

HALF-YEAR REPORT 2005

WKN 778840 / ISIN DE0007788408

ALNO AG

Alno | Geba | Impuls | Pino | Wellmann

DEAR SHAREHOLDER

1.0 STARTING POINT

1.1 Corporate development

For the first time in many years, the ALNO Group ended the 2004 accounting year in profit, after accumulated losses of more than EUR 60 million since the stock market flotation in 1995. With a pre-tax profit of EUR 3.7 million in 2004, the company has boosted profits by EUR 9.3 million over the previous year's figure and, in doing so, achieved the best pre-tax result for eight years. The main contributors to the positive development in results were ALNO AG, including its subsidiaries, IMPULS and PINO, which posted record profits.

From a low of EUR 1.50 at the start of the FUTURA programme in 2002, the ALNO share price had almost tripled to EUR 4.17 by the end of 2004. A year's high of EUR 8.40 was reached in April 2005.

The development of profit and value has been brought about by the restructuring and realignment of the ALNO Group in the scope of the FUTURA strategic programme, launched in mid 2002. FUTURA is a balanced, strategically and operationally orientated package of targets and action for the stabilisation and corporate development of ALNO AG. The FUTURA programme is being applied to the entire group of companies with the primary aim of increasing the corporate value.

The FUTURA I and II strategy programmes have had a positive impact of more than EUR 60 million (2002-2004) on the profit and loss account, putting ALNO AG in a position to halt the massive turnover losses in 2002, eliminate a large amount of old debt, and turn around company profitability from a pre-tax loss of EUR 18.6 million in 2001 (before the commencement of FUTURA) to EUR 3.7 million pre-tax profit (EBT) by the end of 2004.

In achieving profitability for the ALNO Group, with the concomitant increase in the corporate value (measured by market capitalisation), within less than three years, to peak at over EUR 60 million above the pre-realignment starting point, FUTURA has well exceeded expectations.

1.2 Principles of the 2005 business year

In the budget for 2005, the ALNO Group had to take the significant downward pressure on profits into account.

- Continuation of the aggressive price-cutting competition for market share in the kitchen furniture industry, primarily driven by stagnating consumer demand and overcapacity in production and the trade.
- Supply-side material price increases – particularly for steel-based products and sheet products – and cost increases resulting from the introduction of road toll charges and considerably higher petrol prices for logistics operations.

- Ongoing restructuring of CASAWELL Service GmbH, Enger, taken over in the fourth quarter of 2003.

The **externally driven cost burdens** alone imply a rise in budgeted materials costs of around EUR 15.0 million for 2005, and this increase has to be made good. The underlying conditions on the domestic market, which is heading towards recession and embroiled in a struggle for market share, offer little or no scope for passing on increased purchase costs to the trade and consumers. In addition, unless the ALNO Group is able to continue the trend of positively decoupling growth from the generally negative development of the market, each percentage point of market decline poses an additional profit risk in terms of millions of euros for the Group.

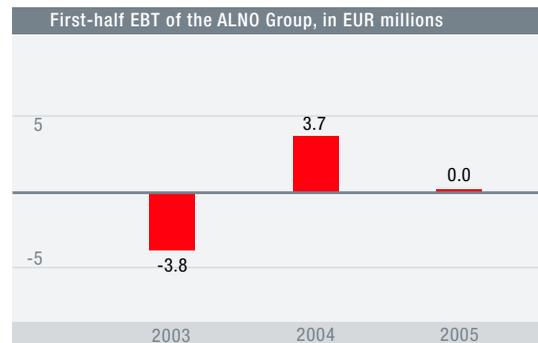
There are also **internal** burdens to be overcome in 2005. While the constituent companies of "old" ALNO AG were able to post record results in 2004 on the back of the comprehensive operational and strategic realignment of recent years, the continuing need for restructuring within the CASAWELL Group negatively impacts on the overall corporate profitability. CASAWELL has been a constituent of the ALNO Group for only just over one year, and in this period intensive realignment activities have strengthened the company's operational position. The profitability of CASAWELL Service GmbH has significantly improved since joining the ALNO Group. However, after just a year of realignment, a satisfactory earnings position has not yet been achieved.

