Kern stands for a unique lifestyle in the premium segment and was taken over by Ahlers AG in 2000. Otto Kern means premium fashion in fresh colours and clear designs at an impressive price-performance ratio. Otto Kern offers high-quality menswear and stylish accessories for any occasion. High quality, a perfect fit and a strong fashion focus are the hallmarks of the brand. Otto Kern offers shirts, jeans and belts, knitwear, ready-to-wear items and sportswear, which are available in the brand's own stores as well as from leading retailers in Germany and Europe. Important additions to the lifestyle collection include fragrances, bags and underwear, for which licenses are granted to selected partners. The Otto Kern range is also available in the brand's own online shop at www.otto-kern.com.


BALDESSARINI


pierre cardin
FUTUREFLEX
COLLECTION APPARTEMENT FRANÇAIS
PRINTEMPS | ÉTÉ 2018

OTTO KERN

## Jeans, Casual & Workwear

### Pioneer Authentic Jeans

Tradition and craftsmanship form the framework for the collections of Pioneer Authentic Jeans. If you are looking for fashionable jeans for men and women as well as matching tops, you will find perfect fits and high quality at an excellent price-performance ratio at Pioneer Authentic Jeans. Pioneer styles are casual and modern, from rough to elegant, comfortable to wear and of excellent workmanship. BASIC LINE, AUTHENTIC LINE, HANDCRAFTED and MEGAFLEX cover all customer needs and wishes: from traditional denim to well-functioning trends to all trendy lace, Pioneer Authentic Jeans serves all segments. Four collections and ten delivery dates per year mean that Pioneer Authentic Jeans regular brings the latest denim trends to market.

### Pionier Jeans & Casuals

Sporty and trendy, casual and well-groomed. Established in 1977, Pionier Jeans & Casuals is a sportswear specialist who has always focused on the individual demands made by customers on the fit of their garments. The customer base is growing not only in Germany but also in Europe, where the brand is enjoying increasing popularity. This reflects the brand's great expertise, whether it's jeans, chinos or pleated front trousers. Pionier Jeans & Casual offers active and demanding consumers a wide range of trousers and tops – from classic five-pocket jeans to casual chinos, complemented by shirts, sweat-shirts, knitwear and jackets. Perfect fits and the use of special high-performance materials result in self-confident styles and a special feel-good factor.

### Pionier Workwear

Pionier Workwear has specialised in functional, high-quality apparel for over 75 years. The garments are of first-class quality, functional and well thought-out to meet the respective working conditions and the standards of the manufacturing, retail and services sectors. The Pionier Workwear portfolio also comprises corporate fashion to dress commercial and technical staff in CI-compliant outfits. Given that all workwear needs to comply with the latest technical standards at all times, Pionier Workwear constantly introduces new innovations and newly developed materials to guarantee perfect products that meet a consistently high standard of quality. Pionier Workwear is certified to DIN EN ISO 9001.

### Jupiter

Established in France in 1958, jacket specialist Jupiter became part of the brand portfolio of Ahlers AG in 1987. The French roots are reflected in all models – Jupiter's high-quality sportswear stands for maximum comfort, carefully selected materials and high-quality finishing. The focus is on design and functionality as well as on value for money. The outdoor label is targeted at fashion-conscious men preferring a sporty and grown-up look. Great importance is attached to perfect fits and high wearing comfort. The eJacket, which will be available in stores from autumn/winter 2018, offers special functionality. Via a power bank (supplementary battery for mobile phones) a sewn-in heating fabric in the back provides warmth.


PIONEER®
AUTHENTIC JEANS


pionier®
JEANS & CASUALS

# Pionier

WORKWEAR

**Elsbach Denim Library**

“Elsbach Denim Library”, Ahlers AG’s multi-label store concept, exudes a traditional charm at meanwhile five stores offering a full product range matched to the respective location. Designed in the style of an English library, the stores feature warm wood, a wall of books in the typical style of a British library as well as sufficient seating to create a cosy shopping atmosphere which invites customers to stay and linger.

The affix “Denim Library” refers to Ahlers‘ unique expertise in pants and trousers, which is reflected in a wide range of jeans and chinos. An Elsbach Denim Library store measures about 150 square metres and presents the smart business and casual ranges of the Ahlers Premium brands, Baldessarini, Pierre Cardin and Otto Kern, as well as authentic denims from Pioneer, outerwear from jacket specialist Jupiter or shirts from Elsbach, a label specifically developed for this store concept.

Locations: D-Hamburg, D-Potsdam, D-Oldenburg, D-Sylt, Lt-Kaunas.


Elsbach

DENIM LIBRARY

BALDESSARINI

OTTO KERN

pierre cardin

PIONEER®
AUTHENTIC JEANS

JUPITER®



photos: Store Westerland / Sylt

# OBJECTIVES AND STRATEGY

Solid, sustainable and profitable growth is the objective for the medium-term development of our company. The following strategic measures are designed to help achieve this goal:

### Growth driven by the Pierre Cardin, Pioneer and Baldessarini brands

Having steadily grown the revenues of its premium segment in recent years, Ahlers today generates more than two thirds of its revenues in this attractive segment of the fashion market. We intend to drive domestic and international growth through our Baldessarini and Pierre Cardin core brands. To achieve this objective, a focus will be placed on sharpening the brand profiles, expanding the collections and continuing our internationalisation. For Pierre Cardin, we want to expand the French, Spanish and Belgian markets and push ahead with retail space expansion throughout Europe. Following the start-up of the Russian joint venture, we intend to install a sales organisation for Pierre Cardin to intensify existing customer relations, e.g. through the introduction of NOS services as well as to win new customers. As far as Baldessarini is concerned, we will push ahead with the brand's international expansion in Europe and overseas. In addition, the new Managing Director is tasked with developing a strategy for making inroads into the Asian markets in 2018. The Pioneer Authentic Jeans brand will be turned from a jeans specialist into an integrated lifestyle brand offering not only jeans but also tops. We want to grow primarily at the specialist retail level and will therefore continue to refine our partnership schemes and POS concepts.

We want to expand our own Retail operations selectively and optimise existing store concepts. Being a fast growing distribution channel, the e-commerce segment is of great strategic importance and will therefore be strengthened further organisationally, with priority attached to wholesale e-commerce distribution. Licenses are to expand the product ranges of our brands and strengthen their respective brand identities.

### Growth in conjunction with specialist retailers

Stationary specialist retailers will remain the most important sales channel for menswear. Revenue growth is to be generated through sales in branded shop-in-shop spaces which also have special significance in terms of gaining optimum brand exposure. At the same time, we continue to develop and improve our internal restocking and visual merchandising processes for these branded retail spaces. The partnership programmes, cooperation schemes and the service quality are analysed and optimised on an ongoing basis. Besides the physical retail stores, a focus is also placed on the e-commerce activities of our customers.

### Increasing the export share

With international sales revenues already accounting for as much as 46 percent of total sales revenues, Ahlers is a successful European player. By systematically expanding the local sales organisations, we aim to further increase our sales revenues in Europe. In doing so, we will grow our business with selected retailers but also our own stores and partner stores. Outside Europe we aim to grow our Baldessarini brand in the medium term. The first successes have been achieved in Canada, and distribution in Asia is set to start in the fiscal year 2018.

### Growth of the e-commerce activities

Ahlers operates four online shops of the Pierre Cardin, Baldessarini, Otto Kern and Pionier Workwear brands. The Baldessarini online shop is available not only in Germany but also in Austria and Switzerland. 2018 will see us focus on the further expansion of the new Pierre Cardin online shop in Germany. The ongoing internationalisation of the marketplace business is on the agenda for all brands. We intend to grow our operations in this increasingly important distribution channel for the clothing sector with our four e-shops of Baldessarini, Pierre Cardin, Otto Kern and Pionier Workwear and by selling our products on marketplaces.

### Growth of own Retail operations

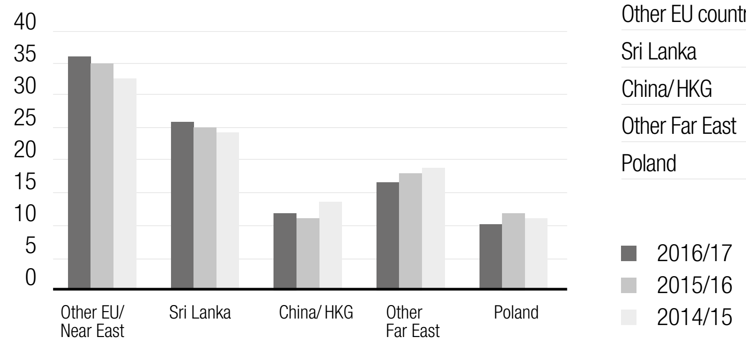
Ahlers' strategy is based on three retail formats with the help of which we want to expand our own Retail operations. In the first format, the Ahlers brands are offered in a multi-brand store named "Elsbach Denim Library", offering a full assortment tailored to local needs. The multi-brand format in the style of a British library is used in Western and Eastern Europe. The affix "Denim Library" refers to Ahlers' large range of pants and trousers, which is complemented by shirts, knitwear and outdoor wear. An Elsbach Denim Library store has a size of roughly 150 square metres. The brand mix is matched to the respective location.

The other two strategic retail formats are mono-brand stores of the Pierre Cardin and Baldessarini premium brands. These stores are operated by our company or by our partners, primarily in Eastern Europe. The further expansion is supported by ongoing analyses of locations in Germany and abroad. It is planned to open a total of two to three stores in 2018.

### Cost leadership in procurement and logistic processes

The optimisation of procurement and logistics is an ongoing challenge to the clothing sector. The Ahlers Group constantly aims to choose the best suppliers and the most favourable logistic processes with the objective of optimising our quality, reliability, speed and procurement costs. We constantly review existing and new locations and suppliers with a view to ensuring a reliable, cost-efficient manufacturing organisation that meets our quality and social standards. In 2018 we will therefore expand the focus of our procurement activities to the southern Mediterranean and reduce production in Poland. At the same time, the Group's unfinished goods logistics will be relocated from Germany to Poland. Compliance with social standards remains a precondition for signing up suppliers and service partners.

### Breakdown of production by regions (previous year):




| | | |
|---|---|---|
| Other EU countries / Near East | 36.0% | (35.1%) |
| Sri Lanka | 25.8% | (25.0%) |
| China/ HKG | 11.0% | (10.6%) |
| Other Far East | 16.5% | (17.3%) |
| Poland | 10.7% | (12.0%) |

### Capacity to make acquisitions

The Ahlers strategy is geared to growth, which could also be supported by an acquisition. A medium-sized international menswear brand in the premium segment that is also well suited for e-commerce could be an interesting target.

## RESEARCH AND DEVELOPMENT

Research and development work in fashion is performed by the Product Management and Model Departments as well as by the sample-making workshops. For every season, these departments develop new collections which are matched to their target groups. The focus is on the design task, with the functionality of the garments representing an important secondary condition. The individual product groups of the individual brands usually have their own product management teams. While the Model Departments and the sample-making workshops are usually organised by classes of goods and work for several brands, they have dedicated specialists for the respective brand within the organisation.

As of November 30, 2017, the Product Management and Model Departments as well as the sample-making workshops had 99 employees (previous year: 105). These departments incurred reduced expenses of EUR 6,762 thousand in the fiscal year 2016/17 (previous year: EUR 7,771 thousand) as extraordinary expenses were absent (previous year: EUR 387 thousand). Most of the expenses are personnel expenses. Operating expenses primarily comprise consulting costs. Research and development expenses represented 2.9 percent of sales revenues (previous year: 3.3 percent). Development expenses were not capitalised, as the requirements defined in IAS 38 were not fully met.

## CONTROLLING SYSTEM

The Management Board of Ahlers AG controls the distribution and service companies of the Group. The Management Board defines the strategy, makes important decisions together with the management teams and monitors the accomplishment of objectives by the subsidiaries.

Medium-term budgets are established for the Group for a period of three fiscal years on a rolling basis every year. The annual individual budgets are planned bottom-up on the basis of the budgets per Group entity prepared by the individual Managing Directors together with the Management Board. Detailed targets regarding defined key performance and financial indicators are set for the individual distribution and service companies. Estimates of the macroeconomic trend in the budget year are incorporated into these individual budgets. At the beginning of each fiscal year, the Management Board submits a detailed annual Group budget for the new fiscal year to the Supervisory Board.

**Key management and financial indicators**

| | | 2016/17 | 2015/16 |
|---|---|---|---|
| Sales | EUR million | 235.9 | 237.8 |
| Gross margin | in % | 49.6 | 49.2 |
| EBITDA* | EUR million | 8.7 | 10.0 |
| EBITDA-Margin* | in % | 3.7 | 4.2 |
| EBIT* | EUR million | 3.5 | 4.9 |
| EBIT-Margin* | in % | 1.5 | 2.1 |
| Net income | EUR million | 1.9 | 2.5 |
| Profit margin before taxes | in % | 1.0 | 1.4 |
| Profit margin after taxes | in % | 0.8 | 1.0 |
| Earnings per share | | | |
| common shares | EUR | 0.11 | 0.15 |
| preferred shares | EUR | 0.16 | 0.20 |
| Net Working Capital** | EUR million | 86.3 | 89.9 |
| Cash flow from operating activities | EUR million | 10.2 | 4.9 |
| Return on investment | in % | 1.0 | 1.4 |

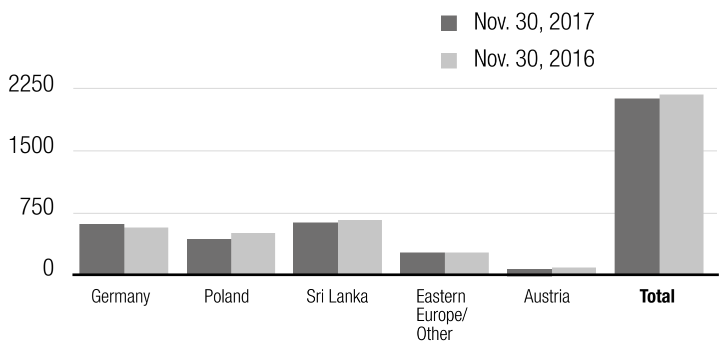
* before special effects
** Inventories, trade receivables and trade payables

The budget figures are controlled for performance in the context of central monthly reporting. The Managing Directors of the subsidiaries use a prestructured monthly financial report to report quantitative and qualitative developments in the reporting month directly to the Group management. The Management Board regularly meets with the Managing Directors to seek information on the market situation and to take strategic decisions. Central reporting databases facilitate the target/actual control and provide daily, weekly and monthly IT reports. The annual budgets are reviewed and revised twice a year.

Key performance indicators include sales revenues, EBIT, the consolidated result, operating cash flow and capital expenditures. In addition, the targeted pricing margin and the actual margin, sales growth, the cost ratios, the EBIT margin as well as the average receivables in months have been identified as performance indicators. The forward stock cover plays a special role for the production decisions of the sales managers as it is the main factor influencing the amount of net working capital. All segments are controlled using the same performance indicators. Control of the units did not change materially in the fiscal year, as the Managing Directors report to the Management Board and the key performance indicators were calculated in the same way as before.

## EMPLOYEES

### Employees by region as of reporting date (previous year)




| | | |
|---|---|---|
| Germany | 608 | (603) |
| Poland | 543 | (569) |
| Sri Lanka | 683 | (701) |
| Eastern Europe/ Other | 141 | (141) |
| Austria | 45 | (46) |
| **Total** | **2,020** | **(2,060)** |

### Personnel figures

| | | 2016/17 | 2015/16 | Change |
|---|---|---|---|---|
| Average number of employees | | 2,062 | 2,042 | 1.0% |
| Adjusted personnel expenses* | EUR million | 51.0 | 51.1 | -0.2% |
| Adjusted personnel expenses/employee* | KEUR | 24.7 | 25.0 | -1.2% |
| Number of apprentices | | 23 | 21 | 9.5% |
| Share of women in leading positions | in % | 36 | 38 | -5.3% |

* adjusted for special effects

Ahlers employed 2,062 people on average in the fiscal year 2016/17, 20 more than in the previous year. On the balance sheet date, the headcount was down by 40 people on the previous year. This decline is mainly attributable to the reduced workforce in the company's own production plants in Poland (-11 people) and Sri Lanka (-18 people) as well as the reduced headcount in the company's own Retail segment in Poland (-12 people). Staff numbers in Austria, France and the rest of Eastern Europe were essentially on a par with the previous year. Ahlers' workforce in Germany stood at 608 people on the balance sheet date, 5 more than in the previous year due to a moderately higher headcount in procurement and sales.

# SUSTAINABILITY REPORT

### Corporate responsibility

Being a leading European public stock company producing men‘s fashion, Ahlers attaches great importance to sustainable value creation. In a global industry, we are well aware of our responsibility towards our stakeholders and align our corporate activity accordingly. Solid, sustainable and profitable growth is the objective for the medium-term development of our company. We consider the effects of our business activity on society and the environment and observe economic, social and environmental aspects in our activities. Our sustainability strategy comprises four fields of action – employees, products, environment and society. All four fields are monitored and optimised on an ongoing basis.

### Employees

Ahlers is a family-run company with a long tradition at the Group headquarters in Herford. The company operates its own production facilities in Poland and Sri Lanka. The distribution and logistic activities for part of Eastern Europe are controlled out of Opole (Poland). The Group also has employees in retail stores and sales offices across Europe.

Many employees have been with the company for many years, and staff turnover in the company is low. As the company entered new market segments, e.g. e-commerce, and expanded its Retail activities, many new employees have joined the company in recent years.

### Women within the Group

Women play an important role at all hierarchical levels of Ahlers AG. As of the reporting date, 73 percent of our Group’s 2,020 employees were women and 27 percent were men. In Germany, 378 of 608 employees are women (62 percent; previous year: 60 percent).

Since 2005, the company has been headed by CEO Dr. Stella A. Ahlers. Since February 2017, the Management Board has been composed of three members, one third of whom are women and two thirds are men. There is equal representation on the Supervisory Board, three of whose members are women: Prof. Dr. Julia von Ah as Deputy Chairwoman and Chairwoman of the Audit Committee as well as employee representatives Heidrun Baumgart and Roswitha Galle. The total management team of all Group companies comprises 147 people (previous year: 149). 53 people or 36 percent of them are women (previous year: 56; 38 percent). In Germany, the management team comprises 61 people (previous year: 60), of whom 12 are women (20 percent; previous year: 25 percent).

### Management philosophy

In a dynamic and increasingly digital world, companies must develop the skill to adapt to constant changes. This skill is first developed in the minds of a company’s people. Our executives must spearhead this movement. Ahlers fosters a culture of encouragement and experimenting. This comprises active cooperation, a strong feeling of solidarity throughout the company, a constructive approach to errors as well as the possibility to push ahead and implement own ideas within a team.

### Recruiting human resources

Ahlers continuously advances both its brands and its corporate strategy and structures. In the past years, for instance, the company expanded its e-commerce and retail departments. In these growth segments as well as in other areas of the company, e.g. distribution and marketing, Ahlers is constantly on the lookout for ambitious and talented people who would like to contribute their passion and their commitment to a leading fashion company. Another focus is on the search for apprentices and university graduates, primarily in the fields of distribution, marketing, retail, product management and accounting/controlling. A trainee programme is available for graduates starting their career at Ahlers.

### Training and advancing young people

Training young people has a long tradition at Ahlers, with the company attaching special importance to high-quality induction and support. Ahlers relies on qualified young talents who stay with the company for a long time and actively contribute to the success of the Group. Trainees and apprentices are quickly involved in the departmental processes and, after a comprehensive induction programme, are given the chance to assume responsibility at an early stage of their career. At present, the company employs 23 (previous year: 21) apprentices. They are guided through our company based on carefully developed plans and are supported closely. As part of their vocational training, the commercial trainees spend time abroad to get to know our own international production facilities and suppliers. Vocational training in the following professions is available at our Herford branch:

- Industrial clerk
- IT clerk
- Retail merchant

We regularly offer dual studies, e.g. business administration and business informatics, for high school graduates. Traditionally Ahlers retains a large proportion of its apprentices and graduates in continuing employment.

### Qualification and human resources development

Competent and motivated people are the most important asset of any company. Ahlers AG supports its employees by showing them career development opportunities and offering them different further training and qualification measures. Up-and-coming talents regularly have the possibility to enrol in dual study courses to enhance their qualifications as future managers. In 2017, the company again supported several employees enrolled in business management and IT study courses.

### Cooperation with universities

Cooperation with universities is an important success factor, which helps to attract and win young talents for the Group at an early stage. A good example is our cooperation with Bielefeld University in the context of the BU2BU programme ("Best Undergraduates to Bielefeld University") with the aim of promoting academic excellence. Ahlers gives a number of interns the opportunity to gain an insight into everyday working life. Moreover, we recruit talented graduates to enrol in a dual study programme in International Business Administration. In this context, Ahlers cooperates with institutions such as LDT Nagold (Academy for Fashion Management), AMD (Akademie Mode & Design) as well as the Bielefeld University of Applied Sciences.

### Thanks to the staff

For over eighty years, Ahlers has had a material influence on the region surrounding the headquarters in Herford/Elverdissen as well as on the people who work for the company and show their commitment, their passion and their loyalty. Ever since its foundation ninety-eight years ago, the clothing manufacturer can rely on the loyalty of its staff. This reporting period saw Ahlers honour thirty-five employees who have successfully worked for the company for ten, twenty-five or even forty years. The Management Board and the Managing Directors would like to thank all employees for the great commitment shown in the past fiscal year.

## Declaration of Basic Values

Ahlers' Declaration of Basic Values is publicly available on the Intranet and the Internet. This Code of Conduct applies to all employees of the Ahlers Group companies and governs their behaviour in the execution and running of day-to-day business in Germany and abroad. Ahlers AG stipulates legal business practices which observe fair competition, commercial trademark rights of third parties as well as cartel and competition regulations. All forms of corruption and bribery are prohibited. Contracts must be fulfilled and general ethical values and principles must be respected.

The companies of Ahlers AG comply with the laws and legislation of all countries in which they operate. They also instruct their contractual partners accordingly. They respect and accept the different legal, social and cultural backgrounds of the countries along the value chain and acknowledge their structures, habits and traditions. Where these are inconsistent with the principles laid down here, joint solutions shall be developed in a dialogue with the contractual partners. All employees are encouraged to immediately report violations of the Code of Conduct. For this purpose, an anonymised reporting form has been drawn up which is electronically sent to a lawyer. Potential violations are addressed and eliminated in cooperation with our Compliance Officer. In addition, measures are taken to avoid future violations. The Ahlers Compliance Officer informs the Supervisory Board of his/her activities and the company's adherence to its Compliance Guidelines in an annual report.

## Product

### Central Compliance Department

More than two years ago, we established a central department named "Corporate Compliance Production and Procurement". The employees in this independent department monitor compliance with social and product standards and implement Ahlers' own supplier management policies within the Group. They are in charge of hazardous substances management and advise the individual product groups. In 2017, the product managers, buyers and dispatchers were trained, among other things, on the Ahlers policies, on supplier management and on product safety. The department's staff ensure that Group-wide requirements are defined, coordinated and implemented consistently. Since early 2016, we have kept a detailed documentation of all our suppliers and production plants comprising certifications and social compliance documents in accordance with a defined acceptance procedure. The supplier portfolio is continuously checked for up-to-dateness and optimised. Ahlers already has a policy of pooling the purchasing activities for similar materials across its brands and aims to successively achieve a concentration of suppliers. This systematic, database-assisted supplier management policy approach makes it easier to ensure compliance with the Group's standards and increases the quality and transparency of the supervision.

Ahlers has its own Restricted Substance List (RSL), which the department updates regularly in cooperation with the "Verband der Nordwestdeutschen Textil- und Bekleidungsindustrie e.V.". The standards for the use of chemicals and compliance with legal requirements regarding hazardous substances are coordinated centrally. Based on a specifically developed risk matrix, the operating unit constantly commissions external laboratories to take random samples of the raw materials and finished products of all brands; in some cases, the goods of individual product groups are tested on a permanent basis. We exclusively cooperate with accredited laboratories in Germany and abroad. In the event of positive tests, precautionary measures have been taken to ensure that product batches can be narrowed down and localised. In doing so, the company regularly prepares for potential production-related risks and outlines possible action scenarios.

### Social standards in the procurement process

Ahlers AG and its brands are fully aware of their social responsibility and attach the greatest importance to ethical behaviour. Our companies therefore comply with international social accountability standards, which are defined in a Code of Conduct. The principles and standards laid down in this Code of Conduct are based on the agreements and standards of the International Labour Organisation (ILO), the UN Universal Declaration on Human Rights and the UN Declaration of the Rights of the Child.

The products of Ahlers AG are primarily manufactured in Eastern Europe and Asia. For several decades, the company has operated two production facilities in Poland and Sri Lanka. A major portion of the company's products in the trousers segment is produced in its own production plants. This not only ensures maximum transparency for a major part of its output but also allows the company to constantly enhance its expertise and its high quality standards. The company's own plants meet all requirements of the social compliance standards. Having passed a first audit in 2014, our Sri Lankan production facility again underwent a complex and detailed audit process conducted by the WRAP (= Worldwide Responsible Accredited Production) organisation in December 2016 and was awarded again the Gold Certificate. The WRAP audit revolves around a set of principles including legal and social compliance, environmental compatibility as well as health and safety. The standards defined by these principles have since been complied with.

Ahlers also cooperates with independent suppliers, all of whom are selected carefully and based on strict criteria and whom are continuously monitored. The company assesses the political situation in the country and also considers international transport links and available resources at the production site. When choosing suppliers, the company makes sure that they are certified to BSCI (Business Social Compliance Initiative) or SA 8000 (international standard aiming to improve workplace practices) and present good references. The company focuses on long-term relationships with all its suppliers. As the basis for cooperation, every supplier must undertake to comply with the company's Code of Conduct as well as with international social standards. Compliance with the Code of Conduct is checked and documented by the Ahlers procurement teams at least twice a year based on a defined list of guidelines. Any changes that may be required are discussed and implemented jointly with the factory management teams.

**Quality management**

Ahlers attaches special importance to excellent product quality. Selected materials must be processed carefully and in accordance with their high quality. This is why all production processes – from planning to production to delivery – are subjected to detailed quality controls in the context of Ahlers' quality management system.

**Non-hazardous clothing**

In keeping with the high quality standards and expectations of the company and its customers, all products of Ahlers AG are manufactured on the principle that they are ethically correct and non-hazardous. They meet statutory limits and, wherever possible, remain below them. All suppliers are obliged to refrain from using hazardous materials in the production of materials in accordance with applicable legislation. To ensure that this is done, Ahlers has defined clear standards for its business partners and obliged them to check for themselves that these are met. In addition, the company continuously commissions external, independent testing laboratories to check the composition of the products and verify that they are free from hazardous substances. Ahlers jeans are treated exclusively with tested and non-hazardous agents and manufactured using permissible production techniques. Ahlers attaches great importance to avoiding health hazards in the production process. Sand-blasting, for instance, is not used in the production of jeans. The company has committed itself to increasingly consider sustainability aspects in its procurement activities and to constantly refine the systematic assessment of suppliers.

Due to the care taken along the Ahlers procurement chain, irregularities in production are largely impossible. Our employees regularly visit the local production facilities, so that ongoing control and inspection of the product processes is ensured. In some cases, facilities are visited without prior announcement, while other facilities are supported throughout the year. Should irregularities arise nevertheless, they are contained and remedied immediately with the help of defined process plans.

**Amended General Terms and Conditions of Purchase**

In the past fiscal year, Ahlers amended its General Terms and Conditions of Purchase and sent them to all active suppliers. The new Terms and Conditions came into force on September 1, 2017 for all orders for the delivery of products and services. In the context of the amendment, a separate paragraph on "Special commitments by the supplier" was added. All suppliers commit to complying with the Ahlers policies (Ahlers Code of Conduct, Restricted Substances List, CSR confirmation) as well as the applicable legal provisions of the European Union, in particular the REACH Regulation and the legal provisions of the Federal Republic of Germany. Compliance with these commitments is of great importance for the contractual relationship. Each violation constitutes a material breach of contract and may put the contractual partner under an obligation to pay damages.

**Pilot project with ZDHC-MRSL**

In the context of a pilot project in cooperation with the Verband der Nordwestdeutschen Textil- und Bekleidungsindustrie e.V., Ahlers has communicated the Manufacturing Restricted Substances List (MRSL) of the Zero Discharge of Hazardous Chemicals Initiative (ZDHC) to its largest suppliers of unfinished goods who use wet processes. The MRSL restricts the use of hazardous chemicals in the textile value chain. This first step covers over 40 percent of Ahlers' purchasing volume of unfinished goods. The aim is to encourage all our suppliers to implement the ZDHC-MRSL standards. The Zero Discharge of Hazardous Chemicals Initiative (ZDHC) is to reduce the impact of hazardous chemicals on people and the environment. The Initiative supports the widespread use of sustainable chemicals and the implementation of best practice guidelines in chemicals management to protect consumers, workers and nature.

## Environment

**Environmental protection**

The Ahlers Group attaches great importance to using scarce resources sparingly and reducing the burden on the environment. Unfinished goods manufacture, garment manufacture and logistics are the fields in which we can do the most to protect the environment. The company is fully committed to using energy sparingly, to ensuring the best possible utilisation of raw materials in the production process and to avoiding waste and the pollution of air and water. Ahlers uses environmentally compatible production techniques and ensures that natural resources, energy and water are used efficiently. Our own and our subcontractors' jeans laundries are equipped with sewage purification plants for the separation of dyes. This minimises the level of water pollution caused by the washes. A high degree of automation ensures the energy efficiency of the production processes. The premium quality of the Ahlers products makes them particularly long lasting. The extended lifecycle of the fashion products helps protect resources and the environment. Ahlers completely stopped using real fur in the 2017 autumn/winter season.

