AHLERS AG

Annual Report 2017/18

December 1, 2017 - November 30, 2018

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 big listed European manufacturers of menswear
- produces fashion under five 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 86 percent of its sales revenues from sales to specialist retailers and 14 percent from its own retail activities

The strategy

Brands

- Price-graded, attractive brands in the quality segment of the apparel market
    - Baldessarini
    - Pierre Cardin
    - Otto Kern
    - Pioneer Jeans
- as well as high-quality workwear under the brand
    - Pionier Workwear

Distribution channels

- Wholesale to physical retail stores, chain stores and department stores
- Mono-brand stores in some selected markets, especially in Eastern Europe
- E-commerce with own online shops, multi-brand platforms and retailers' online shops

Markets

- Europe as well as selected international markets, e.g. Canada and China

Product

- Innovative and fashionable high-quality menswear

PIONEER®
AUTHENTIC JEANS

Pionier
WORKWEAR

Brand strategy

Five-year summary

		2013/14	2014/15	2015/16	2016/17	**2017/18**	Change
Consolidated financial statements							
Sales	EUR million	257.1	241.9	237.8	235.9	223.1	-5.4%
thereof abroad	%	45.2	44.9	45.3	46.2	45.9	-0.3 PP
Gross profit	EUR million	128.3	119.0	116.9	117.1	109.2	-6.7%
as a percentage of sales	%	49.9	49.2	49.2	49.6	48.9	-0.7 PP
EBITDA	EUR million	14.6	8.7	9.2	8.3	1.3	-84.3%
EBIT	EUR million	9.2	2.4	4.0	3.0	-6.4	n.a.
Net income	EUR million	6.0	1.4	2.5	1.9	-7.0	n.a.
Depreciation, amortisation and impairment losses	EUR million	5.4	6.3	5.2	5.3	7.7	-45.3%
Cash flow from operating activities	EUR million	10.9	13.4	4.9	10.2	9.6	-5.9%
Balance sheet total	EUR million	190.4	180.6	181.6	181.2	172.2	-5.0%
Non-current assets	EUR million	60.7	62.1	62.0	63.5	62.5	-1.6%
Equity	EUR million	110.3	105.3	103.9	102.1	93.1	-8.8%
Equity ratio	%	57.9	58.3	57.2	56.4	54.1	-2.3 PP
Number of employees (annual average)		2,226	2,093	2,042	2,062	2,122	2.9%
The share							
Market capitalisation	EUR million	153.4	109.0	95.9	82.2	46.5	-43.4%
Earnings per share	EUR	0.42	0.08	0.17	0.13	-0.51	n.a.

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TO OUR SHAREHOLDERS

LETTER OF THE CEO

DEAR FRIENDS, DEAR LADIES AND GENTLEMEN, DEAR SHAREHOLDERS.

This year will see our company celebrate its **100th anniversary.** In 1919, my grandfather Adolf established the company, which was subsequently run by my father Jan and is now run by me. There have been difficult times such as wars and sincere crises, all of which we mastered successfully. At present, it is more of a “silent” crisis that is affecting the clothing industry. The world economy has been growing continuously for almost ten years and at the same time our relevant markets have been shrinking equally steadily. The growing casualisation is one of the reasons for this; it means that formal clothes are becoming less important and are worn less frequently. Instead, consumers increasingly choose sporty and casual garments. This noticeably reduces the spending on clothes. What is more, favourably priced clothing is available from food discounters and from low-price stores on the periphery and in the city centres. The Internet is also becoming increasingly established as a fully-fledged distribution channel. Physical retailers, who have traditionally presented the products in a professional manner and communicated and supported the latest trends, are increasingly losing revenues. Innovation, digitisation and efficiency is our response to these trends.

In times where there is no lack of purchasing power, **innovation** is key to success. Innovation is expressed in the design and the choice of fabric, in self-explanatory trends and in modern technology. Take our Futureflex jeans and suits, for instance, which immediately show customers the increased wearer comfort as soon as they try them on. Our new eJacket can be heated with a spare mobile phone battery, which makes it a true feel-good jacket in winter. Pierre Cardin’s Voyage collection comprises contemporary, light and modern travelwear. Over the past months, we have implemented organisational changes at Pierre Cardin and Baldessarini that will make our collections even more innovative. With our large jeans- and trousers-business by all brands, we are well positioned at the core of the casualwear segment.

Needless to say, **digitisation** is first of all important for the e-commerce channel. Similar to the physical store segment, we focus on the “specialist retailers” of the Internet, i.e. multi-brand suppliers who are either e-commerce specialists or the online shops of physical retailers. They provide the right framework for our collections and place our products in the right environment. Digitisation has an efficiency-increasing and accelerating effect also in the internal product development and distribution processes. Ahlers has therefore launched projects for the electronic encryption of prototypes and series parts as well as for an image-based B2B order system, which accelerates the time-to-market process and reduces the costs of the production of the collections. By installing a system for the automatic generation of post-orders, we additionally can supply physical retailers with the right product at the right time.

Efficiency. A comprehensive programme of measures aimed at increasing earnings and efficiency was launched in September 2018. We focus on menswear with the brands Baldessarini, Pierre Cardin, Otto Kern and Pioneer. The Pionier Workwear brand continues to offer workwear. The efficiency programme comprises many simplifying and cost-saving changes such as the increasing shift towards full-package service arrangements and the relocation of logistic processes to Poland. For detailed information on the efficiency programme, please refer to page 37 of the present Annual Report.

While the year 2017/18 was disappointing and was the first in the company's history to end with a net loss, the measures initiated as part of the efficiency programme further weighed on the bottom line as they included provisions for severance payments. The current year will also be a year of transition. Although we again expect an operating loss, the result for 2018/19 will be much better, as we will probably incur hardly any more extraordinary expenses. Moreover, we will further deleverage the company with the help of specific measures that have already been initiated and thus make it even more stable. It is our declared objective to return to profit in 2020 when all measures initiated take effect.

In this anniversary year, my special thanks go to our employees, who dedicate a lot of energy to making our company successful and are showing great flexibility in embracing the significant changes. I thank our customers for their continued confidence in these challenging times. I would like to ask our suppliers to support us on our way towards increased efficiency and speed. Last but not least, I thank you, our shareholders, for your loyalty and hope that you will continue to support 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 2017/18, 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. The ongoing crisis of the clothing industry, which accelerated even further in 2018, had the biggest influence on our work. We monitored the economic and financial performance of the company and critically reviewed its strategic orientation. The Supervisory Board continuously advised the Management Board and closely monitored and supported the development of the set of measures aimed at increasing the company's earnings and efficiency. We supervised the Management Board in managing the company and satisfied ourselves that all its actions 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. 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. Where required by law, the statutes or the rules of procedure of the Management Board, 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 five meetings in the fiscal year 2017/18, all of which were attended by all members. One of the meetings was held as a telephone conference.

The main item on the agenda of the Supervisory Board meeting on December 7, 2017 were the plans and budgets for the fiscal year 2017/18 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 Supervisory Board adopted the declaration of conformity and the supplement to the objectives regarding its composition. The report by the Compliance Officer is another regular item 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.

On February 7, 2018, the Supervisory Board held a telephone conference to discuss the consolidation of the share types and the conversion to registered shares. The Supervisory Board members then unanimously agreed to submit the corresponding proposals to the Annual Shareholders' Meeting on April 24, 2018 (for more information, see chapter "The share" on page 17).

At its meeting on February 14, 2018, the Supervisory Board primarily addressed the 2016/17 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 2016/17 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 risk situation of Q4 2016/17, which was largely unchanged compared to the previous year, whereupon the Supervisory Board approved the risk report for the period ended November 30, 2017. The Management Board then presented initial developments of the fiscal year that had just started.

In the context of the re-election of five of its six members at its constituent meeting after the Annual Shareholders' Meeting on April 24, 2018, the Supervisory Board elected the Chairman and the Vice Chairman of the full Supervisory Board as well as the chairmen and members of the Supervisory Board committees. The Supervisory Board then discussed the current business situation as presented by the Management Board, the order situation for autumn/winter 2018 and the forecast for the fiscal year 2017/18.

At the meeting on September 13, 2018, the Management Board initially presented the current business situation, the outlook on the next fiscal year and the order situation for the 2019 spring/summer season. The Management Board and the Supervisory Board extensively discussed the fact that the company's performance fell short of their expectations. They then passed the general resolutions for a comprehensive set of measures aimed at achieving a sustainable improvement in earnings and efficiency in the medium term. This includes the concentration on the core brands of Ahlers AG, measures for a leaner organisation and reduced complexity. The committees moreover reported on topics such as the introduction of factoring, the selection procedure for the change of the auditor, the status of the internal audit projects and the completed consolidation of the share types. The Supervisory Board approved the focal points for the 2017/18 audit proposed by the Audit Committee.

On November 21, 2018, the Supervisory Board held a written vote to approve the sale of trade receivables (factoring), a project which had roughly been presented at the previous meeting.

Key activities of the committees

The Supervisory Board prepares its decisions in four committees, i.e. 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 one telephone conference in the past fiscal year. One of the regular meetings was extended to two days for an in-depth discussion of strategic issues. In addition, the Audit Committee briefly met after the Annual Shareholders' Meeting in April 2018 to prepare the strategy meeting. At the strategy meeting, the participants addressed the medium and long-term development goals developed by the Managing Directors of the individual brands and the measures to be taken to reach these goals. The Audit Committee continuously monitored the approach taken to reduce the net working capital as well as the changes in the latter. It also addressed the changes in the manufacturing structures and the procurement strategy. The Audit Committee also prepared the resolutions to be passed by the Supervisory Board such as the declaration of conformity, the consolidation of the share types, the factoring agreement, personnel decisions at the managing director level, the audit programme of the new fiscal year and the invitations to the Annual Shareholders' Meeting of the year 2018. A great part of the meeting was dedicated to the execution of a procedure for the selection of an auditor; this was initiated because the Audit Committee had decided, in view of the length of the mandate of the existing auditor, to initiate a tender in accordance with Article 16 of Regulation (EU) No. 537/2014 of the European Parliament and the Council of April 16, 2014 on specific requirements regarding the statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (Auditor Regulation). After completion of a transparent and non-discriminatory procedure and careful examination of the applicants, the Audit Committee, on December 11, 2018, resolved to submit a recommendation including reasons for two proposals, namely PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft and Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, with preference given to the latter, to the Supervisory Board. The Audit Committee also addressed the new legal provisions for companies' non-financial reporting. In the run-up to the elections to the Supervisory Board by the 2018 Annual Shareholders' Meeting, the Nomination Committee made its recommendations to the Supervisory Board regarding the persons to be elected as shareholder representatives. The Human Resources Committee and the Marketing Committee each held one meeting in the past fiscal year. 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 Management Board between December 1, 2017 and November 30, 2018. After the reporting date, the Supervisory Board held an ordinary meeting on December 12, 2018 at which it decided to reduce the Management Board to two members. The Supervisory Board wants to implement lean structures to respond to the challenges of the market with high flexibility. This is why Mr Götz Borchert resigned from the Management Board of Ahlers AG with effect from that date. His responsibilities have been assumed by the two remaining Board members. 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. The Supervisory Board would like to thank Mr Borchert for his dedicated and constructive work on the management board.

Prof. Dr. von Ah and the undersigned were re-elected to the Supervisory Board by the Annual Shareholders' Meeting on April 24, 2018. Mr Bernd Rauch, who had previously been designated to the Supervisory Board, also ran for election and was elected to the Supervisory Board by the Annual Shareholders' Meeting. There was one change among the employee representatives. Mr Hans-Joachim Knauf was elected by the workforce as a new Supervisory Board member to replace Ms Roswitha Galle. Ms Heidrun Baumgart was re-elected as employee representative. At this point Ms Galle deserves our thanks for the good cooperation.

After the reporting date, I informed Ahlers AG on February 6, 2019 that I intend to resign from office upon reaching the age of 65 with effect from the end of the 2019 Annual Shareholders' Meeting after having served on the Supervisory Board for 18 years, of which almost 16 years as Chairman. This step is intended to rejuvenate the controlling body. The Management Board was downsized already in December 2018. I therefore suggest, with the consent of the main shareholder, WTW Beteiligungsgesellschaft mbH, to also reduce the Supervisory Board from six to three members. This will pave the way towards implementing leaner structures in a challenging market environment. The corresponding amendment of the statutes is to be proposed to the Annual Shareholders' Meeting on April 17, 2019. Prof. Dr. Julia von Ah (Vice Chair), Mr Jörg-Viggo Müller and Mr Hans-Joachim Knauf (employee representative) have proposed to the company to also resign from the Supervisory Board with effect from the end of the Annual Shareholders' Meeting on April 17, 2019, provided that the proposals are accepted by the Annual Shareholders' Meeting. Mr Bernd Rauch resigned from office already with effect from January 31, 2019. We thank Mr Rauch for his long-standing, constructive cooperation.

The Supervisory Board will propose to the Annual Shareholders' Meeting to fill the vacant Supervisory Board positions with Mr Alexander Gedat (54), CEO of Marc O´Polo AG until August 2017, and Armin Fichtel (61), CEO of s.Oliver Group until the end of 2017. Both candidates have long-standing experience in the clothing industry and an in-depth knowledge of e-commerce. Once elected, Mr Gedat would also assume the role of Supervisory Board Chairman. Heidrun Baumgart will stay on the Supervisory Board as employee representative.

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 page 21et seq. The Supervisory Board discussed the company's practice against the background of the German Corporate Governance Code as amended on February 7, 2017. The declaration of conformity was discussed and adopted at the meeting on December 12, 2018. 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 2018, the Annual Shareholders' Meeting appointed BDO AG Wirtschaftsprüfungsgesellschaft headquartered in Hamburg (Hanover Branch) as the auditors for the fiscal year 2017/18. 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 combined management report.

The separate financial statements of Ahlers AG 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's and the Supervisory Board's annual accounts meeting on February 13, 2019. 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 combined 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 agreed with the Management Board's proposal to pay out no dividend and to carry the profit forward to new account. 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.

Finally, at its meeting on February 13, 2019, the Supervisory Board adopted the proposal to be made to the Annual Shareholders' Meeting regarding the election of the auditor taking the recommendation and the preference of the Audit Committee into account. The Supervisory Board's proposal concurs with the Audit Committee's preference for Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft.

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 13, 2019
The Supervisory Board

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

Corporate Bodies

MANAGEMENT BOARD

Dr. Stella A. Ahlers
Feusisberg (Switzerland)
Chairwoman

Dr. Karsten Kölsch
Herford

Götz Borchert
(until December 12, 2018)
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 (until April 24, 2018)
Employee representative
Administrative assistant, Spenge

Hans Joachim Knauf (since April 24, 2018)
Employee representative
Administrative assistant, Herford

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

Bernd A. Rauch (until January 31, 2019)
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 (until January 31, 2019)
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 (until January 31, 2019)

The Share

Declining stock market performance in 2017/18

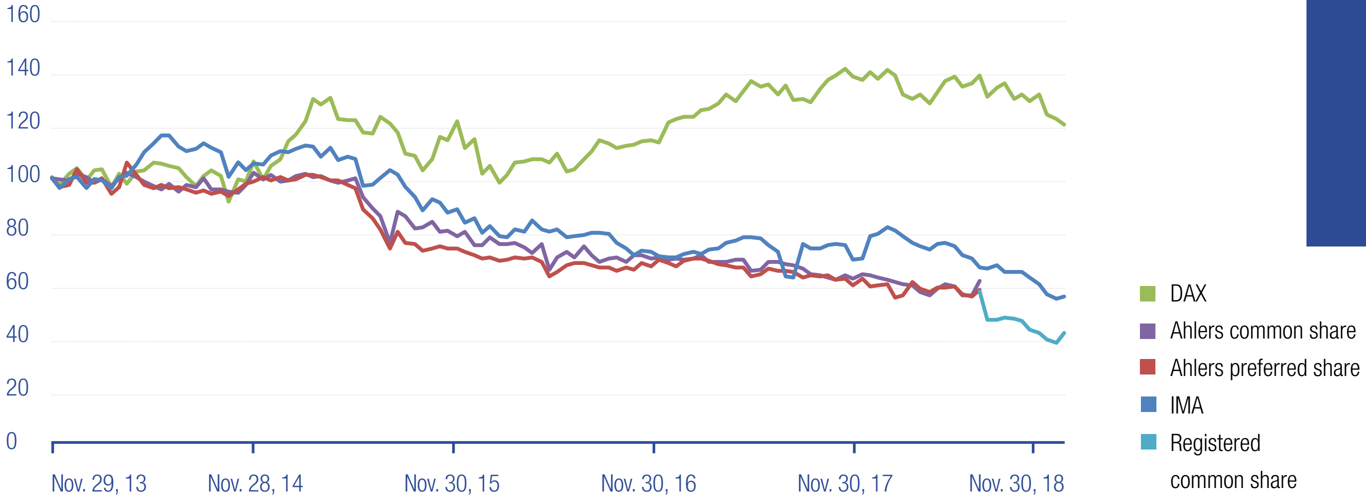
After a strong start to the year, the German stock markets declined surprisingly strongly as of mid-2018. During Ahlers' fiscal year from December 2017 to November 2018, the prices of the German stock indices, DAX, MDAX and SDAX, declined by double-digit percentages. At the end of January, the DAX still marked an all-time high of just under 13,600 points but then lost over 2,300 points as the year progressed to close at 11,257 points on November 30, 2018 (down 14 percent on the previous year's 13,024 points). In December 2018, the DAX again dropped sharply. This was the first negative performance of Germany's leading index since 2011. The volatile and ultimately negative performance was primarily due to the growing awareness of the consequences of the already known political risks. Concerns that the US-Chinese customs dispute could slow down the world economy and the uncertainty about the UK's exit from the European Union influenced the stock markets in 2018.

Price of the Ahlers share declines in challenging market environment

Most German fashion companies were affected by the negative stock market performance and saw their share prices decline in 2018. It is safe to assume, however, that the continued decline in sales revenues generated by Germany's physical fashion stores affected the share prices even more strongly than the declining stock market. In spite of the favourable economic environment, sales revenues of Germany's fashion retailers declined again in the past year and even more strongly so than before. Among the reasons cited are the declining footfall in the city centres, the fact that more and more purchases are made on the Internet, the growing casualisation and last year's long and hot summer. It is safe to assume that clothing sales in most European markets also remained clearly below the economic growth rates in the respective countries. The challenging conditions of the textiles market are reflected in the share prices of many German fashion companies.

On June 29, 2018, Ahlers changed its bearer shares to registered shares and converted the preferred shares to common shares. On this day, the common share for the last time closed at EUR 4.24 and the preferred share at EUR 4.10 (prices on November 30, 2017: EUR 6.05 and EUR 5.98, respectively). The new registered common share started trading on July 2, 2018 and closed at EUR 3.72 on that day. Until mid-September, the price of the registered common share remained slightly above the price of the first day of trading and then dropped to EUR 3.40 by the reporting date (-8.6 percent). Between the balance sheet dates, the company's market capitalisation declined from EUR 82 million to EUR 47 million (-43 percent).

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



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

Consolidation of share types and conversion to registered shares

The ordinary Annual Shareholders' Meeting and the subsequent separate meeting of preferred shareholders of Ahlers AG held on April 24, 2018 resolved - each with a large majority - to change the bearer shares to registered shares and to convert the preferred shares to common shares.

The resolution adopted by the Annual Shareholders' Meeting and the corresponding amendments to the statutes were entered in the Commercial Register of the Bad Oeynhausen local court on Friday, June 29, 2018 and became effective as of the same date. The conversion from preferred shares to common shares in the securities accounts and at the stock exchange was executed on the same date after the end of trading. The personal data contained in the share register are processed in accordance with the EU General Data Protection Regulation (GDPR), the Federal Data Protection Act (BDSG), the German Stock Corporation Act (AktG) as well as all other relevant legal regulations. Ahlers AG uses these data only for the purposes laid down in the German Stock Corporation Act as well as in other potentially relevant legal regulations.

The relative share in Ahlers AG represented by one share has remained unchanged. The same applies to the amount of the equity capital. The number of common shares has been increased by the number of the former preferred shares (common shares after conversion: 13,681,520). Shareholders' right to sell their shares has not been restricted or otherwise been adversely affected. Most importantly, the company's consent is not required to sell shares.

Since Monday, July 2, 2018, the 13,681,520 new registered common shares have been listed and traded in the Regulated Market of the Frankfurt Stock Exchange (Prime Standard) and the Regulated Market of the Düsseldorf Stock Exchange. The new ISIN DE0005009740 (formerly DE0005009708 for the common shares and DE0005009732 for the preferred shares), the new WKN 500974 (formerly 500970 for the common shares, 500973 for the preferred shares) and the stock exchange symbol "AAH" became effective as of that date.

Summary of basic information on the share

	2017/18	2016/17
Share price in EUR (Nov. 30)		
Registered common shares	3.40	6.01*
Common shares		5.98
Preferred shares		6.05
Equity per share in EUR (Nov. 30)	**6.81**	**7.36**
Share price in EUR		
Registered common shares		
High	4.20	
Low	2.66	
Common shares		
High		7.20
Low		5.75
Preferred shares		
High		7.24
Low		5.40
Market capitalisation in EUR (Nov. 30)	46.5	82.2
Earnings per share in EUR		
Registered common shares	-0.51	
Common shares		0.11
Preferred shares		0.16
Price/earnings ratio (Nov. 30)		
Registered common shares	-	
Common shares		54
Preferred shares		38
Price/carrying amount ratio (Nov. 30)		
Registered common shares	**0.50**	
Common shares		0.81
Preferred shares		0.82
Dividend in EUR million		
Nominal**	-	2.36
Dividend per share**		
Registered common shares	-	
Common shares		0.15
Preferred shares		0.20
Dividend yield in % (Nov. 30)		
Registered common shares	-	
Common shares		2.5
Preferred shares		3.3

* weighted mean price
** 2017/18: 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 half-year 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 April 24, 2018 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.

Basic information

On November 30, 2018, the share capital of Ahlers AG in an amount of EUR 43.2 million comprised 13,681,520 no-par registered common shares and had not changed compared to the previous year.

