ADLER REAL ESTATE

2015

Annual Report 2015

This document is a non-binding translation only.
For the binding document please refer to the
German version, published at www.adler-ag.com

About ADLER Real Estate AG

ADLER Real Estate AG, headquartered in Frankfurt am Main with administrative headquarters in Hamburg, focuses on the acquisition, management and privatization of residential property. ADLER mainly invests in portfolios or investments in residential real estate companies in B-locations of metropolitan areas, which have a positive cashflow and a sustained appreciation potential.

The ADLER subsidiary ACCENTRO Real Estate AG is one of the largest German residential property privatisation companies. ACCENTRO markets suitable residential properties from the ADLER Group holdings, in a targeted manner, to third parties owner occupiers and investors wishing to provide for their retirement.

In addition, ADLER holds a 23.5 per cent (as of December 31, 2015) stake in conwert Immobilien Invest SE, Vienna, one of the leading real estate companies in Austria. conwert holds more than 82 per cent of its property portfolio in Germany, many of them in A-cities.

With around 50,000 residential units, ADLER is among the five largest listed German residential property companies. In addition to the listing in the FTSE EPRA/NAREIT Global Real Estate Index in London and in the GPR General Index, ADLER's shares are listed in the Small Cap Index, the SDAX of the German Stock Exchange.

Annual Report of

ADLER Real Estate Aktiengesellschaft

for the business year 2015

Key Financial Figures

In EUR '000	01.01.2015	01.01.2014
Consolidated Statement of Income	**– 31.12.2015**	**– 31.12.014**
Gross rental income	216,639	83,882
Income from the sale of properties	168,154	87,527[7]
EBIT	176,586	170,445
Consolidated net profit	78,283	111,571
FFO I	16,074	-1,110
FFO I per share in EUR[1]	0.35	-0.03
FFO II	44,286	1,400
FFO II per share in EUR[1]	0.96	0.04
Consolidated balance sheet	**31.12.2015**	**31.12.2014**
Investment Properties	2,270,187	1,170,159
EPRA NAV	879,456	351,328[7]
EPRA NAV per share in EUR[1]	15.51	11.02[7]
LTV in %[2]	67.96	68.72
	01.01.2015	**01.01.2014**
Cashflow	**– 31.12.2015**	**– 31.12.2014**
Net cash flow from operating activies	24,974	16,749
Net cash flow from investing activities	-438,706	-208,272
Net cash flow from financing activities	430,174	217,688
Portfolio	**31.12.2015**	**31.12.2014**
Number of residential units under management	51,938	25,559
thereof proprietary units in existing portfolio	48,218	24,086
thereof proprietary units for privatisation	1,934	995
Number of units sold	3,726	1,217
thereof privatised units[3]	600	837
thereof non-core units sold	3,126	380
Contractually secured units[4]	572	6,764
Occupancy rate in %[5]	88.8	87.2
Monthly in-place rent[6] in EUR/m²	4.93	5.02
Employees	**31.12.2015**	**31.12.2014**
Number of employees	268	102
FTE´s (Full-time-equivalents)	248.6	92.9

1) based on the number of shares outstanding as at 31.12.2015
2) excluding convertible bonds
3) short financial year 2014 (six months, 01.07.2014 to 31.12.2014)
4) transfer of benefits and obligations still outstanding as at 31.12.2015
5) proprietary rental units
6) target rent for the leased units as at 31.12.2015, or rather 31.12.2014
7) adjusted retrospectivly

Key Property Portfolio Figures

Federal State as at 31.12.2015	Rental units	Proportion of total portfolio in %	Total rental area in m²	Proportion of total portfolio in %	Average rent[1] in EUR per m²	Occupancy rate in %	Market value in EUR
Lower Saxony	16,593	34.4	1,028,149	33.7	4.82	90.6	731,483
North Rhine-Westphalia	9,821	20.4	678,509	22.3	5.00	88.0	535,054
Saxony	7,575	15.7	472,325	15.5	4.67	85.6	297,756
Saxony-Anhalt	3,798	7.9	216,231	7.1	4.58	84.9	130,003
Brandenburg	3,683	7.7	225,156	7.4	4.69	87.6	148,532
Thuringia[2]	1,687	3.5	93,033	3.1	5.40	93.1	73,809
Berlin[2]	1,542	3.2	102,791	3.4	5.40	98.7	115,000
Mecklenburg-Western Pomerania	1,509	3.1	83,539	2.7	5.11	86.8	53,622
Schleswig-Holstein	691	1.4	38,403	1.3	5.75	95.2	36,245
Rhineland-Palatinate	615	1.3	41,230	1.4	6.69	91.8	48,704
Hesse	448	0.9	43,056	1.4	6.76	84.2	47,019
Bavaria	161	0.3	14,158	0.5	5.68	85.7	10,657
Baden-Württemberg	47	0.1	3,538	0.1	7.65	83.2	5,264
Bremen	48	0.1	2,380	0.1	5.18	93.7	1,598
Total	**48,218**	**100**	**3,042,498**	**100**	**4.93**	**88.8**	**2,234,746**

Additional rental areas	Rental units
Acquired rental units, transfer of benefits and obligations still outstanding	572
Privatisation portfolio ACCENTRO Real Estate AG[3]	1,934

1) target rent for the leased units as at 31.12.2015
2) excluding project developments
3) primarily Berlin

Content

Letter from the Management Board

Dear Shareholders,
Dear Sir or Madam,

2015 will go down in history as a very eventful period. Rarely has there been such a large number of crises within a single year. The year started with conflicts in the Ukraine and uncertainty in Germany. This was followed by the crises in Greece and throughout the year a sharp rise in refugees fleeing war zones in the Middle East and North Africa, throughout the year. Let us also not forget China's weak growth and the decline in oil prices, which had severe consequences for many economies. The German real estate market, in particular the residential property market, seems to be riding out the storm.

In 2015 ADLER firmly anchored itself in this stable and rapidly growing safe haven. Starting from a property portfolio of over 24,000 rental units, at the beginning of the year, we were able to double ADLER's total portfolio during the year to approximately 50,000 units. Behind this growth were two major transactions, of which the first significant step was the acquisition of the JADE mbH housing association in Wilhelmshaven, with approximately 6,750 residential units. This means that we are now the largest owner on site at the main German naval base and a new, very promising deep-water port in which the latest and biggest international container ships are able to moor.

The second very important step we took was the acquisition of WESTGRUND AG in Berlin. WESTGRUND, together with completion of a follow-up transaction with 21,000 apartments, was almost as large as ADLER. Both companies have an almost identical business model that was not only useful during the takeover, but also enabled a rapid and successful integration. In Berlin, WESTGRUND and our subsidiary ACCENTRO have intensified their cooperation in our key market of residential property privatisation. ACCENTRO has taken over Berlin-based residential properties from WESTGRUND, which are contenders for privatisation.

In Lower Saxony, where with nearly 16,600 homes we posess our largest holdings, we handed over part of the administration of WESTGRUND properties to our subsidiary WBG GmbH in Helmstedt. This significant expansion of WBG resulted in a discernible increase in efficiency and cooperation. Similarly, in Saxony Anhalt and in North Rhine-Westphalia we have seen the first improvements in efficiency through administrative consolidation of properties.

Our successful growth is also due to our shareholders and investors, who in 2015 supported us once again by giving us access to the necessary capital. We were particularly pleased that ADLER was listed on the SDAX in June 2015, thereby elevating us to the ranks of the 160 most important listed German companies. This will no doubt increase interest, especially amongst international investors, resulting in improved opportunities for conditional share trading.

In addition to the on-going development of our property portfolio, in August 2015 we acquired almost a quarter of conwert Immobilien Invest SE, Vienna, which is one of the largest property companies in Austria. The vast majority of conwert's holdings are in Germany, with around 30,000 units, and approximately 2,500 units are in Vienna. Many of the units are situated in A-cities, as conwert's goal in previous years was to grow primarily through increases in property value. With regards to its new alignment with ADLER, in the future, conwert will concentrate solely on the housing market and it has already extricated itself from significant commercial portfolios. This strategic investment allows ADLER the opportunity not only to benefit from developments in metropolitan areas, but also to profit, at least indirectly, from favourable dividends.

Our safe haven, the German property market, continued to perform strongly. The persistent influx of refugees increased the demand for residential property and in the medium term new apartments are urgently required. ADLER will provide rental properties to councils and housing associations, if practicable and so long as the sociocultural environment appears reasonable. Vacancy rates, which date from the period before the acquisition of the respective portfolios, can be reduced quicker than originally planned.

It seems doubtful to us whether the political objectives, which intervened with legislative measures in the market place in 2015, will make a further appearance. The 'rent cap' is intended to protect tenants from excessive rental increases in a severely strained housing market. However, as so often happens things do not always quite work according to plan. Preliminary market analyses are, in fact, showing the opposite effect. More and more landlords, who have often not adjusted rents to current tenancies, are now raising them so as not to be at a disadvantage with new tenancies. From this, we can only assume that because of a rise in existing rents, an unprecedented increase will be seen in rents throughout Germany.

The powerful expansion of ADLER led the Supervisory Board to expand the Management Board in order that it could successfully meet the many new and growing responsibilities it now faced. Arndt Krienen, as the latest member of the Management Board, will continue to lead WESTGRUND and is now primarily responsible for the Asset Management and Finance business divisions. Together we aim to strengthen the company, continue the very positive upward earnings trend and exploit existing growth opportunities in the market.

Best regards,

Harloff

Axel Harloff
Management Board

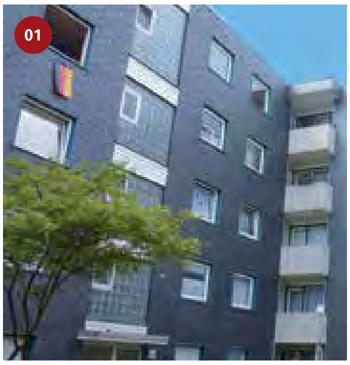
Arndt Krienen
Management Board

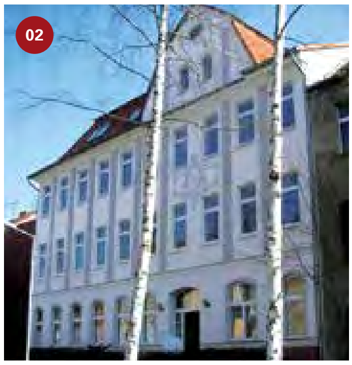
Expanding Portfolio – Growing Management Responsibilities

Centralised Asset Management for property investments and for the real estate portfolio

ADLER Real Estate AG aims to ensure there is a targeted approach in the professional management its property portfolio. This runs in parallel to the Group's substantial growth and real estate portfolio development of approximately 50,000 apartments within four years. Asset Management was centralised, suitably qualified personnel were employed and the acquired portfolios have been gradually integrated. Furthermore, two active housing associations were acquired in Wilhelmshaven and Helmstedt. These housing associations not only manage their existing properties with their own staff, but are also increasingly taking on the Property Management of other Group properties that are located in their regional catchment areas.

Besides controlling, management and analysing ADLER's own property portfolio, Asset Management also partakes in the evaluation of the portfolios that are being assessed for acquisition. It examines market variables such as socio-demographic trends, changes in regional residential preferences, new construction work in the immediate environment or infrastructure improvements such as transport links, transport systems, utilities, schools, day care centres etc. In addition to ensuring that the modern rental units adhere to quality and specification requirements, the buildings themselves are also checked in order to determine if any necessary measures are to be taken with regard to repairs, maintenance and





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05 Diepholz Willenberg
06 Borna Bergmannstraße

07 Kiel Eckernförder Straße
08 Duisburg Mozartstraße

modernisation. The legal framework and corresponding change of tenants in the residential property environment are constantly being amended and require regular reviews by the Asset Management team. Rental units are sorted by quality, in that property is assessed according to its predicted maintenance and renovation schedule. The goal is to guarantee a market-driven rental standard. Other criteria by which units are classified include but are not limited to external market factors, socio-demographic considerations, tenant purchasing power, collectable rent, turnover rate together with new construction anticipated in the property's catchment area.

Properties that meet contemporary requirements and are deemed appropriate in terms of quality and location are held as inventory properties. In contrast, units which are of relatively low quality and situated in less attractive regional locations are sold as non-core properties. Asset Management oversees the professional management of the properties, on-going capex and repair and maintenance of units as well as maintaining or increasing the value of all other properties.

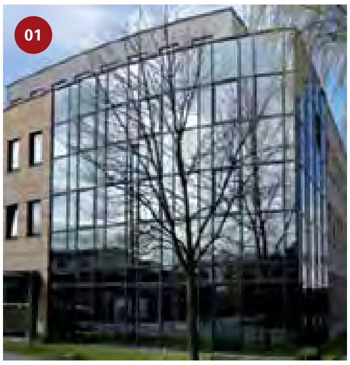
Measures taken to preserve or increase value are also closely related to tenant satisfaction and thereby keep the turnover rate as low as possible. ADLER is specifically developing the Group's own decentralised Property and Facility Management for immediate and improved contact with tenants. This will effectively substitute mediation by third parties, allowing for straightforward dealings with tenants.

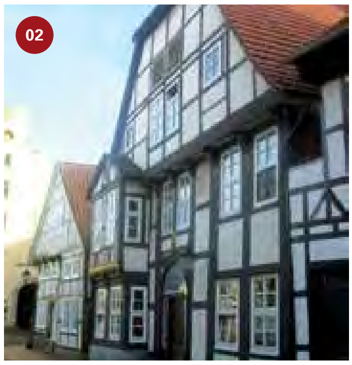
Portfolio adjustments to optimise the units

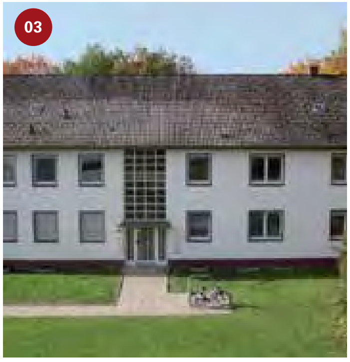
A regular review of the portfolio is a prerequisite for appropriate and effective measures to be taken, in order to preserve the value and future potential upside of the whole portfolio. This includes decisions regarding the acquisition of new properties for the portfolio and the sale of units, which from the Asset Management perspective do not have an adequate future upside potential.

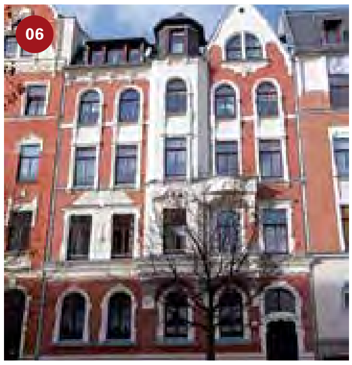
In accordance with the above identification process, 2015 saw the sale of properties which were no longer belonging to the portfolio core. At years-end, ADLER parted company with 3,126 of these non-core units representing 6.5 per cent of the entire portfolio.

Disposals made from Investment Properties are separate from activities made in the Trading Segment,









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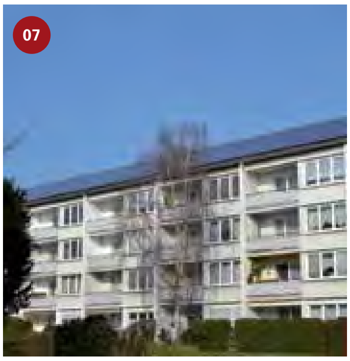
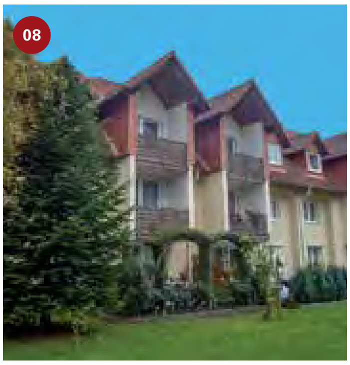
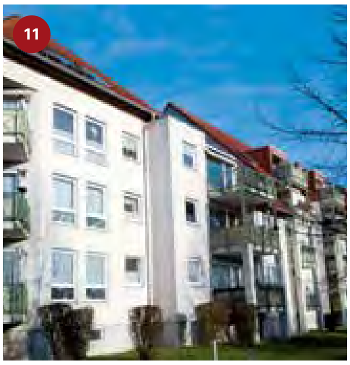
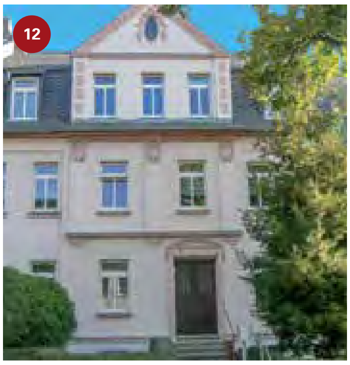
05 Dachwig Am Kornbach
06 Plauen Freiheitsstraße









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08 Herzberg Tulpenstraße
09 Schöningen Weinberg
10 Gelsenkirchen Devenstraße
11 Glauchau Sachsenallee
12 Chemnitz Kruegerstraße

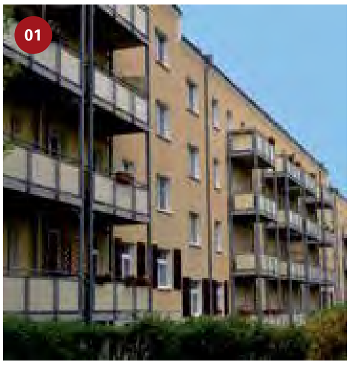
which is operated mainly by the Group's company, ACCENTRO Real Estate AG. These units are held in inventories from the outset as they are expected to be included in the Company's Balance Sheet for a limited period of time as the aim is to sell the units in the privatisation market. In 2015 a total of 467 rental units were sold by ACCENTRO in the privatisation segment.

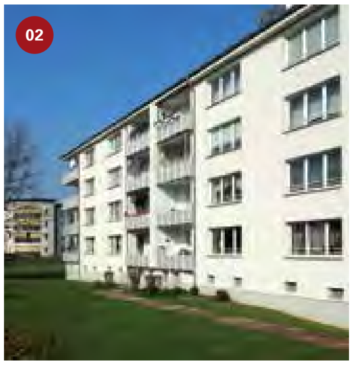
Through portfolio optimisation (disposals) and privatisation (sales), ADLER reduced its property portfolio by a total of 3,726 rental units. This also includes the privatisations from the group portfolio. At the end of 2015 48,218 residential and commercial units were held in the portfolio. This figure represents the largest inventory in ADLER's corporate history (prior year 24,086 residential and commercial units). Furthermore, almost 2,000 units are currently for sale in the privatisation process and are therefore not accounted for in current assets.

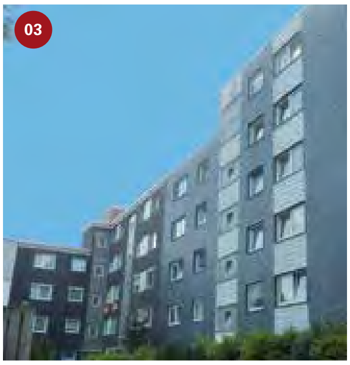
Changes in regional distribution through residential property acquisitions

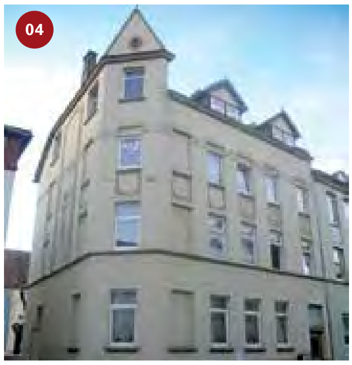
Acquisitions made in 2015 have changed the regional orientation of the property portfolio. Lower Saxony has become the most important region for ADLER with almost 35 per cent of the total portfolio, which represents about 16,600 rental units. North Rhine-Westphalia has around 20 per cent of real estate and in Saxony it is around 16 per cent. Almost 8 per cent of units are held in Saxony-Anhalt and Brandenburg with Thuringia, Berlin and Mecklenburg-Vorpommern holding around 3 per cent each. ADLER is represented with very minimal holdings in the southern provinces. Therefore, the regional focus is in the North and East of Germany.

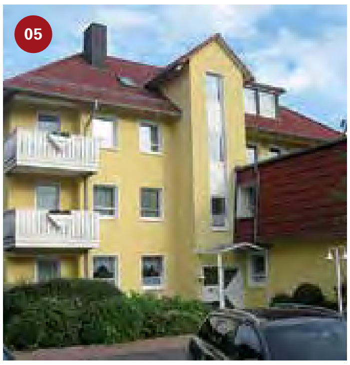
In 2015 the portfolio was expanded in line with the aforementioned overall strategy. Investment focused primarily in B-cities and in suburban areas where, according to socio-economic data, trends in rising rent show that attractive rental yields can be achieved in due course. This has its advantages but, from a risk perspective, must always be considered in conjunction with the appropriate long-term prospects of the real estate business. However, a regionally diverse portfolio meets the requirements of risk diversification and significantly reduces concentration risk more effectively.











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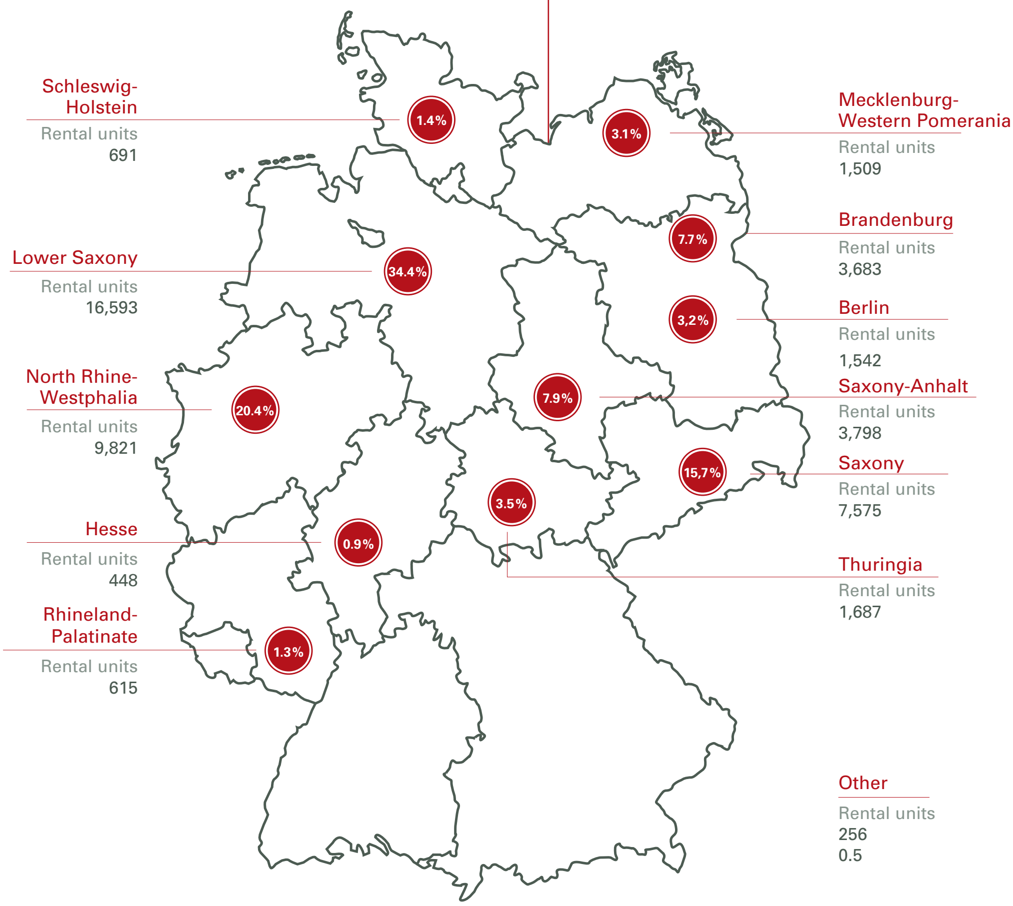
04 Hameln Gertrudenstraße
05 Herzberg Osteroder Straße
06 Dresden Königsbrücker Landstraße
07 Leipzig Burgauenstraße
08 Bergholz Am Rehgrund

Units As of 31.12.2015	Residen- tial	Commer- cial	Residential & Commercial	Amount in %
Lower Saxony	16,464	129	16,593	34.4
North Rhine-Westphalia	9,524	297	9,821	20.4
Saxony	7,344	231	7,575	15.7
Saxony-Anhalt	3,682	116	3,798	7.9
Brandenburg	3,626	57	3,683	7.7
Thuringia	1,657	30	1,687	3.5
Berlin	1,535	7	1,542	3.2
Mecklenburg-Vorpommern	1,478	31	1,509	3.1
Schleswig-Holstein	655	36	691	1.4
Rheinland-Pfalz	549	66	615	1.3
Hessen	366	82	448	0.9
Bavaria	132	29	161	0.3
Baden-Württemberg	38	9	47	0.1
Bremen	48	0	48	0.1
Total	**47,098**	**1,120**	**48,218**	**100.0**

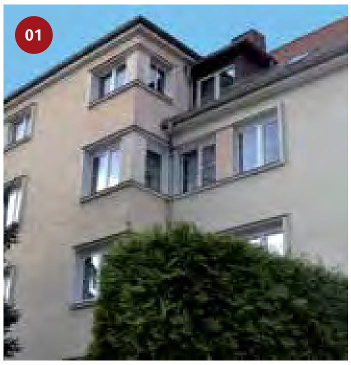


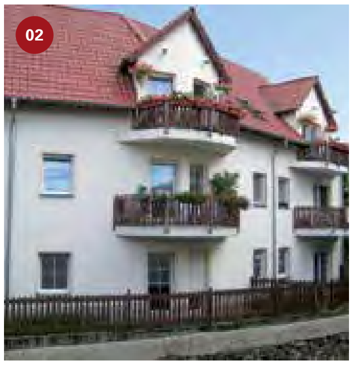
Focussing on small to medium-sized residential units

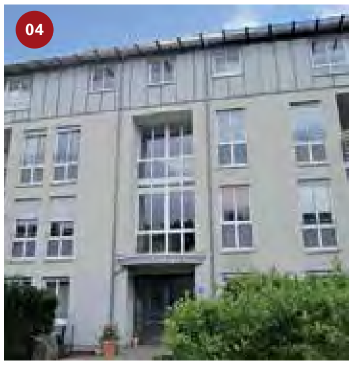
ADLER Real Estate AG's residential portfolio consists of small to medium-sized residential units, which are on average slightly larger than 60 m². Around 69 per cent of the portfolio is made up of apartments, which are between 45 m² and 75 m². Approximately 14 per cent are less than 45 m² and about 14 per cent are between 75 m² and 90 m². Therefore, the portfolio is well suited to the needs of tenants on a medium to low income, which make up by far the largest part of the German residential potential tennants. It also demonstrates the continuing trend in Germany of increases in single households, which has been going on for quite some time. Last but not least, authorities and communities will be paying particular attention to this category of affordable housing so as to provide homes for the growing number of refugees.

Average rent of the existing portfolio rises slightly

As at the end of the fiscal year 2015, ADLER generated an Net Rental Income of EUR 4.93/m²/month. In the same period in previous year, the average Net Rental Income was EUR 5.02. This slight reduction is entirely attributable to the acquisition of property portfolios in 2015 which had an average Net Rental Income below that of ADLER's as at FY2014, Even through a raise of the average rental income by 0.8 per cent to EUR 5.06/m²/month, this effect could not be fully compensated







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03 Gera Darwinstraße
04 Schönfließ Hainbuchenweg
05 Leipzig An der Luppe
06 Schöningen Wilhelm-Busch-Straße

07 Düsseldorf Weststraße
08 Gladbeck Schwechater Straße

for in the existing units. ADLER achieved an average of EUR 5.63/m² for smaller apartments of less than 45 m² at the end of the year. For apartments measuring 75 m² to 90 m² this figure was EUR 4.84/m².

Apartment size	Number of units	Per cent of whole portfolio	Rent/sqm/ month in EUR
< 45 m²	6,387	13.6	5.63
>= 45 and < 60 m²	16,069	34.1	4.83
>= 60 and < 75 m²	16,495	35.0	4.85
>= 75 and < 90 m²	6,394	13.6	4.84
> 90 m²	1,753	3.7	4.73
Total	**47,098**	**100**	**4.89**

Improved occupancy

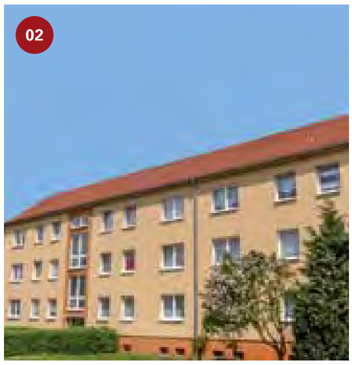
By the end of the year occupancy stood at 88.8 per cent across the entire portfolio. Therefore, the occupancy rate had increased from the previous year by 1.6 per centage points (prior year: 87.2 per cent). In this context, the acquisitions carried out during the year had a positive effect on the portfolio as the residential portfolio which ADLER added through the take over of WESTGRUND AG, had an occupancy level of c.90 per cent. However on a like for like basis even in the existing portfolio occupancy rose by 0.2 per centage points to 87.4 per cent and this is attributable to the effective management of the portfolio by the work of Asset Management.

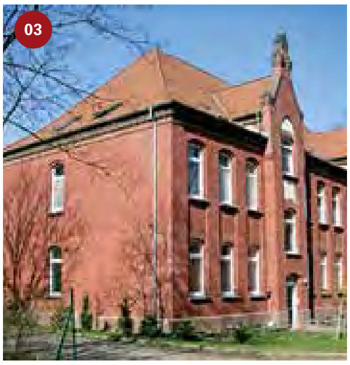
Market value further increased

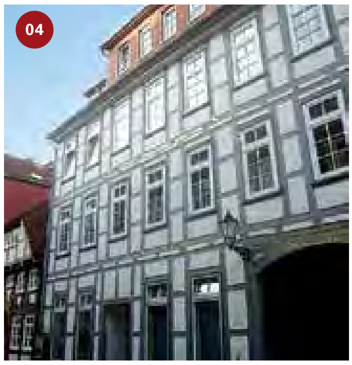
With the expansion of the property portfolio, the market value of the entire portfolio (exclusive project developments) increased accordingly, rising from EUR 1,170.2 million in the previous year to EUR 2,234.7 million in the reporting year. This increase was primarily the result of the newly acquired units, as well as improvements carried out on the existing portfolio. This is essentially due to rental increases measures that had been planned and implemented. In many cases, these are closely related to measures such as refurbishments, energy-saving renovations or cosmetic repairs where the parts of the cost can be recharged to the tenant by way of rental increases. In the last fiscal year, ADLER spent a total of EUR 36.1 million (prior year: EUR 14.5 million) on maintenance and modernisation.

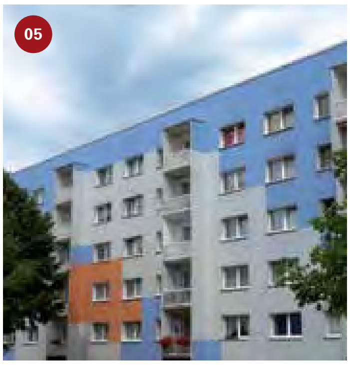
Strategic investment in conwert

During the third Quarter 2015, ADLER took a strategic participation in one of the leading Austrian real estate companies through the acquisition of a minority stake (23.5 per cent of the shares as at 31.12.2015) in conwert Immobilien Invest SE. ADLER is confident that its participation pursues strategic goals in which a closer collaboration with conwert can open up attractive market opportunities where synergies can be achieved, for example, in the purchase of services and utilities. In addition, ADLER can benefit from dividend payments.









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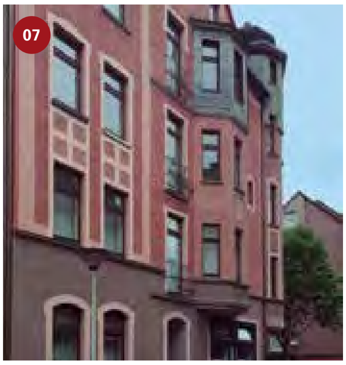
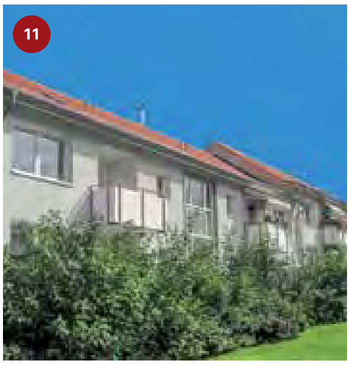
05 Borna Schulstraße
06 Heidenau Häckelstraße





07 Hagen Hufelandstraße
08 Pirna Liebstädter Straße
09 Weißenfels Jüdenstraße
10 Weißenfels Wielandstraße
11 Schöningen Wilhelm-Busch-Straße
12 Wurzen Kutusowstraße

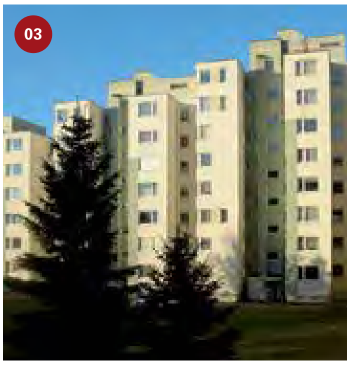
conwert holds a property portfolio consisting of nearly 30,000 commercial and residential units of which around 24,000 are in Germany. They are primarily located in large cities such as Berlin (4,400 units), Potsdam (1,700 units), Leipzig (4,500 units) and Dresden (600 units). There are 3,000 residential units in North Rhine-Westphalia, a state with an attractive housing market due to its population density. conwert is also represented in the Austrian capital, Vienna, with approximately 2,500 residential units. This attractive market, as is the case for most A-cities in Germany, is characterised by robust property prices.

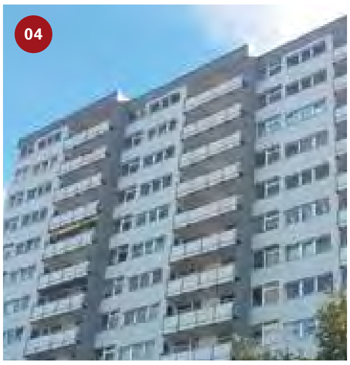
This particular portfolio structure, with a high proportion of units in A-cities or metropolitan areas, means that conwert properties yield an average rent of around 15 per cent more than ADLER. According to conwert, it is their intention to focus more on the residential property portfolios in Germany and Austria. Their aim is to reduce the proportion of commercial properties further, which by the end of 2015 still accounted for over 10 per cent of the entire portfolio.

Actively supporting tenants – Wohnungsbaugesellschaft JADE mbH, Wilhelmshaven and WBG GmbH, Helmstedt

Following its relaunch in 2012 and the extensive development of its residential real estate portfolio, ADLER Real Estate AG has established itself as a major owner and provider of residential housing in Germany. In addition to the integration of units and the establishment of an organisation that uses economies of scale for both company development and residential property management, tenants are of central importance to ADLER. An ADLER apartment should be both house and home to its tenant.

In order to successfully execute the tasks pertaining to the management and letting of its units in a way that is persistently observant of tenants' rights, ADLER is increasingly making use of companies within the group such as on site property management. Two representative cases that offer a good insight of the services provided by the ADLER Group through its own property management companies on site are Wohnungsbaugesellschaft JADE mbH, which was acquired end of January 2015 consisting of 6,750 properties and WBG GmbH, acquired 2014 with around 2,300 units.





01 Göttingen Deisterstraße
02 Braunschweig Emsstraße
03 Wolfsburg Jenaer Straße
04 Braunschweig Emsstraße

05 Helmstedt Maschweg
06 Göttingen Süntelweg

In 2015 both companies significantly widened their scope of activities in regards to tenant support services. One of ADLER's claims is to offer all of its extensive services to its customers or tenants 'from under one roof', wherever appropriate and economically feasible.

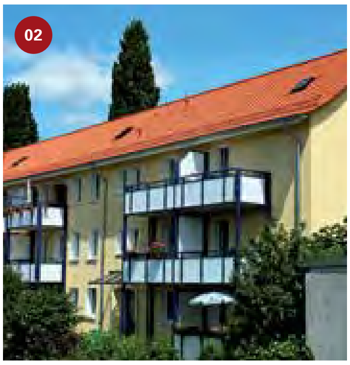
Alongside this, Wohnungsbaugesellschaft JADE mbH and WBG GmbH offer fertile ground for the rapid implementation of economies of scale throughout the ADLER Group. Services and supplies, such as janitorial services, energy for heating, insurance and tradesmen for maintenance and repair tasks, could be regularly purchased at increasingly favourable terms by increasing the number of managed properties.

Increased support with the Group's growth

In order to make better use of the two property management companies with regard to economies of scale and to achieve further efficiency gains, as of 2015 both companies have already been assigned properties to manage. This was a result of the acquisition of other portfolios, such as WESTGRUND, through which new units were added to the inventory. Subsequently, managed properties in the portfolio of WBG GmbH have more than doubled, increasing properties in Braunschweig, Wolfsburg and Göttingen, to 5,500 units. In order to meet management expenditure, WBG GmbH has hired additional staff and expanded its service centre.Furthermore, Wohnungsbaugesellschaft JADE mbH has been assigned around 540 apartments to manage with around 800 units to follow.

Actively involved in accommodating immigrants

Both companies aim to promote cooperation, increase tenants' satisfaction and keep the turnover rate low. To achieve this, both companies employ various contacts and meeting places so as to promote a peaceful coexistence. In one of the WBG GmbH residences, for example, a small corner shop has been established creating a pleasant meeting place where elderly and younger residents alike can benefit from optimized facilities and infrastucture.



01 Helmstedt Johann-Sebastian-Bach-Straße
02 Helmstedt Tangermühlenweg
03 Helmstedt Richard-Wagner-Platz

04 05 Helmstedt Dürerplatz

This particular set-up, together with the close cooperation with tenants, places both companies in a prime position to solve even the most complex challenges such as accommodating immigrants. In close cooperation with the relevant authorities and largely in agreement with the existing tenants, more than 100 apartments in the WBG GmbH residence in Helmstedt have already been let out to refugees.

Three integration officers have been placed on site to further promote the integration process. They will assist the newcomers to Helmstedt with advice and all other matters of daily life, for example by helping them to deal with the authorities, solve minor problems in the residential environment, offer translation or just some simple tips about German lifestyle.

Wohnungsbaugesellschaft JADE mbH has in turn finalised agreements with the town of Wilhelmshaven through which the town will gradually lease defined apartment packages for refugees to rent. The ultimate goal in accommodating the new residents is to distribute them locally and then integrate them through intensive support from the town and Wohnungsbaugesellschaft JADE mbH as well as possible. The first steps in this process have already been very successful.