Ahlers expects its business partners to also comply with applicable environmental protection regulations and to use natural resources responsibly and requires them to act in an environmentally compatible manner along the production chain.

**Logistics**

As far as logistics are concerned, the centralisation of warehouses and the efficient use of cargo space help to avoid unnecessary transports. Ahlers is constantly trying to concentrate its base of suppliers and manufacturing partners with a view to reducing carbon emissions through reduced transports. When signing up logistic partners, Ahlers makes sure that the latter can ensure carbon-neutral transports. Deliveries from the Far East are made by ship or rail wherever possible to avoid an adverse impact on our carbon footprint that would arise from air transport. Starting spring 2018, we will significantly reduce the transports of unfinished goods through the consolidation of the unfinished goods warehouse in Poland, which will additionally help to avoid emissions. Moreover, our carton packagings are used multiple times before they are eventually recycled.

## Society

### ahlers collection

The ahlers collection, which also comprises the works of art owned by Ahlers AG, today consists of some 3,000 works of art from 500 artists. The main focus is on expressionism and art of the second half of the 20th century.

### Art and cultural sponsorship as part of the corporate philosophy

The commitment to art and artists has a long tradition at Ahlers. For many decades, parts of the collection have been made available for exhibitions to allow the public to engage with the pieces of art. Requests for loans from renowned national and international museums testify to the quality of the collection. In 2017, works from the ahlers collection were exhibited, for instance, at the Bucerius Kunstforum in Hamburg, the New Gallery in New York, the Palazzo delle Esposizioni in Rome, the Guggenheim Museum in Bilbao, the Venice Biennale and the Centre Pompidou in Paris. Ahlers also provides financial assistance to support exhibitions and scientific book projects such as artist monographs.

For many years Ahlers AG has cooperated with the Ahlers Pro Arte foundation by loaning important works of art for the latter's exhibitions, which attract nation-wide media coverage. Among the highlights of the foundation's activities in 2017 were two lectures as well as the exhibition “Gesicht und Maske: Rollenspiele in der Porträtkunst” (September to December).

Major parts of the ahlers collection are loaned permanently to renowned museums with which the company has cooperated for many years. The German expressionist works from the collection are on exhibition at the Franz Marc Museum in Kochel, while the extensive collection of works from the 2nd half of the 20th century – with a focus on Nouveau Réalisme and Dieter Roth – is on display at the Sprengel Museum in Hanover.

In 2018, the ahlers collection will again participate in numerous international exhibitions. Two major projects on post-war art deserve special mention: Birth of a Nation: Italian Art from the Postwar Reconstruction to 1968 at the Palazzo Strozzi in Florence (March to July) and, most importantly, Flashes of the Future: The Art of the „68ers“ or The Power of the Powerless at the Ludwig Forum in Aachen (April to August), under the patronage of Federal President Frank-Walter Steinmeier, where about a dozen works from the ahlers collection will be on display.

Just like fashion, the visual arts reflect the culture and living environment of their time. Both crystallise changes in the zeitgeist, the political and social environment and technical potential. Based on the insight that art and fashion are equally rooted in creativity while at the same time stimulating it, the company's art collection is an important component of its corporate and brand communications and its effect manifests itself not only externally but also inside the organisation. Ahlers integrates art in the workplace too by placing selected works of art in the business premises.

More information on the exhibitions in the fiscal year 2016/17 can be found on page 126 et seq.

### Further social engagement

Ahlers makes financial and in-kind donations to a variety of social projects, associations and cultural institutions. While we continue to sponsor a number of local initiatives linked to our traditional base in Herford, we also support projects elsewhere. Going forward, Ahlers will uphold its level of social engagement and develop it further.

# ECONOMIC REPORT

## MACROECONOMIC AND INDUSTRY-SPECIFIC SITUATION

**Robust growth of the world economy despite political uncertainty**

2017 saw the gross domestic product (GDP) of the world economy grow by 3.6 percent, i.e. more strongly than in the previous year (2.8 percent; all figures in this chapter courtesy Commerzbank Economic Research January 2018). At 2.2 percent and 6.8 percent, GDP growth in the large economies, the USA and China, was in line with expectations (previous year: 1.6 percent and 6.7 percent, respectively). Growing by 1.9 percent, the Russian economy continued to stabilise (previous year: -0.6 percent) and exceeded the forecast of +1.3 percent issued at the beginning of the year. The eurozone economy also grew much more strongly than projected by most economic institutes at the beginning of 2017. The original forecast of 1.8 percent GDP growth was upgraded successively in the second half of the year. Eventually the eurozone economy expanded by about 2.4 percent in 2017 (previous year: 1.7 percent). This growth is probably attributable to the expansionary monetary policy of the European Central Bank. The persistently low interest rates have resulted in financially manageable debt levels for enterprises and private households and led to growing consumption and capital spending. The economies of export-oriented countries such as Germany were driven not only by domestic demand but also by the robust worldwide demand for their goods. Within the monetary union, the growth rates of the four large economies were again characterised by great differences in 2017. At 3.1 percent (previous year: 3.3 percent), growth in the Spanish economy was above the eurozone average, whereas Germany's GDP growth rate of 2.2 percent (previous year: 1.9 percent) was slightly below the average. At 1.9 percent and 1.5 percent, France's and Italy's GDP growth rates were also below the eurozone average (previous year: 1.3 percent and 0.8 percent, respectively). Unlike the other three countries, Italy has not returned to the growth levels seen prior to the 2008 financial crisis, although its pace of growth has recently picked up slightly.

Private consumption is influenced not only by economic growth but also by economic expectations, income growth and the labour market trend. In October 2017, the jobless rate in the eurozone was down to 8.8 percent (previous year: 9.8 percent), which was the lowest level since January 2009. While Germany's jobless rate already stood at a low level compared to the other eurozone countries, it declined even further to 3.6 percent in 2017 (previous year: 4.1 percent) (eurostat November 30, 2017). The excellent state of the German labour market, which is characterised by declining unemployment figures and a record number of vacant positions, has boosted optimism among the German consumers who have seen their purchasing power strengthened by good wage and salary increases and moderate inflation rates. Moreover, the current low interest rates have increased people's readiness to take on debt. The GfK Consumer Climate Index stayed at a very high level throughout the year 2017. Private consumption picked up by 2 percent in 2017. The German economy thus benefited once again from consumers' stable domestic demand (GfK Consumer Climate January 25, 2018).

**Industry-specific trends**

**Clothing retailers' revenues decline in spite of favourable environment**

In spite of the good economic trend and German consumers' high spending propensity, sales revenues in Germany's physical clothing retail stores again fell short of expectations in 2017. Based on a negative revenue trend in the two previous year (2016: -2.5 percent and 2015: -1.5 percent), sales revenues in the German fashion retail sector declined by 1.5 percent between December 2016 and November 2017 (Textilwirtschaft 49_2017). Declining footfall in city centres and growing online sales of apparel are the main reasons for this downward trend. The moderate increase of 6 percent in online sales (Textilwirtschaft Online Press Release Jan. 22, 2018) does not fully compensate for the sales lost on the physical retail side. Growing promotional and discount campaigns in the retail sector are additionally weighing on the average price of clothing and, hence, on the sector's sales revenues.

In the European markets that are relevant for Ahlers, fashion retailers' sales have at best increased in sync with the respective countries' economic growth rates but in most cases they probably remained below these rates. In the Netherlands and Spain, whose economic growth clearly exceeded the eurozone average, fashion sales are likely to have benefited from the good economic trend. In the other eurozone countries and Poland, sales probably stagnated or contracted slightly. In the light of a slightly growing economy, the market for fashion in Russia is recovering a little. This assumption is being supported by Ahlers' revenue trend in Russia. However, the relevant European market as a whole probably declined as in the previous year.

# BUSINESS PERFORMANCE

## The fiscal year 2016/17

- Q4 2017 revenues 6 percent above previous year as expected
- Full year revenues of the continued brands up by 1.4 percent
- Group earnings down EUR 0.6 million due to increased spending on e-commerce marketing, distribution, order picking and IT
- Balance sheet structure remains solid with equity ratio of 56 percent and reduced net working capital
- Cash flow from operating activities more than doubled

### Sales revenues by segments

| EUR million | | 2016/17 | 2015/16 | Change in % |
|---|---|---|---|---|
| Premium Brands* | | 162.7 | 159.3 | 2.1 |
| Jeans, Casual & Workwear | Overall | 73.2 | 78.5 | -6.8 |
| | Continued activities** | 72.9 | 73.0 | -0.1 |
| **Total** | **Overall** | **235.9** | **237.8** | **-0.8** |
| **Total** | **Continued activities**** | **235.6** | **232.3** | **1.4** |

* incl. „miscellaneous" EUR 0.4 EUR (previous year: EUR 0.4 million)

### Sales revenues by regions – only continued activities**

| EUR million | 2016/17 | 2015/16 | Change in % |
|---|---|---|---|
| Germany | 126.7 | 125.6 | 0.9 |
| Western Europe | 60.5 | 61.3 | -1.3 |
| Middle-/ Eastern Europe/ Misc. | 48.4 | 45.4 | 6.6 |
| **Total** | **235.6** | **232.3** | **1.4** |

### Sales revenues by quarters – only continued activities**

| EUR million | 2016/17 | 2015/16 | Change in % |
|---|---|---|---|
| 1. quarter | 62.9 | 64.8 | -2.9 |
| 2. quarter | 54.1 | 49.7 | 8.9 |
| 3. quarter | 62.4 | 64.9 | -3.9 |
| 4. quarter | 56.2 | 52.9 | 6.2 |
| **Total** | **235.6** | **232.3** | **1.4** |

** adjusted for the discontinued activities Gin Tonic and private label

# EARNINGS, NET WORTH AND FINANCIAL POSITION

## Earnings

### Continued activities achieve increased revenues

In the fiscal year 2016/17, revenues of Ahlers' continued brands increased by EUR 3.3 million or 1.4 percent from EUR 232.3 million to EUR 235.6 million. In Germany, sales revenues rose by 0.9 percent from EUR 125.6 million to EUR 126.7 million against a negative market trend. Pierre Cardin and Pioneer Authentic Jeans made the biggest contributions to this growth and were able to win market share. Baldessarini's domestic revenues were more or less on a par with the previous year and remained above the general market trend. In Western Europe, the fashion company's revenues declined by a moderate EUR 0.8 million or 1.3 percent to EUR 60.5 million. Partially strong revenue growth in Switzerland, the Netherlands and Spain did not fully offset negative developments in Western European markets such as Austria and Finland. Sales revenues in Central and Eastern Europe as well as the remaining markets rose sharply by 6.6 percent or EUR 3.0 million to EUR 48.4 million (previous year: EUR 45.4 million). One third of this revenue growth was generated in Russia and Ukraine. Sales revenues also picked up in the Czech Republic, Romania, Croatia and Belarus. Ahlers' revenues in Poland were on a par with the previous year.

### Consolidated sales revenues decline slightly because of discontinued activities

2017 saw Ahlers end the business activity of Gin Tonic and the business with the last remaining large private label customer. The EUR 3.3 million growth achieved by the continued activities thus contrasted with declines of the two discontinued activities of EUR 5.2 million. At EUR 235.9 million, consolidated revenues were almost on a par with the previous year's EUR 237.8 million.

### Own Retail revenues up by 2 percent

Sales revenues of our own Retail operations increased by 2.3 percent in fiscal 2016/17, which represented 13.0 percent of total revenues, up from 12.7 percent in the previous year. Like-for-like revenues rose by a moderate 0.4 percent.

Of the total of 155 stores (previous year: 148), 28 (previous year: 30) were operated by Ahlers, thereof eight in Germany and 20 mostly in Eastern Europe, with the main focus on Poland and the Baltic states. In April 2017, Ahlers opened the fifth Elsbach Denim Library in Westerland on the island of Sylt. Management of two Polish stores was handed over to partners in the course of the year. As Baldessarini relocated to the headquarters in Herford, the mono-brand store in Munich was closed.

As of November 30, 2017, a total of 127 stores were operated by our partners, nine more than in the previous year. The number of partner stores in Poland climbed from 40 to 43, the largest number of stores in any country. Five additional partner stores were opened in Ukraine and one in Russia, bringing the total number of stores in these countries to 35 and 29, respectively, which puts these countries in 2nd and 3rd place behind Poland. Another 14 partner stores are located in other Eastern European countries such as the Czech Republic and Belarus. There are two and three Baldessarini stores, respectively, in Egypt and the United Arab Emirates. The first Pierre Cardin partner store was opened in the Netherlands in March 2017.

### E-commerce grows strongly in 2016/17

Ahlers attaches great strategic priority to its e-commerce activities and invests substantial human and financial resources in this growing segment. Following the relaunch of the online shop and the change of the service provider in autumn of the previous year, e-commerce revenues rose sharply in the course of 2016/17. While revenues were stable in the first quarter, they picked up by 13 percent in the second quarter, by 24 percent in the third quarter and by an impressive 61 percent in the fourth quarter. This represents an average growth rate of 22 percent for the full year 2016/17. This positive trend was supported primarily by the new Pierre Cardin online shop and the marketplaces.

## Earnings position

| | 2016/17 EUR million | 2015/16 EUR million | Change in % |
|---|---|---|---|
| **Sales** | **235.9** | **237.8** | **-0.8** |
| Gross profit | 117.1 | 116.9 | 0.2 |
| in % of sales | 49.6 | 49.2 | |
| Personnel expenses * | -51.0 | -51.1 | 0.2 |
| Balance of other expenses/income * | -57.4 | -55.8 | -2.9 |
| **EBITDA *** | **8.7** | **10.0** | **-13.0** |
| Depreciation and amortisation * | -5.2 | -5.1 | -2.0 |
| **EBIT *** | **3.5** | **4.9** | **-28.6** |
| Special effects | -0.5 | -0.9 | 44.4 |
| Financial result | -0.6 | -0.6 | 0.0 |
| **Earnings before taxes** | **2.4** | **3.4** | **-29.4** |
| Income taxes | -0.5 | -0.9 | 44.4 |
| **Consolidated net income for the year** | **1.9** | **2.5** | **-24.0** |

* before special effects

### Growing gross profit margin more than offsets revenue effect

The loss of low-margin business sent the gross margin rising by a moderate 0.4 percentage points from 49.2 percent to 49.6 percent. As the increased gross profit margin more than offset the revenue effect on gross profit, the latter climbed by EUR 0.2 million to EUR 117.1 million (previous year: EUR 116.9 million). Personnel expenses declined by a moderate EUR 0.1 million from EUR 51.1 million to EUR 51.0 million, primarily due to the discontinued business activity of Gin Tonic. By contrast, the balance of other operating expenses and income rose by EUR 1.6 million from EUR 55.8 million to EUR 57.4 million. This was due to higher order-picking expenses for the wholesale and e-commerce operations, the additional marketing expenses for the e-commerce operations, increased distribution expenses and the costs of the first production rollouts of the ERP system. The scheduled depreciation of the Windows AX basis of the ERP (Enterprise Resource Planning) system resulted in slightly higher depreciation of EUR 5.2 million (previous year: EUR 5.1 million). Total operating expenses (before special effects), which comprise personnel expenses, other operating expenses and depreciation/amortisation, consequently climbed by EUR 1.6 million or 1.4 percent in the fiscal year.

### Greatly reduced extraordinary expenses

Extraordinary expenses declined by EUR 0.4 million or 44 percent to EUR 0.5 million in the fiscal year 2016/17 (previous year: EUR 0.9 million). As in the previous year, they primarily comprised the costs of severance payments to employees and of store closures, albeit in a much lower amount. Minor extraordinary expenses were incurred in conjunction the relocation of Baldessarini to the Herford headquarters. The extraordinary expenses helped to reduce future expenses, e.g. for rents and personnel, which is why we expect more or less stable personnel and operating expenses for the fiscal year 2017/18. Extraordinary income was also lower in both years. In the previous year, one-time income resulted from the sale of the Gin Tonic trademark; in the reporting year, one-time income resulted from the reversal of the previous write-down of the Otto Kern trademark on the back of improved earnings. At EUR 0.6 million, the financial result was on a par with the previous year. The Group's tax rate declined from 26.5 percent to 20.8 percent in the fiscal year, because of the omission of one time tax expenses in the previous year. Income taxes dropped from EUR 0.9 million to EUR 0.5 million.

### Group earnings decline due to increased operating expenses

In spite of increased gross profits and slightly lower personnel expenses, EBITDA before special effects declined by 13 percent from EUR 10.0 million to EUR 8.7 million due to the increased balance of other operating expenses and income. Group earnings after taxes were down by EUR 0.6 million from EUR 2.5 million to EUR 1.9 million.

## Net worth position

### Balance sheet structure

| Assets | Nov. 30, 2017 EUR million | Nov. 30, 2017 in % | Nov. 30, 2016 EUR million | Nov. 30, 2016 in % |
|---|---|---|---|---|
| Property, plant and equipment and intangible assets | 42.8 | 23.6 | 41.2 | 22.7 |
| Other non-current assets | 19.5 | 10.8 | 19.9 | 11.0 |
| Deferred tax assets | 1.2 | 0.7 | 0.9 | 0.5 |
| **Non-current assets** | **63.5** | **35.1** | **62.0** | **34.2** |
| Inventories | 75.3 | 41.6 | 77.0 | 42.3 |
| Trade receivables | 31.6 | 17.4 | 32.1 | 17.7 |
| Other current Assets | 4.4 | 2.4 | 6.5 | 3.6 |
| Cash and cash equivalents | 6.4 | 3.5 | 4.0 | 2.2 |
| **Current assets** | **117.7** | **64.9** | **119.6** | **65.8** |
| **Total assets** | **181.2** | **100.0** | **181.6** | **100.0** |

| Equity and liabilities | Nov. 30, 2017 EUR million | Nov. 30, 2017 in % | Nov. 30, 2016 EUR million | Nov. 30, 2016 in % |
|---|---|---|---|---|
| **Equity** | **102.1** | **56.4** | **103.9** | **57.2** |
| Pension provisions | 4.1 | 2.2 | 4.4 | 2.4 |
| Other non-current liabilities and provisions | 29.0 | 16.0 | 26.0 | 14.3 |
| Deferred tax liabilities | 1.6 | 0.9 | 2.5 | 1.4 |
| **Non-current liabilities** | **34.7** | **19.1** | **32.9** | **18.1** |
| Current income tax payables | 0.6 | 0.3 | 0.4 | 0.2 |
| Other current liabilities and provisions | 43.8 | 24.2 | 44.4 | 24.5 |
| **Current liabilities** | **44.4** | **24.5** | **44.8** | **24.7** |
| **Liabilities** | **79.1** | **43.7** | **77.7** | **42.8** |
| **Total equity and liabilities** | **181.2** | **100.0** | **181.6** | **100.0** |

### Balance sheet structure remains solid

The balance sheet for the period ended November 30, 2017 was almost unchanged from the previous year, except for two structural changes. On the one hand, the management of net working capital and, most importantly, of inventories has shown effect. The balance of inventories, trade receivables and trade payables declined by EUR 3.6 million to EUR 86.3 million (previous year: EUR 89.9 million). On the other hand, investments in our new ERP system reached the highest level, as planned, in 2017. Since 2014, Ahlers has worked on the introduction of a modern ERP (Enterprise Resource Planning) system, which led to investments of around EUR 3 million in the previous two years. Another around EUR 2 million was spent in the fiscal year, which increased the intangible portion of fixed assets. Investments will be reduced significantly next year.

On balance, Ahlers' total assets thus remained largely stable and amounted to EUR 181.2 million on November 30, 2017 (previous year: EUR 181.6 million), with non-current assets growing by a moderate EUR 1.5 million to EUR 63.5 million and current assets declining by EUR 1.9 million to EUR 117.7 million.

Inventories declined by EUR 1.7 million primarily due to the better-timed delivery of raw materials (EUR -3.0 million; November 30, 2017: EUR 21.4 million). Stocks of finished goods and of NOS items were slightly higher than in the previous year as of the balance sheet date and will improve product availability at the start of delivery of the 2018 spring/summer season. Together with reduced stocks of old merchandise, our stocks of finished goods were worth EUR 53.4 million (previous year: EUR 52.1 million). In spite of higher revenues in November 2017, trade receivables were lower than in the previous year (EUR 32.1 million) and amounted to EUR 31.6 million at the end of the fiscal year.

**High equity ratio of 56 percent**

At 56.4 percent, the equity ratio again stood at a high level on November 30, 2017. Due to the somewhat lower equity capital (down by EUR 1.8 million or 1.7 percent), it was slightly lower than in the previous year (57.2 percent). Equity declined primarily because the result from hedging operations was directly offset against equity capital as of the balance sheet date (EUR -1.3 million). These results arose in the context of appreciation of the euro against the US dollar and serve to hedge commodities transactions of the 2018 spring/summer season. The equity-reducing effect of these hedges will no longer be felt as of mid-2018. The lower result in comparison to the dividend amount (EUR -0.5 million) also contributed to the decline in equity, albeit on a smaller scale.

Another positive aspect of the balance sheet for the period ended November 30, 2017 is the fact that the net debt, which comprises the balance of medium-term and current financial liabilities less cash and cash equivalents, remained unchanged at EUR 29.9 million (previous year: EUR 29.7 million) in spite of the high investments in the ERP system. Non-current financial liabilities and cash and cash equivalents increased, while current financial liabilities declined. At EUR 34.7 million, non-current liabilities were up on the previous year (EUR 32.9 million), while current liabilities were lower than in the previous year (2017: EUR 44.4 million; 2016: EUR 44.8 million). Cash and cash equivalents totalled EUR 6.4 million, compared to EUR 4.0 million in the previous year.

**Financial figures**

| | | 2016/17 | 2015/16 |
|---|---|---|---|
| Equity ratio | in % | 56.4 | 57.2 |
| Dept ratio * | in % | 75.8 | 72.3 |
| Interest coverage ratio ** | in % | 400.2 | 569.3 |
| Return on equity | in % | 1.9 | 2.4 |
| Investment in property, plant and equipment and intangible assets | EUR million | 6.9 | 6.3 |
| Net Working Capital *** | EUR million | 86.3 | 89.9 |
| Cash flow from operating activities | EUR million | 10.2 | 4.9 |
| Total assets | EUR million | 181.2 | 181.6 |

* excl. deferred taxes
** before special effects
*** Inventories, trade receivables and trade payables

## Financial position

**Cash flow from operating activities doubled**

At EUR 10.2 million, cash flow from operating activities was up by over 100 percent on the previous year's EUR 4.9 million in the reporting year. The increase is primarily attributable to the fact that net working capital was reduced by EUR 3.6 million, compared to an increase by EUR 3.6 million in the previous year. Reduced inventories and trade receivables as well as increased trade payables contributed to the large positive difference in net working capital between the two fiscal years (EUR +7.2 million). The lower dividend payment than in the previous year (EUR +0.6 million) and increased long-term financings (EUR +1.9 million) additionally increased the free cash flow. Higher net investments had the opposite effect (EUR -0.9 million; absolute: EUR 6.5 million). At EUR 4.8 million, free cash flow was therefore clearly positive in 2016/17 (previous year: EUR -2.9 million).

**Free cash flow**

| EUR million | 2016/17 | 2015/16 | Change in % |
|---|---|---|---|
| **Consolidated net income for the year** | **1.9** | **2.5** | **-24.0** |
| Depreciation, amortisation and impairment losses | 5.0 | 5.2 | -3.8 |
| Change in net working capital | 3.6 | -3.6 | n.a. |
| Change in current provisions | -0.3 | -0.4 | 25.0 |
| Other changes* | 0.0 | 1.2 | -100.0 |
| **Cash flow from operating activities** | **10.2** | **4.9** | **108.2** |
| Net investments | -6.5 | -5.6 | -16.1 |
| Effects of changes in the scope of exchange rates | 0.2 | -0.6 | n.a. |
| **Free cash flow before financing activity** | **3.9** | **-1.3** | **n.a.** |
| Additions to (+), repayment of (-) non-current liabilities | 3.3 | 1.4 | 135.7 |
| Dividend payments | -2.4 | -3.0 | 20.0 |
| **Free cash flow** | **4.8** | **-2.9** | **n.a.** |
| **Liquid funds as of November 30**** | **6.3** | **1.5** | **>200.0** |

* Other non-cash expenses and income EUR 0.3 million (previous year: EUR 0.0 million)
Change in non-current provisions and other liabilities EUR -1.4 million (previous year EUR 0.6 million)

** Cash less overdrafts

### General statement by the Management Board on the earnings, financial and net worth position

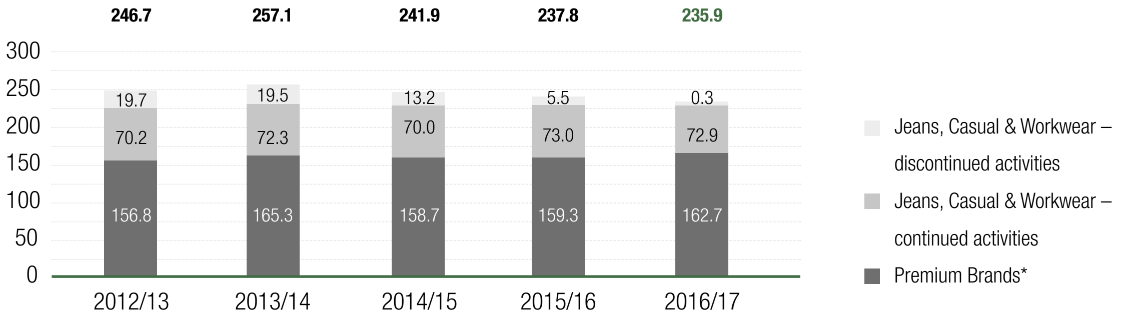
The market conditions for European clothing retailers remained challenging in the fiscal year 2016/17. Under the given circumstances, the Management Board is largely satisfied with sales revenues and cash flows in the past year. Revenues from continued activities showed a positive trend and clearly defied the negative market trend. Thanks to progress made in managing net working capital, we generated positive free cash flow in spite of the high forward-looking investments in the ERP systems.

We did not quite reach our earnings targets. However, cost-cutting measures were implemented in the past fiscal year, which should keep expenses stable in the following year and lead to growing profits in fiscal 2017/18. At the end of the fiscal year, the financial position was sound and the balance sheet was backed with high equity capital as usual. We expect a positive future revenue, earnings and cash flow trend. We remain carefully optimistic for the next fiscal years.

# SEGMENT REPORT

## Five-year comparison of segment revenues

EUR million




* incl. others

## Sales revenues by segments

| EUR million | | 2016/17 | 2015/16 | Change in % |
|---|---|---|---|---|
| Premium Brands* | | 162.7 | 159.3 | 2.1 |
| Jeans, Casual & Workwear | Overall | 73.2 | 78.5 | -6.8 |
| | Continued activities** | 72.9 | 73.0 | -0.1 |
| **Total** | **Overall** | **235.9** | **237.8** | **-0.8** |
| **Total** | **Continued activities**** | **235.6** | **232.3** | **1.4** |

* incl. other 0.4 EUR million (previous year 0.4 EUR million)
** adjusted for the discontinued activities Gin Tonic and private label

## Premium brands generate increased revenues

Between them, the premium brands, Baldessarini, Pierre Cardin and Otto Kern, increased their revenues by EUR 3.4 million in the fiscal year. The segment's revenues rose by 2.1 percent from EUR 159.3 million to EUR 162.7 million. Boosting its revenues by 3.1 percent, Pierre Cardin made the biggest contribution to this growth. The premium brand recorded growing revenues both in the German home market (+1.6 percent) and in important foreign markets (Spain +7.9 percent; Netherlands +8.9 percent; Poland +3.5 percent). Revenues in Russia and Ukraine improved again, albeit somewhat more slowly than in the previous year (EUR +0.4 million; 2015/16: EUR +1.0 million). Pierre Cardin fell short of expectations in France and Austria, where revenues declined by 3.1 percent and 1.3 percent, respectively. Baldessarini was able to keep its revenues largely stable; the brand's revenues increased by 5.4 percent in Russia and Ukraine and more than tripled from a low base in Canada and the USA. Otto Kern's revenues declined due to the discontinuation of unprofitable customer relationships. The premium segment's share in total revenues climbed from 67 to 69 percent in the fiscal year 2016/17.

### Continued brands in the Jeans, Casual & Workwear segment record stable revenues

Sales revenues of the continued brands – Pioneer Authentic Jeans, Pionier Jeans & Casuals, Pionier Workwear and Jupiter – remained stable in the fiscal year 2016/17 at EUR 72.9 million (previous year: EUR 73.0 million). Sales of Pioneer Authentic Jeans and Pionier Jeans & Casuals showed a positive trend and increased by a combined 4.6 percent. As in the previous year, both brands were able to grow their revenues primarily in Germany, Austria and Switzerland (DACH region). Jupiter grew by 2.5 percent, mainly in Germany and Russia. The moderate decline in the segment's revenues was mainly due to the EUR 1.6 million reduction in revenues of Pionier Workwear, which lost two major customers. As a result of the discontinuation of the Gin Tonic brand (EUR -2.7 million) and the private label business (EUR -2.5 million), the segment's total revenues dropped by EUR 5.3 million from EUR 78.5 million to EUR 73.2 million. Consequently, the share of the Jeans, Casual & Workwear segment in total revenues declined from 33 percent to 31 percent in 2016/17.