	Total number of shares	Registered common shares	
as of Nov. 30, 2018	13,681,520	13,681,520	
Security code number		500974	
International Securities Identification Number (ISIN)		DE0005009740	
		Common shares	**Preferred shares**
as of Nov. 30, 2017	13,681,520	7,600,314	6,081,206
Security code number		500970	500973
International Securities Identification Number (ISIN)		DE0005009708	DE0005009732

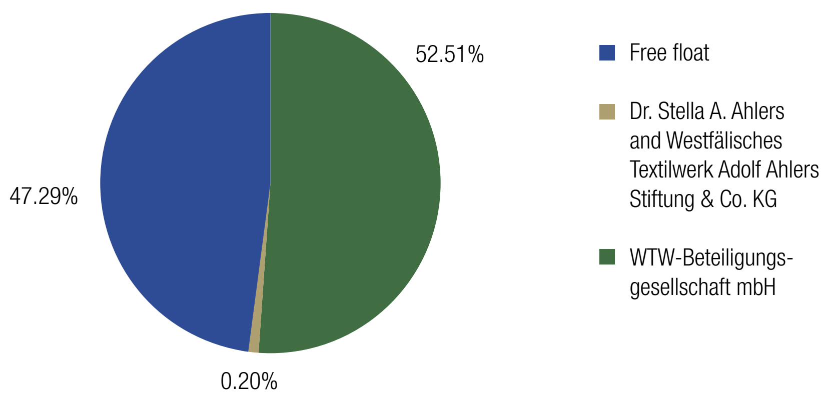
Shareholder structure

The shareholder structure changed moderately in the course of the year. Prior to the consolidation of the share types, CEO Dr. Stella A. Ahlers reported the purchase of a total of 5,300 preferred shares and 4,100 common shares through WTW-Beteiligungsgesellschaft mbH. After the conversion of preferred shares to common shares, Dr. Ahlers reported the purchase of another 23,500 registered common shares. 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 52.5 percent of the shares of Ahlers AG (previous year: 52.3 percent, of which 76.7 percent were common shares and 21.8 percent were preferred shares). Between them, Dr. Ahlers and Westfälisches Textilwerk Adolf Ahlers Stiftung & Co. KG directly held 0.2 percent of the shares (previous year: 0.2 percent, of which 0.3 percent were common shares and 0.1 percent were 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 Board member owned shares in the company on the reporting date.

As of November 30, 2018, Ahlers AG held no own shares. 47.3 percent of the shares were free-float shares (previous year: 47.5 percent, of which 23.0 percent were common shares and 78.1 percent were preferred shares).

Shareholder structure

(as of November 30, 2018)



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 298f and 315d of the German Commercial Code (HGB) 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 12, 2018. 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 conformity dated December 7, 2017 and with the exceptions noted therein, Ahlers AG has complied with the recommendations of the German Corporate Governance Code (Code) 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 opinion 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 members 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 12, 2018

The Management Board The Supervisory Board“

Information on corporate governance practice

Declaration of conformity and basic valuesg

Ahlers AG attaches great importance to good corporate governance, which is an integral element of the corporate philosophy. In this context the regulations of the German Stock Corporation Act and the German Corporate Governance Code constitute an important basis. The Supervisory Board and the Management Board manage and control the company in a responsible manner with the aim of creating sustainable value. This includes the 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 themselves 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 Declaration of Basic Values, which is binding for all members of the company, ensures that the compliance and corporate governance policies are firmly anchored throughout the Group. The Declaration of Basic Values is publicly available on the company’s website at www.ahlers-ag.com.

Share of women

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 for the first defined a target for the share of women of at least 30 percent for the two management levels below the Management Board. On May 3, 2017, the Management Board stated that the target had been reached within the deadline of June 30, 2017 and decided to leave the target at the respective management levels unchanged at 30 percent. As of the 2017/18 reporting date, 138 people worked at the two management levels below the Management Board (previous year: 147). The share of women stood at 41 percent, compared to 36 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. At its meeting on May 3, 2017, the Supervisory Board stated that the target had been reached within the deadline of June 30, 2017 and decided to leave the targets for both bodies unchanged at 30 percent. As of the 2017/18 reporting date, the share of women on the Management Board and the Supervisory Board stood at 33 percent each (previous year: 33 percent and 50 percent, respectively). Since December 2018, the share of women on the Management Board again amounted to 50 percent. The deadline for achieving and reviewing these targets is also 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. The Supervisory Board is tasked with supervising and advising 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 2017/18 is included in the report of the Supervisory Board.

Annual Shareholders' Meeting

The Annual Shareholders' Meeting is the main instrument for 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, 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. Since the bearer shares were changed to registered shares and the preferred shares converted to common shares on July 2, 2018, Ahlers AG has issued only a single share type. Each registered common share grants one vote at the Annual Shareholders' Meeting. Regular information is provided on the company's website at www.ahlers-ag.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. The Supervisory Board assists the Management Board with advice and recommendations on the basis of sound information. All five Supervisory Board meetings in the fiscal year 2017/18 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 and/or dismissal of Management Board members were not attended by members of the Management Board.

Management Board

At its meeting on December 12, 2018, the Supervisory Board defined the following diversity policy for the composition of the Management Board (section 289f para 2 No. 6 of the German Commercial Code (HGB)):

With regard to the composition of the Management Board as a whole, the Supervisory Board considers not only company-specific requirements and the personal and professional skills of the candidates but also the aspect of diversity. By this, the Supervisory Board primarily understands different and complementary professional profiles, professional and life experiences and an adequate representation of both sexes. In this context, the Supervisory Board also considers the following aspects:

- Management Board members should have many years of leadership experience.
- Management Board members should - as far as possible - have experience from different educations and professions.
- Management Board members should have the personal and professional skills that are required for the qualified and responsible execution of their responsibilities.
- In the case of equal suitability in terms of personal and professional expertise, both female and male personalities should be represented on the Management Board to the extent possible. Moreover, the Management Board should have an adequate age mix.

In the fiscal year, the Management Board of Ahlers AG was composed of three and since December 12, 2018 of two members. Dr. Stella A. Ahlers (CEO) is in charge of Strategy, Brands, Distribution, Compliance, Auditing and Procurement. Dr. Karsten Kölsch (CFO) is in charge of Finance, IT, Human Resources as well as Logistics and International Operations. Götz Borchert was responsible for Marketing, Retail/E-commerce, Design/Product and Corporate Communications until he left the company. 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. 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 regular term of office of Supervisory Board members Prof. Dr. Carl-Heinz Heuer and Prof. Dr. Julia von Ah, who had been elected by the Annual Shareholders' Meeting, ended at the end of the Annual Shareholders' Meeting on April 24, 2018. Mr Jörg-Viggo Müller was elected by the 2015 Annual Shareholders' Meeting for a term of office ending on the day of the 2020 Annual Shareholders' Meeting. Prior to the necessary re-election, Westfälisches Textilwerk Adolf Ahlers Stiftung & Co. KG additionally declared that they give up the right to designate Supervisory Board members by way of which Mr Rauch had been nominated. Prof. Dr. Heuer, Prof. Dr. von Ah and Mr Bernd Rauch were re-elected to the Supervisory Board by the Annual Shareholders' Meeting on April 24, 2018. There was one change among the employee representatives. Mr Hans-Joachim Knauf was elected as a new Supervisory Board member by the employees. He succeeds Ms Roswitha Galle, who resigned from the Supervisory Board. Ms Heidrun Baumgart was re-elected as employee representative.

Depending on the specific circumstances of the company, the Supervisory Board shall form committees of members with relevant specialist expertise. One of these committees shall be an Audit Committee, which shall 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 XY 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.

In December 2017, the Supervisory Board modified its objectives for its composition and adopted a profile of skills and expertise for the entire Supervisory Board in accordance with clause 5.4.1 of the German Corporate Governance Code as amended on February 7, 2017. Pursuant to the resolution of December 12, 2018, the composition objectives and the profile of skills and expertise also define the policy with which the company aims to achieve diversity pursuant to section 289f para. 2 No. 6 of the German Commercial Code. 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), 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 15 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 123.

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 the German Commercial Code (HGB) and the 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. 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 2017/18 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.

Compensation report

The compensation report is contained in the combined management report for Ahlers AG and is shown on page 82 et seq. under "Compensation report".

Combined Management Report

for Ahlers AG and the Group for the fiscal year 2017/18

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 32 (previous year: 31) independent companies. Each of the Group's brands is organised in a specific company. In addition, the Group maintains distribution companies in the most important foreign markets, most of which are wholly owned by the Group. At present, we have own distribution companies in 16 countries. 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 96 "Shareholdings".

In the past fiscal year, OOO Ahlers RUS was established with effect from March 1, 2018 with a long-standing Russian partner and included in the basis of consolidation. Ahlers AG holds 60 percent in the company, while the Russian partner holds 40 percent. In December 2018, Ahlers signed a purchase agreement with its partner for another 30 percent of the shares and will thus increase its interest to 90 percent once the formalities have been completed. The Russian authorities have already granted their approval. The purpose of the company is to strengthen the activities of Pierre Cardin and Pioneer Authentic Jeans in Russia. The company operates eleven Pierre Cardin stores, one outlet store as well as the wholesale business with retailers. In Lithuania and Latvia, Ahlers operates one distribution company eachwhich mainly operate retail stores. On September 3, 2018 we acquired the shares of a local businessman and now hold 99.3 percent (previously 65.5 percent).

On April 24, 2018, the Annual Shareholders' Meeting approved the signing of a controlling and profit-and-loss-transfer agreement between Ahlers AG and Otto Kern GmbH with effect from December 1, 2017. All other profit-and-loss transfer agreements between Ahlers AG and its subsidiaries remain unchanged (see table "Shareholdings" on page 96).

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.

Group profile

The Ahlers Group's five 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 and price positioning, the brands have been divided into two segments – "Premium Brands" and "Jeans, Casual & Workwear".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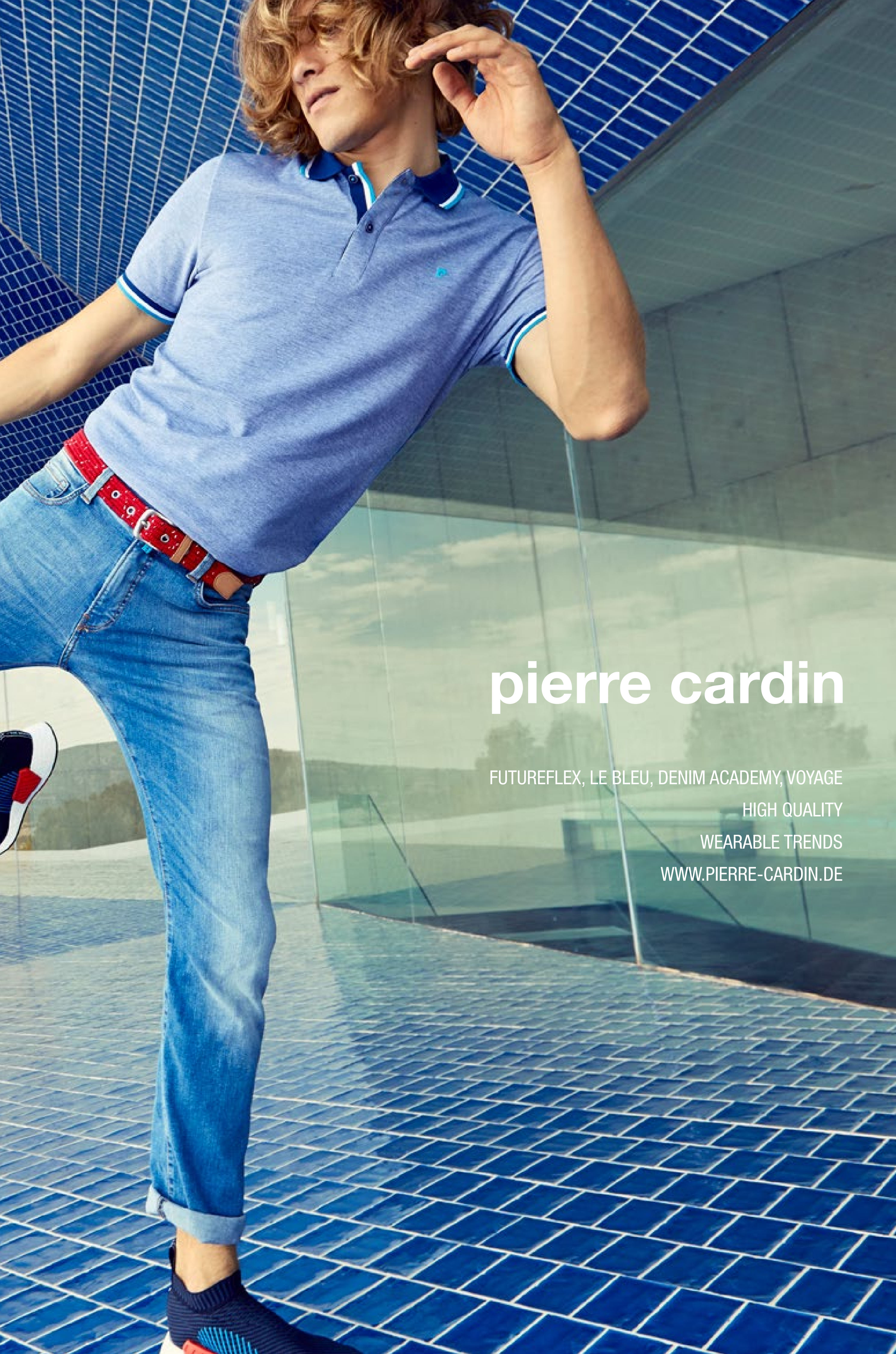
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STYLISH | CONFIDENT | CREATIVE

CASUAL | MODERN | ROUGH


PIONEER®
AUTHENTIC JEANS


NO. 1
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WORKWEAR
EUROPEAN QUALITY DESIGNED IN GERMANY.
- INNOVATIVE
- FUNCTIONAL
- HIGH QUALITY

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:

Strategy – the business segments

Brands

- Price-graded, attractive brands in the quality segment of the apparel market
  - Baldessarini
  - Pierre Cardin
  - Otto Kern
  - Pioneer Jeans
- as well as high-quality workwear under the brand
  - Pionier Workwear

Distribution channels

- Wholesale to physical retail stores, chain stores and department stores
- Mono-brand stores in some selected markets, especially in Eastern Europe
- E-commerce with own online shops, multi-brand platforms and retailers' online shops

Markets

- Europe as well as selected international markets, e.g. Canada and China

Product

- Innovative and fashionable high-quality menswear

The growth strategy

Pierre Cardin, Baldessarini and Pioneer

Ahlers generates over two thirds of its revenues in the attractive premium segment of the fashion market. We intend to drive domestic and international growth through our Baldessarini and Pierre Cardin brands. To achieve this objective, a focus will be placed on sharpening the brand profiles, expanding the collections and intensifying our operations in the international markets. For Pierre Cardin, we want to optimise revenues per square metre in Germany and launch target-oriented product innovations. With the start-up of the Russian subsidiary, we have installed a sales organisation for Pierre Cardin to intensify existing customer relations, e.g. through the introduction of NOS services, to win new customers and to optimise the existing eleven stores in Russia. We want to push ahead with the expansion of the Western European markets such as France and Spain as well as the Europe-wide expansion of points of sale. For Baldessarini, the focus will be placed on intensifying the jeans business and revising the market positioning with regard to products and prices. We also aim to internationalise the brand in Europe. In addition to the premium brands, the Pioneer Authentic 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. Moreover, the distribution activities of the Pioneer/Pionier jeans family are to be pooled and strengthened.

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. In this context, a focus is placed on both e-commerce specialists and the e-commerce activities of the physical retailers. Licenses are to expand the product ranges of our brands and strengthen their respective brand identities.

Growth in conjunction with specialist retailers

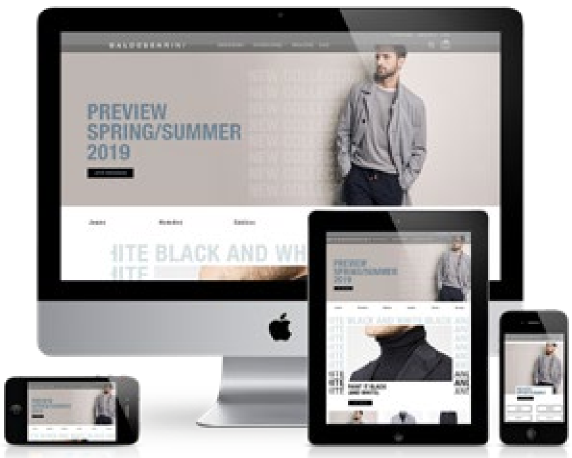
Stationary specialist retailers will remain the most important sales channel for menswear. Revenue growth is to be generated through sales in branded shop-in-shop spaces which also have special significance in terms of gaining optimum brand exposure. Moreover, we pay special attention to improving sales revenues per square metre. At the same time, we continue to develop and improve our internal restocking and visual merchandising processes for the 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, the focus is placed on the e-commerce activities of our customers.

Increasing the international business

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. Distribution in Asia started in the fiscal year 2017/18.

Growth of the e-commerce activities

For all our brands, a focus is being placed on winning online dealers in Europe and on internationalising the marketplace business. Ahlers therefore concentrates its e-commerce distribution activities in the online wholesale business. Ahlers moreover operates three online shops of the Pierre Cardin, Baldessarini and Pionier Workwear brands. We intend to grow our operations in this increasingly important distribution channel for the clothing sector with our three e-shops of Baldessarini, Pierre Cardin and Pionier Workwear and by selling our products on marketplaces.



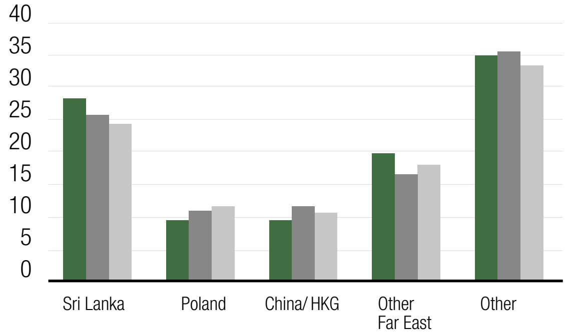
Growth of own Retail operations

Strategically, Ahlers relies on mono-brand stores of the Pierre Cardin and Baldessarini premium brands, which are optimised and refined constantly and which 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. In individual case, we take over partner stores.

Cost leadership in procurement and logistic processes

The optimisation of procurement and logistics is an ongoing challenge to the clothing sector. Ahlers 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 the medium term, we aim to change our procurement activities for jeans and suits to full-package services. We will continue to expand our procurement activities to the southern Mediterranean and reduce production in Poland. At the same time, the Group's unfinished goods logistics were relocated from Germany to Poland in February 2019. Further logistic activities will be handled out of Poland as of mid-2019. Compliance with social standards remains a precondition for signing up suppliers and service partners.

Breakdown of production by regions (previous year):



Sri Lanka	27.9% (25.8%)
Poland	9.6% (10.7%)
China/ HKG	8.6% (11.0%)
Other Far East	19.0% (16.5%)
Other	34.9% (36.0%)

The 2018/19 set of measures aimed at increasing earnings and efficiency

- Announced in September 2018
- Details of the individual measures:
  - Focus on menswear in fashion business
  - Discontinuation of the sportswear activities of the Jupiter brand
  - Relocation of unfinished and finished goods logistics to Poland
  - Relocation of sampling processes from Poland to Asia
  - Intensification of full-package service arrangements, especially for jeans but also for menswear
  - Closure of unprofitable stores
  - General cost reduction
- Figures of the set of measures
  - Job cuts by 2020: 130, of which 100 in Germany
  - One-time effects in 2017/18: EUR 5.0 million
  - Effect on bottom line from 2020: approx. EUR 4.0 million, partly already in 2018/19

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, 2018, the Product Management and Model Departments as well as the sample-making workshops had 98 employees (previous year: 99). These departments incurred largely stable expenses before one-time effects of EUR 6,780 thousand in the fiscal year 2017/18 (previous year: EUR 6,762 thousand). Besides this, the efficiency increase programme resulted in one-time effects for severance payments to employees of EUR 408 thousand (previous year EUR - thousand). Most of the expenses are personnel expenses. Operating expenses primarily comprise consulting costs. Research and development expenses represented 3.0 percent of sales revenues (previous year: 2.9 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.

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 management and financial indicators

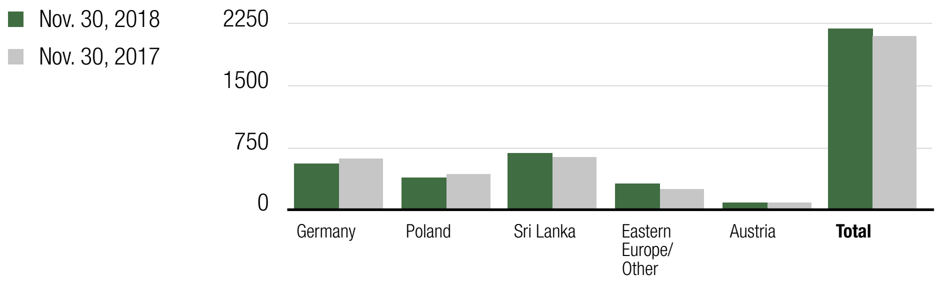
		2017/18	2016/17
Sales	EUR million	223.1	235.9
Gross margin	in %	48.9	49.6
EBITDA*	EUR million	3.7	8.7
EBITDA-Margin*	in %	1.7	3.7
EBIT*	EUR million	-1.4	3.5
EBIT-Margin*	in %	-0.6	1.5
Net income	EUR million	-7.0	1.9
Profit margin before taxes	in %	-3.2	1.0
Profit margin after taxes	in %	-3.1	0.8
Earnings per share			
Registered common shares (previous year Common shares)	EUR	-0.51	0.11
Preferred shares	EUR	-	0.16
Net Working Capital **	EUR million	77.5	86.3
Return On Investment	in %	-4.0	1.0

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

Key performance indicators include sales revenues, EBIT, consolidated earnings, operating cash flow, net working capital 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	589	(608)
Poland	507	(543)
Sri Lanka	750	(683)
Eastern Europe/ Other	258	(141)
Austria	41	(45)
Total	**2,145**	**(2,020)**

Personnel figures

		2017/18	2016/17	Change
Average number of employees		2,122	2,062	2.9%
Adjusted personnel expenses*	EUR million	50.7	51.0	-0.6%
Adjusted personnel expenses/employee*	KEUR	23.9	24.7	-3.2%
Number of apprentices		21	23	-8.7%
Share of women in leading positions	in %	41	36	13.9%

* adjusted for special effects

Ahlers employed 2,122 people on average in the fiscal year 2017/18, 60 more than in the previous year. On November 30, 2018, the headcount was up by 125 people on the previous year. The increase was attributable to the start of Ahlers RUS, which hired 86 new employees, mostly in the retail segment. The deployment of our own employees in stores in Spain instead of commissioning a HR service provider led to the employment of 23 people. Ahlers reduced the production capacity of our plant in Poland (-38 people) and expanded the capacity in Sri Lanka (+67 people). In Germany, the job cuts implemented in the context of the strategic set of measures reduced the headcount by 19 compared to the previous year to 589 people.

Sustainability Report

Non-financial statement pursuant to sections 289b and 289c of the German Commercial Code (HGB)
as well as non-financial Group statement pursuant to sections 315b and 315c HGB

A message from the CEO

Ahlers wants to offer men attractive, innovative and modern fashion and to generate solid and profitable growth in the process. Sustainability is an integral element of our corporate DNA. For Ahlers, acting responsibly towards people, the environment and society is an important benchmark. In a global industry, we are well aware of our responsibility towards our stakeholders. We understand sustainability as an ongoing process, to which we gear our corporate activity and which we review on an ongoing basis. GRI 102-14

Since the fiscal year 2014/15, Ahlers AG has dedicated a separate chapter of its Annual Report to its sustainability strategy. With the publication of the present 2017/18 sustainability chapter, the company for the first time also complies with the statutory requirement to issue a non-financial statement. We report on the key sustainability issues and how we shape them positively through our compliance management activities. We have defined four strategic fields of action – Employees, Product, Environment and Society – along which we want to inform you about the steps we take to achieve sustainable value creation:

Employees: Well-trained and motivated employees play a key role in reaching our ambitious operational and strategic objectives. We want to become an even more attractive employer and promote equal opportunities within the company.

