AHLERS AG

Annual Report 2018/19

December 1, 2018 - November 30, 2019

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 about 70 percent of its sales revenues from premium brands
- produces 6 million fashion items per year
- manufactures about one third of the production volume in its own factories
- employs some 1,900 people
- generates 85 percent of its sales revenues from sales to specialist retailers and 15 percent from its own retail activities

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Five-year summary

		2014/15	2015/16	2016/17	2017/18	**2018/19**	Change
Consolidated financial statements							
Sales	EUR million	241.9	237.8	235.9	223.1	207.0	-7.2%
thereof abroad	%	44.9	45.3	46.2	45.6	45.8	0.2 PP
Gross profit	EUR million	119.0	116.9	117.1	109.2	99.7	-8.7%
as a percentage of sales	%	49.2	49.2	49.6	48.9	48.2	-0.7 PP
EBITDA	EUR million	8.7	9.2	8.3	1.3	2.9	>100.0%
EBIT	EUR million	2.4	4.0	3.0	-6.4	-2.4	62.5%
Net income	EUR million	1.4	2.5	1.9	-7.0	-3.7	47.1%
Depreciation, amortisation and impairment losses	EUR million	6.3	5.2	5.3	7.7	5.2	32.5%
Cash flow from operating activities	EUR million	13.4	4.9	10.2	9.6	10.7	11.5%
Balance sheet total	EUR million	180.6	181.6	181.2	175.4	153.6	-12.4%
Non-current assets	EUR million	62.1	62.0	63.5	62.5	51.9	-17.0%
Equity	EUR million	105.3	103.9	102.1	93.1	88.3	-5.2%
Equity ratio	%	58.3	57.2	56.4	53.1	57.4	4.3 PP
Number of employees (annual average)		2,093	2,042	2,062	2,122	1,985	-6.5%
The share							
Market capitalisation	EUR million	109.0	95.9	82.2	46.5	38.3	-17.6%
Earnings per share	EUR	0.08	0.17	0.13	-0.51	-0.28	45.1%


BALDESSA

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Letter of the CEO

DEAR SHAREHOLDERS,
DEAR LADIES AND GENTLEMEN.

Efficiency programme completed. 2018/19 was quite an eventful fiscal year, which we closed according to plan. Launched in September 2018, the programme of measures aimed at increasing earnings and efficiency was fully implemented with the cooperative support of our staff and the members of the Works Council. This already led to major cost savings in 2019, which are likely to increase even further next year. At the same time, we have entirely focused on menswear with our Baldessarini, Pierre Cardin, Otto Kern and Pioneer brands. Loss-making operations have been discontinued. This has reduced complexity and will help us to manage the company more effectively in the future.

Focused leadership circle. We have also refocused the company's management, having consistently downsized the three management tiers from the Supervisory Board to the Management Board to the Managing Directors. The Supervisory Board has been reduced from six to three members; in this context, new, younger members have been appointed. We are pleased that we have been able to win two proven industry experts for the Supervisory Board, namely Alexander Gedat as Chairman and Armin Fichtel as his deputy. Heidrun Baumgart stayed on the Supervisory Board as employee representative. The Management Board has been reduced from three members back to two members. At the managing director level, the number of managers has almost been halved. This will enable all three tiers to move closer together and to liaise more closely going forward.

Successful financial consolidation. By streamlining our purchasing processes and switching from cut-make trim arrangements to full package services and by discontinuing loss-making operations, we have noticeably reduced the funds tied up in inventories and receivables. Together with the sale of fixed assets that were no longer needed, debt capital has been reduced by more than 50 percent to a very low level. Between them, these measures have significantly reduced the balance sheet. As a result, the company's equity ratio climbed from 53 percent to 57 percent. This once again underlines Ahlers' financial strength.

Improved result for the year. We closed the fiscal year with a significantly improved result, with earnings before taxes up by 60 percent on the previous year. 2018/19 was nevertheless the second loss-making year in the history of the company. In the fiscal year that has just begun, we aim to grow the revenues and earnings of all our brands. The goal is to reach break-even in 2020 and to return to healthy growth in the following years.

Innovation drive. Our brands have ambitious plans for 2020: Baldessarini will launch the "Tribute to Nature" denim collection and the new NOS suits range. Pierre Cardin will present the "The Future is now" collection. Pioneer benefits from the recently launched Red Edition. And the Otto Kern lion is roaring on every pair of pants. Pionier Workwear will launch the Workflex collection. The E-commerce segment, for which we have just hired a new, experienced manager, will play a key role for the distribution of all brands.

Looking back on the 100-year company anniversary. On the occasion of our 100th anniversary, we celebrated a colourful and cheerful party in December 2019, which was attended by employees from all of the company's domestic and international divisions. We also saw this as a step into the future and towards a closer relationship. At the same time, it was a thank-you to our employees, who always remain entirely committed to our company during these challenging times. I would like to take this opportunity to repeat my sincere thanks to our entire workforce.

Thank-you to customers, suppliers and shareholders. My thanks also go to our customers, suppliers and service providers for the good cooperation in the past year. Let's shape the future together. I would like to thank you, dear shareholders, for the trust you have placed in us and hope that you will remain loyal to our company in the future.

Yours,

S. Ahlers

Dr. Stella A. Ahlers
Chief Executive Officer

Report of the Supervisory Board

DEAR LADIES AND GENTLEMEN.

The past fiscal year 2018/19 saw Ahlers AG undergo a major transformation. Internally, the company has streamlined its organisation and reduced complexity; product-wise, the focus has been placed on menswear since spring 2019. Against the backdrop of the ongoing crisis in the clothing industry, the work of the Supervisory Board was primarily influenced by these measures as well as by the strategic positioning of the company and by the question of how to manage the challenges of digitisation and the steadily growing online trade.

In the past fiscal year, 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 Supervisory Board continuously advised the Management Board and supported the implementation of the set of measures aimed at increasing the company's earnings and efficiency. It supervised the Management Board in managing the company and made sure 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 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 as well as with the Managing Directors of the subsidiaries, also outside the meetings.

Focus of the Supervisory Board meetings

The Supervisory Board held six meetings in the fiscal year 2018/19, 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 12, 2018 were the plans and budgets for the fiscal year 2018/19 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 diversity concept for the composition of the Management Board and the Supervisory Board. The report by the Compliance Officer is another regular item on the agenda of the December meeting. The status report on the set of earnings and efficiency increasing measures as well as the audit of the non-financial statement published for the first time in the 2017/18 Annual Report were discussed and approved. In addition, the chairpersons of the Audit Committee and the Marketing Committee informed the Supervisory Board members about the matters discussed at the latest meetings of their respective committees.

At its meeting on February 13, 2019, the Supervisory Board primarily addressed the 2017/18 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. The Supervisory Board then endorsed the financial statements for the fiscal year 2017/18 and agreed with the Management Board‘s proposal not to pay a dividend for the fiscal year 2017/18. The invitation to the Annual Shareholders' Meeting was discussed and approved. The meeting attendees discussed the risk situation in the fourth quarter of 2017/18, which had deteriorated compared to the previous year. Increased risks resulted from reduced profitability, higher inventories and the decline in incoming orders. The Supervisory Board approved the risk report for the period ended November 30, 2018.

In the context of the election of two of its three members (see the section ‚Changes on the Management Board and the Supervisory Board' on page 8), the Supervisory Board elected the Chairman and the Deputy Chairman of the Supervisory Board at its constituent meeting after the Annual Shareholders' Meeting on April 17, 2019. The responsible auditor of auditing firm Baker Tilly GmbH & Co. KG, which had been newly elected by the Annual Shareholders' Meeting, introduced himself. The Supervisory Board then discussed the current business situation as presented by the Management Board as well as the order situation for autumn/winter 2019.

The Supervisory Board meeting on June 18, 2019 addressed the strategic planning and the sales plans of selected brands and subsidiaries. Another focus of this meeting was the medium-term planning of the e-commerce business. The Management Board also explained the current business trend and the forecast for the fiscal year 2018/19.

On July 15, 2019, the Supervisory Board held a conference call. The Management Board presented the participants with the draft term sheet for a syndicated loan, the underlying plans and the mandate agreement. The conclusion of these contracts required the approval of the Supervisory Board, which was granted unanimously by the members after thorough discussion of the documents presented.

At the meeting on September 11, 2019, the Management Board presented the current business situation, the outlook for the current fiscal year and the order situation for the 2020 spring/summer season. A large part of the meeting was devoted to discussing the preview budget for 2020 and the strategic plans for e-commerce, the premium brands and Pionier Workwear.

Key activities of the committees (until April 17, 2019)

Up to the Annual Shareholders' Meeting on April 17, 2019, the Supervisory Board prepared its decisions in four committees, i.e. the Audit Committee, the Human Resources Committee, the Marketing Committee and the Nomination Committee. The committees discussed all important topics within their sphere of responsibility in detail and prepared the plenary Supervisory Board meetings. The Audit Committee held three regular meetings in the past fiscal year. The Audit Committee monitored the general business trend and, in particular, the implementation of the set of earnings and efficiency increasing measures. It prepared the resolutions to be passed by the Supervisory Board such as the Declaration of Conformity, personnel decisions at the managing director level, the audit programme of the new fiscal year, the recommendations for the election of the new auditor and the invitation to the Annual Shareholders' Meeting of the year 2019. 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 2019 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 Nomination 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.

As decision-making committees must be composed of at least three members, no committees were formed after the Supervisory Board was reduced to three members. So far, the Supervisory Board has not made use of the possibility to set up one or more advisory two-member committees from among its members.

Changes on the Supervisory Board and the Management Board

At the ordinary meeting on December 12, 2018, the Supervisory Board decided to reduce the Management Board to two members again. 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 were assumed by the two remaining Management Board members. CEO 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.

With a view to making the Supervisory Board leaner as well, the Annual Shareholders' Meeting on April 17, 2019 resolved to reduce the number of members from six to three. The members of the Supervisory Board that were in office up to this point in time had cleared the way by resigning from office. Mr. Armin Fichtel and the undersigned were newly elected to the Supervisory Board by the Annual Shareholders' Meeting on April 17, 2019 for the period until the end of the Annual Shareholders' Meeting resolving on the formal approval of the acts of the Supervisory Board for the fiscal year 2021/22. Heidrun Baumgart stayed on the Supervisory Board as employee representative. Our special thanks for the long-standing good cooperation go to the retired members of the Supervisory Board, Prof. Dr. Julia von Ah, Mr. Jörg-Viggo Müller, Mr. Bernd Rauch, Mr. Hans Joachim Knauf and, most importantly, Prof. Dr. Heuer, who served on the Supervisory Board of Ahlers AG for 18 years, 16 of which as Chairman.

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 16 et seq. We discussed the company's practice against the background of the German Corporate Governance Code as last amended on February 7, 2017 and discussed and adopted the Declaration of Conformity at our meeting on December 17, 2019. No conflicts of interest on the part of individual members of the Supervisory Board occurred. The members affected by the decisions abstained from voting in the decisions taken by the Supervisory Board on February 13, 2019 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).

Audit of the financial statements

The 2019 Annual Shareholders' Meeting appointed Baker Tilly GmbH & Co. KG, Düsseldorf, as the auditors for the fiscal year 2018/19. 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 Baker Tilly's audit reports were made available to all members of the Supervisory Board in good time prior to the Supervisory Board's annual accounts meeting on February 12, 2020. The audit report and the focal points of the audit as well as the audit report on the report on related party transactions were explained in detail by the auditors. Following thorough discussion, the Supervisory Board approved the audit result of Baker Tilly GmbH & Co. KG 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 again pay out no dividend and to carry the profit forward to new account. The Supervisory Board also reviewed the non-financial report of Ahlers AG and the non-financial Group report (as part of the Sustainability Report) prepared for the fiscal year 2018/19 and raised no objections.

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

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

Herford, February 12, 2020
The Supervisory Board

Alexander Gedat
Chairman of the Supervisory Board

Corporate Bodies

MANAGEMENT BOARD

Dr. Stella A. Ahlers
Herford
Chairwoman

Dr. Karsten Kölsch
Herford

Götz Borchert
(until December 12, 2018)
Herford

SUPERVISORY BOARD

Alexander Gedat
(since April 17, 2019)
Chairman
Business economist
Rosenheim

Armin Fichtel
(since April 17, 2019)
Deputy Chairman
Businessman
Mönchengladbach

Heidrun Baumgart
Employee representative
Administrative assistant
Bielefeld

Alexander Gedat
Chairman
of the Supervisory board

Prof. Dr. Carl-Heinz Heuer
(until April 17, 2019)
Chairman
Attorney
Königstein

Hans Joachim Knauf
(until April 17, 2019)
Employee representative
Fully qualified lawyer,
commercial employee
Herford

Jörg-Viggo Müller
(until April 17, 2019)
Former member of
the Management
board of the
Ravensburger AG,
Reutlingen

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

Prof. Dr. Julia von Ah
(until April 17, 2019)
Deputy Chairwoman
Tax advisor
Feusisberg (Switzerland)

SUPERVISORY BOARD COMMITTEES

Since the Annual Shareholders' Meeting on April 17, 2019, no committees have been formed as the Supervisory Board was reduced from six to three members. Up to that date, the committees were composed as follows:

AUDIT COMMITTEE
(until April 17, 2019)

- **Prof. Dr. Julia von Ah**
  Chairwoman
- **Prof. Dr. Carl-Heinz Heuer**
- **Jörg-Viggo Müller**

HUMAN RESOURCES COMMITTEE
(until April 17, 2019)

- **Prof. Dr. Carl-Heinz Heuer**
  Chairman
- **Prof. Dr. Julia von Ah**
- **Jörg-Viggo Müller**

MARKETING COMMITTEE
(until April 17, 2019)

- **Bernd A. Rauch**
  Chairman
- **Prof. Dr. Julia von Ah**
- **Prof. Dr. Carl-Heinz Heuer**

NOMINATION COMMITTEE
(until April 17, 2019)

- **Jörg-Viggo Müller**
  Chairman
- **Prof. Dr. Carl-Heinz Heuer**
- **Bernd A. Rauch**

The Share

Stock markets grow in 2018/19

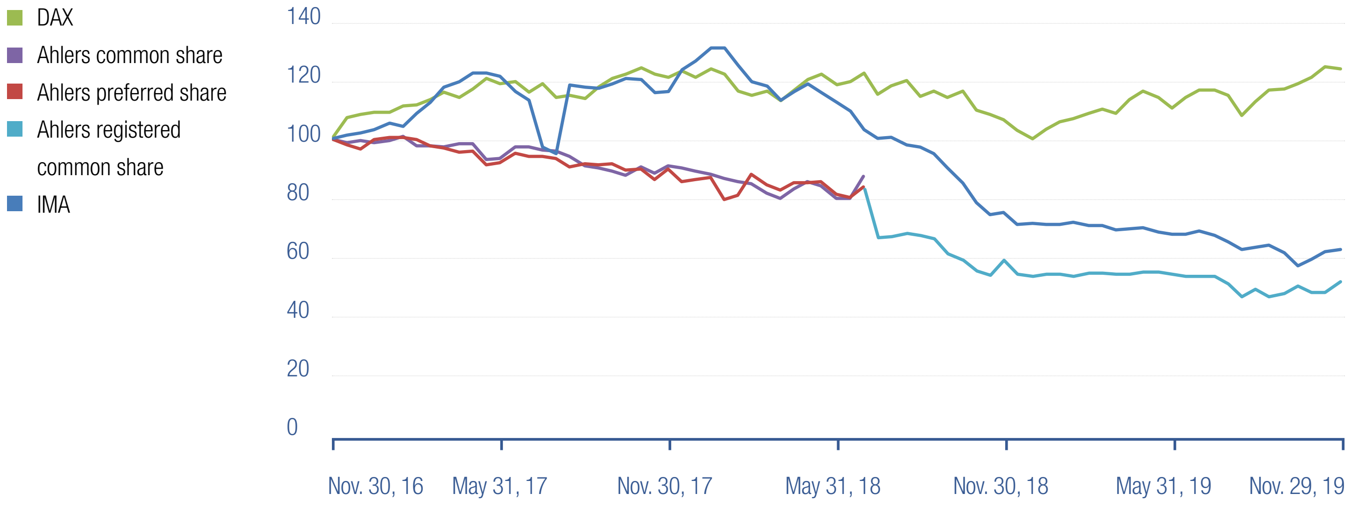
The German stock markets gained significantly in the course of 2019. During Ahlers' fiscal year from December 2018 to November 2019, the prices of the German stock indices, DAX, MDAX and SDAX, each rose by low double-digit percentages. The DAX stood at 10,900 points at the beginning of the year and then climbed to 12,400 points by mid-2019. Losing slightly in the third quarter, the leading German index picked up again, closing at 13,236 points on November 30, 2019 (+14 percent; previous year: 11,257 points). The positive stock market performance was mainly attributable to the expansionary monetary policy pursued by the European Central Bank and the interest rate cuts by the US Federal Reserve. Continued low interest rates for alternative investment options led to strong demand and rising prices on the stock markets. The risks of the smouldering US-Chinese trade conflict and Great Britain's unresolved exit from the European Union played only a minor role, as did the news of a cooling world economy. As a result, the German stock markets increasingly moved away from the economic fundamentals in the course of the year.

Price of the Ahlers share declines in challenging market environment

German clothing retailers again reported declining sales. The ongoing decline in footfall in Germany's city centres, the high price awareness of German consumers and the resulting drop in the sector's profitability as well as increasing casualisation are assumed to be the main reasons for this trend. Growing e-commerce is insufficient to offset the drop in sales in physical fashion stores. German fashion shares therefore failed to benefit from the upward stock market trend and saw their share prices decline in 2019. Negative company news and some major insolvencies are likely to have had the strongest influence on the share price trend.

Although Ahlers did not change its forecasts in the course of the year, the Ahlers share was under pressure especially in the second half of the fiscal year. Between the 2018 and 2019 balance sheet dates, the Ahlers share lost 17.6 percent. As a result, the company's market capitalisation declined from EUR 46.5 million to EUR 38.3 million (-18 percent) in the reporting period.

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

Summary of basic information on the share

	2018/19	2017/18
Share price in EUR (Nov. 30)	2.80	3.40
Equity capital per share in EUR (Nov. 30)	**6.38**	**6.70**
Share price in EUR		
High	3.15	4.20
Low	2.12	2.66
Market capitalisation in EUR million (Nov. 30)	38.3	46.5
Earnings per share in EUR	-0.28	-0.51
Price/carrying amount ratio (Nov. 30)	**0.44**	**0.51**

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 17, 2019 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, 2019, 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.

	Registered common shares
as of Nov. 30, 2019	**13,681,520**
as of Nov. 30, 2018	13,681,520
Security code number	500974
International Securities Identification Number (ISIN)	DE0005009740

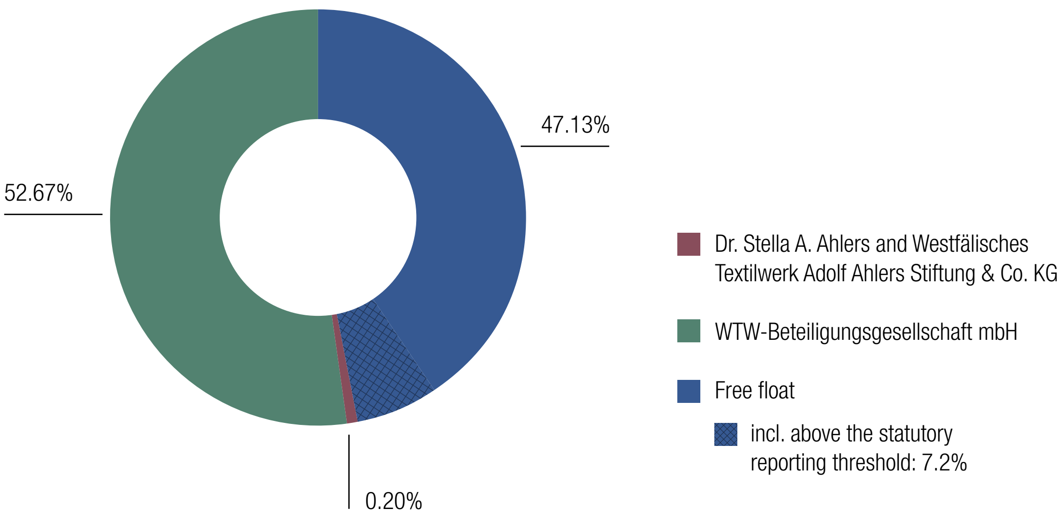
Shareholder structure

The shareholder structure changed moderately in the course of the year. CEO Dr. Stella A. Ahlers reported the purchase of a total of 21,100 shares through WTW-Beteiligungsgesellschaft mbH. 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 52.7 percent of the shares of Ahlers AG (previous year: 52.5 percent). 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). 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, 2019, Ahlers AG held no own shares. 47.1 percent of the shares were free-float shares (previous year: 47.3 percent), of which 7.2 percent are held by two shareholders above the statutory reporting threshold.

Shareholder structure

(as of November 30, 2019)

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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 17, 2019. 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 12, 2018 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. In the opinion of the Management Board and the Supervisory Board, a deductible for the members of the Supervisory Board would have no effect on their sense of responsibility.

