ADLER REAL ESTATE

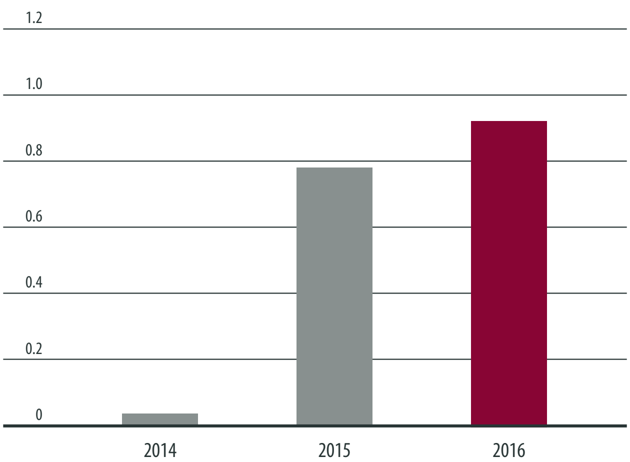
Annual Report /// 2016

/// KEY FINANCIAL FIGURES

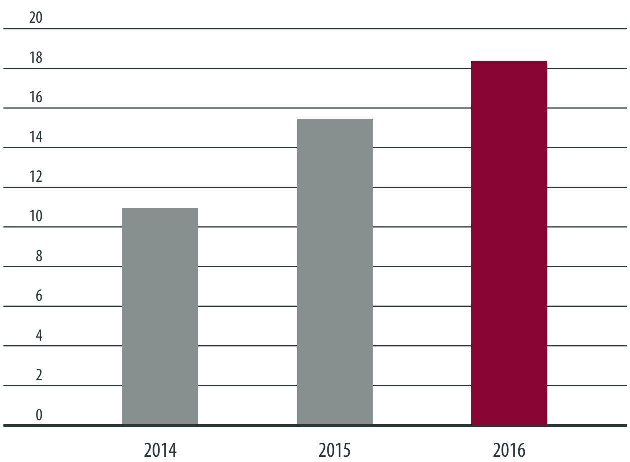
In EUR millions **Consolidated Statement of Income**	**01.01.2016 – 31.12.2016**	**01.01.2015 – 31.12.2015**
Net rental income	167.5	136.6
Earnings from property lettings	113.6	91.6
Earnings from the sale of properties	36.4	23.5
EBIT	301.8	176.6
Consolidated net profit	133.8	78.3
FFO I	27.3	16.1
FFO I per share in EUR[1]	0.47	0.28
FFO II	55.3	44.3
FFO II per share in EUR[1]	0.95	0.78
Consolidated Balance Sheet	**31.12.2016**	**31.12.2015**
Investment Properties	2,442.0	2,270.2
EPRA NAV	1,069.9	879.5
EPRA NAV per share in EUR[1]	18.35	15.51
LTV in % [2]	61.3	68.0
Cashflow	**01.01.2016 – 31.12.2016**	**01.01.2015 – 31.12.2015**
Net cash flow from operating activities	100.6	25.0
Net cash flow from investing activities	-79.5	-438.7
Net cash flow from financing activities	53.4	430.2
Employees	**31.12.2016**	**31.12.2015**
Number of employees	354	268
FTE´s (Full-time-equivalents)	319	249

[1] based on the number of shares outstanding as at balance sheet date plus shares from assumed conversion of mandatory bond which is considered as equity
[2] excluding convertible bonds

FFO II/SHARE



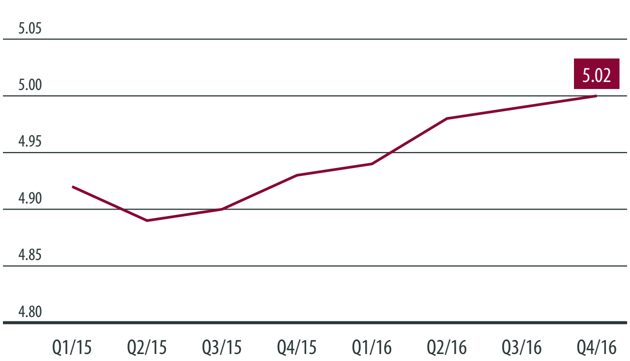
NAV/SHARE



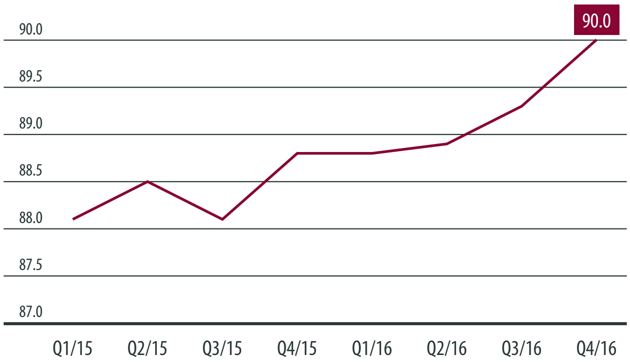
/// Now that we have achieved a stable portfolio size of 50,000 residential units, we are currently focusing on consolidating our business in organisational and financial terms as well as expanding our service portfolio. The relocation of the company's legal domicile and head office functions to Berlin has already been executed. Refinancing measures and repayments have improved our debt structure and interest expense. The sale of non-core properties strengthens the earnings capacity of our portfolio and by internalising our property and facility management activities we are gradually extending our value chain with the aim of retaining our tenants and building our position as one of Germany's leading integrated property groups.