Product: We want to produce our products efficiently. In doing so, we live up to our responsibility in the supply chain and monitor compliance with social standards in the procurement process. Our quality management activities ensure the safety and long life of our products as well as high customer satisfaction.

Environment: Our day-to-day work focuses on the effective further development of our products to organic standards in strict compliance with statutory limits. We review the environmental compatibility of the production process and work to improve our energy and resource footprint.

Society: The focus of our social commitment lies in the field of visual arts. For decades, we have been providing loans from the ahlers collection to support exhibitions at renowned museums in Germany and abroad. At the regional level, we cooperate with the Herford-based Stiftung Ahlers Pro Arte gGmbH.

Dr. Stella A. Ahlers
Chief Executive Officer

On this chapter

The present 2017/18 sustainability chapter was prepared on the basis of the GRI Standards: Core Option, refers to the fiscal year December 1, 2017 to November 30, 2018 and meets the requirements for the preparation of a non-financial statement within the meaning of sections 289b and 289c as well as sections 315b and 315c of the German Commercial Code (HGB). The Supervisory Board has reviewed the non-financial statement for legality, regularity and expediency. To the extent possible, this first report of its kind includes prior year figures for comparison. GRI 102-1 GRI 102-49 GRI 102-50 GRI 102-51 GRI 102-52

The non-financial Group statement is published annually as part of the Annual Report. It is published in the Federal Gazette and is made available on the website of Ahlers AG under Investor Relations/Financial Reports as part of the Annual Report. To avoid redundancies, the chapter includes references to other contents of the present Annual Report.

GRI 102-2
GRI 102-3
GRI 102-4
GRI 102-5
GRI 102-6
GRI 102-7
GRI 102-10
GRI 102-18
GRI 102-45

Business model, strategy, organisational and owner structure

Prime responsibility for sustainable action rests with the Management Board. The latter defines the strategic orientation of the company. A cross-divisional work group regularly addresses aspects of non-financial reporting and corporate social responsibility. The work group comprises employees working in HR, Compliance, Procurement and Investor Relations and reports directly to the Management Board.

Information on our business model, our strategy, our brands and products as well as our organisation is provided in the combined management report on page 24 et seq. and the cross-references contained therein. For an overview of the company's executive and controlling bodies, please refer to page 10 et seq. The shareholder structure of Ahlers AG is outlined in the chapter entitled "The share" on page 12 et seq.

GRI 102-13
GRI 102-40
GRI 102-42
GRI 102-43

Exchange with our stakeholders

Ahlers maintains regular contacts with different stakeholder groups. These include our employees, business partners, capital market participants as well as the government and society. This exchange promotes the understanding of the needs and requirements of all stakeholder groups. The intensity and frequency of the communication depends on the stakeholder's influence on the company and its performance and on the influence of the company's decisions on the stakeholder. Ahlers addresses the stakeholder groups offering different communication and dialogue services:

Stakeholders	Communication and dialogue services
Employees	
Employees and management	Regular information via the Intranet, cooperative leadership philosophy and individual talks between employees and management, staff council members, training on occupational health and safety
Business partners	
Customers and suppliers	Customer visits and customer service, collection handover and workshops, partnership schemes, participation in trade fairs and exhibitions, daily interaction
Capital market participants	
Shareholders, investors and analysts	Annual Shareholders' Meeting, financial reporting, analyst and investor conferences, one-on-one meetings
Society and government	
Neighbours, politicians, journalists, auditors, supervisory authorities and associations	Annual accounts press conference, regular reports on company-related topics, whistleblowing and reporting, one-on-one meetings

Being a member of various associations and organisations, Ahlers is well networked and maintains regular contacts with different stakeholder groups. We are members of associations and organisations such as Verband der Nordwestdeutschen Textil- und Bekleidungsindustrie, GermanFashion Modeverband Deutschland e.V., Industrie-Club e.V., Düsseldorf, Industrie- und Handelsclub Ostwestfalen-Lippe e.V., the German-Polish Chamber of Industry and Commerce, the German Business Council and the Joint Apparel Association Forum, Sri Lanka as well as the Association WRAP – Worldwide Responsible Accredited Production.

Material sustainability topics

Within the four sustainability-related fields of action, a materiality analysis carried out in 2017 identified five non-financial topics that are of particular relevance to the company and its stakeholders. The non-financial topics have been assessed with a view to the assumed expectations of the stakeholder groups on the one hand and to management's assessment of their importance for the company's success on the other hand. The five key topics are sustainable human resources management, compliance with social standards within the supply chain, ecological safety of our products and resource-efficient production. Compliance was identified as a topic of overriding importance for all strategic fields of action.

GRI 102-46
GRI 102-47

Strategic field of action	Material topics	Selected aspects *
	Compliance (overarching)	Declaration of Basic Values, anonymous whistleblowing, fight against corruption
Employees	Sustainable human resources management	Training, qualification, diversity, equal treatment
Product	Compliance with social standards in our supply chain	Monitoring and avoidance of human rights violations and child labour, checking suppliers for compliance with social standards
	Safety of our products	Quality assurance, labelling duty
Environment	Resource-efficient production	Energy consumption, carbon emissions
Society		corporate citizenship, cooperations

* The non-financial Group statement additionally includes information on further aspects within the strategic fields of action.

GRI 102-11

Precautionary approach of the company

The precautionary approach pursued by the company is outlined in the risk report on page 77 et seq. In the context of risk controlling, no material risks were identified which result from our business activity, our business relations, our products and services and which are very likely to have an adverse impact on the non-financial aspects that Ahlers considers to be material.

GRI 103-1/2/3
Compliance
GRI 102-16
GRI 205-2
GRI 205-3

Compliance management

At Ahlers, compliance with laws and regulations covers all business activities and processes. The Management Board and the Supervisory Board of Ahlers AG align their work with the German Corporate Governance Code. Our Declaration of Basic Values, which is endorsed by all our employees, constitutes an important basis for the Group-wide compliance culture. The current version is publicly accessible in four languages on the intranet and in two languages on 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. There were no cases of confirmed corruption within the Group neither the past fiscal year nor in the previous year.

The companies of Ahlers AG comply with the legal requirements 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 in the Declaration of Basic Values, 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 Compliance Officer informs the Supervisory Board of his activities and the company's adherence to its Compliance Guidelines in an annual report. For more information on compliance, our declaration of conformity with the German Corporate Governance Code, information on our corporate governance policy and a description of the work of the Management Board and the Supervisory Board, refer to the Corporate Governance Report on page 16.

GRI 103-1/2/3
Sustainable human resources management

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.

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.

GRI 405-1

Women within the Group

Women play an important role at all hierarchical levels of Ahlers AG. As of the reporting date, 74 percent of our Group's 2,145 employees were women and 26 percent were men. In Germany, 372 of 589 employees are women (63 percent; previous year: 62 percent).

Since 2005, the company has been headed by CEO Dr. Stella A. Ahlers. The Management Board was composed of three members until December 12, 2018 and of two members after that date. At present, half of its members are male and the other half are female. Until April 24, 2018, men and women were equally represented on the Supervisory Board. Since the election of new Supervisory Board members by the Annual Shareholders' Meeting, it has been composed of four male and two female members: Prof. Dr. Julia von Ah as Deputy Chairwoman and Chairwoman of the Audit Committee as well as employee representative Heidrun Baumgart. The total management team of all Group companies comprises 138 people (previous year: 147). 57 people or 41 percent of them are women (previous year: 53; 36 percent). In Germany, the management team comprises 52 people (previous year: 61), of whom 11 are women (21 percent; previous year: 20 percent). The targets defined by Ahlers for the share of women on the executive bodies and at the two management levels below the Management Board are outlined in the Corporate Governance Report on page 16.

Personnel figures

GRI 102-8
GRI 102-41
GRI 401-1
GRI 405-1

	Ahlers – Total *				Ahlers – Germany			
	2017/18	%	Previous year	%	2017/18	%	Previous year	%
Total number of employees (reporting date)	2,145	100.0	2,020	100,0	589	100.0	608	100.0
thereof								
men	566	26.4	551	27.3	217	36.8	230	37.8
women	1,579	73.6	1,469	72.7	372	63.2	378	62.2
full-time	1,979	92.3	1,866	92.4	511	86.8	526	86.5
part-time	166	7.7	154	7.6	78	13.2	82	13.5
covered by a collective bargaining agreement	645	30.1	575	28.5	542	92.0	563	92.6
Employees by functional areas								
Product management and sales	392	18.3	382	18.9	277	47.0	266	43.8
Administration	130	6.1	128	6.3	92	15.6	90	14.8
Retail	426	19.9	326	16.1	133	22.6	145	23.8
Production	1,197	55.8	1,184	58.6	87	14.8	107	17.6
Employees in management positions	138	6.4	147	7.3	52	8.8	61	10.0
thereof men	81	58.7	94	63.9	41	78.8	49	80.3
thereof women	57	41.3	53	36.1	11	21.2	12	19.7
Average age of men in management positions	50		51		53		52	
Average age of women in management positions	44		46		50		50	
Average age of total workforce	44		46		46		45	
New hirings	970		899		38		82	
thereof men	171	17.6	191	21.2	12	31.6	25	30.5
thereof women	799	82.4	708	78.8	26	68.4	57	69.5
Departures	845		943		57		87	
thereof men	156	18.5	218	23.1	25	43.9	25	28.7
thereof women	689	81.5	722	76.6	32	56.1	59	67.8

* Ahlers worldwide incl. manufacturing and sales locations

GRI 401-1

Length of service and personnel recruitment

Many employees have been with the company for many years, and staff turnover in the company is low. In Germany, employees stay with Ahlers for an average of 13 years. The turnover amounted to 4.3 percent based on the Schröder formula*. Ahlers continuously advances its brands and its corporate structures. In the past years, for instance, the company expanded and adapted its e-commerce and retail departments. In this growth segment 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.

* (voluntary departures / headcount at beginning of reporting period + new hirings) x 100

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 21 (previous year: 23) 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
- Office communication assistant
- Media designer

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.

Apprentices 2016-2019

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 2018, the company again supported several employees enrolled in business management and IT study courses. GRI 404-1

Throughout the company, at least 2,000 days were dedicated to further training. The topics covered here ranged from department-specific aspects to cross-divisional contents such as compliance, general corporate processes and IT security. In addition to these further training possibilities, the individual departments may carry out their individualised training measures. The latter are organised by the individual departments and not recorded centrally.

Cooperation with universities

Cooperation with universities is an important success factor, which helps 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.

Occupational safety

Ahlers complies with all legal requirements and standards to avoid safety risks at the workplace. Every employee at the Herford headquarters is trained in general accident prevention, fire protection and health regulations for VDU work once a year. In addition, fire protection assistants and first-aiders are trained and further educated and hazard assessments are prepared and reviewed for relevant departments. In the fiscal year, eight work accidents were reported in the Group, which resulted in 73 man-days lost. There were no work-related deaths. GRI 403-2

Discrimination

Ahlers attaches great importance to the equal treatment of its employees and attempts to prevent discriminatory behaviour. We do not tolerate discrimination, harassment and offensive behaviour. The binding Declaration of Basic Values obliges all employees to treat each other with respect and trust. Nobody shall be disadvantaged because of their sex, age, disability, nationality, colour, religion, belief or sexual orientation. We expect all employees to respect the dignity, privacy and personal rights of each individual in their working environment. During the reporting period, there was one case of discrimination in the form of inappropriate behaviour towards female colleagues. The employee concerned has been warned. GRI 406-1

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 in 1919, 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.

Product

GRI 416-1 **Central Compliance Department**

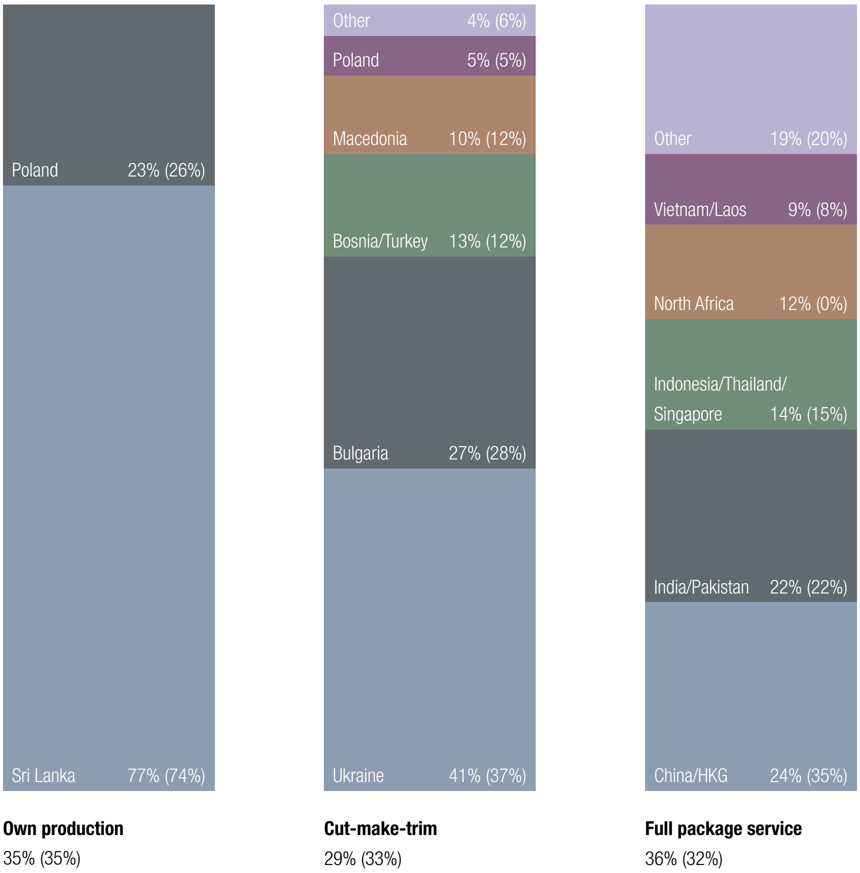
In mid-2015, we established a central department named "Corporate Compliance Production and Procurement". The employees in this independent department monitor compliance with social and product standards and implement Ahlers' own supplier management policies within the Group. They are in charge of hazardous substances management and advise the individual product groups. In 2018, 101 employees (product managers, purchasers and dispatchers of all product groups; previous year: 68 employees) were trained in Ahlers policies on aspects such as purchasing, supplier management, social standards in the manufacturing plants, hazardous substances management and 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 Substances List (RSL) for chemical and hazardous substances, which the department has developed in cooperation with Verband der Nordwestdeutschen Textil- und Bekleidungsindustrie e.V. and is further developing in cooperation with GermanFashion Modeverband Deutschland e.V. The standards for the use of chemicals and compliance with legal requirements regarding hazardous substances are coordinated centrally for all companies of the Ahlers Group. 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.

GRI 102-9 **The procurement process**

The textile supply chain may schematically be divided into five steps. In this presentation, Ahlers and its business model form part of the manufacturing and the trading process:

Ahlers' procurement activities comprise the production in two company-owned manufacturing plants, cut-make trim (CMT) and full- package services (FPS). The products of Ahlers AG are primarily manufactured in Eastern Europe and Asia:



Procurement by country and type as at November 2018

Social standards in the procurement process

GRI 103-1/2/3

Social standards in the supply chain

GRI 102-12

GRI 408-1

GRI 409-1

GRI 414-1

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 on the Rights of the Child.

For several decades, the company has operated two production facilities in Poland and Sri Lanka. Most trousers are produced in Ahlers' own production facilities. 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. Since 2014, our Sri Lankan production facility has undergone a complex and detailed audit process conducted by the WRAP (= Worldwide Responsible Accredited Production) organisation and has been awarded the Gold Certificate. The next regular audit is scheduled for the first quarter of 2019. 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 been complied with.

Ahlers also cooperates with independent suppliers, all of whom are selected carefully and based on strict criteria and who 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. As of the reporting date, 92 percent of the suppliers of finished and unfinished goods had confirmed the Ahlers policies in writing and undertaken to comply with them (Ahlers Code of Conduct, Restricted Substances List, CSR confirmation). Two years ago, full CSR documentation became mandatory for the inclusion of new suppliers in the pool of suppliers. As in the previous year, all new suppliers, without exception, therefore underwent a multi-stage onboarding process before being approved for the Purchasing Department. In addition, the procurement teams predominantly review sub-contracted production facilities of the upstream supply chain in the high-risk countries (classification to amfori BSCI). Any changes that may be required are discussed and implemented jointly with the factory management teams. Ahlers intends to expand its own reviews of the upstream textile supply chain. Our own business and production locations are not exposed to any risk of forced/child labour or hazardous working conditions for young workers. At our suppliers, this risk is also minimised to the extent possible because of the many measures taken to ensure compliance with social standards in the procurement process.

Quality management

As a manufacturer of premium products 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 the quality management system.

GRI 103-1/2/3

Safety of our products

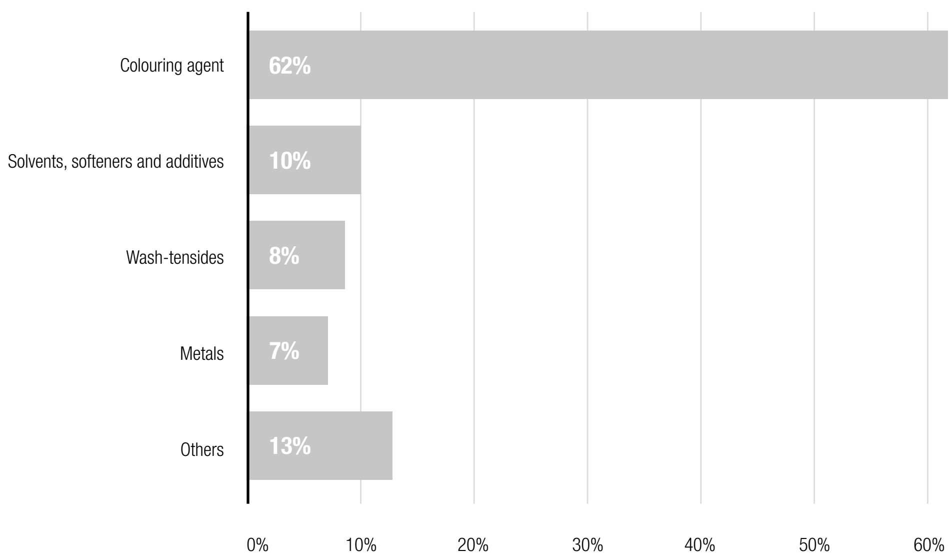
GRI 416-1

GRI 417-1

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. 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. They meet statutory limits and, wherever possible, remain below them. All suppliers are obliged to refrain from using hazardous substances 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 products and verify that they are free from hazardous substances. With the help of our risk matrix, textile and non-textile findings are assessed for their chemical risk. Based on this risk assessment, Ahlers arranged 1,647 chemical hazardous substances tests in FY 2017/18; these tests focused on the following:

Self-implemented testings for chemical hazardous substances 2017/18



Due to the care taken along the procurement chain, irregularities in production are largely impossible. The continuous control and inspection of the product processes are ensured as our employees regularly visit the local production facilities. In some cases, facilities are visited without prior announcement, while other facilities are supported throughout the year. Should irregularities arise or checks result in findings nevertheless, they are contained and remedied immediately with the help of defined process plans. Ahlers meets all legal requirements regarding the labelling of its products. All products bear information on the material composition, care instructions, the product number and manufacturer's information. In the fiscal year, there were no complaints from customers or penalties due to faulty labels or markings.

General Terms and Conditions of Purchase

Ahlers' Terms and Conditions of Purchase apply to active suppliers from which the company sources goods or services. The conditions include a separate paragraph with special guaranties by the supplier. 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.

Social standards in the supply chain

Safety of our products

Expansion of the pilot project with ZDHC-MRSL

In the context of a pilot project in cooperation with the Verband der Nordwestdeutschen Textil- und Bekleidungsindustrie e.V. and the GermanFashion Modeverband Deutschland 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. Ahlers thus covers about 70 percent of its procurement volume (in euros) of unfinished goods that are subject to wet processes in their manufacture. According to supplier feedback, about 60 percent of the procurement volume was produced in accordance with the MRSL requirements in the fiscal year 2017/18 . 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 harmless substances and the implementation of best practice guidelines in chemicals management to protect consumers, workers and nature.

GRI 102-12

Environment

Environmental protection

We attach 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 jeans laundry is 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. In the past fiscal year, we conducted a survey among the largest jeans laundries in order to identify potential for improvement with regard to the inventorisation of additives, good housekeeping, waste water and environmental management. Ahlers thus covers about 70 percent of the jeans that are subjected to washing treatments per year. The results of the survey will lead to further results and recommendations, which we will develop in cooperation with the specialist department of Modeverband GermanFashion Deutschland e.V. This stage of the production process primarily focuses on the sparing use of resources and chemicals, the pretreatment of waste water and on raising our business partners' awareness for environmentally friendly measures. 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. Since the 2017 autumn/winter season Ahlers has refrained from using genuine fur and will no longer use mohair wool as of the 2019 spring/summer season.

GRI 103-1/2/3

Resource-efficient production

GRI 307-1

GRI 308-1

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. All new suppliers signed up in the fiscal year have endorsed our Code of Conduct and, in doing so, have undertaken to comply with the principles of the Rio Declaration. In the past fiscal year, the Group had to pay neither fines nor non-monetary penalties for non-compliance with environmental laws and regulations.

Consumption figures of Ahlers AG

Ahlers currently determines the consumption figures for energy, carbon emissions, water and waste water at the Group's main administrative and manufacturing locations: Herford in Germany, Opole and Lubin in Poland, and Katunayake in Sri Lanka.

GRI 302-1

Energy consumption within the organisation

MWh*	2017/18	2016/17
Electricity**	5,344	5,479
Fuel	3,902	3,997
Heating energy	6,075	6,941
Biomass***	13,651	12,148
Total energy consumption	**28,972**	**28,565**

* Unit conversion to MWh according to Energie.Agentur.NRW
** The share of electricity from renewable energy sources depends on the electricity mix of our energy suppliers for Germany, this share was about 53 percent in 2016/17 The survey is based on the consumption data taken from the utility companies' bills.
*** Combustion of rapidly renewable resources for the generation of steam

Energy-related carbon emissions

Carbon emissions

The fiscal year 2017/18 was the first in which Ahlers determined the carbon emissions based on the organisation's energy consumption. The basic data of the logistic, manufacturing and administrative locations in Germany, Poland and Sri Lanka that are managed and controlled by Ahlers were taken into account. The calculation was made with support from independent experts of Energie.Agentur.NRW. The emission factors of the individual energy sources are taken from scientifically reliable sources such as the latest version of the GEMIS database of the International Institute for Sustainability Analysis and Strategy or the IEA, Paris.