### EBIT before special effects by segments

| EUR million | 2016/17 | 2015/16 | Change in % |
|---|---|---|---|
| Premium Brands* | 1.1 | 2.4 | -54.2 |
| Jeans, Casual & Workwear | 2.4 | 2.5 | -4.0 |
| **Total** | **3.5** | **4.9** | **-28.6** |

### Fashion brands in the premium segment post reduced earnings

The premium segment's gross profit increased both due to the rise in revenues and to the slightly improved gross profit margin of 51.8 percent (previous year: 51.3 percent). The increase in gross profit was offset by higher order picking expenses for the wholesale and e-commerce business, the staffing of sales spaces and general selling expenses. Due to the ERP production roll-out, IT expenses picked up notably. Between them, these factors sent the premium segment's earnings falling by EUR 1.3 million from EUR 2.4 million to EUR 1.1 million.

### Moderate decline in earnings in the Jeans, Casual & Workwear segment

As a result of lower revenues in the Jeans, Casual & Workwear segment, the gross result declined by EUR 1.9 million in spite of a slightly higher gross profit margin. The reduced personnel and other expenses, which declined by a combined 6.2 percent, mainly because of lower personnel expenses, did not fully offset this revenue effect. Consequently, earnings of the Jeans, Casual & Workwear segment declined by a moderate EUR 0.1 million from EUR 2.5 million to EUR 2.4 million.

# REPORT OF AHLERS AG

Disclosures based on the German Commercial Code (Handelsgesetzbuch - HGB)

## Earnings, net worth and financial position

### Functions of Ahlers AG

Ahlers AG is the parent company of the Ahlers Group. Its central function is the operational and strategic management of the Group by the Management Board. However, Ahlers AG is not merely a holding company but has signed management and service agreements with certain subsidiaries. Under these contracts, the contractual partners (the commission agents) are responsible for the procurement of all required face fabrics, findings and accessories as well as merchandise, have these materials processed on behalf of Ahlers AG and then market them in their own name but on the account of Ahlers AG; they also perform administrative and service tasks. Contracts of this kind have been signed with the following companies: Ahlers Zentralverwaltung GmbH, Baldessarini GmbH, Pionier Berufskleidung GmbH, Jupiter Bekleidung GmbH, PIONEER Jeans-Bekleidung GmbH, Pionier Jeans & Casuals Deutschland GmbH, Otto Kern GmbH and expiring GIN TONIC SPECIAL Mode GmbH, which was merged into Ahlers Zentralverwaltung GmbH at the end of the fiscal year, resulting in a termination of the contract. In return for the above activities, these companies receive a full refund of their expenses, interest on capital as well as appropriate compensation. Controlling and profit and loss transfer agreements were signed with all of the above companies except Otto Kern GmbH. Ahlers AG also collects domestic and foreign income from investments as well as income and expenses from the controlling and profit and loss transfer agreements signed with other Group companies.

## Earnings position

| | 2016/17 EUR million | 2015/16 EUR million | Change in % |
|---|---|---|---|
| **Sales** | **88.2** | **92.0** | **-4.2** |
| Gross profit | 31.4 | 33.4 | -6.0 |
| in % of sales | 35.6 | 36.3 | |
| Personnel expenses* | -1.5 | -1.3 | -15.4 |
| Balance of other expenses/income* | -38.2 | -39.7 | 3.8 |
| Depreciation and amortisation* | -0.1 | -0.1 | 0.0 |
| Income from investments* | 9.6 | 8.8 | 9.1 |
| **EBIT*** | **1.2** | **1.1** | **9.1** |
| Special effects | -0.3 | -0.6 | 50.0 |
| Financial result | -0.2 | -0.2 | 0.0 |
| Earnings before taxes | 0.7 | 0.3 | 133.3 |
| Income taxes | 0.9 | 0.1 | >200.0 |
| **Net income** | **1.6** | **0.4** | **>200.0** |

* before special effects

### Growth in continued operations but declining total revenues due to discontinued activities

Sales revenues of Ahlers AG declined by EUR 3.8 million from EUR 92.0 million to EUR 88.2 million in the fiscal year 2016/17. Just like the Group as a whole, the company's sales revenues were also materially influenced by the discontinuation of the Gin Tonic and private label business (total decline by EUR 5.2 million; effect primarily on domestic revenues). Adjusted for the discontinued activities, revenues from Ahlers AG's continued operations grew by EUR 1.2 million or 1.4 percent, mainly due to growth at Pioneer Authentic Jeans. Due to the discontinuation of activities, exports accounted for an increased 26.2 percent of total revenues, up from 25.9 percent in the previous year.

### Slightly reduced gross profit margin

The drop in revenues was the main reason for the 6.0 percent reduction in gross profit. The gross profit margin declined by a moderate 0.7 percentage points to 35.6 percent, primarily due to the influence of the stronger US dollar.

### Declining operating expenses

Due to the expansion of the Management Board, personnel expenses of Ahlers AG increased by EUR 0.2 million from EUR 1.3 million to EUR 1.5 million in the fiscal year. By contrast, the balance of operating income and expenses declined by 3.8 percent or EUR 1.5 million to EUR 38.2 million (previous year: EUR 39.7 million). In particular, payments to commission agents declined sharply due to the discontinuation of the business activity of Gin Tonic. Moreover, Ahlers AG sourced fewer consulting services from external service providers than in the previous year.

### Increased income from investments and EBIT before special effects

Ahlers AG's income from investments increased by 9.1 percent from EUR 8.8 million to EUR 9.6 million. The higher income from foreign investments of EUR 5.0 million (+2.9%, previous year: EUR 2.1 million) more than offset the declining balance of income from profit-and-loss-transfer agreements and expenses of losses taken over from German commission agents (EUR -2.1 million; balance 2016/17: EUR 4.6 million; balance previous year: EUR 6.7 million). The termination of the profit-and-loss-transfer agreement with Otto Kern made a material contribution to the declining balance. EBIT before special effects increased moderately from EUR 1.1 million to EUR 1.2 million in the fiscal year 2016/17.

### Reduced special effects and financial result at prior year level

At EUR 0.3 million, special effects remained clearly below the prior year level (EUR 0.6 million). As in the previous year, these effects primarily related to severance and compensation payments to employees and sales agents and, on a smaller scale, to costs for the closure of stores. The financial result of EUR 0.2 million was more or less on a par with the previous year.

### Net income picks up sharply due to tax income

More than 100 percent of Ahlers AG's result in the fiscal year 2016/17 was composed of income from foreign companies that was taxed in the country of origin and was therefore not subject to tax in Germany. Ahlers AG's operations generated a loss in the fiscal year, which led to a tax credit of EUR 0.9 million. This additional tax income was therefore added to earnings before taxes of EUR 0.7 million; as a result, Ahlers AG's net income of EUR 1.6 million clearly exceeded the prior year level (EUR 0.4 million).

## Net worth position

### Balance sheet structure

| Assets | Nov. 30, 2017 EUR million | Nov. 30, 2017 in % | Nov. 30, 2016 EUR million | Nov. 30, 2016 in % |
|---|---|---|---|---|
| Property, plant and equipment and intangible assets | 0.3 | 0.2 | 0.3 | 0.2 |
| Other non-current assets | 80.6 | 55.4 | 80.6 | 55.6 |
| **Non-current assets** | **80.9** | **55.6** | **80.9** | **55.8** |
| Inventories | 31.3 | 21.5 | 33.3 | 23.0 |
| Trade receivables | 8.8 | 6.0 | 8.4 | 5.8 |
| Other current assets | 20.1 | 13.8 | 20.8 | 14.4 |
| Cash and cash equivalents | 2.7 | 1.9 | 0.6 | 0.4 |
| **Current assets** | **62.9** | **43.2** | **63.1** | **43.5** |
| Accrued items and deferred taxes | 1.8 | 1.2 | 0.9 | 0.6 |
| **Total Assets** | **145.6** | **100.0** | **144.9** | **100.0** |

| Equity and liabilities | Nov. 30, 2017 EUR million | Nov. 30, 2017 in % | Nov. 30, 2016 EUR million | Nov. 30, 2016 in % |
|---|---|---|---|---|
| **Equity** | **94.3** | **64.8** | **95.1** | **65.6** |
| Pension provisions | 0.4 | 0.3 | 0.4 | 0.3 |
| Other non-current liabilities | 29.9 | 20.5 | 26.7 | 18.4 |
| Other provisions | 2.8 | 1.9 | 2.4 | 1.7 |
| Other liabilities and deferred income | 18.2 | 12.5 | 20.3 | 14.0 |
| **Liabilities** | **51.3** | **35.2** | **49.8** | **34.4** |
| **Total equity and liabilities** | **145.6** | **100.0** | **144.9** | **100.0** |

### Balance sheet structure remains solid with equity ratio at 65 percent

The net working capital of Ahlers AG, which is composed of inventories and customer receivables less trade payables, declined at an even higher rate than the Group's net working capital, namely by 5.4 percent from EUR 35.5 million to EUR 33.6 million. The tax credit of EUR 0.9 million recognised in the income statement increased the deferred tax assets by the same amount and will be offset against future income tax obligations. As a result of the reduction in net working capital, there was a surplus of medium-term financial liabilities on the balance sheet date and, consequently, higher cash and cash equivalents (EUR +2.1 million) than in the previous year. This was the main reason for the increase in total assets, which were up by EUR 0.7 million on the previous year's EUR 144.9 million on November 30, 2017 to EUR 145.6 million. On the liabilities side, equity declined moderately due to the somewhat lower distributable profit. As a result, the equity ratio declined from 65.6 percent to a still very solid 64.8 percent against the background of slightly higher total assets.

## Financial position

| **Free cash flow**<br>EUR million | 2016/17 | 2015/16 | Change in % |
|---|---|---|---|
| **Net income** | **1.6** | **0.4** | **>100.0** |
| Depreciation, amortisation and impairment losses | -0.2 | -0.4 | 50.0 |
| Profit (-) / loss (+) from disposal of fixed assets | 0.0 | 0.0 | n.a. |
| Change in net working capital | 1.9 | 0.1 | >100.0 |
| Change in current provisions | 0.4 | -0.8 | n.a. |
| Other changes | -2.5 | -2.6 | 3.8 |
| **Cash flow from operating activities** | **1.2** | **-3.3** | **n.a.** |
| Cash inflow/outflow in intangible assets, property, plant and equipment and financial assets | 0.2 | -0.1 | n.a. |
| **Free Cash flow before financing activity** | **1.4** | **-3.4** | **n.a.** |
| Additions to (+), repayment of (-) non-current liabilities | 3.1 | 6.0 | -48.3 |
| Dividend payments | -2.4 | -3.0 | 20.0 |
| **Free cash flow** | **2.1** | **-0.4** | **n.a.** |
| **Liquid funds as of November 30*** | **2.7** | **0.6** | **>100.0** |

* Cash less overdrafts

## Financial position

### Notably higher positive cash flow from operating activities

At EUR 1.2 million, cash flow from operating activities was positive in FY 2016/17 and clearly exceeded the previous year's EUR -3.3 million. The increase was mainly due to the higher net income and the decline in net working capital. As the dividend payment was lower than in the previous year, free cash flow climbed to EUR 2.1 million (previous year: EUR -0.4 million). Free cash flow for both fiscal years, 2016/17 and 2015/16, was positive at EUR 1.7 million.

## Ahlers AG's financial statements and notes on the Internet

Interested readers can access Ahlers AG's balance sheet, profit and loss account and notes on the Internet by going to the Investor Relations section of the company's homepage.

## Risk and opportunity report of Ahlers AG

The Ahlers Group has installed a consistent risk management system covering all Group units. This risk management system also extends to the parent company, Ahlers AG. Reference is therefore made to the Group Risk and Opportunity Report as of page 67. The statements made in this report are also directly relevant for Ahlers AG in respect to most of the risks, given that Ahlers AG itself is an operating company as well. In addition, these risks are also indirectly relevant as they can potentially damage the position of individual subsidiaries, e.g. leading to lower dividends and potentially requiring the parent company to provide additional funding.

**2017/18 forecast for Ahlers AG**

The earnings forecast for Ahlers AG hinges materially on the performance of its subsidiaries and the performance of the Group. Readers are therefore referred to the Group's Forecast Report and the Report on Post Balance Sheet Events provided on the following pages. As in the case of the Group, we are cautiously optimistic about the performance of Ahlers AG in the fiscal year 2017/18. We expect Ahlers AG to perform positively in a challenging business environment. Sales revenues of Ahlers AG are expected to increase moderately, primarily because of the anticipated higher revenues of the commission agents, i.e. Baldessarini, Pioneer Authentic Jeans and Pionier Workwear. The discontinuation of the business activity of Gin Tonic and the private label business will no longer play a role in the fiscal year 2017/18 (effect on revenues: EUR -0.3 million). With both operating expenses and income from investments remaining more or less stable, EBIT before special effects is expected to pick up and exceed the prior year level. Ahlers AG is unlikely to employ its own staff also in 2017/18. At the proposal of the Executive Board the Supervisory Board decided at its meeting on February 14, 2018, to conclude a profit and loss transfer agreement with Otto Kern GmbH. Regarding other developments, please refer to the following Group forecast.

In the prior year report, the Management Board of Ahlers AG projected slightly reduced total revenues and, adjusted for the discontinued activities, slightly growing revenues. Both expectations have come true. As the Group's results were lower than expected, Ahlers AG was also unable to achieve the projected doubling of EBIT before special effects. By contrast, the forecast of greatly increased net income materialised.

## POST BALANCE SHEET EVENTS

In the current fiscal year 2017/18, Ahlers established a joint venture „Ahlers RUS" with its long-standing Russian partner. The purpose of the joint venture is to strengthen the activities of Pierre Cardin and Pioneer Authentic Jeans in Russia. The joint venture will operate eleven Pierre Cardin stores and the wholesale business together with the former partner. Ahlers thus wants to grow the wholesale business directly through its own sales organisation in Russia and optimize the stores.

No further events requiring disclosure in this report occurred after the balance sheet date.

## FORECAST

**Macroeconomic outlook**

The macroeconomic upswing, which accelerated in the course of 2017, is expected by most economic institutes to continue in 2018, with growth projected to reach 3.7 percent (2017: 3.7 percent; all figures in this chapter: Commerzbank Economic Research January 2018). The gross domestic products of the large US and Chinese economies are expected to grow by 2.3% and 6.4 percent, respectively, (previous year: 2.2 and 6.8 percent, respectively). With growth projected to reach 2.5 percent, the eurozone economy will grow at an even slightly higher rate than last year (2017: 2.4 percent). Export-oriented countries such as Germany benefit in particular from the robust economic trend, which is why slightly accelerated economic growth of 2.5 percent is projected for Germany (2017: 2.2 percent). Spain's projected growth rate of 2.9 percent is slightly below the previous year's 3.1 percent. The projected growth rates of France and Italy of 2.3 and 1.7 percent, respectively, exceed the previous year's 1.9 and 1.5 percent but remain below the eurozone average. Following three years of slowing recession and an increasing GDP in the previous year, the Russian economy should continue to expand (forecast for 2018: 2.9 percent). The last weeks' increase of commodity prices should help the highly commodity export dependent Russian economy to recover.

The lively foreign demand for goods from the eurozone, together with the European Central Bank's expansionary monetary policy leads to high capacity utilisation, increasing investment and declining jobless rates. The European upswing has become broad-based, as both private consumption and corporate spending on plant and equipment as well as construction are picking up. Factors such as the upcoming Brexit or the appreciation of the euro, which reduces the price competitiveness of companies producing in Europe, do not appear to have a lasting dampening effect on the high underlying momentum of the upswing. Domestic demand is likely to remain an important pillar of the European economy as in the previous years. Germany's Gesellschaft für Konsumforschung projects per-capita purchasing power, i.e. nominal disposable income, to increase by 2.8 percent (GfK press release dated December 12, 2017). Depending on the individual economic growth rates, purchasing power is likely to increase also in other European countries. The trend in consumer prices, which influences real disposable incomes, is unclear. In countries with higher GDP growth rates and lower unemployment, inflation is likely to pick up a bit more strongly and to dampen the increase in consumers' purchasing power slightly. By contrast, purchasing power but also consumer prices are likely to increase more slowly in countries with higher jobless figures. An average annual inflation rate of 1.6 percent is projected for the eurozone (2017: 1.5 percent).

### Industry outlook

As in the previous year, the macroeconomic preconditions for a positive industry trend are in place. The good economic and labour market trend as well as rising wages in many sectors should keep European consumer sentiment at a high level in 2018. In the more dynamically growing economies, purchasing power is expected to increase more strongly than inflation, which will lead to higher real incomes. What is more, saving is being discouraged by the persistently low interest rates. This should result in growing private consumption and rising retail sales. The market environment for apparel is nevertheless likely to remain challenging in the fiscal year 2017/18. The past years have shown that declining footfall in city centres has a stronger influence than consumers' income growth. Retailers and local governments have launched various initiatives, e.g. allowing stores to open on certain Sundays, to halt and reverse this trend. The growing online sales of apparel have positive effect but are insufficient to offset the declines recorded by physical retail stores. Ahlers therefore projects stable to slightly declining revenues for the clothing retail sector for 2018. This applies to Germany and to Western Europe. By contrast, clothing sales in Eastern Europe might pick up slightly in line with the corresponding economic growth rates. In view of the projected economic growth, declining inflation and the anticipation of a more or less stable rouble exchange rate, the purchasing power of Russian consumers should pick up in 2018. We expect fashion retailers in Russia and Ukraine to record growing sales.

### Operational targets for the fiscal year 2017/18

The market environment for apparel in Europe will remain challenging in 2018. It will therefore be all the more important to seize market opportunities with great determination and to align the company with its target customers and distribution channels. To achieve this, the Management Board has initiated the following measures, among others in order to increase sales and net income:

- Pierre Cardin:
  Germany and Europe-wide acceleration in the opening of new POS.
  Expansion of the international business especially in Russia, France, Spain, Belgium.
- Baldessarini:
  Strengthening of the sales organisation, especially at an international level.
  Ongoing market build-up in the USA and Canada; distribution concept for Asia.
- Pioneer Authentic Jeans:
  Transformation of the Pioneer brand image into a lifestyle brand.
  Increase the presence in key countries, especially in Eastern Europe.
  Win shop-in-shops at premium retailers.
- E-Commerce:
  Ongoing expansion of the e-commerce wholesale distribution activities.
  Intensification of the e-commerce business in Germany.
  Expansion of the marketplace business.

- Retail:
  Selective opening of additional Elsbach Denim Library and Pierre Cardin stores, mostly abroad.
  Takeover of selected partner stores. The number of stores is to be increased by two to three.
- Procurement and logistics:
  Ongoing reduction in the number of suppliers in the context of a stricter auditing process and concentration on high-performing suppliers.
  Expansion of production in the southern Mediterranean.
  Further reduction in net working capital through improved planning processes and increasing share in full package service.

**Baldessarini, Pierre Cardin, Pioneer and Pionier Workwear expected to grow**

The Management Board projects the core brands of both segments to grow their revenues in FY 2017/18. Growth in the premium segment will be driven by the Baldessarini and Pierre Cardin brands in Germany as well as abroad. These assumptions are supported by the revenue trend to date and by the order situation for the spring/summer season 2018. In the Jeans, Casual & Workwear segment, Pioneer and Pionier Workwear will grow, in particular. We expect the Group's total revenues to grow at a low single-digit percentage rate slightly above the increase rate in 2017 of the continued activities. The respective shares of both segments in total revenues should remain largely stable. The discontinuation of the business activity of Gin Tonic and the private label business will no longer play a role in the fiscal year 2017/18 (effect on revenues: EUR -0.3 million). Moderately higher revenues are projected for the Group's own Retail segment and e-commerce together and for e-commerce alone a double-digit increase.

**Higher consolidated net income projected for 2017/18**

From today's point of view, the Group's net income in FY 2017/18 should improve notably compared to the two previous years. The EU has granted Sri Lanka the status of a beneficiary country and, hence, customs privileges. As a result, the gross profit margin should pick up in the current fiscal year. Optimised procurement processes will additionally have a positive impact, as will the cheaper purchases of Asian goods in US dollars in the second half of 2018, due to the strengthening of the euro. Operating expenses will be subject to dampening effects resulting from measures taken in 2017. For instance, rental and selling expenses will decline notably. On the other hand, personnel expenses for important areas of the future such as e-commerce, design and distribution will pick up slightly. Depreciation/amortisation will increase as a result of the ERP project. On balance, operating expenses should be stable or slightly higher than in the previous year. As in the previous year, special effects will be of minor importance. The financial result should remain unchanged and the tax rate should pick up moderately again. On balance, EBIT after special effects and consolidated net income after taxes should grow by a medium double-digit percentage in the fiscal year 2017/18.

All projections are based on the assumption of a normal economic trend and the absence of any crises and major insolvencies in the retail sector and among competitors in the main output markets. Developments in the retail sector remain difficult to assess. Therefore please note that the forecast is subject to great uncertainty.

**Declining staff numbers due to reduced production capacity in Poland**

The total number of Group employees is expected to decline to about 2,000 in the fiscal year 2017/18. This is mainly attributable to the planned reduction in production capacity in Poland, which will reduce the headcount by about 50 people. In Germany, the e-commerce, design, logistics and sales departments will be strengthened, which should increase the headcount in Germany somewhat (November 30, 2017: 608 people). The number of employees in the Group's own Retail segment should remain more or less stable.

**Investments expected to decline**

After three years of relatively high investments, the ERP system has largely been completed. Consequently, investments in the ERP system should decline notably in the fiscal year 2017/18. This will probably send investments falling below the level of depreciation/amortisation (2016/17: EUR 5.2 million). Apart from investments in intangible assets, the composition of the remaining investment budget will be more or less consistent with that of the previous year.

### Unchanged balance sheet structures and improved operating cash flow expected

The reduction in net working capital remains an important objective in the fiscal year that has just begun. Together with slightly higher depreciation/amortisation and the expected consolidated net income, the ongoing reduction in net working capital should lead to high cash flow from operating activities as in the reporting year 2017. In view of the reduced investments, which will be lower than depreciation/amortisation, the Management Board expects even higher, clearly positive free cash flow. The very solid structure of the balance sheet should hardly change at all and rather tend to improve.

### Assessment of the forecasts for 2016/17

In the fiscal year 2015/16, the Management Board projected largely stable revenues and stable to slightly higher consolidated net income after taxes for the following year. The revenue forecast for the fiscal year 2016/17 was met. Revenues from continued operations increased by 1.4 percent or EUR 3.3 million. This contrasted with declines in revenues of EUR 5.2 million. On balance, consolidated sales revenues were largely stable at EUR 235.9 million (previous year: EUR 237.8 million). By contrast, the earnings forecast failed to materialise due to influences on the gross profit margin and increased expenses in the second half of 2016/17. The increased operating expenses were primarily due to order picking expenses for the e-commerce and wholesale business and start-up costs for the ERP project in the go-live phase. Investments were slightly up on the previous year and on the forecast, due, among other things, to the fact we additionally renovated the “Baldessarini Haus” in D-Herford, where the entire workforce now works under a single roof. As a result of the declining net working capital, we generated the projected, i.e. much higher, operating cash flow as well as a positive free cash flow.

### Forecast 2017/18 – Change vs. previous year

| | | Trend 2017/18 | Actual 2016/17 |
|---|---|---|---|
| **Sales** | Premium Brands | + | 162.7 |
| | Jeans, Casual & Workwear | + | 73.2 |
| | Total | + | 235.9 |
| **Earnings** | EBIT after special effects | ++ | 3.0 |
| | Consolidated net income | ++ | 1.9 |
| **Capital expenditure** | | - - | 6.3 |

\+ positive change by single-digit percentage
\+ + positive change by double-digit percentage
\- negative change by single-digit percentage
\- - negative change by double-digit percentage
-/+ stable outlook

# RISK AND OPPORTUNITY REPORT INCLUDING FINANCIAL INSTRUMENTS

## Risk and opportunity report

Good corporate management means, on the one hand, securing the company's future through the forward-looking exploitation of market opportunities. On the other hand, active risk management is required to protect the company against hazards arising at short notice. The aim is to identify and, wherever possible, to quantify risks at an early stage, so that an appropriate response can be taken to avoid or at least reduce damages.

The Management Board has installed a risk management system which meets the requirements of a multi-brand company with a decentralised, regionally distributed organisation. The revolving, mostly monthly reporting system therefore supplies not only the data which are required for operational management but also the data which are relevant for the quantification of risks. The Supervisory Board's Audit Committee receives a quarterly risk report which supports its own work. This report classifies all risks as high, medium or low depending on the probability of occurrence and the size of the risk. The direction of change and the size of the risk are then determined. The regular risk reports are regularly reviewed by the Management Board and the Risk Manager for appropriateness, effectiveness and their contents. The Internal Audit Department is involved in risk management through ongoing monitoring and review of the Group's policies and processes. Ahlers AG and the Group distinguish between risks that are monitored and controlled centrally and risks that are recorded in the operating units and reported to the headquarters.

## Centrally monitored operational/strategic risks

### Profitability of the divisions

To mitigate the important operational risk of a decline in the profitability of the divisions, Ahlers constantly monitors all relevant key figures of the individual brands such as the pricing margin and the gross profit margin as well as the compliance with cost budgets. As soon as the first signs of a deviation from the plan and, as a result, of declining profitability are identified, management starts to look for and analyse the causes and to develop countermeasures together with the units affected.

### Licenses

Strategic risks may result from the termination of license agreements or the transfer of trademark rights to third parties. To minimise these risks, Ahlers renews such agreements for long terms and constantly monitors the national and international registration of its trademarks as well as compliance with license agreements with third parties.

### Business disruptions and liability

Comprehensive insurance has been taken out to cover, among other things, the risks from business disruptions, loss of goods and claims for damages. The insurance situation is reviewed annually together with the company's independent insurance broker and the policies are adjusted if required. In this context, possibilities for improved cover and for reducing insurance premiums are reviewed and seized where this makes sense.

### Procurement

Procurement risks are a constant challenge because of the qualitative and quantitative demands made on fashion companies. Fashion companies are forced to reconcile the conflicting demands of cost management and reliability; both stagnation and hasty changes of suppliers may put the company at risk. Ahlers reduces these risks through a careful and early selection of competent suppliers as well as thorough quality checks. Manufacturers are selected under risk and opportunity aspects; the latter may relate to more favourable regional production costs or currency changes. Risks increasingly arise from non-compliance with social standards. To mitigate these risks, suppliers are obliged to sign clearly formulated agreements and are subjected to regular controls (see Sustainability Report, p. 44 et seq.).

### Legal

Policies are in place requiring all material legal cases to be reported to the Group headquarters where they are managed by the responsible legal experts, legal counsel and the Management Board. Adequate provisions for current legal disputes have been established in the financial statements. Wherever this is possible and makes sense, insurance is taken out against liability risks. There are currently no legal disputes that might have a material impact on the financial situation of the Group.

### IT: Availability and data protection

IT risks result from the growing trend towards the networking of information systems and the need for their constant availability. Computer systems and networks may break down, which would lead to a massive disruption of the business operations. Moreover, unauthorised data access or the misuse of data represents a growing threat. We mitigate these risks through the use of modern hardware and software meeting the latest security standards. Competent internal and external experts ensure that Ahlers' IT systems are permanently protected and optimised. These measures are supported by regular investments in hardware and software, virus scanners, firewall systems and access controls. The security of the IT infrastructure of Ahlers AG is confirmed by the "Trusted Site Infrastructure" seal awarded by the German TÜV. To protect ourselves against cyber risks, we commissioned a consulting firm in FY 2016/17 to try to hack into our IT system. The consultants confirmed the good security of our systems and made suggestions for improved protective measures.

## Centrally monitored financial risks

### Capital structure

No material risks arise from the capital structure. The Ahlers Group is characterised by a high equity ratio and low net liabilities. Positions that are affected by external factors and difficult to calculate such as pension provisions represent a low percentage of total assets.

### Liquidity

The liquidity risk and the risk of cash flow fluctuations are monitored constantly. Die Liquidity is guaranteed by sufficient credit lines which cover seasonal and unexpected cash needs. The credit lines are made avail- able by several banks; drawings against these lines stood at less than 50 percent at the end of the fiscal year. Liquidity, which is important to any company, is ensured by regular communication with the lending institutions as well as sufficient medium-term credit lines covering the basic requirements. Cash flows from the actual business activity are well predictable over a season. Cash flow is primarily influenced by profitability and fluctuations in net working capital.

### Currency

Currency risks play a very important role for international corporations, especially when purchasing is handled in another currency than sales, which is the case for most fashion companies. This is why the US dollar amounts required for procurement in Asia are hedged on the basis of a guideline agreed with the Supervisory Board for each season, according to which the foreign currency amounts required for the seasonal cycle are hedged at minimum and maximum rates. The necessity of these seasonal hedges is regularly reviewed against actual requirements. Ahlers and its competitors are obviously exposed to the risk of an extended weakness in the euro which would make imports from Asia more expensive beyond the hedged period. In such a case, management would consider protecting the gross profit margin through moderate price rises and through the relocation of manufacturing contracts to Eastern Europe. As the strong US dollar has made purchases in Asia more expensive, we have increasingly sourced goods in Europe and thus reduced our exposure to the US dollar especially in the past two years.

### Interest rate

Interest rate risks arise in the event of changes in market rates on debt capital. The risk of rising borrowing costs relates to floating-rate loans and follow-up financing that may be required. Although the company's debt capital is relatively low, Ahlers closely monitors the changes in market interest rates. Loans are mostly raised at fixed interest rates or interest rate swaps are used to hedge the interest rate risks arising from large debt financings if this is justified by market expectations.

### Risks and opportunities arising from the works of art

Risks and opportunities arising from the works of art owned by Ahlers AG arise from long-term value changes in the art market. Management regularly reviews the carrying amounts of the company's works of art. Sustainable declines in the market value would result in write-downs. In the context of the preparation of the financial statements, the value of selected works of art has been checked on the basis of auction results. The valuation failed to identify any need for write-downs. No material write-downs were required before this valuation, either. Instead, we believe that there are hidden reserves in our works of art, which are difficult to quantify.