/// PROPERTY FIGURES

AVERAGE RENT in EUR/sqm/month

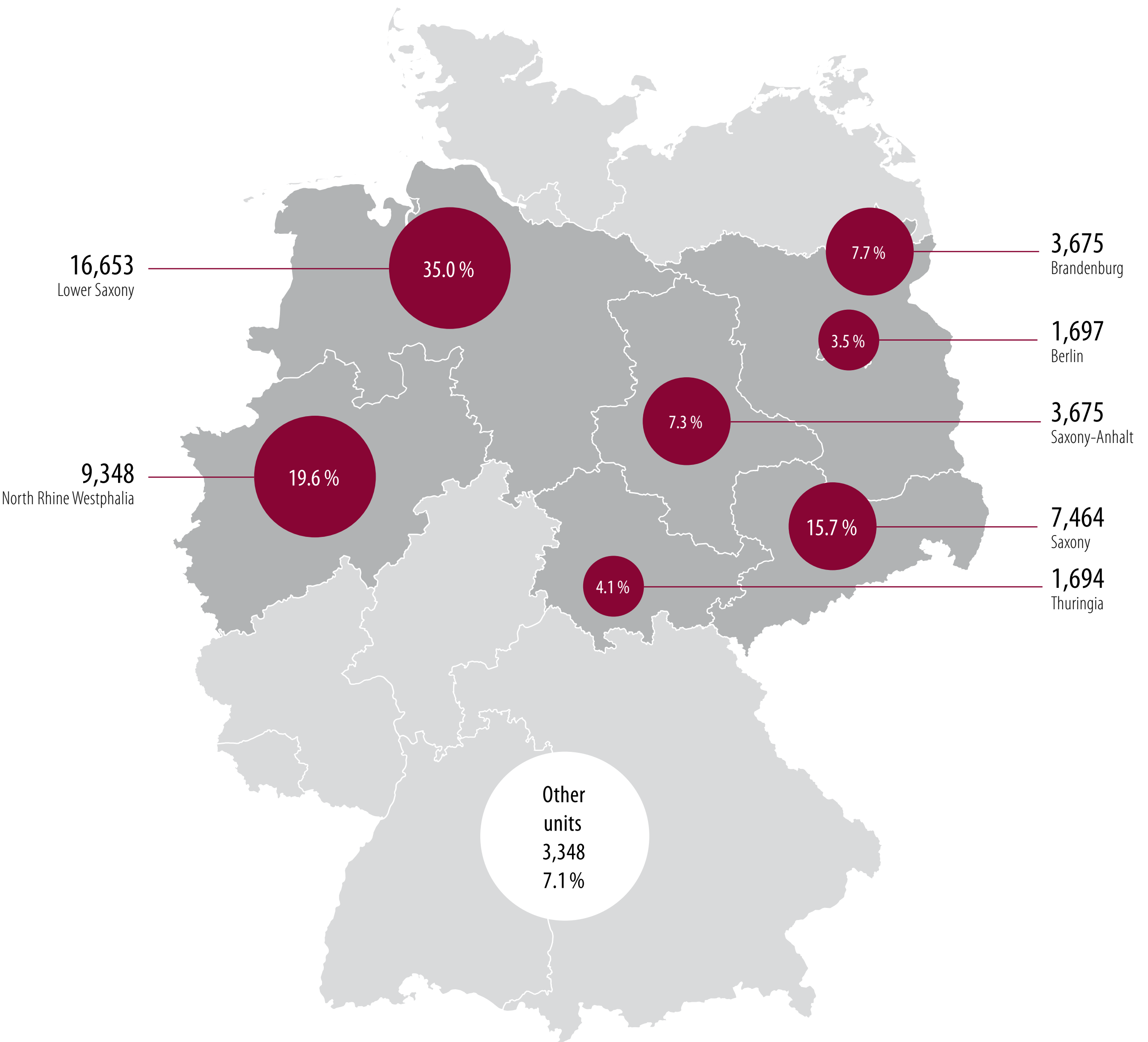


OCCUPANCY RATE in %



Rental units

as at 31.12.2016



/// CONTENT

/// THE GROUP MANAGEMENT

ARNDT KRIENEN

CEO, Chairman of the Management Board and Member of the Executive Committee

Arndt Krienen, born 1966 in Remscheid, attorney, since 9 June 2016 Chairman of the Management Board which he was a member of as from January 2016. He is responsible for the central functions controlling, accounting, financing, the legal department and investor relations. From 2000, Krienen was board member of Westgrund AG which ADLER has taken over in midyear 2015. Before that, he had managed the legal department of an internationally active company with a yearly turnover of more than 300 million euro. Krienen calls on extensive experience of the real estate industry.

SVEN-CHRISTIAN FRANK

COO, Member of the Management Board and of the Executive Committee

Sven-Christian Frank, born 1965 in Munich, attorney at law, mediator (DAA) and Real Estate Asset Manager (IRE/BS), is member of the Management Board since 9 June 2016 and responsible for the operational management (asset, property and facility management) and transactions. Frank has been with ADLER since September 2015 and previously held senior positions in well-known real estate companies such Gestrim Germany AG and German Real Estate AG.

DR. TOMAS DE VARGAS MACHUCA

Chairman of the Executive Committee, CFO

Dr. Tomas de Vargas Machuca, born 1974 in London, has a Master of Science (MSc) in Economics and has been responsible for capital market activities and capital structure since 2013 in his role as Chairman of the Executive Committee. Tomas acts as the group CFO. Prior to joining ADLER, he was responsible for all aspects of Europe-wide real estate finance in leading positions at Investment Banks UBS and Credit Suisse.

CARSTEN WOLFF

Head of the Accounting and Finance and Member of the Executive Committee

Carsten Wolff, a businessman who was born in Cologne in 1960, has been in charge of the accounting and finance department at ADLER Real Estate AG since early 2003. He previously worked at Deutsche Steinzeug Cremer & Breuer AG for a number of years, most recently as the head of internal audit.

/// LETTER FROM THE MANAGEMENT BOARD

Dear Shareholders,
Dear Sir or Madam,

ADLER Real Estate AG implemented fundamental changes during the 2016 financial year. In the wake of the company's rapid growth in recent years, we initially identified a need to consolidate, streamline and centralise our structures. With around 50,000 residential units, we have now also reached a size that enables us to realign our business. Our aim is to become an integrated property group, one that offers its tenants virtually the whole range of residential services from a single source. The structural and organisational measures we implemented during the year under report all pursued one of two objectives: the relocation of key parts of the company to Berlin and the closure of the location in Frankfurt am Main which served to consolidate the Group's activities. By developing the new group company ADLER Wohnen Service GmbH, on the other hand, we took a step towards becoming an integrated property group. This company will provide a basis for developing, restructuring and extending our property management activities, enabling us to support our entire housing portfolio under our own management and with employees on location by the end of 2017. Under the management of ADLER Wohnen Service, we are also building up a shared service centre in Hamburg that will manage rental accounts and utilities invoicing on a centralised basis. Moreover, the group company Arkadio will be responsible for the facility management in the future, i.e. the provision of caretaking services to the Group's complexes, at all locations where this makes economic and operating sense. To make sure that our tenants are in no doubt that ADLER intends to provide them with all-round support, we decided at the beginning of 2017 to rename this company ‚ADLER Facility Management GmbH'.

The reorganisation of the operational management is extensive, but will create a uniform corporate structure, as it clearly pursues the future objective of establishing direct contact with our tenants and of retaining them as tenants. This way, we will also reduce our turnover rates and thus boost our profitability. We aim to be the first and sole point of contact for our tenants – as owners, administrators and caretakers. We are convinced that this new and direct responsibility for the day-to-day business will also promote and enhance our own willingness to work on behalf of our tenants, and thus also for our own benefit. We are also considering enlarging the range of services on offer, and thus extending the value chain covered by our services by accessing new business fields.

Simplifying our corporate structure and reducing complexity are factors which also motivated another decision we made at the end of the financial year. We intend to acquire all of the shares in WESTGRUND AG, in which we acquired a majority stake in 2015, and then delist this company. This will avoid all expenses and obligations associated with a stock market listing.

Structural changes automatically involve changes in personnel and we are no exception in this respect. First and foremost, this relates to the newly formed Management Board, for which we – Arndt Krienen and Sven Christian Frank – assumed responsibility in June 2016. Management positions also arose at the newly formed company ADLER Wohnen Service GmbH. These have been filled with competent individuals from within the Group. In other functions, such as the newly established shared service centre, central procurement or the extension in business activities at Arkadio, we have also drawn on external resources. As a result we have learned that ADLER is viewed as an attractive employer, one that – precisely because of the forthcoming changes – is able to offer interesting activities to individuals interested in shaping developments.

In 2016, we laid a foundation for further developing ADLER Real Estate AG not only in organisational and structural terms, but also on a financial level by pressing ahead with consolidating our finances. The growth achieved in recent years was largely debt-financed. This also involved accepting comparatively high interest rates, as we, being a small company still mostly unknown on the capital market, were unable to avoid corresponding risk premiums. We have now built up an entirely different standing and thus gained access to more attractive financing options. In July, for example, we were able to place a convertible bond of almost EUR 140 million – in a market climate that was temporarily shaken up by the British referendum result to leave the EU. We used part of the fresh funds, around EUR 62 million, to redeem high-interest promissory note loans, a step that will save us interest of around EUR 2.5 million a year.

Also, we used the funds received from selling non-core properties to reduce our debts. For us, non-core properties involve around 4,500 housing units acquired in the context of portfolio acquisitions which for a variety of reasons do not fit our business model. In 2016 we sold nearly 1,000 of these units.