The objectives for 2005 were to face the external and internal challenges discussed here and take suitable action to cushion their effects. It is essential to rigorously preserve the regained profitability of the ALNO Group, while simultaneously eliminating the remaining internal weak points.

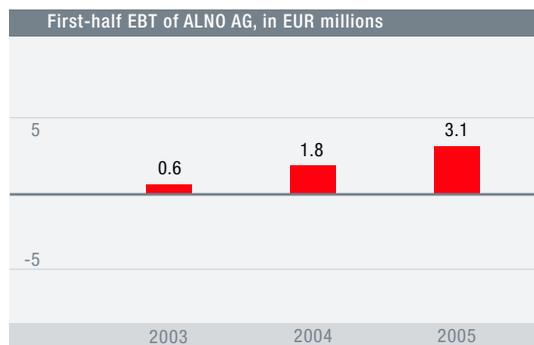
2.0 CORPORATE DEVELOPMENT FIRST HALF YEAR 2005

2.1 Development of results

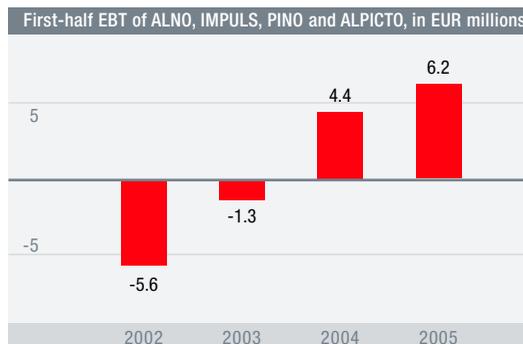
At the end of the first half year 2005, the ALNO Group returned a break-even result, with an EBT of EUR 26,000. A loss of EUR 4.8 million by the flat-pack kitchen furniture manufacturer, WELLPAC, reduced the consolidated profit. WELLPAC is not part of the core business and was sold on 30.06.2005 to MBG Mittelstands Beteiligungs- und Beratungsgesellschaft mbH, Bad Rothenfelde. The sale of WELLPAC represents a significant step in terms of the realignment of the CASAWELL Group.



In the first half of 2005, the core business of the Group, ALNO AG, Pfullendorf (excluding affiliates) achieved pre-tax profits of EUR 3.1 million, representing a 75% increase on the comparative period for the previous year. This is ALNO AG's best half-year result since the flotation in 1995.



As well as ALNO AG (excluding affiliates) a notable profit performance was also posted by **IMPULS Küchen GmbH, Brilon**. In the first half of 2005, IMPULS increased its profit by 76.5% over the comparative period last year – well ahead of expectations – building on the profit surge of EUR 4.2 million for 2004 over the previous year, achieved under new management. **PINO** also returned half-year profits ahead of expectations, though lower than the above-average profit of the comparable period of the previous year. In total, the “old” **ALNO AG companies** boosted their pre-tax profits by 42.8% in comparison with the first half of 2004, continuing their continuous upward trend since 2002.



The profit figures for the **CASAWELL Group** are impacted by the poor figures for WELLPAC GmbH of EUR -4.8 million. The company was sold in 2005. As a result of the efficiency measures taken last year, combined with increased turnover in the first half year, GEBA finished positively with a significant 262.9% increase in profit.

WELLMANN recorded lower than expected profit growth, with 2005 first-half profits down on the first half for the 2004 business year. These disappointing figures are primarily due to falling turnover and the cost structure that, despite the restructuring measures already carried out, remains unsatisfactory.

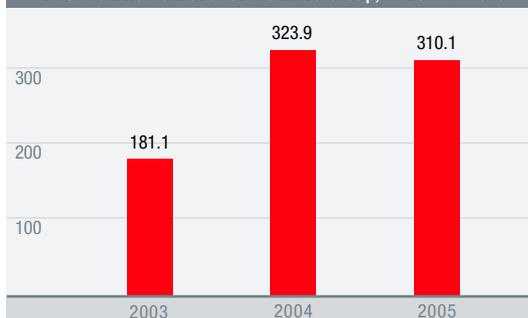
Export business boosted the company's earnings in the first half of 2005 by a further 6%, following a rise of 91% in the 2004 business year, as a result of extensive restructuring.