WBG mbH, Helmstedt	
Part of the ADLER Group since	2014
Number of employees (31.12.2015)	24
Number of managed apartments (01.2016)	5,500
Located in Helmstedt	
Managed Group-owned apartments in Braunschweig, Göttingen, Helmstedt, Wolfsburg	

Aligning support services to the target groups

As the largest property owner in the town of Wilhelmshaven, which accomodates Germany's main naval base, Wohnungsbaugesellschaft JADE mbH is faced with a significant task. With approximately 7,300 residential units in which around 20,000 people are currently living, their proposal is more dependent on regional requirements and thus tailored to specific target groups. To Navy personnel it is being marketed as 'a cabin on land', to people working temporarily in the area as 'job accommodation' and to students it is proposed as a 'student village'. In all of these cases, Jade offers fully- or partly-furnished apartments and a wide range of services ranging from house cleaners to the provision of bed linen. It is precisely because of its size and the strong maritime tradition at this locaton that the company sees itself as the first port of call for many Naval staff who need evidence of a fixed abode on shore following changes in the Labour Law and the compulsory lodging law for service personnel.

Increasing tenant satisfaction

When JADE mbH was founded more than 75 years ago, its primary mission was to provide local people with affordable housing. In the meantime, high tenant satisfaction has become a progressively important role and many services are pivotal to achieve it. Therefore, in addition to the aforementioned services for

01 Wilhelmshaven Norfolkstraße
02 Wilhelmshaven Ölhafendamm

03 Wilhelmshaven Posener-/Albrechtstraße
04 Wilhelmshaven Albrechtstraße

specific target groups, provisions that reflect the increasing average age of the tenant population are included. JADE mbH offers its own social service to advise tenants with particularly difficult living situations for example: unemployment, high levels of personal debt, illness or problems with the authorities.

Researching the needs of tenants

Making tenants happy requires a deep knowledge of their needs. Consequently, in 2015, Wohnungsbaugesellschaft JADE mbH conducted a survey of tenants, which produced a task list to improve their service, the tenant/landlord cooperation and the housing supply.

Finally, Wohnungsbaugesellschaft JADE mbH will gradually take responsibility over the administration of additional residential units in the regional district which were added following the acquisition of WESTGRUND AG in 2015. This will be implemented when the contract with the previous non-ADLER Group management companies expire. The benefits through insourcing or taking over more tasks as a result of the Group's growth will also strengthen Wohnungsbaugesellschaft JADE mbH.

Wohnungsbaugesellschaft JADE mbH, Wilhelmshaven	
Part of the ADLER Group since	2015
Number of employees (31.12.2015)	46
Number of managed apartments (01.2016)	7,300
Located in Wilhelmshaven	
Managed Group-owned apartments in Wilhelmshaven	

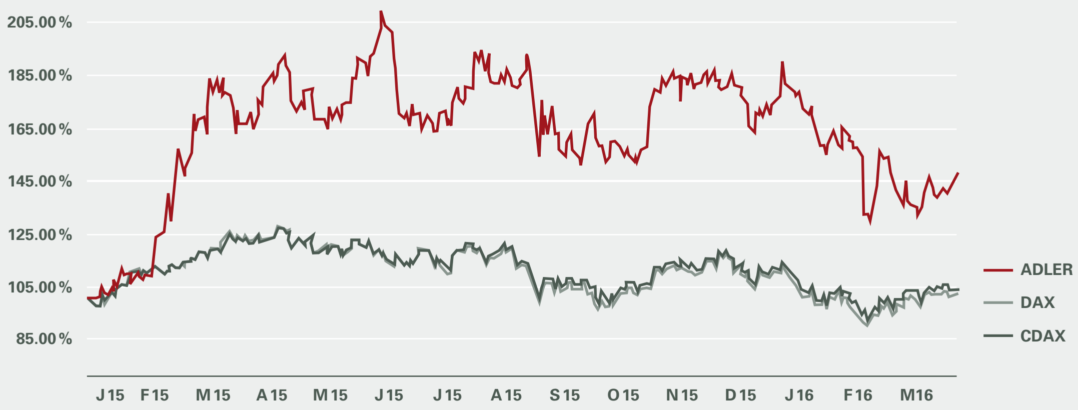
The ADLER Share

Stock Market Sentiment

At the beginning of 2015, the German share index saw a robust growth reaching an all-time high in April at 12,390.75 points. Fluctuations in the DAX were less pronounced, but it still achieved an increase of 10.2 per cent compared to the end of 2014. In the first third of the year it surged forward following a decision by the European Central Bank to discharge the hitherto unknown amount of EUR 1.1 trillion for the purchase of government bonds. The rest of the year was burdened by the continuing challenges arising from the Greek situation. The US Federal Reserve stopped toying with interest rates in December and raised them marginally for the first time in almost ten years.

Since Summer, continuing market unrest concerning the actual state of China's developing economy, currently the second-largest in the world, was responsible for further destabilisation together with the massive decline in oil prices. Low oil prices placed more and more producing countries under pressure which, in turn, reduced demand in the global market, therefore impacting the development of the world economy as a whole. At the beginning of 2016, these misgivings had an ever greater effect on the markets, to the extent that the atypical development exhibited during this time of year was the worst seen since the commencement of the DAX in 1999.

Performance of DAX und des CDAX since January 2015 | January 2015 = 100

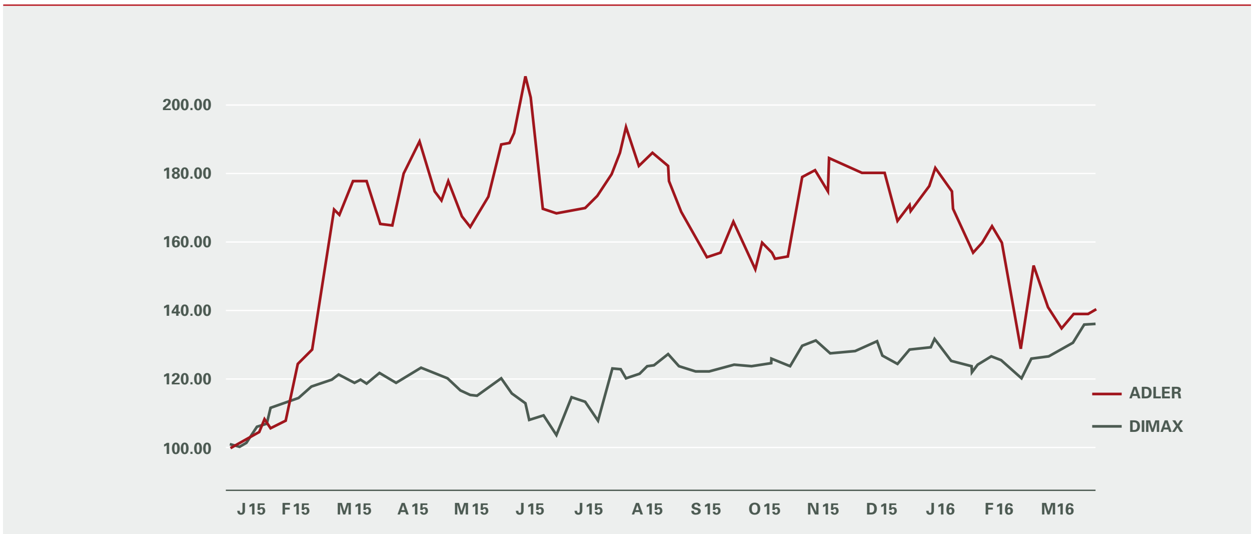


Development of Real Estate Shares

Developments in the German residential real estate market have, in recent years, been determined by the DIMAX real estate index calculated by the Ellwanger & Geiger Bank. Investors have been particularly rewarded by the considerable demand for housing in metropolitan areas together with rising rents and significant increases in listings. Low interest rates, based on the favourable refinancing of real estate stocks, have further contributed to the development. Consequently, in the wake of the ECB's decision on the EUR 1.1 trillion government bond-purchase program, the DIMAX made another great leap in line with the DAX in 2015.

Only July's legislative intervention in the so-called 'strained' housing market in the form of a 'rent cap' led to a significant mid-year correction. The continuing wave of mergers, especially the attempt of the largest residential real estate company (VONOVIA SE) to take over the second largest (Deutsche Wohnen AG) have returned share values back to previous levels. Throughout 2015, the DIMAX increased by 31.1 per cent, which resulted in significantly higher figures than the DAX. Nevertheless, since August the DAX has moved laterally, to all appearances because investors have given the market very little upside potential. The market took the takeover wave as a sign that residential real estate companies were expecting better results and growth through acquisitions, rather than by rising rents and efficiency improvements.

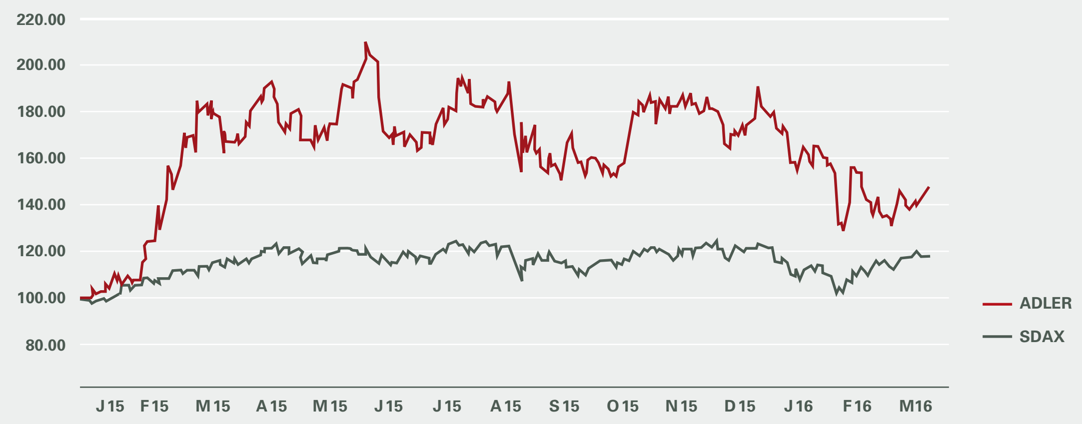
E&G DIMAX since January 2015 | in points



ADLER Share Price Development

The ADLER share maintained its sharp upward trend in 2015 with the share price increasing by 81.6 per cent to EUR 14.09 in the course of the year. The bid for the WESTGRUND AG boosted the value in February. The first quotation in the SDAX was associated with an increase per ADLER share, to an annual high of EUR 16.20. In summer, the positive trend reflected the successful incorporation of ADLER in conwert Immobilien Invest SE. Later in the year the stock was able to maintain the high level reached despite an increasingly difficult environment. Even in comparison with the SDAX (plus 23.34 per cent in 2015), the ADLER share clearly outperformed itself in 2015.

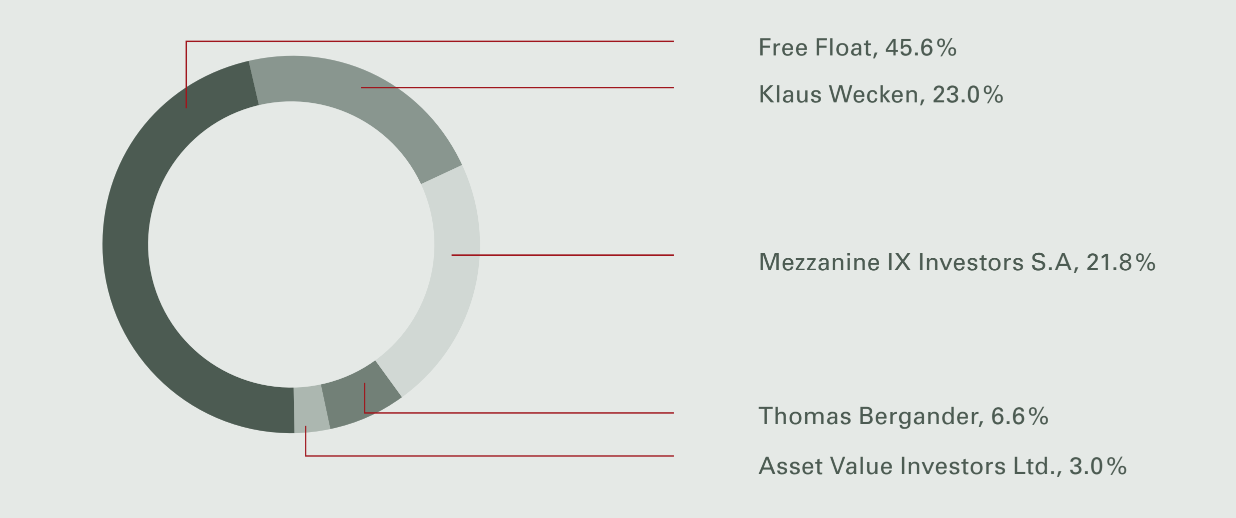
Performance of ADLER Real Estate AG Share and SDAX since Januar y2015 | January 2015 = 100



Shareholder Structure of ADLER Real Estate AG

During 2015, ADLER Real Estate AG's shareholder structure significantly changed through the acquisition of WESTGRUND AG. Overall, a 94.9 per cent holding of the capital of WESTGRUND was taken. The offer consisted of a cash component in addition to 14,075,000 new ADLER shares, which were issued in exchange for WESTGRUND shares. ADLER's share capital increased accordingly and rose throughout 2015 due to further conversion rights to EUR 46.103 million (as of: 8 January 2016). Current figures are to be found in the Investor Relations section ADLER Real Estate AG's homepage under www.adler-ag.com. The shareholder structure on 31 December 2015 was as follows:

Shareholder Structure as on December 31, 2015



Financial Communication

Starting 22 June 2015 the shares of ADLER Real Estate AG have been listed in the German small-cap index (SDAX). The SDAX comprises 50 companies from traditional sectors that follow the values listed in the MDAX in terms of market capitalization and trading volume. A prerequisite for inclusion in the SDAX is a listing in the Prime Standard market segment of the German stock exchange, where it is specified that the company must meet international transparency requirements. These include the publication of quarterly reports, attendance at the annual analysts' conference and publication of ad hoc reports in English.

On 23 March 2015, the ADLER share was listed in the FTSE EPRA/NAREIT Global Real Estate Index Series. In the FTSE EPRA Global Real Estate Index, the EBITDA criteria of revenue, size and growth of company employed. The FTSE EPRA Global Real Estate Index is an index series utilised internationally by the European Public Real Estate Association (EPRA) in Brussels, in collaboration with the FTSE and the National Association of Real Estate Investment Trusts (NAREIT), Washington. The FTSE EPRA Global Real Estate Index reflects the worldwide development of major real estate companies and includes more than 530 titles.

In addition to the regular preparation of quarterly reports in German and English, the company participates in capital market conferences as well as seeking and maintaining contacts with investors and their representatives. Thus making itself more attractive to a wider and more international group of investors. For further information, please visit ADLER Real Estate AG's homepage under www.adler-ag.com where current corporate press releases and other information are published in a timely manner.

Supervisory Board Report

Dear Shareholders,
Dear Sir or Madam,

Throughout the past financial year, the Supervisory Board of ADLER Real Estate AG has fulfilled its responsibilities under applicable laws and statutes, carrying out its tasks both at regular meetings as well as in meetings between individuals. The Supervisory Board has supported the Management Board in an advisory capacity and has monitored its activities. To that end, the Supervisory Board has drawn on management reports about the company's financial position and has adopted appropriate resolutions. The Supervisory Board has maintained regular communication with the Management Board beyond the scheduled meetings and has continually informed itself about current business developments. The Supervisory Board has been directly involved in all decisions of fundamental importance to the company.

Changes in Board

In 2015, there were no changes to the Supervisory Board of ADLER Real Estate AG.

As of 16 December 2015, Arndt Krienen was appointed for a term of three years as an additional Board member of ADLER Real Estate AG, effective from 1 January 2016. Arndt Krienen is also the sole director of Westgrund AG, which was acquired by ADLER Real Estate AG in the middle of last year. The company's growth over the past years has thus been established, as the Management Board of ADLER AG comprises two members again.

Supervisory Board Meetings

The Management Board reports to the Supervisory Board in regular joint meetings. Written reports form the basis for the board meetings. With those reports, the Supervisory Board was informed about the overall situation of the company and its subsidiaries as well as individual matters of greater importance. The business outlook, current situation, profitability, liquidity of the company, its intended business strategy and other fundamental issues of corporate governance were also focal points of discussion along with the situation of the Group's subsidiaries.

There were a total of seven Supervisory Board meetings in the financial year 2015, on 19 March, 13 May, 20 May, 22 May, 26 August, 8 December and 16 December. The members of the Supervisory Board regularly attended its meetings.

Given that the company's Supervisory Board is composed of three members pursuant to the Articles of Association, no committees have been formed. All members of the Supervisory Board have brought their efforts to bear on all tasks associated with the Supervisory Board.

Accordingly, all matters brought to the attention of the Supervisory Board have been discussed and decided by the majority represented on the Supervisory Board. To this end, the Supervisory Board has approved all reportable transactions and measures following proper review.

In addition, the Management Board has informed the Supervisory Board in written quarterly reports about the progress and status of the business, the profitability and liquidity of the company, the business policy pursued and other fundamental issues of corporate planning.

Focus of Activities

In its periodic meetings, the Supervisory Board has mainly focused on the fundamental business policy, and in particular, the purchase and sale of properties owned by the company. To this end, the impact on the financial position and earnings has especially come under review. Controlling and liquidity planning have also been included along with risk management as central topics requiring the attention of the Supervisory Board. Particular emphasis was placed on the steady growth of the company.

Deutscher Corporate Governance Code (DCGK)

Together with the Supervisory Board, the Management Board affirms that the DCGK contains internationally and nationally recognized standards for good and responsible corporate management, which serve the management and supervision of German listed companies.

The Management Board and the Supervisory Board decided to implement the guidelines for ADLER Real Estate AG as early as financial year 2002, carrying them out with few exceptions. To the extent that the provisions of the German Corporate Governance Code in their respective valid form have not been followed, this has been explained in a Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act and permanently published in the respective valid version on the ADLER homepage under “Investor Relations”.

The Declaration of Compliance will be published in the Federal Gazette and filed with the commercial register together with the annual financial statements, management report and other documents to be reported.

Moreover, ADLER Real Estate AG has published its Corporate Governance Report in connection with the publication of the Statement on Corporate Governance § 289a of the German Commercial Code, HGB, on its website.

Annual and Consolidated Financial Statements 2015

The annual financial statements prepared by the Management Board of ADLER Real Estate AG and the consolidated financial statements, including the management report and Group management report for the financial year 2015, have been examined and certified with an unqualified audit opinion by the auditor Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hamburg, who was appointed by the Annual General Meeting on 22 May 2015.

The annual financial statements (HGB) along with the consolidated financial statements, (IFRS) including the management report and Group management report, the auditor's report on the annual financial statements as well as the consolidated financial statements have been submitted to the Supervisory Board for review. At its meeting to review the accounts on 30 March 2016, the Supervisory Board had detailed discussions with the Management Board regarding the documents accompanying the financial statements and reports, particularly on questions pertaining to the evaluation of current and fixed assets. In that session, the auditor reported on the key findings of the audit and provided the Supervisory Board with additional information as needed. On the basis of its own examination of the annual financial statements, consolidated financial statements, management reports of the company and the Group, the Supervisory Board approved the audit results and raised no objections following the final results of its review. By resolution of 30 March 2016, the Supervisory Board approved the annual financial statements which are hereby adopted in accordance with § 172 AktG as well as the consolidated financial statements.

2015 Report on Affiliated Companies

The report on relations with affiliated companies filed by the Management Board pursuant to § 312 AktG was examined and approved by the Supervisory Board. After concluding its review, the Supervisory Board raised no objections to the statement of the Executive Board at the end of its report in accordance with § 312 AktG.

The auditor raised no objections during his review of this report; the test result is consistent with the findings of the Supervisory Board. The auditing firm Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft issued an unqualified opinion.

"Based on our required examination and assessment, we confirm that

1. the factual information contained in this report is accurate,
2. the companies have not incurred unreasonably high costs for legal transactions listed in the report."

Members of the Supervisory Board

In accordance with § 96 AktG, the Supervisory Board is composed of representatives of the shareholders.

The Supervisory Board would like to thank the Management Board and all the employees for their achievements, their commitment and their loyalty.

Hamburg, 22. March 2016

Dr. Dirk Hoffmann
Chairman of the Supervisory Board

Consolidated Financial Statements 2015

Group Management Report

1. BASIC INFORMATION ON THE ADLER REAL ESTATE AG

1.1 Business Model

ADLER's activities are focused on building and managing a residential property portfolio in specific locations, as well as residential property optimisation and trading. With a portfolio of approximately 50,000 residential and commercial units at the end of 2015, ADLER is one of the five large listed German residential property companies. The company's shares are listed on the Small-Cap DAX (SDAX) of the Frankfurt Stock Exchange.

ADLER primarily invests in residential property portfolios located in the B- and suburban areas of large conurbations that generate a positive cash flow after deductions of all operating costs. Properties in the so-called A-cities, especially in Berlin, are also steadily acquired in order to strengthen the portfolio of the subsidiary, ACCENTRO Real Estate AG, which successfully privatises properties. A targeted modernisation schedule of selected properties in A-cities is pursued for the portfolio, so as to significantly increase the value of these units.

A fast-growing company within the real estate industry, ADLER offers housing in selected regions in Germany. The apartments in ADLER's portfolio have an average size of 60 m² and offer its tenants two or three rooms. This means that they are ideally sized for the groups on the market with the strongest demand, namely younger or older people living alone, single parents with one or two children, immigrants, and people whose income bracket and the development of rental prices mean they can only afford smaller apartments.

ADLER has quickly developed into a highly efficient portfolio holder, with its rapid portfolio growth that reflects its core business of providing affordable housing. ADLER operates as a holder of residential property portfolios in a market dominated by four key mega-trends:

- the growth in the number of single-person households and the corresponding sharp rise in per capita consumption of residential space,
- the demographic change, the increased requirements generated for housing for older people,
- the turnaround in energy policy at a political level, leading to increased modernisation expenses in existing buildings and finally
- a huge increase in immigration since the second half of 2015.

ADLER's activities are broken down into two business areas or segments: Rental and Trading.

1.1.1 Rental

In the Portfolio segment, ADLER concentrates on establishing and expansion of a residential property portfolio located in specific areas in Germany. It primarily acquires equity interests in portfolios that are predominantly situated in B-locations in German conurbations and that offer potential for sustainable value growth. The primary aim is to acquire majority interests in order to ensure that the company can exercise sufficient influence over the optimal management of the portfolios.

In addition to portfolio acquisition, the Group's strategy focuses on sustainable portfolio management with the aim of improving the utilisation of residential portfolios, i.e. reducing vacancy rates by implementing optimisation measures. To this end, ADLER plans to invest in capex programmes aimed at improving the letting rates of apartments and continuously increase the existing rental income opportunities. This is also intended to free up value-increasing potential in the form of construction on unutilised land, in-fill housing and development reserves or by implementing energy saving renovation measures.

1.1.2 Trading

The Trading segment of the ADLER Group is primarily covered by the majority interest in the listed ACCENTRO Real Estate AG. The Trading segment encompasses trading in residential properties and individual apartments. ACCENTRO markets suitable residential properties and individual apartments from the ADLER Group, as well as on behalf of third parties, in a targeted manner to owner-occupiers in Germany and abroad. ACCENTRO considers itself to be Germany’s largest privatiser of apartments.

1.2 Objectives and Strategies

The objectives and the related strategies primarily relate to four areas of activity:

- Portfolio management
- Trading
- Financing
- Acquisition

1.2.1 Portfolio Management Strategy

In the area of portfolio management, ADLER seeks to achieve optimal company performance and core productivity. This takes the form of a transparent, end-to-end, closely networked organisation that is intended to enable the optimal letting and management of the residential portfolios. As part of active management, measures are continuously implemented to reduce vacancy rates, leverage potential for rental growth and systematically keep the portfolios in a high-quality condition through maintenance measures with a favourable cost/benefit ratio. Building modernisation, particularly in the form of energy-related renovation, allows corresponding measures to significantly increase the value of properties. This can allow higher rents to be realised or reduce operating costs, particularly heating costs, which can account for up to a quarter of total rent, to the benefit of tenants.

Renovation and apartment modernisation measures can make vacant apartments more attractive for letting in competition with other providers, resulting in properties that are let quickly and well. Portfolio optimisation also involves the identification of properties with high vacancy rates and sub-optimal connections to the administrative centres and the sale of these properties at market prices. These targeted measures allow ADLER to improve the efficiency of its administration and increase the average letting rate within its portfolio as a whole.

1.2.2 Trading Strategy

The Trading segment of the ADLER Group encompasses trading in residential properties and individual apartments and is primarily covered by the majority interest in the listed ACCENTRO Real Estate AG. ACCENTRO markets suitable residential properties and individual apartments from the ADLER Group, as well as on behalf of third parties, in a targeted manner to owner-occupiers in Germany and abroad. Concerning this, suitable portfolios will be selectively acquired and marketed. ACCENTRO considers itself to be Germany’s largest privatiser of apartments. Low interest rates are leading to lively demand for owner-occupied properties among increasingly broader sections of the population, a fact that can benefit the Group’s privatisation business greatly. In light of the current interest rates, sales to existing tenants who are looking to avoid future rent increases as part of their old age provision are also becoming increasingly interesting.

1.2.3 Financing Strategy

ADLER pursues different objectives in its financing activities. In addition to a balanced, long-term maturity and financing structure, business interests are focused on the optimisation of the average cost of debt. This is achieved through the further development and optimisation of portfolios as well as additional value-added portfolio acquisitions. This includes the refinancing of existing financing arrangements at more favourable conditions. ADLER also pursues the objective of realising portfolio acquisition opportunities at any time and at short notice by quickly obtaining equity or debt capital.

1.2.4 Acquisition Strategy

In addition to the potential for organic growth resulting from the existing portfolio, ADLER is pressing ahead with its acquisition policy in order to establish itself on the market as a major residential property company. With a presence that now encompasses most of Germany and growing awareness of the company, ADLER is gaining access to a wide range of opportunities to acquire additional residential property portfolios on the market.

ADLER is able to acquire portfolios flexibly and offer sellers a high degree of transaction security. It goes without saying that acquisition activities are conducted in accordance with defined criteria aimed at improving the overall portfolio.

1.3 Management System

1.3.1 Financial Management Indicators

ADLER Real Estate AG manages the property and facility management companies via the Group's management company. A vital role is played by ADLER's central asset management, which manages the respective property management companies locally, typically under the terms of service agreements. However, the Group also has its own property holding companies that perform property and facility management for residential portfolios using in-house capacities.

An appropriate software solution continuously optimises portfolio management and informs asset and property management in parts of the portfolio. In 2015 the Asset Controlling department was created in Asset Management, which is responsible for controlling, analysis and reporting. The software solution also models property management and will ensure that an overview of the full situation in the various portfolios, development in terms of letting, rental income and potential for rental development can be obtained at all times in future, thereby allowing the necessary investments to be controlled. The transparent and seamless administration of the residential property portfolio and the respective management options not only form the basis for professional portfolio management, but also provide the foundations for integrating additional portfolios. The key performance indicator in the Portfolio segment is cash flow at portfolio level, which is influenced by occupancy rates, termination and new letting rates, basic net rents, management costs and debt servicing. This is also reflected in the FFO I.

In the Trading segment, EBIT is used as a financial performance indicator for business management purposes. EBIT is primarily determined by the proceeds on the sale of properties, which depend on factors such as the number of reservations of owner- occupied apartments by potential buyers and the actual selling prices realised. The latter is recorded in terms of both the number of apartments and the sales volume.

ADLER also applies the standard industry performance indicators of net asset value, funds from operations and loan-to-value for the purposes of financial management. Further information can be found in 2. Economic report.

1.3.2 Non-financial Management Indicators

The professional expertise and commitment of employees and managers and customer satisfaction are key factors in ADLER AG's business development.

In the Portfolio segment, the occupancy rate is another key performance indicator. This developed from 87.2 per cent at the end of 2014 to 88.8 per cent at the end of 2015.

The company's reputation is another important non-financial performance indicator in the Trading segment. ACCENTRO has enjoyed success in the field of privatisation since 1999 and considers itself to be a market leader.

1.4 Employees

The Group holding company, ADLER Real Estate AG does not have any employees. The office organisation and operational tasks within the Group are largely performed via the wholly owned subsidiary ADLER Real Estate Service GmbH, which had 65 employees at the end of December 2015. The employees of this company are deployed at the various subsidiaries flexibly and in line with their specialist capacities. Together with the employees of the property and other subsidiaries, ADLER had a total of 268 full-time and part-time employees at the end of the reporting period.

1.5 Research and Development

As a property group, ADLER Real Estate AG does not perform research and development in the conventional sense. However, the continuous analysis of market developments is necessary in order to estimate the future trends in terms of residential rents and the various housing markets in major conurbations, their peripheral locations or non-urban areas. ADLER avails itself of the many external market analyses and assessments of major real estate agencies, federal agencies, specialized research institutes, research departments of major banks together with its own experience of local rental markets. The various developments in the construction industry and building services and the changing requirements of tenants and users also have to be observed and analysed. These analyses provide the company with continuous insight, allowing it to permanently scrutinise the economic efficiency of its business activities and prepare profitability calculations for new investments. As such, this insight represents an important foundation for the company’s operating activities as a whole.

2. ECONOMIC REPORT

2.1 Macroeconomic and industry-specific conditions

2.1.1 Macroeconomic framework

Growth drivers of consumer spending

Data from the Federal Office of Statistics states that the German economy grew by 1.7 per cent in 2015. Private consumer spending, which increased by 1.9 per cent, contributed significantly to this growth, slightly outperforming GDP. Of all macroeconomic variables perceived to be indicative of a specific industry’s dynamics, private consumer spending can be the most representative of the housing industry. Some of the drivers behind the noteworthy boost in private consumer spending include historically high employment rates, rises in net wages during 2015 and the persistently low oil prices, which helped reduce running costs for many tenants. As a whole, general economic conditions continued to be favourable towards the residential property market and its development throughout the year.

Interest rates in the international financial markets also developed positively in regards to the real estate industry, remaining consistently low and making property financing very advantageous, although the US Federal Reserve strove for a turnaround by increasing its base rates in December 2015 from 0.25 to 0.5 per cent for the first time in nearly ten years. Meanwhile, the European Central Bank held fast to its extremely low base rate of only 0.05 per cent, hoping instead to stimulate economic growth in Europe by continuously flooding the capital markets with substantial sums generated from government bond purchases. As a result inflation rose back up to the target level of 2.0 per cent (in 2015 plus 0.25 per cent).

2.1.2 Sector-specific conditions

Property market: demand for property continues to grow

In 2015, demand for housing continued to grow as part of major trend that has marked the past few years. Assessments made by ADLER confirm that the number of households is on the increase. Furthermore, the second half of the year saw a rapid rise in the numbers of refugees and asylum seekers arriving in Germany. Towns and communities have been actively seeking housing for those people who are most likely to be granted asylum.

In order to prevent an increase in demand for housing which would lead to excessive rental surges in particularly strained markets, in mid 2015 the federal government announced and subsequently put in place an amendment to the tenancy law enforcing a 10 per cent maximum rental increase for new tenancies in pressurised housing markets. The “rent cap“ will prevent excessive rental increases in particular areas, which will be determined by the respective local governments.

Rents climb higher

Against a backdrop of increasing demand and a marginal growth in supply, 2015 was characterised by an increase in residential rents. The Federal Statistical Office’s Cost of Living Index raised its average yearly estimated expenditure for net rent by 1.2 per cent. According to a study by market research firm bulwiengesa, rents for new tenancies in existing apartments were 3.3 per cent higher than a year ago and 3.2 per cent higher for new buildings. The highest rental increases highlighted in the report were 6.9 per cent to be found in B-cities - areas where the majority of ADLER’s holdings are located. A-cities, however, exhibited below average rental increases of 2.5 per cent signalling that the rise in rents in big cities has levelled off.

In the new federal states where ADLER has more than 18,000 units, a clear particular dynamic has developed in the residential rents in recent years, which was also maintained in 2015. That, at least, is according to evaluations from advertisements put forward by the real estate platform, Immonet. The rents in Dresden and Leipzig, for example, have increased by 20 per cent each in the past five years.

Property market transactions: sharp rise in volume

Understanding the underlying dynamics of the real estate market is of paramount importance for a company that wants to grow through acquisitions and to achieve economic success in part from property trading. According to the findings of the market research institute bulwiengesa, 2015 saw property prices rise across all sectors by 3.7 per cent making it the eleventh year of consecutive growth. Reports by consulting firm Ernst & Young show residential property transaction volumes reaching EUR 23.5 billion, almost twice as much as in the previous year. This was heavily influenced by acquisitions made by German housing associations, which alone accounted for three of the largest individual transactions representing half of the entire turnover. Both developments highlight the consistently high levels of attractiveness of the German property market which according to E&Y surveys should make it a major player in 2016.

Continued consolidation efforts in the real estate industry

The ongoing consolidation process of the real estate market which had already significantly altered the structure of listed residential property companies in 2014 shaped the industry again in 2015. ADLER played an active role by the acquiring WESTGRUND AG mid-year and then taking on a 24.8 stake of Austrian company conwert Immobilien Invest SE’s shares in the third quarter. A previous bid from Deutsche Wohnen AG had failed with the conwert shareholders. Deutsche Wohnen then made a later offer to LEG Immobilien AG, but this again lapsed after VONOVIA SE had decided to bid for Deutsche Wohnen. However, VONOVIA’s takeover attempt failed in February 2016 because the required acceptance quorum for the offer had not been reached. In addition, the acquisition of Gagfah by the Deutsche Annington (today Vonovia SE) with an amount of EUR 8.0 billion and 144,000 apartments, represents by far the largest transaction of the year.

Subsidy measures for more housing

The recent and substantial inflow of refugees has created particular challenges for the housing market. The question of how many more homes will be needed and to what extent current vacancies can be used for accommodation depends on the amount of immigrants expected and on how many of them are going to take up permanent residency in Germany. As a result of the rapid surge in refugee numbers, the analysis institute empirica, estimates the need for an additional 373,000 homes between 2016 and 2020, which is approximately 75,000 homes per year. The Institute had already taken into account the 778,000 apartments that are currently lying vacant in Germany and are immediately rentable.

Although as of November 2015 the number of building permits in Germany increased by about 5 per cent, greenlighting the construction of 300.000 new homes, this proved insufficient to meet the growing demand and there is a lack of housing for tenants with low incomes in particular.

At the beginning of 2016 the federal government approved measures to encourage the construction of affordable housing. Appropriate financial incentives were implemented that relate essentially to special amortisations for affordable housing in regions where the housing market is strained. In addition, the federal government is planning a further amendment to the tenancy law concerning the development of prices in pressurised housing markets after which, predictively, the assessment period for determining rents in the rental index will be extended from the current four years to ten years. The consequence of this is that comparative rents would fall by around one euro per square meter in the most affected cities.

2.2 Performance of ADLER Real Estate AG

The 2015 financial year – like previous years – was mainly characterised by a significant expansion of the company's property portfolio. The acquisitions of majority shareholdings in property companies increased ADLER Group's portfolio of residential properties to around 50,000 units, more than double than in the previous year. Overall, the financial year was shaped by three outstanding transactions.

The first step involved the completion of the acquisition of the majority stake in Wohnungsbaugesellschaft JADE mbH in Wilhelmshaven and its property and facility management subsidiaries which had been secured in October 2014. JADE holds a housing portfolio comprising 6,750 units.

Secondly, and similarly to the previous year ADLER took over a publicly listed residential real estate company. Having acquired ACCENTRO Real Estate AG in 2014, ADLER focused on taking over WESTGRUND AG in Berlin in the 2015 reporting year. ADLER and WESTGRUND have virtually identical business models. They focus on the acquisition, management and administration of residential properties and address the same target group. Like ADLER, WESTGRUND also operates exclusively in Germany, but with key focuses in the north and east of the country. WESTGRUND, like ADLER, also generates a positive cash flow from its property lettings. The residential properties it owns are predominantly located in medium and large towns and cities with stable socioeconomic characteristics. WESTGRUND also owns properties in Berlin. On the day of the takeover which took place at end of June 2015, the company managed a portfolio of around 16,000 units, 99 per cent of which consistied of residential units. At the end of 2014, WESTGRUND secured the acquisition of another residential property portfolio with approximately 2,700 units. These were transferred to the company during the second half of the year.

In February 2015, ADLER announced its intention to take over WESTGRUND by way of a voluntary public takeover bid. Shareholders in WESTGRUND were offered a mix of cash and non-cash compensation, comprising 0.565 shares in ADLER and a cash payment of EUR 9.00 for every 3 shares in WESTGRUND. Based on the closing price on 13 February 2015, the bid was worth EUR 5.00 per WESTGRUND share.

The Extraordinary General Meeting convened by ADLER for the 29th of April 2015 unanimously approved the capital increase hence required to supply the shares, which was executed to the exclusion of shareholders' subscription rights. The takeover was then completed on schedule at the end of June 2015, as shareholders in WESTGRUND had by then offered 94.9 per cent of their shares in exchange. Upon the execution of this transaction, ADLER's share capital increased by EUR 14.1 million to EUR 46.1 million. The cash component totalled EUR 224.2 million.

To finance these two transactions, ADLER issued two corporate bonds. In January, the 2014/2019 Corporate Bond already issued in April 2014 was extended by EUR 30 million to EUR 130 million. This corporate bond has a term running until 1 April 2019 and an interest coupon of 6.00 per cent p.a. Furthermore, at the beginning of April the company successfully placed the new 2015/2020 Corporate Bond with a volume of EUR 300 million. This bond has a five-year term and an interest coupon of 4.75 per cent p.a. The offering was executed purely as a private placement targeted exclusively at qualified investors outside the United States of America. ADLER used the funds not required for the takeover to refinance existing liabilities.

The third milestone in the 2015 financial year involved ADLER acquiring MountainPeak Trading Ltd., which at the time of its takeover held a 24.8 per cent stake in conwert Immobilien Invest SE, Vienna, one of Austria's leading real estate companies.

conwert focuses on the long-term management and further development of properties and predominantly operates in Germany and Austria. At the time of acquisition, the company's total of c. 30,000 units, almost 25,000 units, which account for more than 82 per cent of the total, were situated in Germany. conwert holds almost 15 per cent of its rental units, i.e. around 4,500 units, in Austria. The remaining total of just under three per cent, or more than 800 units, are located in other countries.

According to conwert, the properties in Germany are located in A-cities and/or rapidly growing metropolitan regions. Around 4,400 units are situated in Berlin, around 1,700 in Potsdam, around 4,500 in Leipzig and around 600 in Dresden. In Vienna, where the residential real estate market has witnessed similarly marked price increases as in Hamburg, Berlin or Munich, conwert owns more than 2,500 units. According to its own disclosures, conwert is pursuing the objective of gradually reducing the share of commercial property.

Via conwert ADLER is investing, albeit indirectly, in residential real estate in A-cities and thus also stands to benefit from the expected value growth.

One portion of the purchase price was paid in cash. The predominant share of EUR 175 million was financed by issuing a mandatory convertible bond, which was subscribed by a company belonging to the seller of the conwert shareholding and bears interests of 0.5 per cent p.a. over its three-year term. The conversion price amounts to EUR 16.50 for each newly issuable ADLER share. Upon the purchase contract being signed, the conversion price was significantly higher than ADLER's stock market price and its EPRA-NAV.