	2017/18		
	Germany	Poland	Sri Lanka
Carbon emission (t/a) *	2,689	2,044	902
spec. carbon emission t/MWh **/***	0.34	0.45	0.05

* Consumption (kWh/a)*emission factor
** Carbon emission (t/a)/total energy consumption
*** The result shows an average value for Germany, a relatively high value for Poland, which is due to the high share of fossil fuels, and a low value for Sri Lanka, which is due to the high share of biomass

Total water taken as well as waste water

m³	2017/18	2016/17
Total water taken	131,905	122,229
Waste water	108,377	110,268

GRI 303-1
GRI 306-1

The survey is based on the consumption data taken from the utility companies' bills. The water is taken by municipal or other water utilities and partly from the ground water. Ahlers introduces most of its waste water into the public sewer system. In the past fiscal year, the production facilities in Poland and Sri Lanka used about 18 percent of the water taken for the generation of steam for ironing, the irrigation of green spaces, etc. (previous year: approx. 10 percent). Depending on the degree of contamination, the waste water produced at the Sri Lankan production facility is pretreated in an in-house processing plant (77 percent) and a biological treatment plant (23 percent) before being introduced into the public sewer system.

Total weight of the materials used for the manufacture of the key products

In the reporting period, Ahlers determined the share of renewable and non-renewable materials in its products. This was done on the basis of the raw materials sourced from suppliers, which are then extrapolated to the finished goods purchased. Only continued product groups were taken into consideration. In the past fiscal year, the share of renewable materials used for Ahlers products amounted to 78%.

GRI 301-1

	2017/18	
Renewable	3,738 t	78%
Non-renewable	1,037 t	22%
Total	**4,775 t**	**100%**

Energy Audit to DIN EN 16247-1

The head office of Ahlers AG in Herford, Elverdisser Straße 313,was subjected to an energy audit in 2017. In this context, the consumption of heating oil, natural gas and electricity was examined and assessed with the aim of identifying potential for energy savings and defining corresponding energy saving measures. To determine the energy flows, the individual consumers and current load profiles were analysed. In the area of thermal insulation and heat generation, the data were recorded and assessed.

The audit has resulted in seven energy saving measures, which Ahlers will implement successively in the context of its investment plans, and for which additional company locations will be reviewed:

- Optimisation of heating control
- Replacement of old lighting systems – Ahlers already uses LED lamps in many parts of the company
- Replacement of old, uncontrolled heating pumps
- Execution of the hydraulic balancing
- Improvement of the thermal insulation of the old roofs
- Improvement of the thermal insulation of the non-insulated external walls
- Replacement of older heating boilers

Logistics

As far as logistics are concerned, the centralisation of warehouses and the efficient use of cargo space help 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 transports that are as environmentally friendly as possible. 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. As of spring 2018, we have significantly reduced the transports of unfinished goods through the consolidation of the unfinished goods warehouse in Poland, which additionally helps 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 more than 2,000 works of art from about 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 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 ahlers collection. In 2018, works from the collections were on display in museums such as Sprengel Museum Hannover, Museum Wiesbaden, Palazzo Strozzi in Florence, Ludwig Forum Aachen, Museen Böttcherstraße in Bremen, Prins Eugens Waldemarsudde in Stockholm and Paul Klee Zentrum in Bern.

For many years Ahlers AG has cooperated with the Stiftung Ahlers Pro Arte by loaning important works of art for the latter's exhibitions, which attract national media coverage. Among the highlights of the foundation's activities in 2018 were the exhibitions "Von Worpswede aus: Paula Modersohn-Becker und Otto Modersohn" (April to June) and "#DepictingWomen: Frauenbilder in der Kunst" (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 am See, 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 2019, the ahlers collection will again support many projects with loans, e.g. exhibitions such as "Zwischen Utopie und Anpassung - Das Bauhaus in Oldenburg" (Landesmuseum für Kunst und Kulturgeschichte, Oldenburg), "Paula Modersohn-Becker und die Künstlergemeinschaft Brücke" (Buchheim Museum, Bernried) and "Tanz! Max Pechstein: Bühne, Parkett, Manege" (Kunsthalle Tübingen).

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: by placing selected works in the business premises, Ahlers integrates art into the working environment, thus offering its employees and guests an inspiring atmosphere. A special project in 2018 was the exhibition "Gesicht und Maske: Rollenspiele in der Porträtkunst", which was the result of a cooperation between Pierre Cardin and Modehaus Hagemeyer in Minden. From mid-October, more than 30 high-calibre works from the ahlers collection were displayed on the 2nd floor of the Hagemeyer store, right next to the sales space of Pierre Cardin, for a period of three weeks. The aim of this exhibition, which was very well received by the customers and employees of Hagemeyer, was to present works of art right at the heart of our business partners' and customers' everyday life and thus to inspire and impress people, who normally visits museums only seldom.

A selection of exhibitions that were supported by loans from the ahlers collection in the 2017/18 financial year can be found on the following page.

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.

EXHIBITIONS (SELECTION)

art@ahlers

EMIL NOLDE
EMIL NOLDE IM ZENTRUM PAUL KLEE
ZENTRUM PAUL KLEE, BERN: NOV 07, 2018 – MAR 03, 2019

NIKI DE SAINT PHALLE, YVES KLEIN, OTTO MÜLLER ETC.
#DEPICTINGWOMEN: FRAUENBILDER IN DER KUNST
STIFTUNG AHLERS PRO ARTE GGMBH, HERFORD: SEP 15, – DEC 09, 2018

CÉSAR
CÉSAR
CENTRE POMPIDOU, PARIS: DEC 13, 2017 – MAR 26, 2018

CHRISTO, MIMMO ROTELLA, DANIEL SPOERRI ETC.
FLASHES OF THE FUTURE
LUDWIG FORUM, AACHEN: APR 20 – AUG 19, 2018

Economic Report

MACROECONOMIC AND INDUSTRY-SPECIFIC SITUATION

Robust growth in the world economy continues

At 3.8 percent, the gross domestic product (GDP) of the world economy grew somewhat more strongly in 2018 than projected by most economic institutes at the beginning of the year (forecast in January 2018 and previous year each 3.7 percent; Commerzbank Economic Research January 2018; all other figures in this chapter Commerzbank Economic Research January 2019). This was primarily attributable to the US economy, whose growth rate of 2.9 percent was much higher than in the previous year (2.2 percent) and than assumed at the beginning of the year (January 2018 forecast: 2.3 percent). China, the second large economy, also expanded more strongly than originally expected (forecast: 6.4 percent), although the growth rate of 6.6 percent was slightly below the 2017 rate of 6.8 percent. For the eurozone, the experts initially projected GDP growth of 2.5 percent, which would have been slightly above the previous year's 2.4 percent. In fact, however, the economy slowed down in the course of the year and remained below the forecasts of the beginning of the year. A growth rate of 1.9 percent nevertheless means that the eurozone economy again showed a positive trend. The slowdown in the eurozone economy is probably mainly attributable to the appreciation of the common currency in the first half of 2018. The stronger euro made European companies less competitive and led to lower global demand for products from the eurozone, especially in China. The opposite effect came from the expansionary monetary policy still pursued by the European centra bank, which keeps interest rates at a low level. The debt levels of companies and consumers remain manageable and private consumption and capital spending are on the increase. Similar to the eurozone economy, the Russian economy also remained below the growth forecast. At 1.6 percent (previous year: 1.9 percent), growth clearly fell short of the originally projected 2.9 percent because of the US sanctions.

In 2018, the GDP growth rates of all four large European economies – Germany (2018: 1.5 percent; 2017: 2.2 percent), France (2018: 1.5 percent; 2017; 1.9 percent), Spain (2018: 2.5 percent; 2017: 3.1 percent) and Italy (2018: 1.0 percent; 2017: 1.5 percent) – were lower than in the previous years. As in the previous years, the Spanish economy grew more strongly than the eurozone average. Germany and France were more or less on a par and slightly below average. This means that the German economy, which used to grow at rates clearly above the eurozone average in the past years, is slowing down. Italy's GDP is still not back at the level recorded prior to the 2007 financial crisis.

Besides the macroeconomic trend, the labour market situation has a strong influence on consumer sentiment and domestic demand. In the eurozone, the jobless rate dropped from 9.1 percent in the previous year to 8.2 percent in the past fiscal year, which means it is back at the pre-crisis level. In some European countries, the increasingly short supply of labour has led to rising collective wages. By contrast, the stronger pay rises have not yet resulted in a visible increase in inflation, which additionally supports disposable incomes for consumption as well as purchasing power. Consumer prices in the eurozone countries increased by 1.7 percent in 2018 (previous year: 1.5 percent). The good labour market situation and the resulting real income growth have led to good consumer sentiment, especially in Germany. Moreover, the low interest rates have increased people's readiness to take on debt. Consumer confidence thus stood at a robust high level in 2018, with real consumer spending growing by 1.5 percent in sync with the economic output. This shows that private consumption remained an important driver of the German economy (GfK Consumer Confidence, December 21, 2018). The labour market situation improved also in other European countries, where consumer sentiment is also assumed to be positive.

Industry-specific trends

The downward trend in sales revenues generated by Germany's physical fashion stores continued in spite of the robust macroeconomic situation and the continued good consumer sentiment. Having declined by 1.3 percent in the previous year, sales revenues of the physical fashion stores dropped by at least 1.2 percent between December 2017 and November 2018 (Textilwirtschaft 49_2018). According to other market observers, the decline was even stronger, e.g. -2 to -3 percent according to Handelsverband Textil, BTE, and -3.4 percent according to management consultants Hachmeister & Partner (calendar year 2018 each). Among the reasons cited for the fact that retail sales have contracted continuously since 2011 are the declining footfall in the city centres and the increasing shift from physical to omni-channel shoppers (Textilwirtschaft 02_2019). But the growing online sales of apparel (+7.7 percent, www.textilwirtschaft.de, January 22, 2019) do not close the gap of the physical retail stores. In the past year, sales of apparel were additionally affected by the long spell of warm and dry weather. The fact that retailers organise more and more promotional and discount campaigns at increasingly early stages is additionally weighing on the sector's sales revenues.

It is safe to assume that clothing retail sales in most European markets that are relevant for Ahlers also remained clearly below the economic growth rates in the respective countries. Especially in Russia, liquidity remains low and fashion sales have likely declined due to the continued weakness of the rouble and the resulting low purchasing power of Russian consumers. The relevant European market as a whole has therefore probably declined as in the previous year.

BUSINESS PERFORMANCE

The fiscal year 2017/18

- Largely stable revenue trend in Q4 2018 mitigates the mid-year declines (Q2 and Q3)
- Revenue trend in 2017/18 (-5.4 percent) influenced by slow suit and jacket sales as well as difficult market situation in Russia and Ukraine
- EBIT before one-time effects down by EUR -1.4 million due to lower revenues
- Lower consolidated earnings after taxes (EUR -7.0 million) primarily due to extraordinary expenses incurred for the implementation of the measures aimed at increasing the company´s earnings and efficiency
- Solid balance sheet structure as evidenced by equity ratio of 54 percent and reduced net working capital

Sales revenues by segments

EUR million	2017/18	2016/17	Change in %
Premium Brands*	153.6	162.7	-5.6
Jeans, Casual & Workwear	69.5	73.2	-5.1
Total	**223.1**	**235.9**	**-5.4**

* incl. „miscellaneous" EUR 0.3 EUR (previous year: EUR 0.4 million)

Sales revenues by regions

EUR million	2017/18	2016/17	Change in %
Germany	120.8	126.9	-4.8
Western Europe	58.8	60.5	-2.8
Middle-/ Eastern Europe/ Misc.	43.5	48.5	-10.3
Total	**223.1**	**235.9**	**-5.4**

Sales revenues by quarters

EUR million	2017/18	2016/17	Change in %
1. quarter	60.7	63.1	-3.8
2. quarter	50.1	54.2	-7.6
3. quarter	57.2	62.4	-8.3
4. quarter	55.1	56.2	-2.0
Total	**223.1**	**235.9**	**-5.4**

EARNINGS, FINANCIAL AND NET WORTH POSITION

Earnings position

Group revenues influenced by declining sales of suits and jackets

The revenue trend in the fiscal year 2017/18 was primarily influenced by two factors. The growing casualisation and the unusually long spell of high temperatures from April to October 2018 led to a sharp drop in sales of suits and jackets (effect on revenues: EUR -9.7 million). The difficult market situation in Eastern also had an adverse effect on Group revenues. In Russia, new US sanctions weighed on the rouble exchange rate and, consequently, on consumers' purchasing power. As of October 2018, the declining oil price made the economic situation of Russia, which is dependent on raw material exports, even more critical. Sales in Russia and Ukraine dropped by a total of EUR 2.2 million. But business was difficult also in the rest of Eastern Europe, e.g. in Poland (EUR -1.2 million) and the Baltic states (EUR -0.6 million). Consequently, sales revenues in the Central/ Eastern Europe/Other region declined by a total of EUR 5.0 million or 10.3 percent. In Western Europe it was primarily the premium brands, Pierre Cardin and Baldessarini, which were able to grow in markets such as France, the Netherlands and Switzerland, thus mitigating the negative trend. In this region, the fashion company generated sales revenues of EUR 58.8 million (previous year: EUR 60.5 million; -2.8 percent). In Germany, Pioneer Authentic Jeans grew by a gratifying 1.8 percent in spite of the difficult market environment. Pionier Workwear's revenues in Germany were on a par with the previous year. As these developments were insufficient to fully offset the negative overall trend, however, Group sales revenues in the German home market fell by EUR 6.1 million or 4.8 percent to EUR 120.8 million. Total revenues in the fiscal year 2017/18 declined by EUR 12.8 million or 5.4 percent from EUR 235.9 million to EUR 223.1 million.

Own Retail revenues up by 2 percent due to Ahlers RUS

Sales revenues generated by our own Retail segment increased by 2.0 percent in the fiscal year 2017/18. The Retail segment's share in total revenues climbed from 13.0 percent to 14.0 percent due to Ahlers RUS. Like-for-like revenues decreased by 5.8 percent.

Of the total of 149 stores (previous year: 155), 35 (previous year: 28) were operated by Ahlers, thereof six in Germany and 29 outside Germany, mostly in Eastern Europe. Most of our company-operated stores are located in the Baltic States and Poland. With the foundation of Ahlers RUS, we took over eleven stores in March 2018 and additionally opened one outlet store. In February 2018, the Otto Kern store in Norderney was converted into an Elsbach Denim Library.

Our partners operated a total of 114 stores on November 30, 2018, 13 less than in the previous year (of which 11 due to the takeover of Ahlers RUS). In Poland, the number of partner-operated stores declined moderately from 43 to 42. Poland still has the largest number of stores. At 34, the number of partner stores in Ukraine was slightly below the previous year's 35 stores. In Russia, the number of partner stores dropped by 11 to 18 due to the takeover of Ahlers RUS. This again puts the two countries in second and third place behind Poland. Another 14 partner stores are located in other Eastern European countries such as Czechia and Belarus. There are two and three Baldessarini stores, respectively, in Egypt and the United Arab Emirates. Moreover, one partner operated a Pierre Cardin store in the Netherlands.

Earnings position

	2017/18 EUR million	2016/17 EUR million	Change in %
Sales	**223.1**	**235.9**	**-5.4**
Gross profit	109.2	117.1	-6.7
in % of sales	48.9	49.6	
Personnel expenses *	-50.7	-51.0	0.6
Balance of other expenses/income *	-54.8	-57.4	4.5
EBITDA *	**3.7**	**8.7**	**-57.5**
Depreciation and amortisation *	-5.1	-5.2	1.9
EBIT *	**-1.4**	**3.5**	**n.a.**
Special effects	-5.0	-0.5	<-200.0
Financial result	-0.7	-0.6	-16.7
Earnings before taxes	**-7.1**	**2.4**	**n.a.**
Income taxes	0.1	-0.5	n.a.
Consolidated results for the year	**-7.0**	**1.9**	**n.a.**

* before one-time effects

Lower operating expenses

The gross profit margin declined by a moderate 0.7 percentage points from 49.6 percent to 48.9 percent in the fiscal year due to the fact that the increased inventories required higher write-downs while lower discounts were granted. Gross profit declined by EUR 7.9 million to EUR 109.2 million (-6.7 percent) mainly as a result of the lower sales revenues. At EUR 50.7 million, personnel expenses were slightly below the previous year's EUR 51.0 million (EUR -0.3 million) due to the savings achieved in the administrative departments at the Herford headquarters and in Austria and in spite of the integration of Ahlers RUS (EUR +0.5 million). By contrast, the balance of other operating expenses and income declined more strongly by EUR 2.6 million or 4.5 percent to EUR 54.8 million (previous year: EUR 57.4 million). This was mainly due to lower variable selling expenses (e.g. commissions) but also to savings regarding rents, marketing, travelling expenses, etc. Moreover, the sale of a work of art at a price of EUR 0.6 million resulted in a rounded book profit in the same amount due to a very low carrying amount. No works of art were sold in the previous year. The integration of the Russian business had a cost-increasing effect of EUR 1.0 million. At EUR 5.1 million, write-downs were more or less on a par with the previous year's EUR 5.2 million. Total operating expenses before one-time effects, which comprise personnel expenses, the balance of other operating expenses and income as well as write-downs, declined by EUR 3.0 million or 2.6 percent in the fiscal year 2017/18.

Measures aimed at increasing earnings and efficiency entail high extraordinary expenses

At EUR 5.0 million, extraordinary expenses in the fiscal year 2017/18 clearly exceeded the previous year's EUR 0.5 million (EUR +4.5 million). These one-time effects were primarily caused by the set of measures adopted in September. Most of the amount was attributable, however, to provisions for severance payments to employees. The discontinuation of activities also led to compensation payments to sales representatives. Moreover, external sales representatives will be replaced by employed salespeople (and receive the corresponding compensation payments) for the continued operations, resulting in greater efficiency in the medium term thanks to increased effectiveness and reduced costs. The premature termination of lease agreements of unprofitable stores led to additional costs. Extraordinary expenses of EUR 0.6 million were caused by the valuation of the outstanding receivables from three customers who are still active but in a difficult financial situation. As in the previous year, Ahlers also generated moderate extraordinary income in the reporting period. The company sold an unused piece of land outside the Sri Lankan premises at a price of EUR 0.2 million above the very low carrying amount (extraordinary income in previous year: EUR 0.3 million).

At EUR 0.7 million, the financial result was on a par with the previous year (EUR 0.6 million). If deferred taxes had been recognised in full, the Group's tax rate would have climbed moderately from 20.8 percent to 22.5 percent and tax income of EUR 1.6 million would have been generated. In view of moderate results planned for the next five years, however, the company recognised tax income of only EUR 0.1 million in the income statement (income tax expenses of EUR 0.5 million in the previous year). This means that there are off-balance deferred tax assets of EUR 1.5 million. This is equivalent to earnings before taxes of EUR 4.8 million. Together with the capitalised items, the Group has deferred tax assets of EUR 4.0 million, for which earnings of EUR 12.6 million may be generated in the future without having to pay taxes.

Declining revenues and high extraordinary expenses lead to much lower results

The reduction in personnel expenses and operating expenses and the other operating income mitigated the effect of lower revenues on earnings before one-time effects but were insufficient to offset them in full. EBITDA declined by EUR 5.0 million to EUR 3.7 Mio. million (-58 percent; previous year: EUR 8.7 million). Consolidated earnings after taxes dropped to EUR -7.0 million in the fiscal year 2017/18 (previous year: EUR 1.9 million) because of the lower revenues and much higher extra-ordinary expenses.

Net worth position

Balance sheet structure

	Nov. 30, 2018		Nov. 30, 2017	
Assets	EUR million	in %	EUR million	in %
Property, plant and equipment and intangible assets	42.1	24.5	42.8	23.6
Other non-current assets	19.2	11.1	19.5	10.8
Deferred tax assets	1.2	0.7	1.2	0.7
Non-current assets	**62.5**	**36.3**	**63.5**	**35.1**
Inventories	80.9	47.0	75.3	41.6
Trade receivables	20.2	11.7	31.6	17.4
Other current Assets	4.4	2.6	4.4	2.4
Cash and cash equivalents	4.2	2.4	6.4	3.5
Current assets	**109.7**	**63.7**	**117.7**	**64.9**
Total assets	**172.2**	**100.0**	**181.2**	**100.0**

	Nov. 30, 2018		Nov. 30, 2017	
Equity and liabilities	EUR million	in %	EUR million	in %
Equity	**93.1**	**54.1**	**102.1**	**56.4**
Pension provisions	3.4	2.0	4.1	2.2
Other non-current liabilities and provisions	21.5	12.5	29.0	16.0
Deferred tax liabilities	1.1	0.6	1.6	0.9
Non-current liabilities	**26.0**	**15.1**	**34.7**	**19.1**
Current income tax payables	0.7	0.4	0.6	0.3
Other current liabilities and provisions	52.4	30.4	43.8	24.2
Current liabilities	**53.1**	**30.8**	**44.4**	**24.5**
Liabilities	**79.1**	**45.9**	**79.1**	**43.6**
Total equity and liabilities	**172.2**	**100.0**	**181.2**	**100.0**

More compact balance sheet with solid structure and reduced net working capital

Ahlers was able to maintain its solid balance sheet structure in the fiscal year 2017/18 in spite of the adverse environment. At EUR 172.2 million, total assets were down by EUR 9.0 million on the previous year's EUR 181.2 million on November 30, 2018. The decline in total assets is primarily attributable to the reduction in current assets (EUR -8.0 million). Due to the signing of a factoring agreement, receivables declined by EUR 10.4 million as of the balance sheet date. By contrast inventories increased by EUR 5.6 million to EUR 80.9 million (previous year: EUR 75.3 million). The foundation of Ahlers RUS, the weak summer season and the slow sales of autumn/winter merchandise sent inventories rising to EUR 61.4 million (EUR +8.0 million; previous year: EUR 53.4 million). Stocks of raw materials declined by EUR 2.4 million to EUR 19.0 million (previous year: EUR 21.4 million) as we took the first steps towards full-package services for the production of jeans and improved the accuracy of our procurement planning. Together with increased trade payables (EUR +3.0 million), net working capital (balance of inventories, trade receivables and trade payables) declined by EUR 8.8 million or 10.2 percent from EUR 86.3 million to EUR 77.5 million.

Total non-current assets decreased by a moderate EUR 1.0 million to EUR 62.5 million (previous year: EUR 63.5 million). The reduction was mainly attributable to property, plant and equipment as well as intangible assets, which declined by EUR 0.7 million from EUR 42.8 million to EUR 42.1 million due to write-downs. Other non-current assets dropped by a moderate EUR 0.3 million to EUR 19.2 million. By contrast, deferred tax assets remained unchanged, as the company decided not to capitalise EUR 1.5 million in losses carried forward based on conservative assumptions (see page 60).