We intend to maintain this course of financial consolidation in 2017 as well. Only a healthy financial foundation will provide us with the freedom to sustainably shape our future. We also know that only companies with robust structures enjoy permanent access to the capital market and obtain attractive terms. The fact that we are now very well positioned in terms of our financial solidity was also confirmed by the “BB-/positive outlook” rating received from the internationally recognised rating agency Standard & Poor’s at the end of the financial year. We aim to further strengthen our financial structure, and are convinced we will see even greater improvement with regard to investment grade ratings.

We will be assisted in this by the funds received from the sale of our shares in conwert Immobilien Invest SE in the course of the voluntary takeover offer from Vonovia SE. The net proceeds of more than EUR 200 million available to us as a result will chiefly be used to repay existing debt, a measure that will further boost our financial strength, improve our LTV, reduce our interest charge and strengthen our FFO.

We naturally aim to grow further and acquire additional property holdings by purchasing smaller individual portfolios that fit our business model. It is difficult to predict the extent to which that will be possible in 2017, but we will nevertheless attempt to acquire new holdings to the same extent that we sell non-core holdings to ensure that the total number of housing and commercial units remain at the level already achieved.

In shaping our future, we can build on the solid success of the 2016 financial year. In this period, we further improved all major key financials, in some cases over and above our original expectations. We have set ourselves similarly ambitious targets for 2017. We aim to achieve a further reduction in vacancy rates. We will be assisted in this by our investment programme to renovate 1,500 currently unoccupied apartments. Launched in 2016, this programme is progressing on schedule and we aim to implement it fully by the end of 2017. By that time, our occupancy rate should therefore be around 4 percentage points higher than at the beginning of the year. At the same time, we expect to be able to raise average rents in the existing property portfolio by one to two percent. This would correspond to the rent rises we have regularly achieved in the past. Based on these expectations, like-for-like gross rental income is set to rise at a medium single-digit rate. As we also plan to sell our non-core units, we have to assume that we will lose a corresponding share of our rental income as the year progresses. Overall, these two factors should roughly cancel each other out, as a result of which gross rental income in 2017 is expected to match the 2016 level.

We expect our newly established central procurement to show its first success in 2017. We set up this function to improve our control of operating costs and achieve targeted reductions in these items. Similarly to the lowering in vacancy rates and reduction in the interest charge, this factor should impact positively on FFO I. We therefore expect to increase this key figure to more than EUR 40 million, equivalent to year-on-year growth of slightly below 50 percent.

By its very nature, FFO II is more difficult to predict, as this key figure also includes the contribution from the property trading business operated by the group company ACCENTRO. This company made an unusually high FFO contribution in 2016. This was due to the sale of a whole portfolio originally earmarked for privatisation, i.e. individual sale, in a single transaction. No such transaction will occur in 2017. We expect ACCENTRO to contribute around EUR 10 million and thus expect to generate an overall FFO II on a scale of around EUR 50 million.

Our financial indicators will show improvements, in some case substantial, in 2017. Having begun to buy back corporate bonds with higher interest rates in the first quarter of 2017, we expect to achieve a significant reduction in our LTV figure to around 55 percent. We would then have reached what we see as the right ongoing level, as this level offers a good balance between the needs of debt capital providers for financial security and those of equity providers for suitable leverage. Furthermore, by redeeming bonds with higher interest rates and refinancing measures we expect to reduce average debt interest to around 3.5 percent.

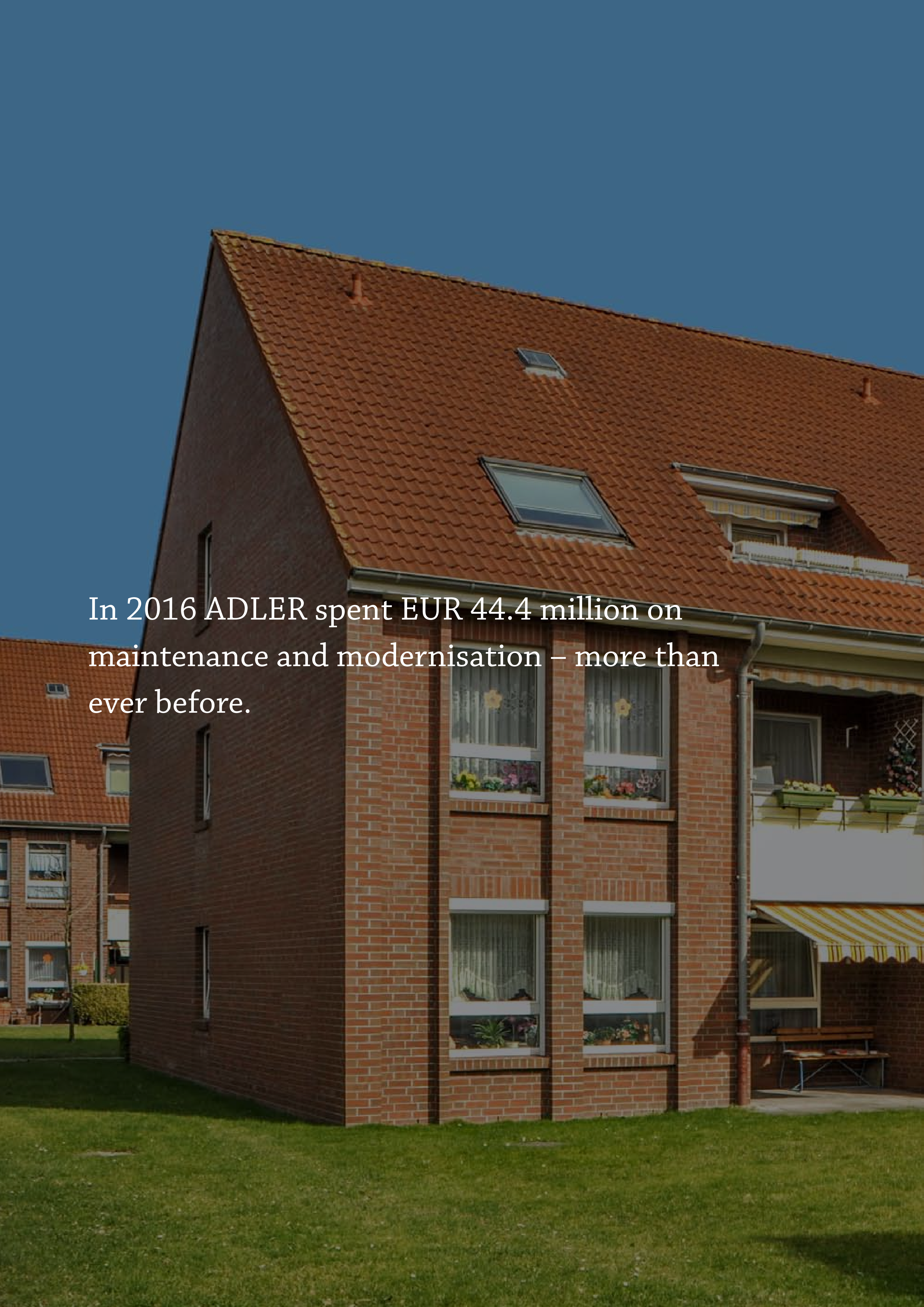
As always, it is particularly difficult to forecast the expected NAV figure, as this crucially depends on the development in the value of property holdings and also on whether new portfolios can be acquired in the course of the year. However, we would not be surprised if we were to achieve value growth in a low double-digit percentage range in 2017.