At the end of October 2015, ADLER tapped the 2015/2020 Corporate Bond issued in April of the same year by EUR 50.0 million to EUR 350.0 million. This measure was also executed as a pure private placement and was exclusively directed at qualified investors outside the United States of America.

Strong performance of operating business

The development of ADLER's operating business, specifically the management and optimisation of the residential property portfolio, was marked by the huge expansion of the residential property portfolio in fiscal 2015. This gave rise to increased demands for sustainable integration and streamlining in order to achieve economies of scale in larger units together with optimal management, rising rents and increased capacity utilisation. The following actions were taken in the reporting year:

- Integration of newly acquired portfolios into central asset management in order to enhance transparency and management.
- Connection of local property management companies to central asset management.
- Administration of additional group-internal portfolios by group-internal property management companies.
- Review of rent increase potential and implementation of rent increase measures.
- Improvement of lettings rate by stepping up sales activities and implementing measures to modernise vacant apartments.
- Streamlining of various portfolios to remove non-core assets.
- Privatisation of residential units and sales of residual units in residential property owner associations in which ADLER only owns or owned individual units without any influence on the overall properties..

At the end of the reporting year, 88.8 per cent of ADLER's residential units were let out. The lettings rate therefore rose by around 1.6 per centage points compared with the previous year (end of 2014: 87.2 per cent). This increase in occupancy rates was also driven by the acquisitions of JADE and WESTGRUND, as more than 90 per cent of the housing portfolios of WESTGRUND and of JADE GmbH in Wilhelmshaven were let out. Furthermore, ADLER also increased occupancy rates at some of the portfolios already owned by the company in the previous year.

Average rental income per square meter of rental space amounted to EUR 4.93 at the end of the year and thus decreased slightly compared with the previous year's figure (EUR 5.02). This figure too was affected by the acquisitions made in the year under report, whose rents are slightly lower due to the location. Higher rents were agreed overall for new lettings in the second half of the year, but the resultant rent increases were insufficient to offset the impact of the acquisitions on average rents.

The Trading segment also performed well in 2015. During the year under report, ACCENTRO Real Estate AG was able to privatise 476 units from its own stocks and thus exceeds the previous year's figure. (2014 short financial year: 142 units). Together with sales of residential units on behalf of third parties, ACCENTRO privatised 869 apartments in the year under report (2014 short financial year: 385 units).

Successful disposal of non-core properties

In 2015, ADLER not only generated strong growth, but also took measures to adjust its property holdings in line with its strategic alignment as a purely residential real estate company. During the financial year as a whole, non-core properties worth around EUR 121.1 million were sold. Following a loan redemption of EUR 53.3 million, the net inflow of liquidity came to EUR 66.2 million. The accounting gain totalled EUR 17.7 million.

Alongside these disposals by ADLER, its subsidiary ACCENTRO Real Estate AG, which focuses on privatisation, also sold investment properties. These included a housing complex in Hohenschönhausen with a residential property portfolio totalling 1,174 units and floor space of 76,386 m². ACCENTRO used the predominant share of the funds thereby generated to stock up its holdings with attractive residential properties to promote their privatisation. In the 2015 financial year, ACCENTRO acquired properties comprising a total of 1,117 in good locations in Berlin for its holdings.

ADLER succeeded once again in 2015 in disposing of a number of properties predating the company's realignment. The company thus sold its commercial property in Herriotstrasse in Frankfurt-Niederrad, its 10 per cent stake in Airportcenter Luxemburg, 49 residential plots in Grossbeeren to the south of Berlin and 9 lots in Dallgow-Doberitz to the west of Berlin. The “historic holdings” have therefore now largely been sold off; the only remaining holdings relate to a few pieces of land in Grossbeeren and Dallgow- Döberitz and larger plots of land in Späthstrasse in Berlin and in Dresden-Trachau. These holdings are due to be sold as soon as development plans are available for the respective sites.

2.3 Results of operations

Due to the extensive acquisitions made in 2014 and 2015, gross rental income almost trebled in 2015 compared with the previous year. This growth was chiefly driven by the income from portfolios taken over in the course of 2014, which thus had their first full-year impact in the period under report. Following the takeover of WESTGRUND in the middle of 2015, the corresponding income included in ADLER’s income statement for the first time. The most important key figures in the income statement developed as follows:

In EUR ‘000	31.12.2015	31.12. 2014[1)]
Gross rental income	216.6	83.9
-of which net rental income	131.6	56.1
Earnings from property lettings	**91.6**	**32.1**
Income from the sale of properties	168.2	87.5
Earnings from the sale of properties	**23.5**	**2.3**
Other operating income	49.9	29.8
Income from fair value adjustments of investment properties	58.9	132.9
Personnel expenses	13.2	5.0
Earnings before interest and tax (EBIT)	176.6	170.4
Adjusted EBITDA	95.6	27.2
Financial result	81.4	39.5
Earnings before tax (EBT)	94.8	132.8
Consolidated net profit	78.3	111.6

1) The amounts reported for income from the sale of properties and earnings from the sale of properties have been retrospectively adjusted; please see Note 2.1 in the notes to the consolidated financial statements..

The virtual doubling of the property portfolio from 24,086 to 48,218 rental units was reflected in a sharp rise in gross rental income to EUR 216.6 million (2014: EUR 83.9 million) and a corresponding increase in expenses from property lettings to EUR 125.1 million (2014: EUR 51.8 million). Earnings from property lettings grew to EUR 91.6 million (2014: EUR 32.1 million). The strong performance of ACCENTRO, a subsidiary, was one of the main factors driving the increase in income from the sale of properties from EUR 2.3 million in the previous year to EUR 23.5 million.

Other operating income rose from EUR 29.8 million to EUR 49.9 million. Of this total, EUR 41.6 million relates to the differential amount from capital consolidation (goodwill) determined upon the purchase price allocation for Wohnungsbaugesellschaft JADE mbH, which was directly credited to earnings as a non-recurring item. This goodwill is principally due to the fair value of investment properties recognised at Wohnungsbaugesellschaft JADE mbH exceeding the purchase price and is allocable to the Rental segment. In the previous year, other operating income included a differential amount from capital consolidation (goodwill) of EUR 24.7 million in connection with company acquisitions.

Income from fair value adjustments of investment properties totalled EUR 58.9 million (2014: EUR 132.9 million) and consists of income of EUR 108.7 million from fair value adjustments (2014: EUR 139.2 million) and expenses of EUR 49.8 million for fair value adjustments (2014: EUR 6.3 million).

Consistent with the Group's growth, personnel expenses rose to EUR 13.2 million (2014: EUR 5.0 million), while other operating expenses increased to EUR 33.0 million (2014: EUR 21.1 million).

Overall, earnings before interest and tax (EBIT) amounted to EUR 176.6 million (2014: EUR 170.4 million).

The financial result also reflects the growth at the ADLER Group. This line item comprises financial expenses of EUR 84.3 million (2014: EUR 41.1 million) and to a lesser extent interest income of EUR 2.9 million (2014: EUR 1.6 million). The increase in financial expenses is chiefly attributable to the inclusion in the scope of consolidation of ACCENTRO from mid-2014 and of WESTGRUND from mid-2015, as well as from other company acquisitions made in these two financial years. Furthermore, the rise in financial expenses was also driven in particular by the issue of the EUR 300.0 million bond in April 2015, which was stocked up by a further EUR 50.0 million at the end of October 2015.

Net of the financial result, including the at-equity result of EUR 81.8 million (2014: EUR 37.7 million) and taxes of EUR 16.6 million (2014: EUR 21.2 million), consolidated net profit amounted to EUR 78.3 million (2014: EUR 111.6 million). Taxes include a current income tax charge of EUR 2.0 million (2014: EUR 0.5 million) and deferred taxes of EUR 14.5 million (2014: EUR 20.7 million).

The breakdown of the most important key figures in the statement of comprehensive income by group segment is as follows:

ADLER Group in EUR million 01.01. – 31.12.2015	Trading	Rental	Other Activities	Group
Gross rental income and income from the sale of properties	39.5	329.7	15.6	384.8
thereof:				
rental	5.8	208.3	2.5	216.6
sales	31.4	121.3	13.1	165.8
provisions	2.3	0.0	0.0	2.3
Value adjustments for investment properties	0.0	58.9	0.0	58.9
EBIT	**6.3**	**170.5**	**-0.3**	**176.6**
Net income from at-equity valued participating interests	0.6	-0.9	0.0	-0.3
Financial result	**-2.3**	**-79.1**	**0.0**	**-81.4**
Earnings before taxes	**3.4**	**91.7**	**-0.3**	**94.8**

The Rental segment contributed EUR 170.5 million, and thus 96.6 per cent (2014: 99.6 per cent) of consolidated earnings before interest and tax (EBIT). At EUR 6.3 million, the Trading segment accounted for around 3.6 per cent (2014: 0.2 per cent), while other non-core activities posted EBIT of EUR -0.3 million (2014: EUR 0.2 million).

Value adjustments for investment properties are predominantly due to the fair value measurement of individual properties pursuant to IAS 40 and are allocable to the Rental segment.

Of the financial result, an amount of EUR -79.1 million is attributable to the Rental segment. This results on the one hand from the direct financing of real estate portfolios and on the other hand from the issue of bonds and convertible bonds.

Funds from Operations (FFO)

FFO I describes the earnings strength of the Rental segment. Consolidated net profit forms the basis for calculating EBITDA, i.e. earnings before interest, tax, depreciation and amortisation and the additional elimination of income from fair value adjustments of investment properties and net income from at-equity valued investment associates. Adjusted EBITDA is calculated by eliminating non-recurring and extraordinary items. This adjustment to exclude non-recurring and extraordinary items involves eliminating income from the differential amount of EUR 41.6 million resulting upon initial consolidation of JADE and further non-recurring and extraordinary items of EUR 18.5 million mainly arising in connection with business combinations and with the acquisition and integration of these companies. Furthermore, they include non-recurring expenses for financing measures in the financial year under report and for the subsequent consolidation of acquired companies.

The next step involves deducting the FFO interest charge and current income tax (excluding deferred tax) from this adjusted EBITDA figure. The FFO interest charge corresponds to interest expenses net of extraordinary items. In the 2015 financial year, ADLER performed capitalisable maintenance measures of EUR 9.1 million that were recognised as expenses in the acquired portfolios. Expenses aimed at enhancing or maintaining the value of properties are accounted for in this FFO methodology, as they are to be regarded separately from the company's ongoing operating earnings strength. The FFO I figure of EUR 16.1 million is then determined by further eliminating earnings before interest and tax from the sale of properties.

The calculation of FFO II involves adding earnings before interest and tax from the sale of properties, value adjustments recognised upon sales and net income from at-equity valued investment associates. Unlike FFO I, the FFO II figure presents not only the funds from operations of the rental business in the Rental segment, but also the flow of funds from the sale of real estate and thus also includes the Trading segment.

Experience shows that portfolio management measures adopted in order to enhance the occupancy rates and rental income of the newly acquired portfolios generally only take effect following a certain time lag, as do the future benefits of strategic capital expenditure. Following an acquisition, ADLER incurs a higher volume of non-recurring expenses and only benefits from the resultant income at a later date. In view of this, the sustainable impact of the company's acquisitions will only be fully reflected in the course of 2016.

The increase in FFO II to EUR 44.3 million (2014: EUR 1.4 million) underlines the company's success in its Trading segment.

in EUR million	31.12.2015	31.12.2014
Consolidated net profit	**78.3**	**111.6**
Financial result	81.4	39.5
Income taxes	16.5	21.2
Depreciation and amortisation	1.0	0.5
Income from fair value adjustments of investment properties	-58.9	-132.9
Net income from at-equity valued investment associates	0.3	-1.8
EBITDA	**118.8**	**38.0**
Non-recurring and extraordinary items	-23.1	-10.8
Adjusted EBITDA	**95.6**	**27.2**
FFO interest charge	-64.3	-32.5
Current income taxes	-1.0	-0.5
Capitalisable maintenance	9.1	6.8
Earnings before interest and tax from the sale of properties	-23.3	-2.1
FFO I	**16.1**	**-1.1**
Earnings after interest and tax from the sale of properties	20.1	0.7
Value adjustment realised upon sale	8.5	0.0
Net income from at-equity valued investment associates	-0.3	1.8
FFO II	**44.3**	**1.4**

2.4 Financial position

in EUR million	2015	2014
Net cash flow from operating activities	25.0	16.8
Net cash flow from investing activities	-438.7	-208.3
Net cash flow from financing activities	430.1	217.7
Change in cash and cash equivalents	16.4	26.2
Cash and cash equivalents at beginning of period	33.1	6.9
Cash and cash equivalents at end of period	49.5	33.1

The consolidated statement of cash flows reflects the acquisition activities in the year under report and the corresponding stepping up in efforts to finance the expansion in the Rental segment.

After adjusting for non-cash expenses and income, and taking into account changes in working capital, the ADLER Group generated a net cash inflow before de- / re-investment of EUR 71.9 million from operating activities in the trading portfolio (previous year: EUR 75.6 million). Cash outflows recorded for investments in property development (trading portfolio) amounted to EUR 46.9 million (previous year: EUR 58.8 million). Taking into account the outflows made from investments in property development, ADLER generated a total net cash inflow from operating activities of EUR 25.0 million (2014: EUR 16.8 million).

The outflow of funds of EUR 438.7 million for investing activities (2014: EUR 208.3 million) was primarily due to the acquisition of residential property or of companies holding real estate portfolios or investments property. The inflow of funds from financing activities amounted to EUR 430.1 million (2014: EUR 217.7 million) and includes the funds of EUR 350.0 million received from issuing the 2015/2020 Corporate Bond. Furthermore, the inflow of funds includes long-term bonds and financial loans totalling EUR 355.1 million that were taken up during the current reporting period (2014: EUR 538.9 million). Scheduled loan repayments and redemptions in connection with property sales led to an outflow of funds totalling EUR 192.0 million (2014: EUR 400.9 million).

Cash and cash equivalents amounted to EUR 49.5 million at 31 December 2015 (2014: EUR 33.1 million). Financial funds correspond to cash funds. The Group was at all times able to meet its payment obligations. ADLER AG complied with ancillary agreements in connection with loan agreements (covenants). Furthermore, restricted cash of EUR 18.0 million has been reported under other current assets (2014: EUR 13.7 million). Part of this sum is earmarked for improving the property portfolio.

Loan to Value (LTV)

As well as increasing the volume of investment properties and investments in associated companies, ADLER's intensive acquisition activity also led to a higher volume of financial liabilities. Excluding convertible bonds, the ratio of net financial liabilities to assets adjusted for cash decreased from 68.7 per cent to 68.0 per cent in the year under report.

The average interest charge on all of the ADLER Group's liabilities (WACD = Weighted Average Cost of Debt) also decreased from 4.70 per cent at the end of 2014 to 3.99 per cent at the end of 2015.

in EUR million	31.12.2015	31.12.2014
Convertible bonds	35.6	33.9
Bonds	489.9	144.8
Liabilities to banks	1,616.6	838.9
Cash and cash equivalents	-49.5	-33.1
= Net financial liabilities	**2,092.6**	**984.6**
Assets adjusted for cash	**3,026.7**	**1,383.4**
LTV incl. convertible bond liabilities	69.1 %	71.2 %
LTV excl. convertible bond liabilities	68.0 %	68.7 %

2.5 Net assets

As a result of the Group's strong growth, the group consolidated balance sheet of EUR 1,416.5 million in 2014 showed a marked increase of EUR 1,659.8 million to EUR 3,076.2 million and thus almost doubled in the year under report.

Of this growth, investment properties accounted for a major share of EUR 1,100.0 million, while EUR 352.2 million was attributable to investments in associated companies(here relating almost exclusively to the acquisition of the participating interest in conwert Immobilien Invest SE). At EUR 2,623.5 million, these two asset items account for 85.3 per cent of ADLER's total assets (2014: 82.7 per cent). The increase in investment properties resulted from additions of EUR 1,189.6 million, disposals and reclassifications of EUR 148.4 million and measurement gains of EUR 58.8 million.

Additional properties in the amounts of EUR 158.8 million and EUR 20.1 million have been reported under inventories and assets held for sale respectively. Properties held as inventories are carried at cost rather than fair value.

With the acquisition of WESTGRUND, the goodwill recognized under non-current assets rose from EUR 27.1 million to EUR 130.6 million and accounts for 4.2 per cent of ADLER's total assets (2014: 1.9 per cent). Of the investments of EUR 1,543.6 million made in the financial year under report, the Rental segment accounted for EUR 1,441.3 million. This corresponds to 93.4 per cent of total investments at the ADLER Group. Investments primarily related to investment properties and investments in associates.

Alongside rent receivables of EUR 6.0 million, trade receivables primarily consist of an amount of EUR 10.3 million relating to purchase price receivables for the sale of property and property holding companies. The other current assets of EUR 71.5 million consist of short-term loans of EUR 35.2 million, funds of EUR 9.3 million on notary trust accounts and otherwise of financial funds of EUR 18.0 million that are mostly earmarked for specific purposes.

Group equity totalled EUR 777.9 million and thus more than doubled compared with the previous year. Alongside the total earnings for the financial year under report, this increase was also driven by the capital increase in kind executed in connection with the WESTGRUND takeover and the issue of a mandatory convertible bond structured as equity. Conversions of convertible bonds also played a minor role in this increase. Of a total equity of EUR 777.9 million, EUR 719.4 million were attributable to ADLER shareholders and EUR 58.5 million to minority shareholders of companies controlled by ADLER. The equity ratio amounted to 25.3 per cent at the balance sheet date (2014: 21.9 per cent).

The successfully executed transactions also led the Group's debt to more or less double. Of total debt, EUR 1,980.4 million, or 86.2 per cent, was non-current and EUR 318.0 million, or just 13.8 per cent, involved current debt. The main sources of debt financing are bonds, convertible bonds and bank loans, including promissory note bonds initiated by these banks. Of the non-current debt of EUR 1,980.4 million, EUR 1,368.1 million relates to financial liabilities to banks and EUR 516.6 million to bonds and convertible bonds. Furthermore, an amount of EUR 70.1 million is recognised under non-current debt for deferred tax liabilities.

Net Asset Value (EPRA NAV)

ADLER calculates its net asset value (NAV) in accordance with the guidelines issued by the European Public Real Estate Association (EPRA). ADLER bases this calculation on the equity attributable to its shareholders. EPRA NAV rose by EUR 528.2 million to EUR 879.5 million.

Based on the number of shares outstanding at the balance sheet date plus the shares resulting from the assumed conversion of the mandatory convertible bond, EPRA NAV per share amounted to EUR 15.51 and diluted EPRA NAV per share came to EUR 14.05.

in EUR million	31.12.2015	31.12.2014
Equity[1]	**777.9**	**311.2**
Non-controlling interests	-58.6	-19.8
Equity attributable to ADLER shareholders	**719.4**	**291.4**
Deferred tax liabilities 2)	114.8	48.5
Differences between fair values and carrying amounts of inventory properties	40.6	10.8
Fair value of derivative financial instruments	7.0	1.0
Deferred taxes on derivative financial instruments	-2.3	-0.3
EPRA NAV	**879.5**	**351.3**
Number of shares at balance sheet date (46,103,237; 2014: 31,876,672) plus 10,606,060 shares resulting from assumed conversion of mandatory convertible bond (2014: 0)	56,709,297	31,876,672
EPRA NAV per share	**15.51**	**11.02**
Number of shares at balance sheet date (diluted)[3]	64,051,744	39,370,528
EPRA NAV per share (diluted)	**14.05**	**9.38**

1) Includes the equity share of the mandatory convertible bond amounting to EUR 172.5 million.
2) Unlike in the previous year, deferred tax liabilities have been recognised to the extent that they relate to investment properties; the previous year's figures have been adjusted accordingly.
3) Including the conversion assumed as of the balance sheet date of the mandatory convertible bonds into 10,606,060 shares and the conversion of ADLER's other convertible bonds.

2.6 Overall assessment of the course of business and position of the Group

In view of the acquisitions made, the further development of existing real estate portfolios and the financing secured on a long-term basis, the course of business and position of the Group are to be assessed positively. A foundation has been laid for stable future developments.

3. REPORT ON POST-BALANCE SHEET DATE EVENTS

No events of material significance occurred after the balance sheet date.

4. REPORT ON EXPECTED DEVELOPMENTS

The statements concerning the expected development in key financial figures for the 2016 financial year are based on ADLER Real Estate AG's current planning and for the first time include WESTGRUND AG and Wohnungsbaugesellschaft JADE mbH in Wilhelmshaven, both of which companies were acquired in 2015.

Macroeconomic framework remains stable

In the first months of the new year, the German economy seamlessly latched onto previous year's strong performance, although arduous developments, some of which linked to Germany's key export markets, continue to raise substantial concerns throughout the global economy. In particular, occurrences stemming from the recent turmoil in Chinese markets, low oil prices affecting commodity-rich emerging economies and uncertainty regarding the USA's economic outlook, continue to shape the economic environment.

Notwithstanding the above, most economic research institutes and the Federal Government expect Germany's growth to match last year's levels, ranging between 1.5 per cent and 2.0 per cent, and financial market factors of key relevance to ADLER's operations remain stable. The turnaround in interest rates initiated in December 2015 by the US Federal Reserve does not appear to be having a material impact, as central banks are still called upon to stimulate global economic growth and thereby ensure that interest rates remain low.

As the uncertainties surrounding future developments in the global economy have risen overall, real estate in the Federal Republic of Germany – one of the few European countries with stable economic growth – is expected to remain an attractive investment, which also presents exceptionally favourable grounds for the privatisation of residential units as performed by the group company ACCENTRO.

Current demand trends, which are partly caused by demographic factors and the persistently high influx of refugees, indicate that demand for living space will continue to rise overall, particularly in the market segments in which ADLER predominantly operates. Given the necessary lead-times involved, it is not realistically expected to build sufficient numbers of additional new apartments in the near future, although the construction of affordable housing is now being promoted and subsidised by the Federal Government with a variety of incentives. Existing capacity utilisation rates, and thus occupancy rates, can therefore be expected to increase in 2016. Moreover, the current climate and the continued increase in disposable income is also expected to offer some leeway for rent adjustments.

Overall, companies operating in the real estate sector stand to benefit from favourable conditions enabling them to operate successfully in 2016 as well.

Upholding growth strategy

ADLER will continue to uphold the growth strategy it has pursued to date and namely by expanding through the acquisition of individual portfolios or real estate companies, in 2016 as well. Adler will take full advantage of any circumstance which presents the opportunity to generate value growth and allow for further benefits from economies of scale. This may also include locations in so-called A-cities should suitable opportunities in these markets arise. To date, Adler's portfolio is primarily focused on the edges of metropolitan areas and so-called B-cities. Irrespective of future acquisitions, the company will continue to focus on improving its operating performance on its existing portfolios by reducing vacancy rates, adjusting rents and keeping its expenses in check.

Higher revenues expected from property lettings

Revenues from property lettings, which predominantly comprise rental income, are expected to be significantly higher in 2016 than in 2015, due to the additional rental income from WESTGRUND AG's portfolios which will be included in the income statement for the whole 12-month's period, whereas in 2015 this was only the case in the second half of the year. Furthermore, the overall portfolio has been boosted by acquisition of 2,700 residential units WESTGRUND had notarized at the time of the acquisition, whose rental income will also be accounted for for the first full year in 2016. Finally, the revenues resulting from the takeover of the portfolio in Wilhelmshaven will also be included for the first full-year period.

Additionally, ADLER seeks to exploit existing opportunities to adjust rents in its existing portfolio. Overall, revenues from property lettings can be expected to grow at a low to medium double-digit rate in 2016. As property management expenses are expected to develop in parallel with revenues, earnings from property lettings will most likely increase on a comparable scale. Earnings are also expected to be positively influenced by a further increase in the overall lettings rate. This is mainly due to ADLER stepping up its marketing efforts via its property management companies and demand remaining persistently high in most markets. The lettings rate is expected to rise from its level at the beginning of the year to more than 90 per cent by the end of 2016.

The second key revenue source will be attributable to the disposal of properties. This may include revenues from the regular optimisation of existing property portfolios, or from the Trading segment and the privatisation performed by the group subsidiary ACCENTRO on ADLER's behalf. Given the ongoing positive climate, ADLER expects 2016 revenues to rise in this area as well. Revenue volumes here are difficult to forecast, as disposals are always individual events and unlike rental income do not generate recurring flow of revenues that can be forecasted.

FFO and NAV to increase, LTV to decrease

ADLER expects further improvements in its operating earnings performance and its capital structure in 2016. Based on the current property portfolio, funds from operations (FFO I) will – according to current planning – exceed the 2015 figure in 2016. The increase should be in the mid-double-digit per centage range. The FFO II will be unaffected by large portfolio sales remaining around the same level as previous year.

In 2016, ADLER will once again be pursuing the objective of optimising the costs of financing its real estate portfolio and further reducing its average interest charge (WACD), which amounted to 3.99 per cent at the end of 2015. In terms of its financing structure, ADLER expects to see a further improvement in the ratio between its liabilities and the value of its real estate (loan-to-value). ADLER has set itself the target of reducing its loan-to-value (LTV) significantly by the end of 2016.

ADLER's value-driven actions, its anticipated improvement in earnings and the value growth of its residential properties in a market climate characterised by rising rents can also be expected to result in an improvement in the Group's net asset value (NAV). Here, growth in a medium single-digit to low double-digit per centage range would realistically be achievable.

Previous year's forecasts met

The forecasts for 2015 that were laid down in the 2014 Annual Report have been considerably attained. ADLER has expanded vigorously through its acquisitions, thereby improving all significant revenue figures. The occupancy rate has increased, but has not yet exceeded the threshold of 90 per cent as originally expected. The balance sheet structure, as expected, has improved and at the end of 2015 the LTV (Loan To Value) was 68 per cent (previous year: 68.7 per cent). The average interest on liabilities is 3.99 per cent as at end 2015, which is significantly better than the at end of 2014 (4.7 per cent) but still marginally above the 2014 prediction (3.9 per cent). In contrast, however, operating earnings (FFO I and FFO II) have increased considerably. Overall, the forecasts at that time provided an accurate picture of future performance.

5. ADDITIONAL STATUTORY DISCLOSURES

5.1 Supplementary disclosures pursuant to § 289 (4) and § 315 (4) of the German Commercial Code (HGB)

Composition of subscribed capital

The fully paid-up share capital of ADLER Real Estate AG amounted to EUR 46.103 thousand as of 31 December 2015 (previous year: EUR 31.877 thousand) and is divided into 46,103,237 (previous year: 31,876,672) no-par bearer shares with the same voting rights. All shares confer the same rights. Each share grants one vote and determines the bearer's interest in the company's net profit.

Restrictions on voting rights and transfers of shares

No restrictions have been agreed in respect of voting rights or transfers of shares.

Direct or indirect voting rights exceeding 10 per cent

The company is aware of the following direct or indirect equity interests accounting for more than 10 per cent of voting rights at the end of 2015:

An equity interest held by Mezzanine IX Investors S.A., Luxembourg, Grand Duchy of Luxembourg, consisting of 10,042,918 voting rights in total. Taking into account the total of at least 9,404,339 attributable voting rights, this constituted a 21.78 per cent share of subscribed capital at the balance sheet date.

The voting rights held by Fortitudo Capital SPC, Cayman Islands, which in turn holds a 13.80% share of the voting rights, are attributable to Mezzanine IX Investors S.A.

An equity interest held by Mr. Klaus Wecken, Basle, Switzerland, consisting of 10,630,419 voting rights in total. Taking into account the total of 5,230,419 attributable voting rights, this constituted a 23.06% share of subscribed capital at the balance sheet date.

The voting rights held by Wecken & Cie, Basel , Switzerland, which in turn holds an 11.35% share of the voting rights, are attributable to Mr. Klaus Wecken.

Shares with special rights granting powers of control

There are no shares in the company with special rights granting powers of control.

Type of voting right control for employee shareholdings

In the same manner as the other shareholders, employees with an interest in the share capital of ADLER AG exercise their rights of control in accordance with statutory provisions and the Articles of Association. There is no indirect voting right control

Powers of the Management Board to issue and buy back shares

AUTHORISATION TO ACQUIRE TREASURY SHARES

The resolution dated 15 October 2015, taken at the Extraordinary General Meeting of ADLER Real Estate AG authorised the company's Management Board to acquire and dispose of treasury stock and to use the treasury stock thereby acquired to the exclusion of shareholders' subscription rights until 14 October 2020. The shares acquired on the basis of this resolution may also be retired. The full wording of the resolution is presented in the invitation to the General Meeting published in the electronic Federal Official Gazette on 8 September 2015.

The company did not hold any treasury stock in the 2015 financial year.

AUTHORISED CAPITAL 2013/II

By resolution of the Annual General Meeting on 15 October 2013, the Management Board was authorised until 14 October 2018, subject to approval by the Supervisory Board, to increase the company's share capital on one or more occasions by a total of up to EUR 8,250,000 in exchange for cash and/or non-cash contributions by issuing up to 8,250,000 new no-par bearer shares with the possibility of excluding shareholders' subscription rights.

AUTHORISED CAPITAL 2015/I

The company's Annual General Meeting on 22 May 2015 resolved the creation of further authorised capital. Upon the entry of Authorised Capital 2015/I in the Commercial Register on 26 June 2015, the Management Board was authorised, subject to approval by the Supervisory Board, to increase the company's share capital by a total of up to EUR 13.300 thousand by issuing new no-par bearer shares in return for cash and/or non-cash contributions on one or several occasions up to and including 21 May 2020.

AUTHORISED CAPITAL 2015/II

The Extraordinary General Meeting of the company on 15 October 2015 resolved the creation of further authorised capital. Upon the entry of Authorised Capital 2015/II in the Commercial Register on 25 November 2015, the Management Board was authorised, subject to approval by the Supervisory Board, to increase the company's share capital by a total of up to EUR 1.400 thousand by issuing new no-par bearer shares in return for cash and/or non-cash contributions on one or several occasions up to and including 14 October 2020.

CONDITIONAL CAPITAL 2012/I

As a result of the resolution adopted at the Annual General Meeting on 28 June 2012, supplemented by a resolution of the Extraordinary General Meeting on 15 October 2013, the company has Conditional Capital 2012/I amounting to EUR 8.250 thousand.

The supplement to the original resolution was entered in the Commercial Register on 22 October 2013.

In accordance with the terms and conditions of the respective warrant and/or convertible bonds, the conditional capital increase serves to issue shares to bearers of warrant and/or convertible bonds furnished with warrant and/or conversion obligations. The conditional capital increase is only executed to the extent that the bearers of warrant and/or convertible bonds draw on their option and/or conversion rights or that the bearers of warrant and/or convertible bonds obliged to exercise their warrant or conversion rights meet their obligation to do so, to the extent that the warrant and/or conversion rights are not satisfied by granting treasury stock and that other forms are not drawn on to satisfy such rights. From the beginning of the financial year in which they are issued, the new shares enjoy dividend entitlement for all financial years for which the Annual General Meeting has not yet adopted any resolutions concerning the appropriation of profit.

Following the exercising of conversion rights in connection with the 2013/2017 Convertible Bond issued on 14 June 2013 (EUR 10 million) and the exercising of conversion rights in connection with the 2013/2018 Convertible Bond issued on 17 December 2013 (EUR 11.25 million), Conditional Capital 2012/I amounted to EUR 7.592 thousand at the balance sheet date.

CONDITIONAL CAPITAL 2015/I

As a result of the resolution adopted at the Annual General Meeting on 22 May 2015, amended by a resolution of the Extraordinary General Meeting on 15 October 2015, the company has Conditional Capital 2015/I amounting to EUR 4,000 thousand.

The resolution adopted by the Extraordinary General Meeting on 15 October 2015 concerning the reduction in Conditional Capital 2015/I from EUR 7,600 thousand to EUR 4,000 thousand was entered in the Commercial Register on 25 November 2015.

The conditional capital increase serves exclusively to grant shares to bearers of warrant and/or convertible bonds issued up to and including 21 May 2020 on the basis of the authorisation granted by the Annual General Meeting on 22 May 2015. Consistent with the terms and conditions of the warrant and/or convertible bonds, the capital increase also serves to issue shares to bearers of warrant and/or convertible bonds furnished with warrant and/or conversion obligations. The conditional capital increase is only executed to the extent that the bearers of warrant and/or convertible bonds draw on their option and/or conversion rights or that the bearers of warrant and/or convertible bonds obliged to exercise their warrant or conversion rights meet their obligation to do so, to the extent that the warrant and/or conversion rights are not satisfied by granting treasury stock and that other forms are not drawn on to satisfy such rights. From the beginning of the financial year in which they are issued, the new shares enjoy dividend entitlement for all financial years for which the Annual General Meeting has not yet adopted any resolutions concerning the appropriation of profit.

CONDITIONAL CAPITAL 2015/II

As a result of the resolution adopted at the Extraordinary General Meeting on 15 October 2015, the company has Conditional Capital 2015/II amounting to EUR 10.606 thousand. The resolution adopted at the Extraordinary General Meeting on 15 October 2015 concerning the creation of Conditional Capital 2015/II was entered in the Commercial Register on 25 November 2015.

The conditional capital increase serves exclusively to grant shares to the holders of the EUR 175 million mandatory convertible bonds that were issued to part finance the acquisition of MountainPeak Trading Limited on 28 December 2015.

The conditional capital increase is only executed to the extent that the bearers of the EUR 175 million mandatory convertible bonds draw on their conversion rights or meet their conversion obligation. The new shares enjoy dividend entitlement from the beginning of the financial year in which they are issued.

Authorisation to issue warrant and or convertible bonds

2013 AUTHORISATION

By resolution dated 15 October 2013, the Annual General Meeting of the company authorised the Management Board, subject to approval by the Supervisory Board, to issue on one or more occasions up to and including 27 June 2017 bearer or registered warrant and/or convertible bonds with a total nominal amount of up to EUR 100.000 thousand with a maximum term of ten years and to grant to the bearers of warrant and/or convertible bonds warrant and/or option rights to a total of up to 8,250,000 new no-par bearer shares in the company in accordance with the more detailed terms and conditions of the warrant or convertible bonds.

Shareholders are basically entitled to subscription rights to the warrant or convertible bonds. The Management Board is nevertheless authorised, subject to approval by the Supervisory Board, to exclude shareholders' entitlement to subscribe warrant or convertible bonds in specific cases. The Management Board is authorised to stipulate all further details relating to the issue and furnishing of warrant and convertible bonds and their specific terms and conditions.

2015 AUTHORISATION

By resolution dated 22 May 2015, the Annual General Meeting of the company authorised the Management Board, subject to approval by the Supervisory Board, to issue on one or more occasions up to and including 21 May 2020 bearer or registered warrant and/or convertible bonds with a total nominal amount of up to EUR 250.000 thousend with a maximum term of ten years and to grant to the bearers of warrant and/or convertible bonds warrant and/or option rights to a total of up to 7,600,000 new no-par bearer shares in the company in accordance with the more detailed terms and conditions of the warrant or convertible bonds.

Shareholders are basically entitled to subscription rights to the warrant or convertible bonds. The Management Board is nevertheless authorised, subject to approval by the Supervisory Board, to exclude shareholders' entitlement to subscribe warrant or convertible bonds in specific cases. The Management Board is authorised to stipulate all further details resulting to the issue and furnishing of warrant and convertible bonds and their specific terms and conditions.

Other disclosures

Pursuant to § 179 (1) of the German Stock Corporation Act (AktG), amendments to the Articles of Association require a resolution by the Annual General Meeting that is adopted by more than three quarters of the share capital represented at the vote unless stipulated otherwise by the Articles of Association.

The appointment and dismissal of Management Board members is based on § 76 et seq. AktG. Accordingly, Management Board members are appointed by the Supervisory Board for a maximum term of five years. Repeated terms in office, or extensions in terms in office, in each case by five years, are permitted. In addition, § 7 of the Articles of Association stipulate that the number of Management Board members is determined by the Supervisory Board and that the Management Board consists of one or more persons.

It should also be pointed out that it was agreed with the corporate and convertible bond creditors that they are entitled to demand premature redemption on the conditions set out in the terms of the respective bonds in the event of any potential change of control as a result of a takeover bid. The convertible bonds may also be converted at an adjusted conversion price set out in the terms of the bonds.

5.2 Basic features of compensation system

Management Board compensation

The overall structure and amount of Management Board compensation are determined by the Supervisory Board of ADLER Real Estate AG and reviewed at regular intervals. Management Board compensation comprises a non-performance-related fixed annual salary that is paid in equal monthly instalments and non-cash benefits in the form of the provision of a company car and the reimbursement of health and nursing care insurance. Furthermore, Management Board members are also reimbursed for any suitably documented outlays incurred in performing their duties.

Moreover, Management Board members receive voluntary annual special compensation (bonus) for each financial year during the term of their employment contracts. The level of this bonus is determined by the Supervisory Board. The corresponding decision by the Supervisory Board is based on the company's financial situation, its success in the past financial year and the contribution made by the individual Management Board member. In addition, the Supervisory Board may grant further suitable special compensation to Management Board members in accordance with the aforementioned criteria to the extent that this is justified by the company's overall economic position.

Furthermore, in the 2015 financial year ADLER Real Estate AG introduced a stock appreciation right programme ("SAR programme") aimed at retaining the beneficiaries at the company and enabling them to participate in the company's value growth. The stock appreciation rights entitle the beneficiaries to receive compensation whose amount is dependent on the share price performance of ADLER Real Estate AG. Further details about the structure of the SAR programme and the valuation of these rights can be found in the notes under Note 9.5 "Personnel expenses".

The insurance premiums for the liability insurance concluded by ADLER Real Estate AG to cover the activities of the Management Board (D&O insurance) are paid by the company.

Supervisory Board compensation

The Extraordinary General Meeting held by the company on 15 October 2015 adopted a resolution determining that, alongside the reimbursement of his or her expenses, each member of the Supervisory Board should receive fixed annual compensation, the amount of which should be determined by the Annual General Meeting. The Annual General Meeting will decide on the amount of Supervisory Board compensation for the first time for the financial year ending on 31 December 2016. This compensation can then be paid in quarterly instalments.

Alongside the reimbursement of his or her expenses, each Supervisory Board member currently receives compensation of EUR 40 thousand. The Chairman receives EUR 80 thousand and his Deputy receives EUR 60 thousand.

In addition to their respective annual compensation, Supervisory Board members are also reimbursed for expenses incurred in this regard. Should their compensation and reimbursement of expenses be subject to VAT, then this is also reimbursed by the company in cases where this can be separately invoiced by the Supervisory Board member. Furthermore, the company pays the insurance premiums for the liability insurance taken out to cover the activities of its Supervisory Board members (D&O insurance).

5.3 Corporate governance declaration pursuant to § 289a HGB

The corporate governance declaration is published annually in the Investor Relations/Corporate Governance section of the company's website and can be found at the following URL:

http://www.adler-ag.com/erklaerung-nach-289-a-hgb.html

5.4 Closing statement by Management Board on dependent company report

The report compiled on the relationships of the Management Board to affiliated companies pursuant to § 312 AktG (dependent company report) includes the following closing statement by the Management Board:

"Our company received adequate consideration for all of the transactions listed in the dependent company report and was not disadvantaged by measures taken or not taken."