5.3.1, 5.3.2 and 5.3.3 Supervisory Board committees

Since the amendment of the statutes on April 17, 2019, the company's Supervisory Board has consisted of only three members in accordance with the statutes. No committees have been formed since then. In view of the small size of the Supervisory Board, it does not make sense to form committees.

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 dated April 24, 2018 compensation was paid only to the chairs of Supervisory Board committees but not to simple members of such committees. Following the downsizing of the Supervisory Board, the current statutes of Ahlers AG do not provide for any compensation for committee membership. The company is of the opinion that this function, which is theoretically possible but currently not used, is covered by the general compensation of the Supervisory Board members.

Ahlers AG
Herford, December 17, 2019

The Management Board The Supervisory Board“

Information on corporate governance practice

Declaration of conformity and basic values

Ahlers AG attaches great importance to good corporate governance, which is 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 had for the first time 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 2018/19 reporting date, 130 people worked at the two management levels below the Management Board (previous year: 138). The share of women stood at 45 percent, compared to 41 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 for the first time. 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 2018/19 reporting date, the share of women on the Management Board and the Supervisory Board stood at 50 percent and 33 percent, respectively (previous year: 33 percent each). The deadline for achieving and reviewing these targets is also June 30, 2022.

Age limit for Management Board members as well as age limit and length of membership for Supervisory Board members

In compliance with the corresponding recommendations of the German Corporate Governance Code, the Supervisory Board specified age limits for the members of the Supervisory Board and the Management Board at its meeting on December 17, 2019. According to these specifications, members of the Management Board shall resign from office at the end of the month in which they reach the age of 65 and Supervisory Board members shall usually not be older than 70 years at the time they are elected to the Supervisory Board.

A maximum length of membership for Supervisory Board members was also defined. The election proposal for the appointment of Supervisory Board members should take into account a limit for the length of Supervisory Board membership of three full terms of office (or a maximum of 15 years).

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 2018/19 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. Each share grants one vote at the Annual Shareholders' Meeting. Regular information is provided on the company's website at www.ahlersag.com, giving shareholders an idea of the current situation of the company. Prior to the Annual Shareholders' Meeting, the agenda and all other requisite documents are sent to the shareholders in good time and/or published on the company's website. Shareholders may have their voting right exercised by a proxy of their own choice. To facilitate the voting process for shareholders, Ahlers AG also provides representatives who are bound by instructions and exercise the voting right at the Annual Shareholders' Meeting. After the Annual Shareholders' Meeting, shareholders can find the voting results as well as the speech of the CEO on the company's website.

Cooperation between the Management Board and the Supervisory Board

The past fiscal year again saw the Management Board and the Supervisory Board cooperate very closely. The Management Board provided 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 Management

Board and the Supervisory Board agreed the strategic positioning of the company. The Management Board must obtain the Supervisory Board's consent for transactions of fundamental importance. 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 2018/19 were attended by the Management Board. A further meeting was held in the form of a conference call together with 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 members until December 12, 2018 and of two members after that date. 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

In accordance with the company's statutes, the Supervisory Board of Ahlers AG was composed of six members, four of whom were elected by the Annual Shareholders' Meeting and two by the employees, up to the end of the Annual Shareholders' Meeting on April 17, 2019. On April 17, 2019, the Annual Shareholders' Meeting decided to amend the statutes with regard to the composition of the Supervisory Board with the aim of reducing the Supervisory Board from six to three members. The members of the Supervisory Board that were still in office up to this point in time had cleared the way by resigning from office. The Annual Shareholders' Meeting on April 17, 2019 then elected Mr Alexander Gedat and Mr Armin Fichtel to the Supervisory Board. Ms Heidrun Baumgart stayed on the Supervisory Board as employee representative. All three current members of the Supervisory Board were elected for the period until the end of the Annual Shareholders' Meeting that resolves on the formal approval of the acts of the Supervisory Board members for the fiscal year 2021/22.

The Supervisory Board may appoint one or more committees to perform preparatory or executive tasks from among its members. Since April 17, 2019, no committees have been formed in view of the reduced size of the Supervisory Board. For details of the committees formed up to that date as well as their composition, refer to page 11 in the chapter entitled

“Corporate Bodies”. Mr Alexander Gedat acts as an independent financial expert as defined in section 100 para. 5 of the German Stock Corporation Act (AktG) and also serves as Chairman of the Supervisory Board. Moreover, Mr Armin Fichtel 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. In the context of the downsizing of the Supervisory Board, the Supervisory Board again revised its targets for the composition of the Supervisory Board in December 2019. 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 (three members including two shareholder representatives and one employee representative),
- 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 17, 2019, 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 one former member 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) As a general rule, the Supervisory Board should have at least one female member.
(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.
(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 20,000 in a calendar year (Directors' Dealings; a threshold of EUR 5,000 applied until December 31, 2019). 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 12 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. The Annual Shareholders' Meeting appointed Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, headquartered in Düsseldorf, as the auditors for the fiscal year 2018/19. The auditors had previously declared their impartiality to the Supervisory Board. Baker Tilly GmbH & Co. KG has audited the company's financial statements for the first time. 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".

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

Ahlers offers attractive, functional and innovative menswear, thus striving for solid and profitable growth. 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.

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 2018/19 sustainability chapter, the company 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 and in a resource-saving manner. 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 sustainable 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: Our corporate citizenship focuses on the visual arts. For decades, we have supported exhibitions by renowned German and international museums with loans from the ahlers collection. In Herford, we cooperate with the Museum Marta and the Ahlers Pro Arte gGmbH foundation. Ahlers also supports various social projects in the region.

On this chapter

The present 2018/19 sustainability chapter was prepared on the basis of the GRI Standards: Core Option, refers to the fiscal year from December 1, 2018 to November 30, 2019 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.

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 38 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:

Stakeholder	Communication and dialogue services
Employees	
Employees and management	Regular information on the Internet, 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, intermediaries, banks and analysts	Annual Shareholders' Meeting, financial reporting, analyst and investor conferences, one-on-one meetings
Society and government	
Neighbours, policy-makers, 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 WRAP organisation (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 75 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 in the past fiscal year nor in the previous year.

The companies of Ahlers AG comply with the legal regulations 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/her 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 et seq.

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 two 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 in many European countries.

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, 72 percent of our Group's 1,929 employees were women and 28 percent were men. In Germany, 314 of 501 employees are women (63 percent; previous year: 63 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. The Supervisory Board was composed of four men until the resignation of one Supervisory Board member on January 31, 2019 and thereafter of three men and two women until April 17, 2019. Following the downsizing and the election of a new Supervisory Board by the Annual Shareholders' Meeting, it is now composed of two men and one woman (Heidrun Baumgart, employee representative). The total management team of all Group companies comprises 130 people (previous year: 138). 59 employees or 45 percent of them are women (previous year: 57 women; 41 percent). In Germany, the management team comprises 39 employees (previous year: 52), of whom 6 are women (15 percent; previous year: 21 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 17.

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

Personnel figures

	Ahlers – Total *				Ahlers – Germany			
	2018/19	%	Previous year	%	2018/19	%	Previous year	%
Total number of employees (reporting date)	1,929	100.0	2,145	100.0	501	100.0	589	100.0
thereof								
men	535	27.7	566	26.4	187	37.3	217	36.8
women	1,394	72.3	1,579	73.6	314	62.7	372	63.2
full-time	1,737	90.0	1,979	92.3	392	78.2	511	86.8
part-time	192	10.0	166	7.7	109	21.8	78	13.2
covered by a collective bargaining agreement	564	29.2	645	30.1	462	92.2	542	92.0
Employees by functional areas								
Product management and sales	302	15.7	392	18.3	221	44.1	277	47.0
Administration	128	6.6	130	6.1	87	17.4	92	15.6
Retail	382	19.8	426	19.9	118	23.6	133	22.6
Production	1,117	57.9	1,197	55.8	75	15.0	87	14.8
Employees in management positions	130	6.7	138	6.4	39	7.8	52	8.8
thereof men	71	54.6	81	58.7	33	84.6	41	78.8
thereof women	59	45.4	57	41.3	6	15.4	11	21.2
Average age of men in management positions	49		50		53		53	
Average age of women in management positions	44		44		51		50	
Average age of total workforce	43		44		47		46	
New hirings	739		970		39		38	
thereof men	128	17.3	171	17.6	14	35.9	12	31.6
thereof women	611	82.7	799	82.4	25	64.1	26	68.4
Departures	955		845		127		57	
thereof men	159	16.6	156	18.5	44	34.6	25	43.9
thereof women	796	83.4	689	81.5	83	65.4	32	56.1

* 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 8 percent based on the Schröder formula* (previous year: 4.3 percent). Ahlers continuously advances both its brands and its corporate structures. In the growing e-commerce 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 professionalism 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 18 (previous year: 21) apprentices. They are guided through our company based on carefully developed plans and are supported closely. As part of their vocational training, the commercial trainees spend time abroad to get to know our own international production facilities and suppliers. Vocational training in the following professions is available at our Herford branch:

- Industrial clerk
- IT clerk
- Retail merchant
- 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 2017-2020

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 2019, the company again supported several employees enrolled in business management and IT study courses. GRI 404-1

Throughout the company, some 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, leadership behaviour and expertise as well as 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. Several workshops addressing the leadership culture of the company and the brands were held in the fiscal year 2018/19.

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, 2 (previous year: 8) work accidents were reported in the Group, which resulted in 7 (previous year: 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. There was no case of discrimination at Ahlers in the reporting period (previous year: one case). 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 27 employees who have successfully worked for the company for ten, 25 or even 40 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 2019, 107 employees (product managers, purchasers and dispatchers of all product groups, employees working in technical work preparation as well as the export and retail departments; previous year: 101 employees) were trained, for instance, in supplier management, supplier admissions, the European Textile Labelling Regulation and the German Textile Labelling Act. A special training course on jeans production and jeans washing processes was organised for product managers and technical staff. 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 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.

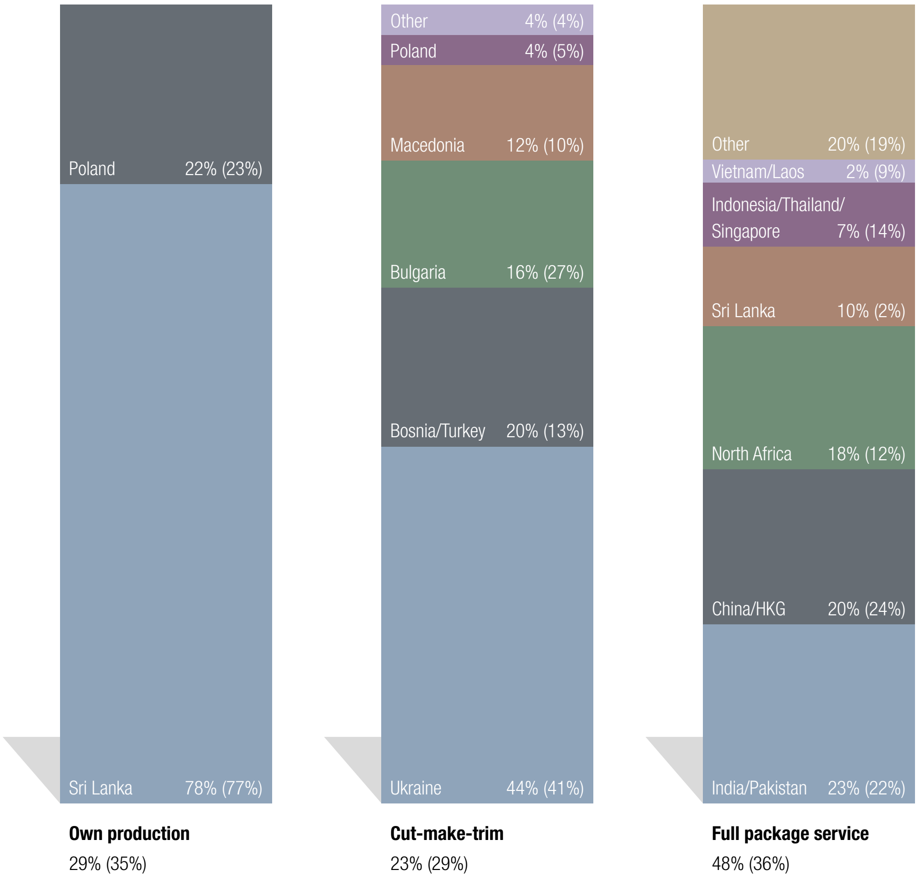
GRI 102-9

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:

Resource production: Cultivation and harvest	▶	Processing and finishing: Spinning, weaving, knitting, dyeing, printing	▶	Manufacture: Cutting, sewing, packaging	▶	Trade: Wholesale, retail, e-commerce	▶	Consumption: Use, disposal

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 2019 (previous year)

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 organisation (= Worldwide Responsible Accredited Production) and has been awarded the Gold Certificate. The next regular audit is scheduled for the first quarter of 2020. 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, 96 percent (previous year: 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). Three years ago, full CSR documentation became mandatory for the inclusion of new suppliers in the pool of suppliers. As in previous years, all new suppliers, without exception, therefore underwent a multi-stage onboarding process before being approved for the Purchasing Department. Moreover, for the spring/summer 2020 season, more than 70 percent of the production facilities commissioned in high-risk countries have an external social audit certificate. 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 further 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

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

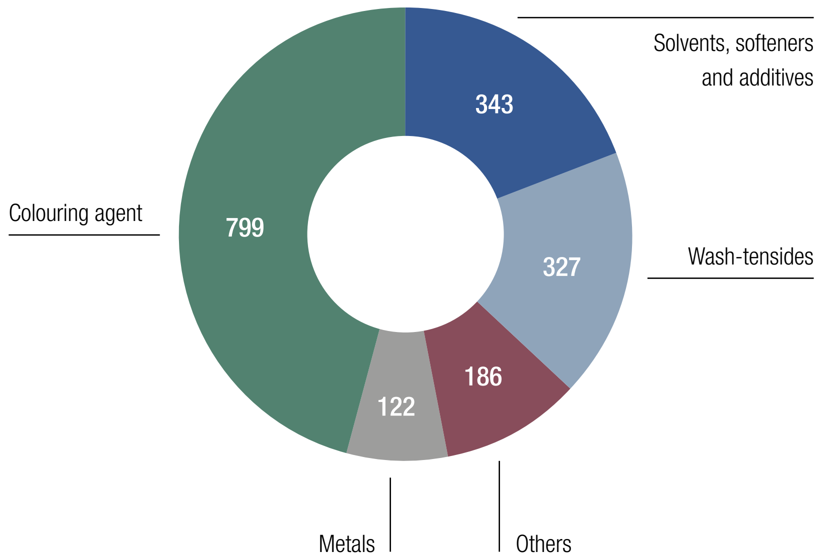
GRI 416-1

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 1,777 chemical hazardous substances tests in the fiscal year 2018/19 (previous year: 1,647); these tests focused on the following:

Self-implemented testings for chemical hazardous substances 2018/19



Due to the care taken along the procurement chain, irregularities in the products are largely impossible. The continuous control and inspection of the production 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. Our products fall within the scope of Regulation on textile fibre names and related labelling and marking of the fibre composition of textile products (EUTextilKVO). The regulation is designed to protect the consumer, who should be able to obtain information about fibre and material composition, in particular, before buying a textile product. All products bear information on the material composition, care instructions, the product number and manufacturer's information. We comply with the German Product Safety Act, according to which products may be made available in the market only if they meet the relevant standards and requirements and do not endanger human safety and health when used as intended or in a foreseeable manner. As in the previous year, there were no complaints from customers or penalties due to faulty labels or markings in the fiscal year.

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 sustainability project with ZDHC-MRSL

In the context of a sustainability project in cooperation with 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 80 percent (previous year: 69 percent) of its procurement volume (in euros) of unfinished goods that are subject to wet processes in their manufacture. According to supplier feedback, about 90 percent (previous year: 59 percent) of the procurement volume was produced in accordance with the MRSL requirements in the fiscal year 2018/19. The aim is to encourage all our suppliers to continue implementing 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 continued the survey among our 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 94 percent of the jeans that are subjected to washing treatments per year (previous year: 69 percent). The results of the survey will lead to further measures and recommendations for the laundries, which we will develop in cooperation with the Schadstoffmanagement & Ökologie (Hazardous Substances & Ecology) department of GermanFashion Modeverband 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

GRI 103-1/2/3

Resource-efficient production

GRI 307-1

GRI 308-1

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 Ahlers has no longer used mohair wool since the 2019 spring/summer season.

Ahlers expects its business partners to also comply with applicable environmental protection regulations and to use natural resources responsibly and requires them to act in an environmentally compatible manner along the production chain. As in the previous year, all new suppliers signed up in the fiscal year 2018/19 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 (previous year: -).

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 *	2018/19	2017/18
Electricity **	4,953	5,344
Fuel	3,287	3,902
Heating energy	6,277	6,075
Biomass ***	14,188	13,651
Total energy consumption	**28,705**	**28,972**

* 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 56 percent in 2018/19.
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

Since the fiscal year 2017/18, Ahlers has 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, DEFRA 2019 and the German Environment Agency.

	Total		Germany		Poland		Sri Lanka	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
Carbon emission (t/a) *	4,679	5,635	2,092	2,689	1,615	2,044	972	902
spec. carbon emission t/MWh **/***	0.16	0.19	0.29	0.34	0.39	0.45	0.06	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

GRI 303-1
GRI 306-1

m³	2018/19	2017/18
Total water taken	110,737	131,905
Waste water	90,494	108,377

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 20 percent of the water taken for the generation of steam for ironing, the irrigation of green spaces, etc. (previous year: about 18 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

GRI 301-1

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 in the reporting period, which are then extrapolated to the finished goods purchased. Only continued product groups were taken into consideration. The share of renewable materials used for Ahlers products in the fiscal year amounted to 76 percent (previous year: 78 percent). The significant reduction in inventories of raw materials and finished goods led to a reduction in the cost of goods sold, which resulted in a product group-related decline in the share of renewable materials.

	2018/19		2017/18	
Renewable	2,941 t	76%	3,738 t	78%
Non-renewable	914 t	24%	1,037 t	22%
Total	**3,856 t**	**100%**	**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:

Measures	Implementation status 2018/19
Optimisation of heating control	60%
Replacement of old lighting systems – changeover to LED lighting	35%
Replacement of old, uncontrolled heating pumps	50%
Execution of the hydraulic balancing	–
Improvement of the thermal insulation of the old roofs	50%
Improvement of the thermal insulation of the non-insulated external walls	–
Replacement of older heating boilers	80%

Sustainability Report

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 2019, works from the collection were on display at Zentrum Paul Klee in Bern, Landesmuseum für Kunst und Kulturgeschichte in Oldenburg, Städtische Galerie im Lenbachhaus in Munich, Kaiser Wilhelm Museum in Krefeld, Buchheim Museum in Bernried and Kunsthalle Tübingen, among others.

For many years Ahlers AG has cooperated with the Ahlers Pro Arte Foundation by loaning important works of art for the latter's exhibitions, which attract national media coverage. Among the highlights of the foundation's activities in 2019 were a series of lectures on "Art and Cultural Memory" (March to June) and the exhibition "Reading in Art: Reading Pictures – Picture Reading" (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 2020, the ahlers collection will again support many projects with loans, including exhibitions such as "Reverse Painting on Glass – from Heinrich Campendonck to the Present" (Clemens Sels Museum Neuss), "Soulmates: Alexej von Jawlensky and Marianne von Werefkin" (Museum Wiesbaden) and the large Daniel Spoerri retrospective on the occasion of his 90th birthday (Woods Art Institute, Wentorf/Hamburg).

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. In this context, one should also mention the company's membership of "Kulturkreis der Deutschen Wirtschaft", which Ahlers joined in 2010 as an active member in the working groups "Kulturförderung" (cultural promotion - AKF) and "Corporate Collecting" (ACC). The cultural officers and collection curators of major German corporations and SMEs meet regularly to discuss questions, issues and new concepts in the field of art and cultural promotion.

See the next page for a selection of the exhibitions that featured loans from the ahlers collection in the fiscal year 2018/19.

Other corporate citizenship activities

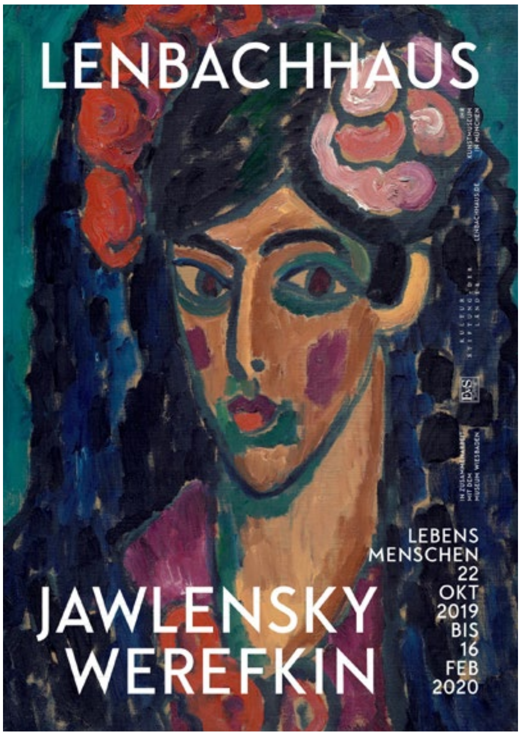
Ahlers makes financial and in-kind donations to a variety of social projects, associations and cultural institutions, and is particularly committed to Herford and the local initiatives. Going forward, Ahlers will uphold its level of social engagement and develop it further.