### Bad debts

A strict examination of creditworthiness and insurance against bad debts mitigate the bad debt risks of Ahlers AG, which are generally of great importance. The company refrains from hedging receivables only following critical examination and, if available, an analysis of the customer relationship to date. Bad debt risks that cannot be insured must be approved by the Management Board. Such decisions are reviewed regularly after no more than six months.

## Operational/strategic risks monitored in the divisions

### Collection

Every season, fashion manufacturers are exposed to the risk of their collections not being accepted by the market and sales revenues declining as a result. This is therefore a material risk for the company. The collections are produced with the help of framework plans, which define the size and the price situation in advance. Timely reports on pre-sales and monthly reports from the divisions about the market situation keep the Management Board informed about the market strength of our products. The integration of sell-through information from retailers and our own stores clearly facilitates the creation of products that sell successfully and allows to expand production of fast selling items at short notice.

### Inventory

Managing the inventory risk is an important task in the fashion industry. On the one hand, high product availability is key to successful cooperation with retailers; on the other hand, however, inventories must be sold by the end of the season to ease the liquidity position of the company. Ahlers minimises this risk by means of systematic planning and selling principles and through regular inventory checks, all of which helps to keep inventories at the right level.

### Customer dependence

The risk of dependence on individual customers is increased by the fact that traditional specialist retailers are increasingly being driven out of the market by large chains; as a result, large customers account for a growing percentage of sales. Large suppliers providing retailers with professional services and high-quality products benefit from this trend. Ahlers communicates with customers at all levels to identify market requirements and problems at an early stage. This increasingly also includes e-commerce customers, as the Internet is gaining importance as a distribution channel for clothing. In addition, the company has implemented a reporting system which ensures that delivery ratios, punctuality of deliveries, orders on hand and sales revenues are monitored constantly to provide all customers with excellent services and intensify customer relationships. The Ahlers Group's multi-brand strategy mitigates the risk of customer dependence insofar as the brands are positioned differently and are therefore targeted at different customers and retail formats.

### External risks

As a company operating in the international consumer goods sector, Ahlers is exposed to risks that arise from both the global economic trend and the economic developments in the individual countries. Economic, political and socio-cultural conditions influence consumers' purchasing behaviour and, consequently, also the company's revenues and earnings. Moreover, our output markets are characterised by a shift towards e-commerce and by fierce competition for market share, brand presence and people. These external developments and the related risks are monitored by the Management Board and continuously discussed with the Audit Committee and the Supervisory Board. Ahlers addresses these risks through its internationalisation strategy as well as by sharpening the profiles of its brands in order to tap new markets and potential customers.

### Opportunities

The risks outlined above also entail opportunities. In particular, the constant monitoring of the profitability of the business units presents opportunities to identify new developments. In particular, the reports on divisional risks provide important findings regarding market opportunities. If, for instance, the reports describe changes in customer demand in certain markets, the early response to these changes may entail opportunities. The situation on the procurement side is similar. The fact that all key markets are monitored simultaneously allows the company to quickly shift to those countries where prices are competitive and reliable quality is offered.

### Overall statement regarding the risk report

As in the previous year, the risk report covers the full basis of consolidation. There were no material changes in the risk management system compared to the previous year.

The overall risk position of Ahlers AG and the Group is still classified as low in view of the solid financial situation. From today's point of view, we can identify no risks that could jeopardise the company's ability to continue as a going concern either on their own or in combination with other risks.

### Risk report on the use of financial instruments

Ahlers sources most of its goods in Asia, where the US dollar is the standard currency. To prevent losses arising from short-term exchange rate fluctuations, the procurement processes are hedged seasonally on the basis of a quantitative procurement plan with a horizon of up to twelve months. The company primarily uses forward exchange contracts for this purpose. Options may also be used to a limited extent. Distribution activities in foreign currencies, e.g. the Swiss franc, are hedged to a much lower extent.

The company is currently financed by bilateral loan agreements with banks. The basic requirements are usually covered by medium-term loans with an initial maturity of five to ten years from several banks. Most of these medium-term loans are secured by fixed interest rates or interest rate hedges for the term of the respective tranche. As the interest rate hedges always relate to credit agreements, they are combined with the hedged items for hedge accounting. Short-term credit lines are used to cover seasonal peaks.

# INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

pursuant to sections 289 para. 5, 315 para. 2 No. 5 HGB with regard to the accounting process

Two major components ensure that risks in the company are avoided or mitigated, namely a system of instructions and rules of procedure, on the one hand, and controlling and informing reports, on the other hand.

Rules of procedure for the Supervisory Board, the Management Board and the Managing Directors of all Group companies define the rooms for manoeuvre and the involvement of different hierarchy levels in the decision-making process. Individual instructions that are valid for all employees are posted on the Intranet of the Ahlers Group together with the Group's Value Statement. The Value Statement was distributed to all employees in 2015. New employees always receive the Statement when they join the company.

Controlling reports with different degrees of detail on the risk situation are sent to all officers at defined suitable intervals, usually monthly. The Audit Committee of the Supervisory Board is informed about the central risks and the segment risks in a quarterly risk report.

**Internal controlling system in the accounting and consolidation process**

The internal control system of the accounting and consolidation process aims to minimise sources of error and identify errors quickly. For this purpose, the accounting departments of the Group are organised centrally per country, in some cases they have a cross-border organisation. The participation of external service providers in the accounting process is usually confined to individual services such as the calculation of pension provisions. In minor exceptional cases, financial statements are prepared externally.

The SAP system forms the technical backbone of the accounting system. The regions have active access to the SAP system, while the central organisation has controlling access. The maintenance and updating of SAP master data and the system support are handled centrally.

The Group accounting manual ensures that all recurrent incidents are treated consistently. New incidents are agreed with the Group headquarters. Changes in Group accounting are immediately communicated to all employees involved as well as to external service providers concerned. The subsidiaries use standardised questionnaires for reporting, which are completed by the respective accounting departments for each monthly, quarterly and annual financial statements. These include the local and the IFRS statements as well as the reconciliation of receivables and liabilities between the Group companies. All data are pooled in the central consolidation department, which manages all internal reconciliations, consolidations, the monitoring of reporting deadlines and the quality control of the data reported. The department uses a consolidation software programme to process all separate financial statements into the consolidated financial statements. The consolidation process is geared to stringent control as well. Reconciliation differences in the consolidation are communicated to the subsidiaries involved and corrected.

The Group generally applies the four-eye principle. Important accounting decisions such as the measurement of inventories and receivables are reviewed and approved by the Management Board. Flat hierarchies, direct reporting lines and the preparation of monthly interim statements allow risks to be identified and errors to be detected at an early stage.

The Internal Audit Department regularly addresses aspects that are relevant for the financial statements and performs a controlling function in the annual accounting process. In this context, a focus is on the management and the measurement of inventories, which are especially challenging in the clothing sector and important for the result. The effectiveness of the internal control and risk management system in the accounting- relevant processes is also regularly reviewed by the Internal Audit Department.

The processes, systems and controls implemented sufficiently ensure that the Group's accounting process complies with (IFRS), the German Commercial Code (HGB) as well as other accounting-relevant rules and laws and is thus permissible.

# OTHER DISCLOSURES

## COMPENSATION REPORT

The compensation of the Management Board members is decided by the Supervisory Board and regularly reviewed for appropriateness by the Supervisory Board. The criteria taken into account in this review are the size, activity and economic situation of Ahlers AG, on the one hand, and the tasks of the respective Management Board member and his/ her personal contribution to the company's performance, on the other hand. In the opinion of the Supervisory Board, the total compensation and its individual components are appropriate given the tasks and performance of the respective Management Board members and the financial situation of Ahlers AG. The Human Resources Committee prepares the Supervisory Board's appointment decisions. It submits proposals to the Supervisory Board regarding the compensation, the compensation scheme and its regular review as well as the conclusion, amendment and termination of the employment contracts of the Management Board members. The employment contracts of all Management Board members are structurally identical.

The compensation is always performance-oriented and consists of the following components:

- A fixed annual salary, which is paid in monthly rates and regularly checked for appropriateness by the Supervisory Board.
- A profit-related bonus, which is a fixed percentage of the consolidated net income for the year.
- A target-related bonus, which depends on the achievement of certain targets set by the Supervisory Board. The amount depends on the degree to which the targets are reached.
- A long-term bonus oriented towards the company's sustainable development whose amount is determined on the basis of the evolution of Group sales revenues, Group earnings, net working capital and the share price over several 3-year periods. One such 3-year period was from December 2014 to November 2017, with the bonus disbursed in April 2018. The corresponding provision amounts to EUR 10 thousand. Another 3-year period runs from December 2017 to November 2020, with disbursement scheduled for April 2021. At the time of their issue, the share price-based components of the past 3-year tranche had an intrinsic value totalling EUR 38 thousand.
- Other compensation components exist in the form of a company car and a set of clothing for Dr. Kölsch and a company car for Dr. Ahlers. No pension commitments for Management Board members exist, nor have any loans been granted to the latter.
- All compensation components including other components are capped for all Management Board members.

The Management Board contracts do not contain any explicit severance pay provisions that would apply in the event of premature termination of the contract, nor are there any change of control clauses that would take effect in the event of a takeover. No pension commitments were made to the incumbent members of the Management Board.

The total compensation of the Management Board broken down by components is shown below:

| KEUR | 2016/17 | 2015/16 |
|---|---|---|
| Salary | 1,010 | 840 |
| Annual bonus* | 379 | 263 |
| Miscellaneous | 32 | 58 |
| **Total** | **1,421** | **1,161** |

* composed of a profit-related, target-related and long-term oriented bonus.
The long-term bonus is included at an amount of EUR 10 thousand (previous year: EUR 0 thousand).

## Value of the benefits granted for the fiscal year

(Expense level)

| | Dr. Stella A. Ahlers<br>CEO<br>Entry 06/2005 | | | | Götz Borchert<br>Chairman Marketing/Retail<br>Entry 02/2017 | | | Dr. Karsten Kölsch<br>CFO<br>Entry 08/2007 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| KEUR | **2016/17** | **Min.** | **Max.** | **2015/16** | **2016/17** | **Min.** | **Max.** | **2016/17** | **Min.** | **Max.** | **2015/16** |
| Fixed compensation | 480 | 480 | 480 | 480 | 170 | 170 | 170 | 360 | 360 | 360 | 360 |
| Additional benefits | 19 | 45 | 45 | 45 | 0 | 0 | 0 | 13 | 13 | 13 | 13 |
| Total | 499 | 525 | 525 | 525 | 170 | 170 | 170 | 373 | 373 | 373 | 373 |
| Annual bonus | 210 | 0 | 1,350 | 188 | 54 | 0 | 370 | 105 | 0 | 600 | 75 |
| Long-term variable Bonus: | | | | | | | | | | | |
| Dec. 14 - Nov. 17 | 5 | 0 | 120 | 0 | - | - | - | 5 | 0 | 120 | 0 |
| Dec. 17 - Nov. 20 | 0 | 0 | 120 | - | 0 | 0 | 120 | 0 | 0 | 120 | - |
| Total | 714 | 252 | 2,115 | 713 | 224 | 170 | 660 | 483 | 373 | 1,213 | 448 |
| Pension expenses | - | - | - | - | - | - | - | - | - | - | - |
| **Total compensation** | **714** | **525** | **2,115** | **713** | **224** | **170** | **660** | **483** | **373** | **1,213** | **448** |

## Inflow in the fiscal year

(Payment level)

| | Dr. Stella A. Ahlers<br>CEO<br>Entry 06/2005 | | Götz Borchert<br>Chairman Marketing/Retail<br>Entry 02/2017 | Dr. Karsten Kölsch<br>CFO<br>Entry 08/2007 | |
|---|---|---|---|---|---|
| KEUR | **2016/17** | **2015/16** | **2016/17** | **2016/17** | **2015/16** |
| Fixed compensation | 480 | 480 | 170 | 360 | 360 |
| Additional benefits | 19 | 45 | 0 | 13 | 13 |
| Total | 499 | 525 | 170 | 373 | 373 |
| Annual variable bonus | 216 | 148 | 0 | 90 | 64 |
| Long-term variable Bonus: | | | | | |
| Dec. 12 - Nov. 15 | | | | | |
| with payment Apr. 16 | - | 62 | - | - | 62 |
| Total | 715 | 735 | 170 | 463 | 499 |
| Pension expenses | 0 | 0 | 0 | 0 | 0 |
| **Total compensation** | **715** | **735** | **170** | **463** | **499** |

Former members of the Management Board and the management of Adolf Ahlers GmbH and their survivors received total compensation of EUR 68 thousand (previous year: EUR 68 thousand) during fiscal 2016/17.

### Supervisory Board compensation

The Supervisory Board compensation is governed by section 18 of the statutes. Similar to the Management Board compensation, the compensation for the Supervisory Board is also geared to the size and the economic situation of Ahlers AG as well as to the tasks of each individual member of the Supervisory Board. The compensation consists of a fixed and a variable component. The variable component is oriented towards the sustainable growth of the company. It is calculated as a fixed per-thousand fraction of the average consolidated net income of the past three years taking a defined threshold value into account, and is capped. Additional compensation is paid to the Chairperson and the Deputy Chairperson of the Supervisory Board as well as the Committee Chairpersons.

| KEUR | 2016/17 | 2015/16 |
|---|---|---|
| Fixed compensation | 105 | 105 |
| Variable compensation | 0 | 3 |
| **Total** | **105** | **108** |

All expenses incurred by the Supervisory Board members in conjunction with their mandates as well as the value-added tax charged on their compensation are refunded. No loans are granted to members of the Supervisory Board. Von Ah & Partner AG, Zurich (Switzerland), in which Supervisory Board member and Audit Committee Chairwoman Prof. Dr. von Ah is a partner, provided tax consulting services to the Ahlers Group in fiscal 2016/17, for which an amount of EUR 9 thousand was invoiced. In accordance with section 114 of the German Stock Corporation Act (AktG), all benefits had previously been approved by the Supervisory Board.

## TAKEOVER-RELATED INFORMATION AND EXPLANATORY REPORT PURSUANT TO SECTIONS 289 PARA. 4, 315 PARA. 4 HGB IN CONJUNCTION WITH ARTICLE 80 EHGB AND PURSUANT TO SECTION 176 PARA. 1 SENTENCE 1 AKTG IN CONJUNCTION WITH SECTION 26I EGAKTG

As of November 30, the share capital of 2017 Ahlers AG amounted to EUR 43,200,000.00 and was divided into 7,600,314 common shares (55.6 percent) and 6,081,206 preferred shares (44.4 percent). Each of the common and preferred shares represents an imputed EUR 3.16 of the share capital. Pursuant to section 22 of the statutes, each common share represents one vote at the Annual Shareholders' Meeting. According to section 5 para. 1 of the statutes, the preferred shares are non-voting shares. There are no voting right controls in case that employees hold a share in the capital of Ahlers AG.

500 common shares are registered shares with transfer restrictions, which confer a right to nominate a Supervisory Board member. These shares are held by Westfälisches Textilwerk Adolf Ahlers Stiftung & Co. KG. The remaining 13,681,020 shares are bearer shares.

On November 30, 2017, chairwoman Dr. Stella A. Ahlers held 52.5 percent of the share capital of Ahlers AG both directly and indirectly through Westfälisches Textilwerk Adolf Ahlers Stiftung & Co. KG as well as WTW-Beteiligungsgesellschaft mbH. She held 77.0 percent of the common shares and 21.9 percent of the preferred shares.

Pursuant to section 8 of the statutes, the Management Board of Ahlers AG consists of at least one member. The Supervisory Board determines the number of Management Board members and may appoint a Chairperson or Spokesperson of the Management Board as well as a Deputy Chairperson or Deputy Spokesperson of the Management Board. Vice members of the Management Board may also be appointed.

According to section 179 et seq. of the German Stock Corporation Act (AktG), amendments to the statutes may be decided by at least three quarters of the share capital represented at the Annual Shareholders' Meeting. The Supervisory Board is authorised to autonomously make amendments to the statutes to the extent that such amendments merely relate to the wording (section 27 of the statutes).

According to a resolution by the Annual Shareholders' Meeting dated May 3, 2017 regarding agenda item 7, the Management Board was authorised, subject to the consent of the Supervisory Board, to increase the company's share capital by up to EUR 21.6 million (Authorised Capital, section 4 para. 2 of the statutes) through one or several issues of new bearer common shares and/or non-voting preferred shares against cash or non-cash contributions.

The Management Board may exclude shareholders' subscription rights with the consent of the Supervisory Board in the following cases:

(i) to offset fractional amounts;
(ii) if the new shares are issued against a non- cash contribution, especially in con- junction with the acquisition of companies, operations or equity investments, in the context of mergers and/or for the purpose of acquiring other assets including rights and receivables; this authorisation applies only to the exclusion of subscription rights for shares that represent no more than 20 percent of the share capital (i.e. up to an amount of EUR 8,640,000.00);
(iii) if the new shares are issued against a cash contribution and the issue price per share is not materially lower than the market price of the listed shares entailing basically the same rights at the time of the issue of the shares. In this case, the subscription right may be excluded only if the total number of shares issued this way, together with the number of own shares sold ex rights during the term of this authorisation pursuant to section 186 para. 3 sentence 4 AktG and the number of shares that may arise from the exercise of option and/or conversion rights or the fulfilment of conversion obligations under bonds with warrants and/or convertible bonds and/or profit participation rights that are issued during the term of this authorisation in an ex-rights issue in accordance with section 186 para. 3 sentence 4 AktG, does not exceed 10 percent of the share capital at the time of the coming into effect of this authorisation or if this number is lower at the time this authorisation is exercised
(iv) to the extent that this is required to grant the holders of option or conversion rights/obligations a subscription right to new shares in the amount to which they would be entitled after exercising their option or conversion rights or meeting their conversion obligation as a shareholder;

and only to the extent that the ex-rights shares issued against cash and/or non-cash contributions on the basis of this authorisation or as part of another ex-rights authorised capital measure do not exceed 20 percent of the share capital neither at the time this authorisation becomes effective nor at the time this authorisation is exercised. The following shares are counted towards the above 20 percent limit:

- own shares which are sold in an ex-rights sale while this authorisation is valid as well as
- new shares which are to be issued in an ex-rights issue due to conversion and/or option rights and/or profit participation rights while this authorisation is valid.

With reference to agenda item 6, the Annual Shareholders' Meeting of May 3, 2017 additionally authorised the Management Board, subject to the consent of the Supervisory Board, to acquire shares in the company of any type (common or preferred shares) representing up to 10 percent of the company's share capital in an amount of EUR 43,200,000.00 as of the day the resolution was passed until May 2, 2022.

The authorisation may be exercised once or multiple times in full or partial amounts for one or several purposes by the company or by companies dependent on it or majority-owned by it or by third parties acting for the latter's account or for the account of the company. The acquisition may be confined to only one type of shares and may be effected via the stock exchange or via a public invitation to submit sales bids. The purchase price may not be more than 10 percent higher or lower than the current market price.

The public offering and/or the public invitation to submit offers for sale may be subject to additional conditions.

The Management Board is authorised, with the consent of the Supervisory Board, to use the own shares acquired on the basis of this authorisation or of one or several previous authorisations for all legally permissible purposes, especially for the following purposes:

(1) The shares may be redeemed without any further resolution by the Annual Shareholders' Meeting. They may also be redeemed in a simplified procedure without capital reduction by adjusting the imputed pro-rata amount of the other shares in the Company's share capital. If the shares are redeemed in a simplified procedure, the Management Board is authorised to adjust the number of shares in the statutes.

(2) The shares may be sold in another way than via the stock exchange or via an offering to all shareholders if the cash price paid for the shares is not materially below the market price of the company's shares of the same type and entailing basically the same rights. The number of shares sold this way in an ex-rights sale must not exceed 10 percent of the share capital neither at the time this authorisation becomes effective nor at the time this authorisation is exercised. The 10 percent limit also covers other shares issued or sold in an ex-rights transaction by direct or mutatis mutandis application of section 186 para. 3 s. 4 AktG while this authorisation is valid. The limit also covers shares to be issued due to conversion and/or option rights and/or duties from warrant and/or convertible bonds and/or profit participation rights which are issued in an ex-rights issue in accordance with section 186 para. 3 s. 4 AktG while this authorisation is valid. The relevant share capital is the lower of the share capital at the time the Annual Shareholders' Meeting decides on the present authorisation or the share capital at the time the present authorisation is exercised.

(3) The shares may be sold against non-cash contributions, especially in conjunction with the acquisition of companies, operations or equity investments, in the context of mergers and/or for the purpose of acquiring other assets or entitlements to the acquisition of other assets including rights and receivables

(4) The shares may be used for a scrip dividend, in the context of which shares in the company are used (also partially and optionally) to fulfil shareholders' dividend entitlements.

(5) The shares may also be used to fulfil subscription and conversion rights that arise because of the exercise of conversion and/or option rights or the fulfilment of conversion duties from convertible and/or warrant bonds that are issued by the company or one of the Group companies in which Ahlers AG directly or indirectly holds a 100% stake.

Shareholders' subscription rights to own shares acquired on the basis of this authorisation or of previous authorisations will be excluded if they are used in another way than a sale via the stock exchange or an offer to all shareholders in accordance with the authorisations under (2), (3), (4) and (5) above. In addition, shareholders' subscription rights may be excluded for fractional amounts if own shares are sold via an offer to all shareholders.

No change of control clauses exist. Nor has the company signed compensation agreements with the members of the Management Board or other employees that would apply in case of a takeover bid.

## CORPORATE GOVERNANCE STATEMENT

The corporate governance statement to be issued pursuant to section 289f, 315d HGB is contained in the Corporate Governance Report on page 15 et seq. It is also posted on the Internet at www.ahlers-ag.com.

## FORWARD-LOOKING STATEMENTS

We would like to point out that in the case of forward-looking statements, actual events may differ considerably from anticipated developments, should one of these uncertainties, whether mentioned or not, materialise or should the assumptions on which the statements are based prove to be inaccurate.

## RELATED PARTY DISCLOSURES

Pursuant to section 312 para. 3 of the German Stock Corporation Act (AktG), the Management Board declares: “Each of the transactions mentioned in the related party disclosures was made on terms equivalent to those that prevail in arm‘s length transactions, based on the circumstances known to us at the time when such transactions were made. No measures were taken or omitted at the instigation or in the interest of the controlling company or one of its affiliated companies.”

Ahlers AG
Herford, February 13, 2018

The Management Board

Dr. Stella A. Ahlers  Götz Borchert  Dr. Karsten Kölsch

## CONSOLIDATED BALANCE SHEET as of November 30, 2017

ASSETS

| KEUR | Notes | Nov. 30, 2017 | Nov. 30, 2016 |
|---|---|---|---|
| **A. Non-current assets** | | | |
| I. Property, plant and equipment | (11) | | |
| 1. Land, land rights and buildings | | 14,298 | 14,500 |
| 2. Technical equipment and machines | | 1,581 | 1,198 |
| 3. Other equipment, plant and office equipment | | 9,822 | 10,369 |
| 4. Payments on account and plant under construction | | 28 | 87 |
| | | **25,729** | **26,154** |
| II. Intangible assets | (12) | | |
| 1. Industrial property rights and similar rights and assets | | 14,437 | 12,984 |
| 2. Payments on account | | 2,583 | 2,046 |
| | | **17,020** | **15,030** |
| III. At-equity investments | (13) | 541 | 441 |
| IV. Other non-current assets | (14) | | |
| 1. Other financial assets | | 1,185 | 1,683 |
| 2. Other assets | | 17,790 | 17,791 |
| | | **18,975** | **19,474** |
| V. Deferred tax assets | (8) | 1,245 | 925 |
| **Total non-current assets** | | **63,510** | **62,024** |
| **B. Current assets** | | | |
| I. Inventories | (15) | | |
| 1. Raw materials and consumables | | 21,361 | 24,428 |
| 2. Work in progress | | 537 | 460 |
| 3. Finished goods and merchandise | | 53,422 | 52,097 |
| | | **75,320** | **76,985** |
| II. Trade receivables | (16) | 31,538 | 32,046 |
| III. Other current assets | (17) | | |
| 1. Other financial assets | | 7 | 1,139 |
| 2. Receivables from affiliates | | 0 | 0 |
| 3. Current income tax claims | | 1,391 | 1,592 |
| 4. Other assets | | 3,018 | 3,750 |
| | | **4,416** | **6,481** |
| IV. Cash and cash equivalents | (18) | 6,403 | 4,047 |
| **Total current assets** | | **117,677** | **119,559** |
| **Total assets** | | **181,187** | **181,583** |

## EQUITY AND LIABILITIES

| KEUR | Notes | Nov. 30, 2017 | Nov. 30, 2016 |
|---|---|---|---|
| **A. Equity** | (19) | | |
| I. Subscribed capital | (20) | 43,200 | 43,200 |
| II. Capital reserve | (23) | 15,024 | 15,024 |
| III. Retained earnings | (24) | 44,221 | 44,008 |
| IV. Equity difference from currency translation | (25) | -1,786 | -672 |
| **Equity attributable to shareholders of Ahlers AG** | | **100,659** | **101,560** |
| V. Non-controlling interests | | 1,466 | 2,373 |
| **Total equity** | | **102,125** | **103,933** |
| **B. Non-current liabilities** | | | |
| I. Pension provisions | (26) | 4,074 | 4,375 |
| II. Other provisions | (27) | 504 | 548 |
| III. Financial liabilities | (28) | | |
| 1. Other financial liabilities | | 27,225 | 24,200 |
| 2. Non-controlling interests in partnerships | | 1,247 | 1,247 |
| | | **28,472** | **25,447** |
| IV. Other liabilities | | 20 | 21 |
| V. Deferred tax liabilities | (8) | 1,622 | 2,469 |
| **Total non-current liabilities** | | **34,692** | **32,860** |
| **C. Current liabilities** | | | |
| I. Current income tax liabilities | | 554 | 379 |
| II. Other provisions | (29) | 2,320 | 2,581 |
| III. Financial liabilities | (28) | 9,049 | 9,581 |
| IV. Trade payables | | 20,559 | 19,158 |
| V. Other liabilities | (30) | | |
| 1. Liabilities to affiliates | | 2,518 | 2,626 |
| 2. Other liabilities | | 9,370 | 10,465 |
| | | **11,888** | **13,091** |
| **Total current liabilities** | | **44,370** | **44,790** |
| **Total liabilities** | | **79,062** | **77,650** |
| **Total equity and liabilities** | | **181,187** | **181,583** |

## CONSOLIDATED INCOME STATEMENT for fiscal 2016/17

| KEUR | Notes | 2016/17 | 2015/16 |
|---|---|---|---|
| 1. Sales | (1) | 235,931 | 237,761 |
| 2. Change in inventories of finished goods and work in progress | | 1,237 | 1,208 |
| 3. Other operating income | (2) | 3,838 | 3,881 |
| 4. Cost of materials | (3) | -120,099 | -122,079 |
| 5. Personnel expenses | (4) | -51,403 | -51,893 |
| 6. Other operating expenses | (5) | -61,248 | -59,682 |
| 7. Depreciation, amortisation and impairment losses on property, plant and equipment, intangible assets and other non-current assets | (6) | -5,262 | -5,174 |
| 8. Profit shares from At-Equity-investments | (7) | 100 | 30 |
| 9. Interest and similar income | (7) | 156 | 230 |
| 10. Interest and similar expenses | (7) | -869 | -863 |
| **11. Pre-tax profit** | | **2,381** | **3,419** |
| 12. Income taxes | (8) | -492 | -962 |
| **13. Consolidated net income** | | **1,889** | **2,457** |
| 14. of which attributable to: | | | |
| - Shareholders of Ahlers AG | | 1,836 | 2,338 |
| - Non-controlling interests | (9) | 53 | 119 |
| | | | |
| **Earnings per share (EUR) undiluted/diluted** | (10) | | |
| - Common shares | | 0.11 | 0.15 |
| - Preferred shares | | 0.16 | 0.20 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| KEUR | Notes | 2016/17 | 2015/16 |
|---|---|---|---|
| **13. Consolidated net income** | | **1,889** | **2,457** |
| **Not to be reclassified to profit or loss** | | | |
| 15. Actual gains and losses on defined benefit plans | (24) | -77 | -55 |
| **To be reclassified to profit or loss** | | | |
| 16. Net result from cash flow hedges | (25) | -1,313 | 36 |
| 17. Currency translation differences | | 198 | -581 |
| 18. Other changes | | -149 | -161 |
| **19. Others comprehensive income after taxes** | (8) | **-1,341** | **-761** |
| **20. Comprehensive income** | | **548** | **1,696** |
| 21. of which attributable to: | | | |
| - Shareholders of Ahlers AG | | 643 | 1,738 |
| - Non-controlling interests | | -95 | -42 |

# CONSOLIDATED CASH FLOW STATEMENT for fiscal 2016/17

| KEUR | 2016/17 | 2015/16 |
|---|---|---|
| Consolidated net income | 1,889 | 2,457 |
| Income taxes | 492 | 962 |
| Interest income / Interest expenses | 613 | 603 |
| Depreciation and amortisation / appreciation (net) | 4,962 | 5,174 |
| Losses / gains from the disposals of non-current assets (net) | 133 | -5 |
| Change in inventories and other current and non-current assets | 3,299 | -1,497 |
| Change in non-current provisions | -446 | -232 |
| Change in non-controlling interests in partnerships and other non-current liabilities | -1 | 5 |
| Change in current provisions | -261 | -357 |
| Change in other current current liabilities | 344 | -618 |
| Income taxes paid | -2,020 | -2,192 |
| Income taxes received | 1,173 | 594 |
| **Cash flow from operating activities** | **10,177** | **4,894** |
| Cash receipts from disposals of items of property, plant and equipment | 190 | 501 |
| Cash receipts from disposals of intangible assets | 0 | 1 |
| Payments for investment in property, plant and equipment | -4,286 | -4,400 |
| Payments for investment in intangible assets | -2,619 | -1,929 |
| Interest received | 157 | 285 |
| **Cash flow from investing activities** | **-6,558** | **-5,542** |
| Dividend payments | -2,356 | -3,040 |
| Additions / repayment of non-current financial liabilities | 4,165 | 2,189 |
| Interest paid | -862 | -825 |
| **Cash flow from financing activities** | **947** | **-1,676** |
| Net change in liquid funds | 4,566 | -2,324 |
| Effects of changes in the scope of exchange rates | 227 | -582 |
| Liquid funds as of December 1 | 1,498 | 4,404 |
| **Liquid funds as of November 30** | **6,291** | **1,498** |

We refer to details under No. 18 of the Notes to the Consolidated Financial Statements for further information on the composition of liquid funds.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for fiscal 2016/17

| KEUR | Equity attributable to shareholders of Ahlers AG – Subscribed capital: Common shares | Subscribed capital: Preferred shares | Capital reserve | Retained earnings | Equity-diff. from currency translation | **Total Group holdings** | Non-controlling interests: Capital | Accumulated other comprehensive income | **Total non-controlling interest** | **Total equity** |
|---|---|---|---|---|---|---|---|---|---|---|
| Notes | (20) | (20) | (23) | (24) | (25) | | | | (9) | |
| **Balance as of Nov. 30, 2015 / Dec. 1, 2015** | **24,000** | **19,200** | **15,024** | **44,765** | **-128** | **102,861** | **1,454** | **962** | **2,416** | **105,277** |
| Total net income for the period | | | | 2,283 | -544 | 1,739 | | -43 | -43 | 1,696 |
| Dividends paid | | | | -3,040 | | -3,040 | | | | -3,040 |
| **Balance as of Nov. 30, 2016 / Dec. 1, 2016** | **24,000** | **19,200** | **15,024** | **44,008** | **-672** | **101,560** | **1,454** | **919** | **2,373** | **103,933** |
| Total net income for the period | | | | 1,757 | -1,114 | 643 | | -95 | -95 | 548 |
| Dividends paid | | | | -2,356 | | -2,356 | | | | -2,356 |
| Acquisition of minority interests | | | | 812 | | 812 | -812 | | -812 | 0 |
| **Balance as of Nov. 30, 2017** | **24,000** | **19,200** | **15,024** | **44,221** | **-1,786** | **100,659** | **642** | **824** | **1,466** | **102,125** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DER AHLERS AG

for the fiscal year from December 1, 2016 to November 30, 2017

## 1. BASIS OF PRESENTATION

Ahlers AG is one of the largest listed European fashion manufacturers with a focus on menswear. The company originated as a textile business founded in 1919 by Adolf Ahlers in the Frisian town of Jever. In 1932, the company moved its headquarters from Oldenburg to Herford; it went public in 1987.