Reduced net financial liabilities and high equity ratio of 54 percent

In the fiscal year 2017/18, Ahlers reduced its net financial liabilities, which comprise the balance of non-current and current financial liabilities less cash and cash equivalents, by EUR 1.4 million. As of the balance sheet date, net financial liabilities totalled EUR 28.5 million (previous year: EUR 29.9 million), mainly as a result of the factoring agreement. The reduction in net working capital resulted in free cash, which was used to reduce non-current financial liabilities (EUR -7.5 million). As a result, non-current liabilities declined by EUR 8.7 million from EUR 34.7 million to EUR 26.0 million in the fiscal year 2017/18. By contrast, total current financial liabilities increased by EUR 3.9 million. Part of the fiscal year's high extraordinary expenses of EUR 5.0 million will result in payments in the following periods, which is why other provisions increased by a strong EUR 2.5 million to EUR 4.9 million.

Equity capital decreased by EUR 9.0 million to EUR 93.1 million (previous year: EUR 102.1 million) because of the decline in consolidated results (EUR -7.0 million) and the payment of the previous year's dividend in the fiscal year 2017/18. As total assets also declined noticeably, however, the equity ratio stayed at a high level of 54.1 percent as at November 30, 2018 (previous year: 56.4 percent).

Financial figures

		2017/18	2016/17
Equity ratio	in %	54.1	56.4
Dept ratio *	in %	83.8	75.8
Interest coverage ratio **	in %	<1.0	400.2
Return on equity	in %	-7.5	1.9
Investment in property, plant and equipment and intangible assets	EUR million	5.9	6.9
Total assets	EUR million	172.2	181.2

* excl. deferred taxes
** before one-time effects

Financial position

Reduced net working capital results in high operating cash flow

Basing on the much lower consolidated earnings, operating cash flow almost reached the previous year's level, primarily because of the EUR 8.8 million reduction in net working capital, which is attributable to the factoring agreement, as well as the changes in current provisions in the context of the optimisation measures initiated by the company. At EUR 9.6 million, operating cash flow was only slightly below the previous year's EUR 10.2 million (-5.9 percent or EUR -0.6 million). Net investments declined moderately due to the ending investments in the new enterprise resource planning (ERP) system and in spite of the investments in Ahlers RUS, sending free cash flow before financing activities and after dividend rising to EUR 1.4 million, which was more or less on a par with the previous year's EUR 1.5 million. The repayment of non-current financial liabilities led to a sharp drop in free cash flow, which stood at a negative EUR -7.5 million in the fiscal year 2017/18.

Free cash flow

EUR million	2017/18	2016/17	Change in %
Consolidated results for the year	**-7.0**	**1.9**	**n.a.**
Depreciation, amortisation and impairment losses	6.0	5.0	20.0
Change in net working capital	8.8	3.6	>100.0
Change in current provisions	2.5	-0.3	n.a.
Other changes*	-0.7	0.0	n.a.
Cash flow from operating activities	**9.6**	**10.2**	**-5.9**
Net investments	-6.1	-6.5	6.2
Effects of changes in the scope of exchange rates	0.3	0.2	50.0
Dividend payments	-2.4	-2.4	0.0
Free cash flow before financing activity	**1.4**	**1.5**	**-6.7**
Additions to (+), repayment of (-) non-current liabilities	-8.9	3.3	n.a.
Free cash flow	**-7.5**	**4.8**	**n.a.**
Liquid funds as of November 30**	**-1.2**	**6.3**	**n.a.**

* Other non-cash expenses and income EUR -0.5 million (previous year: EUR 0.3 million)
Change in non-current provisions and other liabilities EUR -1.5 million (previous year EUR -1.4 million)

** Cash less overdrafts

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

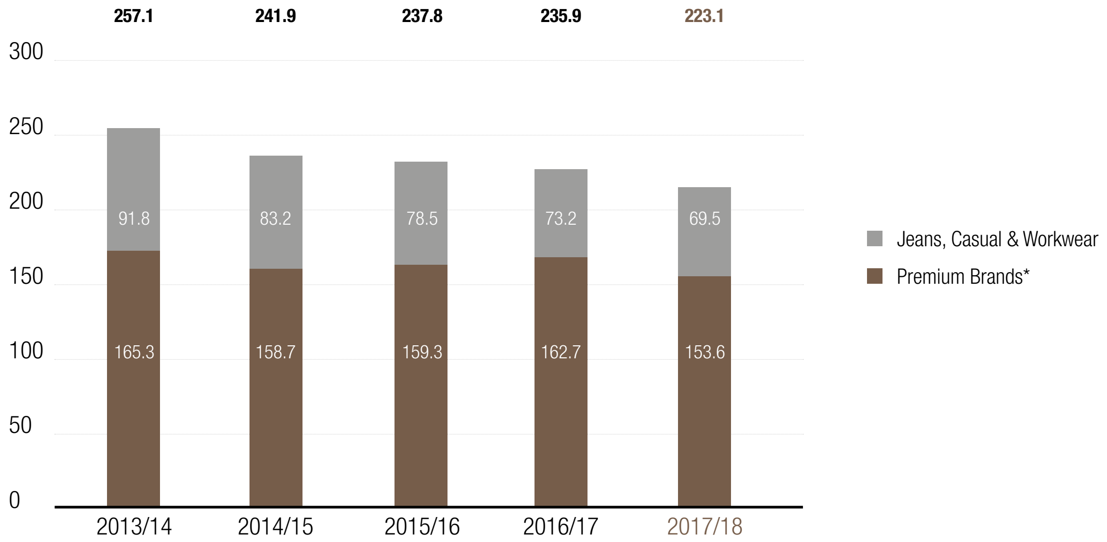
The market conditions for European clothing retailers were again challenging in the fiscal year 2017/18. Pioneer Authentic Jeans and Pionier Workwear were our only brands that were able to defy the negative market trend. Pierre Cardin Jeans also grew in 2017/18. In spite of a few positive developments, revenues and earnings clearly fell short of the Management Board's expectations even considering the difficult conditions in the past fiscal year. The sale of trade receivables allowed us to significantly reduce the cash tied up in net working capital and to use it to reduce our net liabilities.

Our operating earnings targets were not reached. The Management Board and the Supervisory Board therefore initiated a comprehensive set of measures to increase earnings and efficiency in the medium term. The associated extraordinary expenses reduced consolidated earnings even further. At the end of the fiscal year, the financial position was sound and the balance sheet was backed with high equity capital as usual. The future revenue and earnings trend should be positive as of 2020 due to the measures initiated. 2018/19 will be another year of transformation, for which we project an operating loss but again positive cash flow and a further reduction in net liabilities. We are cautiously optimistic for the next fiscal years.

SEGMENT REPORT

Five-year comparison of segment revenues

EUR million



* incl. others

Sales revenues by segments

	2017/18 EUR million	2016/17 EUR million	Change in %
Premium Brands*	153,6	162,7	-5,6
Jeans, Casual & Workwear	69,5	73,2	-5,1
Total	**223,1**	**235,9**	**-5,4**

* incl. other 0.3 EUR million (previous year 0.4 EUR million)

Premium brands show positive trends in some regions

The difficult sales of suits and jackets and the tight market situation in Eastern Europe primarily affected the revenues of the premium brands, Baldessarini, Pierre Cardin and Otto Kern. Segment revenues declined by a total of EUR 9.1 million or 5.6 percent to EUR 153.6 million in the fiscal year 2017/18 (previous year: EUR 162.7 million). By contrast, the premium brands were able to record some successes in important Western European markets such as France (segment revenues +1.9 percent), the Netherlands (+8.7 percent) and Switzerland (+14.4 percent). These individual successes of the Premium segment were mainly attributable to Pierre Cardin jeans (+1.6 percent); moreover, Pierre Cardin increased its brand revenues in Scandinavia by an impressive 8.5 percent. Baldessarini was able to more than double its revenues in the UK and Sweden and also grew strongly in Poland (+ 30 percent), which is an important market for Ahlers. The brand also grew its revenues in Canada by roughly 30 percent, starting from a low base. The positive regional developments were insufficient to offset the downward overall trend, though. At 69 percent, the Premium segment's share in total revenues remained unchanged from the previous year.

Core brands of the Jeans, Casual & Workwear segment increase their revenues

In the Jeans, Casual & Workwear segment, sales revenues of Pioneer Authentic Jeans were more or less on a par with the previous year (+ 0.5 percent). The brand was successful in markets such as Germany (+ 1.8 percent) and Switzerland (+ 20.6 percent) as well as Poland (+ 3.0 percent) and Czechia (+ 16.1 percent). Sales of Pionier Workwear also showed a positive trend and picked up by 1.0 percent. The workwear specialist's domestic revenues were on a par with the previous year and picked up by an impressive 12 percent in France. The positive revenue trend of the two core brands of the Jeans, Casual & Workwear segment failed to fully offset the difficult sales of jackets. Jupiter saw its revenues decline by 23 percent in the fiscal year due to the long period of hot weather. Sales revenues of Pionier Jeans & Casuals also fell short of expectations and declined by 11 percent. The segment's total revenues dropped by EUR 3.7 million from EUR 73.2 million to EUR 69.5 million. As in the previous year, the Jeans, Casual & Workwear segment accounted for 31 percent of total revenues.

EBIT before special effects by segments

EUR million	**2017/18**	**2016/17**	Change in %
Premium Brands *	-2.4	1.1	n.a.
Jeans, Casual & Workwear	1.0	2.4	-58.3
Total	**-1.4**	**3.5**	**n.a.**

* incl. other EUR 0,5 million (previous year EUR 0,0 million)

Premium brands post lower earnings

The gross profit margin of the three premium brands, Baldessarini, Pierre Cardin and Otto Kern, declined by 1.2 percentage points. The lower revenues were the main reason for the reduced gross profit (- EUR 6.5 million), however. The variable selling expenses and the revenue-related transport costs declined by 0.5 percentage points and mitigated the revenue effect. The Premium segment's operating expenses were more or less on a par with the previous year. Including 'other' earnings, the Premium segment's earnings declined by EUR 3.5 million from EUR 1.1 million to EUR -2.4 million due to the lower revenues.

Reduced earnings in the Jeans, Casual & Workwear segment

Although the gross profit margin increased moderately (+ 0.6 percentage points), the declining revenues in the Jeans, Casual & Workwear segment led to a much lower gross profit in the fiscal year 2017/18. Compared to the previous year, variable selling expenses declined slightly, personnel expenses remained unchanged and other operating expenses increased moderately. Due to the effect of the reduced revenues, total earnings of the Jeans, Casual & Workwear segment declined by EUR 1.4 million from EUR 2.4 million to EUR 1.0 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 and Otto Kern GmbH. 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. 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

	2017/18 EUR million	2016/17 EUR million	Change in %
Sales	**82.8**	**88.2**	**-6.1**
Gross profit	28.8	31.4	-8.3
in % of sales	34.8	35.6	
Personnel expenses*	-1.2	-1.5	20.0
Balance of other expenses/income*	-35.7	-38.2	6.5
Depreciation and amortisation*	-0.1	-0.1	0.0
Income from investments*	6.0	9.6	-37.5
EBIT*	**-2.2**	**1.2**	**n.a.**
Special effects	-3.9	-0.3	<-200.0
Financial result	-0.2	-0.2	0.0
Earnings before taxes	-6.3	0.7	n.a.
Income taxes	-0.1	0.9	n.a.
Net loss/income	**-6.4**	**1.6**	**n.a.**

* before special effects

Declining sales of suits and jackets

Sales revenues of Ahlers AG declined by EUR 5.4 million from EUR 88.2 million to EUR 82.8 million in the fiscal year 2017/18. Similar to the Group level, this was due to two factors. First, the growing casualisation and the unusually long spell of hot summer temperatures from April to October 2018 led to a sharp drop in commission agents' sales of suits and jackets. Second, the difficult market situation in Eastern Europe also had an adverse effect on commission agents' revenues. At 24.7 percent, the export share of revenues was therefore slightly lower than in the previous year (26.2 percent).

Greatly reduced operating expenses

The lower gross profit of EUR 28.8 million posted for the fiscal year 2017/18 (EUR -2.6 million; previous year: EUR 31.4 million) is mainly attributable to the reduced revenues. To a minor extent, it was due to the 0.8 percentage point decline in the gross profit margin. Personnel expenses dropped by EUR 0.3 million from EUR 1.5 million to EUR 1.2 million, due to the fact that the Management Board compensation was reduced (see Compensation Report on page 82). The balance of other operating expenses and income declined from EUR 38.2 million to EUR 35.7 million, thus improving the result by EUR 2.5 million. This was mainly due to a reduction in variable selling expenses such as commissions. The sale of a work of art at a price of EUR 0.6 million, which resulted in a rounded book profit in the same amount due to a very low carrying amount, also had a positive influence. In addition, the write-up of the investment in Otto Kern GmbH generated income of EUR 1.7 million. The latter was offset, however, by the write-down of the investment in the Polish distribution and logistics company, Ahlers Poland, in the same amount (prior year write-down of EUR 0.1 million).

Reduced income from investments and EBIT before one-time effects

Income from investments in domestic and foreign companies declined by EUR 2.7 million from EUR 5.0 million to EUR 2.3 million in the past fiscal year. The balance of income from profit-and-loss-transfer agreements and expenses from losses taken over from German commission agents before one-time effects also declined noticeably by EUR 1.0 million (2017/18 balance: EUR 3.7 million; prior year balance: EUR 4.7 million). Ahlers AG's income from investments therefore declined by 38 percent or EUR 3.6 million from EUR 9.6 million to EUR 6.0 million. This was mainly due to the fact that commission agents' and foreign subsidiaries' earnings declined because of the lower revenues. EBIT before one-time effects dropped from EUR 1.2 million to EUR -2.2 million in the fiscal year 2017/18.

High one-time effects and financial result at prior year level

At EUR 3.9 million, one-time effects exceeded the prior year level considerably (EUR 0.3 million). They were primarily caused by the efficiency-enhancing measures adopted in September 2018. Severance payments played the most important role in this context. One-time effects also include compensation payments to sales representatives, which became necessary because of the discontinuation of activities, and the costs of store closures. At EUR 0.2 million, the financial result was on a par with the previous year.

Declining revenues and high extraordinary expenses lead to lower results

The results before taxes declined by EUR 7.0 million to EUR -6.3 million in the fiscal year 2017/18, resulting in infinitely usable loss carryforwards. As moderate results are planned for the following years, no deferred tax assets were recognised in the fiscal year. At EUR -6.4 million, Ahlers AG's net loss was clearly below the previous year's net income of EUR 1.6 million.

Net worth position

Balance sheet structure

Assets	Nov. 30, 2018 EUR million	Nov. 30, 2018 in %	Nov. 30, 2017 EUR million	Nov. 30, 2017 in %
Property, plant and equipment and intangible assets	0.2	0.1	0.3	0.2
Other non-current assets	81.7	59.0	80.6	55.4
Non-current assets	**81.9**	**59.1**	**80.9**	**55.6**
Inventories	32.8	23.7	31.3	21.5
Trade receivables	4.1	3.0	8.8	6.0
Other current assets	16.7	12.0	20.1	13.8
Cash and cash equivalents	0.4	0.3	2.7	1.9
Current assets	**54.0**	**39.0**	**62.9**	**43.2**
Accrued items and deferred taxes	1.8	1.3	1.8	1.2
Total Assets	**137.7**	**100.0**	**145.6**	**100.0**

Equity and liabilities	Nov. 30, 2018 EUR million	Nov. 30, 2018 in %	Nov. 30, 2017 EUR million	Nov. 30, 2017 in %
Equity	**85.6**	**62.2**	**94.3**	**64.8**
Pension provisions	0.2	0.2	0.4	0.3
Other non-current liabilities	23.0	16.7	29.9	20.5
Other provisions	2.3	1.8	2.8	1.9
Other liabilities and deferred income	26.6	19.2	18.2	12.5
Liabilities	**52.1**	**37.8**	**51.3**	**35.2**
Total equity and liabilities	**137.7**	**100.0**	**145.6**	**100.0**

Balance sheet structure remains solid as evidenced by equity ratio of 62 percent

At EUR 137.7 million, total assets of Ahlers AG were down by EUR 7.9 million on the previous year's EUR 145.6 million on November 30, 2018. The decline in total assets is mainly attributable to the EUR 8.9 million reduction in current assets. Due to the signing of a factoring agreement, receivables declined by EUR 4.9 million as of the balance sheet date. The other changes more or less offset each other. Thanks to stricter cash management, cash and cash equivalents were down by EUR 2.3 million on the previous year. By contrast inventories increased by EUR 1.5 million to EUR 32.8 million (previous year: EUR 31.3 million). Together with slightly lower trade payables (EUR -0.4 million), net working capital (balance of inventories, trade receivables and trade payables) declined by EUR 2.8 million from EUR 33.6 million to EUR 30.8 million. The company's interest in Ahlers RUS increased fixed assets by a moderate EUR 1.0 million to EUR 81.9 million (previous year: EUR 80.9 million).

On the liabilities side, equity capital declined by EUR 8.7 million to EUR 85.6 million because of the reduced result and the dividend payment. At 62.2 percent, the equity ratio was almost on a par with the previous year (64.8 percent) on the balance sheet date due to the reduced total assets. Net financial liabilities decreased slightly by EUR 0.6 million to EUR 28.9 million (previous year: EUR 29.5 million). While the factoring agreement led to the repayment of non-current financial liabilities, it also increased the liabilities to affiliated companies. Between them, these factors increased the debt capital by a moderate EUR 0.8 million from EUR 51.3 million to EUR 52.1 million.

Financial position

Free cash flow EUR million	2017/18	2016/17	Change in %
Net loss/income for the year	**-6.4**	**1.6**	**n.a.**
Depreciation, amortisation and impairment losses	0.1	-0.2	n.a.
Profit/loss from disposal of fixed assets	0.5	0.0	n.a.
Change in net working capital	2.9	1.9	52.6
Change in current provisions	-0.5	0.4	n.a.
Other changes	11.0	-2.5	n.a.
Cash flow from operating activities	**7.6**	**1.2**	**>100.0**
Net investments	-0.4	0.2	n.a.
Free cash flow before financing activity	**7.2**	**1.4**	**>100.0**
Additions to (+), repayment of (-) non-current liabilities	-7.1	3.1	n.a.
Dividend payments	-2.4	-2.4	0.0
Free cash flow	**-2.3**	**2.1**	**n.a.**
Liquid funds as of November 30*	**0.4**	**2.7**	**-85.2**

* Cash less overdrafts

Financial position

Notably higher positive cash flow from operating activities

At EUR 7.6 million, cash flow from operating activities was positive in the fiscal year 2017/18 and clearly exceeded the previous year's EUR 1.2 million in spite of the net loss for the year. This increase was mainly due to the reduction in net working capital and the increase in liabilities to affiliated companies resulting from the factoring activities handled by Ahlers AG for its subsidiaries. The repayment of non-current financial liabilities led to a sharp drop in free cash flow, which stood at a negative EUR -2.3 million in the fiscal year 2017/18. Free cash flow for both fiscal years, 2017/18 and 2016/17, was almost balanced at EUR -0.2 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, www.ahlers-ag.com.

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 77. 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.

2018/19 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 2018/19. We expect Ahlers AG to show a robust performance in a challenging business environment. In the context of the set of measures adopted in September 2018, important strategic decisions were taken to increase earnings in the medium term. The fiscal year 2018/19, which has just begun, will be a year of transformation for Ahlers AG. Sales revenues of Ahlers AG are expected to decline, mainly because of the discontinuation of the Jupiter sportswear brand and the discontinued ladieswear activities of Pioneer. The difficult market conditions should additionally weigh on commission agents' sales revenues. We expect Ahlers AG's total revenues to decline at a single-digit percentage rate. The set of measures adopted will lead to a noticeable reduction in expenses both directly at Ahlers AG and at its investments in the fiscal year 2018/19. Due to revenue effects on gross profit, EBIT before one-time effects should nevertheless remain negative and rather tend to deteriorate slightly compared to the previous year. Extraordinary expenses should decline sharply, however, and thus lead to a noticeable improvement in earnings. Net liabilities should decline further because of a reduction in inventories and the sale of assets. Ahlers AG is unlikely to employ its own staff also in 2018/19. For further developments, please refer to the Group forecast below.

In the report for the previous year, the Management Board of Ahlers AG had projected a moderate increase in total revenues and EBIT before one-time effects above the prior year level (EUR 1.2 million) in the fiscal year 2017/18. Both expectations did not come true. The Group's revenues were much lower than expected and were the main reason for the marked drop in EBIT before one-time effects.

POST BALANCE SHEET EVENTS

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

FORECAST

Macroeconomic outlook

In 2018, the world economy grew by 3.8 percent, i.e. at a slightly higher rate than in the year before (2017: 3.7 percent; all figures in this chapter courtesy Commerzbank Economic Research January 2019). Most economic institutes assume that this solid growth trend will generally continue in the year 2019, albeit at a somewhat more moderate pace , with a growth forecast of 3.5 percent. A GDP growth rate of 2.5 percent slightly below the prior year level but still above the 2017 growth rate is projected for the US economy (previous year: 2.9 percent; 2017: 2.2 percent). China's GDP is also expected to grow at a slightly lower rate of 6.3 percent (previous year: 6.6 percent; 2017: 6.8 percent). By contrast, the GDP growth forecast of 1.4 percent for the eurozone is significantly more moderate (previous year: 1.9 percent) and, most importantly, clearly below the 2017 growth rate (2.4 percent). The growth expectations for the four large eurozone countries reflect this slightly downward trend. The German and French economies are expected to grow by 1.2 percent each in 2019 (2018: 1.5 percent each), while growth rates of 2.4 percent and 0.9 percent are projected for Spain and Italy, respectively (2018: 2.5 and 1.0 percent, respectively). A moderately positive economic trend is projected also for the Russian economy, which is expected to grow by 1.1 percent in 2019 (2018: 1.6 percent). Risks to this economic scenario come primarily from world politics. The further course of Great Britain's exit from the European Union and the trade dispute between the USA and China continue to cause political uncertainties, although their impact on the general economic trend has so far been only moderate. By contrast, the European Central Bank's expansionary monetary policy supports the economy by stimulating domestic demand in the eurozone. Further improvements in the labour market, rising wages and favourable financing conditions are likely to send both private consumption and capital spending rising. Private consumption is expected to remain an important pillar of the European economy. In view of fully utilised capacities and the relatively high growth rates of the previous years, the lower growth in the German economy is interpreted as a return to normal.

Germany's Gesellschaft für Konsumforschung projects per-capita purchasing power, i.e. nominal disposable income, to increase by 3.3 percent (GfK press release dated December 13, 2018). This positive purchasing power trend is supported by rising wages in many industries and the stable labour market. Pensions are also expected to increase in 2019. Depending on the individual economic growth rates, purchasing power is likely to increase also in other European countries. How much of the nominal increase in purchasing power will remain in real terms depends on consumer price inflation. An average annual inflation rate of 1.5 percent is projected for the eurozone, with consumer prices in Germany expected to increase by 1.7 percent on average. This suggests that real disposable income is likely to grow.