As you can see, we have, once again, set ourselves ambitious objectives for 2017. Actually achieving these will depend, significantly if not exclusively, on our own input, our commitment and our ability to successfully master the changes ahead. We, and all our employees, will be giving of our very best. Of that, at the very least, you can be certain.

Yours faithfully,

Arndt Krienen
Management Board

Sven-Christian Frank
Management Board



In 2016 ADLER spent EUR 44.4 million on maintenance and modernisation – more than ever before.

/// Portfolio

/// PORTFOLIO

ADLER Real Estate AG pursues two business objectives – letting properties permanently held and trading properties held for short periods and specifically for this purpose. In the balance sheet, the properties let out are recognised at fair value under “investment properties”, while the properties held for trading are recognised at cost under “inventories”. At the end of 2016, ADLER Real Estate AG held a total of 50,062 units, of which 2,422 units were held for trading and 47,640 units for permanent letting. These in turn are held in 2,161 business units.

THE RENTAL PORTFOLIO

Focus on residential property

ADLER largely sees itself as a provider of rented apartments. Consistent with this approach, these account for 46,527 units and thus 97.7 percent of the properties held for permanent letting. This said, the overall portfolio also includes a small share of commercial units. In a certain sense, these are a by-product as some of the inner-city residential properties also include shop or office space. There were 1,113 such units at the end of 2016, accounting for a 2.3 percent share of the portfolio of properties held for permanent letting.

Portfolio realignment	31.12.2016			31.12.2015
		Divestments	Additions	
Rental portfolio	47,640	934	519[1)]	48,218
of which residential units	46,527	927	501	47,098
of which commercial units	1,113	7	18	1,120
Units for privatisation	2,422	976	1,464	1,934

[1)] Of which 228 units from acquisition, 274 units transferred from project development to the portfolio (Erfurt), otherwise reclassifications of use etc.

Slight reduction in property holdings in 2016

The number of rental units held for permanent investment prospective reduced slightly compared with the previous year. On one hand, the portfolio expanded by a total of 519 units due to acquisitions of smaller portfolios, especially in Berlin. On the other hand, however, a total of 934 units were sold in the course of portfolio streamlining measures aimed at removing units no longer viewed as forming part of the core portfolio. Following several years of acquisition-driven growth, 2016 marked the beginning of a period of consolidation intended to remove weak (“non-core”) holdings and thus boost the earnings strength of the remaining (“core”) portfolio.

Active portfolio management

The dividing line between “core” and “non-core” is not static, as ADLER regularly reviews its holdings within its portfolio management activities. This initially involves evaluating individual properties in terms of their inherent qualities, i.e. to determine the volume of maintenance and renovation expenses required to ensure living quality consistent with market standards. The second assessment criteria adopted involves external market and location factors, such as socio-demographic trends, expected changes in demand, infrastructure measures of all kinds, as well as political decisions, such as restrictions on contractual rental prices, the tax treatment of property or measures to promote new construction.

Properties of good quality and located in attractive macro-environments form the core portfolio and generally generate stable cash flows. Properties of lower quality and located in less attractive macro-environments are classified as “non-core”, i.e. are the first candidates for sale. The Asset Management department deals with all other properties in ways appropriate to each case, such as boosting marketing measures when the property is of good quality but its location factors are less favourable, or by investing in the property when the location factors are good, but the property itself is not.

Identification and disposal of properties held for sale

The disposals executed in 2016 are to be viewed against this backdrop. The plans for further portfolio optimisation measures are also based on these considerations. As of the reporting date, the Group had specific intentions to sell a total of 2,806 rental units, corresponding to just under 6 percent of the portfolio at the end of the year. ADLER intends to sell these units within a short to medium timeframe. The following table presents a comparison of the key performance data and average market values of units in the core and non-core portfolios respectively.

STRENGTHENING OF THE CORE PORTFOLIO[1)]

31.12.2016	Total	Core	Non core
Rental units	47,366	44,560	2,806
Average rent/sqm/month in EUR	5.0	5.04	4.46
Occupancy rate in %	90.0	91.4	71.4
Market value/sqm in EUR	807	830	487
NRI-Faktor	14.6	14.8	12.1

[1)] Excluding 274 rental units in Erfurt which, as a completed development project, were only included in the portfolio towards the end of the year and then marketed.

On average, the units held for sale in the non-core portfolio have significantly lower occupancy rates, generate lower rental income and, accordingly, have lower market values per square metre. When properties no longer forming part of the core portfolio are sold, ADLER typically uses the disposal proceeds to repay the liabilities with which the properties are still encumbered. Past experience shows that non-core properties can in most cases be sold at prices close to their carrying amounts.

Improvements in key performance data

In 2016, the Group improved all of its key performance data. The following table presents the changes for the core portfolio on a like-for-like basis, i.e. only for those properties that were in the portfolio both at the end of 2015 and at the end of 2016.

Portfolio (Core portfolio) Like-for-like	Residential and commercial units	Annual change in %	Residential units	Annual change in %	Commercial units	Annual change in %
Units	44,309		43,385		924	
Average rent EUR/sqm/month	5.04	1.2	5.00	1.5	6.05	-0.3
Vermietungsstand (%)	91.4	1.1 PP	92.0	1.0 PP	80.2	2.5 PP

Increase in average rent in residential lettings portfolio

In the core portfolio as structured at the end of the 2016 financial year, ADLER generated average rental income (per square metre and month) of EUR 5.04 based on the contracts in place for let units as of the balance sheet date. At the previous year's reporting date, the contractually agreed rent for let units amounted to an average of EUR 4.98. Over the year, rents thus rose by an average of EUR 0.06, or 1.2 percent.

Further increase in occupancy rate

At the end of the year, 91.4 percent of core units were let out. On a like-for-like basis, the occupancy rate therefore rose year-on-year by 1.1 percentage points, with a corresponding fall in the vacancy rate. This like-for-like analysis takes no account of the programme initiated in the second half of 2016 to renovate up to 1,500 vacant apartments. Within this programme, 273 apartments had been completed by the end of the year, of which 183 were already let out.

Sharp rise in fair value

Due to the measures taken to streamline the portfolio, the number of residential and commercial units owned by ADLER at the end of the year was lower than at the end of 2015. By contrast, the fair value of the portfolio calculated in accordance with IFRS increased to EUR 2,442.0 million (previous year: EUR 2,270.2 million). This value growth was due in part to the rent adjustments already implemented or still expected. In many cases, these adjustments are closely linked to investments in enhancing living quality, renovation work, energy efficiency refurbishments or cosmetic repairs. ADLER expended EUR 44.4 million on maintenance and modernisation measures in 2016, and thus substantially more than in the previous year (EUR 36.1 million). Of this total, EUR 27.5 million were related to ongoing maintenance measures while EUR 16.9 million to renovation and modernisation measures eligible for capitalisation (previous year: EUR 21.1 million for ongoing maintenance and EUR 15.0 million for renovation and modernisation eligible for capitalisation). However, the increase in fair values was also due to ADLER adjusting the valuation of individual portfolios to changes in the market, which has witnessed ongoing pressure on yields (yield compression).