Ahlers AG's headquarters are located in Elverdisser Strasse 313 in Herford and the company is registered in the commercial register of the district court of Bad Oeynhausen (HRB 6541).

Ahlers AG shares are traded on the stock exchanges in Frankfurt/Main and Düsseldorf, as well as over the counter at other German exchanges.

The fiscal year begins on December 1 and ends on November 30. The consolidated financial statements are prepared in accordance with IFRS, as applicable in the EU, as well as applicable supplementary regulations from the German Commercial Code as stipulated in section 315a (1) of the HGB.

The consolidated financial statements are prepared in euros and most figures are given in thousands of EUR (KEUR). Due to the fact that the consolidated financial statements are prepared in thousands of EUR, rounding differences can arise, since computations of individual items are based on figures in euros. For the sake of clarity in the presentation, individual items from the income statement and balance sheet have been summarised. These items are detailed and explained in the notes to the consolidated financial statements.

The consolidated financial statements were prepared by the Management Board of Ahlers AG on February 13, 2018 and submitted to the Supervisory Board for approval. The latter has the possibility to amend the consolidated financial statements after their release by the Management Board. The consolidated financial statements are deemed to be approved upon their endorsement by the Supervisory Board unless the Management Board and the Supervisory Board decide to have them approved by the Annual Shareholders' Meeting.

## 2. ACCOUNTING PRINCIPLES

The consolidated financial statements of Ahlers AG were prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), taking into consideration the interpretations of the International Financial Reporting Interpretations Committee on the IFRS (IFRIC), as well as applicable supplementary regulations from the German Commercial Code (HGB) as stipulated in section 315a (1) of the HGB. All IFRS and IFRIC were observed that had been endorsed and mandated by the EU Commission prior to November 30, 2017. Standards and interpretations that have been issued, but are not yet mandatory, have not been applied prematurely.

The financial statements were prepared according to the going concern principle. Corresponding figures for comparison with the previous year are provided for all items of the financial statements.

The consolidated financial statements are prepared based on historical cost. The sole exception is in the case of derivative financial instruments, which are measured at market value, provided that market values can be reliably determined. The income statement is structured according to the nature of expense method.

### Insecurities and estimates

Preparation of the consolidated financial statements taking into consideration the pronouncements of the IASB requires that assumptions and estimates are utilised in the case of some items that have an effect on the level and reporting of assets and liabilities, income and expenses, as well as contingent liabilities. Assumptions and estimates relate in particular to establishing terms of economic life, determining net realisable value when measuring inventory, accounting for and measuring provisions, the realisability of future tax relief, as well as in determining cash flows, growth rates and discount factors in connection with impairment tests and the measurement of brands. Actual values may deviate from the assumptions and estimates made. Any required changes are recognised in profit or loss at the time that additional knowledge is obtained.

### Effects of new accounting standards

The accounting and valuation principles are generally consistent with the methods applied in the previous year. In addition, the Group has applied the following new and/or revised pronouncements that are relevant for the business activity of the Group and became mandatory for the fiscal year 2016/17:

- Amendments to IAS 1 “Presentation of Financial Statements” (12/2014), on/after January 1, 2016
- Amendments to IAS 16 “Property, Plant and Equipment” (05/2014), on/after January 1, 2016
- Amendments to IAS 27 “Separate Financial Statements” (08/2014), on/after January 1, 2016
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” (12/2014), on/after January 1, 2016
- Amendments to IAS 38 “Intangible Assets” (05/2014), on/after January 1, 2016
- IFRS 10 “Consolidated Financial Statements” (12/2014), on/after January 1, 2016
- IFRS 11 “Joint Arrangements” (05/2014), on/after January 1, 2016
- IFRS 12 “Disclosure of Interests in Other Entities” (05/2014), on/after January 1, 2016
- “Improvements to IFRS” (2014) comprise minor amendments to a total of four standards, which were necessary but not urgent, on/after January 1, 2016

With the exception of the presentation and additional notes, the application of the pronouncements had no impact on the consolidated financial statements.

The following pronouncements that are relevant for the business activity of the Group had been published as of November 30, 2017 but were not mandatory as of this date (effective for annual periods beginning on or after the dates stated):

- Amendments to IAS 7 “Statement of Cash Flows” (01/2016), on/after January 1, 2017
- Amendments to IAS 12 “Income Taxes” (01/2016), on/after January 1, 2017
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” (09/2014), time of coming into force open and (10/2017), on/after January 1, 2019, (EU endorsement pending)
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” (11/2013), time of coming into force open
- Amendments to IAS 40 “Investment Property” (12/2016), on/after January 1, 2018, (EU endorsement pending)
- IFRS 2 “Share-based Payment” (06/2016), on/after January 1, 2018, (EU endorsement pending)
- IFRS 7 “Financial Instruments: Disclosures” (11/2013), time of coming into force open
- IFRS 9 “Financial Instruments” (07/2014), on/after January 1, 2018 and (10/2017), on/after January 1, 2019 (EU endorsement pending)
- IFRS 10 “Consolidated Financial Statements” (09/2014), time of coming into force open
- IFRS 15 “Revenue from Contracts with Customers” (05/2014 and 09/2015), on/after January 1, 2018 and (04/2016) on/after January 1, 2018
- IFRS 16 “Leases”, on/after January 1, 2019
- “Improvements to IFRS” (2014-2016) comprise minor amendments to a total of three standards, which were necessary but not urgent, on/after January 1, 2017 or January 1, 2018, respectively

The standards are applied as of the annual periods for which they are effective. The option to apply these standards and interpretations prematurely was not exercised. With the exception of additional and/or modified notes as well as the new standards to revenues from contracts with customers and the leasing standard, the first-time application is not expected to have material effects on the consolidated financial statements. The application of the new standard to revenues from customers will result in a balance sheet extension of approximately EUR 3 million. While the effects of the new leasing standard are still being reviewed, we generally expect it to lead to a balance sheet extension in the lower double digit million EUR area.

# 3. CONSOLIDATION

### Basis of consolidation

All 12 domestic and 19 foreign subsidiaries that are directly or indirectly controlled by Ahlers AG are included in the 2016/17 consolidated financial statements in addition to the parent company, Ahlers AG. The liquidation of a-fashion.com GmbH i. L., Verwaltungs- und Handelsgesellschaft “Alconda” mit beschränkter Haftung i. L. and the former production company ROMEO Spolka z o.o. i. L. was completed in the fiscal year 2016/17. As a result, all the above companies no longer formed part of the basis of consolidation in the fiscal year. In addition, Gin Tonic Special Mode GmbH was merged into Ahlers Zentralverwaltung GmbH in the fiscal year. The profit-and-loss transfer agreement between Ahlers AG and Otto Kern GmbH was terminated with effect from December 1, 2016. Pionier Workwear Danmark A/S, DK-Haderslev, was renamed Ahlers Danmark A/S, DK-Haderslev. Moreover, the registered office of Baldessarini GmbH was relocated from Munich to Herford and the registered office of Ahlers Herford (Italia) S.R.L. was moved from I-Volpiano to I-Torino.

A list of subsidiaries can be found on page 86.

### Principles of consolidation

The financial statements of all of the consolidated companies within the Ahlers Group are prepared according to uniform accounting and measuring principles.

Business combinations are accounted for using the purchase method. When recognised for the first time, goodwill is measured at the cost of acquisition, which is the amount by which the acquisition cost of the business combination exceeds the Group’s share in the fair values of the identifiable assets, liabilities and contingent liabilities of the acquired company. Companies are included in the consolidated financial statements only as long as the parent company is in control.

Intra-group balances, income, expenses and gains and losses from intra-group transactions as well as other intra-group transactions are eliminated in full.

The consolidated financial statements of Ahlers AG are included in the consolidated financial statements of Westfälisches Textilwerk Adolf Ahlers Stiftung & Co. KG, Herford, the highest-level controlling parent company.

## SHAREHOLDINGS OF AHLERS AG

(including direct and indirect investments)

| Company | Anteil am Kapital (in %) | thereof indirectly held % | thereof indirectly held via | Equity [1] KEUR | Net income [2] 2016/17 KEUR |
|---|---|---|---|---|---|
| 1. Ahlers P.C. GmbH, Herford | 100.00 | | | 21,377 | 3) |
| 2. Ahlers Textilhandel GmbH & Co. KG, Herford | 80.00 | | | 5,526 | 876 |
| 3. Ahlers Vertrieb GmbH, Herford | 100.00 | | | 31 | 3) |
| 4. Ahlers Zentralverwaltung GmbH, Herford | 100.00 | | | 3,810 | 3) |
| 5. Baldessarini GmbH, Herford | 100.00 | | | 2,587 | 3) |
| 6. Ahlers Retail GmbH, Herford | 100.00 | | | 64 | 3) |
| 7. HEMINA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Herford KG, Pullach im Isartal | 94.00 | 94.00 | 2. | 3,574 | 161 |
| 8. Jupiter Bekleidung GmbH, Herford | 100.00 | | | 107 | 3) |
| 9. Otto Kern GmbH, Herford | 100.00 | | | 6,838 | 1,318 |
| 10. PIONEER Jeans-Bekleidung GmbH, Herford | 100.00 | | | 51 | 3) |
| 11. Pionier Berufskleidung GmbH, Herford | 100.00 | | | 28 | 3) |
| 12. Pionier Jeans & Casuals Germany GmbH, Herford | 100.00 | | | 23 | 3) |
| 13. Adolf Ahlers AG, CH-Zug | 100.00 | | | 4,161 | 587 |
| 14. Ahlers Austria GmbH, A-Mariasdorf | 100.00 | | | 5,352 | 758 |
| 15. Ahlers Europe Ltd., USA-New York | 100.00 | | | -322 | -21 |
| 16. Ahlers Herford (España) S.L., E-Madrid | 100.00 | | | 357 | 125 |
| 17. Ahlers Herford (Italia) S.R.L., I-Torino | 100.00 | | | 409 | 22 |
| 18. Ahlers Premium France S.A.S., F-Horbourg-Wihr | 100.00 | | | 2,201 | 339 |
| 19. "Ahlers-Poland" Spolka z o.o., PL-Opole | 100.00 | | | 11,945 | 675 |
| 20. SIA Clasic, LV-Riga | 65.50 | 65.50 | 25. | -36 | -146 |
| 21. Dial Textile Industries Ltd., CL-Katunayake | 100.00 | | | 2,404 | 816 |
| 22. Ahlers Danmark A/S, DK-Haderslev | 100.00 | | | 1,015 | 49 |
| 23. "LUBINEX"-Spolka z o.o., PL-Lubin | 62.85 | 62.85 | 19. | 2,932 | -72 |
| 24. Otto Kern Austria GmbH, A-Mariasdorf | 100.00 | 100.00 | 9. | 781 | 18 |
| 25. UAB Stesa Clasic, LT-Vilnius | 65.50 | 65.50 | 1. | 780 | -151 |
| 26. TEXART Bratislava, s r.o., SK-Bratislava | 100.00 | 100.00 | 14. | 167 | 41 |
| 27. TEXART d.o.o., HR-Strmec Samoborski | 100.00 | 100.00 | 14. | 195 | 44 |
| 28. TEXART d.o.o., SLO-Ljubljana | 100.00 | 100.00 | 14. | 91 | 26 |
| 29. TEXART Magyarorszag Kft., H-Budapest | 100.00 | 100.00 | 14. | 589 | 103 |
| 30. TEXART spol. s r.o., CZ-Prag | 100.00 | 100.00 | 14. | 263 | 83 |
| 31. Texart UK Ltd., GB-London | 100.00 | | | 108 | 4 |

1) Amounts in foreign currencies are stated at the mid-rate on the balance sheet date.
2) Net income stated in foreign currency is presented at the average rate for the fiscal year.
3) Control and profit and loss transfer agreement.

No audit under local legislation was performed for Texart UK Ltd., London, UK, for reasons of materiality. Ahlers AG guarantees the latter's liabilities pursuant to section 479A of the UK Companies Act 2006.

## Date of consolidation

The balance sheet date of the companies included in the consolidation coincides with that of the parent company. The only exception is HEMINA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Herford KG, Pullach im Isartal, whose balance sheet date is December 31. An interim statement was therefore prepared as of November 30, 2017.

## Currency translation

The consolidated financial statements are prepared in euros, the functional and reporting currency of the Group. Each company within the Group defines its functional currency. The items in the respective company's financial statements are measured using this functional currency. Foreign currency transactions are first translated into the functional currency at the spot rate on the day of the transaction. Monetary assets and liabilities in foreign currencies are translated into the functional currency on every closing date using the closing rate. Exchange differences from monetary items as part of a net investment in a foreign operation are recognised in equity. All currency translation differences are recorded against income. Non-monetary items measured at historical cost in a foreign currency are translated using the exchange rate on the date of the transaction. The assets and liabilities of the foreign companies are translated into euros at the closing rate. Income and expenses are translated at the mean rate. The resulting exchange differences are recognised as a separate equity component. The cumulative amount recorded in equity for a foreign operation is recognised in profit or loss when this foreign operation is sold.

In the consolidated fixed assets and provisions schedule, opening and closing balances were translated at historical rates, while movements within the fiscal year were translated at average annual rates. Resulting adjustments are shown as currency translation differences in a separate column.

The table below shows the changes in the exchange rates of important currencies:

| | Currency | Average rate | | Closing rate | |
|---|---|---|---|---|---|
| Country | 1 EUR = | **2016/17** | **2015/16** | **2017** | **2016** |
| Poland | PLN | 4.28 | 4.35 | 4.21 | 4.44 |
| Switzerland | CHF | 1.10 | 1.09 | 1.17 | 1.08 |
| Sri Lanka | LKR | 170.60 | 161.87 | 181.81 | 157.88 |
| USA | USD | 1.12 | 1.11 | 1.18 | 1.06 |

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Property, plant and equipment**

Property, plant and equipment are recorded at cost minus accumulated scheduled depreciation and, where applicable, impairment losses. The terms of useful life on which depreciation is based reflect the anticipated economic term of use for the Group.

The following terms of useful life are used for scheduled depreciation of key assets:

| | | |
|---|---|---|
| - | Buildings | 15 to 50 years |
| - | Machinery | 5 to 15 years |
| - | Furniture and fixtures and office equipment | 3 to 30 years |

Terms of useful life, residual carrying amounts and depreciation methods for property, plant and equipment are reviewed on a regular basis in order to ensure that the depreciation method and period coincides with the anticipated useful economic life of the asset items.

**Intangible Assets**

Acquired intangible assets with terms of useful life that can or cannot be determined are capitalised at cost, if it is probable that future economic benefits are associated with the asset, and if the cost of the asset can be reliably established. Acquired intangible assets with a determinable useful life are amortised over three to eight years using the straight-line method. Acquired intangible assets with an indeterminable useful life are not subject to scheduled amortisation; rather they are reviewed for recoverability on an annual basis and in the event that there is an indication of impairment, and written down to the recoverable amount to the extent necessary. In the case of intangible assets with an indeterminable useful life, a review occurs in every reporting period to ascertain whether events and circumstances continue to justify the estimate of an indeterminable useful life for these assets. In the event that reasons for previous impairment losses no longer apply, these impairment losses are reversed and the carrying amount of the asset is increased to its recoverable amount. Terms of useful life, residual values and amortisation and depreciation methods are reviewed at least annually at the end of the fiscal year. If expectations differ from previous estimates, the appropriate changes are accounted for as changes to estimates.

**At-equity investments**

Shares in associated companies are recognised at cost. Subsequent measurement – starting after the end of the first full fiscal year – reflects the percentage changes in equity caused by net income/loss for the year and capital increases/reductions less dividends received. Where a company's fiscal year differs from that of the Ahlers Group, interim financial statements are prepared for the investment with effect from November 30.

**Works of art**

Works of art are measured in accordance with IAS 16, Property, plant and equipment. Under this standard, assets are recognised at amortised cost. Works of art with acquisition values in excess of EUR 1,500 are not subject to depreciation. Given that that these works of art are believed to be of lasting value, no scheduled depreciation is applied; they are consequently valued at cost. Works of art with an acquisition value lower than EUR 1,500 are subject to scheduled depreciation. No standard exists under IFRS that explicitly addresses works of art, since these represent neither inventories, nor property, plant and equipment, nor intangible assets, nor financial assets. IAS 8 stipulates that in these cases such accounting policies should be used that are relevant to the economic decision-making needs of the reader and that result in reliable information. The requirements and guidance in Standards and Interpretations dealing with similar and related issues are to be used in these cases. In the present case, IAS 16, Property, plant and equipment, is the appropriate basis.

### Financial instruments and other financial assets

Financial instruments are reported in accordance with IAS 39. Financial assets are thus classified in the following categories to the extent relevant to the Ahlers Group:

- Financial assets held for trading
- Loans and receivables
- Derivatives designed as hedging instruments and effectively used as such.

In the case of regular way purchases and sales of financial assets, trade day accounting is used. First-time recording of a financial asset occurs on the day on which the Ahlers Group has become the contractual partner. Financial assets are measured at the fair value of the consideration; in the case of receivables and loans, transaction costs are included.

Changes in fair value of financial assets held for trading are reported in the consolidated income statement.

In the case of receivables and loans, subsequent measurement occurs at amortised cost using the effective interest method less potential value impairments.

Financial assets are derecognised when their sale is contractually agreed; loans and receivables are derecognised upon repayment.

### Derivative financial instruments and hedging transactions

The derivative financial instruments are recorded at fair value. Derivatives are reported in the balance sheet under other financial assets or other financial liabilities.

Changes in fair value of the derivatives are reported depending on whether these instruments are used for hedging purposes and the conditions for accounting for a hedging relationship according to IAS 39 are met. If these conditions are not met, despite the fact that an economic hedging relationship applies, the changes in fair value of the derivative financial instruments are recorded immediately against income, otherwise, they are directly recognised in equity.

The Ahlers Group uses forward exchange contracts only as derivatives to manage current and future currency risks. In addition, interest rate swaps are used on a case-by-case basis to hedge interest rates.

### Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

### Impairment of assets

Terms of useful life, residual values and depreciation and amortisation methods for property, plant and equipment, works of art and intangible assets with determinable terms of useful life are reviewed at least once a year in order to ensure that the depreciation methods, the useful lives and residual values are in accordance with the economic useful life.

Intangible assets with indeterminable terms of useful life are reviewed for impairment at least once a year. Measurement of intangible assets is based on the cash-generating unit to which the respective asset belongs. In the Ahlers Group, the cash-generating unit is an individual corporate division to which cash flows can be directly attributed.

If there are indications of impairment or if the annual review of impairment of an asset is required, the Ahlers Group estimates the recoverable amount of the respective asset. The recoverable amount is the higher of the net selling price and the value in use. The net selling price is the amount that can be recovered from the sale of an asset in an arm's length transaction, less selling costs. The value is determined on the basis of a discounted cash flow model. The value in use is calculated on the basis of estimated future cash flows from the use and disposal of the asset using the discounted cash flow method. Cash flows are projected on the basis of financial plans with a five-year planning horizon approved by the management; current developments are taken into account. Material assumptions on which the cash flow projections are based include asset-specific licensing income and the related cost trends. More recent findings are incorporated in the preparation of projections on a rolling basis and may lead to adjustments of existing plans. Cash flows are discounted at the time of the impairment review using risk-equivalent capitalisation interest rates. If the carrying amount of an asset exceeds the recoverable amount, the asset is regarded as impaired and written down to its recoverable amount.

If the review leads to the conclusion that an earlier impairment loss is no longer applicable or is applicable only to a lesser degree, the Ahlers Group estimates the recoverable amount. In the event that the reasons for a previous impairment loss no longer apply, the carrying amount of the asset is increased to its recoverable amount. This amount may not, however, exceed the carrying amount that would pertain after taking into account amortisation, if no impairment loss had been recorded against the asset in previous years. A reversal of an impairment loss is recognised immediately in net income or loss in the period in which it is recorded. Once recognised, goodwill impairments are not reversed.

Financial assets are tested for impairment at each balance sheet date. If the recoverable amount of an asset is lower than its carrying amount, the asset is written down to the recoverable amount. This write-down is expensed as an impairment loss. An impairment loss recorded previously as an expense is adjusted against profit or loss, if matters have arisen that would require such an adjustment; however, the adjustment may result in an amount no greater than the amortised cost.

### Inventories

Inventories are measured at the lower of cost or net realisable value. Costs incurred in bringing inventories to their present location in their present condition are accounted for as follows:

Raw materials

- First-in First-out method (Fifo)

Finished goods and services and work in progress

- Direct material and labour costs, direct production costs, material overheads and the appropriate share of production overheads based on actual production during the fiscal year, not taking into account borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### Trade receivables and other financial assets

Trade receivables are recorded at the original invoice amount minus allowances if necessary. An allowance is created if there is objective evidence that the company will not be in a position to collect the receivable. Receivables are written off as soon as they are deemed uncollectible.

The majority of receivables are covered by trade credit insurance. The deductible agreed in the trade credit insurance policy ranges between 10 percent and 20 percent. Allowances for receivables that have been insured via trade credit insurance are created, if necessary, only in the amount of the contractually agreed deductible.

### Cash and cash equivalents

Cash and cash equivalents in the balance sheet include cash on hand and bank balances.

For purposes of the consolidated cash flow statement, cash and cash equivalents include the items defined above as well as liquid investments such as other securities that can be converted into certain cash at any point in time and are subject only to negligible risk of value fluctuation. Overdrafts are deducted for the purpose of the consolidated cash flow statement.

### Interest-bearing loans

When loans are initially recorded, they are measured at the fair value of the consideration. Subsequently, interest-bearing loans are measured using the effective interest method at amortised cost.

### Pension provisions and similar obligations

Retirement plan obligations and retirement plan expense of defined benefit plans are measured using the projected unit credit method. The measurement is undertaken according to country-specific conditions. The Ahlers Group only has closed pension plans in which existing pensioners and vested benefits are required to be measured. Actuarial reviews are conducted annually. These reviews take into account both the pensions known and benefits acquired at the balance sheet date and future anticipated pension increases.

The effects arising from the revaluation of the net debt, in this case essentially actuarial gains and losses from adjustments or changes to actuarial assumptions, are recognised in other comprehensive income in accordance with IAS 19. The amount recognised as a debt under the pension plans is thus equivalent to the present value of the defined benefit obligation.

Pre-retirement part-time agreements are based on the so-called block model. Two types of obligations arise in this connection – the repayment amount and the replenishment amount – both of which are recorded at their net present value in accordance with actuarial principles.

### Stock-based compensation

As part of the long-term bonus, the members of the Management Board were granted stock appreciation rights, which can only be settled in cash.

Where the company receives services in return that cannot be identified individually or as a whole, these non-identifiable services are measured at the difference between the fair value of the stock-based compensation and the fair value of the non-identifiable services received at the time of the granting. This is then capitalised or charged as an expense.

The fair value is spread over the period up to the day the right may first be exercised and is then recognised in profit or loss in respect of a corresponding liability. The liability is remeasured at every balance sheet date and on the settlement date. Changes in the fair value are recognised in profit or loss.

### Other provisions

Provisions are created if a current legal or constructive obligation towards a third party exists in connection with a past event, which will probably result in an outflow of funds and for which a reliable estimate of the amount of the obligation can be made. Provisions for restructuring measures are established when a detailed, formal restructuring plan exists and when the parties concerned rightfully expect the restructuring measures to be implemented. If the interest rate impact is material, provisions are measured at net present value. If discounting takes place the increase in provisions occasioned by the passage of time is recorded as interest expense.

### Liabilities

When measured for the first time, financial liabilities are recognised at the fair value of the counter-performance received. Following the first-time recognition, financial liabilities are measured at amortised cost using the effective interest method.

Trade payables and other liabilities are recorded at the nominal value or the repayment amount.

### Leases

If the Ahlers Group bears all material opportunities and risks under lease agreements and is therefore considered the economic owner (finance leases), the leased object is capitalised at the lower of market value or the present value of future lease payments at the time that the contract is entered into. The payment obligations arising under the finance lease are recorded under financial liabilities in the equivalent amount. The interest portion of the lease liabilities is reported in the consolidated income statement over the term of the lease. If the future transfer of ownership of the leased asset is sufficiently certain, depreciation is undertaken over the useful economic life. Otherwise the depreciation period is based on the term of the lease.

In addition to finance lease agreements, the Ahlers Group has entered into lease agreements that qualify as operating leases. As a result, the leased objects – from an economic perspective – are attributable to the lessor and the operating lease instalments represent period expenses. The total of future lease payments for the basic period when the lease is uncancellable is reported under financial obligations.

### Income recognition

Income is recognised when it is probable that economic benefit will flow to the company and the amount can be reliably measured. Income is measured at the fair value of the consideration received. Income is stated net of discounts, rebates, VAT or other charges. Moreover, the following accounting criteria must be fulfilled in order to recognise income:

- Proceeds from the sale of goods are recorded at the time when the major risks and opportunities associated with ownership of the goods and products sold have been transferred to the buyer.
- Interest income is recorded pro rata temporis using the effective interest method.
- License income and other income are recognised in the period in which the company's legal claim materialises and in accordance with the underlying contracts.

### Taxes

Actual tax refund claims and tax obligations for the current fiscal year and for earlier fiscal years are measured at the anticipated amount of the refund from, or payment to, the tax authorities.

Deferred tax assets and liabilities are created for all temporary differences between the values recorded for tax purposes by the individual companies and the values recorded in the consolidated financial statements according to IFRS, as well as in connection with specific consolidation processes. Deferred tax assets also include tax reduction claims arising from the expected use of existing tax loss carryforwards in subsequent years and the realisation of which can be assumed with a sufficient degree of probability. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply during the period in which an asset is realised or a liability is met. The tax rates (and tax laws) applicable on the balance sheet date are taken as the basis. Future changes in tax rates must be taken into account on the balance sheet date provided that their eventual enactment in the course of the legislative process is accepted as a given fact.

Income taxes related to items that are recorded directly under equity are recognised in equity and not in profit or loss.

Deferred tax assets and liabilities are netted in the consolidated balance sheet, provided that an enforceable right exists to offset the actual tax debt and the deferred taxes relate to the same tax subject and the same tax authority.

# 5. NOTES TO THE CONSOLIDATED INCOME STATEMENT

## (1) Sales

| | 2016/17 | | 2015/16 | |
|---|---|---|---|---|
| | KEUR | % | KEUR | % |
| Domestic | 126,942 | 53,8 | 129,936 | 54.6 |
| Foreign | 108,989 | 46,2 | 107,825 | 45.4 |
| | **235,931** | 100,0 | **237,761** | 100.0 |

Sales revenues were generated almost without exception by the sale of clothing; licensing revenues from Otto Kern GmbH, Herford, in the amount of EUR 787 thousand (previous year: EUR 822 thousand), Baldessarini GmbH, Herford, in the amount of EUR 169 thousand (previous year: EUR 116 thousand), Pioneer Jeans-Bekleidung GmbH, Herford, in the amount of EUR 22 thousand (previous year: EUR 31 thousand) and Gin Tonic Special Mode GmbH, Herford, in the amount of EUR - thousand (previous year: EUR 7 thousand) are included in this figure. Foreign sales were generated primarily in Europe.