This assessment is based on the circumstances known to us at the time of the transactions requiring disclosure.

6. REPORT ON OPPORTUNITIES AND RISKS

6.1. Report on Opportunities

6.1.1 Macroeconomic and industry-specific opportunities

ADLER Group strengthened and expanded its market position considerably in the past financial year by acquiring additional portfolios in order to meet the growing demand for affordable housing. The German residential property market is still predominantly on an upward trend and demand for housing is being fuelled by growing levels of income coupled with high and increasing levels of employment.

Other than presenting extensive challenges the persistently high inflow of refugees offers a great opportunity for the German housing industry. In particular, it's anticipated that demand for housing of the quality offered by the ADLER Group will increase, elevating occupancy rates thus effectively increasing portfolio profitability. To ensure a well-ordered response to these challenges, ADLER relies on a close cooperation with local authorities and social services as well as the commitment of on-site managers.

By virtue of the continuing low interest rates and subsequent poor returns on alternative capital investments, property investment opportunities remain attractive. This provides favourable opportunities for ADLER subsidiary ACCENTRO Real Estate AG's business model, which focuses on the sale of apartments to owner-occupiers or investors ("privatisation").

6.1.2 Opportunities of Business Activities

Thanks to its acquisitions in the past financial year, ADLER has reached a critical mass that allows it to conclude master agreements with national telecommunications and utility providers in order to generate economies of scale in contrast to its regional competitors. The associated favourable developments in terms of operating costs relieve the pressure on tenants, thereby making living in an ADLER apartment even more attractive.

The acquisition of Wohnungsbaugesellschaft Jade mbH, Wilhelmshaven, and its subsidiaries including the existing investment in WBG GmbH, Helmstedt has opened up the possibility of further utilising their local Facility and Property Management services for ADLER's own units. This way, ADLER can release itself from external Facility and Property Management companies and supervise its own properties through "insourcing", resulting in significant opportunities to expand the company's own business.

In the reporting period, ADLER had already begun to focus its own administrative resources on the Group's own individual Property Management companies so as to achieve efficiency gains.

6.1.3 Financial Opportunities

Interest rates on the relevant capital markets for ADLER remain unchanged and at a low level. Although a slight increase in 2016 cannot be excluded, it is generally expected that the central banks, particularly the European Central Bank, will maintain their low interest rate policy, which grants ADLER the opportunity to reduce the average interest rates on loans and thus its financing costs by refinancing bonds with higher interest rates.

Through its recent acquisitions and mergers, ADLER has attained substantial significance and with it the ability to enable medium and long-term refinancing of bonds at lower interest rates.

Further acquisitions may also bring new capital requirements themselves. ADLER continues to meet the requirements of the Prime Standard of the Frankfurt Stock Exchange and the company is at the highest transparency level for listed companies. Shares in ADLER Real Estate AG have been listed on the SDAX since 22 June 2015. Running in parallel to this, visibility and perception have increased in line with the new company size resulting in significant opportunities to gain easier access to the equity market in future.

6.1.4 Organisational structure opportunities

As part of its on-going corporate growth strategy on the 1st of January 2016 ADLER expanded the Board with the addition of Mr Arndt Krienen who will lead the company in conjunction with Mr Axel Harloff, Chairman of the Board.

6.2 Risk Report

6.2.1 Risk Management

ADLER continuously looks for growth opportunities that may arise. Leveraging on these opportunities sometimes involves taking measured risks.

As a result of the rapid growth during the fiscal year 2014 and 2015, ADLER realigned itself both structurally and organisationally to reflect the Group's new size. This required an adjustment and further development of the Group-wide risk management system, including compliance. The suitability and effectiveness of the risk management systems are checked at regular intervals at Board level, where they are refined and adjusted to suit the company's structure accordingly.

Risk management applies to all organisational aspects and related activities and is aimed at implementing a recurring, systematic company-wide risk management pro-cess. The Board Staff coordinates the 'central risk management', which identifies, analyses, manages and monitors potential risks. A designated person is assigned to each risk (Risk Owner). A risk inventory and assessment is held at quarterly intervals by risk owners, or in certain cases on an ad hoc basis, in order to respond appropriately to existing risks through preventative measures (risk management and control). The Board is regularly kept up-to-date by the central risk management on the overall risk assessment of the Group. These findings are reported to the Supervisory Board at the quarterly Board meetings.

The Group's risk management system aims at ensuring the Company complies with all legal requirements, the safeguarding of ADLER's long-term existence, the mapping of different risk scenarios in order to assess future developments and the potential implications in regards to corporate and risk objectives. Furthermore it monitors compliance in relation to the corporate strategy controlling in the form of adopting appropriate and necessary measures accordingly, in order to maintain the desired risk/reward ratio.

The risk strategy is derived by ADLER's Management Board on the basis of the corporate strategy and prescribes the general risk objectives and the measures for their achievement. The risk strategy is described in greater detail by the risk objectives in order to realise an appropriate risk/reward ratio and to ensure the Group's risk-bearing capacity. The risk strategy is embodied in the principles of the risk policy and secured by way of the risk management process.

Companies newly acquired by ADLER such as WESTGRUND, must comply with statutory obligations by continuing their recent risk management processes. However, they are obliged to report regularly to the central risk management of the Group.

Risk management processes will be monitored in the form of both separate internal and external reviews.

A comprehensive risk catalogue and a risk map identifying all of the material risks and compliance risks to which ADLER is or could be exposed to exists, and which are regularly updated. Similarly, the risk and compliance management system as described in a guideline is updated annually and when otherwise required.

Certain risks to the Group are mitigated to possible extent by way of specific insurance cover and in line with market standards. The adequacy of this insurance cover is regularly reviewed.

6.2.2 Risk Classification

ADLER measures risk using a points-based scoring model in the form of a qualitative rating system. The scoring model allows for the assessment and weighting of individual risks of ADLER's real estate portfolios as well as other risks. This method aims to evaluate a given situation based on different criteria. The result of the points based system is a score, which allows assignment to a scale that is based on a defined target value. The score is derived from an average of the risk rating classifications and their likelihood of occurrence.

Threshold values or risk classes are used to determine the major risks faced by ADLER. The risk management system categorises several risks by classes in which the goals of individual aspects can be specifically measured. For example the risk matrix contains those risks that need to be reported and those which may require immediate action.

6.2.3 Accounting-based Internal Control System

Definition and Elements of the Internal Control and Risk Management System

ADLER's accounting-related internal control system comprises all principles, procedures and measures required to ensure the profitability, reliability and accuracy of accounting, together with compliance with the relevant legal regulations in order to give a true and fair representation of the company within the bounds of external reporting. The internal control system at ADLER consists of internal management and monitoring. The internal control system has been complemented by the introduction of an internal audit.

Process-integrated and process-independent monitoring measures are essential features of the internal monitoring system at ADLER. In addition to organisational process controls (e.g. "Two-man rule"), automated IT processes are a vital part of the process-integrated measures. Furthermore, the Group guidelines provide instructions and accounting rules to ensure the corresponding provisions are adopted across ADLER.

The Supervisory Board, the Group auditor and other monitoring bodies (e.g. tax auditors and compliance auditors) are included in the process-related audit options and activities of the internal monitoring system of ADLER. The audit of the consolidated financial statements by the auditors or consolidated financial statement audit, in particular, are the main process-independent monitoring measures.

A record of accounting transactions is carried out both centrally and locally with well-respected and commercially available accounting systems. Sub-ledgers for the properties are carried out locally by certified property manager software systems. Consolidated financial statements are created with the "LucaNet" system.

The preparation of annual and consolidated financial statements as well as the management report and the consolidated management reports are the responsibility of the Board. This includes the establishment and maintenance of an internal accounting control and risk management system.

Legal and supervisory activities at ADLER aim to ensure the correctness and reliability of financial reporting. Of particular note here is the selective separation of various functions in the accounting processes for example the administrative, executive, accounting and approval functions. All available resources are employed to ensure the appropriate recognition, valuation and disclosure of assets and liabilities in the financial statements. Legal and supervisory activities also aim to provide reliable and transparent information based on the accounting records.

Organisational measures are aimed at initiating prompt company or group-wide changes in accounting. The internal control system also ensures that the depiction of changes in the economic or legal environment of ADLER Real Estate AG and the ADLER Group together with new or amended legal provisions related to accounting are applied.

In preparing the consolidated financial statements of ADLER Group, the subsidiaries supplement their individual accounts through further information relating to the reporting packages. All figures and data are checked by the control monitors at ADLER level and evaluated for management information. At Group level, specific control activities to ensure the accuracy and reliability of Group accounting include analysing and, if necessary, the correction of financial statements prepared by the Group companies. Control and plausibility checks in the "LucaNet" consolidation system are in place for this reason.

Reporting packages of the subsidiaries are incorporated in the Group accounting consolidation system "LucaNet", which has been certified by independent auditors. All consolidation entries of ADLER are made and documented here.

6.2.4 Layout of Individual Risks

The ADLER Group is exposed to a range of different risks that could have an adverse effect on the net assets financial position and results from operations as well as the continued economic development of the Group, either individually or in aggregate. The risks to which the ADLER Group is exposed encompass general risks that apply to all companies and, in particular, property-specific risks and financial risks relating to the financing of the Group's property portfolios. The dynamic development of the ADLER Group, which is reflected in the acquisition of several property portfolios in the 2014 and 2015 financial years as well as the acquisition of a majority interest in ACCENTRO, WESTGRUND and other investments, is accompanied by risks in connection with the acquisition of properties and property companies. The risks associated with integration and and that of the acquisitions are discussed separately.

(1) Macroeconomic and industry-specific Risks (Market Risks)

The ADLER Group's core business consists of the acquisition and management of residential properties in Germany and trading in residential property. The economic success of the ADLER Group has a correlation to the development of the German real estate market as well as the ability to adapt independently to this development. The market, in turn, depends on the overall economic performance of the country as well as the demand for real estate and rental space. A negative development of the economic performance of the country could, therefore, have a negative impact on the operations of the ADLER Group.

Macroeconomic factors affecting Germany include Europe's specific economic performance and the Global economy, the price of raw materials, the inflation rate, public debt levels, fluctuations in exchange rates, in particular the exchange rate between the Euro and the US Dollar and interest rates.

Demand for property is affected by a variety of relevant risk factors. These include demographic trends, interest rates and financing conditions, job market trends, the level of private debt of potential buyers and the development of individual disposable incomes. The influx of refugees into Germany has for example had a decisive influence on the demand for real estate. Coupled with this, the legal or fiscal framework is an important factor affecting it. Negative developments in this regard could affect new rentals and vacancies in real estate held by ADLER, which in turn could adversely affect the business performance.

The current environment of low interest rates leads to relatively high valuations of residential real estate portfolios in Germany. A rise in interest rates or deterioration in economic conditions could have a detrimental effect on the German property market and the ADLER Group.

The above-mentioned market risks, the business environment and the competition within the market are constantly monitored and analysed. This includes general trends in housing needs and facilities as well as price and quality. The regional distribution of the portfolios and their resilience to the changing conditions means that the risks from market fluctuations are reduced.

(2) Strategic Risks

Risks may arise from the fact that strategic objectives can be set too high. The implementation of the strategy to acquire residential property portfolios located throughout Germany on attractive terms, integrating these properties and selling them at higher prices could become increasingly difficult for ADLER in the future or may be achieved at less favourable terms. Extensive strategic risk management and early risk disclosure make it possible to control the strategic risks to which ADLER is exposed.

(3) Financial Risks

The ADLER Group is exposed to increased financial risk as a result of the company's growth and consequent increase in the volume of various forms of financing. To meet the challenges of these increased risks, ADLER has positioned its staff properly in the area of financing and is establishing a Group-wide treasury system and is increasingly also focusing its risk management activities on the area of financial risk.

The primary objective in this regard is to ensure ADLER Group's ability to meet its payment and capital service obligations. Another major financial risk is ADLER Group's refinancing risk. This describes the risk that ADLER will be unable to refinance it's debt at the maturities of the current secured loan facilities, issued bonds and convertible bonds, or that the interest rates required are to high to be serviced by cash flow from operations.

Accordingly, ADLER focuses in particular on the following material financial risks:

FINANCIAL COVENANTS

In the case of an infringement of obligations by the ADLER Group companies of loan agreements and bonds (financial covenants), the loans or bonds could be prematurely redeemed or terminated, in which case ADLER would be unable to borrow at short notice. The financial covenants are monitored as part of the risk management system at regular intervals and on an ad hoc basis. As part of the recent bank reporting, credit institutions will be informed of the financial indicators. In addition, there will be internal control as part of risk assessment.

INTEREST RATE RISK

The ADLER Group is subject to interest rate risk solely in the euro zone. Interest rate risk is divided into market value interest rate risk and cash flow interest rate risk. Market value interest rate risk, i.e. the potential change in the fair value of a financial instrument due to changes in market interest rates, applies to fixed-income medium-term and long-term receivables and liabilities.

ADLER uses debt and equity capital to finance its business activities. The interest rates for (property) loans in Germany are currently at an extremely low level. Accordingly, a general rise in interest rates would increase ADLER's financing costs and hence reduce the overall profitability of the company. An increase in interest rates could also make it more difficult to sell the properties held as current assets as buyers would be exposed to higher financing costs.

MARKET PRICE RISK

Market price risk describes changes in the value of a financial instrument due to fluctuations in market prices. As far as equity interests held by the Group are not listed shares in GmbHs (limited liability companies under German law) that are carried at cost, the Group is not exposed to a direct market price risk. For equity investments in listed companies, there is a risk of impairment if the fair value falls significant or permanently below cost.

COUNTERPARTY DEFAULT RISK

Counterparty default risk describes the risk that contractual partners will be unable to meet their contractual payment obligations. The maximum default risk is the carrying amounts of the primary and derivative financial assets and the financial guarantees issued. Rules for action are in place to ensure that transactions are only conducted with counterparties that have displayed adequate payment behaviour in the past.

The receivables management firm Magnus Inkasso GmbH, which is a subsidiary of ADLER Real Estate AG, actively and promptly pursues payment defaults.

LIQUIDITY RISK

Liquidity risk relates to the inability to meet financial obligations and a resulting increase in refinancing costs. ADLER primarily generates its cash inflows from the net rents for the acquired property portfolios and the sale of properties that no longer form part of its core business. For this reason, cautious liquidity management (in future: Group-wide treasury) includes maintaining a sufficient reserve of cash and cash equivalents, the ability to obtain financing in the form of an adequate volume of approved credit facilities, and the ability to issue bonds or other securities on the market. Liquidity management at the ADLER Group is performed via Group-wide cash management (treasury). The aim of liquidity management is to ensure that the Group is able to meet its payment obligations at all times by maintaining a sufficient volume of liquidity reserves.

(4) Financing Risks

ADLER, as a predominantly debt-financed real estate company, sees itself exposed to financial risks. Restrictive lending policies of banks or a negative development in the capital market would significantly affect the business of ADLER, but are not currently anticipated. However, for this reason ADLER cooperates with several banks and private investors in order to counteract this risk. The Group also uses various financing options on the capital market.

Contracts for derivative financial instruments and financial transactions are only concluded with financial institutions with high credit ratings. The Group operates a policy that limits the credit risk with respect to individual financial institutions, and presents no significant concentrations of credit risk.

(5) Property Acquisition Risks (Investment Risks)

The economic success of the ADLER Group depends to a large extent on the selection and acquisition of suitable properties for its portfolio of rented apartments or for sale to owner-occupiers or investors (privatisation via ACCENTRO AG). When acquiring property there is the potential risk that ADLER has over-estimated the value of the acquisition and paid too high a price for it. Accordingly, investment risk encompasses the risk that construction, legal, economic or other burdens affecting the properties to be acquired may be incorrectly assessed and/or not recognised. Assumptions relating to the earnings potential of the properties may subsequently prove to be partially or wholly incorrect. Assumptions concerning the location benefits of the apartments may also prove to be inaccurate. These acquisition risks are countered by way of the detailed examination of the properties concerned. Due diligence is performed in order to identify the expected renovation, maintenance and modernisation requirements and compare them with the expected capital service calculations, for example.

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(6) Property-specific and project-specific Risks (Economic Performance Risks)

Property risks are the risks arising at the level of the individual properties or the property portfolio or due to the location of the properties. In particular, property-specific factors include maintenance failures, structural damage, insufficient fire protection and damage caused by tenants. Risks may also arise due to site contamination including the soil composition or due to hazardous substances in the construction materials and as a result of breaches of construction law requirements and conditions. At a portfolio level, lettability may be adversely affected by the risk of a concentration of portfolio properties requiring substantial maintenance and renovation costs, for example. Project-specific risks may arise from changes to zoning plans or more stringent requirements or the withholding of planning permission. The failure or a reduction of rental income and higher vacancy rates could adversely affect the revenues, income or portfolio evaluation of ADLER.

The residential property performance depends on the general development of the property market together with the general economic situation and certain land-related factors. In a negative development of the real estate market or the general economic situation, there is a risk that the valuation estimates made by ADLER would have to be corrected for inclusion in the ADLER Group's real estate portfolio.

(7) Property Disposal Risks (Divestment, Selling and Marketing Risks)

The business expansion of ADLER as a result of the acquisition of Accentro Real Estate AG in 2014 with regard to the privatization of and trade in real estate could lead to further financial risks for ADLER. In particular, a sale of real estate, from ADLER's perspective, could take place under unfavourable conditions. Risks may also arise from breaches of information requirements, misstatements, guarantees and statutory liability issues (particularly relating to site contamination). In this case, risks may also arise following the sale of a property in the form of claims for damages.

(8) Information Technology (IT) Risks

Disruptions, failures and manipulation of ADLER's IT systems and unauthorized access to corporate IT could significantly affect the ADLER's business operations. In particular, the strong growth of ADLER in 2014 and 2015 required conceptual adaptations to the IT infrastructure, especially in the field of IT security. Against this backdrop, in fiscal 2015 an internal IT department was established and new staff were employed as a consequence. External audits were carried out for vulnerability detection. The recommended measures of the external service provider were tested and in part implemented. The ADLER Group has substantially outsourced IT applications to external service companies. An IT risk exists to the extent that the service provider cannot ensure timely, error-free or uninterrupted IT support. To counter this risk, ADLER has integrated functional operating, maintenance and administration contracts with the external IT service provider, compliance with which is constantly monitored in monthly reports.

(9) Company-specific Risks

Material company-specific risks include management and organisational risks, information risks, compliance risks, personnel risks, and legal risks.

MANAGEMENT AND ORGANISATIONAL RISKS

ADLER has a lean management structure, which may be considered to be too small and unable to respond appropriately or in a timely manner to short term, upcoming projects or business interruptions. Therefore, as of 1st of January 2016, ADLER expanded the Management Board to include Mr Arndt Krienen, thereby resolving the previous key personnel risk of only having a sole director.

The quality of the company's management is also a decisive factor in the success of its business activities, and hence of the individual properties. For example, the level of rental income, (non-allocable) management costs and financing conditions are also influenced by the quality of management.

COMPLIANCE RISKS

Compliance risks primarily result from violations by management, senior employees and other employees who fail to comply with legislation and/or internal guidelines, resulting in damage to ADLER.

As part of its risk management system, ADLER has developed its compliance management system further in order to reflect the size and complexity of the ADLER Group.

ADLER applies its compliance management system in order to ensure adequate risk assessment. These standards require that risks are identified, documented, and evaluated by the compliance officers in terms of their content and likelihood of occurrence. The implementation of the corresponding responsibilities is based on ADLER's functional areas: Supervisory Board, Management Board, Executive Committee, Office of the Management Board, Service, Portfolio and Privatisation. Compliance risks are also managed in the areas of investment, divestment, money laundering, data protection, and general operating risks. Specific risks may arise in each of these individual areas.

Compliance risks are counteracted using a compliance management system that is partially integrated into the risk management system. The core elements of the compliance management system are the compliance culture, the compliance objectives, the compliance organisation, compliance risks, the compliance programme, and the provisions on dealing with compliance violations and compliance communication.

The compliance management system is implemented by way of the compliance guideline, compliance training, compliance audits and a quarterly compliance reporting to the management bodies. A central compliance office has been established for this purpose.

PERSONNEL RISKS

The ADLER Group's employees play an important role in its economic success. They provide their knowledge, skills and expertise on behalf of the Group. Personnel risks are varied. A distinction is made between risks arising when employees are appointed, during their current employment relationship and when they leave the company. As part of its rapid growth, ADLER is exposed in particular to the risk of adequate recruitment, maintaining employment relationships and ensuring a balanced personnel structure.

ADLER counteracts these risks with financial and non-monetary incentives. In addition, the education and training of employees is an important possible measure.

LEGAL RISKS

Legal risks may arise in the areas of capital market law, company law and real estate law in particular. ADLER has made appointments to strengthen its workforce in the area of legal matters and in order to avoid legal risks.

Legal risks can lead to financial losses. They may arise from a failure to comply with legal provisions or a failure to implement new or amended legislation, for example.

ADLER may accrue financial expenses in the course of proceedings, which are not or not fully covered by provisions and insurance.

There is also a risk of loss due to the inadequate or non-existent reconciliation of business processes with a contractual partner or wording, content or conditions that are disadvantageous to the Group. When concluding asset management, property management and facility management agreements, particular attention should be paid to ensuring that the content of the agreed performance is complete and does not overlap. There is also a general risk of using ineffective clauses when concluding an agreement, thereby incurring increased costs as a result (e. g. transfer of liability risk).

Public law risks relate to provisions, legislation and conditions concerning property ownership and management. This may involve listed buildings, climate and environmental protection or, for example, plans aimed at capping rent, which could lead to additional obligations and costs for the property owner. On 1st of June 2015, the introduction of a rent cap came into force. This law stipulates that, when a new tenancy is concluded in the strained housing market, the new rent may be no more than ten per cent above the level that is typical for the respective area. This creates a risk of limited potential for rental growth when concluding new tenancy agreements.

As a result of changes in the general tax environment in Germany, the ADLER Group's tax burden could increase.

(10) General Acquisition and Integration Risks

In the fiscal year 2015 ADLER continued its vigorous expansion, almost doubling its housing stock since the end of the last year, through two major transactions. Secured back in October 2014, the first step marked completion of the majority interest in the Jade mbH housing association in Wilhelmshaven, together with its subsidiaries, in the field of property and facility management. The second step marked the majority takeover of WESTGRUND AG, Berlin. In addition, in the third quarter 2015 ADLER acquired all shares of Mountain Peak Trading Limited, Nicosia, Cyprus, which in turn held approximately 24.8 per cent of shares in conwert Immobilien Invest SE, Vienna, Austria, at the time of acquisition. In addition to these transactions, 2014 saw the takeover of a majority shareholding in ACCENTO Real Estate AG.

Risks can arise from recent or forthcoming mergers. To counter these risks, the Management Board gathers all the necessary analyses and advice in each individual case in order to gain a comprehensive picture of the target company and to get all the information needed for the decision-making process.

ADLER's acquisitions follow a clearly defined integration process. ADLER expects to achieve substantial synergies and cost savings due to these acquisitions. However, it cannot be ruled out that certain effects may occur at a later date or not to the extent expected. The integration of new portfolios also requires an adjustment of the administration, the management, the corporate culture and the workforce as well as structures and processes, including the necessary IT infrastructure. Moreover, the development of acquired portfolios and companies depends on various factors. These include the anticipated rental income, developments in the vacancy situation, cost of maintenance and planned sales/privatisation, especially with regard to the acquisition of Accentro Real Estate AG. All of these factors may vary from the ADLER's intended plans and, therefore, lead to increased risks.

6.2.5 Risk Concentration

A large proportion of ADLER's properties are located in Lower Saxony and North Rhine-Westphalia. As such, economic development depends to a large extent on the development of the property market in these conurbations. Changes in the regional breakdown can result from further acquisitions by ADLER.

6.2.6 Other External Risk Factors

ADLER currently has around 50.000 rental units. There are general influences that are unforeseeable and largely uncontrollable. ADLER defines these as including changes in political conditions, social factors, and risks such as acts of terrorism and natural disasters. Risks of this nature could have a direct or indirect impact on the ADLER Group's residential portfolio, and hence adversely affect ADLER's economic situation.

6.2.7 Summary of the ADLER Group's Risk Situation

The ADLER Group is exposed to a wide range of risks requiring permanent monitoring. The overall risk situation of the Group based on the summary of the risks described and their impact and probability of occurrence leads ADLER to believe that the continued existence of the Group is not endangered either by individual risks or by the risk situation as a whole. ADLER has responded to the increased risk posed by the company's growth, by the further development of the risk management and monitoring system together with preparation for the introduction of an internal audit.

ADLER is convinced that to ensure future success, it must first master the risks arising from the above-mentioned challenges.

Frankfurt am Main, 22 March 2016

Axel Harloff	Arndt Krienen
Management Board	Management Board

Consolidated Balance Sheet

Consolidated Statement of Income and Accumulated Earnings

Consolidated Cash Flow Statement

Consolidated Statement of Changes in Equity

Consolidated Balance Sheet

(IFRS) to 31 Dezember 2015

In EUR '000	Note	31.12.2015	31.12.2014
Assets		**3,076,246**	**1,416,459**
Non-current assets		**2,758,878**	**1,203,649**
Goodwill	8.1	130,552	27,081
Intangible assets	8.1	1,358	1,727
Property, plant and equipment	8.2	1,269	494
Investment Properties	8.3	2,270,187	1,170,159
Loans to associated companies	8.4	0	907
Investments in associated companies	8.5	353,343	1,123
Other financial investments	8.6	1,230	1,175
Other non-current assets	8.6	473	0
Deferred tax assets	8.7	465	983
Current assets		**297,252**	**206,681**
Inventories	8.8	159,654	89,617
Trade receivables	8.9	16,309	27,547
Income tax receivables	8.9	243	173
Other current assets	8.9	71,544	56,283
Cash and cash equivalents	8.10	49,502	33,060
Non-current assets held for sale	8.11	**20,117**	**6,129**

In EUR '000	Note	31.12.2015	31.12.2014
Equity and liabilities		**3,076,246**	**1,416,459**
Shareholders' equity		**777,921**	**311,211**
Capital stock	8.12	46,103	31,877
Capital reserve	8.13	449,360	108,078
Retained earnings	8.14	-88	-349
Currency translation reserve	8.15	92	20
Net retained profit		223,890	151,775
Equity attributable to owners of the parent company		719,357	291,401
Non-controlling interests	8.16	58,563	19,810
Non-current liabilities		**1,980,375**	**1,010,927**
Pension provisions	8.17	4,268	4,281
Deferred tax liabilities	8.7	70,139	39,083
Other provisions	8.18	756	802
Liabilities from convertible bonds	8.19	34,982	33,894
Liabilities from bonds	8.20	481,599	140,804
Financial liabilities to banks	8.21	1,368,125	791,087
Other non-current liabilities	8.22	20,507	977
Current liabilities		**303,529**	**94,321**
Other provisions	8.18	2,688	482
Income tax liabilities	8.23	5,406	3,213
Liabilities from convertible bonds	8.19	623	43
Liabilities from bonds	8.20	8,265	3,978
Financial liabilities to banks	8.21	248,524	47,810
Trade payables	8.23	20,174	21,123
Other current liabilities	8.23	17,849	17,673
Assets and Liabilities held for sale		**14,421**	**0**

Consolidated Statement of Comprehensive Income

(IFRS) for the period from 01. January to 31. December 2015

In EUR '000	Note	2015	2014
			restated[1]
Gross rental income	9.1	216,639	83,882
Expenses from property lettings	9.2	-125,052	-51,809
Earnings from property lettings		**91,587**	**32,073**
Income from the sale of properties	9.3	168,154	87,527
Expenses from the sale of properties	9.4	-144,689	-85,221
Earnings from the sale of properties		**23,466**	**2,306**
Personnel expenses	9.5	-13,191	-5,024
Other operating income	9.6	49,859	29,798
Other operating expenses	9.7	-32,965	-21,145
Income from fair value adjustments of investment properties	9.8	58,860	132,934
Depreciation and amortisation	9.9	-1,030	-497
Earnings before interest and tax (EBIT)		**176,586**	**170,445**
Financial income	9.10	2,908	1,579
Financial costs	9.11	-84,342	-41,088
Net income from at-equity valued investment associates	9.12	-330	1,824
Earnings before tax (EBT)		**94,822**	**132,760**
Income taxes	9.13	-16,539	-21,189
Consolidated net profit		**78,283**	**111,571**
Actuarial gains/losses before taxes	8.17	-34	-792
Deferred taxes on actuarial gains/losses	8.17	11	282
OCI gains/losses not reclassifiable into profit or loss		**-23**	**-510**
OCI SWAP – reclassifiable	10.3	419	-20
Deferred taxes OCI – reclassifiable	10.3	-135	-4
OCI own bonds – reclassifiable		0	32
Gains/losses from currency translation	8.15	72	79
OCI gains/losses not reclassifiable into profit or loss		**356**	**87**
Total comprehensive income for the year		**78,616**	**111,148**
Profit attributable to:			
Owners of the parent company		72,117	109,220
Non-controlling interests		6,166	2,351
Total comprehensive income attributable to:			
Owners of the parent company		72,450	108,797
Non-controlling interests		6,166	2,351
Earnings per share, basic (EUR)	9.14	1.83	4.65
Earnings per share, diluted (EUR)	9.14	1.56	3.57

[1] The previous year's figures have been restated for changes in classification.

Consolidated Statement of Cash Flows

(IFRS) for the period from 01. January to 31. December 2015

	In EUR '000	2015	2014
			restated[1)]
	Earnings before interest and taxes (EBIT)	176,586	170,444
+	Depreciation and allowances	1,030	497
–/+	Net income from at-equity valued investment associates	-330	1,824
–/+	Net income from fair value adjustments of investment properties	-58,861	-132,934
–/+	Non-cash income/expenses	-34,358	-21,359
–/+	Changes in provisions	2,069	-3,746
–/+	Increase/decrease in inventories, trade receivables and other assets not attributable to financing activities	-10,692	68,076
–/+	Increase/decrease in inventories, trade receivables and other assets not attributable to financing activities	-4,425	-6,205
+	Interest received	996	435
+/–	Tax payments	-117	-1,487
=	Operating cash flow before de-/reinvestment into the trading portfolio	71,898	75,545
–/+	Íncrease/decrease in inventories (commercial properties)	-46,924	-58,796
=	**Net cash flow from operating activities**	**24,974**	**16,749**
–	Acquisition of subsidiaries, net of cash acquired	-355,266	-59,412
–	Purchase of investment properties	-152,677	-120,216
+	Disposal of investment properties, net of cash disposed of	82,916	0
–	Payments of property, plant and equipment	-650	-149
–	Proceeds into short-term deposits	-22,019	-28,495
+	Proceeds arising from short-term deposits	8,365	0
+	Proceeds of financial assets	625	0
=	**Net cash flows from investing activities**	**-438,706**	**-208,272**
+	Proceeds from equity contributions	0	21,090
–	Payments for expenses relating to issue of share capital	-1,215	-1,682
+	Proceeds from issue of bonds	351,803	100,000
–	Proceeds from third-party loans	-15,234	-4,223
–	Interest payments	-68,287	-35,520
+	Proceeds from bank loans	355,116	538,908
–	Repayment of bank loans	-192,009	-400,885
=	**Net cash flows from financing activities**	**430,174**	**217,688**
	Reconciliation to Consolidated Balance Sheet		
	Cash and cash equivalents at beginning of period	**33,060**	**6,895**
	Net cash flow from operating activities	24,974	16,749
	Net cash flow from investing activities	-438,706	-208,272
	Net cash flow from financing activities	430,174	217,688
=	**Cash and cash equivalents at end of period**	**49,502**	**33,060**

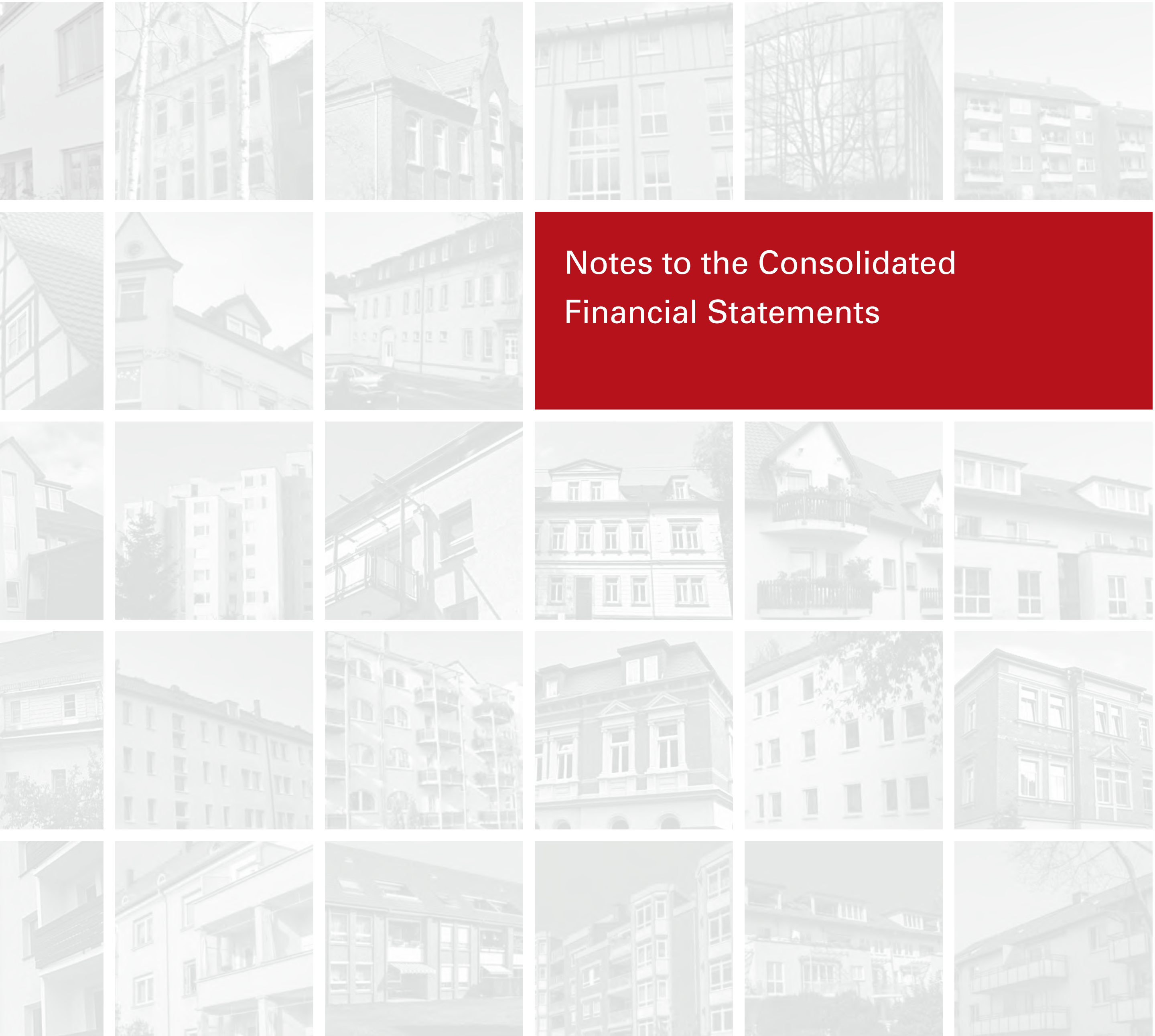
[1)] The previous year's figures have been restated for changes in classification.

Consolidated Statement of Changes in Equity

(IFRS) for the period from 01. January to 31. December 2015

In EUR '000	Capital stock	Capital reserves
As at 01.01.2014	**16,548**	**13,132**
Consolidated net profit	0	0
Other comprehensive income – reclassifiable	0	0
Other comprehensive income – non-reclassifiable	0	0
Change in scope of consolidation	0	0
Increase/decrease in shareholding with no change in status	0	12,062
Capital increase	14,871	82,207
Conversion of convertible bonds	458	678
As at 31.12.2014	**31,877**	**108,078**
As at 01.01.2015	**31,877**	**108,078**
Consolidated net profit	0	0
Other comprehensive income – reclassifiable	0	0
Other comprehensive income – non-reclassifiable	0	0
Change in scope of consolidation	0	0
Increase/decrease in shareholding with no change in status	14,075	168,528
Capital increase	0	172,491
Conversion of convertible bonds	151	263
As at 31.12.2015	**46,103**	**449,360**

Retained earnings	Currency translation reserve	Net retained profit	Equity attributable to the owners of the parent company	Non-controlling interests	Total equity
160	**-59**	**42,554**	**72,335**	**14,610**	**86,945**
0	0	109,220	109,220	2,351	111,571
0	79	8	87	0	87
-509	0	0	-509	0	-509
0	0	0	0	7,388	7,388
0	0	-7	12,055	-7,652	4,403
0	0	0	97,078	0	97,078
0	0	0	1,136	3,113	4,249
-349	**20**	**151,775**	**291,401**	**19,810**	**311,211**
-349	**20**	**151,775**	**291,401**	**19,810**	**311,211**
0	0	72,116	72,116	6,165	78,281
284	72	0	356	0	356
-23	0	0	-23	0	-23
0	0	0	0	30,050	30,050
0	0	0	182,603	0	182,603
0	0	0	172,491	0	172,491
0	0	0	414	2,537	2,951
-88	**92**	**223,891**	**719,358**	**58,562**	**777,921**



Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

ADLER Real Estate Aktiengesellschaft (hereinafter also referred to as "ADLER AG"), the Group's parent company, is headquartered at Herriotstrasse 5, Frankfurt am Main, Germany, and is registered in the Commercial Register of Frankfurt am Main District Court under register number HRB 7287. The financial year is equivalent to the calendar year. The Company's administrative address is Gänsemarkt 50, Hamburg, Germany.

ADLER AG is a publicly traded real estate company focused on developing a strong and profitable real estate portfolio. Its activities are centred on the acquisition and management of residential properties throughout Germany.

ADLER Real Estate's goal is to invest in residential properties presenting sustained appreciation potential and whose current income contributes to the Company's overall success. The Company's operational strategy also includes actively generating added value through, for example, a modernisation schedule targeted towards residential properties in need of improvements, structural alterations and renovations.

At the core of its business activities, ADLER also partakes in the trading of real estate through the listed company ACCENTRO Real Estate AG, in which the ADLER Group has a majority shareholding.

The Management Board approved the publication of the consolidated financial statements and the Group management report on 22 March 2016, subject to approval by the Supervisory Board.

2. ACCOUNTING POLICIES

2.1 Basis of Preparation

The consolidated financial statements of ADLER AG as of the 31st of December 2015 were prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS), as required to be applied in the European Union (EU). Provisions set by Section 315a, Para. 1 of the German Commercial Code (HGB) were also applied. The requirements of the applied standards have been fulfilled and the financial statements represent a true and fair view of the Company's net assets, financial position and financial performance.