EXHIBITIONS (SELECTION)

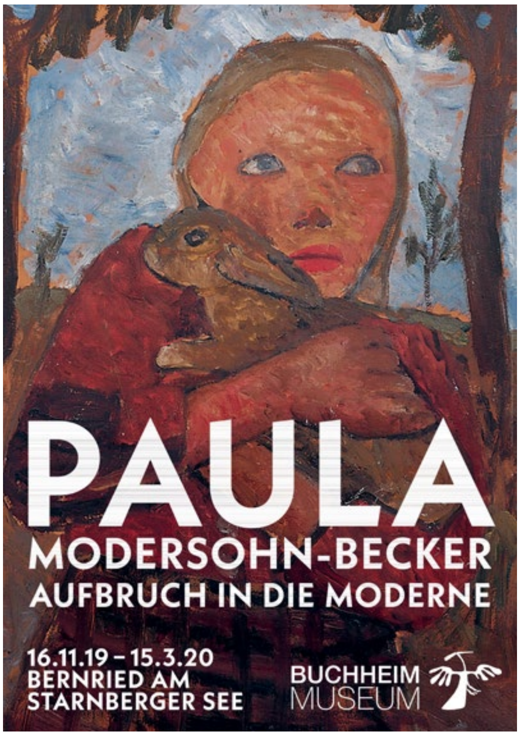
art@ahlers

WASSILY KANDINSKY, LÁSZLÓ MOHOLY-NAGY, OSKAR SCHLEMMER
ZWISCHEN UTOPIE UND ANPASSUNG - DAS BAUHAUS IN OLDENBURG
LANDESMUSEUM FÜR KUNST UND KULTURGESCHICHTE, OLDENBURG
APR 27 – AUG 04, 2019

ALBERTO GIACOMETTI, DIETER ROTH, KURT SCHWITTERS, JACQUES VILLEGLÉ, ZHANG XIAOGANG U. A.
DAS LESEN IN DER KUNST. LEKTÜREBILDER - BILDLEKTÜRE
STIFTUNG AHLERS PRO ARTE GGMBH, HERFORD
SEP 28 – DEC 15, 2019



ALEXEJ VON JAWLENSKY
LEBENSMENSCHEN. ALEXEJ VON JAWLENSKY
UND MARIANNE VON WEREFKIN
STÄDTISCHE GALERIE IM LENBACHHAUS, MÜNCHEN
OCT 22, 2019 – FEB 16, 2020



PAULA MODERSOHN-BECKER
PAULA MODERSOHN-BECKER. AUFBRUCH IN DIE MODERNE
BUCHHEIM MUSEUM, BERNRIED
NOV 16, 2019 – MAR 15, 2020

Combined Management Report

for Ahlers AG and the Group for the fiscal year 2018/19

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: 32) 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 March 2018, OOO Ahlers RUS was established with a long-standing Russian partner and included in the basis of consolidation. On the prior year reporting date, Ahlers AG held 60 percent in the company, while the Russian partner held 40 percent. In December 2018, Ahlers signed a purchase agreement with its partner for another 30 percent of the shares and thus increased its interest in the joint venture to 90 percent. The purpose of the company is to strengthen the activities of Pierre Cardin and Pioneer Authentic Jeans in Russia. The company operates nine Pierre Cardin stores and one outlet store as well as the wholesale business with retailers. In Lithuania and Latvia, Ahlers operates one distribution company each, which operate Pierre Cardin stores and outlet stores. The interest in each of these companies remained unchanged at 99.3 percent. In the past fiscal year, the two distribution companies were renamed: UAB Stesa Clasic was renamed UAB Ahlers LT and SIA Clasic was renamed SIA Ahlers LV.

All controlling and profit-and-loss transfer agreements between Ahlers AG and its subsidiaries remained 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 & Workwear".

In the context of the discontinuation of Jupiter Sportswear, the "Jeans, Casual & Workwear" segment was renamed "Jeans & Workwear" with effect from this Annual Report.


STYLE-FORMING IN PREMIUM MENSWEAR
SURPRISING WITH A STRONG PERSONALITY
TIMELESS
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BALDESSARINI

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WWW.PIERRE-CARDIN.DE

BOLD | URBANE | CONFIDENT


PIONEER®
AUTHENTIC JEANS
CASUAL | MODERN | ROUGH

Pionier

WORKWEAR

- UNCOMPROMISING
- 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:

SEGMENTS

BUSINESS SEGMENTS

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 the United Arab Emirates

Product

- Innovative and fashionable high-quality menswear

The growth strategy

GROW OUR CORE BRANDS

Baldessarini, Pierre Cardin, Otto Kern, Pioneer, Pionier Workwear

Menswear with Pierre Cardin, Baldessarini and Pioneer – high-quality workwear with Pionier Workwear

Since 2019, Ahlers has focused on menswear with its brands Pierre Cardin, Baldessarini, Otto Kern and Pioneer. We generate over two thirds of our 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. Contemporary, dressed in style and progressive – Pierre Cardin's aim is to be perceived as the only true designer brand in the premium commercial segment. The collections will become clearer, more pointed and more modern. Pierre Cardin offers innovative and contemporary solutions for the cosmopolitan nomad. We want to differentiate ourselves and develop a unique positioning through highly functional, innovative and sustainable products. 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 ten stores in Russia. We want to push ahead with the expansion of the Western European markets as well as the Europe-wide expansion of points of sale. Baldessarini's sportswear and formalwear covers the upper premium segment of the market. The brand is now very well positioned in the market as a style-forming brand with a strong personality. We intend to continue working on this positioning and on the expansion of the European core markets. Product groups in which we have special expertise, such as jeans, men's items and ready-made clothing play an important role in this context. Licensed products extend the product range and increase the visibility of the brands. Otto Kern also focuses on winning additional licensees. In addition, the brand will step up its denim and trousers activities.

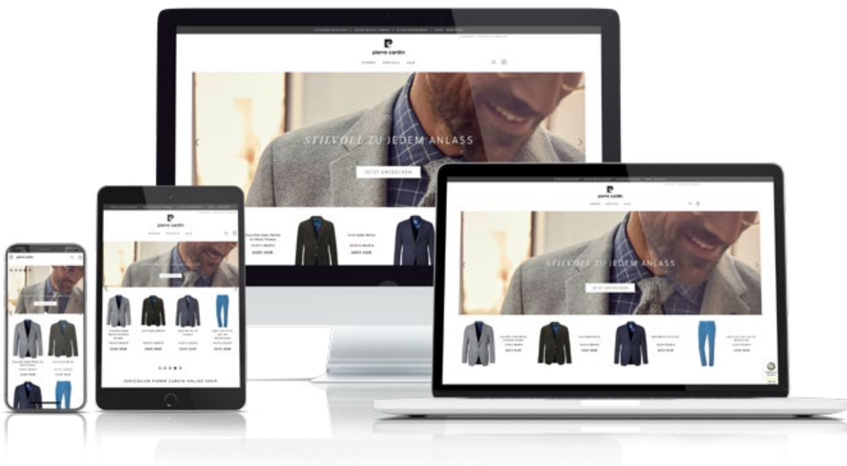
In the Jeans & Workwear segment, the Pioneer Authentic Jeans brand is being transformed from a jeans specialist into an integrated lifestyle brand offering not only jeans but also tops. Domestically and internationally, we want to grow primarily at specialist retailers and win additional shop-in-shop space. To this end, we are continuously refining our partnership schemes and space concepts. The merger of the Pioneer/Pionier Jeans family entails synergies and reduces the complexity. Specifically strengthened for the individual export markets, the collection is designed to boost our international business. Where Pionier Workwear is concerned, we are optimising our distribution structure and focusing on technical specialist retailers as well as the leasing and project business.

Growth in conjunction with specialist retailers

Stationary specialist retailers will remain the most relevant sales channel for menswear. Revenue growth is to be generated through sales in branded shop-in-shop spaces which also have great 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 online commerce activities of our customers.

Growth of the e-commerce activities

The e-commerce channels is growing strongly and is therefore strategically very important. We are investing considerable human and financial resources in strengthening this growth segment organisationally. Priority is being given to sales activities in the online wholesale business and the connection to multi-brand online platforms. In this context, we are focusing on both e-commerce specialists and the e-commerce activities of the physical retailers. Another focus is being placed on winning additional online dealers in Europe and on the further internationalisation of the marketplace business. Ahlers moreover operates three online shops of the Pierre Cardin, Baldessarini and Pionier Workwear brands. We intend to grow our activities in this increasingly important distribution channel for the clothing sector in the e-commerce wholesale segment, the marketplace business and our own online stores.



Growth of own Retail operations

We want to expand our own Retail operations selectively and further develop existing store concepts. 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.

Growth of the international operations

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 primarily grow our business with retailers but also selectively with our own stores and partner stores. Outside Europe we aim to grow our Baldessarini brand in the medium term.

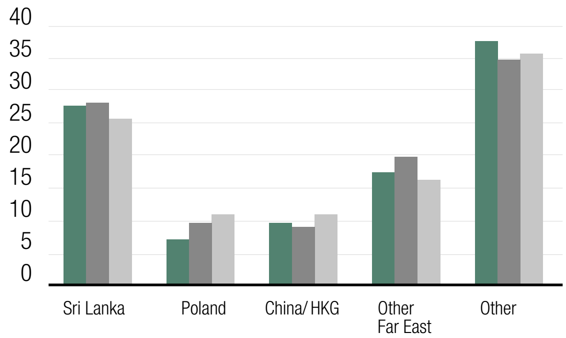
Cost leadership in procurement and logistic processes

The optimisation of procurement and logistics is an ongoing challenge to the clothing sector. Ahlers is continuously working on the choice of suppliers as well as 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. Ahlers is successively changing its procurement activities for jeans and suits to full-package services. We will continue to expand our procurement activities to the southern Mediterranean and fully shut down our own production facility in Poland by March 2020. Moreover, the Group's unfinished goods logistics was relocated from Germany to Poland in February 2019. Since mid-2019, further parts of the finished goods logistics have been managed out of Poland. Compliance with social standards remains a precondition for signing up suppliers and service partners.

Ongoing digitisation projects to support the B2B activities

Ahlers embraces technological progress and the related digital trends. Understanding customer needs and developing products and services meeting these needs is a major challenge. Ahlers has initiated various digitisation projects to support the future-oriented development of its business. Among other things, we continuously expand the automatic generation of after-sales offers for customers whose inventories we monitor electronically (EDI), optimise virtual shelf extensions in the retail segment and expand the functionalities of our B2B e-shops. Pierre Cardin, Baldessarini and Pioneer supply their customers with product information and image material in a cloud-based format.

Breakdown of production by regions (previous year):



Sri Lanka	27.7%	(27.9%)
Poland	7.4%	(9.6%)
China/HKG	9.8%	(8.6%)
Other Far East	17.3%	(19.0%)
Other	37.8%	34.9%)

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

Announced in September 2018	Essentially completed in November 2019
Details of the individual measures:	**Status as at November 30, 2019:**
– Focus on menswear	Completed
– Discontinuation of the sportswear activities of the Jupiter brand	Completed
– Relocation of unfinished and finished goods logistics to Poland	Completed
– Relocation of sampling processes from Poland to Asia	80%
– Increased use of full-package services for jeans	60% (100% as of mid-2020)
– Closure of unprofitable stores	Ongoing control
– General cost reduction	Ongoing control
Figures of the set of measures:	
– Job cuts by 2020: 130, of which 100 in Germany	Completed
– One-time effects in 2017/18: EUR 3.5 million *	EUR -2,7 million **
– Effect on bottom line from 2020: approx. EUR 4.0 million, partly already in 2018/19	EUR 3,7 million (2018/19)
– Inventories reduced by EUR -4,4 million ***	EUR -3,3 million (as of Nov. 30, 2019)

* Severance payments and releases
** Release of provisions EUR 0.8 million
*** From discontinued activities

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, 2019, the Product Management and Model Departments as well as the sample-making workshops had 68 employees (previous year: 98). At EUR 5,219 thousand, expenses before one-time effects for these departments were much lower in the fiscal year 2018/19 (previous year: EUR 6,780 thousand), mainly because of the lower number of employees. The discontinuation of activities and the transition to full-package services were the main reasons for the reduced headcount and expenses. Moreover, the sample-making workshop in Poland was closed. Finally, one-time effects were much lower at EUR 39 thousand (previous year: EUR 408 thousand). Most of the expenses are personnel expenses. Operating expenses primarily comprise consulting costs. Research and development expenses represented 2.5 percent of sales revenues (previous year: 3.0 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. Starting 2020, this planning process will be brought forward. Management will then prepare a plan for the following year already in mid-year.

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

		2018/19	2017/18
Sales	EUR million	207.0	223.1
Gross margin	in %	48.2	48.9
EBITDA */**	EUR million	2.1	3.1
EBITDA-Margin */**	in %	1.0	1.4
EBIT */**	EUR million	-2.4	-2.0
EBIT-Margin */**	in %	-1.2	-0.9
One-time effects	EUR million	0.0	-4.4
Net income	EUR million	-3.7	-7.0
Cash flow from operating activities	EUR million	10.7	9.6
Gross investments	EUR million	3.6	5.9
Profit margin before taxes	in %	-1.5	-3.2
Profit margin after taxes	in %	-1.8	-3.1
Earnings per share	EUR	-0.28	-0.51
Net Working Capital ***	EUR million	64.7	77.5
Return On Investment	in %	-2.3	-3.9

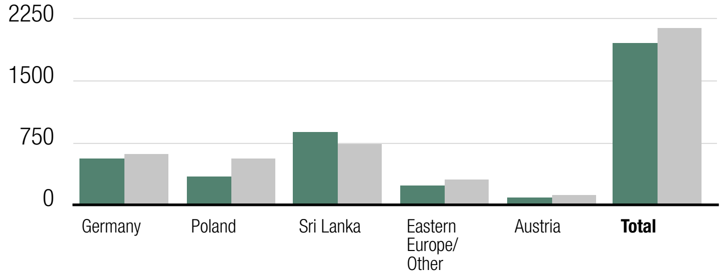
* before one-time effects
** previous year after switching Sale of Art to one-time effects
** Inventories, trade receivables and trade payables

Key performance indicators include sales revenues, EBIT before one-time effects, consolidated earnings, operating cash flow, net working capital and gross investments. 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)

Nov. 30, 2019
Nov. 30, 2018



Germany	501	(589)
Poland	361	(507)
Sri Lanka	801	(750)
Eastern Europe/ Other	227	(258)
Austria	39	(41)
Total	**1,929**	**(2,145)**

Personnel figures

		2018/19	2017/18	Change
Average number of employees		1,985	2,122	-6.5%
Adjusted personnel expenses *	EUR million	46.9	50.7	-7.5%
Adjusted personnel expenses/employee *	KEUR	23.6	23.9	-1.3%
Number of apprentices		18	21	-14.3%
Share of women in leading positions	in %	45	41	4 PP

* adjusted for one-time effects

Ahlers employed an average of 1,985 people in the fiscal year 2018/19, 137 less than in the previous year. On November 30, 2019, the headcount was down by 216 people on the previous year. As a result of the job cuts implemented in the context of the strategic set of measures, Ahlers had a headcount of 501 in Germany on the reporting date, down 88 employees on the previous year. In Poland, the number of administrative employees declined by 24, while Ahlers' production staff was reduced by 122 people. The number of people working in Ahlers' own Retail segment outside Germany was down by 28 on the prior year reporting date. By contrast, the company increased the capacities of its own production facility in Sri Lanka (+51 employees).

Economic Report

MACROECONOMIC AND INDUSTRY-SPECIFIC SITUATION

World economy continues to grow at slower pace

In 2019, the global gross domestic product (GDP) grew by 3.0 percent, i.e. at a lower rate than in the year before (3.7 percent; all figures in this chapter courtesy of Commerzbank Economic Research December 2019). At 2.3 percent and 6.2 percent, respectively, the GDP growth rates of the USA and China were again clearly positive in 2019 but remained below the 2018 rates (2.9 percent and 6.6 percent, respectively). Russia's GDP growth of 1.2 percent in 2019 was also lower than in the previous year (1.6 percent). Growth in the eurozone economy also slowed down in 2019 compared to the previous year and reached 1.2 percent (2018: 1.9 percent). The slowdown in the eurozone economy is probably mainly attributable to the uncertainty resulting from the US-Chinese trade dispute and the resulting global weakness in demand for industrial products from the eurozone as well as to Great Britain's lengthy Brexit negotiations. By contrast, the moderate depreciation of the euro had a supportive effect, as it improved companies' price competitiveness. Moreover, the expansionary monetary policy still pursued by the European Central Bank (ECB) kept interest rates at a low level. This made corporate and private debts manageable, which, in turn, stimulated European domestic demand. Among the four major European economies, France and Spain grew by a robust 1.3 percent and 1.9 percent, respectively, which was only 0.4 percentage points and 0.5 percentage points, respectively, below the previous year's growth rates (1.7 percent and 2.4 percent, respectively). By contrast, the Italian economy hardly grew at all in 2019 (0.2 percent; previous year: 0.8 percent), while the export-oriented German economy showed only moderate growth of 0.5 percent. Germany's GDP growth thus remained below the eurozone average and was 1.0 percentage point below the previous year's 1.5 percent. The period of above-average growth in the German economy seems to be coming to an end. Germany's unit labour costs, for instance, have increased more strongly than the eurozone average since 2012, which has reduced competitiveness.

Private consumption is driven not only by economic strength and economic expectations but also by the labour market situation and income growth. 2019 saw the eurozone jobless rate decline to 7.6 percent, i.e. to pre-financial crisis level. Fiercer competition for labour led to higher collective wages and, consequently, to an increase in disposable consumer income. Purchasing power of the eurozone population was additionally supported by an only moderate increase in consumer prices. The 2019 inflation rate stood at 1.2 percent (previous year: 1.8 percent). These factors had a positive influence on consumer sentiment, while the declining economic momentum had a negative impact. In Germany, consumer sentiment declined slightly in the course of 2019, but still remained at a high level. Private consumption increased by 1.6 percent (previous year: 1.3 percent), i.e. at a much higher rate than GDP, thus remaining an important driver of the German economy (GfK Consumer Confidence, December 20, 2019). The labour market situation improved also in other European countries, where consumer sentiment is also assumed to have been positive in 2019.

Industry-specific trends

In spite of the robust good consumer sentiment, sales revenues in Germany's physical fashion stores remain on the decline and dropped by 1.3 percent between December 2018 and November 2019 (previous year: -1.2 percent, Textilwirtschaft 49_2019). The drop in sales revenues in the calendar year 2019 was 2 percent. This means that the last increase in sales dates back to the year 2010. The ongoing decline in footfall in city centres, growing online sales of fashion and increasing casualisation are cited as the main reasons. On the whole, the framework conditions have deteriorated lately, especially for physical fashion retail stores. Discussions or decisions on driving bans or opening shops on Sundays are primarily affecting retailers in city centres. In 2019, fashion retailers lowered their prices later and not as strongly as in previous years, which should have stabilised revenues per square metre (Textilwirtschaft 2_2020). Nevertheless, high product availability and frequent discount promotions are having a negative impact on the industry's sales and make profitable retail space management difficult. The growing online sales of fashion products are not sufficient to make up for the shortfall in physical sales. In the European markets relevant to Ahlers, fashion sales in 2019 were at best in line with the respective GDP growth rates, but have probably remained below these rates and even declined in many cases.

BUSINESS PERFORMANCE

The fiscal year 2018/19

- Performance in Q4 2018/19 in line with expectations
- Sales revenues in 2018/19 (-7.2 percent) influenced by discontinued activities and slow suit and jacket sales
- Consolidated earnings significantly improved (+47 percent), but still negative (EUR -3.7 million) in 2018/19, which was a year of transition
- Set of earnings and efficiency increasing measures helps reduce operating expenses by 8.2 percent
- Strong increase in cash flow from operating activities
- Very solid and further improved balance sheet structure with sharp rise in equity ratio to 57 percent (previous year: 53 percent), decline in net working capital and 50% reduction in liabilities

Sales revenues by segments

EUR million	2018/19	2017/18	Change in %
Premium Brands *	143.7	153.6	-6.4
Jeans & Workwear	63.3	69.5	-8.9
Total	**207.0**	**223.1**	**-7.2**

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

Sales revenues by regions

EUR million	2018/19	2017/18	Change in %
Germany	112.1	121.3	-7.6
Western Europe	54.5	58.8	-7.3
Middle-/ Eastern Europe/ Misc.	40.4	43.0	-6.0
Total	**207.0**	**223.1**	**-7.2**

EARNINGS, FINANCIAL AND NET WORTH POSITION

Earnings position

Group revenues influenced by discontinued activities and declining sales of suits and outerwear

In the fiscal year 2018/19, the Group's revenues were mainly influenced by two major factors. The discontinuation of sales of Jupiter jackets as well as Pierre Cardin and Pioneer ladies' trousers sent sales revenues falling by a total of EUR 6.0 million. Moreover, the trend towards casualisation continued in the past fiscal year, again resulting in declining sales of suits, blazers and outdoor jackets (effect on revenues: EUR -4.6 million). The other operations were unable to defy the declining market trend and decreased by EUR 5.5 million. Between them, these factors sent Group sales revenues in the fiscal year 2018/19 falling by EUR 16.1 million or 7.2 percent to EUR 207.0 million. Business remained challenging, especially in Germany. In Ahlers' home market, revenues declined by 7.6 percent or EUR 9.2 million to EUR 112.1 million in the fiscal year 2018/19. In Western Europe, the trend for Ahlers was positive in Austria and Switzerland, where the company was able to win new customers and, hence, market share. In these countries, sales increased by a total of 4.2 percent. Sales in the other Western European markets were sluggish, however. Revenues in the Benelux countries dropped by 10.9 percent. Sales revenues in France and Spain declined by a combined 12.4 percent, mainly because of the discontinuation of unprofitable business models. Total revenues in Western Europe were down by EUR 4.3 million or 7.3 percent to EUR 54.5 million. Business in the important Polish market showed a positive trend, as Ahlers was able to intensify its sales to partner stores. Revenues in Poland increased by 0.8 percent. In the difficult Russian market, Ahlers recorded robust revenues on a par with the previous year. This dampened the downward trend in Eastern Europe, where sales revenues declined by EUR 2.6 million or 6.0 percent to EUR 40.4 million.