2.2 Development of turnover

ALNO Group turnover for the first half of 2005 was EUR 310.1 million, 4.3% down on the comparative period for the previous year. However, this fall in turnover must be viewed in terms of the background of a 6.1% decline in the domestic kitchen furniture industry.

The constituent companies of "old" ALNO AG jointly increased turnover by 3.9%, continuing the 2004 trend of gaining market share on a wide front. Despite this positive development, it was not possible to completely offset the declining turnover of the CASAWELL Group.

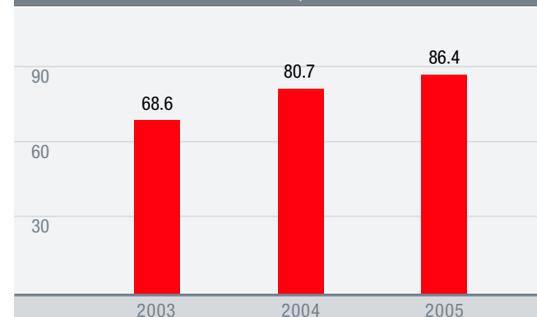
First-half net turnover of the ALNO Group, in EUR millions



An aspect to be emphasised is the continuing high growth rate of **ALNO AG, Pfullendorf**. Following 2004 growth of 17.3%, the company continued this trend into the first half of 2005, boosting turnover by 7% over the first half of

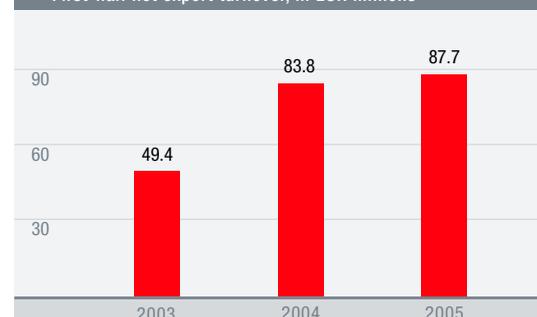
2004. Having grown 27.4% in 2004, domestic sales continued the steady rise in the first half of 2005, gaining 9.4% on the comparative period of the previous year.

First-half net turnover of ALNO, in EUR millions



Export business also contributed to the positive development of Group turnover in the first half of 2005, with a growth of 4.7% over the comparative period last year.

First-half net export turnover, in EUR millions



2.3 Development of expenditure

The major expenditure categories on the Group level – material, personnel, miscellaneous and expenditure assumed for costing purposes – were 3.6% lower than the previous year's figure, with budgeting down by 7%. The constituent companies of "old" ALNO AG continued their efficiency improvements of recent years, despite the rising trend in procurement costs. The inadequate personnel cost-efficiency of the CASAWELL companies continued to have a negative impact on the accounts.

Overall, it can be seen that the cost reduction measures implemented to date have largely prevented the realisation of the anticipated negative potential of around EUR 15 million from externally generated cost risks. However, the increased transport costs, resulting from the introduction of road toll charges and rocketing fuel prices, cannot be offset, and their full effect is felt on the development of profits.

2.4 Personnel

In the first half of 2005, the ALNO Group workforce fell 3.7% from the comparative period of the previous year to 2,816. During this period, ALNO AG, Pfullendorf, employed eight new staff in the course of resource centralisation and to cope with the expansion of production capacities. The restructuring of the CASAWELL Group, by contrast, reduced personnel levels by 9%.

In view of the 2.4% decline in volume, the 3.7% reduction in the workforce represents an increase in efficiency throughout the Group.