Industry outlook

As in the previous year, the macroeconomic preconditions for a positive industry trend are in place. Thanks to the good economic and labour market trend and rising wages in many industries, European consumer sentiment is likely to stay at a high level in 2019. Real incomes in the more dynamically growing economies should pick up, as the inflation rates in these countries are likely to remain below the anticipated increase in purchasing power. What is more, the persistently low interest rates continue to make saving unattractive. Private consumption and retail sales are therefore likely to grow. The market environment for apparel is nevertheless likely to remain challenging in the fiscal year 2018/19. 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. Sales revenues of physical clothing stores are likely to decline moderately also in 2019. The low base of the previous year should have a mitigating effect, however. The anticipated increase in online sales of apparel are unlikely to offset the decline in physical retail sales. We not only expect the sales revenues of Germany's physical clothing stores to decline in 2019 but also project a similar trend for our relevant foreign markets in Europe.

Operational targets for the fiscal year 2018/19

In the dramatically changing market environment, the Management Board and the Supervisory Board initiated comprehensive measures in 2018, which are expected to lead to a sustainable increase in both revenues and earnings in the medium term. Most of these measures are expected to be implemented in the course of 2019, which means that they will take full effect in 2020. 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. The set of measures includes:

- Focus on menswear of the brands Baldessarini, Pierre Cardin, Otto Kern and Pioneer, as well as Pionier Workwear

- Pierre Cardin:
    - Selective product innovations (chino, Future Flex, etc.) and optimised sales per square metre in Germany
    - Growth in Russia and Eastern Europe through the foundation of Ahlers RUS and improved management of the store space and winning of new customers (partner stores)
    - Expansion of the Western European markets such as France and Spain
    - Expansion of e-commerce
    - Discontinuation of ladieswear activities

- Baldessarini:
    - Stimulate the jeans business
    - Grow the international business
    - Optimise the market positioning
    - Expansion of e-commerce

- Pioneer Authentic Jeans:
    - Strengthening and partial consolidation of the sales organisation with Pionier Jeans & Casuals
    - Develop the Pioneer brand image into a lifestyle brand and expand the POS selling tops
    - Expansion of the international business
    - Win shop-in-shops at premium retailers
    - Discontinuation of ladieswear activities

- E-Commerce:
    - Ongoing expansion of the e-commerce wholesale distribution activities
    - Accelerate business in Germany and abroad
    - Expansion of the marketplace business

- Retail:
    - Selective opening of additional Pierre Cardin and Baldessarini stores, mostly abroad
    - Takeover of selected partner stores

- Procurement and logistics:
    - Partial relocation of logistics to Poland
    - Ongoing reduction in the number of suppliers in the context of a stricter auditing process and concentration on high-performing suppliers
    - Shift jeans procurement to full-package services
    - Start introducing full-package services for suits Expansion of production in the southern Mediterranean
    - Downsize production capacity in Poland
    - Noticeable reduction in net working capital through the reduction of overheads, improved planning processes and growing share of full-package services.

2018/19 a year of transformation

The fiscal year 2018/19, which has just begun, will be a year of transformation for Ahlers. The measures adopted in September 2018 to increase earnings and efficiency include the discontinuation of the Jupiter sportswear brand and of the ladieswear activities of Pierre Cardin and Pioneer in the course of the fiscal year. This is expected to reduce revenues in 2018/19 by about EUR 6 million. In view of the market situation, the Management Board projects declining revenues also for the continued operations. Altogether, this should reduce Group revenues by a medium single-digit percentage. The respective shares of both segments in total revenues should remain largely stable. We project growing revenues for our own Retail operations and our e-commerce activities. This growth will also be attributable to Ahlers RUS, which is expected to grow organically and will be consolidated for the first full year (nine months in the previous year).

Consolidated earnings expected to improve noticeably in 2018/19

The Management Board expects consolidated earnings to improve noticeably in the fiscal year 2018/19, mainly because of reduced one-time effects. While 2017/18 saw greatly increased extraordinary expenses of EUR 5.0 million weigh on the result, expenses in the new fiscal year should return to the normal level of the past fiscal years. Moreover, we expect moderate extraordinary income from the sale of a piece of land, which has been initiated in the previous years and should be realised in 2019. The operating result will be greatly influenced by revenue effects on gross profit. The gross profit margin should improve slightly due to more favourable procurement costs, reduced returns and, consequently, lower inventory write-downs, thus mitigating the effect somewhat. Operating expenses, which comprise personnel expenses, other expenses and write-downs, should drop sharply as a result of the cost-cutting measures. Write-downs are expected to be below the prior year level. Revenue and expense effects on the operating result should largely offset each other. From today's point of view, we expect EBIT before one-time effects to tend to remain below the previous year's EUR -1.4 million, as the cost-cutting measures will become effective only gradually over the course of the year. It is also planned to sell works of art. The cash flow from this sale should be within the medium single-digit euro million range, while the profit contribution is more difficult to quantify at this stage and has not been incorporated into the forecast. The financial result is expected to remain unchanged. Consolidated earnings after taxes are likely to grow at a high double-digit percentage rate but still be negative in 2018/19, which will be a year of transformation. It is our declared objective to return to profit in 2020 when all measures initiated take effect.

All projections are based on the assumption of a growing world economy, as outlined above, and the absence of any crises and major insolvencies in the retail sector in the main output markets. Developments in the retail sector remain difficult to assess. This year's spring/summer season is particularly difficult to predict because of the unfavourable prior year base. Therefore please note that the forecast is subject to great uncertainty.

Measures to increase earnings will clearly reduce the headcount

The fiscal year 2018/19 is expected to see the Group's headcount decline by about 200 people from 2,145 on November 30, 2018 to about 1,950. This reduction will be the result of the planned job cuts resulting from the discontinuation of operations and the reduction of the production capacity in Poland. In Germany, the headcount is likely to decline across nearly all divisions as the efficiency-enhancing measures are implemented (November 30, 2018: 589 people).

Cash flow increases as capital expenditures are reduced

Net capital expenditures planned for the fiscal year 2018/19 are noticeably lower than in the previous year (EUR 6.1 million) and should also be slightly below the declining write-downs before one-time effects (2017/18: EUR 5.1 million). After three years of relatively high investments, the ERP system was largely completed in the fiscal year 2017/18. Investments in intangible assets will therefore decline sharply in the current fiscal year 2018/19. Moreover, the foundation of Ahlers RUS led to higher investments in the previous year, which will not be repeated this year. The breakdown of the remaining budget will be more or less equivalent to that of the previous year.

Stronger balance sheet structures and improved free cash flow expected

The reduction in net working capital remains an important objective in the fiscal year that has just begun. The consistent sale of old merchandise, the reduction in inventories resulting from the discontinuation of activities and the change towards full-package services should lead to a further decline in net working capital. Together with the noticeably improved consolidated earnings, operating cash flow should be more or less on a par with the previous year. Reduced investments that are lower than write-downs should increase the free cash flow. The Management Board proposes not to pay out a dividend for the fiscal year 2017/18. The sale of works of art and of the unused piece of land should improve the financial position. Altogether, free cash flow before financing activities should therefore be positive and net liabilities should be further reduced. As a result, the balance sheet structure should tend to improve.

Assessment of the forecasts for 2017/18

In the Annual Report for 2016/17, the Management Board had projected a low single-digit percentage increase in Group revenues and a medium double-digit percentage rise in consolidated earnings after taxes for the following year. The revenue forecast for the fiscal year 2017/18 was not reached, mainly because of the difficult market situation. Group sales revenues declined by EUR 12.8 million or 5.4 percent from EUR 235.9 million to EUR 223.1 million. The earnings forecast was clearly missed because of declining revenues and high extraordinary expenses for the measures aimed at increasing the company´s earnings and efficiency adopted in September 2018. Consolidated earnings after taxes decreased by EUR 8.9 million from EUR 1.9 million to EUR -7.0 million. Due to the start-up of Ahlers RUS, capital expenditures were only slightly lower than in the previous year and higher than originally expected. As had been projected, the reduction in net working capital released cash and thus greatly helped to strengthen the operating cash flow. Free cash flow before financing activities was positive as planned. As announced in the 2016/17 Annual Report, the solid balance sheet structure was maintained.

Forecast for 2018/19 – Change vs. previous year

		Trend 2018/19	Actual 2017/18
Sales	Premium Brands	-	153.6
	Jeans, Casual & Workwear	-	69.5
	Total	-	223.1
Earnings	EBIT after one-time effects	++	-6.4
	Consolidated net income	++	-7.0
Capital expenditure		- -	6.1

+ 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.

Ahlers' business activity as a clothing manufacturer entails relevant risks relating to environmental social and labour matters as well as human rights and the fight against corruption only with regard to procurement. This relates to non-compliance with environmental, social and corporate governance within the supply chain. To avoid these non-financial risks, Ahlers pursues a preventive approach and prevents these risks with the help of clearly defined Group-wide agreements and measures (see non-financial Group statement on page 41 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. In the fiscal year 2017/18, the implementation of the General Data Protection Regulation played an important role. The IT Officers and the Data Protection Officer cooperated closely to implement the GDPR. A special software was purchased in the fiscal year to support data protection management and meet the company's documentation duties.

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 a high net asset value and, in relation to this, 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. Liquidity is guaranteed by sufficient credit lines which cover seasonal and unexpected cash needs. The credit lines are made available by several banks; drawings against these lines stood at less than 50 percent at the end of the fiscal year. At the end of the fiscal year 2017/18, Ahlers additionally signed factoring agreements on regular revolving sales of trade receivables to further strengthen its credit lines. Seasonal fluctuations in the financial area arise primarily with regard to receivables and should largely be mitigated by the factoring agreements going forward. It has therefore been possible to reduce the credit lines as of January 1, 2019 in agreement with the banks. Liquidity, which is important to any company, is ensured by regular and close 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. To further reduce its liabilities, the company plans to sell a piece of land it does not need for its operations as well as several works of art in the fiscal year 2018/19.

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 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 reviewed on the basis of auction results and market research; no need for impairment write-downs was identified in this context. In the past, no material write-downs on the works of art were required, 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.

While the overall risk position of Ahlers AG and the Group deteriorated slightly because of the developments in 2017/18, it is still classified as low as the financial situation remains solid. 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 usually five 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. 4, 315 para. 4 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 Declaration of Basic Values. The Declaration of Basic Values was distributed to all employees in 2015. New employees always receive the Declaration 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 International Financial Reporting Standards (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 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, consolidated 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. Two more 3-year periods run from December 2017 to November 2020 with payment in April 2021 and from December 2019 to November 2022 with payment in April 2023. At the time of their issue, the share price-based components of the past 3-year tranche had an intrinsic value totalling EUR 69 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 include an explicit severance pay commitment in case a contract is terminated prematurely. Nor do they include any change-of-control clauses in case 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	2017/18	2016/17
Salary	1,044	1,010
Annual bonus*/**	-87	379
Miscellaneous	33	32
Total	**990**	**1,421**

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

** The total amount of the one-year variable compensation of EUR -87 thousand is composed of the bonus for the fiscal year 2017/18 in the amount of EUR 7 thousand and reduced bonus payments for the fiscal year 2016/17 in the amount of EUR -94 thousand, which were recognised as income in the reporting period. The latter had been recognised as an expense in the amount of EUR 320 thousand in the fiscal year 2016/17. Due to the reduced payment, this provision was released in the above amount.

Value of the benefits granted for the fiscal year

(Expense level)

	Dr. Stella A. Ahlers CEO Entry 06/2005				**Götz Borchert** Chairman Marketing/Retail Entry 02/2017				**Dr. Karsten Kölsch** CFO Entry 08/2007			
KEUR	**2017/18**	**Min.**	**Max.**	**2016/17**	**2017/18**	**Min.**	**Max.**	**2016/17**	**2017/18**	**Min.**	**Max.**	**2016/17**
Fixed compensation	480	480	480	480	204	204	204	170	360	360	360	360
Additional benefits	19	19	19	19	0	0	0	0	14	14	14	13
Total	499	499	499	499	204	204	204	170	374	374	374	373
Annual bonus	-74	0	1,350	210	-20	0	370	54	7	0	600	105
Long-term variable Bonus:												
Dec. 14 - Nov. 17	0	0	120	5	0	0	120	-	0	0	120	5
Dec. 17 - Nov. 20	0	0	120	0	0	0	120	0	0	0	120	0
Total	425	499	1,969	709	184	204	694	224	381	374	1,094	478
Pension expenses	-	-	-	-	-	-	-	-	-	-	-	-
Total compensation	**425**	**499**	**1,969**	**709**	**184**	**204**	**694**	**224**	**381**	**374**	**1,094**	**478**

Inflow in the fiscal year

(Payment level)

	Dr. Stella A. Ahlers CEO Entry 06/2005		**Götz Borchert** Chairman Marketing/Retail Entry 02/2017		**Dr. Karsten Kölsch** CFO Entry 08/2007	
KEUR	**2017/18**	**2016/17**	**2017/18**	**2016/17**	**2017/18**	**2016/17**
Fixed compensation	480	480	204	170	360	360
Additional benefits	19	19	0	0	14	13
Total	499	499	204	170	374	373
Annual variable bonus	146	216	34	0	67	90
Long-term variable Bonus:						
Dec. 14 - Nov. 17						
with payment Apr. 18	5	-	-	-	5	-
Total	650	715	238	170	446	463
Pension expenses	0	0	0	0	0	0
Total compensation	**650**	**715**	**238**	**170**	**446**	**463**

Former members of the Management Board and the management of Adolf Ahlers GmbH and their survivors received total compensation of EUR 51 thousand (previous year: EUR 68 thousand) during the fiscal year 2017/18.

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	2017/18	2016/17
Fixed compensation	105	105
Variable compensation	0	0
Total	**105**	**105**

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 2017/18, for which an amount of EUR 6 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 289A PARA. 1, 315A PARA. 1 HGB AND PURSUANT TO SECTION 176 PARA. 1 SENTENCE 1 AKTG

As of November 30, 2018, Ahlers AG's share capital amounted to EUR 43,200,000.00. It is divided into 13,681,520 registered shares. Each share represents approx. 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. There are no voting right controls in case that employees hold a share in the capital of Ahlers AG.

On November 30, 2018, chairwoman Dr. Stella A. Ahlers held 52.7 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.

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).

Based on a resolution by the Annual Shareholders' Meeting of May 3, 2017 in conjunction with the resolution adopted by the Annual Shareholders' Meeting on April 24, 2018 on the conversion of bearer shares into registered shares and the abolition of the preferred shares as well as the transfer restrictions of the former registered shares and their right to designate members to the Supervisory Board, the statutes were amended as follows: The Management Board shall be authorised, with the consent of the Supervisory Board, to increase the share capital by up to EUR 21,600,000 once or several times through the issue of new, registered common shares against cash and/or non-cash contributions by May 2, 2022 (Authorised Capital, section 4 para. 2 of the statutes).

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 conjunction 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.

Based on a resolution by the Annual Shareholders' Meeting of May 3, 2017 in conjunction with the resolution adopted by the Annual Shareholders' Meeting on April 24, 2018, the Management Board is authorised, until May 2, 2022 and subject to the consent of the Supervisory Board, to acquire shares in the company representing up to 10 percent of the share capital of EUR 43,200,000.00 that existed on the day the resolution was adopted.

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 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 according to the resolution of the Annual Shareholders' Meeting.

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 sentence 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 sentence 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 sections 289f, 315d HGB is contained in the Corporate Governance Report on page 16 et seq. It is also posted on the Internet at www.ahlers-ag.com.

FORWARD-LOOKING STATEMENTS

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

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 12, 2019

Dr. Stella A. Ahlers — Dr. Karsten Kölsch

CONSOLIDATED FINANCIAL STATEMENTS OF AHLERS AG

CONSOLIDATED BALANCE SHEET as of November 30, 2018

ASSETS

KEUR	Notes	Nov. 30, 2018	Nov. 30, 2017
A. Non-current assets			
I. Property, plant and equipment	(11)		
1. Land, land rights and buildings		14,005	14,298
2. Technical equipment and machines		1,684	1,581
3. Other equipment, plant and office equipment		8,077	9,822
4. Payments on account and plant under construction		5	28
		23,771	**25,729**
II. Intangible assets	(12)		
1. Industrial property rights and similar rights and assets		14,236	14,437
2. Payments on account		4,110	2,583
		18,346	**17,020**
III. At-equity investments	(13)	571	541
IV. Other non-current assets	(14)		
1. Other financial assets		904	1,185
2. Other assets		17,698	17,790
		18,602	**18,975**
V. Deferred tax assets	(8)	1,176	1,245
Total non-current assets		**62,466**	**63,510**
B. Current assets			
I. Inventories	(15)		
1. Raw materials and consumables		18,964	21,361
2. Work in progress		458	537
3. Finished goods and merchandise		61,445	53,422
		80,867	**75,320**
II. Trade receivables	(16)	20,211	31,538
III. Other current assets	(17)		
1. Other financial assets		447	7
2. Receivables from affiliates		102	0
3. Current income tax claims		725	1,391
4. Other assets		3,142	3,018
		4,416	**4,416**
IV. Cash and cash equivalents	(18)	4,219	6,403
Total current assets		**109,713**	**117,677**
Total assets		**172,179**	**181,187**

EQUITY AND LIABILITIES

KEUR	Notes	Nov. 30, 2018	Nov. 30, 2017
A. Equity	(19)		
I. Subscribed capital	(20)	43,200	43,200
II. Capital reserve	(23)	15,024	15,024
III. Retained earnings	(24)	34,864	44,221
IV. Equity difference from currency translation	(25)	-1,354	-1,786
Equity attributable to shareholders of Ahlers AG		**91,734**	**100,659**
V. Non-controlling interests		1,407	1,466
Total equity		**93,141**	**102,125**
B. Non-current liabilities			
I. Pension provisions	(26)	3,445	4,074
II. Other provisions	(27)	549	504
III. Financial liabilities	(28)		
1. Other financial liabilities		19,707	27,225
2. Non-controlling interests in partnerships		1,253	1,247
		20,960	**28,472**
IV. Other liabilities		19	20
V. Deferred tax liabilities	(8)	1,021	1,622
Total non-current liabilities		**25,994**	**34,692**
C. Current liabilities			
I. Current income tax liabilities		699	554
II. Other provisions	(29)	4,861	2,320
III. Financial liabilities	(28)	12,961	9,049
IV. Trade payables		23,577	20,559
V. Other liabilities	(30)		
1. Liabilities to affiliates		2,564	2,518
2. Other liabilities		8,382	9,370
		10,946	**11,888**
Total current liabilities		**53,044**	**44,370**
Total liabilities		**79,038**	**79,062**
Total equity and liabilities		**172,179**	**181,187**

CONSOLIDATED INCOME STATEMENT for fiscal 2017/18

KEUR	Notes	2017/18	2016/17
1. Sales	(1)	223,067	235,931
2. Change in inventories of finished goods and work in progress		5,779	1,237
3. Other operating income	(2)	5,500	3,838
4. Cost of materials	(3)	-119,610	-120,099
5. Personnel expenses	(4)	-53,304	-51,403
6. Other operating expenses	(5)	-60,102	-61,248
7. Depreciation, amortisation and impairment losses on property, plant and equipment, intangible assets and other non-current assets	(6)	-7,735	-5,262
8. Profit shares from At-Equity-investments	(7)	30	100
9. Interest and similar income	(7)	92	156
10. Interest and similar expenses	(7)	-841	-869
11. Pre-tax profit		**-7,124**	**2,381**
12. Income taxes	(8)	123	-492
13. Consolidated net results		**-7,001**	**1,889**
14. of which attributable to:			
- Shareholders of Ahlers AG		-7,006	1,836
- Non-controlling interests	(9)	5	53
Earnings per share (EUR) undiluted/diluted	(10)		
- Registered common shares (previous year: Common shares)		-0.51	0.11
- Preferred shares		-	0.16

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

KEUR	Notes	2017/18	2016/17
13. Consolidated net results		**-7,001**	**1,889**
Not to be reclassified to profit or loss			
15. Actual gains and losses on defined benefit plans	(24)	140	-77
To be reclassified to profit or loss			
16. Net result from cash flow hedges	(25)	838	-1,313
17. Currency translation differences		-405	198
18. Other changes		-140	-149
19. Others comprehensive income after taxes	(8)	**433**	**-1,341**
20. Comprehensive result		**-6,568**	**548**
21. of which attributable to:			
- Shareholders of Ahlers AG		-6,434	643
- Non-controlling interests		-134	-95

CONSOLIDATED CASH FLOW STATEMENT for fiscal 2017/18

KEUR	2017/18	2016/17
Consolidated net results	-7,001	1,889
Income taxes	-123	492
Interest income / Interest expenses	719	613
Depreciation and amortisation / appreciation (net)	6,035	4,962
Losses / gains from the disposals of non-current assets (net)	-600	133
Change in inventories and other current and non-current assets	6,363	3,299
Change in non-current provisions	-379	-446
Change in non-controlling interests in partnerships and other non-current liabilities	5	-1
Change in current provisions	2,541	-261
Change in other current current liabilities	1,900	344
Income taxes paid	-698	-2,020
Income taxes received	837	1,173
Cash flow from operating activities	**9,599**	**10,177**
Cash receipts from disposals of items of property, plant and equipment	282	190
Cash receipts from disposals of intangible assets	5	0
Cash receipts from disposals of other non-current assets	640	-
Payments for investment in property, plant and equipment	-2,840	-4,286
Payments for investment in intangible assets	-3,045	-2,619
Payments for the acquisition of other non-current assets	-2	0
Payments for the acquisition of consolidated companies	-1,090	-
Payments for the acquisition of minority interests	-130	-
Interest received	100	157
Cash flow from investing activities	**-6,080**	**-6,558**
Dividend payments	-2,356	-2,356
Additions / repayment of non-current financial liabilities	-8,118	4,165
Interest paid	-842	-862
Cash flow from financing activities	**-11,316**	**947**
Net change in liquid funds	-7,797	4,566
Effects of changes in the scope of exchange rates	279	227
Liquid funds as of December 1	6,291	1,498
Liquid funds as of November 30	**-1,227**	**6,291**

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 2017/18

KEUR	Equity attributable to shareholders of Ahlers AG						Non-controlling interests			
	Subscribed capital									
KEUR	Common shares	Preferred shares	Capital reserve	Retained earnings	Equity-diff. from currency translation	**Total Group holdings**	Capital	Accumulated other comprehensive income	**Total non-controlling interest**	**Total equity**
Notes	(20)	(20)	(23)	(24)	(25)				(9)	
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			0	-2,356
Acquisition of minority interests				812		812	-812		-812	0
Balance as of Nov. 30, 2017 / Dec. 1, 2017	**24,000**	**19,200**	**15,024**	**44,221**	**-1,786**	**100,659**	**642**	**824**	**1,466**	**102,125**
consolidation of the shares	19,200	-19,200				0				0
Total net income for the period				-6,866	432	-6,434		-134	-134	-6,568
Dividends paid				-2,356		-2,356			0	-2,356
Acquisition of minority interests				-135		-135	75		75	-60
Balance as of Nov. 30, 2018	**43,200**	**0**	**15,024**	**34,864**	**-1,354**	**91,734**	**717**	**690**	**1,407**	**93,141**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the fiscal year from December 1, 2017 to November 30, 2018

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, Germany, 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 of the following year. 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 (HGB) as stipulated in section 315e (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 12, 2019 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 315e (1) of the HGB. All IFRS and IFRIC were observed that had been endorsed and mandated by the EU Commission prior to November 30, 2018. 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.