Baldessarini, Pierre Cardin and Pioneer report robust jeans sales

Revenues from the sale of jeans, which are important for Ahlers, remained robust. In the past fiscal year, jeans sales of the Baldessarini, Pioneer and Pierre Cardin brands were more or less on a par with the previous year (-0.4 percent).

Strong increase in e-commerce revenues

The e-commerce business has high strategic priority at Ahlers. In the fiscal year 2018/19, e-commerce revenues increased by an impressive 12.7 percent. Growing by 14.8 percent, revenues generated on marketplaces made a particularly strong contribution.

Own Retail revenues grow thanks to Ahlers RUS

Sales revenues generated by our own Retail segment increased by 3.0 percent in the fiscal year 2018/19. The Retail segment's share in total revenues climbed from 14.0 percent to 15.4 percent due to Ahlers RUS. Like-for-like revenues declined by a moderate -0.6 percent.

As of the balance sheet date, Ahlers managed 29 stores (previous year: 35), thereof four in Germany (previous year: 6) and 25 abroad (previous year: 29). Most of the company-managed stores are located in the Baltic States and Poland. We also operate nine stores and one outlet in Russia through Ahlers RUS. In the context of the programme of measures aimed at increasing earnings and efficiency, Ahlers closed six unprofitable stores in Germany, the Baltic States and the Czech Republic in the course of 2019. One store was taken over by a customer, who now operates it at another location in the same mall.

Earnings position

	2018/19 EUR million	2017/18 EUR million	Change in %
Sales	**207.0**	**223.1**	**-7.2**
Gross profit	99.7	109.2	-8.7
in % of sales	48.2	48.9	
Personnel expenses *	-46.9	-50.7	7.5
Balance of other expenses/income */**	-50.7	-55.4	8.5
EBITDA */**	**2.1**	**3.1**	**-32.3**
Depreciation and amortisation *	-4.5	-5.1	11.8
EBIT */**	**-2.4**	**-2.0**	**-20.0**
One-time effects **	0.0	-4.4	100.0
Financial result	-0.6	-0.7	14.3
Earnings before taxes	**-3.0**	**-7.1**	**57.7**
Income taxes	-0.7	0.1	n.a.
Consolidated results for the year	**-3.7**	**-7.0**	**47.1**

* before one-time effects
** previous year after switching Sale of Art to one-time effects

Set of earnings-increasing measures taking effect – much lower operating expenses

At 48.2 percent, the gross profit margin in the fiscal year 2018/19 was slightly below the previous year's 48.9 percent (-0.7 percentage points). It was mainly the drop in revenues that sent gross profit falling by EUR 9.5 million to EUR 99.7 million (-8.7 percent; previous year: EUR 109.2 million). The programme of earnings and efficiency increasing measures increasingly took effect in the course of the fiscal year. Personnel expenses declined by a noticeable EUR 3.8 million or 7.5 percent to EUR 46.9 million in the year under review (previous year: EUR 50.7 million). This was mainly due to the discontinuation of activities, savings in the administrative department in Herford and the reduced production capacity at our Polish plant. The balance of other operating expenses and income declined even more strongly by EUR 4.7 million or 8.5 percent to EUR 50.7 million (previous year: EUR 55.4 million). The decline in operating expenses was mainly attributable to reduced marketing expenses resulting from the discontinuation of activities, lower variable selling expenses and the reduced use of temporary workers. Other operating income, which were up by a moderate EUR 0.2 million on the previous year, also had a positive effect. Depreciation/amortisation declined by EUR 0.6 million to EUR 4.5 million (previous year: EUR 5.1 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 a strong EUR 9.1 million or 8.2 percent in the fiscal year 2018/19; this decline breaks down into EUR 3.1 million or 5.6 percent in the first half of the fiscal year 2018/19 and a stronger EUR 6.0 million or 10.8 percent in the second half. Given that the drop in sales revenues and gross profit was more or less in line with the reduction in expenses, EBIT before one-time effects, at EUR -2.4 million, was also more or less on a par with the previous year (EUR -2.0 million).

On balance, no one-time effects in 2018/19

As extraordinary expenses and extraordinary income fully offset each other in the fiscal year 2018/19, one-time effects in the year under review amounted to zero on balance (-100 percent). In the previous year, EUR 4.4 million had to be set aside for the set of earnings and efficiency increasing measures. Extraordinary expenses in the fiscal year primarily included costs for employee severance payments and store closures. In addition, write-downs were made as part of the regular impairment tests of the company's works of art, which, however, were offset by sales of works of art above the carrying amount. In particular, the sale of an undeveloped plot of land in Herford and the reversal of provisions no longer needed for the completed set of measures led to further extraordinary income, which was on a par with the previous year.

One-time effects

	2018/19 EUR million	2017/18 EUR million
Other operating income	2.5	2.5
Personnel expenses	-1.2	-2.7
Other operating expenses	-0.6	-1.6
Depreciation	-0.7	-2.6
Total	**0.0**	**-4.4**

At EUR -0.6 million, the financial result was slightly higher than in the previous year (EUR -0.7 million). Earnings before taxes in 2018/19 improved by 58 percent to EUR -3.0 million (previous year: EUR -7.1 million) primarily because of the absence of one-time effects.

Although earnings before taxes were negative, Ahlers incurred tax expenses of EUR 0.7 million in the fiscal year (previous year: EUR +0.1 million). This is due to the management's decision not to capitalise any further losses carried forward, although such losses exist. As in the previous year, the tax item in the income statement is therefore of limited informative value. The tax expenses shown in the income statement were incurred for the profits generated by foreign subsidiaries, for the profit from the sale of real estate and for the regular depreciation of a trademark right purely for tax purposes (for further details, see Note (8) on page 105ff.). If deferred taxes had been fully recognised, tax income of EUR 0.9 million would have been reported (previous year: EUR 1.6 million). This means that deferred tax assets of EUR 3.1 million have not been capitalised. This is equivalent to earnings before taxes of EUR 10.0 million. Together with the capitalised items, the Group has deferred tax assets of EUR 5.6 million, for which earnings of EUR 19.0 million may be generated in the future without having to pay taxes.

Earnings improve noticeably due to lower operating expenses and absence of one-time effects

The decline in operating expenses offset the revenue effect on gross profit almost in full. The high level of extraordinary expenses in the previous year compared with a balanced one-time effects item in the year under review. In the fiscal year 2018/19, this led to a 63 percent improvement in EBIT after one-time effects to EUR -2.4 million (previous year: EUR -6.4 million). Consolidated earnings after taxes increased by EUR 3.3 million or 47.1 percent to EUR -3,7 million (previous year: EUR -7.0 million).

Net worth position

Balance sheet structure

Assets	Nov. 30, 2019 EUR million	Nov. 30, 2019 in %	Nov. 30, 2018 EUR million	Nov. 30, 2018 in %
Property, plant and equipment and intangible assets	39.0	25.4	42.1	24.0
Other non-current assets	11.9	7.7	19.2	10.9
Deferred tax assets	1.0	0.7	1.2	0.7
Non-current assets	**51.9**	**33.8**	**62.5**	**35.6**
Inventories	66.3	43.2	80.9	46.2
Trade receivables	15.1	9.8	20.2	11.5
Other current Assets *	8.9	5.8	7.6	4.3
Cash and cash equivalents	11.4	7.4	4.2	2.4
Current assets	**101.7**	**66.2**	**112.9**	**64.4**
Total assets	**153.6**	**100.0**	**175.4**	**100.0**

Equity and liabilities	Nov. 30, 2019 EUR million	Nov. 30, 2019 in %	Nov. 30, 2018 EUR million	Nov. 30, 2018 in %
Equity	**88.3**	**57.4**	**93.1**	**53.1**
Pension provisions	3.4	2.2	3.4	2.0
Other non-current liabilities and provisions	17.0	11.1	21.5	12.2
Deferred tax liabilities	1.0	0.7	1.1	0.6
Non-current liabilities	**21.4**	**14.0**	**26.0**	**14.8**
Current income tax payables	0.7	0.5	0.7	0.4
Other current liabilities and provisions *	43.2	28.1	55.6	31.7
Current liabilities	**43.9**	**28.6**	**56.3**	**32.1**
Liabilities	**65.3**	**42.6**	**82.3**	**46.9**
Total equity and liabilities	**153.6**	**100.0**	**175.4**	**100.0**

* previous year: incl. EUR 3.2 million IFRS 15

Balance sheet structure improves once again as net working capital drops sharply

At EUR 153.6 million, total assets were clearly below the previous year's EUR 175.4 million on November 30, 2019 (EUR -21.8 million). Changes in non-current assets and current assets contributed to this strong balance sheet contraction in more or less equal measure. Due to the sale of a non-operating property in Herford and depreciation on factory and office equipment, the value of property, plant and equipment declined by a total of EUR 3.1 million. The EUR 7.3 million decline in other non-current assets was mainly attributable to the sale of works of art. The increased losses carried forward were not capitalised. As a result, deferred tax assets were on a par with the previous year. Total non-current assets decreased by EUR 10.6 million from EUR 62.5 million to EUR 51.9 million.

Current assets declined mainly due to reduced inventories (EUR -14.6 million). The change to full-package services for the procurement of jeans led to reduced stocks of raw materials as of the balance sheet date (EUR -4.3 million). Moreover, stocks of finished goods declined by EUR 10.3 million due to the discontinuation of activities and reduced NOS (never-out-of-stock) inventories. Trade receivables dropped by EUR 5.1 million, mainly as a result of lower sales revenues (for further details, see Note (16), page 110f.). At EUR 11.4 million, cash and cash equivalents were significantly higher as of the balance sheet date than in the previous year (EUR +7.2 million; previous year: EUR 4.2 million), which, in turn, led to an increase in total assets. This was due to the collection of the proceeds from the sale of the plot of land as well as to loans in excess of the funds required, which were granted under the syndicated loan agreement that came into force shortly before the reporting date. Total current assets dropped by EUR 11.2 million to EUR 101.7 million (previous year: EUR 112.9 million).

The reduced purchasing volume led to lower trade payables (EUR -6.9 million). Net working capital (balance of inventories, trade receivables and trade payables) nevertheless declined by a strong EUR 12.8 million or 16.5 percent from EUR 77.5 million to EUR 64.7 million.

Net financial liabilities down by half and equity ratio at a high 57 percent

The decline in net working capital resulted in a significantly lower tie-up of financial resources in the fiscal year 2018/19. The sale of works of art and the plot of land released additional liquidity, which was used to repay financial liabilities. Non-current financial liabilities, at EUR 15.2 million, were down EUR 4.5 million on the previous year (EUR 19.7 million). Current financial liabilities also declined by EUR 4.3 million to EUR 8.7 million (previous year: EUR 13.0 million). Net financial liabilities (balance of non-current and current financial liabilities less cash and cash equivalents) were reduced by half between the balance sheet dates, dropping by a strong EUR 15.9 million to EUR 12.5 million (previous year: EUR 28.4 million). The decline in non-current and current financial liabilities and the lower trade payables were the main reasons for the drop in liabilities by EUR 17.0 million or 20.7 percent to EUR 65.3 million.

Equity stood at EUR 88.3 million on November 30, 2019 (EUR -4.8 million; previous year: EUR 93.1 million). As total assets declined more sharply in percentage terms, the equity ratio climbed to 57.4 percent (previous year: 53.1 percent), thus remaining at its usual high level.

Financial figures

		2018/19	2017/18
Equity	EUR million	88.3	93.1
Net financial liabilities	EUR million	12.5	28.4
Investment in property, plant and equipment and intangible assets	EUR million	3.6	5.9
Total assets ***	EUR million	153.6	175.4
Equity ratio ***	in %	57.4	53.1
Debt ratio */***	in %	72.9	87.2
Interest coverage ratio **	in %	<1.0	<1.0
Return on equity	in %	-4.2	-7.5

* excl. deferred taxes
** before one-time effects
*** previous year: incl. EUR 3.2 million IFRS 15

Financial position

Increase in cash flow from operating activities and very high free cash flow

The EUR 12.8 million reduction in net working capital and the marked improvement in consolidated earnings were the main reasons for the higher cash flow from operating activities. At EUR 10.7 million, the latter was up EUR 1.1 million on the previous year's very high level of EUR 9.6 million (+11.5 percent). The income from the sale of works of art and the plot of land clearly exceeded investments in property, plant and equipment and intangible assets. Net capital expenditure in the fiscal year 2018/19 therefore amounted to EUR +6.4 million compared to EUR -6.1 million in the previous year. The company's financial position was additionally strengthened by the fact that no dividend was paid for the fiscal year 2017/18. Free cash flow before repayment of non-current liabilities stood at EUR 16.7 million (previous year: EUR 1.4 million), while free cash flow amounted to EUR 9.9 million (previous year EUR -7.5 million).

Financial position

Free cash flow

EUR million	2018/19	2017/18	Change in %
Consolidated results for the year	**-3.7**	**-7.0**	**47.1**
Depreciation, amortisation and impairment losses	5.2	6.0	-13.3
Change in net working capital	12.8	8.8	45.5
Change in current provisions	-0.7	2.5	n.a.
Other changes *	-2.9	-0.7	<-100.0
Cash flow from operating activities	**10.7**	**9.6**	**11.5**
Net investments	6.4	-6.1	n.a.
Effects of changes in the scope of exchange rates	-0.4	0.3	n.a.
Dividend payments	0.0	-2.4	100.0
Free cash flow before financing activity	**16.7**	**1.4**	**>100.0**
Additions to (+), repayment of (-) non-current liabilities	-6.8	-8.9	23.6
Free cash flow	9.9	-7.5	n.a.
Liquid funds as of November 30 **	**8.6**	**-1.2**	**n.a.**

* Other non-cash expenses and income EUR 0.6 million (previous year: EUR -0.5 million)
Change in non-current provisions and other liabilities EUR -0.8 million (previous year EUR -1.5 million)
** Cash less overdrafts

Signing of a syndicated loan agreement

At the end of the fiscal year 2018/19, the credit lines of our core banks were bundled in a syndicated medium-term loan agreement. The Ahlers Group has agreed financial covenants with the lending banks. These relate to the EBITDA, net working capital, equity ratio and gearing of the Ahlers Group. The financial covenants are monitored in the context of the risk management system. Regular reports are submitted to the banks.

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 2018/19. In the previous year, the Management Board and the Supervisory Board initiated a comprehensive set of measures to increase earnings and efficiency, which was implemented in full in the year under review. As announced, the fiscal year 2018/19 therefore was a year of transformation, in which revenues and earnings were according to plan.

While high provisions for restructuring had been established in the previous year, there were no more one-time effects in the year under review. As a result, earnings improved significantly. The reduction in net working capital resulted in a high positive cash flow. Net liabilities were reduced by half. As a result of this and the sale of non-operating assets, the financial position is sound and the balance sheet is backed by the usual high level of equity. The loan agreement has been concluded for a medium term. In the fiscal year 2019/20, which has just begun, the earnings situation should improve and cash flow should remain positive. We are cautiously optimistic for the next fiscal years.

SEGMENT REPORT

Sales revenues by segments

	2018/19 EUR million	2017/18 EUR million	Change in %
Premium Brands *	143.7	153.6	-6.4
Jeans & Workwear	63.3	69.5	-8.9
Total	**207.0**	**223.1**	**-7.2**

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

EBIT before one-time effects by segments

	2018/19 EUR million	2017/18 EUR million	Change in %
Premium Brands *	-2.2	-3.0	26.7
Jeans & Workwear	-0.2	1.0	n.a.
Total	**-2.4**	**-2.0**	**-20.0**

* previous year after switching Sale of Art to one-time effects

Premium brands grow their earnings and show positive trends in some regions

The difficult sales of suits and jackets and the discontinuation of Pierre Cardin-Woman were the main reasons for the drop in revenues in the Premium segment. The segment's total revenues dropped by EUR 9.9 million or 6.4 percent to EUR 143.7 million (previous year: EUR 153.6 million). The three premium brands, Baldessarini, Pierre Cardin and Otto Kern defied the declining market trend in Switzerland and Austria, among others, where revenues remained at the prior year level. Positive individual developments in Poland (+0.8 percent) and some other Eastern European countries and robust sales of men‘s jeans failed to offset the overall trend. At 69 percent, the Premium segment's share in total revenues remained unchanged from the previous year.

At 50.5 percent, the gross profit margin of the three premium brands, Baldessarini, Pierre Cardin and Otto Kern, was on a par with the previous year (50.6 percent). This means that the EUR 5.1 million decline in gross profit was attributable to the lower revenues. Total operating expenses, including variable selling expenses, declined by a strong 7.2 percent in the fiscal year. These savings resulting from the set of efficiency-increasing measures more than offset the revenue effect on gross profit. A breakdown of the results by brand shows clear improvements at Otto Kern, while the results of Baldessarini and Pierre Cardin were stable. Earnings in the Premium segment thus improved by EUR 0.8 million or 26.7 percent to EUR -2.2 million.

Pioneer Men reports robust revenues at prior year level

The 8.9 percent drop in sales revenues in the Jeans & Workwear segment was primarily due to the discontinuation of sales of Jupiter jackets and Pioneer ladies‘ jeans. By contrast, Pioneer Men revenues remained stable in a difficult industry environment. In Switzerland, the brand grew its revenues by 5.1 percent. As business with Dutch customers was expanded, revenues in the Netherlands increased almost fivefold. Declining by 9.7 percent, revenues of Pionier Workwear remained below expectations. While growth in the mid double-digit percentage range in France dampened the negative revenue trend, it failed to offset it entirely. Total revenues in the Jeans & Workwear segment declined by EUR 6.2 million from EUR 69.5 million to EUR 63.3 million. As in the previous year, the Jeans & Workwear segment accounted for 31 percent of total revenues.

Increased returns and price discounts reduced the gross profit margin of brands included in the Jeans & Workwear segment by 2.5 percentage points. The lower segment revenues accounted for an even higher share of the EUR 4.4 million decline in gross profit. The strong reduction in the cost structure (-10.6 percent) did not fully offset the drop in gross profit. As a result, earnings in the Jeans & Workwear segment dropped below the break-even point to EUR -0.2 million in the reporting period (previous year: EUR 1.0 million). The year-on-year decline in earnings was attributable to Pionier Workwear. Pioneer‘s earnings were stable. Jupiter‘s net loss also remained unchanged, but will no longer be relevant in the next fiscal year as these operations were discontinued in September 2019.

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 based in Herford 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

	2018/19 EUR million	2017/18 EUR million	Change in %
Sales	**75.1**	**82.8**	**-9.3**
Gross profit	24.3	28.8	-15.6
in % of sales	32.4	34.8	
Personnel expenses *	-1.2	-1.2	0.0
Balance of other expenses/income *	-31.8	-35.7	10.9
Depreciation and amortisation*	-0.1	-0.1	0.0
Income from investments *	8.7	6.0	45.0
EBIT *	**-0.1**	**-2.2**	**95.5**
One-time effects	-0.4	-3.9	89.7
Financial result	-0.2	-0.2	0.0
Earnings before taxes	**-0.7**	**-6.3**	**88.9**
Income taxes	0.0	-0.1	-100.0
Net result	**-0.7**	**-6.4**	**89.1**

* before one-time effects

Sales revenues materially influenced by discontinued activities

In particular, the discontinuation of Jupiter jackets and Pioneer ladies' trousers had an impact on the sales performance of Ahlers AG (revenue effect of EUR -4.5 million). The continued operations were unable to defy the declining trend in the fashion market and decreased by EUR 3.2 million. Total sales revenues of Ahlers AG dropped by EUR 7.7 million from EUR 82.8 million to EUR 75.1 million in the fiscal year 2018/19. At 24.4 percent, the export share was more or less on a par with the previous year (24.7 percent).