2.5 Summary of business developments first half year 2005

In summary, the business development of the ALNO Group looks as follows:

- The constituent companies of "old" ALNO AG, continued the positive trend from the previous years in terms of growth, efficiency and profitability. Even in a kitchen furniture industry characterised by recession, competition for market share and externally driven cost increases, the measures of the FUTURA strategy programme have proved durable, and are leading to further improved profitability.
- The anticipatory measures introduced last year to cushion market-driven cost pressure are effectively securing profitability. The sales, product mix and marketing strategy programmes of FUTURA are ensuring stability in marketing.
- Following the fundamental restructuring of the last two years, export sales are developing positively, continuing the earnings trend of 2004 into the first half of 2005.
- The continuing underperformance of the CASAWELL Group makes it clear that the realignment of the company cannot yet be completed after just one year of restructuring, despite higher than expected realisation of integration synergies.

An important step on the path towards optimising CASAWELL was the efficiency improvement at GEBA. The company is now operating profitably and, as a result of targeted sales policy activities, and the ongoing product mix offensive, is gradually expanding its customer base.

An essential part of the restructuring of the group of companies is the divestment of the flat-pack kitchen supplier, WELLPAC. WELLPAC is not part of the core business of the ALNO Group and, with a 2004 pre-tax loss of EUR 2.7 million, was the biggest loss-maker in the ALNO Group.

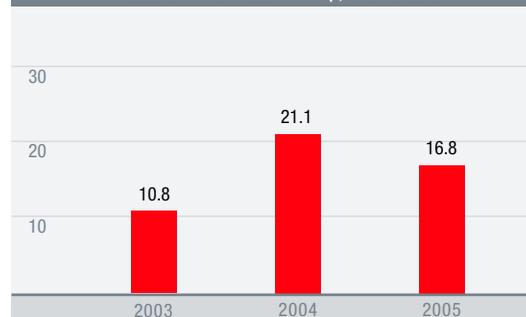
The realignment of WELLMANN to date has brought better than expected results in the profit and loss account, which have certainly improved the earnings level of the company. However, action still needs to be taken on the efficiency of the organisation and management, and on product mix and sales policy. The necessary measure must be completed in the next 12 months. For WELLMANN this means a restructuring phase of similar length to that which ALNO AG underwent.

3.0 FINANCES AND BALANCE SHEET

3.1 Finances

At the end of the first half of 2005, EBITDA was EUR 16.8 million, equating to a result-driven decline of EUR 4.3 million, compared with the same period of the previous year.

First-half EBITDA of the ALNO Group, in EUR millions



With an investment volume of EUR 11.9 million, the free cash flow from current activities was EUR 2.8 million on 30.06.2005.

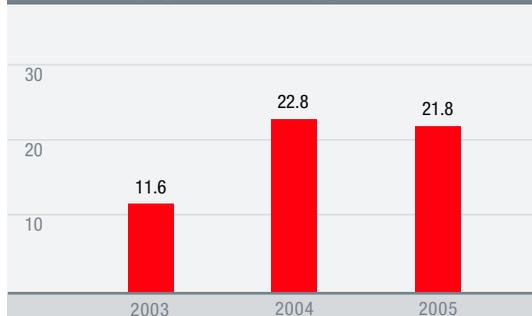
The liquidity situation of the Group over the entire first half of 2005 included a significant scope for provisions. In mid-year, Group liquidity of EUR 20.2 million was more than double the conservatively budgeted level.

3.2 Balance sheet

As of 30.06.2005, the balance sheet fell 4.5% to EUR 243.7 million (first half year 2004 EUR 255.5 million). This continues the efficiency-orientated reduction of tied-up resources in the Group.

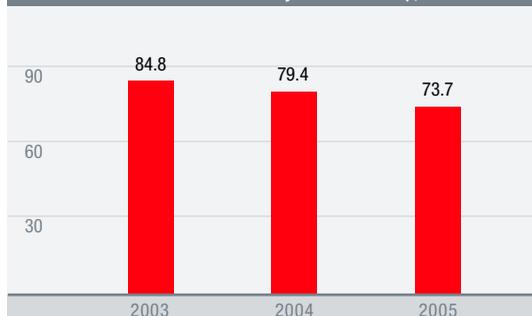
Shareholders' equity was EUR 21.8 million, a reduction of EUR 1.0 million on the comparative period of the previous year. The key reason for this is the EUR 3.7 million lower half-year profit in comparison to the first half of 2004, which is offset by a EUR 2.6 million reduction of the loss carry-forward from the 2004 annual result.