## (2) Other operating income

| KEUR | 2016/17 | 2015/16 |
|---|---|---|
| Exchange gains | 651 | 462 |
| Income from personal use of company cars | 538 | 520 |
| Income from re-invoicing | 415 | 507 |
| Rental income | 327 | 367 |
| Income from the reversal of valuation allowances on trade receivables | 314 | 334 |
| Reversal of an impairment loss | 300 | - |
| Income from the release of provisions/other liabilities | 274 | 424 |
| Income from insurance payments | 213 | 194 |
| Income from area assignments sales agents | 210 | - |
| Income from the disposal of fixed assets | 117 | 525 |
| Income from damages | 73 | 129 |
| Income unrelated to the reporting period | 58 | 28 |
| Others | 348 | 391 |
| | **3,838** | **3,881** |

In FY 2016/17 other operating income remained virtually unchanged to the previous year´s figures. The write-up relates to the Otto Kern trademark rights.

## (3) Cost of materials

| KEUR | 2016/17 | 2015/16 |
|---|---|---|
| Cost of raw materials and supplies and purchased goods | 90,681 | 93,556 |
| Cost of purchased services | 29,418 | 28,524 |
| | **120,099** | **122,080** |

The cost of materials adjusted for changes in finished goods and work in progress in an amount of EUR -1,237 thousand (previous year: EUR -1,207 thousand) declined at a slightly lower rate than sales revenues due to the discontinuation of the remaining private label business as well as higher sales revenues in the company's own Retail segment.

### (4) Personnel expenses

| KEUR | 2016/17 | 2015/16 |
|---|---|---|
| Wages and salaries | 43,583 | 44,029 |
| Social security contributions | 7,725 | 7,727 |
| Retirement benefit and similar expenses | 95 | 137 |
| | **51,403** | **51,893** |

Social security contributions include employer contributions to contribution-based pension plans in an amount of EUR 3,455 thousand (previous year: EUR 3,303 thousand).

The decline in personnel expenses resulted primarily from lower severance payments as well as staff reductions at Gin Tonic in the course of the previous year.

### (5) Other operating expenses

| KEUR | 2016/17 | 2015/16 |
|---|---|---|
| Distribution expenses | 32,990 | 31,585 |
| General and administrative expenses | 11,319 | 11,951 |
| Advertising expenses | 5,522 | 5,283 |
| Maintenance expenses | 2,378 | 2,164 |
| Insurance expenses | 1,041 | 1,063 |
| Exchange differences | 767 | 251 |
| Banking fees | 538 | 546 |
| Other taxes | 416 | 441 |
| Valuation allowances | 321 | 341 |
| Other fees | 310 | 301 |
| Miscellaneous | 5,646 | 5,756 |
| | **61,248** | **59,682** |

Distribution expenses are comprised chiefly of costs that vary with sales levels (commissions, travel costs, licenses, freight and removals from storage). Administrative expenses include legal, consultancy and EDP costs as well as general administrative costs. The cost of trade fairs and marketing, including trade marketing, constitutes advertising expenses.

The non-current liabilities with indefinite terms towards Adolf Ahlers AG, CH-Zug, represent monetary items as part of a net investment in a foreign operation as defined in IAS 21.15. Pursuant to IAS 21.32f, the resulting exchange differences are initially not shown under operating expenses but recognised in equity. They are recognised in profit/loss only on disposal of the net investment.

### (6) Depreciation, amortisation on property, plant and equipment and intangible assets and other non-current assets / impairment losses

| KEUR | 2016/17 | 2015/16 |
|---|---|---|
| **Property, plant and equipment** | | |
| Land and buildings | 510 | 504 |
| Technical equipment and machines | 304 | 309 |
| Other equipment, plant and office equipment | 3,519 | 3,716 |
| **Intagible Assets** | | |
| Trademark rights and similar rights | 929 | 645 |
| Goodwill | - | - |
| **Other non-current assets** | | |
| Other assets | - | - |
| | **5,262** | **5,174** |
| **thereof impairment losses** | | |
| Goodwill | - | - |

### (7) Net interest expense

| KEUR | 2016/17 | 2015/16 |
|---|---|---|
| Write-up of the at-equity investment | 100 | 30 |
| Other interest and similar income | 156 | 230 |
| Interest expenses | -869 | -863 |
| | **-613** | **-603** |

The write-up of the at-equity investment was made in accordance with the increase in the pro-rated equity capital. For further information, refer to No. 13 of the notes.

### (8) Income tax

| KEUR | 2016/17 | 2015/16 |
|---|---|---|
| **Current taxes** | | |
| Germany | 469 | 284 |
| Foreign | 677 | 640 |
| | **1,146** | **924** |
| **Deferred taxes** | | |
| Germany | -667 | -161 |
| Foreign | 13 | 199 |
| | **-654** | **38** |
| | **492** | **962** |

Of the deferred taxes, EUR 355 thousand in expenses relate to the recognition and reversal of temporary differences (previous year: EUR 334 thousand in expenses).

Ahlers AG had a domestic income tax rate of 30.88 percent (previous year: 30.88 percent) for deferred taxes, consisting of corporate tax at a rate of 15.00 percent and the solidarity surcharge imposed on corporate tax at a rate of 5.50 percent, as well as German municipal trade tax of 15.05 percent with an average multiplying factor of 430 percent. Foreign tax rates are unchanged to the previous year between 12.00 and 33.33 percent.

The table below shows a reconciliation statement between the anticipated income tax expense that would theoretically have resulted if using an income tax rate of 30.88 percent (previous year: 30.88 percent) at the Group level and the income tax actually reported for the Group.

| KEUR | 2016/17 | 2015/16 |
| --- | --- | --- |
| **Consolidated net income before income taxes** | **2,381** | **3,419** |
| Expected tax expense at a rate of 30.88% (2015/16: 30.88%) | 735 | 1,056 |
| Tax rate differences at local tax rate | -462 | -484 |
| Effects from changes in tax rates | 2 | -15 |
| Non-deductible business expenses | 276 | 267 |
| Taxes for previous fiscal years | 60 | 106 |
| Adjustments to recognition of deferred tax assets and other permanent differences | -74 | 54 |
| Tax-free income | -56 | -34 |
| Other differences | 11 | 12 |
| Total adjustments | -243 | -94 |
| **Tax expense** | **492** | **962** |

As of November 30, 2017, no deferred taxes were recorded for tax loss carryforwards of EUR 2,939 thousand (previous year: EUR 4,436 thousand) that exist in the Group, as the Group considers their use to be unlikely. This amount includes EUR 2,939 thousand that will lapse successively over the next 20 years. In addition, deferred tax assets in the amount of EUR 352 thousand (previous year: EUR 274 thousand) have been recognised, whose utilisation depends on future taxable events which exceed the bottom line effects from the release of existing taxable temporary differences. Their use is guaranteed as sufficient taxable profits are expected. These expectations are based on the plans and budgets of the respective Group companies. The planned sales increases, cost savings and the further penetration of the market are the core elements of the Group strategy justifying this recognition.

Tax deferrals are to be allocated to the following balance sheet accounts:

| KEUR | Nov. 30, 2017 aktive deferred taxes | Nov. 30, 2017 passive deferred taxes | Nov. 30, 2016 aktive deferred taxes | Nov. 30, 2016 passive deferred taxes |
|---|---|---|---|---|
| Property, plant and equipment | 46 | 1,374 | 32 | 1,424 |
| Intangible assets | 46 | 2,559 | 56 | 2,188 |
| Non-current financial Assets | - | 57 | - | 57 |
| Inventories | 683 | - | 605 | - |
| Trade receivables and other current financial assets | 85 | 5 | 98 | 372 |
| Pension provisions | 443 | - | 468 | - |
| Other provisions | 158 | 118 | 136 | 81 |
| Financial liabilities | 358 | - | 192 | - |
| Other liabilities | 154 | 19 | 237 | 19 |
| | **1,973** | **4,132** | **1,824** | **4,141** |
| Losses carried forward | 1,782 | - | 773 | - |
| | **3,755** | **4,132** | **2,597** | **4,141** |
| Balance | -2,510 | -2,510 | -1,672 | -1,672 |
| | **1,245** | **1,622** | **925** | **2,469** |

As of the balance sheet date, there were taxable temporary differences relating to subsidiaries in the amount of EUR 382 thousand (previous year: EUR 432 thousand), for which no deferred tax liabilities were recognised as no sales or profit distributions are planned.

Besides the tax expenses shown in the income statement, deferred taxes of EUR 487 thousand (previous year: EUR 11 thousand) from the recognition of the forward exchange contracts in equity, the translation differences pursuant to IAS 21.32f and the treatment of the effects from the remeasurement of the net liability of the pension obligations were directly recognised in equity. The table below shows the individual tax effects in the consolidated statement of comprehensive income:

| KEUR | 2016/17 before taxes | 2016/17 deferred taxes | 2015/16 before taxes | 2015/16 deferred taxes |
|---|---|---|---|---|
| **Not to be reclassified to profit or loss** | | | | |
| Actual gains and losses on defined benefit plans | -101 | 23 | -75 | 20 |
| **To be reclassified to profit or loss** | | | | |
| Net result from cash flow hedges | -1,902 | 589 | 52 | -16 |
| Currency translation differences as per IAS 21.32f | 404 | -125 | -30 | 7 |
| Other currency translation differences in the equity | -80 | - | -558 | - |
| Other changes | -149 | - | -161 | - |
| | **-1,828** | **487** | **-772** | **11** |
| **Others income after taxes** | | **-1,341** | | **-761** |

### (9) Share in income of non-controlling interests

Companies in which Ahlers AG holds less than 100 percent are included in the consolidated financial statements. The shares relating to non-controlling interests are shown separately from equity attributable to equity holders of Ahlers AG under equity in the consolidated balance sheet. Non-controlling interests in the consolidated net income and comprehensive income are also shown separately in the consolidated income statement and the consolidated statement of comprehensive income.

### (10) Earnings per share

Earnings per share are defined as the net income for the period attributable to the shareholders of Ahlers AG divided by the weighted average number of shares outstanding during the fiscal year. An average of 13,681,520 no-par shares (previous year: 13,681,520) were outstanding in the year under review. No shares existed either as of November 30, 2017, or November 30, 2016, that would have a diluting effect on earnings per share. Consolidated net income attributable to the shareholders of Ahlers AG amounts to EUR 1,836 thousand (previous year: EUR 2,338 thousand). Of this amount, EUR 0.05 per share is initially counted towards the preferred shares before the remaining amount is evenly distributed across all shares. This results in earnings per common share of EUR 0.11 (previous year: EUR 0.15) and earnings per preferred share of EUR 0.16 (previous year: EUR 0.20).

## 6. NOTES TO THE CONSOLIDATED BALANCE SHEET

Changes to the individual items of non-current assets during fiscal 2015/16 and 2016/17 are shown in the consolidated fixed and intangible assets schedule attached to the notes to the consolidated financial statements.

### (11) Property, plant and equipment

Due to further payments for the ERP project, investments in property, plant and equipment and intangible assets exceeded the systematic depreciation in the fiscal year 2016/17. The additions to factory and office equipment in the amount of EUR 3,255 thousand primarily include shop systems as well as replacement investments.

### (12) Intangible assets

Exclusive use of the company-owned Baldessarini and Otto Kern brands is assured by means of long-term, renewable industrial property rights. Consequently an indeterminable term of useful life can be deemed to exist in each case.

The carrying amount of intangible assets with indeterminable useful lives is comprised of the carrying amount of Otto Kern trademark rights of EUR 3,900 thousand (previous year: EUR 3,600 thousand) and Baldessarini trademark rights of EUR 5,970 thousand (previous year: EUR 5,970 thousand). Each forms a cash generating unit which serves to review the value.

Goodwill was recognised in the amount of EUR 328 thousand (previous year: EUR 328 thousand) in the context of the takeover of the Stesa Group in Lithuania in prior years.

The delivery of essential modules of the new ERP system has been delayed by about one year. As a result, the scheduled capitalisation of the previous had to be corrected. Intangible assets in the amount of EUR 538 thousand already considered to be usable in the previous year were therefore re-included in payments on account and already booked depreciation/amortisation in the amount of EUR 32 thousand was recognised in the income statement. The capitalisation and depreciation/amortisation of the basic system is not affected by the above.

Development expenses were not capitalised, as the requirements defined in IAS 38 were not fully met. R&D costs of EUR 6,762 thousand (previous year: EUR 7,771 thousand) were recognised as an expense in the fiscal year.

**Impairment test to IAS 36**

As of the balance sheet date, the recoverable amounts were reviewed and the Group's property, plant and equipment, intangible assets with determinable and indeterminable lives and goodwill were tested for impairment. The cash-generating units to which the intangible assets with indeterminable lives belong are the Otto Kern and Baldessarini divisions, i.e. the Premium segment. The recoverable amounts were determined on the basis of the net selling prices. The cash flow projections are based on growth rates in the mid single-digit range for the planning periods, which reflect the trend of the past years in this segment. The discount rate used for the cash flow projections averages 7.76 percent for each cash-generating unit. The trademark rights of Otto Kern were written up by EUR 300 thousand in the fiscal year.

Goodwill relates to the cash-generating unit of the Stesa Group, Lithuania, i.e. to the Premium Brands segment. The recoverable amount for the Stesa Group was also determined on the basis of the net selling price by means of discounted cash flow projections. The growth rate for the planning periods are in the mid single-digit range, which reflects the trend of the past years in the respective segments. The discount rate used for the cash flow projections averages 7.76 percent for this cash-generating unit.

Management is of the opinion that the assumptions and estimates regarding the cash-generating units are appropriate. Future changes in the framework conditions may, however, influence the parameters used to determine the recoverable amount. This could result in the recoverable amount deviating from the corresponding carrying amount in the future.

## (13) At-equity investments

Ahlers AG holds a 49 percent share in Jupiter Shirt GmbH, Tirschenreuth, which was established in 2010. The reporting date of the company is December 31. Therefore interim financial statements were prepared with effect from November 30, 2017. Given that the company continues to show a positive performance and the capital was neither increased nor reduced, the investment was recognised at a value which exceeds the prior year level by EUR 100 thousand as part of the regular updating of the equity value taking the dividend payout into account. The income is shown under profit shares from at-equity investments.

In the fiscal year 2016, the company, which is accounted for using the equity method, generated sales revenues of EUR 8,056 thousand and earnings before taxes of EUR 452 thousand. Total assets amounted to EUR 5,792 thousand as of December 31, 2016.

## (14) Other non-current assets

Other financial assets include a loan granted by Ahlers AG to a foreign key account in the amount of EUR 498 thousand (previous year: EUR 956 thousand). These were original receivables from goods supplied that were converted into an interest-bearing three-year payment plan. The loan is secured by a personal guaranty.

The item also comprises other interest-bearing and non-interest-bearing long-term loans, surrender values pertaining to life insurance policies as well as rent deposits.

Other assets mainly include works of art. These consist primarily of works by well-known contemporary and Classic Modernist artists. As in the previous year no additions or disposals occurred in the fiscal year.

Other non-current assets are comprised as follows:

| KEUR | Nov. 30, 2017 | Nov. 30, 2016 |
|---|---|---|
| Contemporary Art | 11,254 | 11,254 |
| Classic Modernism | 5,767 | 5,767 |
| Other works of art | 768 | 770 |
| | **17,789** | **17,791** |

Classic Modernism comprises art from the first half of the 20th century, while contemporary art was created after World War II. Ahlers AG's collection of Classic Modernist art includes works by Alexej von Jawlensky, Emil Nolde and August Macke, while most of its pieces of contemporary art are by Yves Klein.

### (15) Inventories

| KEUR | Nov. 30, 2017 | Nov. 30, 2016 |
|---|---|---|
| Raw materials and consumables | 21,362 | 24,428 |
| Work in progress | 537 | 460 |
| Finished goods and merchandise | 53,421 | 52,097 |
| | **75,320** | **76,985** |

The amount of impairment taken into consideration in measuring inventories is EUR 8,529 thousand (previous year: EUR 8,558 thousand). The carrying amount of inventories recorded at net realisable value is EUR 17,720 thousand (previous year: EUR 16,656 thousand).

Stocks of finished goods and merchandise increased primarily because of the earlier delivery of merchandise for the coming summer season at Baldessarini and Pierre Cardin. Stocks of raw materials were reduced due to more precisely timed fitting of the production plants and shorter procurement channels.

### (16) Trade receivables

Trade receivables are usually not interest-bearing and the average number of days outstanding is 51 (previous year: 52).

The changes in impairments included in trade receivables are shown below:

| KEUR | 2016/17 | 2015/16 |
|---|---|---|
| As at Dec. 1 | 1,615 | 1,815 |
| Utilisation | -235 | -193 |
| Reversal | -297 | -310 |
| Additions | 300 | 318 |
| Currency translation differences | 30 | -15 |
| **As at Nov. 30** | **1,413** | **1,615** |

All expenses and income from the measurement of trade receivables are recognised in other operating expenses/income and reflected in the income statement.

The table below shows the age structure of the trade receivables as of November 30, 2017:

| KEUR | Nov. 30, 2017 | Nov. 30, 2016 |
|---|---|---|
| **Carrying amount on November 30** | **31,538** | **32,046** |
| **thereof neither overdue nor impaired** | **25,234** | **26,235** |
| **thereof overdue but not impaired** | **4,992** | **5,134** |
| < 90 days | 3,162 | 4,331 |
| > 90 to 180 days | 1,651 | 608 |
| > 180 to 270 days | 40 | 73 |
| > 270 to 360 days | 28 | 27 |
| > 360 days | 111 | 95 |

This includes receivables from a major foreign customer in the amount of EUR 2,977 thousand (previous year: EUR 2,437 thousand). Together with the loan reported under other non-current assets (section 14 of the notes), the outstanding receivables to the customer amounted at the balance sheet date to EUR 3,475 thousand (previous year: EUR 3,393 thousand). Of these receivables, EUR 2,150 thousand (previous year: EUR 2,100 thousand) are secured by guarantees.

With regard to the receivables that are overdue but not impaired, there are no indications that suggest that the debtors will fail to meet their obligations.

### (17) Other current assets

Other financial assets essentially include the positive value from the fair value measurement of the forward exchange contracts. These were not available at the balance sheet date (previous year: EUR 1,139 thousand). They also comprise financial assets held for trading in Germany at carrying amounts of EUR 7 thousand (previous year: EUR - thousand).

Receivables from affiliates in the amount of EUR 0.3 thousand (previous year: EUR 0.1 thousand) relate to the exchange of goods and services with these companies.

Other assets in the amount of EUR 3,017 thousand (previous year: EUR 3,750 thousand) primarily include value added tax, deferred license payments, bonus claims as well as receivables from suppliers and insurance companies.

### (18) Cash and cash equivalents

| KEUR | Nov. 30, 2017 | Nov. 30, 2016 |
|---|---|---|
| Cash on hand | 174 | 188 |
| Bank balances | 6,229 | 3,859 |
| | **6,403** | **4,047** |

Bank balances include readily available cash and cash equivalents and invested overnight funds which bear interest at market rates. The fair value of cash and cash equivalents is EUR 6,403 thousand (previous year: EUR 4,047 thousand).

Cash and cash equivalents can be broken down as follows for cash flow statement purposes:

| KEUR | Nov. 30, 2017 | Nov. 30, 2016 |
|---|---|---|
| Cash on hand | 174 | 188 |
| Bank balances | 6,229 | 3,859 |
| Overdraft facilities | -112 | -2,549 |
| | **6,291** | **1,498** |

### (19) Equity

Equity and its individual components are shown separately in the consolidated statement of changes in equity.

### (20) Share capital

Subscribed capital consists of a total of 13,681,520 no par shares. This total is composed of 7,600,314 common shares and 6,081,206 preferred shares with no voting rights. The 7,600,314 common shares include 500 registered shares with transfer restrictions. They confer the right to nominate one member of the Supervisory Board. The remaining 13,681,020 shares are bearer shares.

The total number of shares outstanding remained unchanged from the previous year and stood at 13,681,520 shares as of November 30, 2017.

### (21) Authorised capital

By resolution of the Annual Shareholders' Meeting held on May 3, 2017, the Management Board, with the approval of the Supervisory Board, was authorised to increase the company's share capital prior to May 2, 2022, by issuing new common bearer shares and/or non-voting preferred shares in return for cash contributions on one or more occasions up to the amount of EUR 21,600 thousand. The Management Board is authorised to exclude the shareholders' subscription rights under certain conditions with the consent of the Supervisory Board (see chapter 'Takeover-related Information and explanatory report', p. 74 or www.ahlers-ag.com, 'Investor Relations').

### (22) Own shares

As of November 30, 2017, the company held no own shares.

### (23) Capital reserve

The capital reserve totals EUR 15,024 thousand; EUR 12,782 thousand of this amount is due to the premium on the capital increase against cash contributions that occurred at the time of the IPO, and EUR 1,610 thousand from the issue of preferred shares. The capital reserve in the consolidated IFRS financial statements was reduced by the costs of raising equity that were incurred during the IPO.

### (24) Revenue reserves

The revenue reserves in an amount of EUR 44,221 thousand are made up of profit carryforwards (EUR 33,262 thousand), the net income for the year attributable to the shareholders of Ahlers AG (EUR 1,836 thousand), the revenue reserves from the first-time adoption of IFRS (EUR 7,293 thousand) and other revenue reserves (EUR 1,830 thousand). The latter include the effects from the revaluation of the net debt of the pension obligations in the amount of EUR -979 thousand before taxes and EUR -705 thousand after taxes, which are directly recognised in equity.

Of Ahlers AG's HGB profit for the year including the HGB profit reserves totalling EUR 35,547 thousand, the amount representing deferred tax assets under HGB in the amount of EUR 1,651 thousand as well as the difference from the calculation of the pension provisions at different discount rates pursuant to section 253 (6) HGB in the amount of EUR 154 thousand may not be distributed.

### (25) Equity difference from currency translation

The adjustment item for currency translations comprises the exchange differences arising from translation of the individual financial statements of foreign subsidiaries into euros, exchange differences from monetary items as part of a net investment in a foreign operation after tax pursuant to IAS 21.32f as well as from the recognition of currency forward transactions hedged in accordance with IAS 39 in equity after taxes. Deferred taxes accounted for in equity represented a total of EUR 582 thousand (previous year: EUR 118 thousand).

### Statement of provisions 2016/17

| KEUR | **Dec. 1, 2016** | Utilisation | Release | Additions | Addition of unaccrued interest | Currency translation differences | **Nov. 30, 2017** |
|---|---|---|---|---|---|---|---|
| **Non-current provisions** | | | | | | | |
| Retirement benefit and similar obligations | **4,375** | 529 | 96 | 311 | 52 | -39 | **4,074** |
| Other anniversaries | 535 | 48 | 60 | 2 | 9 | 27 | 465 |
| Part-time retirement | 13 | 19 | 0 | 45 | 0 | - | 39 |
| Sub-total | **548** | 67 | 60 | 47 | 9 | 27 | **504** |
| **Current provisions** | | | | | | | |
| Goods returned/discounts | 1,265 | 1,270 | 0 | 1,406 | - | 7 | 1,408 |
| Severance payments | 658 | 559 | 16 | 281 | - | 1 | 365 |
| Other | 658 | 253 | 104 | 280 | - | -34 | 547 |
| Sub-total | **2,581** | 2,082 | 120 | 1,967 | - | -26 | **2,320** |
| | **7,504** | 2,678 | 276 | 2,325 | 61 | -38 | **6,898** |

### (26) Pension provisions

Pension obligations of the Ahlers Group are calculated using the projected unit credit method. In this approach, future obligations are computed taking into consideration dynamic developments using actuarial methods.

The following assumptions were used as the basis for calculation of pension obligations:

| Parameter | 2016/17 | 2015/16 |
|---|---|---|
| Discount rate | 1.74% | 1.68% |
| Pension trend | 2.00% | 2.00% |

Actuarial gains and losses are recognised in other comprehensive income in accordance with IAS 19.120 et seq. Pension expenses are composed of personnel expenses and interest expenses.

Salary trends are omitted, since pension provisions relate exclusively to employees who have already left and no new pension commitments are being entered into for the future. The present values of the defined benefit obligations are recognised in the balance sheet.

The table below shows the changes in the gross present values of defined benefit obligations:

| KEUR | | 2016/17 | 2015/16 |
|---|---|---|---|
| | Present value of the defined benefit obligation as of December 1 | 3,654 | 3,917 |
| + | Current service cost | 41 | 42 |
| + | Interest cost (effect of discounting) | 84 | 89 |
| - | Benefits paid | -400 | -455 |
| +/- | Actuarial gains/losses | 101 | 75 |
| - | Curtailments/settlements | 0 | 0 |
| | Present value of the defined benefit obligation as of November 30 | 3,480 | 3,668 |
| | Currency translation | -39 | -14 |
| | | **3,441** | **3,654** |

The present value of the defined benefit obligations amounted to EUR 3,917 thousand as of November 30, 2015, EUR 4,154 thousand as of November 30, 2014 and EUR 3,922 thousand as of November 30, 2013.

For information regarding the amounts stated in the income statement and in other comprehensive income, please refer to (4) Personnel expenses and (8) Income taxes.

Pension provisions almost entirely are associated with former employees in Germany. The provision also includes legally stipulated termination indemnity claims (benefits upon retirement) relating to employees employed abroad in the amount of EUR 633 thousand (previous year: EUR 721 thousand).

As the number of active future beneficiaries is very low and continues to decline, the defined benefit plans entail no risk to future cash flows.

### (27) Other non-current provisions

The anniversary bonus provisions included in this item are based on expert actuarial opinions, whose calculations are based on current assumptions and trends that apply at the balance sheet date.

Pre-retirement part-time employment provisions of EUR 56 thousand (previous year: EUR 37 thousand) have also been recorded. These pre-retirement part-time employment provisions are secured by securities for insolvency insurance with a fair market value of EUR 17 thousand (previous year: EUR 24 thousand). The securities are offset against the pre-retirement part-time employment provisions as they qualify as plan assets. Proceeds from the securities in the amount of EUR - thousand (previous year: EUR 0.1 thousand) were recognised in the income statement.

### (28) Financial liabilities

Non-current financial liabilities are interest-bearing and generally have terms of between two and nine years.

Other financial liabilities include leasing liabilities in an amount of EUR 407 thousand (previous year: EUR 636 thousand) as well as negative market values from the measurement of forward exchange contracts in the amount of EUR 765 thousand (previous year: EUR 2 thousand). Due to the floating interest rates of the financial liabilities, the fair value is identical with the respective carrying amount.

The table below shows the remaining terms and the average interest rates of the financial liabilities on the respective balance sheet dates:

| | | | Remaining terms | | | | |
|---|---|---|---|---|---|---|---|
| KEUR | **Year** | | up to 1 year | 1 to 5 years | > 5 years | **Total non-current** | **Total** |
| Liabilities to banks | **2017** | Carrying amount | 8,054 | 24,050 | 2,998 | 27,048 | **35,102** |
| | | Interest rate | 1.46% | 1.75% | 1.33% | | |
| | **2016** | Carrying amount | 9,354 | 18,851 | 4,939 | 23,790 | **33,144** |
| | | Interest rate | 1.53% | 1.91% | 1.49% | | |
| Trade payables | **2017** | Carrying amount | 20,559 | - | - | - | **20,559** |
| | | Interest rate | - | - | - | | |
| | **2016** | Carrying amount | 19,158 | - | - | - | **19,158** |
| | | Interest rate | - | - | - | | |
| Other payables | **2017** | Carrying amount | 995 | 177 | - | 177 | **1,172** |
| | | Interest rate | 1.52% | 1.52% | | | |
| | **2016** | Carrying amount | 228 | 409 | - | 409 | **637** |
| | | Interest rate | 1.52% | 1.52% | | | |
| Total amounts | **2017** | | 29,608 | 24,227 | 2,998 | 27,225 | **56,833** |
| | **2016** | | 28,740 | 19,260 | 4,939 | 24,199 | **52,939** |

All liabilities to affiliated companies are due within one year. This item also includes trade payables.

### Obligations under finance leases

Factory and office equipment items are leased under finance lease arrangements. Future minimum lease payments under finance leases can be reconciled to their present values as follows:

| KEUR | Nov. 30, 2017 Minimum lease-payments | Nov. 30, 2017 Present value of minimum lease | Nov. 30, 2016 Minimum lease payments | Nov. 30, 2016 Present value of minimum lease |
|---|---|---|---|---|
| Maturity | | | | |
| within a year | 234 | 230 | 234 | 227 |
| 1 to 5 years | 178 | 177 | 414 | 409 |
| > 5 years | - | - | - | - |
| **Total minimum lease payments** | **412** | **407** | **648** | **636** |
| minus the interest portion | -5 | | -12 | |
| **Present value of minimum lease payments** | **407** | | **636** | |

Liabilities under finance leases are offset by assets in an amount of EUR 406 thousand (previous year: EUR 639 thousand) shown under property, plant and equipment.

Lease payments in the fiscal year 2016/17 totalled EUR 235 thousand (previous year: EUR 238 thousand).

### (29) Other current provisions

Other current provisions contain primarily provisions for returns and discounts. Shown are here the net-margins. These are calculated from the previous year‘s figures, taking into account the current sales trend.