Sharp drop in operating expenses

At 32.4 percent, the gross profit margin in the year under review was 2.4 percentage points below the previous year's 34.8 percent due to higher price discounts. The lower revenues had an even stronger influence on the reduced gross profit (EUR -4.5 million). Personnel expenses amounted to EUR 1.2 million, which was on a par with the previous year (see Compensation Report on page 82). By contrast, the balance of other expenses and income declined noticeably by EUR 3.9 million or 10.9 percent to EUR 31.8 million, mainly due to the set of earnings and efficiency increasing measures. The latter led to a sharp drop in the personnel expenses of the commission agents, the marketing expenses for discontinued activities and the costs for temporary staff in the fiscal year 2018/19.

Greatly increased income from investments and EBIT before one-time effects

The balance of income from profit-and-loss-transfer agreements and expenses from losses taken over from their German commission agents before one-time effects declined slightly by EUR 0.5 million (2018/19 balance: EUR 3.2 million; prior year balance: EUR 3.7 million). By contrast, income from investments in domestic and foreign companies more than doubled by EUR 3.2 million from EUR 2.3 million to EUR 5.5 million in the fiscal year 2018/19 (+139 percent). This was mainly due to much higher income generated by foreign subsidiaries, e.g. in Austria and France. Ahlers AG's total income from investments rose by a strong 45 percent or EUR 2.7 million from EUR 6.0 million to EUR 8.7 million. EBIT before one-time effects improved significantly by EUR 2.1 million in the fiscal year and was close to break-even at EUR -0.1 million (+95.5 percent; previous year: EUR -2.2 million).

One-time effects back to normal and financial result at prior year level

In the previous year, the set of measures led to significantly higher one-time effects in the amount of EUR -3.9 million. In the past fiscal year, one-time effects normalised again and, at EUR -0.4 million, were back at the usual level of previous years (2016/17: EUR -0.3 million). This amount primarily included employee severance payments and store closure costs. At EUR -0.2 million, the financial result was on a par with the previous year.

Noticeably lower operating expenses, higher income from investments and lower one-time effects send earnings rising sharply

Earnings before income tax increased by EUR 5.6 million or 88.9 percent to EUR -0.7 million in the fiscal year 2018/19. As in the previous year, no deferred tax assets on tax losses were capitalised. Ahlers AG's net loss improved by a strong 89.1 percent to EUR -0.7 million, up EUR 5.7 million on the previous year (EUR -6.4 million).

Net worth position

Balance sheet structure

Assets	Nov. 30, 2019 EUR million	Nov. 30, 2019 in %	Nov. 30, 2018 EUR million	Nov. 30, 2018 in %
Property, plant and equipment and intangible assets	0.1	0.1	0.2	0.1
Other non-current assets	74.2	60.1	81.7	59.3
Non-current assets	**74.3**	**60.2**	**81.9**	**59.5**
Inventories	25.6	20.7	32.8	23.8
Trade receivables	2.8	2.2	4.1	3.0
Other current assets	13.4	10.9	16.7	12.1
Cash and cash equivalents	5.2	4.2	0.4	0.3
Current assets	**47.0**	**38.0**	**54.0**	**39.2**
Accrued items and deferred taxes	2.2	1.8	1.8	1.3
Total Assets	**123.5**	**100.0**	**137.7**	**100.0**

Equity and liabilities	Nov. 30, 2019 EUR million	Nov. 30, 2019 in %	Nov. 30, 2018 EUR million	Nov. 30, 2018 in %
Equity	**84.9**	**68.8**	**85.6**	**62.2**
Pension provisions	0.2	0.2	0.2	0.1
Other non-current liabilities	18.2	14.7	23.0	16.7
Other provisions	2.4	1.9	2.3	1.7
Other liabilities and deferred income	17.8	14.4	26.6	19.3
Liabilities	**38.6**	**31.2**	**52.1**	**37.8**
Total equity and liabilities	**123.5**	**100.0**	**137.7**	**100.0**

More compact balance sheet due to reduced net working capital and art sales

At EUR 123.5 million, total assets of Ahlers AG were down by EUR 14.2 million on the previous year's EUR 137.7 million on November 30, 2019. Changes in fixed assets and current assets contributed to this strong balance sheet contraction in more or less equal measure. The EUR 7.6 million decline in fixed assets was mainly attributable to the sale of works of art. Inventories declined by EUR 7.2 million due to the discontinuation of activities and the change to full-package services. Trade receivables also dropped by EUR 1.3 million because of the lower revenues. Together with lower trade payables (EUR -0.8 million), net working capital (balance of inventories, trade receivables and trade payables) declined by a strong EUR 25.3 percent or EUR 7.8 million to EUR 23.0 million (previous year: EUR 30.8 million). The decline in other current assets (EUR -3.3 million) is attributable to lower receivables from affiliated companies. At EUR 5.2 million, cash and cash equivalents as of the balance sheet date were significantly higher than in the previous year (EUR +4.8 million, previous year: EUR 0.4 million), because at the end of the year loans exceeding the funds required were available under the syndicated loan agreement that came into effect before the reporting date. Total current assets declined by EUR 7.0 million.

Balance sheet structure remains solid as evidenced by equity ratio of 69 percent

At EUR 84.9 million, equity was more or less on a par with the prior year reporting date (EUR 85.6 million) on November 30, 2019. Due to the much lower total assets, the equity ratio climbed from an already very solid 62.2 percent to 68.7 percent. The liquidity released in the year under review through the reduction in net working capital and the sale of works of art was mainly used to repay financial liabilities. Net financial liabilities were reduced by half to EUR 15.4 million (-46.7 percent; previous year: EUR 29.5 million).

Financial position

Free cash flow

EUR million	2018/19	2017/18	Change in %
Net result	**-0.7**	**-6.4**	**89.1**
Depreciation, amortisation and impairment losses	0.5	0.1	>100.0
Profit/loss from disposal of fixed assets	-0.4	0.5	n.a.
Change in net working capital	7.8	2.9	>100.0
Change in current provisions	0.2	-0.5	140.0
Other changes	-1.1	11.0	n.a.
Cash flow from operating activities	**6.3**	**7.6**	**-17.1**
Net investments	7.2	-0.4	n.a.
Free cash flow before financing activity	**13.5**	**7.2**	**87.5**
Additions to (+), repayment of (-) non-current liabilities	-8.7	-7.1	-22.5
Dividend payments	0.0	-2.4	100.0
Free cash flow	**4.8**	**-2.3**	**n.a.**
Liquid funds as of November 30 *	**5.2**	**0.4**	**>100.0**

* Cash less overdrafts

Financial position

High free cash flow in the reporting year

Cash flow from operating activities was influenced by opposite effects in the fiscal year 2018/19. While the EUR 7.8 million reduction in net working capital and the marked improvement in consolidated earnings led to an increase, lower liabilities to affiliated companies had a downward effect. The latter had increased sharply in the previous year as a result of the new factoring agreement. On balance, cash flow from operating activities was clearly positive at EUR 6.3 million (previous year: EUR 7.6 million). The income from the sale of works of art clearly exceeded investments in property, plant and equipment and intangible assets. The company's financial position was additionally supported by the fact that no dividend was paid for the fiscal year 2017/18. Free cash flow before repayment of non-current liabilities stood at EUR 13.5 million (previous year: EUR 7.2 million), while free cash flow after repayment amounted to EUR 4.8 million (previous year: EUR -2.3 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 85. 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.

2019/20 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. Just like the Group, we expect Ahlers AG to show a robust performance in a difficult business environment in the fiscal year 2019/20. The set of measures adopted in September 2018 with a view to increasing earnings and efficiency should lead to further cost savings in the fiscal year that has just started. Ahlers AG's sales revenues are expected to be influenced by two opposite effects. The discontinued jackets activities of Jupiter and the discontinued ladieswear activities of Pioneer will lead to a drop in revenues. The growth in revenues from the other activities of the commission agent companies should partially offset this drop. We nevertheless expect Ahlers AG's total revenues to decline at a single-digit percentage rate. Operating expenses of both Ahlers AG and the affiliated companies should continue to decline and more than offset the revenue effect on gross profit. We expect EBIT before one-time effects to be slightly above break-even. One-time effects are likely to play only a minor role and should be more or less on a par with the previous year. In spite of higher financing costs, earnings before and after taxes should be roughly stable or at break-even. Net liabilities should continue to decline because of the continued reduction in inventories and the sale of assets. 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 revenues to decline at a single-digit percentage rate and, consequently, EBIT before one-time effects to remain slightly below the prior year level (EUR -2.2 million) for the fiscal year 2018/19. While sales revenues were at the lower end of expectations, EBIT before one-time effects showed a much more positive trend than projected. Significantly lower extraordinary expenses were expected to lead to a strong improvement in earnings (prior year loss of EUR -6.4 million). This expectation has come true.

POST BALANCE SHEET EVENTS

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

FORECAST

Macroeconomic outlook

At 3.0 percent, global economic growth in 2019 was below the previous year's growth rate (3.7 percent, all figures in this chapter courtesy of Commerzbank Economic Research December 2019). Most economic institutes expect the world economy to cool down further in 2020. The US economy is expected to grow by 1.7 percent (2019: 2.3 percent) and the Chinese economy by 5.8 percent (2019: 6.2 percent). Eurozone GDP is expected to increase by only 0.9 percent in 2020 (2019: 1.2 percent). Compared to 2018 (1.9 percent), the eurozone growth rate would thus be halved. This decline is caused by weak global demand and the international trade conflicts, which are primarily affecting the export-oriented industries. An end to this economic weakness does not seem to be in sight for the time being. The GDP forecasts for the four major eurozone countries show a mixed picture at a low level. Following what was almost stagnation in 2019, the growth rates of the German and Italian economies are expected to return to a slightly higher level next year (2020: 0.8 percent and 0.5 percent, respectively). By contrast, growth in the French and Spanish economies continues to slow down (2020: 1.2 percent and 1.4 percent, respectively). GDP growth of 1.6 percent is projected for the Russian economy in 2020, which would thus return to the level of 2018.

The weak eurozone economy is slowing down employment growth and, consequently, also private income growth. As the labour market situation is unlikely to improve further, wage increases may be rather moderate, too. Domestic demand may thus lose momentum in 2020. By contrast, the European Central Bank's expansionary monetary policy, which keeps interest rates low and private households' willingness to raise loans high, will continue to provide support. Private consumption within the eurozone is expected to grow by 1.3 percent in 2020, i.e. still at a higher rate than GDP. This growth rate is on a par with the two previous years. Private consumption would thus remain an important driver of the European economy. A moderate increase in Germany's per-capita purchasing power is projected for 2020 (https://www.panadress.de/ news/kaufkraft-deutschland-2020, November 18, 2019). Depending on the individual economic growth rates, purchasing power is likely to increase also in other European countries. Consumer prices are expected to rise by an average 1.2 percent in the eurozone and by 1.4 percent in Germany. Real disposable income should therefore increase slightly.

Industry outlook

In recent years it has become apparent that physical clothing retail stores fail to benefit from the positive trend in private incomes and private consumption. Against the background of a cooling economy, the market environment for apparel is likely to remain challenging also in the fiscal year 2019/20. Sector sales will continue to be influenced by declining footfall in the city centres. While growing online sales are mitigating the declines in the physical retail sector, they fail to offset them entirely. We therefore expect sales revenues in the clothing retail sector to decline moderately in 2020 both in Germany and in the European foreign markets that are relevant for our company.

Operational targets for the fiscal year 2019/20

The completed set of efficiency and earnings increasing measures is likely to take full effect in the current fiscal year. The European market environment for apparel will remain challenging in 2020, however. 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 Management Board has initiated the following measures to achieve its targets:

Premium Brands

- Pierre Cardin:
  - "The Future is now" – focus on menswear with clear positioning of the collection and targeted product innovations.
  - Optimisation of the market positioning of all product groups.
  - Growth in Eastern Europe through improved management of the store space and winning of new customers (partner stores).
  - Optimisation of merchandise management with the help of predictive analytics tools (see below).
  - Expansion of own e-commerce and third-channel business.

- Baldessarini:
  - Baldessarini's positioning in the premium market is based on the vision of "market leadership in stylish menswear in the premium market".
  - Growth in Europe with retail market leaders, in wholesale and in e-commerce.
  - Increase the visibility of the brand in the market.

- Otto Kern:
  - Strengthening of the denim and license business.
  - Expansion of the key account business.

Jeans & Workwear

- Pioneer Authentic Jeans:
  - Development of an integrated lifestyle brand with trousers and tops.
  - Merger of Pioneer & Pionier Jeans & Casuals brands.
  - Reduce the complexity of the collections.
  - Aiming for export growth.
  - Expansion of "Complete Collection" shop-in-shops at key accounts.
  - Licensing of womenswear.

- Pionier Workwear:
  - Strengthening of the sales structure.
  - Concentration on technical specialist retailers as well as on the leasing and project business.
  - Growth in e-commerce, mainly on marketplaces.

Further general measures to reach the targets

- E-commerce:
  - Strengthening of the E-commerce department with more staff.
  - Focus of sales activities on the e-commerce wholesale business.
  - Expansion of the marketplace business.

- Digitisation projects to support the B2B activities:
  - Comprehensive additional functions for the B2B e-shops.
  - Automatic generation of after-sales offers for EDI customers using artificial intelligence (predictive analytics tools).
  - Cloud-based provision of image material/product information for specialist retailers.
  - Virtual shelf extensions in the retail segment.
  - Development of a Group-wide product information management system (PIM).

- Retail:
  - Ongoing review of the profitability of the Group‘s own retail spaces.
  - Possibly selective opening of additional Pierre Cardin and Baldessarini stores, mostly abroad.
  - Occasional takeover of partner stores or spin-off to selected retail partners.

- Procurement and logistics:
  - Transfer of own logistics services in Germany to external partners.
  - Full changeover of jeans procurement to full-package services.
  - Further changeover to full-package services for suits.
  - Discontinuation of own production in Poland.
  - Reduction in net working capital through consistent reduction of overheads, optimised merchandise management and growing share of full-package services.
  - Ongoing reduction in the number of suppliers in the context of a stricter auditing process through expansion of full-package services and concentration on high-performing suppliers.

Continued operations expected to grow

In the fiscal year 2019/20, which has just begun, the Management Board expects consolidated revenues to remain stable at best, but more likely to decline slightly. Revenues of the continued brands should increase at a low single-digit percentage rate and largely offset the expected decline in revenues from discontinued operations (EUR -8.7 million) over the full fiscal year. The trend in the first half of the fiscal year is likely to be downward. Revenues should then turn positive in the second half of the fiscal year. These assumptions are supported by revenues generated to date and the order situation for the spring/summer 2020 season. Growth should be driven primarily by the three premium brands, Baldessarini, Pierre Cardin and Otto Kern. Sales revenues in the Jeans & Workwear segment are expected to decline, primarily due to the discontinuation of the Jupiter jacket activities. As a result, the Premium segment‘s share in total revenues should increase slightly. We expect total revenues in our own Retail and E-commerce segments to grow moderately, with e-commerce revenues alone assumed to grow at a double-digit percentage rate.

Significantly higher consolidated earnings projected for 2019/20, with EBIT expected to be positive before and after one-time effects

Consolidated earnings in the fiscal year 2019/20 should continue to improve significantly compared to the two previous years. The gross profit margin should increase moderately thanks to more favourable procurement costs and lower write-downs on inventories. The completed set of earnings and efficiency increasing measures has led to a noticeable reduction in personnel expenses, and the balance of other operating expenses and income is also expected to decline. In spite of increased depreciation for the ERP (Enterprise Resource Planning) project, operating expenses should therefore drop sharply. Extraordinary expenses and income should largely offset each other in the fiscal year 2019/20 and therefore be of minor importance. The Management Board expects to return to the profit zone in terms of EBIT before and after one-time effects and hence to conclude the transformation phase of the previous year. In spite of lower net financial liabilities, interest expenses are likely to be higher due to the costs of the syndicated loan agreement. Consolidated earnings before taxes should approach or be slightly above zero in the current fiscal year. All projections are based on the assumption of a normal economic trend and the absence of any crises and major insolvencies in the retail sector in the main output markets. Developments in the retail sector remain difficult to assess. Therefore please note that the forecast is subject to great uncertainty.

Headcount declines sharply as Polish production facility is closed

The total number of Group employees is expected to decline by around 230 employees to 1,700 in the fiscal year 2019/20. This is mainly due to the shutdown of the production facility in Poland, which will reduce the headcount by around 200. In Germany, the E-commerce and IT departments will be strengthened. The total headcount in Germany should remain more or less stable (November 30, 2019: 501 employees). The number of employees in the Group‘s own Retail segment should also remain more or less stable.

Rising investments on a par with write-downs

Slightly higher gross investments than in the previous year (EUR 3.6 million) are planned for the fiscal year 2019/20. Investments in the current fiscal year are likely to be on a par with write-downs. We primarily intend to step up our spending on own store furnishings and shop systems at our customers. Investments in the technical equipment of our Sri Lankan production facility will also be increased somewhat. Spending on intangible assets should be similar to the previous year and will mainly relate to new B2B software solutions as well as IT security. The amount and breakdown of the remaining budget will be more or less equivalent to that of the previous year.

Stronger balance sheet structures and clearly positive free cash flow expected

The reduction in net working capital remains an important objective in the fiscal year 2019/20. Above all, the reduction in inventories through the consistent sale of old merchandise, the decline resulting from the discontinuation of activities and the change towards full-package services should help to reduce net working capital. This, together with expected EBITDA, should lead to a clearly positive cash flow from operating activities, which is likely to remain below the previous year’s very high level, though. The sale of further non-operating assets is planned for the fiscal year 2019/20, which should roughly offset the capital expenditure. This is another reason why the free cash flow should again be clearly positive. The already low net liabilities should again drop sharply and the balance sheet structure should continue to improve at an extremely solid level. In order to further support the debt reduction and to make the company crisis-proof, the Management Board and the Supervisory Board propose not to pay a dividend for the fiscal year 2018/19.

Changes resulting from the adoption of IFRS 16

In the context of the first-time adoption of IFRS 16 (Leases), the rents previously booked as operating expenses are divided into depreciation and financing costs. This will increase EBITDA by around EUR 5.0 million in the current fiscal year. At the EBT level, the adoption of the standard has no effect on profit/loss, as depreciation/amortisation and financing costs will increase by roughly the same amount of EUR 5.0 million. The obligation to capitalise the lease agreements will extend the balance sheet by approx. EUR 13 million in the fiscal year 2019/20. On the assets side, intangible assets will increase due to the rights of use in the leased property, while non-current and current financial liabilities will increase on the liabilities side. For further information on the adoption of IFRS 16, see page 94f.

Assessment of the forecasts for 2018/19

In the 2017/18 Annual Report, the Management Board had forecast a mid single-digit percentage decline in consolidated revenues for the following year. Consolidated earnings after taxes were expected to grow at a high double-digit percentage rate but to remain negative in 2018/19, a year of transformation. Both the revenue and earnings expectations for the fiscal year 2018/19 were met. The discontinuation of activities, together with declining revenues in a difficult market environment, sent consolidated revenues falling by EUR 16.1 million or 7.2 percent to EUR 207.0 million. As a result of the earnings and efficiency increasing measures, operating expenses, which comprise personnel expenses, the balance of operating expenses and income as well as write-downs, declined by a noticeable EUR 9.1 million or 8.2 percent. Revenue and expense effects resulted in EBIT before one-time effects of EUR -2.4 million, i.e. slightly below the prior year level (EUR -2.0 million), which was in line with expectations. As expected, extraordinary expenses returned to normal compared to the prior year period and were fully offset by the sale of non-operating assets. Consolidated earnings after taxes rose by EUR 3.3 million or 47 percent from EUR -7.0 million to EUR -3.7 million, while earnings before taxes increased at an even higher rate of 58 percent. Investments in the past fiscal year were more clearly below the prior year level than originally expected. Net working capital declined as projected. This and the sale of non-operating assets helped strengthen the company's financial position and reduce its net financial liabilities. As announced in the 2018/19 Annual Report, free cash flow and the balance sheet structure have improved.

Forecast for 2019/20 – Change vs. previous year

		Trend 2019/20	Actual 2018/19
Sales	Premium Brands	+	143.7
	Jeans & Workwear	-	63.3
	Total	-	207.0
	Total continued activities	+	198.0
Earnings	EBIT after one-time effects	++	-2.4
	Consolidated net income	++	-3.7
Capital expenditure		++	3.6

\+ 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

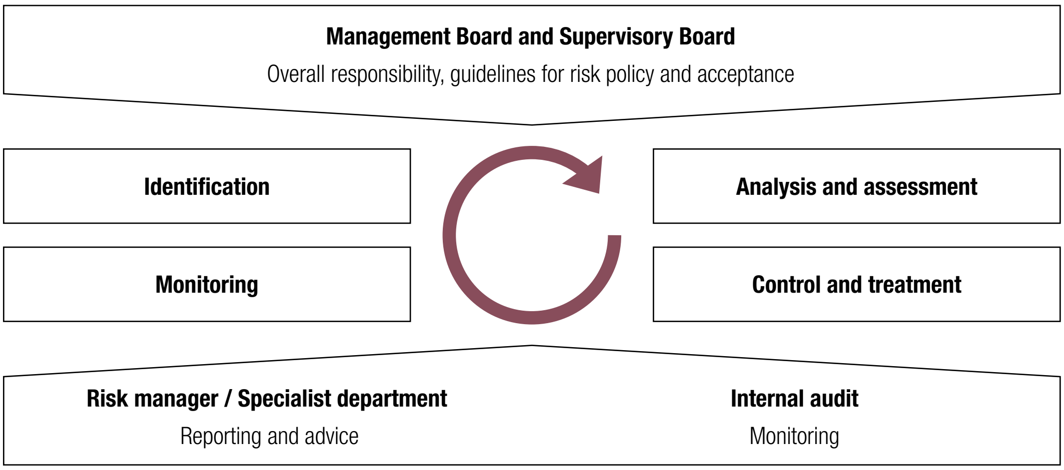
including financial instruments

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 supplies both data which are required for operational management and data which are relevant for the quantification of risks. 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 of the Group's policies and processes.