DISTRIBUTION OF EXISTING PORTFOLIO BY FEDERAL STATE

Portfolio[1]	Residential units	Commercial units	Residential and commercial units	Share in %	Avarage rent in EUR per sqm	Occupancy rate in %
Lower Saxony	16,521	132	16,653	35.0	4.88	90.4
North Rhine Westphalia	9,063	285	9,348	19.6	5.10	92.4
Saxony	7,239	225	7,464	15.7	4.72	85.9
Brandenburg	3,614	61	3,675	7.7	4.77	88.2
Saxony-Anhalt	3,375	112	3,487	7.3	4.66	86.3
Thuringia	1,664	30	1,694	4.1	5.48	92.3
Berlin	1,672	25	1,697	3.5	5.58	98.4
Mecklenburg-Western-Pomerania	1,477	32	1,509	3.2	5.16	89.6
Schleswig-Holstein	650	36	686	1.4	5.99	90.8
North Rhine Westphalia	530	65	595	1.2	7.03	93.2
Hesse	246	74	320	0.7	7.21	88.7
Bavaria	134	27	161	0.3	5.81	83.2
Bremen	48	0	48	0.1	5.17	100.0
Baden-Wurttemberg	20	9	29	0.1	7.51	71.4
Total	**46,253**	**1,113**	**47,366**	**100.0**	**5.00**	**90.0**

[1] Without 274 units in Erfurt, incorporated in the company's own portfolio for trading arising from development projects end of year

Key focuses in northern and western Germany

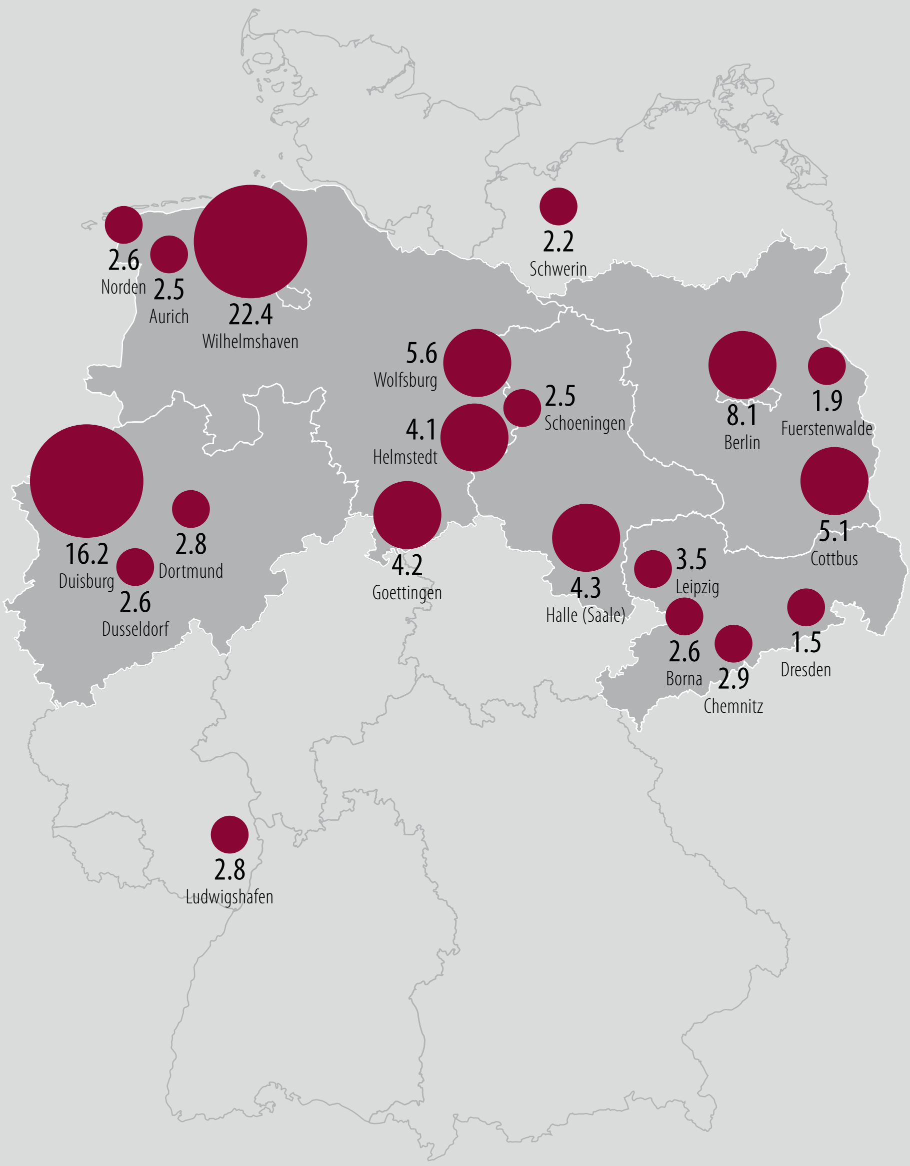
ADLER limits its business activities to Germany and most of its properties are located in the northern and western parts of the country. More than half of ADLER's properties are in the federal states of Lower Saxony (35.0 percent of the overall portfolio) and North Rhine-Westphalia (19.6 percent of the overall portfolio). More than 40 percent of ADLER's portfolio is located in the eastern part of the country, with key focuses here in Saxony (15.7 percent), Brandenburg (7.7 percent) and Saxony-Anhalt (7.3 percent).

ADLER mainly owns properties on the edges of conurbations. That is particularly apparent in North Rhine-Westphalia, where all of the company's properties are in the Ruhr, Germany's largest industrial region. In Lower Saxony, the property holdings are mainly focused on the Wolfsburg/Braunschweig/Helmstedt region, traditionally a strong region in economic terms, and on Wilhelmshaven, a region which is benefiting from the new deep water port and from what is the German Navy's largest base on the North Sea. In Saxony and Saxony-Anhalt, the properties are predominantly located in the catchment areas for Halle, Leipzig, Chemnitz and Dresden – cities which after German reunification initially lost their industry and part of their populations but which are now all benefiting from strong growth once again.

Property holdings on the edges of conurbations are typically characterised by higher vacancy rates, but also generate higher rent yields than properties in central or "A" locations. Peripheral locations benefit, to a particularly marked extent, from tight rental markets in city centres. When rents rise in desirable locations in the centre and no more affordable flats are available, price-sensitive demand in particular automatically shifts to the surrounding areas.

Top 20 locations generate almost two thirds of rental income

The focus on metropolitan regions outlined above also means that the properties in ADLER's 20 most important towns and cities account for almost two thirds of the company's total rental income. Wilhelmshaven is the Group's most important location, with annual basic net rent of EUR 22.4 million, followed by Duisburg with EUR 16.2 million, Berlin with EUR 7.4 million, Wolfsburg with EUR 5.6 million and Cottbus with EUR 5.1 million. ADLER does not play a significant role in the local housing markets in any of its top 20 locations apart from in Wilhelmshaven, where almost one fifth of local housing belongs to the Group. This scale of dominance in a specific market is not automatically a disadvantage, as is apparent in the occupancy rate in Wilhelmshaven, which at 91.7 percent is clearly ahead of the group average.



Size of apartment[1]	Number of residential units	Total units in %	Rent/sqm/month in EUR
< 45 sqm	6,124	14.6	5.75
≥ 45 and < 60 sqm	14,765	35.2	4.90
≥ 60 and < 75 sqm	15,641	37.3	4.95
≥ 75 and < 90 sqm	5,595	12.7	4.94
> 90 sqm	1,493	3.4	4.85
Total	**43,618**	**100.0**	**5.00**

[1] Data relates exclusively to rented residential properties

Focus on small to medium-sized residential units

The residential portfolio at all of the locations where ADLER is present largely comprises small to medium-sized residential units. The apartments have an average size of slightly more than 60 square metres and are thus well aligned to address the needs of the company's target group, namely tenants with low to medium incomes. ADLER also sees this alignment as making economic sense. Its properties satisfy the trend observed for some time now towards an ongoing increase in the number of single-person households in Germany, and that despite a decline in the country's overall population. Not only that, the risk of tenants with low incomes defaulting on their rent payments is reduced as they can obtain support from social security providers if unable to settle their obligations from their own incomes. Furthermore, this category of affordable living space is now in the sights of municipal and local councils on the lookout for permanent homes for refugees.