The financial years of the parent company, its subsidiaries and associates are equivalent to the calendar year. Financial statements regarding the Group's subsidiaries are prepared using uniform accounting policies. The consolidated statement of comprehensive income was prepared in accordance with the nature of expense method.

The income from the sale of properties and the expenses incurred from the sold properties has been adjusted retroactively in the profit and loss account. In 2014, other operating income included an operating expense of EUR 80 K arising from the deconsolidation of commercial property companies. In the 'previous year' column of the statement of comprehensive income, this deconsolidation expense is represented with non-netted disposals in fiscal 2015 for the purposes of improved comparison, as income from the sale of properties (EUR 30,706 K) and operating expenses from the properties sold (EUR 30,786 K). This change has no material impact on the consolidated profit from the previous year.

The consolidated financial statements are expressed in thousands of euros (EUR XXX K), the euro being the parent company's functional currency. Since amounts are given in thousands of euros (EUR XXX K), rounding differences can occur.

Preparing the consolidated financial statements requires the use of certain critical accounting estimates, judgements and assumptions relating to measurement and accounting. Areas which have been exposed to higher degrees of judgment and complexity and areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in note 6.

2.2 Accounting Standard First Applicable in Financial Year 2015

The Group applied the following new and revised IFRS and additional standards in financial year 2015:

Standard/Interpretation	Title	IASB Effective date[1)]	Date of EU endorsement[1)]
IFRIC 21	Fees	01.01.2014	17.06.2014
Annual improvement process (period 2011–2013)	Amendments to IFRS 1, IFRS 3, IFRS 13 und IAS 40	01.07.2014	01.01.2015

1) For financial years beginning on or after this date

IFRIC 21 Fees

IFRIC 21 is an interpretation of IAS 37 and provides clarification on when a present obligation pertaining to public sector duties is accounted for as a provision or a liability. Certain penalties and fees resulting from public service contracts do not fall into the scope of this interpretation or any other IFRS interpretation, such as IAS 12. According to IFRIC 21, a levy liability shall be identified accounted for when the event triggering the levy liability occurs. The triggering event that gives rise to the levy liability derives in turn from the wording of the underlying standard, the formulation of which is essential for the balance sheet.

Annual Improvement Process (Period 2011–2013)

Amendments were made to four standards as part of the annual improvement project. Existing regulations were clarified by adapting the wording of individual IFRS.. The affected standards are: IFRS 1, IFRS 3, IFRS 13 and IAS 40.

Regardless, the above-mentioned changes generated no evident effects during fiscal year 2015.

2.3 Standards and Interpretations pending application

Out of the set of new standards and interpretations, only the ones listed below are expected to have a material impact on the consolidated financial statements.

Standard/Interpretation	Title	IASB Effective date[1)]	Date of EU endorsement[1)]
EU-Endorsed:			
Amendment to IAS 1	Disclosure initiative Amendments to IAS 1	01.01.2016	01.01.2016
EU Endorsement pending: IFRS 9	Financial Instruments	01.01.2018	01.01.2018

1) For financial years beginning on or after this date

Amendment to IAS 1 – Disclosure Initiative

This change affects different reporting issues. It clarifies that disclosures are only required if their content is significant. This also explicitly applies if an IFRS requires a list of minimum information. In addition, notes to the aggregation and disaggregation of items in the balance sheet and the income statement have been included. Furthermore thet shares in other comprehensive income using the equity method are presented in the statement of comprehensive income. Finally, the template structure to the Notes has been removed in order to reinforce company-specific relevance, which, it is to be noted, may result in a reduced scope of reporting in the Notes in comparison with the previous presentation.

The amendments will take effect starting with the 2016 financial year and will carry on thereafter.

IFRS 9 – Financial Instruments

Published in July 2014 IFRS 9 replaces the previous guidance in IAS 39 "Financial Assets: Recognition and Measurement". IFRS 9 contains revised guidelines for the classification and measurement of financial instruments, including a new model of expected credit losses to calculate the impairment of financial assets, as well as the new general accounting rules for hedging transactions. It also replaces the guidelines for the recognition and derecognition of financial instruments from IAS 39. Subject to adoption by EU law, IFRS 9 will come into effect for financial years beginning on or after 1 January 2018 and early application is permitted. Material impact on the consolidated financial statements is currently being examined and an early adoption within the Group is planned.

3. BASIS OF CONSOLIDATION

3.1 Subsidiaries

Subsidiaries are all entities (including special purpose entities) controlled by ADLER AG. The Group assumes control over a company when it is exposed to variable returns or has a right to such returns thus gaining the ability to influence its subsidiary's returns. It is generally the case that control coincides with a majority of voting rights of more than 50 per cent. When assessing whether the Group finds itself in a position of control and effect of potential voting rights which are currently exercised or are convertible are taken into account.

Subsidiaries are fully consolidated starting on the date when control was transferred to the parent company. They are deconsolidated from the date when control ends.

All material subsidiaries are included in the consolidated financial statements (see note 4.1 Investments in Subsidiaries). If investments in subsidiaries are considered to be of lesser significance from a Group perspective, they are reported as available-for-sale financial assets.

In the case of company acquisitions, it is assessed (see 6. Significant Discretionary Decisions, Estimates and Assumptions) whether the acquisition exemplifies a business combination pursuant to IFRS 3 or merely the acquisition of a group of assets and liabilities without qualifying as a company.

Company acquisitions within the guidelines of IFRS 3 are reported using the acquisition method. The acquisition method requires the cost of the company to be allocated to the fair value of individually identifiable assets, debts and contingent liabilities acquired. Any surplus between the consideration given and the net assets is accounted for as goodwill, and negative goodwill is accounted for as profit or loss. Acquisition-related costs are accounted for as expenses.

The shares in the net assets of subsidiaries that are not attributable to ADLER AG are shown as a separate component of equity under non-controlling interests. The effects of purchase accounting directly accounted for in the income statement are also included in calculating the share in consolidated net profit attributable to non-controlling interests. Non-controlling interests in partnerships are reported under other liabilities.

The acquisition of real estate companies that do not constitute business operations within the guidelines of IFRS 3 are reported as a direct acquisition of a unit, in particular of real estate (asset deal). The cost of the real estate company is allocated to the fair value of the individually identifiable assets and liabilities. The acquisition of real estate companies therefore does not result in positive or negative goodwill from capital consolidation. The sale of real estate companies is considered to be commensurate with the sale of an asset, in particular, property.

Intragroup receivables, liabilities and results are eliminated for the purposes of consolidating income, expenditure, assets and liabilities for the consolidated financial statements. Expenses and income resulting from the intragroup transfer of assets are also eliminated. The accounting policies applied by the subsidiaries are used on a Group-wide basis.

3.2 Joint Arrangements

Joint arrangements are based on contractual arrangements is based on which two or more partners undertaking an economic activity that is subject to joint control. Joint control exists when the partners are required to work together in order to manage the relevant activities of the joint arrangement and relevant decisions require the unanimous consent of all partners. Such joint arrangements are defined as joint ventures when the partners exercising joint control have rights to and obligations deriving from the arrangement's net assets. The arrangement is classifiable as a joint operation when the partners have direct rights to the assets and/or have obligations for the liabilities allocable to the joint arrangement. A joint venture generally exists in the event that a joint arrangement is embodied by a legally independent partnership or incorporated company with its own corporate assets with the result being that ADLER AG's interest in the company in question only provides it with a pro rata share in the company's net assets. In the event of joint arrangements in the form of a company under German civil law (such as associations), where a separate asset and financial structure does not yet exist on account of the legal form of one of the partners, it must be determined on the basis of the contractual provisions and the purpose of the joint arrangement whether the company in question is a joint venture or a joint operation. The joint arrangement is considered to be a joint venture if neither the legal form nor the contractual provisions or other facts or circumstances indicate that ADLER AG has direct rights to the assets and/or obligations for the liabilities of the joint arrangement.

Joint ventures are companies whose financial and business policies can be controlled either directly or indirectly in conjunction with one or more third parties. Interests in joint ventures are accounted for using the equity method.

The information on the recognition of associates also applies to joint ventures.

3.3 Associated Companies

Investments over which ADLER AG exerts significant influence – as a rule resulting from shareholdings between 20 per cent and 50 per cent – are generally measured using the equity method. For investments measured using the equity method, cost is increased or decreased annually by the change in shareholders' equity attributable to the Group. Any goodwill arising from the initial inclusion of companies using the equity method is accounted for in the same way as goodwill relating to fully consolidated companies.

Gains and losses from transactions between Group companies and associates are eliminated based on the Group's share in the associates. Gains and losses from transactions between associates are not eliminated.

4. SCOPE OF CONSOLIDATION, BUSINESS COMBINATIONS AND REAL ESTATE COMPANIES

4.1 Investments in Subsidiaries

Including the parent company, the scope of consolidation includes a total of 122 (previous year: 77) fully consolidated companies. The Group does not own any properties outside Germany.

The scope of consolidation was as follows:

Quantity	2015	2014
As of 01.01.	77	33
Additions	54	53
Disposals	9	9
As of 31.12.	122	77

Changes in consolidated companies at the reporting date resulted primarily from the acquisitions of WESTGRUND AG, Wohnungsbaugesellschaft JADE mbH and MountainPeak Trading Limited. Additionally, six companies were sold during the financial year and three other companies were merged with the Group. Estavis Grundstücksgesellschaft mbH merged retroactively with ACCENTRO Real Estate AG as of 1 July 2015. The accrual of both SIAG Dritte Wohnen GmbH & Co. KG and Zweite Sachsen Wohnbauten GmbH & Co. KG by Estavis Beteiligungs GmbH & Co. KG took place on 31 December 2015.

The following major companies were disposed of in the financial year:

ESTAVIS Berlin Hohenschönhausen GmbH, ESTAVIS Filmfabrik GmbH & Co. KG, ESTAVIS Vermögensverwaltung GmbH

The shares of ESTAVIS Berlin Hohenschönhausen GmbH, with a residential property portfolio totalling 1,174 units and floor space of 76,386 m2, were sold under an agreement dated the 30th of April 2015. Additionally, all shares in ESTAVIS film Fabrik GmbH & Co. KG and its general partner, ESTAVIS Vermögensverwaltungs GmbH, were sold. The disposal resulted in deconsolidation proceeds of EUR 15,240 K.

Erste ADLER Real Estate GmbH & Co. KG, Verwaltungsgesellschaft Erste ADLER RE mbH

The sale of First ADLER Real Estate GmbH & Co. KG, together with its partner First Property Management Company ADLER RE mbH, led to a gain of EUR 299 K for the Group.

The shareholdings – which also correspond to voting rights – of ADLER AG as at 31 December 2015 were as follows:

No.	Company	Headquarters
	Associated companies fully consolidated pursuant to IFRS 3 and property companies	
1	ADLER Real Estate AG (Holding company)	Frankfurt am Main
2	ADLER Real Estate Service GmbH	Hamburg
3	Verwaltungsgesellschaft ADLER Real Estate mbH	Hamburg
4	Dritte ADLER Real Estate GmbH & Co. KG	Hamburg
5	Achte ADLER Real Estate GmbH & Co. KG	Hamburg
6	Adler Real Estate Properties GmbH & Co. KG	Hamburg
7	Adler Projekt Homburg GmbH	Hamburg
8	MÜBAU Real Estate GmbH	Hamburg
9	ADLER Lux SarL	Luxembourg/Grand Duchy of Luxembourg
10	Adler US Real Estate GmbH	Hamburg
11	Adler McKinney LLC	McKinney/USA
12	Münchener Baugesellschaft mbH	Hamburg
13	Magnus Sechste Immobilienbesitz und Verwaltungs GmbH	Hamburg
14	MBG Beteiligungsgesellschaft mbH & Co. KG	Hamburg
15	MBG Dallgow GmbH & Co. KG	Hamburg
16	MBG Großbeeren GmbH & Co. KG	Hamburg
17	MBG Trachau GmbH & Co. KG	Hamburg
18	MBG Moosburg GmbH & Co. KG	Hamburg
19	MBG Wohnbau Verwaltungsgesellschaft mbH	Hamburg
20	MBG Erste Vermögensverwaltungs GmbH	Hamburg
21	Magnus zweite Immobilienbesitz und Verwaltungs GmbH	Hamburg
22	Energy AcquiCo I GmbH	Frankfurt am Main
23	Magnus Dritte Immobilienbesitz und Verwaltungs GmbH	Hamburg
24	EAGLE BidCo GmbH (formerly: Magnus Vierte Immobilienbesitz und Verwaltungs GmbH)	Hamburg
25	Magnus Fünfte Immobilienbesitz und Verwaltungs GmbH	Hamburg
26	WBG GmbH	Helmstedt
27	WER 1. Wohnungsgesellschaft Erfurt Rieth GmbH	Berlin
28	WER 2. Wohnungsgesellschaft Erfurt Rieth GmbH	Berlin
29	Accentro Real Estate AG	Berlin
30	Accentro GmbH	Berlin
31	ESTAVIS Sachsen Verwaltungsgesellschaft mbH	Berlin
32	ACCENTRO Wohneigentum GmbH (formerly: ESTAVIS 5. Wohnen GmbH)	Berlin

1) The Company intends to utilise the exemption option under § 264 b HGB with regard to disclosure requirements.

	Equity interest in %	Held by No.	Business activity
			Holding
	100.0	1	Service company
	100.0	1	General partner
1)	100.0	1	Project development
1)	100.0	1	Project development
1)	100.0	1	Project development
	100.0	1	None
	100.0	1	None
	100.0	1	None
	100.0	1	Intermediate holding company
	100.0	10	Intermediate holding company
	100.0	1	Intermediate holding company
	100.0	12	Intermediate holding company
1)	94.9	12	Intermediate holding company
1)	100.0	12	Project development
1)	100.0	12	Project development
1)	100.0	12	Project development
1)	100.0	12	Project development
	100.0	12	Intermediate holding company
	100.0	12	Intermediate holding company
	100.0	12	Intermediate holding company
	100.0	21	Intermediate holding company
	100.0	12	Intermediate holding company
	100.0	1	Service company
	100.0	12	Intermediate holding company
	94.0	22	Portfolio management
	94.9	12	Project development
	94.9	12	Project development
	87.0	1	Holding
	100.0	29	Service company
	100.0	29	Intermediate holding company
	100.0	29	Trading

No.	Company	Headquarters
	Associated companies fully consolidated pursuant to IFRS 3 and property companies	
33	Koppenstraße Wohneigentum GmbH	Berlin
34	ESTAVIS 6. Wohnen GmbH	Berlin
35	ESTAVIS 7. Wohnen GmbH	Berlin
36	ESTAVIS 8. Wohnen GmbH	Berlin
37	ESTAVIS 9. Wohnen GmbH	Berlin
38	RELDA 36. Wohnen GmbH	Berlin
39	ESTAVIS 37. Wohnen GmbH & Co. KG	Berlin
40	RELDA 38. Wohnen GmbH	Berlin
41	RELDA 39. Wohnen GmbH	Berlin
42	ESTAVIS 43. Wohnen GmbH & Co. KG	Berlin
43	RELDA 45. Wohnen GmbH	Berlin
44	RELDA Bernau Wohnen Verwaltungs GmbH	Berlin
45	ESTAVIS Friedrichshöhe GmbH	Berlin
46	ESTAVIS Wohneigentum GmbH	Berlin
47	ESTAVIS Beteiligungs GmbH & Co. KG	Berlin
48	MBG Sachsen GmbH (formerly: J2P Real Estate AG)	Aue
49	Magnus-Relda Holding Vier GmbH	Berlin
50	Cato Immobilienbesitz und -verwaltungs GmbH	Hamburg
51	Magnus Immobilienbesitz und Verwaltungs GmbH	Hamburg
52	WBR Wohnungsbau Rheinhausen GmbH	Hamburg
53	S.I.G. RE B.V.	Rotterdam/The Netherlands
54	Resident Baltic GmbH	Berlin
55	Resident Sachsen P&K GmbH	Berlin
56	Resident West GmbH	Hamburg
57	MBG Schwelm GmbH	Hamburg
58	MBG Lüdenscheid GmbH	Hamburg
59	MBG Dorsten GmbH & Co. KG	Hamburg
60	Alana Properties GmbH	Hamburg
61	Aramis Properties GmbH	Hamburg
62	REO-Real Estate Opportunities GmbH	Frankfurt am Main
63	Roslyn Properties GmbH	Hamburg

1) The Company intends to utilise the exemption option under § 264 b HGB with regard to disclosure requirements.

	Equity interest in %	Held by No.	Business activity
	100.0	32	Trading
	100.0	49	Portfolio management
	100.0	49	Portfolio management
	100.0	49	Portfolio management
	100.0	49	Portfolio management
	100.0	49	Portfolio management
	100.0	29	Portfolio management
	100.0	49	Portfolio management
	100.0	49	Portfolio management
	100.0	29	Portfolio management
	100.0	49	Portfolio management
	94.0	49	Portfolio management
	100.0	29	Trading
	94.0	29	Trading
	6.0	47	
	94.0	29	Portfolio management
	90.8	12	Portfolio management
	100.0	29	Holding
	94.9	21	Portfolio management
	100.0	12	Intermediate holding company
	94.9	51	Portfolio management
	100.0	20	Intermediate holding company
	94.8	53	Portfolio management
	94.8	53	Portfolio management
	94.8	53	Portfolio management
	94.9	21	Portfolio management
	94.9	12	Portfolio management
	5.1	14	
1)	94.0	21	Portfolio management
	6.0	12	
	94.4	23	Portfolio management
	94.8	23	Portfolio management
	94.9	23	Portfolio management
	94.8	23	Portfolio management

No.	Company	Headquarters
	Associated companies fully consolidated pursuant to IFRS 3 and property companies	
64	Rostock Verwaltungs GmbH	Hamburg
65	Sepat Properties GmbH	Hamburg
66	Wallace Properties GmbH	Hamburg
67	Zweite REO-Real Estate Opportunities GmbH	Frankfurt am Main
68	Phoenix F1 Neubrandenburgstrasse GmbH	Erlangen
69	Uhlandstraße 79 Immobilien GmbH	Berlin
70	ADLER ImmoProjekt Erste GmbH	Hamburg
71	ADLER ImmoProjekt Zweite GmbH	Hamburg
72	MountainPeak Trading Limited	Nikosia/Zypern
73	Magnus Siebte Immobilienbesitz und Verwaltungs GmbH	Hamburg
74	Magnus Achte Immobilienbesitz und Verwaltungs GmbH	Hamburg
75	Magnus Neunte Immobilienbesitz und Verwaltungs GmbH	Hamburg
76	WBL Wohnungsgesellschaft Berlin Lichtenberg 1 GmbH	Berlin
77	WBL Wohnungsgesellschaft Berlin Lichtenberg 2 GmbH	Berlin
78	WBL Wohnungsgesellschaft Berlin Lichtenberg 3 GmbH	Berlin
79	WBL Wohnungsgesellschaft Berlin Lichtenberg 4 GmbH	Berlin
80	WBL Wohnungsgesellschaft Berlin Lichtenberg 5 GmbH	Berlin
81	MBG Projektentwicklungsgesellschaft mbH	Hamburg
82	Magnus Inkasso GmbH	Helmstedt
83	ADLER Immo Invest GmbH	Hamburg
84	Accentro Verwaltungs GmbH	Berlin
85	MBG 2. Sachsen Wohnen GmbH (formerly: ESTAVIS Zweite Sachsen Wohnen GmbH & Co. KG)	Berlin
86	Kantstraße 130b/Leibnizstraße 36, 36a Immobilien Gesellschaft mbH	Berlin
87	Kantstraße 130b/Leibnizstraße 36,36a GbR	Berlin
88	Stresemannstr. 32 Projekt GmbH	Berlin
89	Wohnungsbaugesellschaft JADE mbH	Wilhelmshaven
90	JADE Immobilien Management GmbH	Wilhelmshaven
91	Arkadio Facility Management GmbH	Wilhelmshaven
92	Westgrund Aktiengesellschaft	Berlin
93	Westgrund Immobilien GmbH (formerly: Westgrund Immobilien GmbH & Co. KG)	Berlin
94	Westgrund Immobilien II. GmbH (formerly: Westgrund Immobilien II. GmbH & Co. KG)	Berlin

2) Control without voting majority due to contractual agreements i.S.d. IFRS 10.B38

	Equity interest in %	Held by No.	Business activity
	94.0	23	Portfolio management
	94.8	23	Portfolio management
	94.8	23	Portfolio management
	94.9	23	Portfolio management
	94.9	29	Trading
	50 + 1 Vote	29	Trading
	100.0	1	None
	100.0	1	Intermediate holding company
	100.0	1	Intermediate holding company
	100.0	12	Intermediate holding company
	100.0	12	Intermediate holding company
	100.0	12	Intermediate holding company
	94.9	73	Project development
	94.9	73	Project development
	94.9	73	Project development
	94.9	73	Project development
	94.9	73	Project development
	100.0	1	Project development
	100.0	1	Collection services
	100.0	1	Project development
	100.0	29	General partner
	100.0	29	Portfolio management
2)	41.0	46	Trading
2)	94.0	86	Trading
	100.0	32	Trading
	94.9	25	Portfolio management
	100.0	89	Service company
	100.0	90	Service company
	94.1	1	Holding
	100.0	92	Portfolio management
	100.0	92	Portfolio management

No.	Company	Headquarters
	Associated companies fully consolidated pursuant to IFRS 3 and property companies	
95	Westconcept GmbH	Berlin
96	IMMOLETO Gesellschaft mit beschränkter Haftung	Berlin
97	ICR Idee Concept und Realisation von Immobilienvorhaben GmbH	Berlin
98	HKA Grundstücksverwaltungsgesellschaft mbH & Co. Kommanditgesellschaft	Berlin
99	HKA Verwaltungsgesellschaft mbH	Berlin
100	Westgrund Immobilien Beteiligung GmbH	Berlin
101	Westgrund Immobilien Beteiligung II. GmbH	Berlin
102	Westgrund Immobilien Beteiligung III. GmbH	Berlin
103	Westgrund Westfalen Verwaltungsgesellschaft mbH	Köln
104	Westgrund Westfalen GmbH & Co. KG	Berlin
105	WESTGRUND Immobilien IV. GmbH	Berlin
106	WESTGRUND Immobilien V. GmbH	Berlin
107	WESTGRUND Immobilien VI. GmbH	Berlin
108	Wiederaufbau-Gesellschaft mit beschränkter Haftung	Ludwigshafen am Rhein
109	TREUHAUS Hausbetreuungs-GmbH	Ludwigshafen am Rhein
110	WAB Hausverwaltungsgesellschaft mbH	Ludwigshafen am Rhein
111	Liaen Lorentzen Partners AG	Zug/Switzerland
112	Westgrund Wolfsburg GmbH	Berlin
113	Westgrund Niedersachsen Süd GmbH	Berlin
114	Westgrund Niedersachsen Nord GmbH	Berlin
115	Westgrund Brandenburg GmbH	Berlin
116	Westgrund VII. GmbH	Berlin
117	Westgrund I. Halle GmbH	Berlin
118	Westgrund Halle Immobilienverwaltung GmbH	Berlin
119	Westgrund Immobilien II. Halle GmbH & Co. KG	Berlin
120	Westgrund VIII. GmbH	Berlin
121	Westgrund IX. GmbH	Berlin
122	Xammit GmbH	Berlin

Equity interest in %	Held by No.	Business activity
100.0	92	Service company
100.0	92	Intermediate holding company
94.9	96	Portfolio management
100.0	97	Portfolio management
100.0	97	General partner
100.0	92	None
100.0	92	None
100.0	92	Portfolio management
94.9	111	Service company
94.9	97	Portfolio management
5.1	103	
100.0	92	Portfolio management
94.0	92	Portfolio management
100.0	92	Portfolio management
94.8	92	Portfolio management
5.2	111	
100.0	95	Property management
100.0	108	None
94.0	92	Intermediate holding company
100.0	92	Portfolio management
100.0	92	Portfolio management
100.0	92	Portfolio management
100.0	92	Portfolio management
100.0	92	Portfolio management
94.9	92	Portfolio management
100.0	117	General partner
100.0	117	Portfolio management
100.0	92	Portfolio management
100.0	92	None
100.0	92	None

No.	Company	Headquarters
	Companies included at equity in the consolidated financial statements	
123	Worthing Lake Forest Investors LLC	Atlanta/USA
124	Wohneigentum Berlin GbR (Joint Venture)	Berlin
125	SIAG Sechzehnte Wohnen GmbH & Co. KG	Berlin
126	GG Erlabrunn Verwaltungs UG	Aue
127	Malplaquetstr. 23 Grundstücksverwaltungsgesellschaft mbH	Berlin
128	conwert Immobilien Invest SE	Vienna/Austria
	Companies not significant enough to be included at equity in the consolidated financial statements	
129	MRT (Mountleigh Roland Ernst) B.V.	Rotterdam/The Netherlands
130	Stovago B.V.	Rotterdam/The Netherlands
131	Deutsche Immobilien- und Industrieassekuranz GmbH (D.I.A.S.)	Hamburg

Companies included in the consolidated financial statement which are not using the equity method on grounds of materiality shall be classified as assets.

Equity interest in %	Held by No.	Business activity
30.0	11	Project development
33.3	46	Trading
50.0	29	Portfolio management
50.0	48	Portfolio management
50.0	46	Trading
23.5	72	Portfolio management
50.0	1	None
50.0	1	None
30.0	1	Insurance broker

4.2 Business Combinations

The following shelf companies were acquired in as of 31 December 2015 and fully consolidated for the first time pursuant to the provisions of IFRS 3:

- WESTGRUND Aktiengesellschaft, Berlin (hereinafter: WESTGRUND)
- Wohnungsbaugesellschaft JADE mbH, Wilhelmshaven (hereinafter: JADE)

In addition, other companies, which have no material impact on the consolidated result of the Group, were also fully consolidated in accordance with IFRS 3.(see list of shareholdings in section 4.1).

Acquisition of WESTGRUND Aktiengesellschaft, Berlin

ADLER submitted a voluntary public takeover bid to the shareholders of WESTGRUND (in the form of a combined cash / exchange offer) of 3 shares of WESTGRUND against 0.565 new non-par bearer shares of ADLER. This was with an imputed share in ADLER's share capital for each EUR 1.00 swapped, together with an additional cash consideration of EUR 9.00 for 3 WESTGRUND shares.

The decision for the non-cash capital increase this required was taken during ADLER's Extraordinary General Meeting which took place on 29 April 2015.

After the extended acceptance period 74,735,335 shares in WESTGRUND were submitted for an exchange of 14,075,155 new shares in ADLER. At the time, this corresponded to 94.9 per cent of WESTGRUND's share capital. ADLER's capital increase to 14,075,155 shares was registered in the Commercial Register on 26 June 2015.

The acquisition date on which the Group obtained definitive control of WESTGRUND was 26 June 2015. This day saw the fulfilment of the final completion condition in the takeover offer and the registration of the capital increase in the Frankfurt Commercial Register. Starting 26 June 2015, the transaction was treated as an acquisition compliant with IFRS 3 and included in the consolidated financial statements for the first time. A total of 31 new companies were included in the consolidation oriented WESTGRUND acquisition.

WESTGRUND is a Berlin-based group focusing on the acquisition, management and supervision of residential properties in Germany. Mid 2015, WESTGRUND was managing 16,034 residential and commercial units.

Both ADLER and WESTGRUND have almost identical business models and strategies and aim to continue to build their property portfolio in Germany, which are situated primarily in B-locations and the peripheries of German metropolitan areas. Through this acquisition, ADLER aims to leverage on a number of synergies, especially in connection with management, organisation and financing. Required levels of control have been obtained due to the more than 50 per cent share of the voting interest.

The purchase price for the acquisition of 94.9 per cent of shares in the share capital of WESTGRUND amounts to EUR 407,324 K consisting of a cash component of EUR 224,206 K and the fair value measurement of allowed equity instruments of EUR 183,118 K. The equity component comprises 14,075,155 new non-par shares of ADLER AG from the non-cash capital increase, granted to the shareholders of WESTGRUND in exchange for their shares in WESTGRUND (share swap). The equity component is rated with the Xetra opening price of EUR 13.01 per share dated 26 June 2015.

Allocation of the purchase price to acquired assets and liabilities is provisional as a final purchase price allocation has not been concluded at the reporting date. At the time of initial consolidation, the market values of the acquired assets and liabilities break down as follows:

WESTGRUND Aktiengesellschaft, Berlin	**'000 EUR**
Investment property	761,201
Goodwill	103,471
Other long-term assets	7,057
Current assets	36,151
Cash and cash equivalents	39,888
Assets acquired	**947,768**
Non-controlling interests acquired	**-990**
Long-term debt	-445,500
Current liabilities	-72,065
Liabilities acquired	**-517,565**
Net assets at 100%	**429,214**
Non-controlling interests	-21,890
Cost	**407,324**

Goodwill results from the preliminary purchase allocation of EUR 103,471 K, is allocated to anticipated synergies of joint operations in both companies in the areas of structural costs, management, purchasing and inventory management, as well as local residential services. ADLER's competence regarding privatization and the sale of real estate can find useful and profitable application on WESTGRUND's portfolio. It is to be noted that initial goodwill arrangements for impairment test purposes have not been completed at the balance sheet date.

At the acquisition date, investment property included predominantly developed land consisting of 16,005 residential units and 183 commercial units with a rentable area of approx. 1 million m² and a net rental income of EUR 52.9 million per annum. Determination of the fair value of the investment properties was carried out on the acquisition date through external expertise based on the discounted cash flow method. A weighted average discount rate of 6.1 per cent and a weighted average capitalization rate of 5.3 per cent were applied in regards to the stock.

Acquired current assets include EUR 26,777 K of unbilled services deriving from apportionable management costs which at the date of acquisition were offset against tenants' advance payments of service costs totalling EUR 26,678 K. Moreover, current assets include short-term assets (EUR 2,523 K), other receivables from the sale of companies (EUR 2,856 K) and assets held for sale (EUR 3,050 K). The carrying amounts of acquired receivables have already been adjusted appropriately and correspond to their fair values at the acquisition date.

Long-term liabilities acquired consisted of EUR 410,858 K owed to credit institutions, EUR 23,224 K deferred tax liabilities, EUR 5,277 K leasing liabilities and EUR 5,269 K interest rate hedging instruments at their fair values.

Short-term liabilities consisted of EUR 27,728 K financial liabilities to banks, with EUR 26,678 K payments received from the advance service charge payments by tenants. EUR 5,195 K were accounts payable liabilities, EUR 2,524 K convertible bonds, with EUR 1,930 K liabilities held for sale and other liabilities amounting to EUR 7,844 K taken at fair value. Payments received from the tenants' advance payments of service costs were recorded on the balance sheet date with the transferred receivables from the as of now unbilled net services.

For the measurement of non-controlling interest, the IFRS 3.19 option was enforced in order to value the non-controlling interests based on the relevant share of net assets.

Since initial consolidation, income from WESTGRUND's property management totalling EUR 52,283 K and a profit before tax of EUR 46,519 K has been included in the consolidated statement of comprehensive income. If WESTGRUND had been fully consolidated from the 1st of January 2015, income from property management totalling EUR 97,409 K would have contributed EUR 85,123 K to the consolidated earnings before taxes (EBT).

Net income under other operating expenses was affected by recorded merger-associated costs of EUR 544 K. Transaction costs associated with the exchange of shares were reduced by the amount of EUR 514 K in equity from the capital reserve.

Acquisition of Wohnungsbaugesellschaft JADE mbH

In October 2014, ADLER completed a purchase agreement for the acquisition of a 94.9 per cent stake in Jade mbH. The transfer of benefits and encumbrances resulted in the first consolidation on 30 January 2015 (Closing Date).

JADE is the leading property company in Greater Wilhelmshaven and controlstwo further wholly owned subsidiaries established for the administration and management (Property & Facility Management) of approx. 6,705 residential units and 42 commercial units resulting in a total rentable area of approx. 387,970 m^2 residential and 7,208 m^2 of commercial space. On the transfer date rental income amounted to approx. EUR 20,235 K per annum.

ADLER's primary motives for the merger are the development potential of the property (no maintenance backlog, excellent location at Germany's largest naval base) and the anticipated synergy potentials in the areas of property and facility management.

The acquisition costs amounted to EUR 80,000 K and can be broken down into the acquired assets and liabilities as follows:

Wohnungsbaugesellschaft JADE mbH, Wilhelmshaven	**'000 EUR**
Investment properties	249,108
Other non-current assets	227
Current assets	11,423
Cash and cash equivalents	4,013
Assets acquired	**264,771**
Non-current liabilities	-8,752
Current liabilities	-127,831
Liabilities acquired	**-136,583**
Net assets at 100 %	**128,188**
Non-controlling interests	-6,541
Negative goodwill	-41,647
Cost	**80,000**

The purchase price was paid in cash and its allocation resulted in a negative goodwill amounting to EUR 41,647 K, which was immediately accounted for as a one-off effect due to considerable hidden reserves in the property portfolio and promptly included in other operating income. This negative difference is primarily due to the higher than purchase price fair values recorded in JADE's investment properties. These valuations were confirmed by independent experts' opinion.

For the measurement of non-controlling interest, the option offered by IFRS 3.19 was exercised in order to value the non-controlling interests based on the relevant share of identifiable net assets.

Current assets of approx. EUR 11,423 K include receivables primarily made up of trade payables corresponding to the fair value in the amount of approx. EUR 718 K. Current assets also include dedicated funds in the amount of EUR 8,835 K. The long-term debt of approx. EUR 8,752 K relates to liabilities acquired with respect to the Federal and State Government Employees Retirement Fund (VBL).

Current liabilities of approx. EUR 127,831 K relate primarily to short-term debts to banks amounting to EUR 124,188 K, the fixed rate period of which ended in January 2015. Funding has since been replaced by medium and long-term liquid assets. The remaining liabilities represent obligations for goods and services (EUR 925 K), other liabilities (EUR 943 K) and advance payments out of revenues from rental activity (EUR 1,774 K).

Since the initial consolidation, JADE's income from property management totalling EUR 36,140 K and a profit before taxes of EUR 6,860 K have been included in the consolidated statement of comprehensive income.

4.3 Acquisition of Real Estate Companies

Through the intermediate holding company, Magnus Siebte Immobilienbesitz and Verwaltungs GmbH, in which ADLER holds 100 per cent of the shares, the Group acquired 94.9 per cent of shares respectively in the following property companies:

- WBL Wohnungsgesellschaft Berlin Lichtenberg 1 GmbH
- WBL Wohnungsgesellschaft Berlin Lichtenberg 2 GmbH
- WBL Wohnungsgesellschaft Berlin Lichtenberg 3 GmbH
- WBL Wohnungsgesellschaft Berlin Lichtenberg 4 GmbH
- WBL Wohnungsgesellschaft Berlin Lichtenberg 5 GmbH

The acquired property portfolios are intended for inventory management. The acquisition does not constitute a business operation, as defined in IFRS 3, and was registered as the direct purchase of properties. It was thereby assigned to the acquisition cost of the property companies' individually identifiable assets and liabilities, based on their fair values. Investment properties totalling EUR 25,600 K were acquired through the property companies.

4.4 Acquisition of MountainPeak Trading Limited, Nikosia, Zypern

On 17 August 2015, ADLER acquired all shares of MountainPeak Trading Limited, Nikosia, Cyprus, together with two shareholder loans from the seller by means of cash benefits or payment in kind. The cash component amounted to EUR 71,500 K with EUR 175,000 K representing the mandatory convertible bond in favour of the seller, which has a term of three years with an interest rate of 0.5 per cent per annum and an initial conversion price of 16.50 per ADLER share. In return, the seller traded all shares in MountainPeak Trading Limited including receivables from the shareholder loan into the Group. Receivables from the shareholder loans were offset by the same amount with the corresponding loan and were included for the first time in the consolidated financial statements of MountainPeak Limited in the course of debt consolidation. Issuance of the required contingent capital for the mandatory convertible bond was approved at the Extraordinary General Meeting which took place on 15 October 2015 and registered in the Commercial Register on 24 November 2015. The mandatory convertible bond was issued in December 2015.

At the date of acquisition, MountainPeak Trading Limited had a 24.8 per cent holding in conwert Immobilien Invest SE, Vienna, Austria, together with a margin-based credit facility liability to the banks. The acquisition was reported and presented as an immediate purchase of aggregated assets and liabilities. The acquisition costs totalled EUR 246,500 K plus incidental acquisition costs of EUR 273 K and consist of the fair value of the mandatory convertible bonds issued in the amount of EUR 175,000 K plus a cash component of EUR 71,500 K. The mandatory convertible bonds of 10,606,060 shares were valued at the agreed conversion price of EUR 16.5 per share (for further information see the section 8.13 marked under “Capital Reserve”).

The acquisition cost of EUR 246,773 K was primarily made up of EUR 352,493 K for the participation of 24.8 per cent in conwert Immobilien Invest SE, with EUR 105,630 K for the acquired loans to banks. In the course of this transaction, the shareholding in conwert Immobilien Invest SE as an associated company was included in ADLER’s consolidated financial statements.(for further information see item 8.5 “Investments in Associated Companies”).

5 SPECIFIC ACCOUNTING POLICIES

5.1 Intangible Assets and Property, Plant and Equipment

Separately purchased intangible assets are initially accounted for at cost. Following initial recognition, intangible assets with finite useful lives are amortised using the straight-line method over their estimated useful lives, generally over three to five years, and tested for possible impairment as soon as there are indications of impairment. Impairments of intangible assets are accounted for as profit or loss within depreciation and amortisation of intangible assets.

Intangible assets with indefinite useful lives, which include goodwill in particular, are not subject to scheduled amortisation. They are tested for impairment at least annually, either on the basis of the individual asset or at the level of the cash-generating unit. An impairment test is also carried out if impairment events have taken place.

Property, plant and equipment is accounted for at cost, less cumulative scheduled depreciation and cumulative impairment losses. Cost includes expenses directly attributable to the acquisition. Subsequent acquisition or production costs are only capitalised if it is likely that future economic benefits will flow to the Company. Repairs and maintenance are expensed in the statement of comprehensive income in the period in which they are incurred.

Property, plant and equipment is depreciated using the straight-line method over estimated useful life, usually between three and 20 years (office equipment) or six to 13 years (vehicle fleet and external facilities). The depreciation methodology and useful lives are reviewed and, if necessary, adjusted at every balance sheet date. The carrying amount of the property, plant and equipment is tested for impairment as soon as there are indications that the carrying amount exceeds the recoverable amount.

The residual values and residual useful lives are reviewed and, if necessary, adjusted at every balance sheet date.

Gains and losses from the disposal of assets are calculated as the difference between the income from disposals and carrying amount and accounted for as profit or loss.

5.2 Investment Properties

Investment properties include all properties held long term for the purpose of generating rental income and appreciation in value. In contrast to investment properties, inventories constitute assets that are held for sale in the normal course of business, which are in the process of construction for such sale or which are used in the course of the production of products and/or the rendering of services. Therefore, properties held as available for sale during normal business operations, being developed or to be developed with the intention of being sold is not subject to IAS 40. Such properties are reported under inventories and are subject to IAS 2.