Key aspects of the risk management system



Risk assessment

The Supervisory Board receives a quarterly risk report which supports its own work. This report classifies all risks as low, medium or high depending on the probability of occurrence and the amount of the damage. The direction of change and the size of the risk are then determined. 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.

Assessment criteria and risk classification

Amount of damage/loss (Risk measured in terms of net revenues)						
	very high	medium	high	high	high	high
	high	medium	medium	high	high	high
	moderate	low	medium	medium	high	high
	low	low	low	medium	medium	medium
	insignificant	low	low	low	low	medium
		very unlikely	unlikely	possible	likely	very likely
		Probability of occurrence				

Summary of the risk profile

Centrally monitored operational/strategic risks	Probability of occurrence	Amount of damage/loss	Risk classification	Change vs. previous year
Profitability of the divisions	likely	high	high	→
Licenses	unlikely	high	medium	→
Business disruptions and liability	possible	low	medium	→
Procurement	possible	moderate	medium	→
Legal	very unlikely	moderate	low	→
IT	possible	high	high	→
Centrally monitored financial risks				
Financial risks	possible	high	high	↘
Currency	unlikely	low	low	→
Changes in the value of works of art	possible	low	medium	→
Bad debts	possible	moderate	medium	→
Operational/strategic risks monitored in the divisions				
Collection	possible	high	high	→
Inventory	possible	high	high	↘
Customer dependence	possible	moderate	medium	→

Risk has:

↗ **increased** ↘ **declined** → **not changed**

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 23 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 counsels 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. Computer viruses or hacker attacks could severely impair or paralyse the functioning of the IT systems. We mitigate these risks through the use of modern hardware and software meeting the latest security standards. We also avoid, where possible, the use of software products known to be the preferred targets of computer crime. 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. Within the framework of the General Data Protection Regulation, the IT managers and the Data Protection Officer cooperate closely with each other. Ahlers uses special software to support data protection management as well as compliance with the related documentation duties.

Centrally monitored financial risks

Financial risks

Financial risks may arise from the capital structure, from a lack of liquidity due to unplanned funding requirements as well as from changes in market interest rates.

The Ahlers Group is characterised by a high equity ratio and a high net asset value and, in relation to this, low net liabilities, which were furthermore reduced significantly in the fiscal year 2018/19. Positions that are affected by external factors and difficult to calculate such as pension provisions represent a low, declining percentage of total assets. As a result, no material risks arise from the capital structure.

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. Ahlers has additionally signed a factoring agreement 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 are therefore largely mitigated by the factoring agreement. It has therefore been possible to reduce the credit lines as of January 1, 2019 in agreement with the banks. At the end of the fiscal year 2018/19, the credit lines of our core banks were bundled in a syndicated medium-term loan agreement. As of the reporting date, Ahlers had utilised only 54 percent of the total available credit volume while at the same time maintaining high cash balances. 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 sold a piece of land that was not needed for its operations as well as several works of art in the fiscal year 2018/19. The company plans to sell further non-operating assets in the fiscal year 2019/20 to reduce its debt even further.

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. Interest rate swaps may be used to hedge the interest rate risks arising from large debt financings if this is justified by market expectations. No interest rate swaps are being used at present. On the whole, Ahlers classifies the importance of financial risks as high.

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 the southern Mediterranean and thus reduced our exposure to the US dollar especially in the past years.

Risks and opportunities arising from the works of art

Risks and opportunities arising from the works of art owned by Ahlers AG arise from long-term value changes in the art market. Management regularly reviews the carrying amounts of the company's works of art. Sustainable declines in the market value would result in write-downs. In the context of the preparation of the financial statements, the value of selected works of art has been checked on the basis of auction results and market research. As a result, the work of arts in the company's portfolio were written down by EUR 0.4 million in the year under review, which was, however, more than offset by sales above the carrying amount. In the past, no material write-downs on the works of art were required. We generally 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. Both physical retail stores and e-commerce are subject to rapid change. These external developments and the related risks are monitored by the Management Board and continuously discussed with the Supervisory Board. Ahlers addresses these risks also through its internationalisation strategy as well as by sharpening the profiles of its brands in order to tap new markets and potential customers. Ahlers invests considerable human and financial resources especially in the growing e-commerce segment. Priority is being given to sales activities in the online wholesale business and the connection to multi-brand online platforms.

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. Especially, the reports on divisional risks provide important findings regarding market opportunities. If, for instance, the reports describe changes in customer demand in certain markets, the early response to these changes may entail opportunities. The situation on the procurement side is similar. The fact that all key markets are monitored simultaneously allows the company to quickly shift to those countries where prices are competitive and reliable quality is offered.

Overall statement regarding the risk report

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

The overall risk position of Ahlers AG and the Group improved because of the developments in 2018/19 and continues to be 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. Hedging is mainly carried out by means of forward exchange contracts. Options may also be used on a small scale. Distribution activities in foreign currencies, e.g. the Swiss franc, are hedged to a much lower extent.

Since the end of the fiscal year 2018/19, the company has been financed under a mid-term syndicated loan agreement, which Ahlers signed with four banks. The agreement features a renewal option for another year, which would require the agreement of all parties. In addition, there is a bilateral amortising loan, which will be fully repaid by the maturity date. The syndicated loan agreement comprises credit lines that can be used flexibly over the entire term as well as loan lines that are partially repaid during the term. The syndicated loan agreement has been collateralised. The interest rate is based on financial ratios determined on a quarterly basis. The expenses for the conclusion of the agreement have been capitalised and will be written off over its term.

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 Supervisory Board receives a detailed financial report each month and is informed about the central risks and the segment risks in a quarterly risk report.

Internal control 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 prepared the Supervisory Board's appointment decisions until April 2019. It drew up proposals for the Supervisory Board to adopt resolutions on compensation and the compensation system and regularly reviewed the latter. The committee also prepared the signing and the amendment or termination of the employment contracts of the Management Board members. Since April 2019, the Supervisory Board has been directly responsible for these tasks. The employment contracts of the two 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 is from December 2017 to November 2020 with payment in April 2021. Another 3-year period is 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	2018/19	2017/18
Salary	1,078	1,044
Annual bonus */**	256	-87
Miscellaneous	33	33
Total	**1,367**	**990**

* Composed of a profit-related, target-related and long-term bonus.
The long-term bonus is included at an amount of EUR 20 thousand (previous year: EUR 0 thousand).
** Negative amount in the previous year due to higher provisioning than amount paid out.

Value of the benefits granted for the fiscal year

(Expense level)

	Dr. Stella A. Ahlers CEO Entry 06/2005				Dr. Karsten Kölsch CFO Entry 08/2007				Götz Borchert Chairman Marketing/Retail Entry 02/2017			
KEUR	2018/19	Min.	Max.	2017/18	2018/19	Min.	Max.	2017/18	2018/19	Min.	Max.	2017/18
Fixed compensation	480	480	480	480	360	360	360	360	204*	204	204	204
Additional benefits	19	19	19	19	14	14	14	14	0	0	0	0
Total	499	499	499	499	374	374	374	374	204	204	204	204
Annual bonus	100	0	1,350	-74	100	0	600	7	35	0	370	-20
Long-term variable Bonus:												
Dec. 17 - Nov. 20	7	0	120	0	7	0	120	0	7	0	120	0
Dec. 19 - Nov. 22	0	0	120	0	0	0	120	0	0	0	120	0
Total	606	499	2,089	425	481	374	1,214	381	246	204	814	184
Pension expenses	-	-	-	-	-	-	-	-	-	-	-	-
Total compensation	**606**	**499**	**2,089**	**425**	**481**	**374**	**1,214**	**381**	**246**	**204**	**814**	**184**

* In addition, two monthly payments in the amount of EUR 34 thousand have been deferred in one-time effects until January 2020.

Inflow in the fiscal year

(Payment level)

	Dr. Stella A. Ahlers CEO Entry 06/2005		Dr. Karsten Kölsch CFO Entry 08/2007		Götz Borchert Chairman Marketing/Retail Entry 02/2017	
KEUR	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
Fixed compensation	480	480	360	360	204	204
Additional benefits	19	19	14	14	0	0
Total	499	499	374	374	204	204
Annual variable bonus	0	146	50	67	0	34
Long-term variable Bonus:						
Dec. 14 - Nov. 17						
with payment Apr. 18	-	5	-	5	-	-
Total	499	650	424	446	204	238
Pension expenses	0	0	0	0	0	0
Total compensation	**499**	**650**	**424**	**446**	**204**	**238**

Former members of the Management Board and the management of Adolf Ahlers GmbH and their survivors received total compensation of EUR 16 thousand (previous year: EUR 51 thousand) during the fiscal year 2018/19.

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 and is capped. The Chairman of the Supervisory Board receives three times the compensation, while the Deputy Chairman receives twice the compensation.

Value of the benefits granted for the fiscal year

KEUR	2018/19	2017/18
Fixed compensation	99	105
Variable compensation	0	0
Total	**99**	**105**

Individualised value of the benefits granted for the fiscal year

(Expense level)

	Alexander Gedat * Chairman since 04/2019			Armin Fichtel * Deputy Chairman since 04/2019			Heidrun Baumgart ** Employee representative since 05/1993		
KEUR	**2018/19**	**Min.**	**Max.**	**2018/19**	**Min.**	**Max.**	**2018/19**	**Min.**	**Max.**
Fixed compensation	30	30	30	20	20	20	12	12	12
Variable compensation	0	0	40	0	0	27	0	0	13
Total compensation	**30**	**30**	**70**	**20**	**20**	**47**	**12**	**12**	**25**

* Eight-month values
** Twelve-month values

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 former Supervisory Board member Prof. Dr. von Ah is a partner, provided tax consulting services to the Ahlers Group in the fiscal year 2018/19, for which an amount of EUR 2 thousand was invoiced. Mr. Bernd Rauch charged EUR 2 thousand for consulting services up to his resignation from the Supervisory Board. In accordance with section 114 of the German Stock Corporation Act (AktG), all benefits were 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, 2019, 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, 2019, chairwoman Dr. Stella A. Ahlers held 52.9 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 11, 2020

Dr. Stella A. Ahlers

Dr. Karsten Kölsch

Consolidated financial statements of Ahlers AG

CONSOLIDATED BALANCE SHEET as of November 30, 2019

ASSETS

KEUR	Notes	Nov. 30, 2019	Nov. 30, 2018
A. Non-current assets			
I. Property, plant and equipment	(11)		
1. Land, land rights and buildings		11,843	14,005
2. Technical equipment and machines		1,763	1,684
3. Other equipment, plant and office equipment		6,994	8,077
4. Payments on account and plant under construction		5	5
		20,605	**23,771**
II. Intangible assets	(12)		
1. Industrial property rights and similar rights and assets		14,091	14,236
2. Payments on account		4,250	4,110
		18,341	**18,346**
III. At-equity investments	(13)	571	571
IV. Other non-current assets	(14)		
1. Other financial assets		875	904
2. Other assets		10,463	17,698
		11,338	**18,602**
V. Deferred tax assets	(8)	1,077	1,176
Total non-current assets		**51,932**	**62,466**
B. Current assets			
I. Inventories	(15)		
1. Raw materials and consumables		14,728	18,964
2. Work in progress		417	458
3. Finished goods and merchandise		51,147	61,445
		66,292	**80,867**
II. Trade receivables	(16)	15,076	20,211
III. Other current assets	(17)		
1. Other financial assets		240	447
2. Receivables from affiliates		96	102
3. Current income tax claims		1,009	725
4. Other assets *		7,534	6,358
		8,879	**7,632**
IV. Cash and cash equivalents	(18)	11,449	4,219
Total current assets		**101,696**	**112,929**
Total assets		**153,628**	**175,395**

* previous year: increase through IFRS 15 - revenue from contracts with customers

EQUITY AND LIABILITIES

KEUR	Notes	Nov. 30, 2019	Nov. 30, 2018
A. Equity	(19)		
I. Subscribed capital	(20)	43,200	43,200
II. Capital reserve	(23)	15,024	15,024
III. Retained earnings	(24)	30,533	34,864
IV. Equity difference from currency translation	(25)	-1,460	-1,354
Equity attributable to shareholders of Ahlers AG		**87,297**	**91,734**
V. Non-controlling interests		970	1,407
Total equity		**88,267**	**93,141**
B. Non-current liabilities			
I. Pension provisions	(26)	3,368	3,445
II. Other provisions	(27)	450	549
III. Financial liabilities	(28)		
1. Other financial liabilities		15,236	19,707
2. Non-controlling interests in partnerships		1,288	1,253
		16,524	**20,960**
IV. Other liabilities		18	19
V. Deferred tax liabilities	(8)	1,033	1,021
Total non-current liabilities		**21,393**	**25,994**
C. Current liabilities			
I. Current income tax liabilities		675	699
II. Other provisions *	(29)	7,421	8,077
III. Financial liabilities	(28)	8,727	12,961
IV. Trade payables		16,713	23,577
V. Other liabilities	(30)		
1. Liabilities to affiliates		3,012	2,564
2. Other liabilities		7,420	8,382
		10,432	**10,946**
Total current liabilities		**43,968**	**56,260**
Total liabilities		**65,361**	**82,254**
Total equity and liabilities		**153,628**	**175,395**

CONSOLIDATED INCOME STATEMENT for fiscal 2018/19

KEUR	Notes	2018/19	2017/18
1. Sales	(1)	207,004	223,067
2. Change in inventories of finished goods and work in progress		-6,068	5,779
3. Other operating income	(2)	5,717	5,500
4. Cost of materials	(3)	-101,194	-119,610
5. Personnel expenses	(4)	-48,070	-53,304
6. Other operating expenses	(5)	-54,538	-60,102
7. Depreciation, amortisation and impairment losses on property, plant and equipment, intangible assets and other non-current assets	(6)	-5,245	-7,735
8. Profit shares from At-Equity-investments	(7)	0	30
9. Interest and similar income	(7)	73	92
10. Interest and similar expenses	(7)	-692	-841
11. Pre-tax profit		**-3,013**	**-7,124**
12. Income taxes	(8)	-711	123
13. Consolidated net results		**-3,724**	**-7,001**
14. of which attributable to:			
- Shareholders of Ahlers AG		-3,763	-7,006
- Non-controlling interests	(9)	39	5
Earnings per share (EUR) undiluted/diluted	(10)	**-0.28**	**-0.51**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

KEUR	Notes	2018/19	2017/18
13. Consolidated net results		**-3,724**	**-7,001**
Not to be reclassified to profit or loss			
15. Actual gains and losses on defined benefit plans	(24)	-121	140
To be reclassified to profit or loss			
16. Net result from cash flow hedges	(25)	-144	838
17. Currency translation differences		38	-405
18. Other changes		-282	-140
19. Others comprehensive income after taxes	(8)	**-509**	**433**
20. Comprehensive result		**-4,233**	**-6,568**
21. of which attributable to:			
- Shareholders of Ahlers AG		-3,990	-6,434
- Non-controlling interests		-243	-134

CONSOLIDATED CASH FLOW STATEMENT for fiscal 2018/19

KEUR	2018/19	2017/18
Consolidated net results	-3,724	-7,001
Income taxes	711	-123
Interest income / Interest expenses	620	719
Depreciation and amortisation / appreciation (net)	5,245	6,035
Losses / gains from the disposals of non-current assets (net)	-1,670	-600
Change in inventories and other current and non-current assets	18,568	6,363
Change in non-current provisions	-343	-379
Change in non-controlling interests in partnerships and other non-current liabilities	34	5
Change in current provisions	-656	2,541
Change in other current current liabilities	-7,284	1,900
Income taxes paid	-969	-698
Income taxes received	213	837
Cash flow from operating activities	**10,745**	**9,599**
Cash receipts from disposals of items of property, plant and equipment	3,357	282
Cash receipts from disposals of intangible assets	0	5
Cash receipts from disposals of other non-current assets	7,154	640
Payments for investment in property, plant and equipment	-2,628	-2,840
Payments for investment in intangible assets	-1,019	-3,045
Payments for the acquisition of other non-current assets	-2	-2
Payments for the acquisition of consolidated companies	-	-1,090
Payments for the acquisition of minority interests	-555	-130
Interest received	57	100
Cash flow from investing activities	**6,364**	**-6,080**
Dividend payments	-	-2,356
Additions / repayment of non-current financial liabilities	-6,084	-8,118
Interest paid	-762	-842
Cash flow from financing activities	**-6,846**	**-11,316**
Net change in liquid funds	10,263	-7,797
Effects of changes in the scope of exchange rates	-398	279
Liquid funds as of December 1	-1,227	6,291
Liquid funds as of November 30	**8,638**	**-1,227**

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 2018/19

KEUR	Equity attributable to shareholders of Ahlers AG: Subscribed capital: Common shares	Subscribed capital: Preferred shares	Capital reserve	Retained earnings	Equity-diff. from currency translation	**Total Group holdings**	Non-controlling interests: Capital	Accumulated other comprehensive income	**Total non-controlling interest**	**Total equity**
Notes	(20)	(20)	(23)	(24)	(25)				(9)	
Balance as of Nov. 30, 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				0,00			0,00	0,00
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 / Dec. 1, 2018	**43,200**	**0**	**15,024**	**34,864**	**-1,354**	**91,734**	**717**	**690**	**1,407**	**93,141**
Total net income for the period				-3,884	-106	-3,990		-243	-243	-4,233
Dividends paid				0		0			0	0
Acquisition of minority interests				-447		-447	-194		-194	-641
Balance as of Nov. 30, 2019	**43,200**	**0**	**15,024**	**30,533**	**-1,460**	**87,297**	**523**	**447**	**970**	**88,267**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS OF AHLERS AG

for the fiscal year from December 1, 2018 to November 30, 2019

1. BASIS OF PRESENTATION

Ahlers AG is one of the large 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 and Tradegate.

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 11, 2020 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, 2019. 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 2018/19:

- 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
- IFRS 9 "Financial Instruments" (07/2014), on/after January 1, 2018
- 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
- "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

As a result of the application of the new standard on revenue from contracts with customers, total assets increased by approx. EUR 3 million. Moreover, the corresponding figures and performance indicators were corrected retrospectively in all reported periods to ensure their comparability with prior periods. With the exception of the presentation and additional notes, the application of the other standards and 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, 2019 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
- Amendments to IAS 8 "Accounting Policies" (10/2018), on/after January 1, 2020
- 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, and (09/2019), on/after January 1, 2020 (EU endorsement pending)
- Amendments to IFRS 3 "Business Combinations" (10/2018), on/after January 1, 2020 (EU endorsement pending)
- IFRS 7 "Financial Instruments: Disclosures" (11/2013), date of coming into force open, and (09/2019), on/after January 1, 2020 (EU endorsement pending)
- IFRS 9 "Financial Instruments" (10/2017), on/after January 1, 2019, and (09/2019), on/after January 1, 2020 (EU endorsement pending)
- IFRS 10 "Consolidated Financial Statements" (09/2014), time of coming into force open
- IFRS 16 "Leases", on/after January 1, 2019
- "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 standard on leases, first-time adoption is not expected to have material effects on the consolidated financial statements. The effects of the new standard on leases will increase total assets by EUR 13 million. In addition, depreciation/amortisation and interest expenses will increase by EUR 4.7 million and EUR 0.3 million, respectively, while other operating expenses (rents) will decrease by EUR 5.0 million.

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 2018/19 consolidated financial statements in addition to the parent company, Ahlers AG. The share in OOO Ahlers RUS was increased from 60.0 percent to 90.0 percent in the fiscal year. In addition, the two Baltic distribution companies were renamed: UAB Stesa Clasic was renamed UAB Ahlers LT and SIA Clasic was renamed SIA Ahlers LV.