Customer orientation with in-house property and facility management

ADLER has set itself the target of offering its tenants the whole range of residential services on an in-house basis, rather than via third-party service providers as in the past. To establish maximum direct contact to its tenants, in 2016 ADLER pooled its in-house property management activities at the newly founded company ADLER Wohnen Service GmbH. This company has now built up a regional structure suitable for it to see to the management of all group properties. By the beginning of 2017, this was the case for just over half portfolios. By early 2018, all properties should be managed and supported by internal group employees.

The Group is taking a similar approach in its facility management, i.e. for tradesman and caretaker services at and in the properties. Here too, ADLER intends to perform the predominant share of activities with in-house resources. To this end, the group company Arkadio Facility Management GmbH has also developed a regional structure largely corresponding to its property management counterpart. To make sure that our tenants are in no doubt that ADLER is providing them with all-round support, at the beginning of 2017 Arkadio was renamed as ADLER Facility Management GmbH.

ADLER expects this process of evolution into an integrated property group to boost tenant satisfaction and reduce their turnover rates.

Programme to reduce vacancies progressing on schedule

In mid-2016, ADLER initiated a programme to renovate 1,500 vacant residential units, most of which have long been vacant, in order to bring them back in line with market standards and thus reduce the vacancy rate. By the end of the year, renovation work had been completed on a total of 273 apartments, while the relevant work had been commissioned for a further 388 apartments. The project is thus positively on schedule. In most cases, renovation has involved replacing the flooring, completely renewing the bathrooms, redesigning the tiled sections in the kitchens, relaying electric cables and in some cases also replacing doors and windows. The work has then been rounded off by giving the apartments a fresh coat of paint. Expenses of EUR 10,000 have been budgeted for each apartment. Based on experience to date, once the work has been completed it takes two to three months to find new tenants for the apartments. By the end of the year, that was the case for 183 of the newly renovated apartments. The programme is to be fully implemented by the end of 2017.

THE TRADING PORTFOLIO

The trading business and privatisation of residential units are handled by the group company ACCENTRO Real Estate AG. At the end of the year, 2,422 residential units were assigned to this business field, 488 units more than at the beginning of the year (1,934 units). This increase was partly due to an intra-group transaction through which ACCENTRO acquired 675 apartments in Berlin-Hohenschönhausen. A total of 976 residential units were sold including a bulk sale of 297 apartments in the first half year. The privatisation business generated substantial profits (see segment reporting), as trading properties are recognised at acquisition cost, and not at their higher fair values.

Most of the trading properties are located in Berlin, and thus in a market that has proven to be especially lucrative for the privatisation business in recent years and is also expected to uphold its dynamic performance. To maintain its strength in this market, at the end of the year ACCENTRO acquired 675 apartments in the Berlin district of Hohenschönhausen in a group-internal transaction. These apartments form part of a project development which involves extensively modernising the vacant 1980s prefabricated buildings included in the project. Work is set to begin in 2017, to be implemented in nine construction phases and then completed in 2020. Consistent with ACCENTRO's business, the modernised apartments are earmarked for sale in due course.

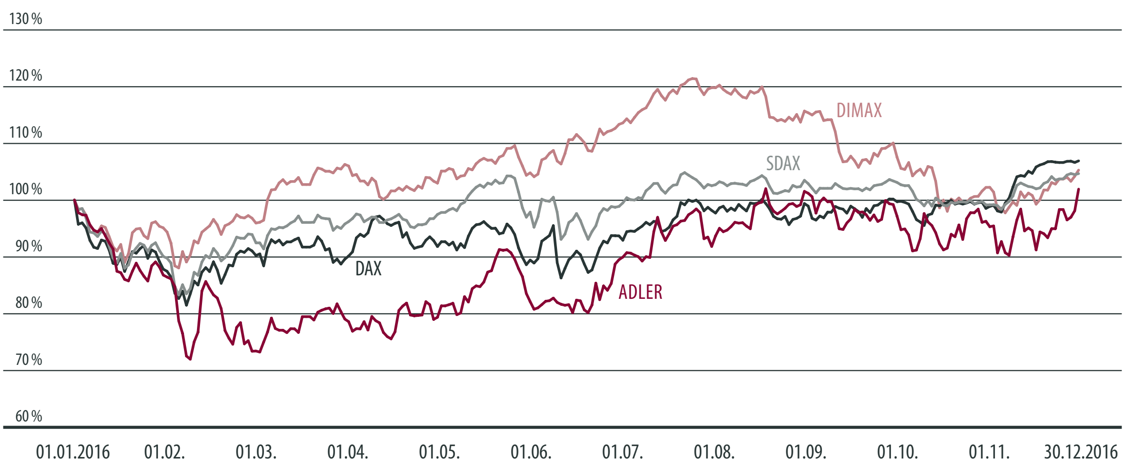
/// THE ADLER SHARE

Real estate stocks held back by expected interest rate hike

Following a period of mixed developments lasting well into 2016, the German stock market gained significant momentum towards the end of the year, with the DAX close to its all-time high at the end of the period under report. The SDAX, the index in which ADLER has been listed since 2015, followed a similar pattern. However, by the end of the period under report both indices posted only modest gains compared with the beginning of the year. Over the year as a whole, the DAX increased by around seven percent, while the SDAX rose by just under five percent.

Real estate stocks were among the year's outperformers until well into the third quarter. Once the market became convinced that interest rates were due to rise, however, most property companies witnessed sharp drops in their share prices. This development provides further evidence of the property sector's sensitivity to interest rates and gives reason to suspect that many market players see real estate shares as a substitute for fixed-income titles. Once yields on those instruments rise, real estate stocks are in less demand. Solactive DIMAX, the index which includes Germany's main listed property companies, peaked more than 20 percent above its opening level in January. By the end of the year, however, this growth had shrunk to just over three percent. As a result, real estate stocks slightly underperformed the overall market in 2016.

PERFORMANCE OF DAX, SDAX, DIMAX AND THE ADLER SHARE 2016 | JANUARY 2016 =100



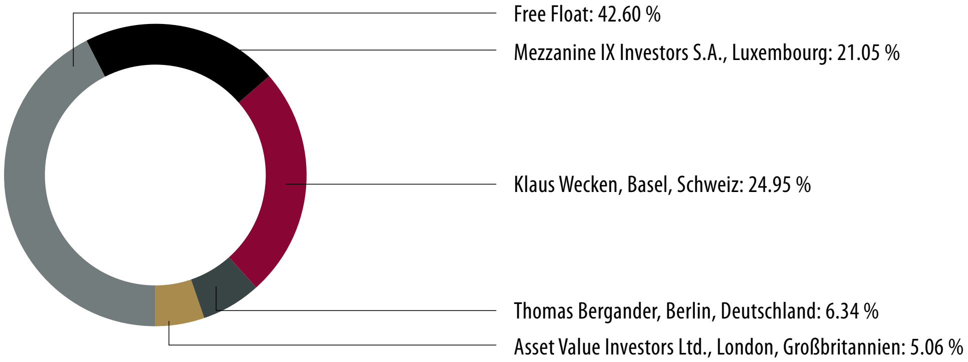
The same applies to ADLER's shares, which opened the year at just under EUR 14. Due to widespread market uncertainty, they fell to a low of just over EUR 10 in February. By the end of September, they had regained the level at which they began the year. In the fourth quarter, the share price consistently fluctuated between EUR 13 and EUR 14 and then closed the year slightly above EUR 14. This corresponds to growth of more than two percent over the year as a whole.