Upon acquisition, investment properties are valued at cost including ancillary purchase costs. In subsequent reporting periods, investment properties are reported at fair value. The valuation results are presented in the consolidated statement of comprehensive income. Modernisation measures, as long as they occur on top of routine maintenance costs, will take place when it is probable that the Company will accrue future economic benefits from then. The evaluation results are shown in the consolidated statement of comprehensive income under "Results from the valuation of investment properties".

The fair value of properties is the price that would be received for the sale of an asset between knowledgeable, willing parties in an arm's length transaction or, in the case of the transfer of a liability, the price that would be paid. The fair value in principle implies the sale of an asset. It equates to the (theoretical) price to be paid to the seller in a (hypothetical) sale of properties on the measurement date.

The fair value can be determined by applying the market-based approach, the cost-based approach or the income-based approach. In this process, as many observable, market-based input factors as possible are used and the use of non-observable input factors kept to a minimum.

IFRS 13 requires that investment properties be classified at fair value and that the sources of the input factors used in determining the fair value be cited. Classification takes place using the following three steps measurement hierarchy:

- Step 1: Non-adjusted, quoted prices on active markets for identical assets and liabilities, on the condition that the reporting entity has access to these active markets on the measurement date
- Step 2: Directly or indirectly observable input factors that are not attributable to step 1
- Step 3: Non-observable input factors

In the consolidated financial statements investment properties are not actively measured and are instead valued using input factors that are based on non-observable market data (step 3).

The fair values of investment properties are determined on the basis of opinions prepared by external experts based on current market data and internationally recognised valuation methods. The discounted cash flow and the income capitalisation methods are used pursuant to the German Property Valuation Ordinance (Immobilienwertermittlungsverordnung – ImmoWertV); please also refer to our disclosures on valuation methods under note 8.3.

Investment properties are derecognised when they are sold or unused over a sustained period of time and no future economic benefit is expected from their disposal. Gains or losses from sale or discontinuation are accounted for in the year of sale or discontinuation. Gains or losses are the difference between the sale price and the carrying amount less any costs of sale.

If properties are acquired for trading purposes and allocated to inventories accordingly, they are reclassified to investment properties if it becomes clear that that the company no longer intends to sell the properties and plans to retain the properties in its portfolio for a longer period of time to generate long-term rental income and capital appreciation.

Investment properties are reclassified as property development, when they are assigned to the Trading segment.

5.3 Impairment of intangible Assets

Intangible assets with indefinite useful lives or that are not ready for use, as well as goodwill are not subject to scheduled amortisation; are tested for impairment annually. Assets subject to scheduled depreciation/amortisation are tested for impairment if events and/or changes in circumstances indicate that the carrying amount may no longer be recoverable. An impairment loss is accounted for in the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of the asset's fair value less disposal costs and the value in use. For the impairment test, the assets are aggregated at the lowest level for which cash flows can be separately identified (cash-generating units). Goodwill is reviewed at the level of a cash-generating unit or group of cash generating units to which it is allocated.

The Group's key cash-generating units relate to property and investments in properties; investment properties are already accounted for at fair value, meaning that no additional impairment testing needs to be conducted. Moreover, shares in associated companies represent cash-generating units, unless an individual associated company does not generate cash inflows from continuing use, and is largely independent of the other company assets.

Write-ups can only be made up to amortised cost. No write-ups are considered for goodwill.

5.4 Financial Assets

Financial assets are divided into the following categories:

- Assets at fair value through profit or loss – AaFV
- Held to maturity – HtM
- Loans and receivables – LaR
- Available for sale – AfS

The ADLER Group has no held-to-maturity financial assets.

The classification depends on the purpose for which the financial asset was acquired. Management determines the classification for each financial asset on initial recognition and reviews this at every reporting date.

Financial assets can generally only be reclassified if certain conditions are met; no such reclassifications were conducted in the reporting year.

Financial Assets Measured at Fair Value through Profit or Loss

This category has two sub-categories: financial assets that have been classified as assets held for trading (HfT) from the beginning and those that have been classified as "fair value through profit or loss" (fair value option). A financial asset is allocated to the AaFV category if acquired principally for the purpose of being sold in the short term or if designated as such by management.

Such financial assets are carried under non-current assets to the extent that management does not intend to sell these within twelve months of the balance sheet date.

These are accounted for at fair value taking into account transaction costs. They are derecognised when the rights to payments from the investment expire or are transferred and the Group has transferred substantially all the risks and rewards of ownership. After initial recognition, the assets are measured at fair value, with gains and losses, including any interest and dividend income, accounted for as profit or loss under other operating income.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group directly provides money, goods or services to a debtor without any intention of trading these receivables. They are included under current assets if their maturity does not exceed twelve months after the balance sheet date. Otherwise, they are reported as non-current assets. Loans and receivables are included in consolidated balance sheet under trade receivables, other loans, other current assets and cash and cash equivalents. Loans and receivables are initially accounted for at fair value and subsequently measured at amortised cost using the effective interest method and less impairment losses. The effective interest method is only applied if the receivable has a maturity of more than twelve months. An impairment is recorded when there are objective and substantial indications that the amounts due are not fully recoverable. The age structure of the assets forms the basis of this method. Lease receivables are impaired by 40 per cent if against tenants still occupying the leased properties. Rent receivables in the case of tenants who have moved out are impaired by 90 per cent.

Impairment is measured in terms of the difference between the carrying amount of the receivable and the net present value of the estimated future cash flows from this receivable, discounted using the effective interest rate. The impairment loss is accounted for as profit or loss under other operating expenses. If the reasons for an impairment loss no longer apply in full or in part, the receivables are written up through profit or loss no higher than the amortised cost.

If a receivable is no longer collectible, it is offset against the impairment loss account for trade receivables. Subsequent payments for previously derecognised amounts are accounted for as profit or loss in other operating income.

Available-for-Sale Assets

Available-for-sale assets, are determined as being available for sale and not allocated to another category. After initially being accounted for, the asset is measured at fair value – provided this can be reliably measured; gains and losses are accounted for directly in other comprehensive income and reported in a separate reserve in equity. If the fair value cannot be measured reliably, they are accounted for at historical cost, whereas subsequent impairments and reversals are accounted for as profit or loss.

5.5 Derivative Financial Instruments and Hedges

The Group only employs interest rate hedges (cash flow hedges). A cash flow hedge solely when included in hedge accounting.

All derivative financial instruments are initially accounted for on the trading day at fair value. The market values of the derivative financial instruments are calculated using standard market valuation methods, taking into account the market data available on the valuation date. Changes in the fair values of derivatives that are not in a hedging relationship are accounted for as profit or loss in the income statement.

Unrealised gains and losses in the amount of the hedge-effective portion in a cash flow hedge are initially accounted for in other comprehensive income; they are reclassified to the income statement at the same time as the underlying transaction is presented in the income statement. The hedge-ineffective portion of the changes in fair value are directly included in the interest result.

5.6 Inventories

Properties acquired exclusively with an outlook to subsequent disposal in the normal course of business or for development and resale are reported as inventories. Other inventories such as heating oil stocks are also reported under this item.

Inventories are initially valued at acquisition cost or production cost. Subsequently, inventories are carried at the lower cost or net realisable value. The net realisable value comprises of the estimated selling price less estimated costs incurred until completion and the estimated required disposal costs.

5.7 Cash and Cash Equivalents

Cash and cash equivalents comprise cash, demand deposits and other highly liquid financial assets with an initial term of up to three months. They also include bank balances, which are intended for short-term debt service with an original term of no more than six months.

5.8 Non-current Assets Held for Sale

A non-current asset or a group of non-current assets are classified as held for sale if the associated value is to be predominantly generated through a sale transaction and not through continued rent collection, the asset is immediately available for sale and the sale is considered highly probable. The assets are valued at the lower of carrying value and fair value, less disposal costs. These assets or groups of assets, as well as the associated debts, are reported separately in the balance sheet.

Investment properties are classified as held for sale if ADLER makes a decision to sell the respective property, the properties can be sold immediately and the sale can be expected to be completed within a period of one year from this date.

5.9 Equity

Debt and equity instruments are classified as financial liabilities or equity on the basis of the economic substance of the contractual arrangements. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded in the amount of the issue proceeds, less directly attributable issuance costs.

Issuance costs are costs that would not have arisen had it not been for the issue of the equity instrument. Such costs are accounted for as a deduction from equity excluding all related income tax benefits, and offset directly against the capital reserves.

The components of a hybrid instrument (mandatory convertible bond) issued by the Group are reported separately as a financial liability and an equity instrument according to the economic substance of the agreement. At the time of issue, the fair value of the debt component is determined on the basis of the market interest rate applicable to a comparable non-convertible instrument. This amount is carried as a financial liability at amortised cost of purchase using the effective interest method until settlement upon conversion or maturity of the instrument. The equity component is calculated by subtracting the value of the debt component from the fair value of the entire instrument. The resultant value, less the impact on income tax, is accounted for under equity and is not subject to subsequent measurement.

5.10 Pension Provisions

Provisions for pensions and similar obligations are measured by external actuaries using the projected unit credit method for defined benefit plans. Past service costs are reported in personnel expenses, while the interest portion of the increase in the provision are accounted for in the financial result. Like deferred taxes, actuarial gains and losses are reported in other comprehensive income.

The amount accounted for corresponds to the net present value of the defined benefit obligation (DBO).

ADLER AG also pays contributions to state pension schemes in accordance with statutory provisions. The current payments from these defined contribution obligations are reported within personnel expenses as social security contributions.

5.11 Other Provisions

Other provisions that originated in the past and whose maturity or amount is uncertain, are formed for legal or constructive obligations to third parties when it is probable that the fulfilment of the obligation will result in an outflow of Group resources and when they can be reliably estimated.

The Company carries a provision for onerous contracts if the expected benefit from the contractual claim is lower than the unavoidable costs of fulfilling the contractual obligation.

The valuation is made on the basis of the best estimate of the extent of the obligation as at the balance sheet date. Non-current provisions are carried at the amount required to settle the respective obligation, discounted to the balance sheet date.

5.12 Liabilities

On initial recognition, loan liabilities and other liabilities are accounted for at fair value less transaction costs. After initial recognition, liabilities are measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when they are redeemed, i.e. when the obligations stipulated in the contract have been settled, set aside, or have expired. Liabilities are classified as current liabilities if the Group does not have an unconditional right to defer the repayment of the liability to a time later than twelve months after the balance sheet date.

In determining the fair value, expected future cash flows are discounted on the basis of market interest rates with matching maturities. Individual characteristics of the financial instruments subject to valuation are considered through standard credit rating spreads and liquidity spreads.

The fair value of the financial liabilities is determined on the basis of the input factors using the three-step measurement hierarchy.

5.13 Taxes

Current tax assets and liabilities are accounted for in the amount expected to be paid to (recovered from) the taxation authorities based on the tax rates and tax laws that have been enacted as at the balance sheet date.

Pursuant to IAS 12, deferred taxes are accounted for all temporary differences between the tax base of the assets and liabilities and their carrying amounts in the IFRS financial statements as well as the tax loss carry forwards.

The exception pursuant to IAS 12.15b was applied to acquisitions of property companies that were reported in the consolidated financial statements as acquisitions of groups of assets and liabilities and not within the scope of IFRS 3. If Group acquisition costs exceed tax carrying values, deferred taxes are only accounted for on the difference between the fair values and the acquisition costs in the Group.

The tax rates used to calculate deferred taxes were determined on the basis of currently valid statutory provisions. German Group companies use a corporate tax rate of 15.0 per cent, a solidarity surcharge of 5.5 per cent and a trade tax rate of 16.5 per cent. Deferred tax claims for temporary differences and for tax loss carry forwards are accounted for in the amount likely to offset the temporary difference against future taxable net profit. The anticipated impact of the so-called extended property deduction on the domestic trade tax will be considered in the valuation of deferred taxes.

Deferred tax claims for temporary differences and for tax loss carry forwards associated with investments in subsidiaries are not accounted for, as the Group is able to control their reversal and they will not be reversed in the foreseeable future.

Deferred tax assets and liabilities are offset against each other if the Group has a recoverable right to offset the current tax assets against current tax liabilities and if they apply to the income taxes of the same taxable entity levied by the same tax authority.

5.14 Leases

Economic ownership of the leased property is allocated to the lessee insofar as the risks and rewards arising from the leased asset in question are predominantly attributable to the lessee (financial lease). Leases in which a substantial proportion of all risks and rewards incidental to ownership of an asset remain with the lessor are classified as operating leases. Payments received in connection with an operating lease are accounted for in the income statement on a straight-line basis over the term of the lease. If the lessee bears all the major risks and opportunities, the lessee values the leased asset at its present fair value or at the lower fair value of future minimum lease payments and as a leasing liability in the same amount. The leasing liability is amortised and redeemed in subsequent periods using the effective interest method.

The Group is both lessor and lessee with regard to the letting of property.

5.15 Income

Income is accounted for to the extent that it is probable that economic benefits will flow to the Group and the income can be reliably measured.

Rental income is accounted for on an accrual basis in accordance with the terms of the underlying contracts.

Income from the sale of properties is accounted for when the financial gains and liabilities connected with the ownership of the properties have passed to the buyer (transfer of ownership rights, benefits and obligations arising from the properties). When disposing of property companies, this date regularly corresponds to the completion of the transfer of shares.

Revenues from the rendering of services are accounted for in the financial year in which the services are rendered. Services rendered over more than one period are accounted for in proportion to the services already rendered against the total services to be rendered.

Interest income is realised on a pro rata basis, taking into account the remaining claim and the effective interest rate over the remaining term.

5.16 Currency Translation

The consolidated financial statements are prepared in euros. The euro is the currency of the primary economic environment in which the Group operates and is therefore the functional currency.

Foreign currency transactions are translated into the respective Group company's functional currency at the exchange rate prevailing at the time of the transaction. Monetary foreign-currency items are subsequently translated at the applicable reporting date exchange rate. The currency exchange differences resulting from settlement of foreign currency transaction and from the exchange of monetary foreign currency items as at the reporting date are accounted for as profit or loss in other operating expenses or income.

The functional currency of the foreign companies is the respective national currency as the foreign companies conduct their business independently from a financial, economic and organizational point of view.

At the end of the year, the assets and liabilities of foreign companies are booked in euros at the exchange rate applicable as at the reporting date; expenses and income are translated into euros at the average rate for the year. Equity components are booked at the historical exchange rates prevailing at the respective dates of their initial consolidation. The differences relative to currency translation as at the reporting date are accounted for in the "currency translation reserve" under equity.

5.17 Residual Interests and Dividend Distribution

In its consolidated financial statements, ADLER includes subsidiaries that have the legal form of a partnership in which minority interests exist. Pursuant to IAS 32, the shareholder position of these minority interests is to be accounted for as a liability in the consolidated financial statements due to the statutory, non-excludable right of termination. The liability is valued at the net present value of the shareholder's settlement entitlement at the time it originates. This is usually the amount of the shareholder's capital contribution. The liability is then carried forward in line with the Company's earnings before changes in the liability are accounted for in earnings. The change to the liability is accounted for as profit or loss, unless it is due to capital contributions or withdrawals. If the carry-forward results in a claim against the shareholder, it is deferred until it again equates to a liability against the shareholder.

For stock corporations (Kapitalgesellschaften) that are part of the Group, liabilities for dividends to shareholders are only reported in the period of the resolution by the annual shareholders' meeting on the appropriation of profits.

5.18 Cash Flow Statement

The cash flow statement presents the development of the Group's payment flows in the financial year. The cash flow statement is presented in the consolidated financial statements using the indirect method, with consolidated earnings adjusted for items with and without an effect on cash flow. The cash flow statement presents cash flows from operating activities, investing activities and financing activities.

6. SIGNIFICANT ESTIMATES AND ASSUMPTIONS

In the course of preparing the consolidated financial statements, the Company makes assessments and assumptions about the expected future developments based on circumstances as at the reporting date. Naturally, the resulting estimates will rarely correspond to the actual subsequent circumstances. In this case, the assumptions and the carrying amounts of the affected assets or liabilities may be adjusted as required.

Assumptions and estimates are reviewed continuously and are based on experience and other factors, including expectations regarding future events that appear reasonable under the given circumstances.

In applying the accounting policies, management-produced the following estimates that have a material impact on the figures in the consolidated financial statements:

- In conducting impairment tests for goodwill assigned to the trading segment, a range of estimates is possible – especially in regards to the revenues that can be generated in the future and the trade margins that can be realised. The selling prices and sales volumes underlying these values are incorporated in five-year plans on the basis of expected market development and prior experience. Payment surpluses determined in this process are discounted to their present value taking into account the costs of equity and debt financing as well as a risk premium in line with the market. The figure that best reflects the market value based on various scenarios and under consideration of all known input factors is reported in the consolidated financial statements.

- Market values of the investment properties are based on the findings of independent experts commissioned for this purpose. These assessments are based on the discounted future cash flows determined according to the discounted cash flow or the income capitalisation methods. To perform the valuation, the appraisers have to estimate factors such as future rental income, vacancies, renovations and the interest rates to apply in the calculations, which have a direct impact on the fair value of the investment properties. Transaction costs in the amount expected by ADLER AG are also taken into account.

- Additionally, estimates are made regarding the net disposal prices of properties held for sale. ADLER AG relies on the findings of independent experts commissioned for this purpose, but also estimates the attractiveness of micro-locations and the purchasing power trend as the basis for setting selling prices. The range of selling prices is determined according to the location of the respective property. Prices and therefore the carrying value on the balance sheet are reviewed regularly to determine if they are reasonable and adjusted as required.

- The recoverability of rent receivables is also shaped by estimates. Assumptions are made regarding the ability to collect outstanding receivables in the trading segment based on the distribution of how long receivables have been outstanding. Based on experience, the probability that receivables older than three months will be uncollectible is assumed to be in the range of 25 per cent to 100 per cent, so that an impairment is recorded for this group. For rent receivables from the portfolio segment, receivables from resident tenants were impaired by 40 per cent and receivables from tenants no longer in the property by 90 per cent.

- Deferred taxes: On the basis of current planning, management decides to what extent future loss carry forwards can be utilised. This is based on the expected taxable income of the respective company.

- For other provisions, various assumptions have to be made regarding the probability of occurrence and the utilisation amount. All information that was known at the time of preparing the financial statements was taken into account.

In applying the accounting policies, the Management Board made the following judgments that have a material impact on the figures in the consolidated financial statements:

- In regards to properties held by the Group, the Management Board has to decide on each reporting date whether these assets are held as long-term rental properties, as investments or for sale. Depending on this decision, the properties are reported under inventories, investment properties or non-current assets held for sale.

- When property companies are acquired, it must be decided whether this constitutes the acquisition of a business operation. When business operations are taken over in addition to assets and liabilities (integrated group of activities), this constitutes a business combination. For example, the business processes of asset and property management, receivables management and accounting are considered an integrated group of activities. Another key indication that a business operation has been taken over is when the personnel of the acquired company is retained as well.

- All these processes and indications were negated with the acquisitions of MountainPeak Limited and WBL Wohnungsgesellschaft Berlin Lichtenberg GmbH (1 to 5), and as a consequence these acquisitions are not treated as mergers in the sense of IFRS 3 in 2015.

- When financial instruments are first accounted for, a decision must be made regarding the weighting to the category to which they will be allocated to: measured at fair value through profit or loss, loans and receivables, assets held to maturity and financial assets available for sale.

7. SEGMENT REPORTING

Since the takeover of ACCENTRO AG, the ADLER Group is organised into the following business areas:

1. Portfolio: primarily includes investment properties. A limited number of property development projects, which are not allocated to the trading segment, are included
2. Trading: includes the acquisition and sale of properties together with the sale of individual apartments to private investors. The brokerage business within the apartment privatisation segment is allocated to the business area as well.

The Group’s remaining activities which do not constitute a separate segment are accounted for in the “Other” column. These mainly consist of the remaining ADLER AG properties in old portfolios which have been or are in the process of being disposed of.

Segment reporting follows internal reporting to the Management Board of ADLER AG as upper management in terms of IFRS, which is based on the trade and portfolio business areas (management approach). Since the Group only trades in properties that are located in Germany, geographical segmentation has not been performed.

Income and EBIT are allocated to the segments as follows:

ADLER Group In EUR '000	Trade 2015	Portfolio 2015	Other 2015	Group 2015
Income from property management and effects from the disposals of properties	39,497	329,650	15,646	384,793
thereof:				
Rent	5,754	208,346	2,539	216,639
Sales	31,430	121,304	13,107	165,841
Conveyance	2,313	0	0	2,313
Wertänderung der als Finanzinvestition gehaltenen Immobilien	0	58,860	0	58,860
EBIT	**6,299**	**170,536**	**-250**	**176,585**
Result of investments accounted for using the equity method	573	-903	0	-330
Financial result	**-2,321**	**-79,066**	**-47**	**-81,434**
Earnings before taxes	**3,405**	**91,711**	**-295**	**94,821**

The trading segment generated proceeds of EUR 39,497 K (previous year: EUR 15,361 K) thereof EUR 31,430 K (previous year: EUR 12,758 K) resulted from sales. EBIT in the trading segment amounted to EUR 6,299 K (previous year: EUR 416 K), the profit before tax to EUR 3,405 K (previous year: EUR -876 K). Sales in the rental segment amounted to EUR 329,650 K (previous year: EUR 145,929 K). EBIT in the rental segment amounted to EUR 170,536 K, thereby remaining around the previous year's level (EUR 169,789 K).

Proceeds from the measurement of investment properties are largely the result of estimating the value of specific properties at fair value in accordance with IAS 40 after these properties were acquired in portfolios. These results are allocated to the Portfolio segment. Financing expenses result on the one hand from the direct financing of real estate portfolios and, on the other hand, from issuing bonds and convertible bonds. These mainly apply to the Portfolio segment.

Depreciation and amortisation of property, plant and equipment as well as intangible assets break down within the fiscal year into the segments as follows:

ADLER Group In EUR '000	Trade 2015	Portfolio 2015	Other 2015	Group 2015
Depreciation of property, plant and equipment	-24	-295	-1	-320
Amortisation of intangible assets	-6	-703	0	-709

Last year's revenues and EBIT break down as follows:

ADLER Group In EUR '000	Trade 2014	Portfolio 2014	Other 2014	Group 2014
Income from the management of properties and from the sale of properties[1)]	15,361	145,929	10,119	171,409
Of which:				
Letting	1,138	81,601	1,143	83,882
Disposals[1)]	12,758	64,289	8,976	86,023
Brokerage	1,465	39	0	1,504
Change in the fair value of investment properties	0	132,934	0	132,934
EBIT	**416**	**169,789**	**239**	**170,444**
Result of investments accounted for using the equity method	124	-514	2,214	1,824
Financial result	**-1,168**	**-38,109**	**-232**	**-39,509**
Result before taxes	**-876**	**132,070**	**1,565**	**132,759**

1) The income from property management as well as notes for sale were adjusted retroactively, see section 2.1.

Last year's depreciation and amortisation of property, plant and equipment and intangible assets break down as follows:

ADLER Group In EUR '000	Trade 2014	Portfolio 2014	Group 2014
Depreciation of property, plant and equipment	-19	-102	-121
Change in the fair value of investment properties	-257	-119	-376

The figures in the preceding table relate to the period ranging from the 1st of July to the 31st of December 2014, as ACCENTRO AG has only been included in ADLER AG's consolidated financial statements from the 30th of June 2014 and the trading segment in the ADLER Group was also only first established on the 1st of July 2014.

Segment assets, liabilities and investments break down as follows:

ADLER Group In EUR '000	**Trade 2015**	**Portfolio 2015**	**Other 2015**	**Consolidation 2015**	**Group 2015**
Assets per segment	197,689	2,527,020	12,148	-13,954	2,722,903
Investments accounted for using the equity method	1,593	351,750	0	0	353,343
Total segment assets	**199,282**	**2,878,770**	**12,148**	**-13,954**	**3,076,246**
Segment liabilities	**126,811**	**2,173,810**	**11,658**	**-13,954**	**2,298,325**
Segment investments	**102,409**	**1,441,253**	**0**	**0**	**1,543,662**

The previous year's segment assets, liabilities and investments break down as follows:

ADLER Group In EUR '000	**Trade 2014**	**Portfolio 2014**	**Other 2014**	**Consolidation 2014**	**Group 2014**
Assets per segment	142,703	1,353,862	19,073	-100,302	1,415,336
Investments accounted for using the equity method	947	124	52	0	1,123
Total segment assets	**143,650**	**1,353,986**	**19,125**	**-100,302**	**1,416,459**
Segment liabilities	**87,557**	**1,099,962**	**18,031**	**-100,302**	**1,105,248**
Segment investments	**61,816**	**613,331**	**0**	**0**	**675,147**

Segment assets mainly comprise property, plant and equipment, investment properties, inventories as well as receivables from third parties and the other segment. Goodwill amounting to EUR 27,081 K (previous year: EUR 27,081 K) is assigned to the trading segment. A goodwill of EUR 103,471 K (previous year: EUR 0) is shown in the rental segment. At the balance sheet date this goodwill has not yet been allocated to a cash-generating unit. For further information see point 8.1 "Goodwill and intangible assets".

Debt consolidation between reportable segments within the Group and the "Other" column is reported in the "Consolidation" column.

Segment liabilities mainly comprise financial liabilities, operating liabilities and liabilities pertaining to the "Other" segment.

Segment investments include additions to property, plant and equipment as well as intangible assets, investment properties and investments in affiliated companies.

8. NOTES TO THE CONSOLIDATED BALANCE SHEET

8.1 Goodwill, Intangible Assets

In EUR '000 2015	Goodwill	Customer relationships and similar assets	Other intangible assets	Total
Cost				
As at 01.01.2015	27,081	1,412	726	2,138
Additions from acquisitions (+)	103,471	0	2	2
Additions (+)	0	0	349	349
Reclassifications (+)	0	0	0	0
Disposals (-)	0	0	-11	-11
As at 31.12.2015	**130,552**	**1,412**	**1,066**	**2,478**
Amortisation				
As at 01.01.2015	0	235	176	411
Additions (+)	0	470	239	709
Disposals (-)	0	0	0	0
As at 31.12.2015	**0**	**705**	**415**	**1,120**
Carrying amounts 01.01.2015	27,081	1,177	550	1,727
Carrying amounts 31.12.2015	**130,552**	**707**	**651**	**1,358**

In EUR '000 2014	Goodwill	Customer relationships and similar assets	Other intangible assets	Total
Cost				
As at 01.01.2014	0	0	42	42
Additions from acquisitions (+)	27,081	1,412	149	1,561
Additions (+)	0	0	535	535
Reclassifications (+)	0	0	0	0
Disposals (-)	0	0	0	0
As at 31.12.2014	**27,081**	**1,412**	**726**	**2,138**
Amortisation				
As at 01.01.2014	0	0	35	35
Additions from acquisitions (+)	0	0	0	0
Additions (+)	0	235	141	376
Disposals (-)	0	0	0	0
As at 31.12.2014	**0**	**235**	**176**	**411**
Carrying amounts 01.01.2014	0	0	7	7
Carrying amounts 31.12.2014	**27,081**	**1,177**	**550**	**1,727**

Goodwill of EUR 103,471 K arising from the acquisition of WESTGRUND in June 2015 is allocated to the trading segment, together with EUR 27,081 K pertaining to the acquisition of ACCENTRO AG in June 2014.

The allocation of goodwill from the acquisition of WESTGRUND to the cash-generating units for impairment testing purposes, has not yet been concluded due to the ongoing integration of WESTGRUND in the ADLER Group. The first impairment test is scheduled to be carried out mid-2016. At the reporting date there is nothing to indicate an impairment of goodwill following the acquisition of WESTGRUND.

The trading segment and associated goodwill underwent annual impairment testing, for the purpose of which the segment's realisable value was determined by calculating the segment's value in use. The calculation is based on predicted cash flows and these are in turn derived from the five-year plan approved by the Management Board. Detailed planning will be carried out for the period in which the Management Board calculated the budgeted cash flow on the basis of past positive developments in the privatisation business and favourable expectations in regards to future market development. This is based on the predicted movement in sold and brokered residential units, and – given the rising curve in the trading segment – an anticipated increase in the contribution to profit per residential unit.

The budgeted cash flows stemming from the five-year plan were discounted at the weighted average cost of capital of 7.8 per cent (previous year: 9.2 per cent). This after-tax interest rate reflects the specific risks of the Trading segment compared to the market portfolio. To account for the risks related to future market development, an additional growth deduction of 0.5 per cent (previous year: 1.3 per cent) is applied for cash flows after the five-year period.

The reporting date impairment test performed on the goodwill resulted in a significant overlap of goodwill. As a result, the disclosure of sensitivities is omitted.

Customer values and similar rights which were reported also stem from the purchase price allocation as part of the initial consolidation of ACCENTRO, relating to the network of brokers, and are being amortised over a period of three years.

8.2 Property, Plant and Equipment

In EUR '000	2015	2014
Cost		
As at 01.01	666	159
Additions through acquisition (+)	445	399
Additions (+)	650	288
Reclassifications (+)	0	0
Disposals (-)	-9	-180
As at 31.12	**1,752**	**666**
Changes in value		
As at 01.01	172	119
Additions (+)	320	121
Disposals (-)	-9	-68
As at 31.12	**483**	**172**
Carrying amounts 01.01	494	40
Carrying amounts 31.12	**1,269**	**494**

8.3 Investment Properties

In EUR '000	2015	2014
Carrying amounts 01.01.2015	**1,170,159**	**417,865**
Additions through acquisition IFRS 3 (+)	1,010,309	240,225
Additions through investment properties. property companies (+)	155,355	297,646
Other Additions (+)	23,894	137,276
Fair value increases (+)	108,679	139,190
Fair value decreases (-)	-49,819	-6,257
Reclassifications (+/-)	-53,416	-6,128
Disposals (-)	-94,974	-49,658
Carrying amounts 31.12	**2,270,187**	**1,170,159**

Investment properties are encumbered by land charges as collateral for liabilities to financial institutions.

Additions during the year under review are mainly due to the acquisition of WESTGRUND (EUR 761,201 K) and WBG JADE (EUR 249,108 K) as well as the acquisition from additional property portfolios in the fiscal year. The disposals are resulting from sale of smaller partial portfolios and single units.

Valuation gains of EUR 108,679 K (previous year: EUR 139,190 K) and valuation losses of EUR 49,819 K (previous year: EUR 6,257 K) were realised during financial year 2015. Following these gains and losses, the net valuation result amounted to EUR 58,860 K (previous year: EUR 132,933 K).

During the financial year, the Group's trading segment acquired investment properties amounting to EUR 33,300 K and consequently reclassified in equity as property development. Other reclassifications include investment properties totalling EUR 20,117 K, which are classified in accordance with IFRS 5 as non-current assets held for sale.

The income statement contains the following material amounts for investment properties:

In EUR '000	2015	2014
Income from property management	208,346	81,601
Expenses from property management	-104,300	-50,112
Earnings from property lettings	**104,046**	**31,489**

The fair value (level 3 of fair value measurement on the basis of measurement models) of individual properties or individual property portfolios is determined on the basis of discounted future cash flows using the DCF method or the gross rental method.

Determining the measurement methods and procedures for the Group and coordinating the process is the Management Board's responsibility. Measurement is performed by external experts based on data collected on the measurement date and largely provided by asset management at ADLER AG. This process ensures that the measurement of properties can be carried out in line with market conditions and in reference to the reporting date. The fair value changes between the currant and the previous year are checked for plausibility by bookkeeping and asset management. Subsequently, the measurement results are discussed with the Management Board.

According to the DCF method, future expected cash flows from a property are discounted to the valuation date. Cash flows from the respective property are determined for this purpose in a detailed planning period (ten years). They equal the net balance of expected incoming and outgoing payments. While the incoming payments are generally composed of net rents, the outgoing payments (gross) consist mainly of the operating costs that are borne by the owner. The net cash flows for each period (discount rate) are object-specific and discounted in line with market conditions as at the balance sheet date, 31 December 2015.

This results in the fair value of the cash flows for the respective period. A potential discounted residual value (terminal value), which reflects the price most likely to be realised at the end of the planning period. Here, the discounted cash flows are capitalised as a perpetuity at what is known as the exit rate. In 2015, this falls in a range of 3.4 per cent to 9.0 per cent (previous year: 2.8 per cent to 8.0 per cent) depending on the property. The sum of the discounted cash flows and discounted potential residual value forms the gross value of the property being valued. Of this gross capital value, market-specific transaction costs of a potential buyer are deducted at 7.5 per cent to 10.5 per cent (previous year: 7.4 per cent to 10.5 per cent) for measurement at the net capital value.

The following overview shows the significant assumptions and results used in determining the fair value of investment properties in the course of valuation through the DCF method:

Valuation parameters	Unit	Average	Range
Discount rate	%	5.80	4.75 – 6.75
Maintenance costs	EUR/m²	8.16	5.00 – 11.45
Administrative expenses	per rental unit/year	255.94	250.00 – 307.27
Stabilised vacancy rate	%	4.00	1.25 – 11.00
Valuation results			
Actual rent multiplier		14.36	9.42 – 20.64
Market value per m²	EUR/m²	846.05	400.00 – 1,650.00

Measurement in the previous year was based on the following parameters:

Valuation parameters	Unit	Average	Range
Discount rate	%	6.00	4.7 – 6.4
Maintenance costs	EUR/m²	8.73	6.66 – 10.97
Administrative expenses	per rental unit/year	252.86	236.00 – 280.00
Valuation results			
Actual rent multiplier		13.94	11.74 – 15.24
Market value per m²	EUR/m²	761.93	470.95 – 1,291,64

Various parameters were used to determine the discount rate. The discount rate is comprised of the base rate and a risk premium. This risk premium consists of an interest rate relevant to the specific sub-segment, the type of use and the quality. These assessments are made on the basis of information from current market data and official documents, and information from the expert committee, Thus exhibiting variation in the risk premium varies from one property to the next.

Other properties (EUR 6,560 K) are valued using the income capitalisation approach under consideration of the ImmoWertV. Through this approach, the fair value of investment properties is determined based on income and expenses, and discounted using a risk-adjusted discount rate specific to the property. The land value is determined separately from the market value of the property.

The following overview shows the significant assumptions and results used in determining the fair value of investment properties in the course of valuation using the income capitalisation approach:

	2015		2014	
	Average	**Range**	**Average**	**Range**
Property-specific interest rate in %	5.5	5.00 – 5.75	5.4	4.15 – 5.90
Remaining useful life in years	39	30 – 45	45	29 – 50
Maintenance costs EUR/m²	11.9	9.68 – 12.55	8.8	8.00 – 12.20
Administrative costs in % of gross profit	7.2	4.52 – 9.67	5.4	4.41 – 7.91

The fair values determined using the income capitalisation approach coincide with to net values, so that transaction costs did not have to be deducted.

The presented valuation parameters represent market-value weighted averages. The assumptions used for the measurement of existing properties are made by the independent appraiser and based on substantial professional experience. The expert opinions commissioned by the Group are subject to the rules of the RICS (Royal Institution of Chartered Surveyors).

Market value fluctuations in the property portfolios are relatively low due to the stable market for residential properties. The chosen interest rate and underlying market rents were identified as material value drivers influenced by the market. In the following, the effects of possible fluctuations in these parameters are represented separately. Interactions between the parameters are possible but cannot be quantified due to the complexity of the relationships.

	Capitalisation rate		Market rent	
	-0,5 %	**+0,5 %**	**-10 %**	**+10 %**
Changes in value				
in ‘000 EUR	233,864	-266,778	-293,293	282,677
in %	10.5	-12.0	-13.2	12.7

The following table shows the geographical distribution of the property portfolio for rental space , market values and the significant assumptions used in determining the valuation methods described.

	Total rental area in m²	Discount rate in %	Capitalisation rate in %	Actual rent multiplier	Stabilised vacancy rate in %	Market value 2015 in '000 EUR	Market value 2014 in '000 EUR
Lower Saxony	1,028,149	5.90	5.00	13.90	3.82	731,483	119,401
North Rhine Westphalia	678,509	5.47	5.04	15.17	4.70	535,054	509,221
Saxony	472,325	5.85	5.25	13.47	4.48	297,756	185,767
Saxony-Anhalt	216,231	6.00	5.24	13.08	4.81	130,003	76,821
Brandenburg	225,156	5.92	5.40	13.65	3.86	148,532	39,371
Other	422,129	5.91	4.97	15.40	2.90	427,359	239,578
Total	**3,042,498**	**5.80**	**5.08**	**14.36**	**4.00**	**2,270,187**	**1,170,159**

8.4 Loans to Associates

In EUR '000	2015	2014
Cost		
As at 01.01	6,870	6,703
Additions (+)	341	513
Reclassifications (-)	-3,939	-346
As at 31.12	**3,272**	**6,870**
Amortisations		
As at 01.01	5,963	5,567
Additions (+)	623	742
Disposals (-)	-3,314	-346
As at 31.12	**3,272**	**5,963**
Carrying amounts 01.01	907	1,136
Carrying amounts 31.12	**0**	**907**

Due to the disposal of the loan to the Airport Center Luxembourg GmbH (carrying amount: EUR 907 K) no further loans to associated companies are reported at the balance sheet date. Other loans to associated companies are already written off in full.

8.5 Investments in Associated Companies and Joint Ventures

At the reporting date, six companies (previous year: six) were included at equity in the consolidated financial statements. Materiality aspects are waived for the at equity inclusion of three (previous year: three) associated companies.

In EUR '000	2015	2014
Carrying amounts 01.01	**1,123**	**3,460**
Additions	352,550	948
Disposals	0	-5,109
Share of gains and losses	-330	1,824
Carrying amount 31.12	**353,343**	**1,123**

The increase in the financial year resulted primarily from the acquisition of an approx. 24.8 per cent holding in conwert Immobilien Invest SE, Vienna, Austria through which the Group indirectly acquired all shares in MountainPeak Trading Limited, Nicosia, Cyprus. On 17 August 2015, the Group acquired a total of 21,160,921 shares in conwert Immobilien Invest SE. At the time of acquisition, this approximated to a holding of 24.8 per cent, giving the Group significant influence. The investment was therefore included in the consolidated financial statements as an associated company using the equity method. conwert Immobilien Invest SE is geared towards the long-term management and development of properties and is primarily active in Austria and Germany. Its business model is based on the three areas of portfolio management, namely the development, sale and management of properties. The investment costs amounted to EUR 352,493 K (see section "4.4 Acquisition of MountainPeak Trading Limited."). The difference between the acquisition cost and the net assets of conwert as of 30 September 2015, is mainly attributable to the investment properties and benefits of continued use.

The investment in conwert Immobilien Invest SE (31 December 2015: 23.5 per cent, at the acquisition date: 24.8 per cent) is the Group's only significant investment in associated companies at the balance sheet date.

The very latest available financial information relating to conwert Immobilien Invest SE is the IFRS consolidated financial statements published as of 30 September 2015. At the date on which ADLER's 2015 consolidated financial statements were released, no published information for Q4 2015 of conwert Immobilien Invest SE was available. Therefore, a best possible estimate has been made based on financial information available as at 30 September 2015, with regard to conwert's fourth quarter outcome.