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 %	via	Equity [1] KEUR	Net income/ loss [2] 2017/18 KEUR
1. Ahlers P.C. GmbH, Herford	100.00			20,996	3)
2. Ahlers Textilhandel GmbH & Co. KG, Herford	80.00			5,500	1,188
3. Ahlers Vertrieb GmbH, Herford	100.00			31	3)
4. Ahlers Zentralverwaltung GmbH, Herford	100.00			4,014	3)
5. Baldessarini GmbH, Herford	100.00			1,936	3)
6. Ahlers Retail GmbH, Herford	100.00			60	3)
7. HEMINA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Herford KG, Pullach im Isartal	94.00	94.00	2.	4,299	1,275
8. Jupiter Bekleidung GmbH, Herford	100.00			113	3)
9. Otto Kern GmbH, Herford	100.00			7,987	3)
10. PIONEER Jeans-Bekleidung GmbH, Herford	100.00			52	3)
11. Pionier Berufskleidung GmbH, Herford	100.00			28	3)
12. Pionier Jeans & Casuals Deutschland GmbH, Herford	100.00			24	3)
13. Adolf Ahlers AG, CH-Zug	100.00			4,435	32
14. Ahlers Austria GmbH, A-Mariasdorf	100.00			1,683	464
15. Ahlers Europe Ltd., USA-New York	100.00			-394	-24
16. Ahlers Herford (España) S.L., E-Madrid	100.00			377	27
17. Ahlers Herford (Italia) S.R.L., I-Torino	100.00			408	4
18. Ahlers Premium France S.A.S., F-Horbourg-Wihr	100.00			1,768	94
19. "Ahlers-Poland" Spolka z o.o., PL-Opole	100.00			11,279	140
20. OOO Ahlers RUS, RUS-Moskwa	90.00			817	103
21. SIA Ahlers LV, LV-Riga	99.33	99.33	26.	-46	-84
22. Dial Textile Industries Ltd., CL-Katunayake	100.00			2,513	581
23. Ahlers Danmark A/S, DK-Haderslev	100.00			252	28
24. "LUBINEX"-Spolka z o.o., PL-Lubin	62.85	62.85	19.	1,913	-774
25. Otto Kern Austria GmbH, A-Mariasdorf	100.00	100.00	9.	922	76
26. UAB Ahlers LT, LT-Vilnius	99.33	99.33	1.	-111	-550
27. TEXART Bratislava, s r.o., SK-Bratislava	100.00	100.00	14.	95	9
28. TEXART d.o.o., HR-Strmec Samoborski	100.00	100.00	14.	262	4
29. TEXART d.o.o., SLO-Ljubljana	100.00	100.00	14.	66	6
30. TEXART Magyarorszag Kft., H-Budapest	100.00	100.00	14.	176	-15
31. TEXART spol. s r.o., CZ-Prag	100.00	100.00	14.	172	29
32. Texart UK Ltd., GB-London	100.00			103	-12

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 exceptions are HEMINA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Herford KG, Pullach im Isartal, and OOO Ahlers RUS, RUS-Moscow. The balance sheet date of both companies is December 31, which is why they prepared interim statements as of November 30, 2019.

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 =	2018/19	2017/18	2019	2018
Poland	PLN	4.30	4.25	4.32	4.29
Switzerland	CHF	1.12	1.16	1.10	1.13
Sri Lanka	LKR	200.40	189.90	198.95	203.31
USA	USD	1.12	1.19	1.10	1.14

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 with effect from November 30.

Works of art

Works of art are measured in accordance with IAS 16, Property, plant and equipment. Under this standard, assets are recognised at amortised cost. Works of art with acquisition values in excess of EUR 1,500 are not subject to depreciation. Given that 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 and IFRS 9. Financial assets are thus classified in the following subsequent measurement categories to the extent relevant to the Ahlers Group:

- Measurement at amortised cost
- Measurement at fair value through other comprehensive income (fair value through OCI)
- Measurement at fair value through profit and loss

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. No different classification resulted from the contract on the revolving sale of receivables. The effect resulting from the inclusion of forward-looking market information is of minor importance, as the definition of the default event remains unchanged. For cost-benefit considerations, no rating is assigned per customer for whom no itemised allowances have been established. Any resulting risk is covered by generalised itemised allowances.

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. Intangible assets are measured on the basis of individual assets to which cash flows can be directly allocated. These individual assets are, in turn, relevant for the value of the associated cash-generating unit. The Ahlers Group's cash-generating units are individual corporate divisions.

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 or have been sold.

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. For the purpose of the consolidated cash flow statement, overdrafts are deducted as an integral element of cash management.

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 other 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:

- Revenues from customers 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

	2018/19		2017/18	
	KEUR	%	KEUR	%
Domestic	112,130	54.2	121,254	54.4
Foreign	94,874	45.8	101,813	45.6
	207,004	100.0	**223,067**	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 991 thousand (previous year: EUR 855 thousand), Baldessarini GmbH, Herford, in the amount of EUR 243 thousand (previous year: EUR 232 thousand) and Pioneer Jeans-Bekleidung GmbH, Herford, in the amount of EUR 53 thousand (previous year: EUR 24 thousand) are included in this figure. Foreign sales were generated primarily in Europe.

(2) Other operating income

KEUR	2018/19	2017/18
Income from the disposal of fixed assets	1,883	819
Income from the release of provisions/other liabilities	1,299	428
Income from personal use of company cars	506	545
Exchange gains	493	462
Rental income	319	316
Income from re-invoicing	316	359
Income from the reversal of valuation allowances on trade receivables	303	281
Income from insurance payments	64	16
Income from damages	54	100
Income unrelated to the reporting period	48	6
Reversal of an impairment loss	-	1,700
Others	432	467
	5,717	**5,499**

In the fiscal year 2018/19, other operating income mainly resulted from the reversal of provisions that were no longer needed, the sale of a plot of land not required for operations and the sale of several works of art. In the previous year, the largest single items were the write-up of the Otto Kern brand and income from the sale of works of art.

(3) Cost of materials

KEUR	2018/19	2017/18
Cost of raw materials and supplies and purchased goods	81,463	93,550
Cost of purchased services	19,731	26,060
	101,194	**119,610**

The cost of materials adjusted for changes in finished goods and work in progress in an amount of EUR 6,068 thousand (previous year: EUR -5,779 thousand) increased at a higher rate than sales revenues due to higher inventory write-downs.

(4) Personnel expenses

KEUR	2018/19	2017/18
Wages and salaries	40,767	45,290
Social security contributions	7,177	7,897
Retirement benefit and similar expenses	126	117
	48,070	**53,304**

Social security contributions include employer contributions to contribution-based pension plans in an amount of EUR 3,169 thousand (previous year: EUR 3,465 thousand).

The reduction in personnel expenses is attributable to severance payments in the previous year, which became necessary, inter alia, because of the discontinuation of Jupiter Sportswear and the ladieswear activities, as well as the resulting personnel cost savings in the reporting year. The gradual shutdown of our production facility in Poland also had an effect on personnel expenses.

(5) Other operating expenses

KEUR	2018/19	2017/18
Distribution expenses	27,440	31,456
General and administrative expenses	11,553	12,046
Advertising expenses	4,079	4,860
Maintenance expenses	2,243	2,405
Insurance expenses	1,042	1,000
Banking fees	598	629
Valuation allowances	498	1,021
Other taxes	454	396
Exchange differences	364	273
Other fees	305	343
Bad debt loss	249	83
Miscellaneous	5,713	5,590
	54,538	**60,102**

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	2018/19	2017/18
Property, plant and equipment		
Land and buildings	477	489
Technical equipment and machines	345	339
Other equipment, plant and office equipment	2,948	3,487
Intagible Assets		
Trademark rights and similar rights	1,025	3,420
Goodwill	-	-
Other non-current assets		
Other assets	450	-
	5,245	**7,735**
thereof impairment losses		
Goodwill	-	1,700

Impairment losses in the previous year related to the Baldessarini brand.

(7) Financial result

KEUR	2018/19	2017/18
Write-up of the at-equity investment	-	30
Other interest and similar income	73	92
Interest expenses	-693	-841
	-620	**-719**

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	2018/19	2017/18
Current taxes		
Germany	146	155
Foreign	308	663
	454	**818**
Deferred taxes		
Germany	218	-785
Foreign	39	-156
	257	**-941**
	711	**-123**

Of the deferred taxes, EUR 287 thousand in expenses relate to the recognition and/or reversal of temporary differences (previous year: income of EUR 195 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 ranged from 12.00 to 28.00 percent (previous year: between 14.00 and 33.33 percent).

The table below shows the reconciliation 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	2018/19	2017/18
Consolidated net results before income taxes	**-3,013**	**-7,124**
Expected tax expense at a rate of 30.88% (2017/18: 30.88%)	-930	-2,200
Tax rate differences at local tax rate	-246	-77
Effects from changes in tax rates	18	1
Non-deductible business expenses	142	228
Taxes for previous fiscal years	20	344
Adjustments to recognition of deferred tax assets and other permanent differences	1,700	1,563
Tax-free income	-11	-4
Other differences	19	22
Total adjustments	1,642	2,077
Tax expense reported	**712**	**-123**

As of November 30, 2019, no deferred taxes were recorded for tax loss carryforwards of EUR 14,248 thousand (previous year: EUR 8,233 thousand) that exist in the Group, as the Management Board believes that it is not sufficiently likely that they will be utilised in the next five years. This amount includes EUR 3,345 thousand that will lapse successively over the next 10 years. In addition, deferred tax assets in the amount of EUR 280 thousand (previous year: EUR 298 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 items:

KEUR	Nov. 30, 2019 deferred tax assets	Nov. 30, 2019 deferred tax liabilities	Nov. 30, 2018 deferred tax assets	Nov. 30, 2018 deferred tax liabilities
Property, plant and equipment	28	1,515	18	1,336
Intangible assets	38	2,575	35	2,530
Non-current financial Assets	-	57	-	57
Inventories	757	-	794	-
Trade receivables and other current financial assets	98	2	87	-
Pension provisions	414	-	392	-
Other provisions	194	85	269	102
Financial liabilities	163	74	52	138
Other liabilities	102	-	142	-
	1,794	**4,308**	**1,789**	**4,163**
Losses carried forward	2,558	-	2,529	-
	4,352	**4,308**	**4,318**	**4,163**
Balance	-3,275	-3,275	-3,142	-3,142
	1,077	**1,033**	**1,176**	**1,021**

As of the balance sheet date, there were taxable temporary differences relating to subsidiaries in the amount of EUR 259 thousand (previous year: EUR 390 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 +147 thousand (previous year: EUR -407 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	2018/19 before taxes	2018/19 deferred taxes	2017/18 before taxes	2017/18 deferred taxes
Not to be reclassified to profit or loss				
Actual gains and losses on defined benefit plans	-168	47	206	-66
To be reclassified to profit or loss				
Net result from cash flow hedges	-207	64	1,213	-375
Currency translation differences as per IAS 21.32f	-118	36	-109	34
Other currency translation differences in the equity	120	-	-331	-
Other changes	-282	-	-139	-
	-655	**147**	**840**	**-407**
Others income after taxes		**-508**		**433**

Notes to the consolidated financial statements

(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, 2019, or November 30, 2018, that would have a diluting effect on earnings per share. Consolidated net income attributable to the shareholders of Ahlers AG amounts to EUR -3,763 thousand (previous year: EUR -7,006 thousand). This amount is distributed evenly over all shares. In the fiscal year 2018/19, this resulted in earnings per share of EUR -0.28 (previous year: EUR -0.51).

6. NOTES TO THE CONSOLIDATED BALANCE SHEET

Changes to the individual items of non-current assets during fiscal 2017/18 and 2018/19 are shown in the consolidated fixed and intangible assets schedule attached to the notes to the consolidated financial statements.

(11) Property, plant and equipment

Investments in property, plant and equipment and intangible assets were below the scheduled depreciation and amortisation in the fiscal year 2018/19. This was due to the fact that the ERP project was essentially completed, so that scheduled depreciation of the ERP modules started. The additions to factory and office equipment in the amount of EUR 2,099 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 5,600 thousand) and Baldessarini trademark rights of EUR 4,270 thousand (previous year: EUR 4,270 thousand). Each of the segments forms one cash-generating unit.

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 in the previous year. The impairment test showed that goodwill had declined to EUR 352 thousand as of the balance sheet date.

Development expenses were not capitalised, as the requirements defined in IAS 38 were not fully met. R&D costs of EUR 5,258 thousand (previous year: EUR 7,188 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 of the assets underlying the cash-generating units were, in each case, determined on the basis of the net realisable values. 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 6.45 percent for each asset underlying the cash-generating units. There were no impairment losses or reversals of impairment losses on trademark rights 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 6.45 percent for this cash-generating unit.

Management is of the opinion that the assumptions and estimates for the assets and 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 with effect from November 30, 2019. The company continues to perform according to plan and its capital was neither increased nor reduced. In the context of the ongoing measurement of the equity value, the carrying amount of the investment remained stable compared with the previous year. In the previous year, the income from the write-up was shown under profit shares from at-equity investments. Jupiter Shirt did not pay out a dividend in the fiscal year.

In the fiscal year 2018, the company, which is accounted for using the equity method, generated sales revenues of EUR 8,071 thousand and earnings before taxes of EUR 94 thousand. Total assets amounted to EUR 6,394 thousand as of December 31, 2018.

(14) Other non-current assets

Other financial assets comprise other interest-bearing and non-interest-bearing long-term loans, surrender values pertaining to life insurance policies as well as rent deposits.

A loan extended by Ahlers AG to a foreign key account that was also included in this item was repaid in the fiscal year (previous year: EUR 38 thousand). These were originally receivables from goods supplied that were converted into an interest-bearing three-year payment plan.

Other assets mainly include works of art. These are mostly works by well-known contemporary and classic modernist artists. In the fiscal year, the carrying amounts declined by EUR 7,234 thousand as a result of sales, value adjustments and minor, scheduled depreciation. The sales generated proceeds of EUR 7,154 thousand, resulting in net income of EUR 368 thousand. As in the previous year, no works of art were bought in the fiscal year 2018/19.

Other non-current assets are comprised as follows:

KEUR	Nov. 30, 2019	Nov. 30, 2018
Contemporary Art	4,439	11,178
Classic Modernism	5,259	5,754
Other works of art	766	766
	10,464	**17,698**

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 its pieces of contemporary art include works by Yves Klein and Andy Warhol.

(15) Inventories

KEUR	Nov. 30, 2019	Nov. 30, 2018
Raw materials and consumables	14,728	18,964
Work in progress	417	458
Finished goods and merchandise	51,147	61,444
	66,292	**80,866**

The amount of impairment taken into consideration in measuring inventories is EUR 10,269 thousand (previous year: EUR 10,294 thousand). The carrying amount of inventories recorded at net realisable value is EUR 19,797 thousand (previous year: EUR 22,690 thousand).

Inventories of finished goods and merchandise declined sharply due to the discontinuation of Jupiter Sportswear and the ladies' denim activities as well as reduced NOS and current seasonal merchandise. Raw material inventories were reduced by a partial change from cut-make-trim arrangements to full-package services as well as by shorter procurement lines.

(16) Trade receivables

Trade receivables are usually not interest-bearing and the average number of days outstanding is 49 (previous year: 51).

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

KEUR	2018/19	2017/18
As at Dec. 1	1,613	1,413
Utilisation	-110	-334
Reversal	-321	-282
Additions	488	825
Currency translation differences	0	-9
As at Nov. 30	**1,670**	**1,613**

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, 2019:

KEUR	Nov. 30, 2019	Nov. 30, 2018
Carrying amount on November 30	**15,076**	**20,211**
thereof neither overdue nor impaired	**9,092**	**12,930**
thereof overdue but not impaired	**3,612**	**5,712**
< 90 days	3,239	3,598
> 90 to 180 days	42	531
> 180 to 270 days	52	284
> 270 to 360 days	72	873
> 360 days	207	426

This includes receivables from a major foreign customer in the amount of EUR 886 thousand (previous year: EUR 2,047 thousand). Together with the loan reported under other non-current assets (section 14 of the notes), which was repaid in the fiscal year, the outstanding receivables from this customer amounted to EUR 886 thousand at the balance sheet date (previous year: EUR 2,085 thousand). Of these receivables, EUR 886 thousand (previous year: EUR 2,085 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 also a result of the drop in revenues. The factoring agreement signed as of November 30, 2018 led to a reduction in trade receivables of EUR 9,728 thousand (previous year: EUR 10,377 thousand) as of the balance sheet date. For further information on factoring, 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 240 thousand as of the balance sheet date (previous year: EUR 448 thousand). They also comprise financial assets held for trading in Germany at carrying amounts of EUR - thousand (previous year: EUR - thousand).

Receivables from affiliates in the amount of EUR 97 thousand (previous year: EUR 102 thousand) relate to the exchange of goods and services with these companies.

Other assets in the amount of EUR 7,534 thousand (previous year: EUR 6,358 thousand including the correction resulting from the first-time adoption of IFRS 15) essentially comprise the assets from expected returns in the amount of the reported values of the products on delivery less the return costs. This item also includes value-added taxes, deferred license fees, bonus claims as well as receivables from suppliers and insurers.

(18) Cash and cash equivalents

KEUR	Nov. 30, 2019	Nov. 30, 2018
Cash on hand	215	187
Bank balances	11,234	4,032
	11,449	**4,219**

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 11,449 thousand (previous year: EUR 4,219 thousand).

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

KEUR	Nov. 30, 2019	Nov. 30, 2018
Cash on hand	215	187
Bank balances	11,234	4,032
Overdraft facilities	-2,811	-5,446
	8,638	**-1,227**

(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. As in the previous year, these are registered common shares.

The total number of shares outstanding remained unchanged from the previous year and stood at 13,681,520 shares as of November 30, 2019.

(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 shares against cash and/or non-cash contributions by May 2, 2022. The Management Board is authorised to exclude the shareholders' subscription rights under certain conditions with the consent of the Supervisory Board (see chapter 'Takeover-related information and explanatory report', p. 84 or www.ahlers-ag.com, 'Investor Relations').

(22) Own shares

As of November 30, 2019, 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 30,533 thousand are made up of profit carryforwards (EUR 29,943 thousand), the net loss for the year attributable to the shareholders of Ahlers AG (EUR -3,763 thousand), the revenue reserves from the first-time adoption of IFRS (EUR 7,293 thousand) and other revenue reserves (EUR -3,940 thousand). The latter include the effects from the revaluation of the net debt of the pension obligations in the amount of EUR -941 thousand before taxes and EUR -685 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 26,149 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 113 thousand may not be distributed.

(25) Equity difference from currency translation

The equity difference from currency translation 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 21.32 et seq. 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 342 thousand (previous year: EUR 241 thousand).

Statement of provisions 2018/19

KEUR	Dec. 1, 2018	Utilisation	Release	Additions	Addition of unaccrued interest	Currency translation differences	Nov. 30, 2019
Non-current provisions							
Retirement benefit and similar obligations	**3,445**	362	104	406	-24	7	**3,368**
Other anniversaries	462	79	191	137	0	-2	327
Part-time retirement	86	0	0	37	0	-	123
Sub-total	**548**	79	191	174	0	-2	**450**
Current provisions							
Goods returned/discounts	4,579	876	0	2,283	-	-2	5,984
Severance payments	2,975	1,877	855	797	-	-2	1,038
Other	523	352	0	224	-	4	399
Sub-total	**8,077**	3,105	855	3,304	-	0	**7,421**
	12,070	3,546	1,150	3,884	-24	5	**11,239**

(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	2018/19	2017/18
Projected interest rate (discount rate)	0.78%	1.76%
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	2018/19	2017/18
Present value of the defined benefit obligation as of December 1	2,935	3,441
+ Current service cost	70	42
+ Interest cost (effect of discounting)	78	86
- Benefits paid	-314	-391
+/- Actuarial gains/losses	168	-206
- Curtailments/settlements	-65	0
Present value of the defined benefit obligation as of November 30	2,872	2,972
Currency translation	7	-37
	2,879	**2,935**

The present value of the defined benefit obligations amounted to EUR 3,441 thousand as of November 30, 2017, EUR 3,654 thousand as of November 30, 2016 and EUR 3,917 thousand as of November 30, 2015.

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 489 thousand (previous year: EUR 510 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 146 thousand (previous year: EUR 110 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 23 thousand (previous year: EUR 24 thousand). The securities are offset against the pre-retirement part-time employment provisions as they qualify as plan assets. Proceeds from the securities in the amount of EUR 0.3 thousand (previous year: EUR 0.3 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 three years. Liabilities to banks include the associated liability from the factoring agreement of EUR 482 thousand (previous year: EUR 522 thousand). For more information on factoring, please refer to note (33).

Other financial liabilities include leasing liabilities in an amount of EUR 526 thousand (previous year: EUR 174 thousand) as well as negative market values from the measurement of forward exchange contracts in the amount of EUR - thousand (previous year: EUR - 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	**2019**	Carrying amount	8,540	14,897	-	14,897	**23,437**
		Interest rate	1.51%	2.46%	-		
	2018	Carrying amount	12,788	18,296	1,410	19,706	**32,494**
		Interest rate	1.37%	1.68%	1.35%		
Trade payables	**2019**	Carrying amount	16,713	-	-	-	**16,713**
		Interest rate	-	-	-		
	2018	Carrying amount	23,577	-	-	-	**23,577**
		Interest rate	-	-	-		
Other payables	**2019**	Carrying amount	187	339	-	339	**526**
		Interest rate	2.10%	2.64%	-		
	2018	Carrying amount	174	-	-	-	**174**
		Interest rate	1.52%	-	-		
Total amounts	**2019**		25,440	15,236	-	15,236	**40,676**
	2018		36,539	18,296	1,410	19,706	**56,245**

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, 2019 Minimum lease-payments	Nov. 30, 2019 Present value of minimum lease	Nov. 30, 2018 Minimum lease-payments	Nov. 30, 2018 Present value of minimum lease
Maturity				
within a year	198	187	175	174
1 to 5 years	347	339	-	-
> 5 years	-	-	-	-
Total minimum lease payments	**545**	**526**	**175**	**174**
minus the interest portion	-19		-1	
Present value of minimum lease payments	**526**		**174**	

Liabilities under finance leases are offset by assets in an amount of EUR 526 thousand (previous year: EUR 174 thousand) shown under property, plant and equipment.