### (30) Other current liabilities

| KEUR | Nov. 30, 2017 | Nov. 30, 2016 |
|---|---|---|
| Liabilities to affiliated companies | 2,518 | 2,626 |
| Other liabilities | 9,370 | 10,465 |
| thereof | | |
| Wages and salaries | 4,156 | 4,436 |
| Taxes | 1,487 | 1,297 |
| Social security | 841 | 793 |
| Miscellaneous | 2,886 | 3,939 |
| | **11,888** | **13,091** |

Miscellaneous other liabilities include liabilities for bonuses and customs payments.

### (31) Other disclosures on financial instruments

The table below shows the carrying amounts and fair values of the financial assets and liabilities as at the balance sheet date:

| KEUR | Measurement category as defined in IAS 39 | Nov. 30, 2017 Carrying amount | Nov. 30, 2017 Fair value | Nov. 30, 2016 Carrying amount | Nov. 30, 2016 Fair value |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | LaR | 6,403 | 6,403 | 4,047 | 4,047 |
| Trade receivables | LaR | 31,538 | 31,538 | 32,046 | 32,046 |
| Other financial assets | | 1,192 | 1,192 | 2,822 | 2,822 |
| thereof: | | | | | |
| - Other non-current financial assets | LaR | 1,185 | 1,185 | 1,683 | 1,683 |
| - Hedge-related derivatives | n.a. | - | - | 1,139 | 1,139 |
| - Other current financial assets | FAHfT | 7 | 7 | - | - |
| **Liabilities** | | | | | |
| Liabilities to banks | FLAC | 35,102 | 35,102 | 33,144 | 33,144 |
| Trade payables | FLAC | 20,559 | 20,559 | 19,158 | 19,158 |
| Other financial liabilities | | 1,172 | 1,172 | 638 | 638 |
| thereof: | | | | | |
| - Liabilities from lease agreements | n.a. | 407 | 407 | 636 | 636 |
| - Hedge-related derivatives | n.a. | 765 | 765 | 2 | 2 |
| **Total per measurement category as defined in IAS 39:** | | | | | |
| **Loans and Receivables** | **LaR** | **39,126** | **39,126** | **37,776** | **37,776** |
| **Financial Assets Held for Trading** | **FAHfT** | **7** | **7** | **-** | **-** |
| **Financial Liabilities Measured at Amortised Cost** | **FLAC** | **55,661** | **55,661** | **52,302** | **52,302** |

The fair value is the amount at which the respective items could be exchanged between contractual parties at the present time. The above figures are based on the following assumptions:

Due to the short-term nature, there are no differences between amortised cost and the fair values of cash and cash equivalents, trade receivables, current liabilities to banks and current trade payables.

The fair values of other current financial assets are based on a price determined in an active market.

Non-current financial instruments and non-current liabilities to banks carry floating interest rates, which means that the discounted future cash flows are equivalent to the carrying amounts.

Derivative instruments eligible for hedge accounting are based on forward exchange contracts, which are measured using forward exchange rates. All relevant valuation parameters are observable in the market (Level 2 of the fair value hierarchy defined in IFRS 7).

Risks from financial instruments as defined in IFRS 7.31 also relate to financial covenants (written conditions attached to financial instruments, especially loan agreements, providing for legal consequences in the event of non-compliance with agreed financial ratios). The Ahlers Group has agreed to comply with financial covenants in credit agreements with various financial institutions. These relate to certain equity ratios and leverage ratios of the Ahlers Group. The financial covenants are monitored in the context of the risk management system. Regular reports are submitted to the banks. There is no indication that compliance with the financial covenants is not possible.

The table below shows the net results by measurement categories:

| KEUR | | from interest | Subsequent measurement: at fair value | Currency trans-lation | Impair-ment | from disposal | Net result 2016/17 | Net result 2015/16 |
|---|---|---|---|---|---|---|---|---|
| Loan and Receivables | LaR | 123 | - | 16 | -2 | -10 | **127** | **128** |
| Financial Assets Held for Trading | FAHfT | - | 0 | - | - | - | **0** | **0** |
| Financial Liabilities Measured at Amortised Cost | FLAC | -851 | - | 81 | - | - | **-770** | **-789** |

All interest is shown in net interest income. Gains and losses from the measurement of forward exchange contracts not eligible for hedge accounting are recognised in the cost of materials. The effects from subsequent measurement and from the disposal of the other items are shown under other operating income/expenses.

### (32) Contingent liabilities and other financial obligations

Contingent liabilities exist in the form of guaranties in the amount of EUR 984 thousand as of the balance sheet date (previous year: EUR 965 thousand). No guaranties were underwritten for affiliated companies.

In addition, there were contractual obligations for the acquisition of property, plant and equipment in the amount of EUR 55 thousand as of November 30, 2017 (previous year: EUR 257 thousand). This amount results from the purchase obligation for the exchange of technical equipment in a production facility. The outflow of cash for this purchase will occur in the first months of the following fiscal year. There is no possibility for the reimbursement of any (partial) amounts.

### Other financial liabilities

The following future minimum lease payments under uncancellable operating leases for factory and office equipment exist as of the balance sheet date:

| KEUR | Nov. 30, 2017 | Nov. 30, 2016 |
|---|---|---|
| Maturity | | |
| within a year | 6,504 | 7,170 |
| 1 to 5 years | 12,854 | 14,636 |
| > 5 years | 2,312 | 3,516 |
| | **21,670** | **25,322** |

The lease agreements do not contain renewal options. No limitations have been imposed on the Group in connection with the lease agreements. Conditional lease payments of EUR 292 thousand (previous year: EUR 298 thousand) have been recorded under lease expense. These conditional lease payments concern payments that vary according to sales levels. In the fiscal year 2016/17, payments under operating leases totalled EUR 7,589 thousand (previous year: EUR 7,612 thousand).

### (33) Financial risk management and derivative financial instruments

To finance its business activity, the Ahlers Group mainly uses financial liabilities in the form of interest-bearing loans and trade payables. These are offset by cash and cash equivalents as well as short-term deposits and trade receivables. In addition, the Ahlers Group uses financial derivatives.

The Ahlers Group operates internationally and is, therefore, exposed to exchange rate, default and interest rate risks.

The Ahlers Group enters into forward exchange contracts to cover the risk of exchange rate fluctuations. The transactions are executed exclusively with marketable instruments. These serve to hedge future exchange rate fluctuations of the USD and the CHF against the EUR. Exchange rate fluctuations of the USD affect the Ahlers Group in the procurement of raw materials, manufactured products and manufacturing services in international markets, while fluctuations in the exchange rate of the CHF affect the Ahlers Group in the sale of goods in Switzerland (cash flow hedge).

The table below shows the volumes and fair values of the forward exchange contracts as of the respective balance sheet dates:

| | | Nov. 30, 2017 | | | Nov. 30, 2016 | | |
|---|---|---|---|---|---|---|---|
| | | Nominal value | | Fair value | Nominal value | | Fair value |
| Type | Currency | in thsd. currency units | KEUR | KEUR | in thsd. currency units | KEUR | KEUR |
| **Purchases** | USD | 27,094 | 23,467 | -765 | 21,178 | 18,608 | 1,139 |
| **Sales** | CHF | - | - | - | 2,500 | 2,316 | -2 |

As of November 30, 2017, there were forward exchange deals with a positive market value of EUR - thousand (previous year: EUR 1,139 thousand) and forward exchange deals with a negative market value of EUR -765 thousand (previous year: EUR -2 thousand). Forward exchange deals with a positive market value are reported under other current financial assets and those with a negative market value under other current financial liabilities. All operating forward exchange contracts in the Ahlers Group have a remaining term of between one day and ten months and are realised in batches of between EUR 0.3 million and EUR 1.1 million over this period, with a focus on certain seasons. All contractual parameters of all the above forward exchange deals are fixed, which means that there are no bandwidth agreements and the contracts cannot be cancelled prematurely. The contractually fixed USD/EUR exchange rates range from 1.0885 to 1.2280. No collateral was furnished. The cash flow hedges for future purchases were expected to be highly effective, which means that the requirements for hedge accounting pursuant to IAS 39 were met. Accordingly, negative effects in an amount of EUR 529 thousand after deferred taxes (previous year: EUR 784 thousand positive effects) from the measurement of forward exchange contracts were recognised in equity at the fair value.

The table below shows the sensitivity of the consolidated net income before tax (due to changes in realised exchange differences) and the equity capital (due to changes in the fair value of the forward exchange contracts and the after-tax results of the above pre-tax effects) towards possible and realistic changes in the exchange rates of the US dollar, the Swiss franc and the Polish zloty before debt consolidation:

| | Changes in exchange rates | | Impact on net income before tax | | Impact on equity | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 KEUR | 2016 KEUR | 2017 KEUR | 2016 KEUR |
| USD | +4% | +3% | 241 | 75 | 167 | 52 |
| | -2% | -2% | -121 | -50 | -84 | -34 |
| CHF | +3% | +1% | -151 | -46 | -104 | -32 |
| | -2% | -1% | 101 | 46 | 70 | 32 |
| PLN | +2% | +1% | -67 | -11 | -46 | -8 |
| | -1% | -2% | 33 | 23 | 23 | 16 |

Credit limits are defined to minimise the risk concentration and reduce losses from the default of a business partner to a minimum. The maximum default risk is apparent from the carrying amount of each financial asset reported in the balance sheet. These risks are in part covered by appropriate insurance in the case of trade receivables (cf. note (16) Trade receivables). The maximum default risk in this area thus comprises the unsecured receivables and the deductible of the trade credit insurance and amounted to EUR 8.6 million as of the balance sheet date (previous year: EUR 8.3 million).

The Ahlers Group uses interest rate swaps to hedge future cash flows from floating-rate loans. The interest rate swaps are based on hedged items with comparable, opposite risks (micro hedges). The hedged items and the hedges form hedging relationships; the credit volume secured with these hedging relationships amounted to EUR 1,800 thousand and had a market value of EUR -11 thousand.

The table below shows the sensitivity of the consolidated net income before tax and of equity towards possible and realistic changes in floating interest rates for floating rate noncurrent liabilities based on the assumption that the interest margin remains unchanged:

| Increase / decrease in basis points | | Impact on net income before tax (KEUR) | | Impact on equity (KEUR) | |
|---|---|---|---|---|---|
| 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| +15 | +15 | -45 | -40 | -31 | -28 |
| -5 | -5 | 15 | 13 | 10 | 9 |

With regard to cash management, the Ahlers Group aims to maintain its flexibility through the use of overdrafts, bank loans and operating leases. In the context of the budgeting process, a cash flow projection is performed in conjunction with a seasonal peak calculation and checked against the funds provided by the existing credit lines. The risk of a cash shortage is thus monitored constantly.

### Capital management

The Ahlers Group's capital management activities are geared to supporting the business activity, maintaining a good equity ratio as well as creating financial security and flexibility.

In managing its capital structure, the company primarily takes changes in the economic environment into account. Capital can be managed through the adjustment of dividend payments, the issue of new shares or the repurchase or redemption of own shares. Portfolio decisions made in this context are outlined under "Takeover-related information" in the combined management report. As of November 30, 2017, no modifications of the targets, principles or processes occurred.

The business activity of the Ahlers Group is mostly of a short-term nature, which means that net working capital is the adequate variable for monitoring the capital. The net working capital comprises inventories, trade receivables as well as current trade payables.

| KEUR | Nov. 30, 2017 | Nov. 30, 2016 |
|---|---|---|
| Inventories | 75,320 | 76,985 |
| Trade receivables | 31,538 | 32,046 |
| Current trade payables | -20,559 | -19,158 |
| **Net working capital** | **86,299** | **89,873** |

## 7. EXPLANATORY NOTES TO THE GROUP SEGMENT INFORMATION

The Ahlers Group defines its reporting segments by the type of products. This primarily reflects the internal reporting system as well as the internal decision-making processes.

The Group's reporting segments break down into a Premium Brands segment and a Jeans, Casual & Workwear segment. Expenses for central functions are charged to the segments with due consideration to the arm's length principle and based on actual usage. Due to the different positionings of the segments, no inter-segment revenues are generated. Where a clear allocation of assets and liabilities is not possible, these are allocated using appropriate distribution ratios. The segment result is the result before taxes, as income taxes are not segmented due to the central management. For the same reason, assets and liabilities do not include deferred or current tax assets and liabilities.

This means that the total assets stated in the balance sheet (EUR 181,187 thousand) result from the assets as derived from the segment information (EUR 178,551 thousand) plus deferred tax assets and current income tax assets (EUR 2,636 thousand). Accordingly, the liabilities stated in the balance sheet (EUR 79,062 thousand) result from the liabilities as derived from the segment information (EUR 76,479 thousand) plus deferred tax liabilities and current income tax liabilities (EUR 2,176 thousand) as well as leasing liabilities (EUR 407 thousand).

The Group segment information by geographic regions reflects the main output markets of the Ahlers Group.

The accounting and valuation principles for the segment report are the same as for the consolidated financial statements.

The following divisions constitute the reporting segments:

**Premium Brands**

This segment consists of the manufacture and sale of the premium brands of the Ahlers Group. Pierre Cardin, Otto Kern and Baldessarini belong to this group.

**Jeans, Casual & Workwear**

This segment consists of the manufacture and sale of non-premium brand jeans, sportswear, casual clothing as well as working clothes. This segment includes the brands Jupiter, Pionier Workwear, Pionier Jeans & Casuals and Pioneer Authentic Jeans.

**Miscellaneous**

Individual products that cannot be appropriately allocated to the various business segments are listed in this section, which primarily includes the works of art.

**Information on geographic regions**

In the breakdown by geographic regions, 'Western Europe' encompasses the following countries: Belgium, Denmark, Finland, France, Greece, Great Britain, Ireland, Iceland, Italy, Luxembourg, the Netherlands, Norway, Austria, Portugal, Sweden, Switzerland and Spain. 'Central/Eastern Europe/Other' covers all the remaining countries.

**Segment data**

The figures for the Group segment information are based on consolidated figures without adjusting for inter-segment results, which are insignificant.

'Segment result' is defined as pre-tax income. 'Assets' are total assets minus deferred tax assets and current tax claims. 'Liabilities' include the total of current and non-current liabilities minus deferred tax liabilities, current income tax obligations and liabilities under leases. The item 'Other non-cash items' includes net additions to provisions.

## 8. OTHER DISCLOSURES

**Compensation of the Management Board**

The compensation of the Management Board members is decided by the Supervisory Board and regularly reviewed for appropriateness by the Supervisory Board. The criteria taken into account in this review are the size, activity and economic situation of Ahlers AG, on the one hand, and the tasks of the respective Management Board member and his/her personal contribution to the company's performance, on the other hand. In the opinion of the Supervisory Board, the total compensation and its individual components are appropriate given the tasks and performance of the respective Management Board members and the financial situation of Ahlers AG. The Human Resources Committee prepares the Supervisory Board's appointment decisions. It submits proposals to the Supervisory Board regarding the compensation, the compensation scheme and its regular review as well as the conclusion, amendment and termination of the employment contracts of the Management Board members. The employment contracts of all Management Board members are structurally identical.

The compensation is always performance-oriented and consists of the following components:

- A fixed annual salary, which is paid in equal monthly instalments and regularly checked for appropriateness by the Supervisory Board.
- A profit-related bonus, which is a fixed percentage of the consolidated net income for the year.
- A target-related bonus, which depends on the achievement of certain targets set by the Supervisory Board. The amount depends on the degree to which the targets are reached.
- A long-term bonus oriented towards the company's sustainable development whose amount is determined on the basis of the evolution of Group sales revenues, Group earnings, net working capital and the share price over several 3-year periods. One such 3-year period was from December 2014 to November 2017 with payment in April 2018. The corresponding provision amounts to EUR 10 thousand. Another 3-year period runs from December 2017 to November 2020 with payment in April 2021. At the time of their issue, the share price-based components of the past 3-year tranche had an intrinsic value of EUR 38 thousand.
- Other compensation components exist in the form of a company car and a set of clothing for Dr. Kölsch and a company car for Dr. Ahlers. No pension commitments for Management Board members exist, nor have any loans been granted to the latter.
- All compensation components including other components are capped for all Management Board members.

The Management Board contracts do not contain any explicit severance pay provisions that would apply in the event of premature termination of the contract, nor are there any change of control clauses that would take effect in the event of a takeover. No pension commitments were made to the incumbent members of the Management Board.

The total compensation of the Management Board broken down by components is shown below:

| KEUR | 2016/17 | 2015/16 |
|---|---|---|
| Salary | 1,010 | 840 |
| Annual bonus* | 379 | 263 |
| Miscellaneous | 32 | 58 |
| **Total** | **1,421** | **1,161** |

* composed of a profit-related, target-related and long-term oriented bonus. The long-term bonus is included at an amount of 10 KEUR (previous year: 0 KEUR).

Former members of the Management Board and the management of Adolf Ahlers GmbH and their survivors received total compensation of EUR 68 thousand (previous year: EUR 68 thousand) during fiscal 2016/17.

### Supervisory Board compensation

The Supervisory Board compensation is governed by section 18 of the statutes. Similar to the Management Board compensation, the compensation for the Supervisory Board is also geared to the size and the economic situation of Ahlers AG as well as to the tasks of each individual member of the Supervisory Board. The compensation consists of a fixed and a variable component. The variable component is oriented towards the sustainable growth of the company. It is calculated as a fixed per-thousand fraction of the average consolidated net income of the past three years taking a defined threshold value into account, and is capped. Additional compensation is paid to the Chairperson and the Deputy Chairperson of the Supervisory Board as well as the Committee Chairpersons.

| KEUR | 2016/17 | 2015/16 |
|---|---|---|
| Fixed compensation | 105 | 105 |
| Variable compensation | 0 | 3 |
| **Total** | **105** | **108** |

All expenses incurred by the Supervisory Board members in conjunction with their mandates as well as the value-added tax charged on their compensation are refunded. No loans are granted to members of the Supervisory Board. Von Ah & Partner AG, Zurich (Switzerland), in which Supervisory Board member and Audit Committee Chairwoman Prof. Dr. von Ah is a partner, provided tax consulting services to the Ahlers Group in the fiscal year 2016/17, for which an amount of EUR 9 thousand was invoiced. In accordance with section 114 of the German Stock Corporation Act (AktG), all benefits had previously been approved by the Supervisory Board.

### Shareholdings

Westfälisches Textilwerk Adolf Ahlers Stiftung & Co. KG, Herford, holds a majority interest in the voting share capital of Ahlers AG, mainly via its fully-owned subsidiary, WTW-Beteiligungsgesellschaft mbH, Herford. The Ahlers AG financial statements are included in the consolidated financial statements of Westfälisches Textilwerk Adolf Ahlers Stiftung & Co. KG, Herford.

### Disclosures according to section 160 (1) no. 8 of German Stock Corporation Law (AktG)

On January 9, 2014, Adolf Ahlers Familienstiftung, Speicher/Appenzell Ausserrhoden, Switzerland, notified in accordance with section 21 (1) of the German Securities Trading Act (WpHG) that its voting interest in Ahlers AG, Herford, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% on December 31, 2013 and amounted to 76.6% (which corresponds to 5,824,194 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 of the German Securities Trading Act (WpHG), 76.6% (which corresponds to 5,824,194 voting rights) are attributable to Adolf Ahlers Familienstiftung.

Attributable voting rights are held through the following companies which are controlled by Adolf Ahlers Familienstiftung and whose voting interest in Ahlers AG amounts to 3% or more:

- Westfälisches Textilwerk Adolf Ahlers KG
- WTW-Beteiligungsgesellschaft mbH.

On January 9, 2014, Dr. Stella A. Ahlers, Germany, notified in accordance with section 21 (1) of the German Securities Trading Act (WpHG) that her voting interest in Ahlers AG, Herford, exceeded the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75% on December 31, 2013 and amounted to 76.6% (which corresponds to 5,824,194 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 of the German Securities Trading Act (WpHG), 76.6% (which corresponds to 5,824,194 voting rights) are attributable to Dr. Stella A. Ahlers.

Attributable voting rights are held through the following companies which are controlled by Dr. Stella A. Ahlers and whose voting interest in Ahlers AG amounts to 3% or more:

- Adolf Ahlers Familienstiftung, Switzerland
- Westfälisches Textilwerk Adolf Ahlers KG
- WTW-Beteiligungsgesellschaft mbH.

Westfälisches Textilwerk Adolf Ahlers KG has been renamed Westfälisches Textilwerk Adolf Ahlers Stiftung & Co. KG in the meantime.

As of the balance sheet date, no other member of the Boards of the company besides Dr. Ahlers held any shares of the Company.

### Related party disclosures

Transactions with related parties were executed under conditions that pertain to arm's length transactions. The open positions at the end of the fiscal year – with the exception of goods deliveries that are supplied under retention of title as is customary in the industry – are not collateralised and will be paid in cash or by offset. There are no guarantees relating to claims or debts of related parties. As in the previous year, the Ahlers Group did not record allowances against receivables from related parties in the year under review. The need to create an allowance is examined on an annual basis by reviewing the financial situation of the related party. Key business relationships are explained below:

During fiscal 2016/17 there were

- supplies to Westfälisches Textilwerk Adolf Ahlers Stiftung & Co. KG, Herford, and related parties in an amount of EUR 3.0 million (previous year: EUR 3.3 million);
- services from Westfälisches Textilwerk Adolf Ahlers Stiftung & Co. KG, Herford, and related parties in an amount of EUR 14.8 million (previous year: EUR 14.2 million).

As of November 30, 2017, net liabilities in the amount of EUR 2.5 million (previous year: EUR 2.6 million) resulted from business relations between Ahlers AG and its subsidiaries on the one hand and related parties on the other.

### Employees (annual average)

| | 2016/17 | 2015/16 |
|---|---|---|
| Blue collar | 1,226 | 1,213 |
| White collar | 836 | 829 |
| **Total** | **2,062** | **2,042** |

### Declaration of conformity pursuant to section 161 of the German Stock Corporation Act (AktG)

The Management Board and the Supervisory Board of Ahlers AG have submitted the declaration of conformity in compliance with the German Corporate Governance Code for 2017 pursuant to section 161 of the German Stock Corporation Act (AktG) and made the declaration permanently accessible to shareholders on the Ahlers AG website (www.ahlers-ag.com).

### Exemption rule pursuant to sections 264 (3) and 264b of the German Commercial Code (HGB)

As of November 30, 2017, the exemption rule provided for in section 264 (3) and section 264b of the HGB was applied by the following subsidiaries:

Baldessarini GmbH, Herford, Otto Kern GmbH, Herford, Ahlers Retail GmbH, Herford, Pionier Jeans & Casuals Deutschland GmbH, Herford, Ahlers Zentralverwaltung GmbH, Herford, Ahlers Vertrieb GmbH, Herford, Jupiter Bekleidung GmbH, Herford, Pionier Berufskleidung GmbH, Herford, Pioneer Jeans-Bekleidung GmbH, Herford, und Ahlers P.C. GmbH, Herford, as well as Ahlers Textilhandel GmbH & Co. KG, Herford. In addition, Hemina Grundstücks- Vermietungsgesellschaft mbH & Co. Objekt Herford KG, Pullach im Isartal, will exercise the exemption option provided for in section 264b HGB for the financial statements for the period ended December 31, 2017.

### Events after the balance sheet date

At the beginning of the current fiscal year 2017/18, Ahlers established a joint venture “Ahlers RUS” with its long-standing Russian partner with the aim of strengthening the activities of Pierre Cardin and Pioneer Authentic Jeans in Russia. The joint venture will operate eleven Pierre Cardin stores as well as the wholesale business in cooperation with the former partner. Ahlers thus wants to grow the wholesale business directly through its own sales organisation in Russia and optimize the stores.

There were no other incidents after the balance sheet date that had a material impact on the Group’s earnings, financial and net worth position as of November 30, 2017.

### Auditor’s fee

The audit fee expensed in the fiscal year 2016/17 and the previous year covered the following services:

| KEUR | 2016/17 | 2015/16 |
|---|---|---|
| Audit of the financial statements | 236 | 222 |
| Other attestation services | - | - |
| Tax consulting services | - | - |
| Other services | - | - |
| | **236** | **222** |

### Distribution of profits of Ahlers AG

In the fiscal year 2016/17, Ahlers AG distributed a dividend of EUR 0.15 per common share and of EUR 0.20 per preferred share. The total dividend payments amounted to EUR 2,356,288.30.

The Management Board proposes to pay out to the shareholders a dividend of EUR 0.15 per common share and of EUR 0.20 per preferred share from the distributable profit of the fiscal year 2016/17, i.e. a total of EUR 2,356,288.30.

# 9. CORPORATE BODIES

## Supervisory Board

**Prof. Dr. Carl-Heinz Heuer**
Attorney, Königstein (Chairman), Sozietät Heuer Busch & Partner

**Prof. Dr. Julia von Ah**
Tax consultant, Feusisberg, Switzerland (Deputy Chairwoman), von Ah & Partner AG

**Heidrun Baumgart**
Administrative assistant, Bielefeld (Employee representative), Ahlers Zentralverwaltung GmbH

**Roswitha Galle**
Administrative assistant, Spenge (Employee representative), Ahlers Zentralverwaltung GmbH

**Jörg-Viggo Müller**
Former member of the Management Board of Ravensburger AG, Reutlingen

**Bernd A. Rauch**
Advertising expert, Oberursel (Taunus)

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## Management Board

**Dr. Stella A. Ahlers**
Feusisberg, Switzerland, Chairwoman of the Management Board

**Götz Borchert** (since February 1, 2017)
Herford, Board member in charge of Marketing, Retail/E-commerce, Design/Product and Corporate Communications

**Dr. Karsten Kölsch**
Herford, Board member in charge of Finance, IT, Human Resources, Logistics and International Operations

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## Further disclosures relating to Supervisory/Management Board members

On November 30, 2017 members of the Supervisory/Management Board of the company are represented on the following boards of other companies:

**Prof. Dr. Carl-Heinz Heuer**
- Deputy Chairman of the Supervisory Board of M.M. Warburg & CO Gruppe GmbH, Hamburg

**Prof. Dr. Julia von Ah**
- President of the Advisory Board of von Ah & Partner AG, Zurich, Switzerland
- Member of the Advisory Board of Texart AG, St. Gallen, Switzerland

**Dr. Stella A. Ahlers**
- President of the Advisory Board of Adolf Ahlers AG, Zug, Switzerland

Supervisory/Management Board members not mentioned above are not represented on other companies‘ boards.