Uncertainties 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 2017/18:

- 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
- “Improvements to IFRS” (2014-2016) comprise minor amendments to one standard, which were necessary but not urgent, on/after January 1, 2017

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, 2018 but were not mandatory as of this date (effective for annual periods beginning on or after the dates stated):

- Amendments to IAS 1 “Presentation of Financial Statements” (10/2018), on/after January 1, 2020 (EU endorsement pending)
- Amendments to IAS 8 “Accounting Policies” (10/2018), on/after January 1, 2020 (EU endorsement pending)
- Amendments to IAS 19 “Employee Benefits” (02/2018), on/after January 1, 2019
- 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
- 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
- IFRS 2 “Share-based Payment” (06/2016), on/after January 1, 2018
- Amendments to IFRS 3 “Business Combinations” (10/2018), on/after January 1, 2020 (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
- 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 two standards, which were necessary but not urgent, on/after January 1, 2018
- “Improvements to IFRS” (2015-2017) comprise minor amendments to a total of four standards, which were necessary but not urgent, on/after January 1, 2019

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 disclosures in the notes as well as the new standard relating to revenue from contracts with customers, first-time adoption is not expected to have material effects on the consolidated financial statements. The application of the new standard on revenue from contracts with customers will increase total assets by approx. EUR 3 million. While the effects of the new leasing standard are still being reviewed, we generally expect it to increase total assets by a low double-digit million euro amount.

3. CONSOLIDATION

Basis of consolidation

All 12 domestic and 20 foreign subsidiaries that are directly or indirectly controlled by Ahlers AG are fully consolidated in the 2017/18 consolidated financial statements in addition to the parent company, Ahlers AG. In the past fiscal year, OOO Ahlers RUS was established with effect from March 1, 2018 with a long-standing Russian partner and included in the basis of consolidation. The purchase price of the acquired net assets amounted to EUR 1,090 thousand and was paid from cash flow. The acquired net assets comprise fixed assets (EUR 85 thousand), inventories (EUR 549 thousand) and the carrying amount of the minority interest (EUR -257 thousand). The resulting positive difference of TEUR 704 was capitalized as goodwill. The purpose of the company is to strengthen the activities in Russia. Moreover, the share in the two Baltic distribution companies was increased from 65.5 percent to 99.33 percent. With effect from December 1, 2017, Ahlers AG signed a controlling and profit-and-loss-transfer agreement with Otto Kern GmbH.

A list of subsidiaries and investments can be found on page 96.

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, transactions, income, expenses and gains and losses from intra-group transactions contained in the carrying amount of assets 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. The consolidated financial statements of Westfälisches Textilwerk Adolf Ahlers Stiftung & Co. KG are published in the Federal Gazette.

SHAREHOLDINGS OF AHLERS AG

(including direct and indirect investments)

Company	Equity share (in %)	thereof indirectly held %	thereof indirectly held via	Equity [1] KEUR	Net income/ loss [2] 2017/18 KEUR
1. Ahlers P.C. GmbH, Herford	100.00			21,032	[3]
2. Ahlers Textilhandel GmbH & Co. KG, Herford	80.00			5,512	578
3. Ahlers Vertrieb GmbH, Herford	100.00			36	[3]
4. Ahlers Zentralverwaltung GmbH, Herford	100.00			3,895	[3]
5. Baldessarini GmbH, Herford	100.00			1,673	[3]
6. Ahlers Retail GmbH, Herford	100.00			61	[3]
7. HEMINA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Herford KG, Pullach im Isartal	94.00	94.00	2.	3,724	150
8. Jupiter Bekleidung GmbH, Herford	100.00			129	[3]
9. Otto Kern GmbH, Herford	100.00			7,987	[3]
10. PIONEER Jeans-Bekleidung GmbH, Herford	100.00			54	[3]
11. Pionier Berufskleidung GmbH, Herford	100.00			30	[3]
12. Pionier Jeans & Casuals Germany GmbH, Herford	100.00			26	[3]
13. Adolf Ahlers AG, CH-Zug	100.00			4,314	30
14. Ahlers Austria GmbH, A-Mariasdorf	100.00			4,519	167
15. Ahlers Europe Ltd., USA-New York	100.00			-358	-22
16. Ahlers Herford (España) S.L., E-Madrid	100.00			350	-7
17. Ahlers Herford (Italia) S.R.L., I-Torino	100.00			404	-5
18. Ahlers Premium France S.A.S., F-Horbourg-Wihr	100.00			2,474	272
19. "Ahlers-Poland" Spolka z o.o., PL-Opole	100.00			11,221	-293
20. OOO Ahlers RUS, RUS-Moskwa	60.00			660	50
21. SIA Clasic, LV-Riga	99.33	99.33	26.	-167	-131
22. Dial Textile Industries Ltd., CL-Katunayake	100.00			2,280	772
23. Ahlers Danmark A/S, DK-Haderslev	100.00			1,088	76
24. "LUBINEX"-Spolka z o.o., PL-Lubin	62.85	62.85	19.	2,703	-174
25. Otto Kern Austria GmbH, A-Mariasdorf	100.00	100.00	9.	846	65
26. UAB Stesa Clasic, LT-Vilnius	99.33	99.33	1.	464	-316
27. TEXART Bratislava, s r.o., SK-Bratislava	100.00	100.00	14.	122	4
28. TEXART d.o.o., HR-Strmec Samoborski	100.00	100.00	14.	259	60
29. TEXART d.o.o., SLO-Ljubljana	100.00	100.00	14.	90	28
30. TEXART Magyarorszag Kft., H-Budapest	100.00	100.00	14.	505	29
31. TEXART spol. s r.o., CZ-Prag	100.00	100.00	14.	191	29
32. Texart UK Ltd., GB-London	100.00			111	4

1) Amounts in foreign currencies are stated at the mid-rate on the balance sheet date.
2) Net income/loss 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, 2018.

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 other currency translation differences are recognised in profit or loss. 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 =	2017/18	2016/17	2018	2017
Poland	PLN	4.25	4.28	4.29	4.21
Switzerland	CHF	1.16	1.10	1.13	1.17
Sri Lanka	LKR	189.90	170.60	203.31	181.81
USA	USD	1.19	1.12	1.14	1.18

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 coincide 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 as at 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 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 designated 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 recognised immediately in profit or loss; 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. The Ahlers Group's cash-generating units are individual corporate divisions 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 amounts to 10 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 risks 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 expenses 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 recognised directly in 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

	2017/18		2016/17	
	KEUR	%	KEUR	%
Domestic	120,784	54.1	126,942	53.8
Foreign	102,283	45.9	108,989	46.2
	223,067	100.0	**235,931**	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 855 thousand (previous year: EUR 787 thousand), Baldessarini GmbH, Herford, in the amount of EUR 232 thousand (previous year: EUR 169 thousand) and Pioneer Jeans-Bekleidung GmbH, Herford, in the amount of EUR 24 thousand (previous year: EUR 22 thousand) are included in this figure. Foreign sales were generated primarily in Europe.

(2) Other operating income

KEUR	2017/18	2016/17
Reversal of an impairment loss	1,700	300
Income from the disposal of fixed assets	819	117
Income from personal use of company cars	545	538
Exchange gains	462	651
Income from the release of provisions/other liabilities	428	274
Income from re-invoicing	359	415
Rental income	316	327
Income from the reversal of valuation allowances on trade receivables	281	314
Income from damages	100	73
Income from insurance payments	16	213
Income unrelated to the reporting period	6	58
Income from area assignments sales agents	0	210
Others	467	348
	5,499	**3,838**

In the fiscal year 2017/18, other operating income remained almost stable compared to the previous year. The increase is attributable to another write-up of the Otto Kern trademark right (EUR 1,700; previous year: EUR 300 thousand).

(3) Cost of materials

KEUR	2017/18	2016/17
Cost of raw materials and supplies and purchased goods	93,550	90,681
Cost of purchased services	26,060	29,418
	119,610	**120,099**

The cost of materials adjusted for changes in finished goods and work in progress in an amount of EUR -5,779 thousand (previous year: EUR -1,237 thousand) decreased at a lower rate than sales revenues due to higher inventory write-downs.

(4) Personnel expenses

KEUR	2017/18	2016/17
Wages and salaries	45,290	43,583
Social security contributions	7,897	7,725
Retirement benefit and similar expenses	117	95
	53,304	**51,403**

Social security contributions include employer contributions to contribution-based pension plans in an amount of EUR 3,465 thousand (previous year: EUR 3,455 thousand).

The increase in personnel expenses is attributable to severance payments that became necessary because of the discontinuation of Jupiter Sportswear and the ladieswear activities as well as to the first-time consolidation of Ahlers RUS.

(5) Other operating expenses

KEUR	2017/18	2016/17
Distribution expenses	31,456	32,990
General and administrative expenses	12,046	11,319
Advertising expenses	4,860	5,522
Maintenance expenses	2,405	2,378
Valuation allowances	1,021	321
Insurance expenses	1,000	1,041
Banking fees	629	538
Other taxes	396	416
Other fees	343	310
Exchange differences	273	767
Miscellaneous	5,673	5,646
	60,102	**61,248**

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 or 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	2017/18	2016/17
Property, plant and equipment		
Land and buildings	489	510
Technical equipment and machines	339	304
Other equipment, plant and office equipment	3,487	3,519
Intagible Assets		
Trademark rights and similar rights	3,420	929
Goodwill	-	-
Other non-current assets		
Other assets	-	-
	7,735	**5,262**
thereof impairment losses		
Goodwill	1,700	-

Impairment losses relate to the Baldessarini brand.

(7) Financial result

KEUR	2017/18	2016/17
Write-up of the at-equity investment	30	100
Other interest and similar income	92	156
Interest expenses	-841	-869
	-719	**-613**

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 taxes

KEUR	2017/18	2016/17
Current taxes		
Germany	155	469
Foreign	663	677
	818	**1,146**
Deferred taxes		
Germany	-785	-667
Foreign	-156	13
	-941	**-654**
	-123	**492**

Of the deferred taxes, EUR 195 thousand in income relate to the recognition and reversal of temporary differences (previous year: expense of EUR 355 thousand).

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 between 14.00 and 33.33 percent (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	2017/18	2016/17
Consolidated net results before income taxes	**-7,124**	**2,381**
Expected tax expense at a rate of 30.88% (2016/17: 30.88%)	-2,200	735
Tax rate differences at local tax rate	-77	-462
Effects from changes in tax rates	1	2
Non-deductible business expenses	228	276
Taxes for previous fiscal years	344	60
Adjustments to recognition of deferred tax assets and other permanent differences	1,563	-74
Tax-free income	-4	-56
Other differences	22	11
Total adjustments	2,077	-243
Tax expense reported	**-123**	**492**

As of November 30, 2018, no deferred taxes were recorded for tax loss carryforwards of EUR 8,233 thousand (previous year: EUR 2,939 thousand) that exist in the Group, as the Group believes it is rather unlikely that they will be utilised in the next five years. This amount includes EUR 3,281 thousand that will lapse successively over the next 20 years. In addition, deferred tax assets in the amount of EUR 298 thousand (previous year: EUR 352 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, 2018 deferred tax assets	Nov. 30, 2018 deferred tax liabilities	Nov. 30, 2017 deferred tax assets	Nov. 30, 2017 deferred tax liabilities
Property, plant and equipment	18	1,336	46	1,374
Intangible assets	35	2,530	46	2,559
Non-current financial Assets	-	57	-	57
Inventories	794	-	683	-
Trade receivables and other current financial assets	87	-	85	5
Pension provisions	392	-	443	-
Other provisions	269	102	158	118
Financial liabilities	52	138	358	-
Other liabilities	142	-	154	19
	1,789	**4,163**	**1,973**	**4,132**
Losses carried forward	2,529	-	1,782	-
	4,318	**4,163**	**3,755**	**4,132**
Balance	-3,142	-3,142	-2,510	-2,510
	1,176	**1,021**	**1,245**	**1,622**

As of the balance sheet date, there were taxable temporary differences relating to subsidiaries in the amount of EUR 390 thousand (previous year: EUR 382 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 -407 thousand (previous year: EUR 487 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	2017/18 before taxes	2017/18 deferred taxes	2016/17 before taxes	2016/17 deferred taxes
Not to be reclassified to profit or loss				
Actual gains and losses on defined benefit plans	206	-66	-101	23
To be reclassified to profit or loss				
Net result from cash flow hedges	1,213	-375	-1,902	589
Currency translation differences as per IAS 21.32f	-109	34	404	-125
Other currency translation differences in the equity	-331	-	-80	-
Other changes	-139	-	-149	-
	840	**-407**	**-1,828**	**487**
Others income after taxes		**433**		**-1,341**

(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, 2018, or November 30, 2017, that would have a diluting effect on earnings per share. Consolidated net results attributable to the shareholders of Ahlers AG amounts to EUR -7,006 thousand (previous year: EUR 1,836 thousand). This amount is distributed evenly over all shares. In the fiscal year 2017/18, this resulted in earnings per share of EUR -0.51 (previous year: EUR 0.11 per common share and EUR 0.16 per preferred share).

6. NOTES TO THE CONSOLIDATED BALANCE SHEET

Changes to the individual items of non-current assets during fiscal 2016/17 and 2017/18 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 and the change in the basis of consolidation resulting from the addition of Ahlers RUS, investments in property, plant and equipment and intangible assets exceeded the systematic depreciation in the fiscal year 2017/18. The additions to factory and office equipment in the amount of EUR 2,049 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 5,600 thousand (previous year: EUR 3,900 thousand) and Baldessarini trademark rights of EUR 4,270 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 foundation of Ahlers RUS resulted in the capitalisation of goodwill in the amount of EUR 704 thousand.

Development expenses were not capitalised, as the requirements defined in IAS 38 were not fully met. R&D costs of EUR 7,188 thousand (previous year: EUR 6,762 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 7.92 percent for each cash-generating unit. The Otto Kern trademark rights were written up by EUR 1,700 thousand and the Baldessarini trademark rights were written down by EUR 1,700 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 rates 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 7.92 percent for this cash-generating unit.

Management is of the opinion that the assumptions and estimates for the cash-generating units are adequate. Future changes in the framework conditions may nevertheless have an impact on the parameters for the calculation of the recoverable amount. This may result in the recoverable amount deviating from the corresponding carrying amount in the future.

(13) At-equity investment

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 as at November 30, 2018. 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 30 thousand. The income is shown under profit shares from at-equity investments. Jupiter Shirt paid out no dividend in the fiscal year.

In the fiscal year 2017, the company, which is accounted for using the equity method, generated sales revenues of EUR 7,820 thousand and earnings before taxes of EUR 19 thousand. Total assets amounted to EUR 6,036 thousand as of December 31, 2017.

(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 38 thousand (previous year: EUR 498 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. The carrying amounts declined by EUR 91 thousand in the fiscal year as a result of sales and systematic depreciation at a low level. The sales generated proceeds of EUR 640 thousand, resulting in net income of EUR 547 thousand. As in the previous year, no works of art were bought in the fiscal year 2017/18.

Other non-current assets are comprised as follows:

KEUR	Nov. 30, 2018	Nov. 30, 2017
Contemporary Art	11,178	11,254
Classic Modernism	5,754	5,767
Other works of art	766	768
	17,698	**17,789**

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, 2018	Nov. 30, 2017
Raw materials and consumables	18,964	21,362
Work in progress	458	537
Finished goods and merchandise	61,444	53,421
	80,866	**75,320**

The amount of impairment taken into consideration in measuring inventories is EUR 10,294 thousand (previous year: EUR 8,529 thousand). The carrying amount of inventories recorded at net realisable value is EUR 22,690 thousand (previous year: EUR 17,720 thousand).

Inventories of finished goods and merchandise increased primarily because of the revenue-related increase in old merchandise and NOS inventories as well as the first-time consolidation of Ahlers RUS. 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: 51).

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

KEUR	2017/18	2016/17
As at Dec. 1	1,413	1,615
Utilisation	-334	-235
Reversal	-282	-297
Additions	825	300
Currency translation differences	-9	30
As at Nov. 30	**1,613**	**1,413**

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, 2018:

KEUR	Nov. 30, 2018	Nov. 30, 2017
Carrying amount on November 30	**20,211**	**31,538**
thereof neither overdue nor impaired	**12,930**	**25,234**
thereof overdue but not impaired	**5,712**	**4,992**
< 90 days	3,598	3,162
> 90 to 180 days	531	1,651
> 180 to 270 days	284	40
> 270 to 360 days	873	28
> 360 days	426	111

This includes receivables from a major foreign customer in the amount of EUR 2,047 thousand (previous year: EUR 2,977 thousand). Together with the loan reported under other non-current assets (section 14 of the notes), the outstanding receivables to this customer amounted to EUR 2,085 thousand at the balance sheet date (previous year: EUR 3,475 thousand). Of these receivables, EUR 2,085 thousand (previous year: EUR 2,150 thousand) are secured by guarantees.

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

The decline in trade receivables is attributable to the factoring agreement signed with effect from November 30, 2018. The resulting effect amounts to EUR 10,377 thousand. For further information, please refer to note (33) - Financial risk management.

(17) Other current assets

Other financial assets essentially include the positive value from the fair value measurement of the forward exchange contracts. These amounted to EUR 448 thousand as of the balance sheet date (previous year: EUR - thousand). They also comprise financial assets held for trading in Germany at carrying amounts of EUR - thousand (previous year: EUR 7 thousand).

Receivables from affiliates in the amount of EUR 102 thousand (previous year: EUR 0.3 thousand) relate to the exchange of goods and services with these companies.

Other assets in the amount of EUR 3,142 thousand (previous year: EUR 3,017 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, 2018	Nov. 30, 2017
Cash on hand	187	174
Bank balances	4,032	6,229
	4,219	**6,403**

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 4,219 thousand (previous year: EUR 6,403 thousand).

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

KEUR	Nov. 30, 2018	Nov. 30, 2017
Cash on hand	187	174
Bank balances	4,032	6,229
Overdraft facilities	-5,446	-112
	-1,227	**6,291**

(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. These are registered common shares (previous year: 7,600,314 common shares and 6,081,206 non-voting preferred shares. The 7,600,314 common shares included 500 registered shares with transfer restrictions).

The total number of shares outstanding remained unchanged from the previous year and stood at 13,681,520 shares as of November 30, 2018.

(21) Authorised capital

Based on a resolution by the ordinary Annual Shareholders' Meeting of May 3, 2017 in conjunction with the resolution adopted by the Annual Shareholders' Meeting on April 24, 2018 on the conversion of bearer shares into registered shares and the abolition of the preferred shares as well as the transfer restrictions of the former registered shares and their right to designate members of the Supervisory Board, the statutes were amended as follows: The Management Board shall be authorised, with the consent of the Supervisory Board, to increase the share capital by a total of no more than EUR 21,600 thousand once or several times through the issue of new, registered common shares against cash and/or non-cash contributions by May 2, 2022. The Management Board shall, however, be 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. 84 or www.ahlers-ag.com, 'Investor Relations' section).

(22) Own shares

As of November 30, 2018, 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 34,864 thousand are made up of profit carryforwards (EUR 32,256 thousand), the net loss for the year attributable to the shareholders of Ahlers AG (EUR -7,006 thousand), the revenue reserves from the first-time adoption of IFRS (EUR 7,293 thousand) and other revenue reserves (EUR 2,321 thousand). The latter include the effects from the revaluation of the net debt of the pension obligations in the amount of EUR -773 thousand before taxes and EUR -564 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 26,823 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 142 thousand may not be distributed.

(25) Equity difference from currency translation

The equity difference 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 241 thousand (previous year: EUR 582 thousand).

Statement of provisions 2017/18

KEUR	Dec. 1, 2017	Utilisation	Release	Additions	Addition of unaccrued interest	Currency translation differences	Nov. 30, 2018
Non-current provisions							
Retirement benefit and similar obligations	**4,074**	564	35	5	2	-37	**3,445**
Other anniversaries	465	52	0	49	9	-9	462
Part-time retirement	39	0	0	47	0	-	86
Sub-total	**504**	52	0	96	9	-9	**548**
Current provisions							
Goods returned/discounts	1,408	1,406	0	1,364	-	-3	1,363
Severance payments	365	294	56	2,963	-	-3	2,975
Other	547	277	19	298	-	-26	523
Sub-total	**2,320**	1,977	75	4,625	-	-32	**4,861**
	6,898	2,593	110	4,726	11	-78	**8,854**

(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	2017/18	2016/17
Projected interest rate (discount rate)	1.76%	1.74%
Projected 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	2017/18	2016/17
Present value of the defined benefit obligation as of December 1	3,441	3,654
+ Current service cost	42	41
+ Interest cost (effect of discounting)	86	84
- Benefits paid	-391	-400
+/- Actuarial gains/losses	-206	101
- Curtailments/settlements	0	0
Present value of the defined benefit obligation as of November 30	2,972	3,480
Currency translation	-37	-39
	2,935	**3,441**

The present value of the defined benefit obligations amounted to EUR 3,654 thousand as of November 30, 2016, EUR 3,917 thousand as of November 30, 2015 and EUR 4,154 thousand as of November 30, 2014.

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 510 thousand (previous year: EUR 633 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 110 thousand (previous year: EUR 56 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 24 thousand (previous year: EUR 17 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 0.3 thousand (previous year: EUR - 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 eight years. Liabilities to banks include the "associated liability" from the factoring agreement of EUR 522 thousand, which is recognised for the first time. For more information on factoring, please refer to note (33).

Other financial liabilities include leasing liabilities in an amount of EUR 174 thousand (previous year: EUR 407 thousand) as well as negative market values from the measurement of forward exchange contracts in the amount of EUR - thousand (previous year: EUR 765 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	**2018**	Carrying amount	12,788	18,296	1,410	19,706	**32,494**
		Interest rate	1.37%	1.68%	1.35%		
	2017	Carrying amount	8,054	24,050	2,998	27,048	**35,102**
		Interest rate	1.46%	1.75%	1.33%		
Trade payables	**2018**	Carrying amount	23,577	-	-	-	**23,577**
		Interest rate	-	-	-		
	2017	Carrying amount	20,559	-	-	-	**20,559**
		Interest rate	-	-	-		
Other payables	**2018**	Carrying amount	174	-	-	-	**174**
		Interest rate	1.52%	-	-		
	2017	Carrying amount	995	177	-	177	**1,172**
		Interest rate	1.52%	1.52%	-		
Total amounts	**2018**		36,539	18,296	1,410	19,706	**56,245**
	2017		29,608	24,227	2,998	27,225	**56,833**

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, 2018 Minimum lease-payments	Nov. 30, 2018 Present value of minimum lease	Nov. 30, 2017 Minimum lease payments	Nov. 30, 2017 Present value of minimum lease
Maturity				
within a year	175	174	234	230
1 to 5 years	-	-	178	177
> 5 years	-	-	-	-
Total minimum lease payments	**175**	**174**	**412**	**407**
minus the interest portion	-1		-5	
Present value of minimum lease payments	**174**		**407**	

Liabilities under finance leases are offset by assets in an amount of EUR 174 thousand (previous year: EUR 407 thousand) shown under property, plant and equipment.