The following table contains summarised financial information of conwert Immobilien Invest SE based on the most recently published IFRS consolidated financial statements:

Financial information of conwert Immobilien Invest SE, Vienna, Austria		
In EUR '000	**30.09.2015**	**30.09.2014**
Revenue	294,641	259,052
Consolidated net earnings	68,590	-19,856
Other comprehensive income	15,070	-1,540
Net result (100 %)	**83,660**	**-21,395**
In EUR '000	**30.09.2015**	**31.12.2014**
Non-current assets	2,586,611	2,536,298
Current assets	368,538	437,687
Non-current liabilities	1,388,619	1,580,479
Current liabilities	365,758	288,915
Equity (100 %)	**1,200,772**	**1,104,591**

The development of the investment at the balance sheet date breaks down as follows:

In EUR '000	**2015**
Group acquisition cost as of the date of purchase	**352,493**
Profit from continuing operations, attributable to the Group[1)]	5,775
Impact of the change in the participation rate against the time of acquisition[1)]	-6,543
At-equity result	**-768**
Other result, attributable to the Group[1)]	0
Carrying amount of the investment as at 31 December 2015	**351,725**

[1)] Includes adjustments and estimates as explained above.

Based on market prices, on the balance sheet date 21,160,921 shares reached a value of EUR 297,099 K (at acquisition: EUR 246,948 K). Since, due to capital measures, the share value has fallen below the purchase price paid at the above mentioned , decreasing the original holding from 24.8 per cent to 23.5 per cent, it was deemed necessary to carry out an impairment test in order to test the intrinsic value at the balance sheet date. No impairment was established.

The at-equity accounted investment in the Airport Center Luxembourg GmbH was sold in the reporting period, together with the loan to the holding company. As part of the reclassification, impairment had already been detected in the fair value less selling costs (EUR 282 K) for groups identified for disposal in the reporting year. The disposal resulted in no further impact on earnings.

The Group also holds share in a number of associated companies and joint ventures of lesser significance. The following tables show the book value and profit share together with other comprehensive income of these associated companies arranged in an aggregated format.

In EUR '000	**2015**	**2014**
Carrying amount of shares on not vital at equity consolidated companies	**1,618**	**1,123**
Group's share in the results of non-vital at-equity companies:		
– Profit from continuing operations	439	1,824
– Other results	0	0
Total result	**439**	**1,824**

The pro-rata gains or losses for the associated companies accounted for at equity were fully recognised in 2015. There are no cumulative unrecorded losses.

8.6 Other Investments and Other Long-term Assets

Other financial assets include a 5.1 per cent participation in Immeo Berlin C GmbH (formerly: CITEC Immo Germany GmbH) amounting to EUR 1,188 K (previous year: EUR 1,175 K), which is held by ACCENTRO AG. In fiscal 2015, revenues of EUR 48 K (previous year: EUR 18 K) were achieved as a result of this.

Other non-current assets include an employer's pension liability insurance policy with a capitalised value amounting to EUR 310 K.

8.7 Deferred Taxes

Deferred tax assets (+) and liabilities (-) are composed as follows:

In EUR '000	2015	2014
Tax loss carryforwards (deferred tax assets)	39,465	16,917
Valuation of investment properties (deferred tax assets)	56	1,724
Valuation of interest rate swaps (deferred tax assets)	5,131	315
Valuation of pension provisions (deferred tax assets)	271	415
Valuation of (convertible) bonds (deferred tax assets)	6,586	1,775
Valuation of financial liabilities (deferred tax assets)	5,311	156
Valuation of Investment Properties / Inventories (deferred tax liabilities)	-114,813	-50,239
Valuation of (convertible) bonds (deferred tax liabilities)	-6,270	-3,639
Accrual of financing costs (deferred tax liabilities)	-6,901	-5,332
Other	1,490	-192
Total deferred tax assets	56,820	21,302
Total deferred tax liabilities	-126,494	-59,402
Offsetting	-56,355	-20,319
	56,355	20,319
Reported deferred tax assets	**465**	**983**
Reported deferred tax liabilities	**-70,139**	**-39,083**

Deferred tax assets for tax loss carryforwards are recognised at the amount at which the corresponding tax benefits are likely to be realised through future taxable income (recognised at least at the value of the deferred tax liabilities). The loss carryforwards exist exclusively in Germany and therefore do not expire. Therefore, maturity structures are not disclosed for the loss carry forwards.

No deferred tax assets were recognised on corporate tax loss carry-forwards of around EUR 64.3 million (previous year: around EUR 20.4 million) and trade tax loss carry-forwards of around EUR 97.5 million (previous year: around EUR 22.4 million) since their realisation is not sufficiently certain.

For domestic deductible temporary differences (excluding loss carryforwards) totalling EUR 19.6 million, deferred taxes were not capitalised since their future use is unlikely. With regard to passive taxable differences in the amount of EUR 10.9 million relating to investments in subsidiaries, no deferred taxes were recorded. This is because the Group is able to control their reversal and a reversal is unlikely in the foreseeable future.

8.8 Inventories

Inventories include approximatively EUR 158,822 K worth of properties acquired for sale (previous year: EUR 89,602 K), with EUR 784 K advance payments (previous year: EUR 0) and other inventories of EUR 48 K (previous year: EUR 15 K). The portfolio of inventory properties acquired for sale are as follows:

In EUR '000	2015	2014
Cost		
As at 01.01	95,989	26,387
Additions through acquisition (+)	182	0
Additions (+)	73,681	89,527
Disposals (-)	-37,822	-19,925
Reclassifications (+.-)	33,300	0
As at 31.12	**165,330**	**95,989**
Abschreibungen		
As at 01.01	6,387	7,539
Additions (+)	121	0
Write ups (-)	0	-686
Disposals (-)	0	-466
As at 31.12	**6,508**	**6,387**
Carrying amounts 01.01	89,602	18,848
Carrying amounts 31.12	**158,822**	**89,602**

The ADLER Group's inventories mainly comprise property acquired for sale. Inventories are measured at the lower of cost and fair value less costs to sell. The costs include the purchase price of the property plus incidental costs that can be allocated directly, such as broker's fees, tax on the purchase of property, notary fees and the cost of land register entries. The cost of renovations that constitute a major improvement to the property are capitalised. An asset's fair value less costs to sell equals the estimated recoverable proceeds in the ordinary course of business less the estimated costs up to completion and estimated selling expenses that will be encountered.

The carrying amount of inventories pledged as security for liabilities amounts to EUR 155,337 K (previous year: EUR 84.704 K).

Shelf real estate with a carrying amount totalling EUR 76,652 K (previous year: EUR 47,455 K) will likely be sold after more than twelve months.

8.9 Trade Receivables, Income Tax Claims and Other Current Assets

Current trade receivables break down as follows:

In EUR '000	2015	2014
Receivables from company disposals and sale of land	10,259	21,277
Rent receivables	5,985	6,161
Other	65	109
Total	**16,309**	**27,547**

Since rent always is supposed to be paid in advance, the lease receivables are mainly overdue. Thus, a specific provision at a flat rate of 40 per cent for existing tenants and 90 per cent for tenants who have moved out was perceived per receivable.

In other receivables, individual allowances are recognised if there are indications of non-recovery.

Trade receivables on the reporting date break down as follows:

In EUR '000	2015	2014
Trade receivables	16,309	27,547
Of which not impaired as of the reporting date and not overdue	614	19,239
Of which not impaired as of the report-ing date and overdue b y up to 30 days	2,141	488
Of which not impaired as of the reporting date and overdue between 31 to 60 days	813	161
Of which not impaired as of the reporting date and overdue between 61 and 90 days	529	408
Of which not impaired as of the reporting date and overdue between 91 and 180 days	332	422
Of which not impaired as of the reporting date and overdue between 181 and 360 days	1,295	263
Of which not impaired as of the reporting date and overdue above 360 days	4,600	109
Net value of impaired trade receivables	5,985	6,457

Value adjustments made on trade receivables developed as follows:

In EUR '000	**2015**	**2014**
As at 01.01	**53,215**	**34,172**
Change in the scope of consolidation	-4	16,769
Contributions (Depreciation)	5,588	2,685
Utilisation	-2,611	-411
As at 31.12	**56,188**	**53,215**

Other current assets break down as follows:

In EUR '000	**2015**	**2014**
Current securities	26	18,002
Earmarked financial assets	17,981	13,675
Advance payments for equity investments	0	10,000
Short-term loans to third parties	35,216	3,619
Notary escrow account	9,262	3,250
Sales tax receivables	0	2,564
Advance payment of financing costs	634	1,140
Receivable due to purchase	0	708
Other current assets	8,425	3,325
Total	**71,544**	**56,283**

The short-term investments in securities account for the temporary utilisation of excess liquidity.

Earmarked financial assets comprise restricted bank balances only to be used for maintenance and bank balances with usage restrictions that are solely designated to the redemption of certain short-term financial debts or for maintenance.

The value of the other current assets has been adjusted by EUR 422 K (previous year: EUR 660 K). All items under other current assets are short-term in nature, since they mainly result from contractual relationships which will be settled within one year.

8.10 Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and held at banks.

The amount of cash is valued at EUR 49,502 K (previous year: EUR 33,061 K), of which EUR 8,669 K (previous year: EUR 4,304 K) is restricted.

Because they are restricted, bank balances of EUR 17,981 K (previous year: EUR 13,675 K) were reported under other current assets in the reporting year.

8.11 Non-current Assets Intended for Sale

Non-current assets intended for sale include apartments and apartments valued at EUR 20,117 K (previous year: EUR 6,129 K) for which notarial purchase contracts were largely on hand on the reporting date.

Liabilities relating to sold properties, were accordingly classified as liabilities held for sale. No significant impact on earnings was recorded from the disposal of long-term assets held for sale last year. This was because they were measured at fair value, which corresponds to the sale price of the property less costs.

8.12 Capital Stock

The fully paid up capital stock of ADLER AG as of 31 December 2015 is EUR 46,103 K (previous year: EUR 31,877 K) and is divided into 46,103,237 (previous year: 31,876,672) no-par bearer shares with equal voting rights.

The share capital increased as a result of the capital increase following the acquisition of WESTGRUND to EUR 14,075 K. On 29 April 2015 the capital stock increase of up to EUR 14,987 K totalling EUR 14,075 K, was approved. Further increases in capital stock of EUR 151 K are attributable to the exercise of conversion rights on the convertible bonds.

The number of shares outstanding is as follows:

Amount	**2015**	**2014**
1 January	31,876,672	16,547,824
Issue of new shares	0	2,850,000
Conversion of convertible bonds	151,410	458,320
Non-cash capital increase through company acquisition	14,075,155	12,020,528
Total	**46,103,237**	**31,876,672**

OWN SHARES

By resolution of the Extraordinary General Meeting of 15 October 2015, the Managing Board of the company is authorised to purchase treasury shares as of 15 October 2015 up to 14 October 2020 totalling up to 10 per cent of the Company's existing capital stock and to dispose of the acquired treasury shares with the subscription rights of shareholders being excluded.

There were no own shares in financial year 2015.

AUTHORISED CAPITAL 2013/II

By resolution of the General Meeting which took place on 15 October 2013, the Management Board was authorised to increase the capital stock of the Company one or more times until 14 October 2018 with the consent of the Supervisory Board by a total of up to EUR 8,250 K in exchange for cash contributions or contributions in kind, by issuing up to 8,250 thousand new bearer shares with the option of excluding shareholder subscription rights.

AUTHORISED CAPITAL 2015/I

The annual general meeting approved the creation of additional authorised capital on 22 May 2015. With the entry of the authorised capital 2015/I on 26 June 2015 in the commercial register, the Management Board is authorised to increase the capital stock of the company up to and including 21 May 2020 with the consent of the Supervisory Board. New bearer shares will be issued in exchange for cash and / or contributions in kind one or more times, up to a total of EUR 13,300 K.

AUTHORISED CAPITAL 2015/II

The Extraordinary General Meeting of the company approved the creation of additional authorised capital on 15 October 2015. With the entry of the authorised capital 2015/II on 25 November 2015 in the commercial register, the Management Board is authorised to increase the capital stock of the company up to and including 14 October 2020 with the consent of the Supervisory Board. New bearer shares will be issued in exchange for cash and/or contributions in kind one or more times, up to a total of EUR 1,400 K.

CONDITIONAL CAPITAL 2012/I

By resolution of the Annual General Meeting of 28 June 2012, supplemented by resolution of the Extraordinary General Meeting of 15 October 2013, the company approved a conditional increase of capital stock 2012/I in the amount of EUR 8,250 K. The supplement to the original resolution was recorded in the commercial register on 22 October 2013. The conditional capital increase is linked to the relative warrants or convertible bonds for the issue of shares to holders of warrants or convertible bonds, which are provided with options or conversion obligations. The conditional capital increase will be implemented only as far as the holders of warrants and/or convertible bonds exercise options or conversion rights that are not served by the granting of own shares or other forms of settlement. The new shares carry dividend rights from the beginning of the financial year of issue for all financial years. The Annual General Meeting has not yet taken a profit appropriate resolution for this.

Following the exercise of conversion rights from the EUR 10 million, the 6.0 per cent convertible bond 2013/2017 together with the EUR 11.25 million convertible bond 2013/2018, the conditional capital 2012/I remains at EUR 7,592 K in 2013 to 2015.

CONDITIONAL CAPITAL 2015/I

By resolution of the Annual General Meeting of 22 May 2015, the company amended the decision made at the Extraordinary General Meeting of 15 October 2015 to a conditional capital 2015/II in the amount of EUR 4,000 K. The decision taken during the Extraordinary General Meeting of 15 October 2015 concerning the reduction of conditional capital 2015/I from EUR 7,600 K to EUR 4,000 K was recorded in the commercial register on 25 November 2015.

The conditional capital increase serves to grant shares to holders of warrants or convertible bonds, that are issued pursuant to the authorisation of the Annual General Meeting of 22 May 2015, up to 21 May 2020. The conditional capital increase is in accordance with the warrants or convertible bonds and the issuance of shares to holders of warrants or convertible bonds, which are provided with options or conversion obligations. The conditional capital increase will be implemented only insofar as the holders of warrants and/or convertible bonds exercise options or conversion rights that are not served by the granting of own shares or other forms of settlement. The new shares carry dividend rights from the beginning of the financial year of issue for all financial years. The Annual General Meeting has not yet taken a profit appropriate resolution for this.

As of 31 December 2015, conditional capital 2015/I remains in the amount of EUR 4,000 K.

CONDITIONAL CAPITAL 2015/II

By resolution of the Extraordinary General Meeting of 15 October 2015, the company approved a conditional capital 2015/II in the amount of EUR 10,606 K. The decision made at the Extraordinary General Meeting of 15 October 2015 concerning the creation of conditional capital 2015/II was recorded in the commercial register on 25 November 2015. The conditional capital increase serves exclusively to grant shares to the holders of the EUR 175 million mandatory convertible bonds, which were issued to finance part of the acquisition of MountainPeak on 28 December 2015. The conditional capital increase shall be carried out only to the extent that the holders of the EUR 175 million mandatory convertible bonds exercise their conversion rights or fulfill their obligation to convert.

The new shares carry dividend rights from the beginning of the financial year of their respective issue.

As at 31 December 2015, conditional capital 2015/II remains in the amount of EUR 10,606 K.

8.13 Capital Reserve

The capital reserve is primarily attributable to premiums on the capital increases in the current year and previous years, offset against the costs of the capital increase. Furthermore, the capital reserve includes the difference between the computed nominal value of the shares and the acquisition or issue price of the shares as well as the equity component of the convertible bonds that were issued, subsequently to the deduction of the applicable transaction costs and income tax effects. Differences from the acquisition of shares are recorded in the capital reserve with no change in status.

The capital reserve increased as a result of the non-cash capital increase in connection with the acquisition of WESTGRUND amounting to EUR 169,043 K. This includes the issue of shares generated in excess of the book value. In addition, the capital reserve increased by EUR 172,540 K to the equity component of the mandatory convertible bond issued in the financial year. In the course of the financial year, the costs of equity procurement amounted to EUR 564 K (previous year: EUR 1,682 K) and were registered at the net of any related income tax benefits within the capital reserve. The costs consist primarily of fees from the issuing bank and legal and consulting fees.

In connection with the above-mentioned equity transactions, deferred tax assets in the amount of EUR 23 K (previous year: EUR 275 K) were directly credited to the capital reserve during the financial year.

For further details, please refer to the consolidated statement of changes in equity.

8.14 Earnings Reserves

Retained earnings include adjustments in the opening balance sheet due to the conversion from the German Commercial Code (HGB) to the International Financial Reporting Standards (IFRS) in 2005 (first-time adoption) and the effects of changes to accounting policies pursuant to IAS 8, together with ongoing effects of the revaluation of pension provisions and hedge accounting. During the financial year, profits and losses from the revaluation of pension provisions amounting to EUR -23 K (previous year: EUR -509 K) as well as the change to the hedge-effective part of interest hedging instruments in the amount of EUR 284 K (previous year: EUR -14 K), were adjusted after deduction of the net applicable taxes in retained earnings.

The cash flow hedge reserve is valued at EUR 270 K (previous year: EUR -16 K). Reclassification into the profit and loss account did not take place during the reporting period.

8.15 Currency Translation Reserve

The currency translation reserve includes the cumulative difference in the exchange rate from initial consolidation and the subsequent consolidation of Adler McKinney LLC at the closing rate of the consolidated balance sheet, which was recorded in the currency translation reserve without affecting profit and loss.

The change in currency translation reserve of EUR 72 K is due to the subsequent consolidation of Adler McKinney LLC.

8.16 Minority Interests

This item is composed of equity held by shareholders outside the Group as well as the profit or loss of the subsidiaries and property companies. The consolidated net earnings attributable to the shareholders of the parent company are calculated as the difference between the consolidated net earnings before minority interests and the minority interests reported on the income statement.

Minority interests developed as follows in financial year 2015:

In EUR '000	2015	2014
Subsidiary WESTGRUND	26,977	–
Subsidiary ACCENTRO	12,359	8,594
Subsidiary JADE	6,151	–
WBR Wohnungsbau Rheinhausen GmbH	6,676	5,933
Other	6,400	5,283
Carrying amount 31.12	**58,563**	**19,810**

The minority interests from the initial consolidation are also highlighted under note 4.2 "Business Combinations". Furthermore, the development of minority interests is delineated in the statement of changes in equity.

The following tables list the relevant financial information of each subsidiary with minority interests that are not material for the Group. Pre-consolidation amounts are reported:

Combined balance sheets	**Subsidiary WESTGRUND**		**Subsidiary ACCENTRO**	
Headquarter	**Berlin**	**Berlin**	**Berlin**	**Berlin**
Minority interest %	**5.86**	**–**	**13.02**	**12.20**
In EUR '000	**2015**	**2014**	**2015**	**2014[1)]**
Current assets	60,974	95,070	205,610	124,103
Current liabilities	52,294	65,400	99,937	60,646
Net current assets	**8,680**	**29,670**	**105,673**	**63,457**
Investment properties	888,146	712,021	168,337	257,861
Non-current assets	839	2,297	21,257	20,231
Non-current liabilities	518,016	456,423	186,026	255,698
Net fixed assets	**370,969**	**257,895**	**3,568**	**22,394**
Equity	**379,649**	**287,565**	**109,241**	**85,851**

Combined statement of comprehensive income	Subsidiary WESTGRUND		Subsidiary ACCENTRO	
In EUR '000	2015	2014	2015	2014[1]
Revenue	80,508	35,854	156,979	53,716
Annual result	**75,021**	**60,230**	**22,786**	**7,070**
Other comprehensive income	662	-3,905	0	0
Net result	**75,683**	**56,325**	**22,786**	**7,070**
Profit or loss attributable to non-controlling interests	87	134	138	-64

Combined cash flow statement	Subsidiary WESTGRUND		Subsidiary ACCENTRO	
In EUR '000	2015	2014	2015	2014[1]
Cash flow from operating activities	15,708	9,403	-74,593	-59,432
Cash flow from investing activities	-91,154	-404,536	68,776	-115,498
Cash flow from financing activities	48,156	438,358	5,698	176,273
Change in cash and cash equivalents	**-27,291**	**43,225**	**-119**	**1,343**

[1] For the short fiscal year from 01.07.2014 – 31.12.2014

The subsidiary, WESTGRUND, has been a part of the Group since 26 June 2015; the previous year's figures have been included for comparative purposes only.

8.17 Pension Reserves

The projected unit credit method was used for the recognition and measurement of pension provisions as of 31 December 2015. Pensions and pension entitlements known on the reporting date as well as expected future increases in pensions and salaries were taken into account.

Significant actuarial assumptions are as follows:

In per cent	31.12.2015	31.12.2014
Discount rate	2.00%	1.90% to 2.00%
Future salary increases	0.00% to 2.50%	0.00% to 2.50%
Future pension increases	1.50% to 1.75%	1.50% to 1.75%
Best-estimate actuarial assumptions	2005G mortality tables by Dr. Klaus Heubeck	2005G mortality tables by Dr. Klaus Heubeck

Since the pension provisions of ADLER Real Estate Service GmbH solely consists of prior commitments to employees who have left the Company (vested and current benefits), the turnover rate is 0 per cent (previous year: 0 per cent). A standard fluctuation rate is employed when measuring the pension provisions of WBG GmbH.

The pension provisions developed as follows:

In EUR '000	2015	2014
Pension provisions at 01.01.	**4,280**	**724**
Actuarial gains /losses	-35	792
Acquisitions	78	3,843
Acquisition of plan assets	0	-986
Interest expense	104	125
Pension payments	-206	-190
Addition	27	44
Change in plan assets at 31.12 excl. interest income	20	-72
Pension provisions at 31.12	**4,268**	**4,280**

Plan assets developed as follows:

In EUR '000	2015	2014
01.01 plan assets	**1,073**	**0**
Acquisitions	0	986
Interest income from plan assets	22	15
Income from plan assets (excl. interest income)	6	0
Contributions to plan assets	39	95
Pension payments from plan assets	-25	-23
Actuarial losses	0	0
31.12 plan assets	**1,115**	**1,073**

In 2015, actuarial losses of EUR 35 K (previous year: gains of EUR 792 K) (disregarding deferred taxes) were recorded in other comprehensive income.

Sensitivity analysis:
Keeping all other assumptions constant, as of 31 December 2015, an increase or decrease in the key actuarial assumptions would have the following effect on the DBO as a 31 December 2015, keeping all other assumptions constant:

In EUR '000		2015	2014
Acturial interest	Increase of 0.5%	-332	-289
	Decrease of 0.5%	369	401
Pension increase	Increase of 0.25%	62	52
	Decrease of 0.25%	-60	-50
Income trend	Increase of 0.25%	1	0
	Decrease of 0.25%	-1	0

Of the pension provisions, an amount of EUR 239 K (previous year: EUR 194 K) are due within a year. This amount is uniformly reported under non-current liabilities together with the remaining pension obligations.

Since the commitments apply mainly to employees who have left the Company and no new commitments are being made, an annual payout of approximately EUR 240 K is expected for future years as well.

8.18 Other Provisions

Other provisions developed as follows in financial years 2015 and 2014:

In EUR '000	As at 01.01.2015	Additions through acquitions	Utilisation	Reversal	Addition	As at 31.12.2015	Non-current
Provisions for personnel obligations	477	324	-324	-49	76	504	504
Provisions for warranties	164	0	-154	0	1,308	1,318	112
Miscellaneous other provisions	642	0	-480	-33	1,493	1,622	140
Total	**1,283**	**324**	**-958**	**-82**	**2,877**	**3,444**	**756**

In EUR '000	As at 01.01.2014	Additions through acquitions	Utilisation	Reversal	Addition	As at 31.12.2014	Non-current
Provisions for personnel obligations	0	587	-138	-11	39	477	477
Provisions for warranties	270	10	-47	-106	37	164	0
Miscellaneous other provisions	0	899	-827	-45	615	642	325
Total	**270**	**1,496**	**-1,012**	**-162**	**691**	**1,283**	**802**

The provision for warranties covers statutory and contractual warranty obligations from property sales. Provisions for warranty obligations include a guarantee to the buyer from the sale of ESTAVIS Berlin Hohenschönhausen GmbH of EUR 1,042 K.

Long-term provisions include personnel obligations of EUR 402 K for early retirement commitments, with a EUR 66 K provision from the SAR programme together with EUR 35 K anniversary provisions.

8.19 Convertible Bond Liabilities

In EUR '000	2015	2014
Convertible bond 2013/2017	8,810	8,673
Convertible bond 2013/2018	9,138	9,161
Mandatory convertible bond 2015/2018	2,470	0
ACCENTRO Convertible bond 2014/2019	14,584	15,204
ACCENTRO Convertible bond2012/2017	0	899
WESTGRUND Convertible bond 2014/2016	604	0
Total	**35,606**	**33,937**
– of which non-current	34,982	33,894
– of which current	623	43

In December 2015, ADLER AG issued a mandatory convertible bond for a total nominal amount of EUR 175,000 K with a term of 3 years. The mandatory convertible bond initially entitles its holder to conversion rights of up to a total of 10,606,060 new no-par value bearer shares in ADLER from conditional capital. The initial conversion price is EUR 16.50 per share. If the conversion right is not exercised by the end of the term, the bond will be compulsorily converted into new, no-par value bearer shares in ADLER at the applicable conversion price. Due to their fixed conversion into ADLER shares and in accordance with IAS 32, the mandatory convertible bond only constitutes the present value of the interest payable debt, which was recorded as EUR 2,460 K under liabilities against the convertible bond. The remaining amount of EUR 172,540 K was adjusted in the capital reserve, net of transaction costs.

With regard to long-term debt, and under the presumption of no change being made at the reporting date, the liability component of the convertible bond after deduction of the pro rata transaction costs and deferred taxes, is recognised. Current liabilities from bonds are in part due to EUR 567 K from the WESTGRUND convertible bond 2014/2016 which is due in 2016 and EUR 57 K in interest claims from bond holders at the reporting date.

In June 2013, ADLER issued 5,000,000 convertible bonds (2013/2017) with a nominal value of EUR 2.00 per unit. The convertible bond amounts to EUR 10,000 K with an interest rate of 6 per cent and has a term lasting until 30 June 2017. ADLER accorded each bondholder the right to convert each bond into no-par bearer shares in ADLER. At the issue date, one bond equated to one share of the capital stock in the amount of EUR 1.00. Subject to possible adjustments, the conversion price is EUR 2.00.

In December 2013, ADLER issued 3,000,000 convertible bonds (2013/2018) with a nominal value of EUR 3.75 per unit. The convertible bond amounts to EUR 11,250 K with an interest rate of 6 per cent and has a term until 27 December 2018. ADLER accorded each bondholder the right to convert each bond into no-par bearer shares in ADLER. At the issue date, one bond equated to one share of the capital stock in the amount of EUR 1.00. Subject to possible adjustments, the conversion price is EUR 3.75.

151,410 convertible bonds were converted in fiscal 2015 (previous year: 458,320).

On 5 March 2014, ACCENTRO issued 6,000,000 convertible bonds (2014/2019) with a nominal value of EUR 2.50 per unit. The convertible bond amounts to

EUR 15,000 K with an interest rate of 6.25 per cent and has a term until 27 March 2019. By 31 December 2015, 600,000 bonds had been repurchased and 4,494 bonds had been converted into ACCENTRO shares.

On 14 July 2015 the Managing Board of ACCENTRO AG decided to prematurely terminate the oustanding convertible bonds 2012/17 due to the insignificance of the remaining nominal amount. This was in accordance with § 3 paragraph 3 of the Terms and Conditions as of 18 September 2015 and in line with § 16 of the bond conditions. By18 September 2015 a further 241,336 bonds were converted into ACCENTRO shares during the convertible bond conversion rights exercise period.

8.20 Bond Liabilities

Liabilities at the reporting date break down as follows:

In EUR '000	**2015**	**2014**
Bond 2013/2018	35,447	35,914
Bond 2014/2019	105,421	97,844
Bond 2015/2020	338,366	0
ACCENTRO Bond 2013/2018	10,628	11,025
Total	**489,862**	**144,783**
– of which non-current	481,599	140,804
– of which current	8,265	3,978

In March 2013, ADLER issued a bearer bond (bond 2013/2018) amounting to EUR 35,000 K at an interest rate of 8.75 per cent. This bond has a term of five years and a maturity date of 3 April 2018.

ADLER AG issued a bearer bond of EUR 100,000 K with an interest rate of 6.00 per cent in April 2014 (bond 2014/2019). In January 2015, this was increased by EUR 30,000 K to EUR 130,000 K. The bond has a term of five years and a maturity date of 1 April 2019. In the fiscal year, bonds were repurchased in the nominal value of EUR 23,719 K, which were recorded in accordance with the requirements of IAS 39 as disposal of financial liabilities. Thus, an expense of EUR 2,261 K was recorded.

In April 2015, ADLER issued a bearer bond amounting to EUR 300,000 K at an interest rate of 4.75 per cent, which was increased by a further EUR 50,000 K in October, 2015. The bond has a term of five years and a maturity date of 8 April 2020.

In addition, liabilities from bonds contain a corporate bond from ACCENTRO which was issued in November 2013 with a five-year term in the amount of TEUR 10,000. The interest rate is 9.25 per cent and runs until 14 November 2018.

The nominal value of the bond less transaction costs and deferred taxes, which are expensed on a pro rata basis according to the effective interest method, is reported under non-current liabilities.

Current liabilities include the interest claims of the creditors from this bond as at the reporting date.

8.21 Financial Liabilities

Non-current liabilities to financial institutions include liabilities related to the acquisition and financing of investment properties and properties reported under inventories. Most of the liabilities for financing the investment properties are medium to long term with fixed interest rates. Loans at variable interest rates are largely hedged with financial derivatives.

The increase in non-current financial liabilities to banks was caused by acquisitions during 2015. With the initial consolidation of WESTGRUND, the consolidated financial statements show that long-term financial liabilities to banks were assumed in the amount of EUR 410,858 K. Moreover, the current financial liabilities of JADE amounting to EUR 124,188 K were replaced by a long-term financing.

Current liabilities to banks include loan liabilities to a bank of EUR 127,216 K from the acquisition of MountainPeak Trading Limited in the financial year. This includes short-term interest payable and instalments due within one year. The financial liabilities to banks are collateralised by real estate liens. Further collateral is provided by the assignment of rental income, bank deposits and letters of subordination.

In the course of borrowing and in credit agreements that were assumed as part of acquisitions, the Company has in some cases obligated itself to comply with financial covenants imposed by the financial institutions providing the financing. These encompass requirements common for the industry in regards to loan-to-mortgage-lending value, interest and capital coverage and a minimum investment amount. Failure to comply with financial covenants may lead to termination or the mandatory deposit of additional security.

The financial liabilities are secured by assets as follows:

In EUR '000	2015	2014
Investment properties	1,557,444	1,170,159
Properties in inventories	155,337	82,922
Deposits with banks	27,248	19,110
Restricted assets	10,904	13,675
Rent receivables	5,884	6,161

8.22 Other Non-current Liabilities

Long-term leases amounting to EUR 5,313 K (previous year: EUR 0), the negative fair values of long-term derivative interest rate hedging contracts totalling EUR 6,316 K (for further details please refer to Section "10.3 Derivative financial instruments and hedge accounting") and the liability to the Federal and State Government Employees Retirement Fund (VBL) in the amount of EUR 8,327 K are to be primarily found among other non-current liabilities

The obligation to the VBL is a result of from the acquisition of Jade and is rated at fair value at the reporting date.

Leasing liabilities result from the acquisition of WESTGRUND. Leasehold contracts usually have a preferential right to renew in the event of a renewed leasehold following expiry of a contract. In the case of the sale of land, this is the first right of refusal to the ground rent, whichis predominantly index-oriented. In determining the carrying amount, future cash flows are discounted by object-specific property yields in the amount of 4.0 per cent to 7.8 per cent.

The carrying amounts and the minimum lease payments are divided according to maturity as follows:

In EUR '000	Carrying amount	Minimum lease payments
Up to one year	13	353
0 to 1 year	58	1,413
More than 5 years	5,242	43,534
	5,313	45,300
Excl. future interest costs	–	-39,987
Total	**5,313**	**5,313**

8.23 Trade Payables, Income Tax Liabilities and Other Current Liabilities

The total trade payables of EUR 20,174 K (previous year: EUR 21,123 K) are current and owing to third parties. This item also includes maintenance measures not yet settled together with consultancy services.

The other current liabilities are composed as follows:

In EUR '000	2015	2014
Purchase price liabilities	5,000	6,500
Advance payments received for inventory properties	1,302	2,843
Deferred rental income	4,295	2,328
Security deposits received	469	2,157
Personnel obligations	940	830
Other current liabilites	5,843	3,015
Total	**17,849**	**17,673**

The purchase price liabilities relate to the sureties received following the acquistion of JADE, which are recorded in the same amount as the other assets.

The prepayments received on shelf property apply to disposals where benefits and obligations were not transferred.

Deferred rental income mainly applies to rent payments from welfare authorities for the month of January in the following financial year.

9. NOTES TO THE STATEMENT OF INCOME AND ACCUMULATED EARNINGS

9.1 Income from Property Management

Income from property management is composed as follows:

In EUR '000	2015	2014
Net income	131,581	56,053
Income from on charged operating costs	82,163	26,743
Other income from property management	2,896	1,086
Total	**216,639**	**83,882**

9.2 Expenses Relating to Property Management

Expenses relating to property management are composed as follows:

In EUR '000	2015	2014
Apportionable and non-apportionable operating costs	103,613	36,719
Maintenance	21,139	14,641
Other property management expenses	300	450
Total	**125,052**	**51,809**

9.3 Income from the Disposal of Property

Income from the disposal of property is composed as follows:

In EUR '000	2015	2014[1)]
Income from the disposal of inventory properties	44,752	40,718
Income from the disposal of investment properties	121,088	45,306
Brokerage revenue	2,314	1,504
Total	**168,154**	**87,528**

1) The reporting of the income from the disposal of property was changed retroactively, see section 2.1

9.4 Expenses Relating to Sold Property

Expenses relating to the disposal of properties are composed as follows:

In EUR '000	2015	2014[1)]
Carrying amount of disposed inventory properties disposed of	37,822	37,262
Carrying amount of disposed investment properties disposed of	103,407	45,232
Costs of disposal	2,517	1,724
Purchased services for brokerage revenue	942	1,003
Total	**144,689**	**85,221**

1) The reporting of the income from the disposal of property was changed retroactively, see section 2.1

9.5 Personnel Costs

Expenses relating to the personnel costs are composed as follows:

In EUR '000	2015	2014
Wages, salaries and other benefits	11,256	4,588
Social security contributions	1,927	428
Old age pension expenses	8	8
Total	**13,191**	**5,024**

Stock Appreciation Right Programm

In fiscal 2015, ADLER introduced a Stock Appreciation Right Programme ("SAR-Programme") with the purpose of binding the beneficiaries to the Group in order to have them participate in increasing the Group's value. Based on a resolution passed by the Supervisory Board the rules of the scheme provide for a total of 500,000 stock appreciation rights. The stock appreciation rights entitle the beneficiary to a remuneration, in anamount dependent on ADLER's share price performance. Granting of SAR Programmes takes place following the conclusion of individual agreements made between the company and the beneficiary, at which point a cash settlement is made.

The exercise of rights recognised by the SAR Programme is dependent on the completion of a specified period of service. In the event that the beneficiary's employment at ADLER is prematurely terminated for whatever reason, entitlement to the SAR Programme is forfeited without replacement. The beneficiary is entitled to one third of the SAR Programme for the first time at the end of one year, while the remaining two thirds of the SAR Programme entitlement are vested quarterly in the amount of one-twelfth, up to the expiration period of three years.

Details relating to the share-based payment are as follows:

Valuation as at 31.12.2015 in '000 EUR	Total	Of which Board
Number of fully earned SAR		
Proportional recorded number of SAR in expenses	8,913	1,621
Fair value per SAR	7.44	7.73
Expenses in the reporting period	66	13
Provision for due date	**66**	**13**
Of which intrinsic value for the earned SAR as at the due date	–	–

The structure of share-based compensation, including parameters used for evaluation purposes, is shown in the following table:

Structure/valuation parameter	Total
Maximum amount of granted SARs	500,000
Balance/Payment	in cash
Struktur	in EUR/SAR
Granted SARs	
Total number	220,000
Weighted basis price	8.01
Outstanding SARs at the end of reporting period	
Total number	220,000
Weighted basis price	8.01
Min basis price	7.44
Max basis price	13.75
Weighted average remaining term in years	2.94
Value determination	
Weighted average fair value of the option	7.44
Applied pricing model	Binomialmodel
Weighted average share price	14.22
Weighted average basis price	8.01
Anticipated yearly volatility	48.00%
Anticipated dividend	0.00%
Risk-free yearly interest rate	-0.26%

The historical volatility which was observed over a period of three years was due to very strong growth. This trend was significantly above that of comparable companies and is also now on the decline. In conformity with predicted volatility caused by historical volatility, the daily equity returns logarithms were turned off for a period of one year.

9.6 Other Operating Income

Other operating income is composed as follows:

In '000 EUR	2015	2014[1]
Negative goodwill	41,646	24,649
Reversal of provisions and of provision-like liabilities	1,602	1,729
Write-ups on land	0	686
Insurance claims	831	558
Other	5,780	2,176
Total	**49,859**	**29,798**

1) The reporting oft he other operating income was changed retroactively, see section 2.1

Other operating income mainly relates to the amount of negative goodwill (EUR 41,646 K) produced by the acquisition of JADE, which was immediately recognised as a non-recurring income. Please refer to the explanations under 4.2.

9.7 Other Operating Expenses

Other operating expenses are composed as follows:

In '000 EUR	2015	2014
Legal and consulting expenses	9,565	6,534
Write-downs of receivables	5,588	5,146
General and administrative expenses	2,940	2,316
Purchased services	919	1,085
Office and IT expenses	1,899	724
Cost of premises	1,219	608
Public relations	1,385	572
Miscellaneous other expenses	9,450	4,160
Total	**32,965**	**21,145**

Legal and consulting fees primarily comprise consulting fees relating to capital market transactions and strategic consulting services.

Value adjustments on loss of receivables primarily relate to value adjustments for rent receivables from existing rental contracts (40 per cent) and terminated rental contracts (90 per cent).

General and administrative expenses mainly consist out of expenses for asset management services for the acquired property companies.

9.8 Gains/losses from the Measurement of Investment Properties

These items include the gains and losses on the fair value measurement of investment properties on the reporting date. Please see the explanations under note 8.3.

9.9 Amortisation and depreciation as well as allowances

Amortisation and depreciation describes to the amortisation of intangible assets and the depreciation of property, plant and equipment in the amount of EUR 1,030 K (previous year: EUR 497 K).