First-half equity of the ALNO Group, in EUR millions



The essential effects of reducing tied-up resources can be seen on the asset side in a 9.1% reduction in current assets. On the liabilities side, the high level of liquidity allowed repayment of interest-bearing bank liabilities of EUR 5.7 million and a loan from IRE Beteiligungs GmbH, Schorndorf (Whirlpool) of EUR 4.0 million. The reduction of interest-bearing liabilities is an important aim of the ALNO Group in the course of restructuring the liabilities side.

First-half amounts owed to banks by the ALNO Group, in EUR millions



All other major balance sheet items are in line with normal business development and show no significant changes.

3.3 Capital market/investors

At the 2005 AGM, ALNO AG shareholders authorised the Board, with Supervisory Board approval, to increase share capital by up to 4.5 million shares at a face value of EUR 2.60 (EUR 11.7 million) over the next five years. At the same time, the unutilised capital increase amount of 1.2 million shares at EUR 2.60 face value, approved by the AGM in 2003, lapses.

The 2005 AGM's approval of the capital increase gives the company the possibility of gaining new capital, either to continue paying off the continuing high level of indebtedness or to finance further growth of the Group.

Of the capital increase approved by the AGM in 2003, IRE Beteiligungs GmbH, Schorndorf (Whirlpool), subscribed to 1.5 million ALNO shares in return for cancellation of an existing loan and payment of EUR 5.4 million in cash. The capital increase took effect with the entry into the companies register and is completed by stock-market listing of the new shares.

Talks are currently being held with other potential investors about a shareholding in ALNO AG, with the objective of continuing to develop the underlying resources of the company.

4.0 DEVELOPMENT OF VALUE

The ultimate overriding aim of FUTURA is to increase the value of ALNO AG. From an all-time low share price of EUR 1.50 in the summer of 2002 to the start of FUTURA, the ALNO share price rose continuously to EUR 4.17 by the end of 2004. In the first half of 2005, the price reached a high, well above the EUR 8 mark in spring, and by the end of the first half year had settled back to a level of around EUR 5.50. Measured against the relevant market capitalisation, the increase from the low price level at the start of FUTURA to the high reached in the first half, equates to an increase in value of more than EUR 60 million in around three years.



5.0 OUTLOOK

The strategic and operational realignment since 2002 (FUTURA) brought the ALNO Group back to profitability in 2004 for the first time in many years. The realignment programmes continued to show their durability in the first half of 2005.

The measures, which were introduced early in the last accounting year to secure the company in the face of externally driven cost increases and a demand-side fall in margins, have provided additional support for profit development of the ALNO Group and, despite all adverse underlying conditions, have been able to maintain, and in some areas even improve, the profitability levels achieved last year.

- Adjusted for the losses of WELLPAC, which has now been sold, the ALNO Group has been able to maintain the high previous year's profit level in the first half of 2005.
- The "old" ALNO AG, including subsidiaries, IMPULS and PINO, export business and GEBA, have in some cases been able to significantly increase their half-year results in comparison with the same period of last year.
- On the down side, WELLMANN and WELLPAC had a negative effect on the ALNO Group, as a result of declining turnover and inefficient cost structures.

In view of the resilience of corporate development in the first half of 2005, ALNO AG is entering the second half of the year with cautious optimism. From the background of the still unfavourable underlying conditions for the kitchen furniture industry and of the impending restructuring of WELLMANN, profits are expected to be significantly lower at the end of 2005 than last year's level.

Our medium-term objective is to transform the ALNO Group from a company in need of restructuring to an earnings-driven growth company. The intention is to gradually increase the level and quality of profits of the overall Group and of each of its subsidiaries over the next three years. The goal and action concepts required to do this have been set down in the FUTURA III strategy programme, that maintains the continuity of the principles established by FUTURA I and II.

July 2005

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