At the end of the year, the first rating received from Standard & Poor's provided all capital market players with a neutral, internationally recognised basis for assessing the financial solidity of ADLER Real Estate AG.

Number of shares increased by conversion of existing convertible bonds

The volume of outstanding shares increased in 2016, a development exclusively due to the conversion of existing convertible bonds, which were all "in the money". A total of 46,103,237 shares were in circulation at the beginning of the year. By the end of the year, this figure had risen by 3.5 percent to 47,702,374 shares. Based on the notifications ADLER received from shareholders when crossing the relevant thresholds, the shareholder structure as of 31 December 2016 was as follows:

SHAREHOLDER STRUCTURE AS ON DECEMBER 31, 2016



Internalisation of financial communications

While consolidating its group structures in 2016, ADLER Real Estate AG also internalised all of its communications activities, including financial communications. ADLER had previously commissioned external service providers to perform these activities. The company also provided its website with a new and clearer design and structure. Reporting is consistent with the requirements placed in a company listed in the Prime Standard. The number of financial services organisations whose analysts regularly covered ADLER rose to six. Furthermore, ADLER used its presence at national and international capital market events to consistently cultivate and uphold its contacts with interested capital market players.

/// SUPERVISORY BOARD REPORT

**Dear Shareholders,
Dear Sir or Madam,**

The Supervisory Board of ADLER Real Estate AG consistently performed the duties incumbent on it by law and the company's Articles of Association in the past financial year, carrying out its tasks both at regular meetings of the Board and in one-to-one meetings. The Supervisory Board supported the Management Board in an advisory capacity and monitored its activity. To this end, the Supervisory Board ensured it was informed about the company's financial position and adopted appropriate resolutions. The Supervisory Board was in regular contact with the Management Board outside the meeting framework as well and continually informed itself about the latest business developments. The Supervisory Board was directly involved in all decisions of fundamental importance to the company.

Changes in composition

The Supervisory Board of ADLER Real Estate AG did not witness any changes in its composition in the past 2016 financial year.

Axel Harloff requested the company's Supervisory Board to allow him to retire from the Management Board of ADLER Real Estate AG due to personal reasons upon the conclusion of the company's Annual General Meeting on 9 June 2016. The Supervisory Board approved this request and would like to thank Mr. Harloff for his successful and longstanding contribution to the company, and in particular for his commitment and achievements in managing and representing the company as a member of the Management Board since 11 February 2003. Mr. Harloff will continue to be associated with the company and the Group by way of his supervisory board activities at ACCENTRO Real Estate AG and WESTGRUND AG. Arndt Krienen, who joined the Management Board on 1 January 2016, was appointed as the new Chief Executive Officer (CEO) as of 9 June 2016.

By resolution dated 30 March 2016, Sven-Christian Frank was appointed as a further Management Board member of ADLER Real Estate AG for a three-year term as of 9 June 2016. Mr. Frank previously joined the company as Head of Asset Management on 15 August 2015 and has now assumed the role of Chief Operating Officer (COO).

Supervisory Board meetings

The Management Board reports to the Supervisory Board at regular joint meetings. These are based on written reports submitted by the Management Board. With these reports, the Supervisory Board is kept informed both about the overall situation of the company and its subsidiaries and about individual matters of greater importance. The course of business, the company's situation, profitability and liquidity and its intended business policy and other fundamental matters of corporate management formed the key focuses of discussions, as did the situation of the Group's subsidiaries.

The Supervisory Board held a total of four scheduled meetings in person in the 2016 financial year. These took place on 30 March, 9 June, 28 September and 7 December. All members of the Supervisory Board attended the meetings held in person. An additional total of eleven Supervisory Board meetings were conducted by conference call in the financial year under report. These calls were held to adopt resolutions and took place on 18 January, 10 June, 15 June, 5 July, 11 July, 20 July, 30 August, 4 September, 15 November, 15 December and 29 December. All Supervisory Board members also participated in these calls.

As, pursuant to the Articles of Association, the company's Supervisory Board comprises only three members, no committees have been formed. Within the framework of their activities, all Supervisory Board members addressed all of the tasks incumbent on the Supervisory Board.

Accordingly, all matters brought to the attention of the Supervisory Board were discussed and decided by the Supervisory Board as a whole. Following proper review, the Supervisory Board consented to all transactions and measures requiring its approval.

Furthermore, the Management Board provided the Supervisory Board with written quarterly reports on the course and status of business, the company's profitability and liquidity, the business policies pursued and other fundamental matters of corporate planning.

Key focuses of activities

At its regular meetings, the Supervisory Board firstly focused on fundamental matters of business policy and in particular on acquisitions and capital-related measures at the company. Here, it addressed the implications for the company's financial and earnings situation in particular.

Controlling and liquidity planning formed additional core topics dealt with by the Supervisory Board, as did risk management. Particular focuses of Supervisory Board activities also related to the relocation of the company's headquarters to Berlin and the internalisation of various business activities previously outsourced. The associated restructuring of the Group is intended to position ADLER as an integrated real estate group with an extended value chain. Among other measures, this involved the foundation of ADLER Wohnen Service GmbH as a proprietary property management company with a regional focus and the centralisation of shared services within the Group.

The issue of the 2016/2021 convertible bond with a placement volume of EUR 1137.9 million in June 2016 represented a further focus of the Supervisory Board's activities. The proceeds from this convertible bond were earmarked, among other purposes, to redeem loans and bonds with comparatively high interest rates, to finance property acquisitions and to modernise the Group's proprietary property portfolio.

Alongside these matters, the Supervisory Board also dealt throughout the year with the strategy and financing for the investment in conwert Immobilien Invest SE. The squeeze-out of minority shareholders in WESTGRUND Aktiengesellschaft pursuant to § 327a et seq. of the German Stock Corporation Act (AktG) formed a further focus of activity for the Supervisory Board at the end of the year under report..

German Corporate Governance Code (DCGK)

Like the Supervisory Board, the Management Board is convinced that the DCGK sets out internationally and nationally recognised standards for good and responsible corporate management which serve to enhance the management and supervision of publicly listed companies in Germany.

The provisions governing the management and supervision of publicly listed companies in Germany as pooled in the German Corporate Governance Code and the recommendations and suggestions included in the Code with regard to internationally and nationally recognised standards of good and responsible corporate management have been implemented at the company since 2002 already, and thus since the introduction of the Code by the Management and Supervisory Boards of ADLER Real Estate AG.

These provisions were implemented with few exceptions, and this practice has been retained in the years since. To the extent that the provisions of the German Corporate Governance Code in its respectively valid form have not been complied with, these deviations have been explained in the Declaration of Conformity pursuant to § 161 of the German Stock Corporation Act (AktG). This declaration has been made permanently available in its respectively valid version in the Investor Relations section of ADLER's website.

The Declaration of Conformity will be published in the Federal Gazette and filed in the Commercial Register together with the annual financial statements, management report and other documents requiring disclosure.

Moreover, ADLER Real Estate AG publishes its Corporate Governance Report on its website upon publication of its Corporate Governance Declaration pursuant to § 289a of the German Commercial Code (HGB).

2016 annual and consolidated financial statements

The annual financial statements of ADLER Real Estate AG prepared by the Management Board and the consolidated financial statements, including the management and group management reports, for the 2016 financial year have been audited and provided with unqualified audit opinions by Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, the audit company elected by the Annual General Meeting on 9 June 2016.