## STATEMENT OF CHANGES IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

**for fiscal 2016/17**

| KEUR | Accumulated costs | | | | | |
|---|---|---|---|---|---|---|
| | Dec. 1, 2016 | Additions | Disposals | Reclassi-fication | Currency differences | Nov. 30, 2017 |
| **Property, plant and equipment** | | | | | | |
| Land, land rights and buildings | 33,635 | 284 | 43 | | 64 | 33,940 |
| Machinery | 9,920 | 731 | 315 | 70 | -623 | 9,783 |
| Plant and office equipment | 43,082 | 3,255 | 1,130 | | 4 | 45,211 |
| Payments on account and plant under construction | 87 | 16 | | -70 | -5 | 28 |
| | **86,724** | **4,286** | **1,488** | **0** | **-560** | **88,962** |
| **Intangible assets** | | | | | | |
| Industrial property rights and similar rights and assets | 29,367 | 2,620 | 62 | -538 | 8 | 31,395 |
| Goodwill | 424 | | | | 5 | 429 |
| Payments on account | 2,046 | | 0 | 538 | -1 | 2,583 |
| | **31,837** | **2,620** | **62** | **0** | **12** | **34,407** |
| | **118,561** | **6,906** | **1,550** | **0** | **-548** | **123,369** |

**for fiscal 2015/16**

| KEUR | Accumulated costs | | | | | |
|---|---|---|---|---|---|---|
| | Dec. 1, 2015 | Additions | Disposals | Reclassi-fication | Currency differences | Nov. 30, 2016 |
| **Property, plant and equipment** | | | | | | |
| Land, land rights and buildings | 33,826 | 58 | 72 | | -177 | 33,635 |
| Machinery | 10,184 | 291 | 205 | | -350 | 9,920 |
| Plant and office equipment | 48,009 | 3,971 | 8,795 | 1 | -104 | 43,082 |
| Payments on account and plant under construction | 6 | 79 | | -1 | 3 | 87 |
| | **92,025** | **4,399** | **9,072** | **0** | **-628** | **86,724** |
| **Intangible assets** | | | | | | |
| Industrial property rights and similar rights and assets | 27,377 | 1,053 | 533 | 1,475 | -5 | 29,367 |
| Goodwill | 1,640 | | 1,212 | | -4 | 424 |
| Payments on account | 2,644 | 877 | 0 | -1,475 | | 2,046 |
| | **31,661** | **1,930** | **1,745** | **0** | **-9** | **31,837** |
| | **123,686** | **6,329** | **10,817** | **0** | **-637** | **118,561** |

| Accumulated depreciation/amortisation | | | | | | Carrying amounts | |
|---|---|---|---|---|---|---|---|
| Dec. 1, 2016 | Additions | Disposals | Appreciations | Currency differences | Nov. 30, 2017 | Nov. 30, 2017 | Nov. 30, 2016 |
| 19,135 | 510 | 10 | | 7 | 19,642 | 14,298 | 14,500 |
| 8,722 | 304 | 314 | | -510 | 8,202 | 1,581 | 1,198 |
| 32,713 | 3,519 | 841 | | -2 | 35,389 | 9,822 | 10,369 |
| - | | | | | - | 28 | 87 |
| **60,570** | **4,333** | **1,165** | | **-505** | **63,233** | **25,729** | **26,154** |
| 16,711 | 929 | 63 | 300 | 9 | 17,286 | 14,109 | 12,656 |
| 96 | | | | 5 | 101 | 328 | 328 |
| - | | | | | - | 2,583 | 2,046 |
| **16,807** | **929** | **63** | **300** | **14** | **17,387** | **17,020** | **15,030** |
| **77,377** | **5,262** | **1,228** | **300** | **-491** | **80,620** | **42,749** | **41,184** |

| Accumulated depreciation/amortisation | | | | | Carrying amounts | |
|---|---|---|---|---|---|---|
| Dec. 1, 2015 | Additions | Disposals | Currency differences | Nov. 30, 2016 | Nov. 30, 2016 | Nov. 30, 2015 |
| 18,725 | 504 | 10 | -84 | 19,135 | 14,500 | 15,101 |
| 8,911 | 309 | 205 | -293 | 8,722 | 1,198 | 1,273 |
| 37,428 | 3,716 | 8,360 | -71 | 32,713 | 10,369 | 10,581 |
| - | | | | - | 87 | 6 |
| **65,064** | **4,529** | **8,575** | **-448** | **60,570** | **26,154** | **26,961** |
| 16,603 | 645 | 532 | -5 | 16,711 | 12,656 | 10,774 |
| 1,312 | | 1,212 | -4 | 96 | 328 | 328 |
| - | | | | - | 2,046 | 2,644 |
| **17,915** | **645** | **1,744** | **-9** | **16,807** | **15,030** | **13,746** |
| **82,979** | **5,174** | **10,319** | **-457** | **77,377** | **41,184** | **40,707** |

# GROUP SEGMENT INFORMATION

for fiscal 2016/17

| by business segment | Premium Brands | | Jeans, Casual & Workwear | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|
| KEUR | **2016/17** | **2015/16** | **2016/17** | **2015/16** | **2016/17** | **2015/16** | **2016/17** | **2015/16** |
| **Sales** | 162,357 | 158,918 | 73,217 | 78,474 | 357 | 369 | 235,931 | 237,761 |
| **Intersegment sales** | - | - | - | - | - | - | - | - |
| **Segment results** | 254 | 974 | 2,136 | 2,451 | -9 | -6 | 2,381 | 3,419 |
| thereof | | | | | | | | |
| Depreciation and amortisation | 3,724 | 3,496 | 1,519 | 1,661 | 19 | 17 | 5,262 | 5,174 |
| Impairment losses (IAS 36) | - | - | - | - | - | - | - | - |
| other non-cash items | 217 | 112 | 69 | 188 | 1 | - | 287 | 300 |
| Interest income | 115 | 161 | 141 | 99 | - | - | 256 | 260 |
| Interest expense | 577 | 558 | 290 | 304 | 2 | 1 | 869 | 863 |
| **Net assets** | 124,255 | 121,652 | 36,010 | 39,114 | 18,286 | 18,300 | 178,551 | 179,066 |
| **Capital expenditure** | 5,266 | 4,459 | 1,640 | 1,870 | 0 | 0 | 6,906 | 6,329 |
| **Liabilities** | 54,994 | 52,060 | 21,450 | 22,076 | 35 | 30 | 76,479 | 74,166 |

**by geographic region**

| | Premium Brands | | Jeans, Casual & Workwear | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|
| KEUR | **2016/17** | **2015/16** | **2016/17** | **2015/16** | **2016/17** | **2015/16** | **2016/17** | **2015/16** |
| **Germany** | | | | | | | | |
| Sales | 77,018 | 76,975 | 49,567 | 52,592 | 357 | 369 | 126,942 | 129,936 |
| Net assets | 93,405 | 93,030 | 23,536 | 26,098 | 18,271 | 18,284 | 135,212 | 137,412 |
| **Western Europe** | | | | | | | | |
| Sales | 44,782 | 43,520 | 15,687 | 18,343 | - | - | 60,469 | 61,863 |
| Net assets | 10,151 | 9,542 | 7,693 | 8,339 | - | - | 17,844 | 17,881 |
| **Central-/ Eastern Europe/ Others** | | | | | | | | |
| Sales | 40,557 | 38,423 | 7,963 | 7,539 | - | - | 48,520 | 45,962 |
| Net assets | 20,699 | 19,080 | 4,781 | 4,677 | 15 | 16 | 25,495 | 23,773 |

# Proposal for the appropriation of profits

The Management Board and the Supervisory Board propose to use the distributable profit amounting to EUR 5,265,427.21 at the end of the fiscal year 2016/17 to pay out a dividend of EUR 0.15 per common share (ISIN DE0005009708 and DE0005009740) and of EUR 0.20 per preferred share (ISIN DE0005009732), for a total payout of EUR 2,356,288.30 to the shareholders, and to carry forward the remaining profit of EUR 2,909,138.91 to new account.

Herford, February 13, 2018

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|---|---|---|
| Dr. Stella A. Ahlers | Götz Borchert | Dr. Karsten Kölsch |

# Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the earnings, financial and net worth position of the Group, and the management report and Combined Management Report include 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.

Herford, February 13, 2018

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|---|---|---|
| Dr. Stella A. Ahlers | Götz Borchert | Dr. Karsten Kölsch |

# Audit opinion of the independent auditor

To Ahlers AG, Herford:

## STATEMENT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND COMBINED MANAGEMENT REPORT

### Audit assessments

We have audited the consolidated financial statements of Ahlers AG, Herford, and its subsidiaries (the group) comprising the consolidated balance sheet per November 30, 2017, the consolidated profit and loss account, statement of comprehensive income, consolidated statement of changes in equity and the consolidated cash flow statement for the fiscal year December 1, 2016 to November 30, 2017 as well as the notes to the consolidated financial statements, including a summary of important accounting methods. In addition, we audited the combined management report (report on the position of the company and the group) of Ahlers AG, Herford, for the fiscal year December 1, 2016 to November 30, 2017. In accordance with German regulations, we did not audit the contents of components of the combined management report stated in “Other information”.

On the basis of our audit findings, we are of the opinion that

- the attached consolidated financial statements comply with German commercial law regulations applicable to corporations in all material aspects and, in consideration of the German principles of proper accounting, give a true and fair view of the net assets and financial position of the group as of November 30, 2017 and its results of operations for the fiscal year December 1, 2016 to November 30, 2017 and,
- overall, the attached combined management report gives a true and fair view of the position of the group. The combined management report conforms to the consolidated financial statements in all material aspects, complies with German statutory regulations and accurately presents the opportunities and risks of future developments. Our audit assessment regarding the combined management report does not include the contents of components of the combined management report stated in “Other information”.

In accordance with § 322 (3) clause 1 HGB [Handelsgesetzbuch – German Commercial Code], we herewith declare that our audit did not lead to any objections regarding the truth and fairness of the consoldiated financial statements and the combined management report.

### Basis for the audit assessments

We performed our audit of the consolidated financial statements and the combined management report in compliance with § 317 HGB and the EU Auditors’ Directive (No. 537/2014) in consideration of the German standards of proper audits as promulgated by the Institut der Wirtschaftsprüfer (IDW) [Institute of Public Auditors in Germany]. Our responsibility in accordance with these regulations and principles is further explained in the “Responsibility of the auditor for the audit of the consolidated financial statements and the combined management report” section of our audit opinion. We are independent of the group entities in accordance with European regulations and German commercial and business law regulations and have met our other German professional obligations in compliance with these requirements.

In addition, we herewith declare in accordance with Article 10 (2) lit f) EU Auditors’ Directive that we did not perform any of the prohibited non-audit services stated in Article 5 (1) EU Auditors’ Directive. We are of the opinion that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements and combined management report.

### Particularly important issues of the audit of the consolidated financial statements

Particularly important issues are facts and circumstances that, in accordance with our proper assessment, we believe are the most crucial in our audit of the consolidated financial statements for the fiscal year December 1, 2016 to November 30, 2017. These facts and circumstances were taken into account in the course of our audit of the consolidated financial statements as a whole and when forming our audit opinion; we do not provide a separate audit opinion on such facts and circumstances.

We have identified the following facts and circumstances as particularly important issues:

1. Valuation of inventories
2. Proceeds from the sale of clothing

### 1. Valuation of inventories

**Facts and circumstances**

Taking into account impairment losses of EUR 8.5 million, inventories are recognized at EUR 75.3 million in the consolidated financial statements of Ahlers AG. Inventories are measured at the lower of cost or net realizable value. The determination of the net realizable value greatly requires estimations and assumptions by the legal representatives regarding future sales quantities and prices. There is a risk that the collections might not be sufficiently accepted by the market and goods already produced will not be sold.

Due to the discretionary decisions required in connection with determining the net realizable value and the recognized amount of the balance sheet item, valuation of inventories was considered a particularly important issue of the audit.

The disclosures of Ahlers AG on realized proceeds are included on page 90 and 100 of the notes to the consolidated statements.

**Reaction of the auditor and audit findings**

Our own IT specialists audited the appropriateness of IT-based processes in the scope of inventory valuation. When auditing the impairment of inventories, we also retraced the days-of-inventory-analyses of the legal representatives and compared the impairment losses used for inventory risks in the reporting year with those of prior years and checked them for plausibility. In the process, we critically examined the expectations of the legal representatives with respect to future sales quantities and prices and retraced the impairment losses as determined by the company. All in all, we are convinced that the estimations and assumptions regarding the valuation of inventories made by the legal representatives are appropriate.

### 2. Realized proceeds from sale of clothing

**Facts and circumstances**

In the reporting year, Ahlers AG Group recognized revenue from clothing sales in an amount of EUR 234.9 million. Due to the different distribution channels and the use of different IT systems therewith connected as well as the returns options, there is a risk regarding the applicable recognition and cut-off of revenue. In our opinion, this issue was of particular importance because the extent of revenue is a key measure in the scope of capital market communications and performance indicators (gross profit margin, EBITDA margin, EBIT margin, return on sales).

The disclosures of Ahlers AG on realized proceeds are included on page 92 and 93 of the notes to the consolidated statements. Distribution channels are outlined on pages 22 ff. of the combined management report.

**Reaction of the auditor and audit findings**

Amongst other things, we audited the accurate recognition of sales by way of reconciliation with contractual bases and had customers of Ahlers AG confirm transactions of the reporting year we previously selected. We retraced estimations made by the legal representatives as regards the extent of returns and verified them - amongst others - by means of empirical values from the past. We also evaluated IT-based sales processes with respect to accurate recognition of sales on an accrual basis. We called in our IT specialists for this purpose. All in all, we assured ourselves of the appropriateness of proceeds realization in the reporting year.

### Other information

The legal representatives are responsible for all other information provided. Other information includes:

- the declaration on corporate management included in the Declaration on corporate management section of the combined management report
- the sustainability report included in the Sustainability report section of the combined management report
- other parts of the annual report with the exception of the audited consolidated financial statements and combined management report as well as our audit opinion.
- the corporate governance report in accordance with No. 3.10 of the German Corporate Governance Code and
- the declarations in accordance with § 297 (2) clause 4 HGB and § 315 (1) clause 5 HGB regarding the consolidated financial statements and combined management report, respectively.

Our audit assessments on the consolidated financial statements and combined management report do not cover other information and, thus, we neither provide an audit assessment nor any other form of audit conclusion in this regard.

In connection with our audit of the consolidated financial statements, we are obliged to read other information provided and assess whether such other information

- shows significant inconsistencies with the consolidated financial statements, combined management report or our audit findings or
- appears to be otherwise misstated.

If, on the basis of the work performed, we conclude that such other information includes material misrepresentations, we are obliged to report on that fact. We have nothing to report in this respect.

### Responsibility of the legal representatives and the supervisory board for the consolidated financial statements and combined management report

The legal representatives are responsible for preparing consolidated financial statements that - in all essential aspects - comply with IFRS as applicable in the European Union and the supplementary German statutory regulations applicable in accordance with § 315e (1) HGB. In consideration of these regulations, the consolidated financial statements must give a true and fair view of the net assets, financial position and results of operations of the group. In addition, the legal representatives are responsible for those internal controls that they determined necessary to allow for the preparation of consolidated financial statements that do not include - intentional or unintentional - material misrepresentations.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the group's ability to continue as a going concern. They also have to state responsibility, facts and circumstances in connection with the going concern of operations, if applicable. In addition, they are responsible for accounting on the basis of the going concern accounting principle unless actual or legal events require otherwise.

They are also responsible for the preparation of the combined management report that gives an overall accurate view of the situation of the group and conforms to the consolidated financial statements in all material aspects, complies with German statutory regulations and accurately presents the opportunities and risks of future developments. The legal representatives are also responsible for precautions and measures (systems) they considered necessary for enabling the preparation of a combined management report in compliance with applicable German statutory regulations and to provide sufficient appropriate evidence for the statements made in the combined management report.

The supervisory board is responsible for monitoring the accounting processes of the group used to prepare the consolidated financial statements and combined management report.

### Responsibility of the auditor for auditing the consolidated financial statements and combined management report

We aim to obtain reasonable assurance that the consolidated financial statements as a whole do not include - intended or unintended - material misstatements and that the combined management report gives an accurate view of the situation of the group and conforms with the consolidated financial statements and our audit findings in all material aspects, complies with German statutory regulations and gives a true and fair view of the opportunities and risks of future developments as well as at issuing an audit opinion that includes our audit opinions on the consolidated financial statements and combined management report.

While reasonable assurance constitutes a high level of assurance, it cannot guarantee that an audit performed in compliance with § 317 HGB and the EU Auditors' Directive in consideration of the generally accepted standards for the audit of annual financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) always leads to the detection of material misstatements. Misstatements can result from violations or irregularities and are considered material if it is reasonable to expect that one or all of these misstatements affect the commercial decisions of addressees made on the basis of these consolidated financial statements and the combined management report.

We exercise proper discretion and remain critical while performing the audit. In addition, we

- identify and assess the risks of material - intended or unintended - misstatements in the consolidated financial statements and combined management report, plan and perform audit procedures in answer to such risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit assessments. The risk that material misstatements are not detected is higher where violations are concerned as compared to misstatements because violations can include fraudulent collaboration, falsifications, intended incompleteness, misleading presentations or the manipulation of internal controls.
- gain an understanding of the internal control system relevant for auditing the consolidated financial statements and of the established precautions and measures relevant for auditing the combined management report to plan audit procedures that are adequate in the present circumstances whereas we do not aim at providing an audit assessment on the effectiveness of such systems.
- assess the appropriateness of the accounting methods used by the legal representatives and the justifiability of the estimated values presented by the legal representatives and disclosures therewith connected.
- draw conclusions regarding the appropriateness of the going concern accounting principle applied by the legal representatives and, on the basis of the audit evidence obtained, whether material uncertainties exist in connection with events or circumstances that could raise material doubts in the company's ability to continue as a going concern. If we come to the conclusion that a material uncertainty exists, we are obliged to call attention to the respective disclosures in the consolidated financial statements and combined management report in our audit opinion or, if such disclosures are inappropriate, modify our audit assessment. We draw our conclusions on the basis of the audit evidence obtained at the time we issue our audit opinion. Future events or circumstances can result in the group's inability to continue as a going concern.
- assess the overall presentation, structure and contents of the consolidated financial statements including the disclosures and whether the consolidated financial statements present the underlying transactions and events such that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the group in consideration of IFRS as applicable in the EU and the additional German statutory regulations applicable in accordance with § 315e (1) HGB.

- obtain sufficient appropriate audit evidence for the accounting information of the entities or intragroup transactions to make audit assessments regarding the consolidated financial statements and combined management report. We are responsible for instructions on, monitoring and performance of the audit of the consolidated financial statements. We are solely responsible for our audit assessments.
- assess the conformity of the combined management report with the consolidated financial statements, its compliance with legal regulations and its presentation of the position of the group.
- perform audit procedures regarding the legal representatives' forecast disclosures stated in the combined management report. On the basis of sufficient and appropriate audit evidence, we especially retrace the material assumptions used as a basis for the forecasts by the legal representatives and assess whether the forecasts are properly derived from these assumptions. We do not issue a separate audit assessment on forecast disclosures and the underlying assumptions. There is a significant unavoidable risk that future events will considerably deviate from forecasted disclosures.

Amongst other things, we discuss the planned extent and schedule of the audit as well as important audit findings including possible deficiencies of the internal control system that we find in the course of our audit with those responsible for supervision.

We issue a statement to those responsible for supervision that we complied with the relevant independence requirements and discuss all relationships and other facts and circumstances that could reasonably affect our independence as well as the respective protective measures put in place.

Of the facts and circumstances we discussed with those responsible for supervision, we determine those facts and circumstances that were the most important in the audit of the consolidated financial statements for the current reporting period and thus constitute particularly important audit issues. We describe such facts and circumstances in the audit opinion unless statutes or other regulations prohibit the public disclosure of such facts and circumstances.

## Other statutory and other legal requirements

### Other disclosures in accordance with article 10 EU auditors' directive

The annual general meeting appointed us auditor on May 3, 2017. The supervisory board engaged us on November 5, 2017. We have been continuously appointed as auditor of the consolidated financial statements of Ahlers AG since the fiscal year 2009.

We herewith declare that the audit assessments included in this audit opinion conform with the additional report to the audit committee in accordance with Article 11 EU Auditors' Directive (audit report).

## Responsible auditor

Mr. Christian Heesch is the auditor in charge.

Hannover, February 14, 2018

BDO AG
Wirtschaftsprüfungsgesellschaft

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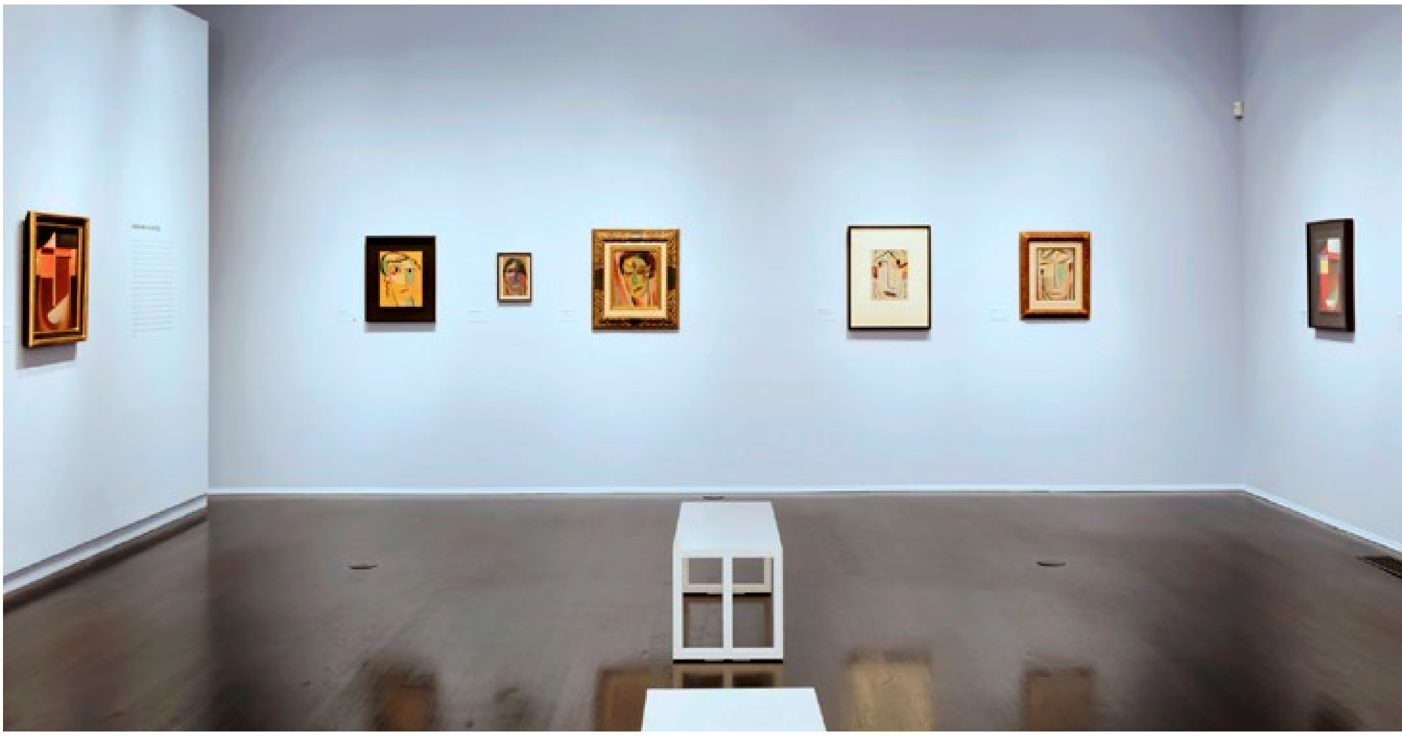
|---|---|
| signed Horn | signed Heesch |
| Wirtschaftsprüfer | Wirtschaftsprüfer |

## **EXHIBITIONS** (SELECTION)

THE LIST BELOW SHOWS ALL CURRENT EXHIBITIONS IN WHICH AHLERS PARTICIPATES:

WWW.AHLERS-AG.COM // COMPANY // ART & FASHION // ON TOUR

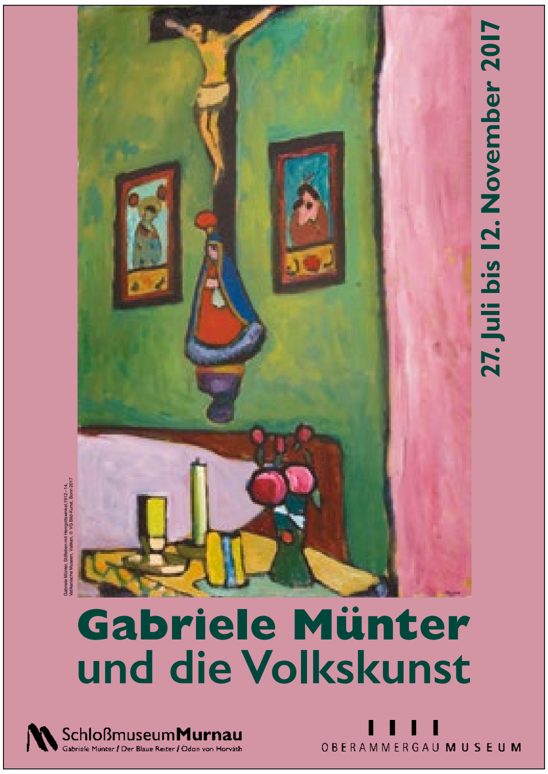

**PAULA MODERSOHN-BECKER**
DER WEG IN DIE MODERNE
BUCERIUS KUNST FORUM, HAMBURG: FEB 04 – MAY 01, 2017

**ALEXEI JAWLENSKY**
ALEXEI JAWLENSKY
NEUE GALERIE NEW YORK: FEB 16 – MAY 29, 2017

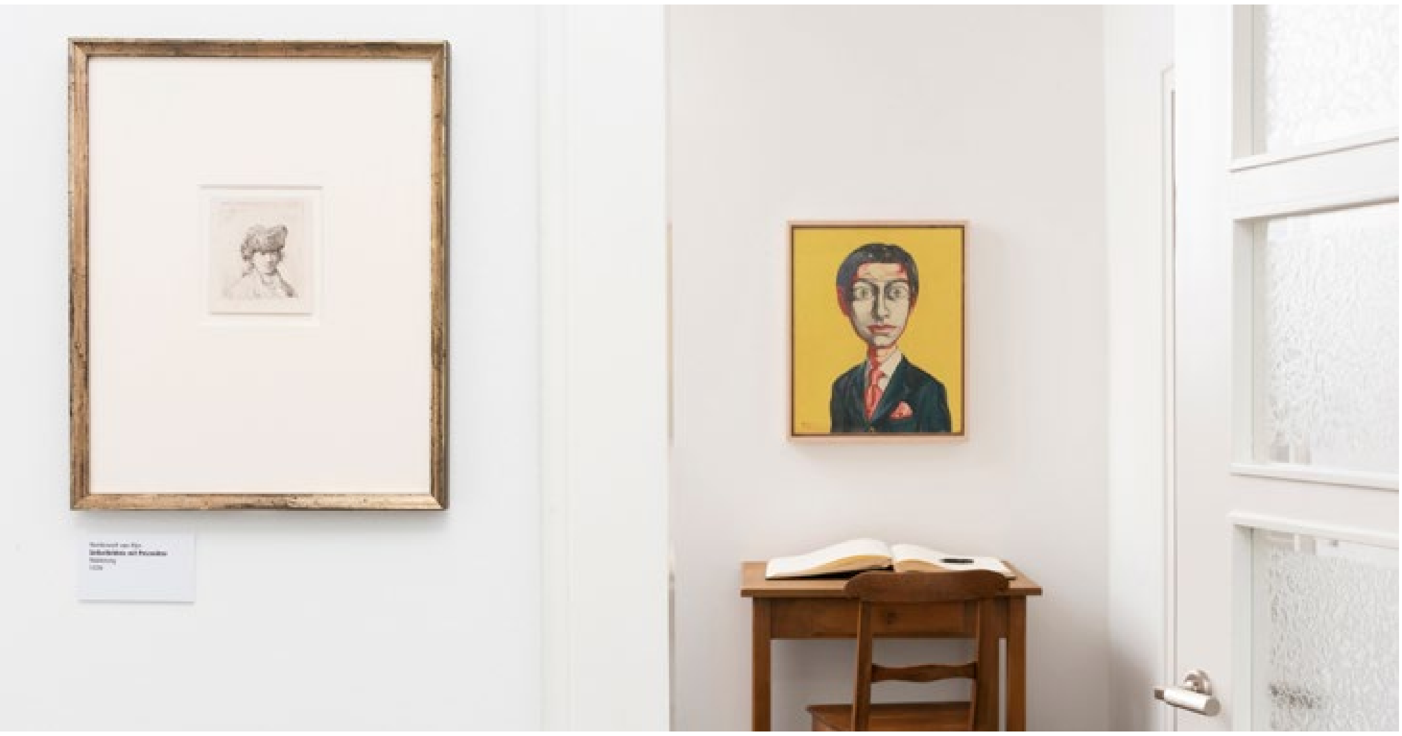
## **EXHIBITIONS** (SELECTION)


**RAYMOND HAINS**
VIVA ARTE VIVA
LA BIENNALE DI VENEZIA, VENEDIG: MAY 13 – NOV 26, 2017




**GABRIELE MÜNTER, WASSILY KANDINSKY**
GABRIELE MÜNTER UND DIE VOLKSKUNST
SCHLOSSMUSEUM MURNAU: JUL 27 – NOV 12, 2017

## **EXHIBITIONS** (SELECTION)

**FRANCIS BACON, MAX BECKMANN, JOSEPH BEUYS, ALBERTO GIACOMETTI, ALEXEI JAWLENSKY, MAN RAY, EMIL NOLDE, REMBRANDT VAN RIJN, DIETER ROTH, ANDY WARHOL, ZENG FANZHI, ZHANG XIAOGANG U. A.**
GESICHT UND MASKE - ROLLENSPIELE IN DER PORTRÄTKUNST
STIFTUNG AHLERS PRO ARTE gGMBH, HERFORD: SEP 16 – DEC 10, 2017

# History of Ahlers AG

| | |
|---|---|
| 2017 | Opening of the fifth Elsbach Denim Library in Westerland on Sylt<br>Relocation of Baldessarini to the Herford headquarters<br>Otto Kern licenses granted to Hatico Mode GmbH (shirts) and Jupiter Bekleidung GmbH (sportswear) |
| 2016 | Launch of the Pierre Cardin online shop (www.pierre-cardin.de)<br>Market entry of Baldessarini in the USA and Canada |
| 2014 | Opening of the “Elsbach Denim Library” multi-brand store in Hamburg<br>Acquisition of additional Pierre Cardin licenses in Belgium, France and Spain |
| 2013 | Takeover of the license for Pierre Cardin leg wear<br>Opening of an international showroom in Rue Royale in Paris<br>Launch of the Pionier Workwear online shop |
| 2012 | Launch of the Baldessarini online shop |
| 2011 | Takeover of the remaining interests in Otto Kern GmbH<br>Launch of the Otto Kern online shop |
| 2010 | Spin-off of the Jupiter shirts business and foundation of a joint venture under the name of Jupiter Shirt GmbH (Ahlers share: 49 percent) |
| 2006 | Sale of the Eterna Group to a financial investor<br>Acquisition of Baldessarini GmbH, Munich |
| 2005 | Dr. Stella A. Ahlers, granddaughter of company founder Adolf Ahlers, is appointed to head the Management Board |
| 2004 | Inclusion in the Prime Standard segment of the German Stock Exchange |
| 2000 | Acquisition of the rights to the Otto Kern Brand |
| 1998 | Ahlers shares are traded in the Official Market segment of the German Stock Exchange |
| 1996 | Acquisition of Eterna Beteiligungs-AG, Passau |
| 1992 | Licensing partnership with Pierre Cardin, Paris, begins |
| 1987 | Initial public offering |
| 1979 | Foundation of a production plant in Sri Lanka |
| 1977 | Launch of the Pioneer brand for denim fashion |
| 1971 | Foundation of the Pionier Workwear brand |
| 1970 | Launch of the Pionier brand for jeans and trousers of all sizes |
| 1932 | Company moves to Herford/Westphalia |
| 1919 | Establishment as a textile wholesale business in the Frisian town of Jever |

# Financial calendar 2018

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|---|---|
| Annual accounts press conference in Düsseldorf | February 28, 2018 |
| Quarterly statement Q1 2017/18 | April 11, 2018 |
| Analysts' conference in Frankfurt am Main | April 12, 2018 |
| Annual Shareholders' Meeting in Düsseldorf | April 24, 2018 |
| Half-year report 2017/18 | July 11, 2018 |
| Quarterly statement Q3 2017/18 | October 10, 2018 |
| Analysts' conference in Frankfurt am Main | October 11, 2018 |

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