9.10 Financial Income

Financial income is composed as follows:

In '000 EUR	2015	2014
Loan interest, associated companies	324	612
Loan interest, third parties	683	399
Income from current deposits	1,617	450
Other	285	118
Total	**2,908**	**1,579**

9.11 Financial Expenses

Financial expenses are composed as follows:

In '000 EUR	2015	2014
Interest on bank loans	52,039	28,992
Bond interest	26,237	8,757
Convertible bon interest	1,701	1,809
Other	4,366	1,530
Total	**84,342**	**41,088**

9.12 Net income from associates measured at equity

This depicts pro-rata gains/losses from consolidating associated companies and refers primarily to the Group's equity proportion in conwert Immobilien Invest SE (EUR -769 K) and other at-equity investments (EUR 439 K). For further details please refer to the comments in 8.5.

9.13 Taxes on income

Taxes on income are comprised as follows:

In '000 EUR	2015	2014
Current income tax expense	2,373	470
Income tax expense (income) from other accounting periods	-396	6
Actual income tax expense	**1,977**	**476**
Deffered tax expense (income), loss carry-forwards	-15,573	-10,644
Deferred tax expense (income), temporary differences	30,134	31,357
Deferred taxes	**14,561**	**20,713**
Total	**16,538**	**21,189**

The current tax expense is computed on the basis of taxable income from the financial year. The combined tax rate of corporate income tax and the solidarity surcharge amounts to 15.8 per cent (previous year: 15.8 per cent) for domestic companies in fiscal 2015. With the inclusion of the trade tax rate at 16.5 per cent (previous year: 16.5 per cent) this results in a tax rate of 32.3 per cent (previous year: 32.3 per cent). Expected effects of the extended trade tax reduction on the domestic trade tax shall be considered in the assessment of deferred taxes.

The tax on pre-tax Group profits deviates from the theoretical tax rate, which would be obtained from the Group tax rate of 32.275 per cent, (previous year: 32.275 per cent), as follows:

In '000 EUR	2015	2014
Earnings before taxes	94,822	132,759
Expected income tax (32.275%)	30,603	42,848
Reconciliation due to tax effects:		
Income taxes, previous years	-187	6
Derecognition of deferred tax assets, previous years	894	2
Other tax-exempt income	-21,162	-24,252
Different tax rates	-8,869	424
Utilisation of loss carry-forwards not capitalised as deferred taxes	-1,122	-1,229
Sales proceeds exempt from taxes	1,107	668
Non-deductible expenses	10,771	2,643
Unrecognised deferred tax assets on losses	-222	-2,637
Deferred taxes on loss carry-forwards acquired	4,671	1,975
Other	54	741
Total	**16,538**	**21,189**

9.14 Earnings per Share

Earnings per share reflect the proportion of earnings generated in a period that are attributable to one share. Here, consolidated profit is divided by the weighted number of shares outstanding. A dilution of this indicator results from what are known as “potential shares” (e.g. from convertible bonds). In accordance with IAS 33.23 all potential shares that may have resulted from the conversion of mandatory convertible bonds, shall be treated as shares already issued and considered in the calculation of basic earnings per share. This increases the number of outstanding shares by the potential shares that would have resulted from the actual conver-sion of the mandatory convertible bonds. Overall, the existing mandatory convertible bond gives entitlement to 10,606,060 shares.

Earnings per share are as follows:

	2015	2014
Consolidated net earnings (in ‘000 EUR)	**78,283**	**111,570**
Consolidated net earnings without non-controlling interests Interest	72,117	109,219
Expenses including deferred taxes on convertible bonds	1,137	1,225
Consolidated net earnings without non-controlling interests (diluted)	73,254	110,444
Number of shares (in ‘000)		
Weighted number of shares issued	39,489	23,486
Effect of the conversion of convertible bonds	7,342	7,494
Weighted number of shares (diluted)	46,831	30,980
Earnings per share (in EUR)		
Basic earnings per share	1.83	4.65
Diluted earnings per share	1.56	3.57

10. INFORMATION ON FINANCIAL INSTRUMENTS

10.1 Additional Information on Financial Instruments

(A) CLASSIFICATION

Financial instruments in the ADLER Group are classified according to IFRS 7 based on the respective balance sheet items. The tables below show the reconciliation of the carrying amounts for each IFRS 7 class (balance sheet item) and the measurement categories of IAS 39 on the respective reporting dates.

31.12.2015 In '000 EUR	Category according to IAS 39
Assets	
Other financial investments	Afs
Other non-current assets	Lar
Trade receivables	Lar
Other current assets	Lar, Afs
Cash and cash equivalents	Lar
Passiva	
Equity and liabilities	FLAC
Financial liabilities to banks and (convertible) bonds	FLAC
Other liabilities	FLAC, Lafv, LafvOCI
of which aggregated by IAS 39 categories	
Loans and receivables	Lar
Available-for-sale financial assets	Afs
Financial liabilities at fair value through profit or loss	Lafv
Financial liabilities at fair value taken directly to equity	LafvOCI
Financial liabilities carried at cost	FLAC

Total carrying amount	Carrying amount of financial instruments	Amortised cost	Fair value directly to equity	Fair value through profit or loss	Fair value for comparative purposes
1,230	1,230	0	1,230	0	1,230
473	473	473	0	0	473
16,309	16,309	16,309	0	0	16,309
71,544	69,536	69,536	0	0	69,536
49,502	49,502	49,502	0	0	49,502
2,156,539	2,156,539	2,156,539	0	0	2,353,537
20,174	20,174	20,174	0	0	20,174
38,356	31,509	16,203	558	14,748	31,509
0	135,820	135,820	0	0	135,820
0	1,230	0	1,230	0	1,230
0	14,748	0	0	14,748	14,748
0	558	0	558	0	558
0	2,192,916	2,192,916	0	0	2,389,914

Abkürzungen	**IFRS 7 Klassen**
Lar	Loans and receivables
Aafv	Financial assets at fair value through profit or loss
Afs	Available for sale financial asset
FLAC	Financial Liabilities measured at amortised costs
Lafv	Financial liabilities at fair value through profit or loss
LafvOCI	Financial liabilities at fair value through other comprehensive income

31.12.2014 **In '000 EUR**	**Category according to IAS 39**
Assets	
Loans to associated companies	Lar
Investments in associated companies	Afs
Other financial investments	Afs
Trade receivables	Lar
Other current assets	Lar, Afs
Cash and cash equivalents	
Equitiy and liabilites	
Financial liabilities to banks and (convertible) bonds	FLAC
Trade payables	FLAC
Other liabilities	FLAC, Lafv, LafvOCI
of which aggregated by IAS 39 categories	
Loans and receivables	Lar
Available-for-sale financial assets	Afs
Financial liabilities at fair value through profit or loss	Lafv
Financial liabilities at fair value taken directly to equity	LafvOCI
Financial liabilities carried at cost	FLAC

Total carrying amount	Carrying amount of financial instruments	Amortised cost	Fair value directly to equity	Fair value through profit or loss	Fair value for comparative purposes
907	907	907	0	0	851
1,123	0	0	0	0	0
1,175	1,175	0	1,175	0	1,175
27,547	27,547	27,547	0	0	27,547
56,283	53,265	35,606	17,659	0	53,265
33,060	33,060	33,060	0	0	33,060
1,017,616	1,017,616	1,017,616	0	0	1,132,981
21,123	21,123	21,123	0	0	21,123
18,650	16,322	14,956	977	389	16,322
0	97,120	97,120	0	0	97,064
0	18,834	0	18,834	0	18,834
0	389	0	0	389	389
0	977	0	977	0	977
0	1,053,695	1,053,695	0	0	1,169,060

Abkürzungen	**IFRS 7 Klassen**
Lar	Loans and receivables
Aafv	Financial assets at fair value through profit or loss
Afs	Available for sale financial asset
FLAC	Financial Liabilities measured at amortised costs
Lafv	Financial liabilities at fair value through profit or loss
LafvOCI	Financial liabilities at fair value through other comprehensive income

In the financial year, liabilities from advance utilities payments amounted to EUR 41,330 K with EUR 40,911 K receivables from unbilled services netted at the same level. The net amount is reported under liabilities.

(B) FAIR VALUE DISCLOSURES

Financial instruments measured at fair value can be classified and assigned to levels according to the significance of the factors and information required for their measurement. The classification of a financial instrument is performed according to the significance of its input factors for its overall measurement, opting for the lowest relevant or significant level that is for overall measurement. The levels are divided into a hierarchy by their input factors:

- Level 1: Prices listed for identical assets or liabilities on active markets (adopted unchanged)
- Level 2: Input factors that are not prices considered in Level 1, but that can be observed directly or indirectly for the asset or liability (e.g. in deriving prices)
- Level 3: Factors not based on observable market data for the measurement of the asset or liability (non-observable input factors).

	Overview of the calculation methods used to determine fair values			
31.12.2015 **In '000 EUR**	**Total Carrying amount**	**of which Level 1**	**of which Level 2**	**of which Level 3**
Assets				
Investment properties	2,270,187	0	0	2,270,187
Other financial investments: Classified as AfS	1,230	0	0	1,230
Non-current assets held for sale IFRS 5	20,117	20,117	0	0
Equity and liabilities				
Derivative financial liabilities: measured at fair value through profit or loss	6,421	0	6,421	0
Derivative financial liabilities: Cash flow hedges	558	0	558	0
Other non-current liabilities	8,327	0	0	8,327
Liabilities held for sale IFRS 5	14,421	14,421	0	0

31.12.2014 In '000 EUR	Total Carrying amount	Overview of the calculation methods used to determine fair values of which Level 1	of which Level 2	of which Level 3
Assets				
Investment properties	1,170,159	0	0	1,170,159
Other financial investments: Classified as AfS	1,175	0	0	1,175
Non-current assets held for sale: Classified as AfS	17,633	833	0	16,800
Non-current assets held for sale	6,129	0	6,129	0
Equity and liabilites				
Derivative financial liabilities: Cash flow hedges	977	0	977	0
Other non-current liabilities	389	0	0	389

Trade receivables and other current assets as well as cash and cash equivalents have short residual terms. Therefore, their carrying amounts on the reporting date are virtually equal to their fair values. This applies correspondingly to liabilities towards financial institutions, trade payables and other current liabilities.

The fair value of the non-current liabilities towards financial institutions and the other non-current liabilities is determined by discounting future cash flows. Discounting is performed on the basis of a market interest rate for the same term and risk. The fair value of liabilities from bonds and convertible bonds are based on the rates as of 31 December 2015.

(C) NET RESULT FROM FINANCIAL INSTRUMENTS

The following table shows the net result from financial instruments by measurement category according to IAS 39.

Interest income and expenses from financial instruments represent a part of the net results with gains and losses resulting from impairments and reversals.

		Net result 2015			Net result 2014		
In '000 EUR	**Category accroding to IAS 39**	**Interest**	**Profit/ Loss**	**Total**	**Interest**	**Profit/ Loss**	**Total**
Loans and receivables	Lar	1,078	-5,462	-4,384	1,036	-5,182	-4,146
Financial assets at fair value through profit or loss	Afs	1,504	48	1,552	449	-6	443
Financial liabilities at fair value through profit or loss	Lafv	-1,086	424	-662	0	9	9
Financial liabilities at fair value taken directly to equity	Lafv OCI	0	419	419	0	-20	-20
Financial liabilities carried at cost (ol)	FLAC	-81,595	49	-81,546	-40,708	0	-40,708
Total		**-80,099**	**-4,522**	**-84,621**	**-39,223**	**-5,199**	**-44,422**

Interest income and interest expenses are portrayed in the respective items of the consolidated income statement. Gains and losses related to cash flow hedges are recorded in other comprehensive income. All other expenses and income are included in the items other operating expenses or other operating income.

10.2 Financial Risk Management and Disclosures According to IFRS 7

Material risks that are monitored and managed by the Group's financial risk management system include interest rate risk, default risk, liquidity risk and financing risk.

(A) INTEREST RATE RISK

ADLER Group is exposed to interest rate risks almost exclusively pertinent to the Euro Zone.

Interest rate risks arise with the conclusion of credit facilities which bear variable interest as part of a possible follow-up financing or in the event of a significant change in capital market conditions. This means that interest rate changes can, to a limited extent, lead to higher interest payments. However, ADLER AG primarily finances itself by means of fixed-interest financial liabilities, and liabilities with a longer-term fixed interest rate. Therefore, the Group generally pursues a risk-averse financing policy.

The interest risk for all Group current and non-current financial liabilities is established on the basis of a sensitivity analysis which takes into account fixed-interest periods. Analogue to these interest rate scenarios for the valuation of investment property, two interest rate scenarios were reflected in loans. In terms of the outstanding financial liabilities and bonds as of 31 December 2015, a 0.5 per cent higher/lower rate of loan interest would have led to the following increase/decline in interest expenses:

Interest rate risk sensitivity analysis **In '000 EUR**	**31.12.2015**		**31.12.2014**	
Change in interest rate	+ 50 bp	- 50 bp	+ 50 bp	- 50 bp
Effect on interest expense	1,416	-1,416	297	-297

Taking into account the present interest sensitivity levels, interest rate risks are estimated to be moderate given the low impact on carrying amounts and income as well as the currently favourable capital market conditions.

ADLER uses interest rate hedging instruments in the form of swaps (see section 10.3 "Derivative financial instruments and hedge accounting") to further reduce the interest rate risk. If the interest rate level as of 31 December 2015 had been 100 base points higher/lower, the derivative fair values EUR -6,979 K (previous year: EUR -977 K) would have changed from a value of EUR +5,276 K (previous year EUR: +660 K) or EUR -5,703 K (previous year: EUR -660 K).

(B) DEFAULT RISK

The default risk is the risk of contractual partners failing to meet their contractual payment obligations. The maximum default risk is reflected by the carrying amounts of the primary and derivative financial assets.

It is managed at Group level for the entire Group. Rules of conduct exist to ensure that transactions are only concluded with business partners who have demonstrated adequate payment practices in the past. Trade receivables are mainly owed by a large number of customers (tenants). Emphasis is placed on a sound credit history, even in the tenant selection process. There are no significant concentrations of credit risk in the Group.

(C) LIQUIDITY RISK

The responsibility for liquidity risk management rests with the Management Board, which has developed a suitable concept for managing short-, medium- and long-term financing and liquidity requirements. The Group manages liquidity risks by continuously monitoring expected and actual cash flows and reconciling the maturities of financial assets and liabilities. Liquidity management aims to ensure the ability to pay at all times by maintaining adequate liquidity reserves and an optimal liquidity balance within the Group.

In credit agreements assumed in the course of company acquisitions, the Group has in some cases obligated itself to comply with contractually established financial covenants. These are related among other things to generating cash flows from operations at the level of the property companies. Asset management for these portfolios is geared towards compliance with the financial covenants.

For the bonds and convertible bonds issued in 2015, the agreed credit terms can lead to a liquidity risk in case of failure to comply. In case of a violation of the credit terms, e.g. if there is a change in control, these bonds and convertible bonds can be cancelled with early redemption.

The ADLER Group has cash and cash equivalents of EUR 49,502 K on the reporting date (previous year: EUR 33,060 K). In addition, restricted cash and cash equivalents of EUR 17,981 K (previous year: EUR 13,675 K) are reported under other assets.

The following liquidity analyses show the contractually agreed (undiscounted) cash flows of the primary financial liabilities and the derivative financial instruments, including the interest payments on the respective reporting date. All financial instruments held on the respective reporting date were included in the analyses. Planned payments for future new liabilities were not considered. Variable interest payments were determined based on the corresponding spot rates on the respective reporting date. In regards to cash outflows for convertible bonds, it was assumed that there will be no conversion.

31.12.2015 In ‘000 EUR	2016	2017	Cash outflows 2018	2019	2020	> 2020
Liabilities to banks	312,986	108,903	123,394	81,906	108,485	1,274,511
Liabilities from bonds	26,989	26,989	71,989	126,094	358,313	0
Liabilities from convertible bonds	2,622	11,004	11,598	13,700	0	0
Trade payables	20,174	0	0	0	0	0
Other liabilities	13,556	8,385	57	55	54	574
Total	**376,327**	**155,281**	**207,038**	**221,755**	**466,852**	**1,275,085**

31.12.2014 In ‘000 EUR	2015	2016	Cash outflows 2017	2018	2019	> 2019
Liabilities to banks	75,542	104,416	39,989	104,462	35,171	775,015
Liabilities from bonds	10,497	9,990	9,985	52,603	102,975	0
Liabilities from convertible bonds	2,861	2,025	11,164	11,929	14,132	0
Trade payables	21,123	0	0	0	0	0
Other liabilities	15,345	0	0	0	0	0
Total	**125,368**	**116,431**	**61,138**	**168,994**	**152,278**	**775,015**

(D) FINANCING RISK

The Group depends on the granting of loans or capital increases for further acquisitions. Therefore, when loans run out, these need to be extended and/or refinanced. In all cases, the risk that an extension cannot be obtained or only at different terms, persists.

Within the Group, there also are credit agreements with a book value totalling around EUR 1,616 million (previous year: EUR 839 million) with financial covenants imposed by the banks. Depending on the property provided as collateral, a capital coverage ratio between 101 per cent and 120 per cent, an interest coverage ratio of 1.14 to 2.30 and a loan-to-value of between 55 per cent and 80 per cent or loan-to-value (LTMLV) of not more than 80 per cent must be achieved. Individual credit agreements include a minimum amount of maintenance work or rental income. Provided the contractually agreed maintenance measures are not carried out, a cash amount corresponding to the maintenance work not carried out is withheld on restricted accounts. Various sanctions of the lenders may apply if the financial covenants are violated, including the cancellation of the loans.

Credit terms are also agreed for convertible bonds which can lead to a liquidity risk if they become effective. If certain credit terms become effective, these convertible bonds and corporate bonds can be terminated prematurely for early repayment.

10.3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivative financial instruments are used within the Group to hedge interest rate risks for variable rate loan agreements. No material credit risks exist, as the interest rate hedging instruments are contracted with the lending banks. The fair values of the interest rate hedging contracts at the balance sheet date amount to EUR -6,979 K (previous year: EUR -977 K). The increase experienced during the financial year resulted primarily from the acquisition of WESTGRUND.

The values and nominal values of interest rate hedging contracts divided by the remaining term are as follows:

	Fair Values		Nominal	
In '000 EUR	**2015**	**2014**	**2015**	**2014**
Up to 1 year	-663	-25	33,867	873
Due between 1 and 5 years	-883	-952	17,816	32,615
Due between 5 and 10 years	-5,433	0	62,874	0
Total	**-6,979**	**-977**	**114,557**	**33,488**

The interest rate hedging contracts are initially measured at their fair value, which is determined on the contract date. Subsequent measurement is also applicable to the respective balance sheet value.

The value of interest rate hedging instruments are broken down by balance sheet items as follows:

Balance sheet item **In '000 EUR**	**Hedging relationship under IAS 39**	**31.12.2015**	**31.12.2014**
Other current liabilities	yes	-558	-977
Other current liabilites (measured at fair value through profit or loss)	no	-105	0
Other non-current liabilities (measured at fair value through profit or loss)	no	-6,316	0
Total		**-6,979**	**-977**

The methodology to determine gains and losses depends on whether the derivative interest rate hedging instrument used in a cash flow hedge is in accordance with IAS 39. For derivatives that are not included in a hedging relationship in accordance with IAS 39, changes in value are recorded in net interest income. In the financial year, derivatives without hedge interest expenses achieved EUR -1,069 K (previous year: EUR 0)

In the case of a cash flow hedge, the effective portion of the fair value of hedging instruments is recognised net of deferred taxes in equity in the reserve for cash flow hedges.

11. CAPITAL RISK MANAGEMENT

The Group manages its capital with the objective of maximising the earnings of shareholders by optimising the ratio of equity to debt. This ensures that all Group companies can continue to operate as ongoing concerns. Consolidated equity on the balance sheet is used as the key indicator for capital management.

As a stock corporation, the Company is subject to the minimum capital requirements according to German Stock Corporation Act (AktG). In addition, the Group is subject to the usual industry-specific minimum capital requirements of the credit services sector, especially for the financing of specific property projects. These minimum capital requirements are monitored continuously and were met in the year under review as well as in the previous year.

Risk management reviews the Group's capital structure on a quarterly basis. Accounting ratios are calculated and projected in order to meet the external capital requirements and financial covenants of many loan agreements from the credit industry. This includes object-specific debt service ratios, loan-to-value figures and contractually defined balance sheet and income ratios.

The equity ratio at year-end is as follows:

In '000 EUR	2015	2014
Equity (incl. Non-controlling interest)	777,921	311,211
Total assets	3,076,246	1,416,459
Equity ratio (%)	**25.3**	**22.0**

The equity ratio improved until 31 December 2015, mainly due to the non-cash capital increase (EUR 183,117 K), the issuance of a mandatory convertible bond (EUR 172,540 K) and the net income for the year (EUR 78,282 K).

The ratio of net debt adjusted to cash assets (Loan to Value) excluding the convertible bonds, amounts to 68.0 per cent (previous year: 68.7 per cent).

12. OTHER DISCLOSURES

12.1 Minimum Lease Payments from Operating Lease Agreements

Disclosures on operating leases pursuant to IAS 17.56 In '000 EUR	Comparative period 2014	Reporting period 2015	2016	2017 to 2020	from 2021
			up to 1 year	1–5 years	more than 5 years
Total future minimum lease payments based on operating leases that cannot be cancelled as the lessor	61,956	139,940	65,873	2,700	1,500

Claims to minimum lease payments from long-term operating leases generally result from leasing commercial properties. In the residential property segment, lease contracts are generally subject to the three-month statutory term of notice. There are no other claims to minimum lease payments. The minimum lease payments include rental income excluding appropriable operating costs from investment properties only.

12.2 Other Financial Obligations and Contingent Liabilities

Significant financial obligations at the reporting date are as follows:

In '000 EUR	2015	2014
Rental and lease obligations		
Due within one year	5,366	883
Due between 1 and 5 years	6,685	2,574
Due in more than 5 years	4,010	2,298
	16,061	5,755
Management contracts, support agreements		
Due within one year	9,723	4,843
Due between 1 and 5 years	8,486	6,920
Due in more than 5 years	5,112	5,112
	23,321	16,874
Obligations from acquisitions		
Acquisition of properties/property companies	6,250	0
Acquisition of companies	0	79,600
Other	0	21,463
	6,250	101,063
Total	**45,632**	**123,693**

Obligations from rental and lease contracts primarily result from renting office space under operating leases that cannot be cancelled. There are no purchase options or extension options beyond the fixed lease term.

12.3 Related Parties

According to IAS 24 “Related parties” are defined as, inter alia, a parent company and its subsidiaries together with subsidiaries of a common parent company, associated companies, legal entities under the influence of management and the company’s management. Transactions between ADLER AG and its subsidiaries are eliminated through consolidation and are therefore not explained in the notes.

The following significant transactions have taken place between the Group and related parties:

A member of the Company’s Supervisory Board is the general manager of Deutsche Land- und Jagdimmobilien GmbH (DLJ), which holds a minority interest in twenty-two ADLER real estate companies. The Group entered into transactions with DLJ (a related party to the Group) in the fiscal year, which resulted in borrowing arrangements. The loans granted by ADLER and its subsidiaries, including accrued interest claims were valued at the balance sheet date as follows:

Loan provider in the ADLER Group		**Of which interest**		**Of which interest**
In ‘000 EUR	**2015**	**2015**	**2014**	**2014**
ADLER Real Estate AG	450	26	265	4
Magnus Zweite Immobilienbesitz und Verwaltungs GmbH	3,456	195	3,260	172
Magnus Dritte Immobilienbesitz und Verwaltungs GmbH	30	2	28	1
Münchner Baugesellschaft mbH	51	3	48	2
Magnus Fünfte Immobilienbesitz und Verwaltungs GmbH	4,553	251	0	0
Total	**8,540**	**477**	**3,601**	**179**

The loans run for an indefinite period and may be terminated at anytime by ADLER with a notice period of one month to the end of the quarter. No losses were recorded on loan receivables in the financial year. In addition to loan receivables, the Group records a liability against DLJ in the amount of EUR 124 K (previous year: EUR 124 K).

In the fiscal year Thomas Bergander was interim CEO of Wohnungsbaugesellschaft JADE mbH and JADE Immobilien Management GmbH, both of which have been members of the Group since January 2015. Thomas Bergander is CEO of Taurecon Real Estate Consulting GmbH (Taurecon) and indirectly a shareholder of ADLER AG. Taurecon provided the Group with rental income of EUR 31 K and and consulting services in the amount of EUR 301 K (previous year: EUR 537 K).

The following significant loan receivables including interest claims against the non-consolidated companies, associates or joint ventures are recorded by the Group at the balance sheet date:

In '000 EUR	2015	2014
Airport Center Luxembourg GmbH	–	3,766
MRT (Mountleigh Roland Ernst B.V.)	2,535	2,507
Stovago B.V.	737	597
Malplaquetstraße 23. Grundstücksverwaltungsgesellschaft mbH	221	419
Wohneigentum Berlin GbR	211	0
SIAG Sechzehnte Wohnen GmbH & Co. KG	17	273
Total nominal value	**3,721**	**7,562**
Accumulated value adjustment	-3,273	-5,963
Carrying amount as of 31.12.2015	**448**	**1,599**

The loan receivable from the Airport Center Luxembourg GmbH together with the associated company was classified in the financial year as a group held for sale or disposal in accordance with IFRS 5 and assigned to the purchaser. The fair value measurement in the fiscal year recorded a write-down in the amount of EUR 282 K. Further write-downs took place in the financial year with loans receivable from MRT (Mount Leigh Roland Ernst B. V.) in the amount of EUR 28 K and from Stovago B.V. amounting to EUR 140 K, these have now been fully amortised at the balance sheet date. There was no further significant depreciation arising in the financial year.

In addition to the above-mentioned receivables, other liabilities subsist from associated companies in the amount of EUR 329 K with Wohneigentum Berlin GbR and EUR 6 K with Malplaquetstraße 23. Grundstücksverwaltungsgesellschaft mbH.

An indirect subsidiary of ADLER is the personally liable shareholder of the joint venture Wohneigentum Berlin GbR. This results in liability for the debts of this GbR amounting to EUR 1,861 K (previous year: EUR 9,147 K).

Other business relationships with unconsolidated companies or with associated companies and joint ventures are of minor importance.

All transactions, income, charges for services and cost allocations described above were conducted on an arm's length basis.

The Supervisory Board and Management Board hold the key management positions in ADLER AG. Remuneration for these persons is composed as follows:

In '000 EUR	2015	2014
Supervisory Board remuneration	180	93
Management Board remuneration	364	286

In addition to the regular remuneration, the Board members receive 40,000 SARs with a fair value of EUR 7.73 per SAR, within the framework of the SAR Programme that was launched in 2015. Detailed information on the valuation of these rights can be found in Section 9.5 "Personnel costs".

The decision taken at the 2011 Annual General Meeting to omit the individual disclosure of remuneration of the Management Board by name, in accordance with § 314 para. 1 no. 6 a) and sentences 5 to 9 of the Commercial Code, remains valid for a period of five years. Similarly, The decision taken at the 2011 Annual General Meeting to omit the individual disclosure of remuneration of the Supervisory Board by name, in accordance with § 314 para. 1 no. 6 a) and sentences 5 to 9 of the Commercial Code, remains valid for a period of five years.

12.4 Audit Fees

The total audit fees for the financial year are calculated as follows:

In '000 EUR	2015	2014
Audit of financial statements	894	494
Other assurance services	198	44
Other services	69	59
Total	**1,161**	**597**

Fees for audit services in the amount of EUR 109 K are recorded for the previous year.

12.5 Employees

The average number of employees was as follows:

Amount	2015	2014
Management Board members	1	1
Full-time employees	258	75
Total	**259**	**76**

12.6 Notes to the Consolidated Cash Flow Statement

Financial resources correspond to cash and cash equivalents.

Additionally, restricted cash and cash equivalents of EUR 17,981 K (previous year: EUR 13,675 K) are reported under other assets.

Cash flows are classified according to operating activities, investment (divestment) activities and financing activities. The indirect measurement method was chosen to present the cash flows from operating activities.

After adjusting for non-cash expenses and income, and taking into account changes in working capital, the ADLER Group generated a net cash inflow before de-/re-investment of EUR 71,898 K from operating activities in the trading portfolio (previous year: EUR 75,545 K). Cash outflows recorded for investments in property development (trading portfolio) amounted to EUR 46,924 K (previous year: EUR 58,796 K). Taking into account the outflows made from investments in property development, ADLER generated a total net cash inflow from operating activities of EUR 24.974 K (previous year: EUR 16,749 K).

Cash outflows for investment activities of EUR 438,706 K (previous year: EUR 208,272 K) were due primarily to payments made for the acquisition of Wohnungsgesellschaft Jade GmbH, WESTGRUND, MountainPeak Limited as well as investment properties.

Net cash from financing activities amounted to EUR 430,174 K (previous year: EUR 217,688 K) and includes proceeds from the issuance of bonds in the amount of EUR 351,803 K. This predominantly affects the net cash allocations resulting from the issuance of the corporate bond 2015/2020 amounting to a total nominal value of EUR 350,000 K.

Promissory note loans amounting to EUR 355,116 K (previous year: EUR 538,908 K) with a term of 10 years were issued to finance or refinance property portfolios and have been included in the reporting year.

Some of the funds raised are used to repay existing financing loans. In addition, scheduled repayments and redemptions in connection with the sale of properties and property portfolios were also carried out. This resulted in net cash outflow of EUR 192,009 K ((previous year: EUR: 400,885 K).

Cash and cash equivalents increased by EUR 16,442 K ((previous year: EUR 26,165 K) in total.

12.7 Management Board and Supervisory Board

The Management Board of ADLER Real Estate Aktiengesellschaft, Frankfurt am Main, Germany, consists of Axel Harloff, business administration graduate (Dipl.-Kaufmann), Hamburg, Arndt Krienen, Remscheid, who was appointed as an additional Board Member of ADLER AG in December 2015, effective from 1 January 2016.

Members of the Supervisory Board:

- Dr. Dirk Hoffmann, Rum, Austria, lawyer and banker, Chairman
- Thomas Katzuba von Urbisch, Monte Carlo, Monaco, lawyer and entrepreneur, Deputy Chairman

- Thilo Schmid, Blotzheim, Frankreich, Project Controller

The following members of the Supervisory Board and Management Board of ADLER Real Estate Aktiengesellschaft, Frankfurt am Main, Germany, had the following additional supervisory board mandates and memberships in other governing bodies according to § 125 Para. 1 Sentence 5 AktG:

Dr. Dirk Hoffmann
- Squadra Immobilien GmbH & Co. KGaA, Frankfurt am Main, (Chairman of the Supervisory Board)
- Bremer Kreditbank AG, Bremen (Deputy Chairman of the Supervisory Board until 31 March 2015)
- ACCENTRO Real Estate AG, Berlin (Deputy Chairman of the Supervisory Board)
- Dexia Kommunalbank Deutschland AG, Berlin (member of the Supervisory Board)
- Aggregate Holding SA, Luxembourg
- conwert Immobilien Invest SE, Vienna/Austria (Member of the Board since March 17 March 2016)

Thilo Schmid
- Jedox AG, Freiburg (member of the Supervisory Board)
- Talentory AG, Zurich, Switzerland (member of the Advisory Board till 1 July 2015)
- Member of the Board der DTH S.A., Luxembourg

Axel Harloff
- ACCENTRO Real Estate AG, Berlin (Chairman of the Supervisory Board)
- WESTGRUND Aktiengesellschaft, Berlin (Member of the Supervisory Board since 16 July 2015)
- WBG GmbH, Helmstedt (Chairman of the Board until the dissolution of this body on 7 May 2015)

Thomas Katzuba von Urbisch and Arndt Krienen are not active in other supervisory bodies in accordance with § 125 section 1 sentence 5 of the German Stock Corporation Act.

12.8 Events after the Balance Sheet Date

No significant events arose after the balance sheet date.

12.9 Declaration of Conformity with the German Corporate Governance Code

The declaration of conformity of ADLER AG was last issued by the Management Board in January 2016. It is permanently available to shareholders at:

http://www.adler-ag.com/entsprechenserklaerung.html

The declaration of conformity of ACCENTRO AG was last issued by the Company's Management Board in March 2015. It is permanently available to shareholders at:

http://www.accentro.ag/investor-relations/corporate-governance/entsprechenserklarung.html

The declaration of conformity of WESTGRUND AG was last issued by the Company's Management Board in August 2015. It is permanently available to shareholders at:

http://www.westgrund.de/investor-relations/corporate-governance/entsprechenserklaerung

Frankfurt am Main, 22 March 2016

Axel Harloff
Management Board

Arndt Krienen
Management Board

Affirmation by the Legal Representatives

„We hereby affirm to the best of our knowledge, pursuant to the applicable accounting principles for interim financial reporting, with due regard for the requirements of § 37w of the Securities Trading Act, that the interim consolidated financial statements convey a true and fair view of the Group's financial, earnings and liquidity position, that the course of business, including the results of operations and the position of the Group, is represented in the interim consolidated management report in such a manner as to convey a true and fair view and that all essential opportunities and risks foreseeable for the Group in the remainder of the financial year are described."

Frankfurt am Main, 22 March 2016

Axel Harloff
Management Board

Arndt Krienen
Management Board

Auditor's Report

We have audited the consolidated financial statements of Adler Real Estate Aktiengesellschaft, Frankfurt am Main, consisting of the balance sheet, income statement, statement of shareholders' equity, cash flow statement and Notes, as well as the consolidated management report, for the financial year from 1 January to 31 December 2015. Preparation of the consolidated financial statements and consolidated management report in accordance with IFRS as those standards are applied in the EU, as well as the applicable provisions of commercial law in accordance with § 315a (1) of the Commercial Code, is the responsibility of the management board. Our task is to submit an assessment of the consolidated financial statements and consolidated management report based on our audit.

We have conducted our audit of the consolidated financial statements in accordance with § 317 of the Commercial Code observing the German generally accepted auditing principles established by the German Institute of Independent Auditors (IDW). Accordingly, the audit is to be planned and executed in such a manner that inaccuracies and violations with a substantial impact on the representation in the consolidated financial statements, observing generally accepted accounting principles, and the view of the company's financial, earnings and liquidity position conveyed by the consolidated management report are identified with adequate certainty. In defining the audit actions, consideration was given to information as to the company's business activities, the economic and legal environment of the company and expectations as to potential errors. In the course of the audit, the effectiveness of accounting-related internal controlling systems and documentation for information given in the consolidated financial statements and consolidated management report were assessed, largely based on random spot checks. The audit included an assessment of the financial statements of the companies included in the consolidated financial statements, the definition of consolidated companies, accounting and consolidation principles applied by the Group, the essential estimations by the management board and an evaluation of the overall representation in the consolidated financial statements and consolidated management report. We believe that our audit forms a sufficiently secure basis for our assessment.

Our audit did not lead to any objections.

In our assessment, based on the information obtained during the audit, the consolidated financial statements are in compliance with IFRS, as applied in the EU, as well as the applicable provisions of commercial law in accordance with § 315a (1) of the Commercial Code, and convey a true and fair view of the Group's financial, earnings and liquidity position. The consolidated management report is consistent with the consolidated financial statements and generally gives an accurate presentation of the Group's position and accurately represents the opportunities and risks of future development.

Hamburg, 22 March 2016

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Jens Lingthaler
Auditor

Dirk Heide
Auditor

Glossary

EBIT
Earnings before Interest and Tax
Consolidated earnings before interest and tax – indicator of result of operations, also includes measurement gains/losses for investment property and profits generated from real estate disposals.

EBITDA
Defined as operating earnings (earnings before interest and taxes) plus depreciation and amortisation, or as earnings before interest, taxes, depreciation and amortisation. This key figure is unaudited. Potential investors should note that EBITDA is not a uniformly applied or standardised key figure and that its calculation may vary widely from company to company. Taken alone, EBITDA therefore does not necessarily provide a basis for comparison with other companies.

Adjusted EBITDA
EBITDA adjusted to exclude the result of measurement of investment property, the result of associates measured at equity and one-off and non-recurring items – indicator of operating earnings excluding measurement and special items.

FFO I
Funds from operations I
Adjusted EBITDA less interest charge for FFO, current taxes on income, investments to maintain substance and earnings before interest and taxes in the Trading and Other Activities segment – indicator of cash flow-based operating earnings excluding disposals.

FFO II
Funds from Operations II
FFO I plus earnings from disposals of investment property – indicator of cash flow-based operating earnings including disposals.

EPRA
European Public Real Estate Association
Association of publicly listed real estate companies, after which the EPRA Index is named.

EPRA – NAV
Net asset value based on EPRA definition
Equity allocable to shareholders adjusted to exclude deferred taxes, value differences between fair values and carrying amounts of real estate and present value of derivative financial instruments – indicator of company value.

LTV
Loan-to-value
Ratio of net financial liabilities (liabilities to banks less cash and cash equivalents) to total assets less cash and cash equivalents – indicator of financial stability.

Swap
Designation for financial derivatives (financial instruments) based on a payment flow swap transaction between two parties. An interest swap designates a swap transaction in which two parties undertake to periodically swap interest payments over a previously agreed period.

Dilution of shares
Reduction in the value of a share resulting from new shares being issued in a capital increase executed without subscription rights.

WACD
Weighted average cost of debt
Weighted average cost of interest paid on debt – measurement of current interest charge on debt financing.

At a Glance

Supervisory Board	
Dr. Dirk Hoffmann	Chairman, Rum/Österreich
Thomas Katzuba von Urbisch	Vice Chairman, Monte Carlo/Monaco
Thilo Schmid	Blotzheim/Frankreich
Management Board	
Axel Harloff	Hamburg/Germany
Arndt Krienen	Remscheid/Germany
Company Facts	
Registered Office Location	Frankfurt am Main/Germany, HRB 7287
Business Address	ADLER Real Estate Aktiengesellschaft Gänsemarkt 50 20354 Hamburg/Germany Telephone: +49 (0) 40/29 81 30–0 E-Mail: info@adler-ag.com
Website	www.adler-ag.com
Public Relations	german communications dbk ag Milchstraße 6b 20148 Hamburg/Germany Telephone: +49 (0) 40/46 88 33–0 Telefax: +49 (0) 40/46 88 33–40 E-Mail: contact@german-communications.com
Investor Relations	Hillermann Consulting Poststraße 14–16 20354 Hamburg/Germany Telephone: +49 (0) 40/32 02 79 10 Telefax: +49 (0) 40/32 02 79 114 E-Mail: office@hillermann-consulting.de
Subscribed Capital	EUR 46,103,237[1)]
Classification	46,103,237[1)] non-par shares
Arithmetical Value	EUR 1 per share
Voting Detail	1 vote per share
Stock Details	SIN 500 800 ISIN DE0005008007 Ticket Symbol ADL Reuters ADLG.DE
Designated Sponsor	ODDO SEYDLER BANK AG
Stock Exchanges	Xetra, Frankfurt am Main
Indices	SDAX, CDAX, FTSE EPRA/NAREIT Global Real Estate Index, GPR General Index, DIMAX
Fiscal Year	Calendar year

1) as at 31 December 2015

ADLER REAL ESTATE

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