Lease payments in the fiscal year 2018/19 totalled EUR 225 thousand (previous year: EUR 234 thousand).

(29) Other current provisions

Other current provisions essentially contain provisions for returns and discounts. The item shows the expected reimbursement amounts. The latter are determined on the basis of the prior year figures and the current sales trend. The prior year figure was adjusted in the context of the first-time application of IFRS 15.

This item also includes provisions for severance payments to employees and representatives. The additions in the fiscal year were made in conjunction with the discontinuation of production at our Polish plant.

(30) Other current liabilities

KEUR	Nov. 30, 2019	Nov. 30, 2018
Liabilities to affiliated companies	3,012	2,564
Other liabilities	7,419	8,382
thereof		
Wages and salaries	3,096	3,482
Taxes	1,288	1,462
Social security	433	701
Miscellaneous	2,602	2,737
	10,431	**10,946**

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	Measurement category as defined in IFRS 9	Nov. 30, 2019 Carrying amount	Nov. 30, 2019 Fair value	Nov. 30, 2018 Carrying amount	Nov. 30, 2018 Fair value
Assets						
Cash and cash equivalents	LaR	AC	11,449	11,449	4,219	4,219
Trade receivables	LaR	AC	15,076	15,076	20,211	20,211
Other financial assets			1,115	1,115	1,352	1,352
thereof:						
- Other non-current financial assets	LaR	AC	875	875	904	904
- Hedge-related derivatives	n.a.	n.a.	240	240	448	448
- Other current financial assets	FAHfT	FVtPL	-	-	-	-
Liabilities						
Liabilities to banks	FLAC	AC	23,437	23,437	32,494	32,494
Trade payables	FLAC	AC	16,713	16,713	23,577	23,577
Other financial liabilities			526	526	174	174
thereof:						
- Liabilities from lease agreements	n.a.	n.a.	526	526	174	174
- Hedge-related derivatives	n.a.	n.a.	-	-	-	-

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 the EBITDA, net working capital, equity ratio and gearing 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	at fair value	Currency translation	Impairment	from disposal	Net result 2018/19	Net result 2017/18
		Subsequent measurement						
Financial Assets Measured at Amortised Cost	AC	68	-	-16	-167	-196	-311	**-673**
Derivates	FVtPL	-	0	-	-	-	0	**0**
Financial Liabilities Measured at Amortised Cost	AC	-656	-	29	-	-	-627	**-857**

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 guarantees in the amount of EUR 892 thousand as of the balance sheet date (previous year: EUR 951 thousand). No guarantees were underwritten for affiliated companies.

In the context of the restructuring of the Ahlers Group's financing in the fiscal year, all liabilities of Ahlers AG to banks were collateralised by pledges on real estate in Germany, works of art, inventories and non-transferred receivables. The contracts and, hence, the collateral have a medium term.

As of November 30, 2019, there were no contractual obligations for the acquisition of property, plant and equipment (previous year: EUR 47 thousand). This amount resulted from the purchase obligation for the replacement of technical equipment in a production facility. The outflow of cash occurred in the first months of the following fiscal year. There was 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, 2019	Nov. 30, 2018
Maturity		
within a year	6,462	6,909
1 to 5 years	10,729	12,007
> 5 years	334	1,085
	17,525	**20,001**

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 491 thousand (previous year: EUR 887 thousand) have been recorded under lease expense. These conditional lease payments concern payments that vary according to sales levels. In the fiscal year 2018/19, payments under operating leases totalled EUR 7,814 thousand (previous year: EUR 7,821 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, 2019			Nov. 30, 2018		
		Nominal value		Fair value	Nominal value		Fair value
Type	Currency	in thsd. currency units	KEUR	KEUR	in thsd. currency units	KEUR	KEUR
Purchases	USD	7,500	6,601	192	11,500	9,483	442
Sales	CHF	3,500	3,216	48	1,500	1,328	5

As of November 30, 2019, there were forward exchange deals with a positive market value of EUR 240 thousand (previous year: EUR 447 thousand) and forward exchange deals with a negative market value of EUR - thousand (previous year: EUR - 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 six days and ten 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 1.1095 to 1.1585. 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 166 thousand after deferred taxes (previous year: EUR 309 thousand) 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	
	2019	2018	2019 KEUR	2018 KEUR	2019 KEUR	2018 KEUR
USD	+3%	+3%	100	114	69	79
	-1%	-3%	-33	-114	-23	-79
CHF	+2%	+2%	-70	-107	-48	-74
	-2%	-2%	70	107	48	74
PLN	+1%	+1%	4	20	3	14
	-1%	-1%	-4	-20	-3	-14

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 4.8 million as of the balance sheet date (previous year: EUR 7.4 million).

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)	
2019	2018	2019	2018	2019	2018
+10	+15	-23	-42	-16	-29
-10	-5	23	14	16	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 up to EUR 28 million. The contract has a term until November 30, 2025. 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 2.50 percent (previous year: 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. In the fiscal year, the receivables sold amounted to between EUR 7.2 million and EUR 16.0 million (previous year only November 30, 2018: EUR 10.9 million). 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 10.2 million (previous year: 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, long-term 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, 2019, 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, 2019	Nov. 30, 2018
Inventories	66,292	80,868
Trade receivables	15,076	20,211
Current trade payables	-16,713	-23,576
Net working capital	**64,655**	**77,503**

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 & Workwear segment. In the context of the discontinuation of Jupiter Sportswear, the "Jeans, Casual & Workwear" segment was renamed "Jeans & Workwear" with effect from this annual report. 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 153,628 thousand) result from the assets as derived from the segment information (EUR 151,542 thousand) plus deferred tax assets and current income tax assets (EUR 2,086 thousand). Accordingly, the liabilities stated in the balance sheet (EUR 65,361 thousand) result from the liabilities as derived from the segment information (EUR 63,127 thousand) plus deferred tax liabilities and current income tax liabilities (EUR 1,708 thousand) as well as leasing liabilities (EUR 526 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 & Workwear

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

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 prepared the Supervisory Board's appointment decisions until April 2019. It drew up proposals for the Supervisory Board to adopt resolutions on compensation and the compensation system and regularly reviewed the latter. The committee also prepared the signing and the amendment or termination of the employment contracts of the Management Board members. Since April 2019, the Supervisory Board has been directly responsible for these tasks. The employment contracts of the two 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 is from December 2017 to November 2020 with payment in April 2021. Another 3-year period is 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 3-year tranches had a total 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	2018/19	2017/18
Salary	1,044	1,044
Annual bonus */**	256	-87
Miscellaneous	33	33
Total	**1,333**	**990**

* Composed of a profit-related, target-related and long-term bonus.
The long-term bonus is included at an amount of EUR 20 thousand (previous year: EUR 0 thousand).
** Negative amount in the previous year due to higher provisioning than amount paid out

The compensation of the individual Management Board members is disclosed in the combined management report.

Former members of the Management Board and the management of Adolf Ahlers GmbH and their survivors received total compensation of EUR 16 thousand (previous year: EUR 51 thousand) during the fiscal year 2018/19.

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 and is capped. The Chairman of the Supervisory Board receives three times the compensation, while the Vice Chairman receives twice the compensation.

KEUR	2018/19	2017/18
Fixed compensation	99	105
Variable compensation	0	0
Total	**99**	**105**

The compensation of the individual Supervisory Board members is disclosed in the combined management report.

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 former 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 2018/19 until her resignation from the controlling bodies of Ahlers AG, and invoiced an amount of EUR 2 thousand for these services. Mr. Bernd Rauch charged EUR 2 thousand for consulting services up to his resignation from the Supervisory Board. 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 the fiscal year 2018/19 there were

- supplies and services to Westfälisches Textilwerk Adolf Ahlers Stiftung & Co. KG, Herford, and related parties in an amount of EUR 2.6 million (previous year: EUR 3.3 million); thereof EUR 2.5 million (previous year: EUR 2.6 million) only to Westfälisches Textilwerk Adolf Ahlers Stiftung & Co. KG and
- services from Westfälisches Textilwerk Adolf Ahlers Stiftung & Co. KG, Herford, and related parties in an amount of EUR 10.8 million (previous year: EUR 12.9 million); thereof EUR 9.7 million (previous year: EUR 11.4 million) only to Westfälisches Textilwerk Adolf Ahlers Stiftung & Co. KG.

As of November 30, 2019, net liabilities in the amount of EUR 2.9 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)

	2018/19	2017/18
Blue collar	1,187	1,263
White collar	798	859
Total	**1,985**	**2,122**

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 2019 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, 2019, 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, 2019.

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, 2019.

Auditor's fee

The audit fee expensed in the fiscal year 2018/19 and the previous year covered the following services:

KEUR	2018/19	2017/18
Audit of the financial statements	137	245
Other attestation services	-	-
Tax consulting services	-	-
Other services	-	-
	137	**245**

Distribution of profits of Ahlers AG

In the fiscal year 2018/19, Ahlers AG did not pay a dividend for the fiscal year 2017/18.

In view of the business performance, the Management Board proposes to pay out no dividend to the shareholders for the fiscal year 2018/19 in the fiscal year 2019/20.

9. CORPORATE BODIES

Supervisory Board

Alexander Gedat (since April 17, 2019)
Business economist, Rosenheim (Chairman)

Armin Fichtel (since April 17, 2019)
Businessman, Mönchengladbach (Deputy Chairman)

Heidrun Baumgart
Industrial clerk, Bielefeld (Employee representative), Ahlers Zentralverwaltung GmbH

Prof. Dr. Carl-Heinz Heuer (until April 17, 2019)
Attorney, Königstein (Chairman), Sozietät Heuer Busch & Partner

Prof. Dr. Julia von Ah (until April 17, 2019)
Tax consultant, Feusisberg, Switzerland (Deputy Chairwoman), von Ah & Partner AG

Hans-Joachim Knauf (until April 17, 2019)
Commercial clerk, Herford (Employee representative), Ahlers Vertrieb GmbH

Jörg-Viggo Müller (until April 17, 2019)
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
Herford, Chief Executive Officer

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

As of November 30, 2019, the members of the Supervisory/Management Board of the company are represented on the following bodies of other companies:

Alexander Gedat
- Advisory Board member of Fynch – Hatton GmbH, Mönchengladbach
- Advisory Board member of Sportalm GmbH, Kitzbühel (Austria)
- Chairman of the Supervisory Board of Gerry Weber International AG, Halle (Westphalia) since December 19, 2019

Armin Fichtel
- Chairman of the Advisory Board of Mustang Jeans GmbH, Künzelsau
- Chairman of the Advisory Board of van Laack GmbH, Mönchengladbach
- Chairman of the Advisory Board of AppelrathCüpper, Cologne
- Advisory Board member of Fynch – Hatton GmbH, Mönchengladbach

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‘ bodies.

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

for fiscal 2018/19

KEUR	Accumulated costs					
	Dec. 1, 2018	Additions	Disposals	Reclassi-fication	Currency differences	Nov. 30, 2019
Property, plant and equipment						
Land, land rights and buildings	33,989	132	1,809		-13	32,299
Machinery	9,838	398	145		96	10,187
Plant and office equipment	44,929	2,098	1,936		14	45,105
Payments on account and plant under construction	5					5
	88,761	**2,628**	**3,890**	**0**	**97**	**87,596**
Intangible assets						
Industrial property rights and similar rights and assets	32,888	324	33	555		33,734
Goodwill	427					427
Payments on account	4,110	696	0	-555	-1	4,250
	37,425	**1,020**	**33**	**0**	**-1**	**38,411**
	126,186	**3,648**	**3,923**	**0**	**96**	**126,007**

for fiscal 2017/18

KEUR	Accumulated costs					
	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**

Accumulated depreciation/amortisation						Carrying amounts	
Dec. 1, 2018	Additions	Disposals	Appreciations	Currency differences	Nov. 30, 2019	Nov. 30, 2019	Nov. 30, 2018
19,984	477	0		-5	20,456	11,843	14,005
8,154	345	145		70	8,424	1,763	1,684
36,852	2,948	1,690		1	38,111	6,994	8,077
-					-	5	5
64,990	**3,770**	**1,835**	**0**	**66**	**66,991**	**20,605**	**23,771**
18,980	1,024	33			19,971	13,763	13,908
99					99	328	328
-					-	4,250	4,110
19,079	**1,024**	**33**	**0**	**0**	**20,070**	**18,341**	**18,346**
84,069	**4,794**	**1,868**	**0**	**66**	**87,061**	**38,946**	**42,117**

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**	**0**	**-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**

GROUP SEGMENT INFORMATION

for fiscal 2018/19

by business segment	Premium Brands		Jeans & Workwear		Others		Total	
KEUR	**2018/19**	**2017/18**	**2018/19**	**2017/18**	**2018/19**	**2017/18**	**2018/19**	**2017/18**
Sales	143,406	153,239	63,274	69,507	324	321	207,004	223,067
Intersegment sales	-	-	-	-	-	-	-	-
Segment results	-3,175	-6,556	252	-1,110	-90	542	-3,013	-7,124
thereof								
Depreciation and amortisation	3,773	5,926	1,456	1,792	16	17	5,245	7,735
Impairment losses (IAS 36)	-	-	-	-	-	-	-	-
other non-cash items	1,253	1,660	283	1,314	0	0	1,536	2,974
Interest income	58	71	15	51	0	0	73	122
Interest expense	469	561	221	278	2	2	692	841
Net assets	110,837	123,182	29,778	32,134	10,927	18,178	151,542	173,494
Capital expenditure	2,684	3,941	964	1,944	0	0	3,648	5,885
Liabilities	46,564	58,821	16,510	21,495	53	44	63,127	80,360

by geographic region

KEUR	Premium Brands 2018/19	Premium Brands 2017/18	Jeans & Workwear 2018/19	Jeans & Workwear 2017/18	Others 2018/19	Others 2017/18	Total 2018/19	Total 2017/18
Germany								
Sales	67,223	72,334	44,583	48,599	324	321	112,130	121,254
Net assets	79,310	90,105	22,021	23,433	10,912	18,161	112,243	131,699
Western Europe								
Sales	41,184	44,406	13,335	14,414	-	-	54,519	58,820
Net assets	7,999	8,790	3,224	4,093	-	-	11,223	12,883
Central-/ Eastern Europe/ Others								
Sales	34,999	36,499	5,356	6,494	-	-	40,355	42,993
Net assets	23,527	24,288	4,533	4,609	16	15	28,076	28,912

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 867,804.08 posted for the fiscal year 2018/19 and to carry the full profit forward to new account.

Herford, February 11, 2020

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 11, 2020

Dr. Stella A. Ahlers

Dr. Karsten Kölsch

Independent Auditor´s Report

To the 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 and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at November 30, 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from December 1, 2018 to November 30, 2019, 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 for the financial year from December 1, 2018 to November 30, 2019

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 § 315e (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 November 30, 2019, and of its financial performance for the financial year from December 1, 2018 to November 30, 2019, 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.

Pursuant to § 322 (3) 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 audit 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 December 1, 2018 to November 30, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

We identified the following matters as key audit matters:

- Inventory valuation
- Revenue recognition from the sale of clothing
- Valuation of trademark rights

Our description of these particularly important audit issues is structured as follows:

1. Facts and circumstances
2. Audit Approach and conclusions
3. Reference to further information

Inventory valuation

1. Facts and circumstances

In the consolidated financial statements of Ahlers AG, inventories with a value of 66.3 million Euro are shown after taking impairments of 10.3 million Euro into account. Inventories are valued at the lower of acquisition or production costs and fair value. The determination of the lower fair value requires the legal representatives to make estimates and assumptions regarding future sales volumes and prices. There is a risk that the collections will not be sufficiently accepted by the market and that the goods produced will not be sold.

Due to the discretion associated with the determination of fair value and the amount of the balance sheet item, the valuation of inventories was a particularly important issue for us as part of our audit.

2. Audit Approach and conclusions

We checked the regularity of the IT-supported processes as part of the inventory valuation using our own IT specialists. In addition, we checked the range analyses of the legal representatives when testing the recoverability of the inventories and compared the discounts for inventory risks used in the reporting year with the discounts from previous years and checked for plausibility. In doing so, we critically questioned the expectations of the legal representatives with regard to future sales volumes and prices and reconstructed the valuation discounts and lowest value tests carried out by the company.

Overall, we were able to convince ourselves that the assessments and assumptions made by the legal representatives regarding the recoverability of the inventories are reasonable.

3. Reference to further information

The information from the company on inventories is contained in section “Inventory” of the Notes to the consolidated financial statements.

Revenue recognition from the sale of clothing

1. Facts and circumstances

In the reporting year, Ahlers AG reported sales revenues of clothing sales of 207 million Euro in the reporting year. Due to the different sales channels and the associated use of different IT systems and the possibility of returning goods, there is a risk with regard to the correct recording and delimitation of periods of sales revenues. From our point of view, this was of particular importance because the amount of sales revenue is a key factor in the context of capital market communication and key figure calculation (EBITDA margin, EBIT margin, return on sales).

2. Audit Approach and conclusions

As part of our audit of revenue recognition, we checked, among other things, the correct recording of sales by comparing them with the contractual bases, and by having customers of Ahlers AG confirm transactions of the reporting year selected by us. We have reconstructed the assessments of the legal representatives regarding the amount of the returns and, among other things, made plausible based on past experience. In addition, with the help of our own IT specialists, we have recognised the IT-supported processes in sales in terms of an accurate and periodic recording of sales.

Overall, we were able to convince ourselves of the appropriateness of the revenue recognition in the reporting year.

3. Reference to further information

The information from the company on the revenues realised in the year under review can be found in the section "(1) Revenues" of the Notes to the consolidated financial statements. Distribution channels are outlined in section "Objectives and Strategy; Strategy – the business segments" of the combined management report.

Valuation of trademark rights

1. Facts and circumstances

In the consolidated financial statements, trademark rights of 9.9 million Euro are shown under other intangible assets. In the case of the regular impairment tests for trademark rights, the book values are compared with their respective recoverable amount. In principle, the recoverable amount is determined on the basis of the fair value less costs to sell. The present value of future cash flows is used as a rule, since there are generally no market values for the individual strategic business units. The present value is determined using discounted cash flow models, based on the five-year operational plan of the brands companies (segments) drawn up by the legal representatives and approved by the Supervisory Board and updated with assumptions about long-term growth rates. Discounting is carried out using the weighted capital costs of the respective reporting segments. The result of this valuation depends to a large extent on the assessment of the future cash inflows from the respective strategic business unit by the legal representatives and the discount rate used and is therefore subject to considerable uncertainty. Against this background and due to the underlying complexity of the valuation models, this matter was of particular importance in our audit.

2. Audit Approach and conclusions

In our audit, we reviewed, among other things, the methodological procedure for carrying out the impairment tests and assessed the determination of the weighted capital costs. We have convinced ourselves of the appropriateness of the future cash inflows used in the valuation, among other things, by including and critically assessing the underlying planning process. In addition, we compared this information with the current budgets from the five-year plan drawn up by the legal representatives and approved by the Supervisory Board, as well as with general and industry-specific market expectations. We looked intensively at the parameters used to determine the discount rate used and assessed the completeness and correctness of the calculation scheme.

3. Reference to further information

The disclosures of the company on trademark rights are contained in section "(12) Intangible assets" of the Notes to the consolidated financial statements.

Other Information

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

- the corporate governance statement contained in the corporate governance statement section of the combined management report
- the remaining parts of the business report (section 1. ”to our shareholders” and section 2.” Sustainability Report”), with the exception of the audited consolidated financial statements and combined management report as well as our auditor report.

Our audit 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 audit opinion or any other form of audit 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 combined 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 Combined 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 (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 control 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 Combined 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 audit 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 combined management report.

We exercise professional judgment and maintain professional scepticism 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 audit 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 control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures 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 audit 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 audit 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 audit 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 audit opinions.
- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with 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 audit 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 control 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 April 17, 2019. We were engaged by the supervisory board on July 2, 2019. We have been the group auditor of the Ahlers AG since the financial year 2018/2019.

We declare that the audit 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.

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Markus Miklis.

Düsseldorf, February 12, 2020

Baker Tilly GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
(Düsseldorf)

Thomas Gloth	Markus Miklis
German Public Auditor	German Public Auditor

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History of Ahlers AG

2019	100th anniversary of the company Downsizing and new election of the Supervisory Board Implementation of the set of earnings and efficiency increasing measures
2018	Consolidation of share types and conversion into registered shares Foundation of Ahlers RUS
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	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	Ahlers shares listed in Prime Standard
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
pierre cardin
BALDESSARINI
OTTO KERN
Pionier
PIONEER
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BALDESSARINI
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Pionier
WORKWEAR
PIONEER
OTTO KERN


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PIONEER
OTTO KERN
BALDESSARINI
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Pionier

Financial calendar 2020

Annual accounts press conference in Düsseldorf	February 27, 2020
Quarterly statement Q1 2019/20	April 7, 2020
Analysts' conference in Frankfurt am Main	April 8, 2020
Annual Shareholders' Meeting in Düsseldorf	April 22, 2020
Half-year report 2019/20	July 8, 2020
Quarterly statement Q3 2019/20	October 12, 2020
Analysts' conference in Frankfurt am Main	October 13, 2020

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