Lease payments in the fiscal year 2017/18 totalled EUR 234 thousand (previous year: EUR 235 thousand).

(29) Other current provisions

Other current provisions primarily contain provisions for severance payments to employees and representatives. Additions in the fiscal year were made in the context of the discontinuation of Jupiter Sportswear and the ladieswear activities. This item also includes provisions for returns and discounts. The net margins are shown here. The latter are determined on the basis of the prior year figures and the current sales trend.

(30) Other current liabilities

KEUR	Nov. 30, 2018	Nov. 30, 2017
Liabilities to affiliated companies	2,564	2,518
Other liabilities	8,382	9,370
thereof		
Wages and salaries	3,482	4,156
Taxes	1,462	1,487
Social security	701	841
Miscellaneous	2,737	2,886
	10,946	**11,888**

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, 2018 Carrying amount	Nov. 30, 2018 Fair value	Nov. 30, 2017 Carrying amount	Nov. 30, 2017 Fair value
Assets					
Cash and cash equivalents	LaR	4,219	4,219	6,403	6,403
Trade receivables	LaR	20,211	20,211	31,538	31,538
Other financial assets		1,352	1,352	1,192	1,192
thereof:					
- Other non-current financial assets	LaR	904	904	1,185	1,185
- Hedge-related derivatives	n.a.	448	448	-	-
- Other current financial assets	FAHfT	-	-	7	7
Liabilities					
Liabilities to banks	FLAC	32,494	32,494	35,102	35,102
Trade payables	FLAC	23,577	23,577	20,559	20,559
Other financial liabilities		174	174	1,172	1,172
thereof:					
- Liabilities from lease agreements	n.a.	174	174	407	407
- Hedge-related derivatives	n.a.	-	-	765	765
Total per measurement category as defined in IAS 39:					
Loans and Receivables	**LaR**	**25,334**	**25,334**	**39,126**	**39,126**
Financial Assets Held for Trading	**FAHfT**	**-**	**-**	**7**	**7**
Financial Liabilities Measured at Amortised Cost	**FLAC**	**56,071**	**56,071**	**55,661**	**55,661**

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 changes in liabilities resulting from financing activities are fully cash-effective.

The table below shows the net results by measurement categories:

KEUR		from interest	Subsequent measurement: at fair value	Subsequent measurement: Currency trans-lation	Subsequent measurement: Impair-ment	from disposal	Net result: 2017/18	Net result: 2016/17
Loan and Receivables	LaR	93	-	53	-736	-83	-673	**127**
Financial Assets Held for Trading	FAHfT	-	0	-	-	-	0	**0**
Financial Liabilities Measured at Amortised Cost	FLAC	-819	-	-38	-	-	-857	**-770**

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 951 thousand as of the balance sheet date (previous year: EUR 984 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 47 thousand as of November 30, 2018 (previous year: EUR 55 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, 2018	Nov. 30, 2017
Maturity		
within a year	6,909	6,504
1 to 5 years	12,007	12,854
> 5 years	1,085	2,312
	20,001	**21,670**

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 887 thousand (previous year: EUR 292 thousand) have been recorded under lease expense. These conditional lease payments concern payments that vary according to sales levels. In the fiscal year 2017/18, payments under operating leases totalled EUR 7,821 thousand (previous year: EUR 7,589 thousand).

(33) Financial risk management

To finance its business activity, the Ahlers Group mainly uses financial liabilities in the form of interest-bearing loans and trade payables and the transfer of financial assets. 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, 2018			Nov. 30, 2017		
		Nominal value		Fair value	Nominal value		Fair value
Type	Currency	in thsd. currency units	KEUR	KEUR	in thsd. currency units	KEUR	KEUR
Purchases	USD	11,500	9,483	442	27,094	23,467	-765
Sales	CHF	1,500	1,328	5	-	-	-

As of November 30, 2018, there were forward exchange deals with a positive market value of EUR 447 thousand (previous year: EUR - thousand) and forward exchange deals with a negative market value of EUR - thousand (previous year: EUR -765 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 four days and nine months and are realised in batches of between EUR 0.4 million and EUR 0.9 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 1.1746 to 1.2708. 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, positive effects in an amount of EUR 309 thousand after deferred taxes (previous year: EUR 529 thousand negative 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	
	2018	2017	2018 KEUR	2017 KEUR	2018 KEUR	2017 KEUR
USD	+3%	+4%	114	241	79	167
	-3%	-2%	-114	-121	-79	-84
CHF	+2%	+3%	-107	-151	-74	-104
	-2%	-2%	107	101	74	70
PLN	+1%	+2%	20	67	14	46
	-1%	-1%	-20	-33	-14	-23

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 7.4 million as of the balance sheet date (previous year: EUR 8.6 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 600 thousand and had a market value of EUR -2 thousand as of the balance sheet date.

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 non-current 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)	
2018	2017	2018	2017	2018	2017
+15	+15	-42	-45	-29	-31
-5	-5	14	15	10	10

Transfer of financial assets

With effect from November 30, 2018, Ahlers signed a factoring agreement with a buyer of receivables. Under this agreement, the receivables buyer is obliged to purchase trade receivables that are due in the short term. The purchases are made on a monthly revolving basis with weekly reconciliations and cover a contractually agreed volume of between EUR 9 million and EUR 28 million. Ahlers has the right to determine the utilisation of this volume. All risks and opportunities are essentially transferred. The relevant risks in this context are the credit risk and the risk of delayed incoming payments. The credit risk is additionally mitigated by a trade credit insurance policy to cover peaks. The remaining risk of payment defaults borne by Ahlers AG amounts to 3.06 percent. The resulting expected loss has been recognised as an expense and is included in financial liabilities. This expected loss represents the continuing involvement and amounted to EUR 0.5 million on the balance sheet date. The volume of receivables sold amounted to EUR 10.9 million in the fiscal year (only November 30, 2018). Ahlers bears the risk of payment delays.

As of the balance sheet date, the receivables sold and not yet settled under the factoring agreement amounted to EUR 10.9 million.

Ahlers remains in charge of servicing the receivables sold, which means that the company retains the right to dispose of the receivables sold. Ahlers may, however, dispose of the receivables sold only in the context of the servicing function. These receivables are recognised in the amount of the "continuing involvement", i.e. in the amount of the maximum amount of the liability for the risk of payment defaults relating to the trade receivables sold. A corresponding liability to banks is recognised. If this risk – and, hence, the "continuing involvement" – is reduced by an incoming payment, these receivables and liabilities are unrecognised accordingly.

Ahlers recognises the purchase price payments received from the buyer of the receivables in operating cash flow.

With regard to cash management, the Ahlers Group aims to maintain its flexibility through the use of overdrafts, bank loans, the transfer of financial assets 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 available funds including 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, 2018, 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, current trade receivables as well as current trade payables.

KEUR	Nov. 30, 2018	Nov. 30, 2017
Inventories	80,868	75,320
Trade receivables	20,211	31,538
Current trade payables	-23,576	-20,559
Net working capital	**77,503**	**86,299**

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 positioning 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 172,179 thousand) result from the assets as derived from the segment information (EUR 170,278 thousand) plus deferred tax assets and current income tax assets (EUR 1,901 thousand). Accordingly, the liabilities stated in the balance sheet (EUR 79,038 thousand) result from the liabilities as derived from the segment information (EUR 77,144 thousand) plus deferred tax liabilities and current income tax liabilities (EUR 1,720 thousand) as well as leasing liabilities (EUR 174 thousand).

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

The accounting and valuation principles for the Group segment information 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

'Western Europe' encompasses the following countries: Austria, Belgium, Denmark, Finland, France, Great Britain, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden and Switzerland. '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 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. Two more 3-year periods run from December 2017 to November 2020 with payment in April 2021 and from December 2019 to November 2022 with payment in April 2023. At the time of their issue, the share price-based component of the two current 3-year tranches had an intrinsic value of EUR 69 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 include an explicit severance pay commitment in case a contract is terminated prematurely. Nor do they include any change-of-control clauses in case 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	2017/18	2016/17
Salary	1,044	1,010
Annual bonus*	-87	379
Miscellaneous	33	32
Total	**990**	**1,421**

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

Former members of the Management Board and the management of Adolf Ahlers GmbH and their survivors received total compensation of EUR 51 thousand (previous year: EUR 68 thousand) during fiscal 2017/18.

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	2017/18	2016/17
Fixed compensation	105	105
Variable compensation	0	0
Total	**105**	**105**

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 2017/18, for which an amount of EUR 6 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 the German Stock Corporation Act (AktG)

On June 29, 2018, Dr. Stella A. Ahlers 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% and 50% on June 29, 2018 and amounted to 52.54% (which corresponds to 7,188,512 voting rights) on that date. Pursuant to section 22 (1) sentence 1 no. 1 of the German Securities Trading Act (WpHG), 52.34% (which corresponds to 7,161,244 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 Stiftung & Co. KG
- WTW-Beteiligungsgesellschaft mbH.

Apart from Dr. Ahlers, no other Board member owned shares in the company on the reporting date.

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 position of the related party. Key business relationships are explained below:

During fiscal 2017/18 there were

- supplies to Westfälisches Textilwerk Adolf Ahlers Stiftung & Co. KG, Herford, and related parties in an amount of EUR 3.3 million (previous year: EUR 3.0 million);
- services from Westfälisches Textilwerk Adolf Ahlers Stiftung & Co. KG, Herford, and related parties in an amount of EUR 12.9 million (previous year: EUR 14.8 million).

As of November 30, 2018, net liabilities in the amount of EUR 2.5 million (previous year: EUR 2.5 million) resulted from business relations between Ahlers AG and its subsidiaries on the one hand and related parties on the other.

Employees (annual average)

	2017/18	2016/17
Blue collar	1,263	1,226
White collar	859	836
Total	**2,122**	**2,062**

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 2018 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, 2018, 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, and 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, 2018.

Events after the balance sheet date

There were no 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, 2018.

Auditor's fee

The audit fee expensed in the fiscal year 2017/18 and the previous year covered the following services:

KEUR	2017/18	2016/17
Audit of the financial statements	245	236
Other attestation services	-	-
Tax consulting services	-	-
Other services	-	-
	245	**236**

Distribution of profits of Ahlers AG

In the fiscal year 2017/18, 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.

In view of the business performance in the fiscal year 2017/18, the Management Board proposes to pay out no dividend for the fiscal year 2017/18.

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 (until April 24, 2018)
Administrative assistant, Spenge (Employee representative), Ahlers Zentralverwaltung GmbH

Hans-Joachim Knauf (since April 24, 2018)
Commercial clerk, Herford (Employee representative), Ahlers Vertrieb GmbH

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

Bernd A. Rauch (until January 31, 2019)
Advertising expert, Oberursel (Taunus)

Management Board

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

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

Götz Borchert (until December 12, 2018)
Herford, Board member in charge of Marketing, Retail/E-commerce, Design/Product and Corporate Communications

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Further disclosures relating to Supervisory/Management Board members

On November 30, 2018 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 2017/18

	Accumulated costs					
KEUR	Dec. 1, 2017	Additions	Disposals	Reclassi-fication	Currency differences	Nov. 30, 2018
Property, plant and equipment						
Land, land rights and buildings	33,940	266	52	1	-166	33,989
Machinery	9,783	526	24	201	-648	9,838
Plant and office equipment	45,211	2,048	2,024	-192	-114	44,929
Payments on account and plant under construction	28		5	-18		5
	88,962	**2,840**	**2,105**	**-8**	**-928**	**88,761**
Intangible assets						
Industrial property rights and similar rights and assets	31,395	1,330	27	196	-6	32,888
Goodwill	429				-2	427
Payments on account	2,583	1,715		-188		4,110
	34,407	**3,045**	**27**	**8**	**-8**	**37,425**
	123,369	**5,885**	**2,132**	**0**	**-936**	**126,186**

for fiscal 2016/17

	Accumulated costs					
KEUR	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**

Accumulated depreciation/amortisation						Carrying amounts	
Dec. 1, 2017	Additions	Disposals	Appreciations	Currency differences	Nov. 30, 2018	Nov. 30, 2018	Nov. 30, 2017
19,642	489	50		-97	19,984	14,005	14,298
8,202	339	-114		-501	8,154	1,684	1,581
35,389	3,487	1,939		-85	36,852	8,077	9,822
-					-	5	28
63,233	**4,315**	**1,875**		**-683**	**64,990**	**23,771**	**25,729**
17,286	3,420	22	1,700	-4	18,980	13,908	14,109
101				-2	99	328	328
-					-	4,110	2,583
17,387	**3,420**	**22**	**1,700**	**-6**	**19,079**	**18,346**	**17,020**
80,620	**7,735**	**1,897**	**1,700**	**-689**	**84,069**	**42,117**	**42,749**

Accumulated depreciation/amortisation						Carrying amounts	
Dec. 1, 2016	Additions	Disposals		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**

GROUP SEGMENT INFORMATION

for fiscal 2017/18

by business segment	Premium Brands		Jeans, Casual & Workwear		Others		Total	
KEUR	**2017/18**	**2016/17**	**2017/18**	**2016/17**	**2017/18**	**2016/17**	**2017/18**	**2016/17**
Sales	153,239	162,357	69,507	73,217	321	357	223,067	235,931
Intersegment sales	-	-	-	-	-	-	-	-
Segment results	-6,556	254	-1,110	2,136	542	-9	-7,124	2,381
thereof								
Depreciation and amortisation	5,926	3,724	1,792	1,519	17	19	7,735	5,262
Impairment losses (IAS 36)	-	-	-	-	-	-	-	-
other non-cash items	1,660	217	1,314	69	0	1	2,974	287
Interest income	71	115	51	141	0	-	122	256
Interest expense	561	577	278	290	2	2	841	869
Net assets	120,672	124,255	31,428	36,010	18,178	18,286	170,278	178,551
Capital expenditure	3,941	5,266	1,944	1,640	0	0	5,885	6,906
Liabilities	56,311	54,994	20,789	21,450	44	35	77,144	76,479

by geographic region

KEUR	Premium Brands 2017/18	Premium Brands 2016/17	Jeans, Casual & Workwear 2017/18	Jeans, Casual & Workwear 2016/17	Others 2017/18	Others 2016/17	Total 2017/18	Total 2016/17
Germany								
Sales	72,093	77,018	48,369	49,566	321	358	120,783	126,942
Net assets	87,595	93,405	22,727	23,536	18,161	18,271	128,483	135,212
Western Europe								
Sales	44,406	44,782	14,414	15,687	-	-	58,820	60,469
Net assets	8,790	10,151	4,093	7,693	-	-	12,883	17,844
Central-/ Eastern Europe/ Others								
Sales	36,740	40,557	6,724	7,963	-	-	43,464	48,520
Net assets	24,288	20,699	4,609	4,781	15	15	28,912	25,495

Proposal for the appropriation of profits

The Management Board and the Supervisory Board propose not to pay out a dividend to the shareholders from the profit of EUR 541,106.33 posted for the fiscal year 2017/18 and to carry the full profit forward to new account.

Herford, February 12, 2019

Dr. Stella A. Ahlers

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 12, 2019

Dr. Stella A. Ahlers

Dr. Karsten Kölsch

Independent Auditor´s Report

To Ahlers AG, Herford:

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

Opinions

We have audited the consolidated financial statements of Ahlers AG, Herford and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 30 November 2018, and consolidated profit and loss account, comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 December 2017 to 30 November 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of Ahlers AG, Herford for the financial year from 1 December 2017 to 30 November 2018. In accordance with the German legal requirements, we have not audited the content of those parts of the combined management report listed in the chapter "other information".

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 30 November 2018, and of its financial performance for the financial year from 1 December 2017 to 30 November 2018, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of those parts of the combined management report listed in the chapter "other information".

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements.

In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 December 2017 to 30 November 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

We identified the following matters as key audit matters:

1. Valuation of inventories
2. Proceeds from the sale of clothing
3. Recognition and measurement of a restructuring provision
4. Accounting treatment of a new factoring agreement

1. Valuation of inventories

Facts and circumstances

Taking into account impairment losses of EUR 10.3 million, inventories are recognized at EUR 80.9 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 100 and 110 of the notes to the consolidated statements.

Audit Approach and conclusions

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. 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 222.0 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 102 and 103 of the notes to the consolidated statements. Distribution channels are outlined on pages 24 ff. of the combined management report.

Audit Approach and conclusions

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.

3. Recognition and measurement of a restructuring provision

Facts and circumstances

Due to the economic development, the Supervisory Board and the Management Board adopted comprehensive set of measures in the fourth quarter of the reporting year. It comprises the concentration on Ahlers AG's core brands, the streamlining of the organisation and a reduction in complexity. The full set of measures will lead to job cuts of about 130, including presumably 100 in Germany. During our audit we have determined this fact as a key audit matter because there is a risk that the restructuring provision is incomplete and that the recognition criteria are not met. In addition, the valuation of the restructuring provision largely depends on the assessments and assumptions of the legal representatives and is therefore discretionary.

The disclosures of Ahlers AG on the restructuring provision are included on page 101 of the notes to the consolidated statements and on page 59 of the combined management report.

Audit Approach and conclusions

As part of our audit we assessed the recognition criteria for the recognized restructuring provision. Based on our review of the Executive Board and Supervisory Board minutes and our interviews we comprehended the estimates and assumptions of management. We are confident that a formal restructuring plan was in place before the balance sheet date and essential components had been communicated to the affected employees or that the implementations of the measures had already begun. In addition, for a deliberate selection of the employees affected by the workforce reduction we have reconciled the underlying assumptions with the restructuring plan as well as with planned redundancies or termination agreements during the period of preparation. Overall, we were confident of the appropriateness of the restructuring provision.

4. Accounting treatment of a new factoring agreement

Facts and circumstances

In fiscal year 2017/2018 Ahlers AG and several of its subsidiaries joined a factoring program. Pursuant to this agreement the buyer of the receivables is required to purchase short-term trade account receivables up to a certain volume. Receivables in the amount of EUR 10.9 million were sold as of 30 November 2018 and a receivable transfer was recognized. There are purchase price deductions and since neither all chances and risks are transferred or retained the Group recognizes a remaining continuing involvement. In our audit we determined this issue as a key audit matter due to the complex contract design and the first-time accounting.

The disclosures of Ahlers AG on the factoring agreement are included on page 111, 114 and 119f. of the notes to the consolidated statements.

Audit Approach and conclusions

During our audit we consulted our internal specialists for the assessment of the factoring agreement and the determination and balance sheet presentation of the continuing involvement. For the evaluation of the accounting of the factoring agreement we have reviewed, reconfirmed and comprehended the contractual agreements. Thereby we examined the criteria of IAS 39 for the disposal of assets. In particular we determined wether the requirements for the derecognition of receivables and the accounting for a continuing involvement have been met. Overall, we were confident of the appropriateness of the accounting for the factoring agreement.

Other Informationen

The executive directors are responsible for the other information. The other information comprises:

- the statement on corporate governance included in section “5” of the group management report,
- the non-financial statement included in section “5” of the combined management report,
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor’s report,
- the Corporate Governance Report according to No. 3.10 of the German Corporate Governance Code and
- the responsibility statement pursuant to § 297 (2) sentence 4 HGB on the consolidated financial statements and the responsibility statement pursuant to § 315 (1) sentence 5 HGB on the combined management report.

Our opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal controls as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group’s position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Group’s financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 24 April 2018. We were engaged by the supervisory board on 8 November 2018. We have been the group auditor of the Ahlers AG without interruption since the financial year 2009.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Birte Fleischer.

Hannover, February 13, 2019

BDO AG
Wirtschaftsprüfungsgesellschaft

Heesch	Fleischer
Auditor	Auditor

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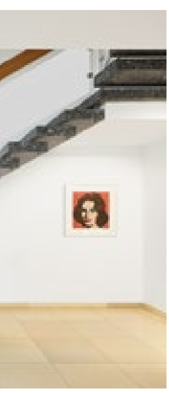
History of Ahlers AG

2019	100th anniversary of the company
2018	Consolidation of share types and conversion into registered shares Foundation of Ahlers RUS, in which Ahlers holds 60 percent; signing of an agreement to acquire another 30 percent Announcement of comprehensive programme of measures aimed at increasing earnings and efficiency
2017	Opening of the Elsbach Denim Library in Westerland on Sylt Relocation of Baldessarini to the Herford headquarters
2016	Launch of the Pierre Cardin online shop
2014	Opening of the “Elsbach Denim Library” multi-brand store in Hamburg Acquisition of additional Pierre Cardin licenses in Belgium, France and Spain
2013	Takeover of the license for Pierre Cardin leg wear Opening of an international showroom in Rue Royale in Paris Launch of the Pionier Workwear online shop
2012	Launch of the Baldessarini online shop
2011	Takeover of the remaining interests in Otto Kern GmbH
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 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


Ahlers AG


ahlers
Ahlers AG

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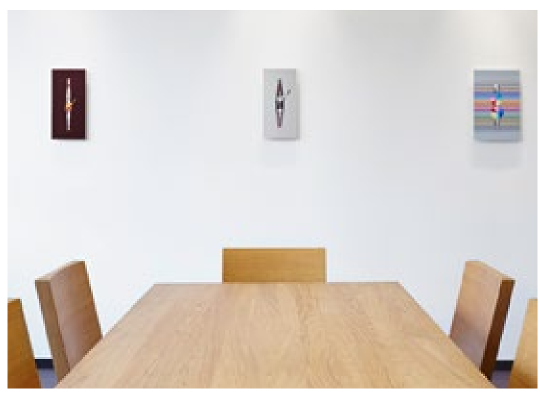

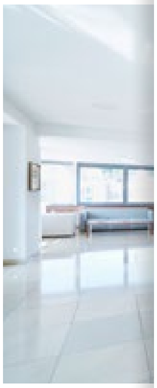

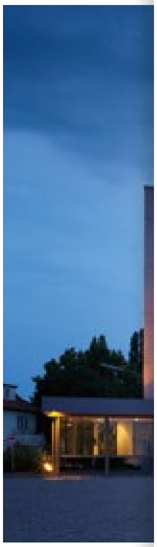

Financial calendar 2019

Annual accounts press conference in Düsseldorf	February 28, 2019
Quarterly statement Q1 2018/19	April 10, 2019
Analysts' conference in Frankfurt am Main	April 11, 2019
Annual Shareholders' Meeting in Düsseldorf	April 17, 2019
Half-year report 2018/19	July 10, 2019
Quarterly statement Q3 2018/19	October 14, 2019
Analysts' conference in Frankfurt am Main	October 15, 2019

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