The annual financial statements (HGB) and the consolidated financial statements (IFRS), including the management and group management reports, were submitted to the Supervisory Board for review, as were the auditor's reports on its audit of the annual and consolidated financial statements. At the meeting held to adopt the financial statements on 23 March 2017, the Supervisory Board discussed the documents relating to the annual financial statements and reports with the Management Board. It focused in particular on matters pertaining to the valuation of current and non-current assets and held in-depth discussions on this point. At this meeting, the auditor reported on the key findings of its audits and was on hand to provide the Supervisory Board with additional information. Based on its own review of the annual financial statements, consolidated financial statements, management reports of the company and the Group, the Supervisory Board endorsed the auditor's findings and raised no objections following the final results of its review. By resolution dated 23 March 2017, the Supervisory Board approved the annual financial statements, which were thereby adopted pursuant to § 172 AktG, and the consolidated financial statements.

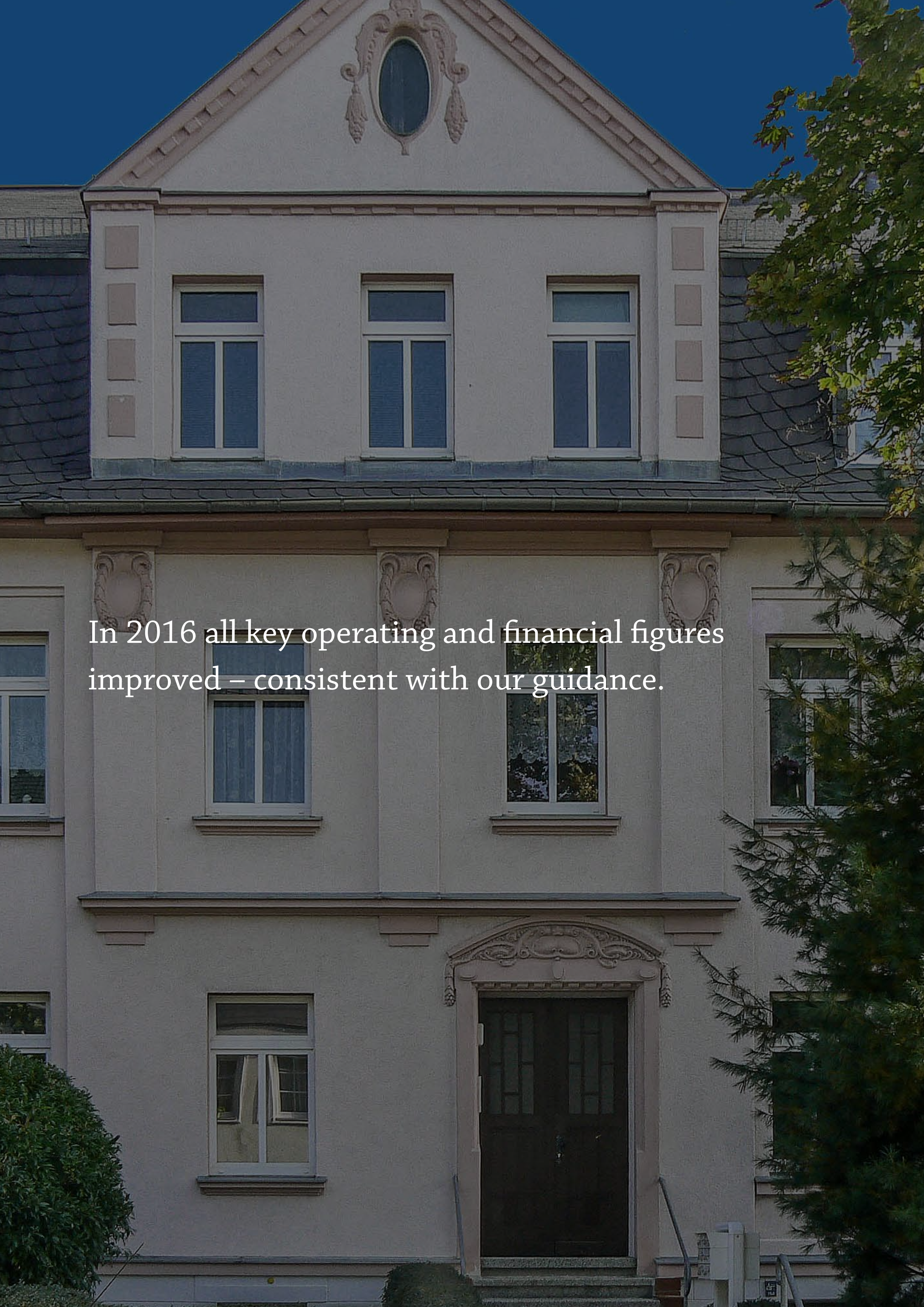
Members of the Supervisory Board

Pursuant to § 96 AktG, the Supervisory Board comprises shareholder representatives.

The Supervisory Board would like to thank the Management Board and all employees of the ADLER Group for their outstanding achievements, their great commitment and their loyalty.

Berlin, March 2017

Dr. Dirk Hoffmann
Supervisory Board Chairman



In 2016 all key operating and financial figures improved – consistent with our guidance.

/// Consolidated Financial Statements 2016

/// GROUP MANAGEMENT REPORT

1. GROUP FUNDAMENTALS OF ADLER REAL ESTATE AG

BUSINESS MODEL

The business model of ADLER Real Estate AG comprises two fields of activity – Rental (investment properties) and Trading (inventory properties). The company's segment reporting is structured accordingly.

The Rental segment characterizes the activities of the Group's central Asset Management department, which manages residential units held in the portfolio in technical and commercial terms. It performs these activities mostly under its own management. Where this is not the case, it manages third-party property management companies by way of service agreements. With ADLER Wohnen Service GmbH, which was founded in 2016, ADLER now has a company at which group-internal activities in the field of property management, including existing activities at Wohnungsbaugesellschaft JADE mbH in Wilhelmshaven and WBG GmbH in Helmstedt, are due to be pooled in the near future. ADLER intends to further expand this section of its value chain and fully integrate it into the Group by the end of 2017.

The Trading segment is largely managed and directed by a standalone group company, ACCENTRO Real Estate AG, in which ADLER Real Estate AG owns 86.7 percent of the shares.

Rental

All activities related to the management of properties due to be retained in the portfolio on a permanent basis are pooled in the Rental segment. These relate almost exclusively to residential units. This portfolio has been built up over the past five years by acquiring individual portfolios or shares in property companies. It is regularly reviewed, adjusted in line with earnings and value considerations and developed further with the aim of increasing rental income and reducing the vacancy rate. The properties are regularly valued by independent surveyors. With a portfolio of almost 50,000 units, ADLER is now one of Germany's top six listed property companies.

ADLER intends to further expand this portfolio by making additional acquisitions the in future. As in previous years, ADLER will be focusing its investments on residential property portfolios in B locations and on the edges of large conurbations, where rental yields are typically higher than in inner-city A locations. When suitable market opportunities arise, however, ADLER also supplements its portfolio by investing in so-called A cities, such as Berlin, in order to benefit from value growth in these markets. Either way, ADLER believes acquisitions only make sense when the properties promise to generate positive cash flows directly from acquisition onwards.

The apartments in ADLER's portfolio have an average size of around 60 m² and have two or three main rooms. The average monthly rent amounts to EUR 5 per square metre. ADLER thus operates in a market segment focused on people earning mid to below-average wages. ADLER offers decent living quality at appropriate market prices to this target group. Demand for affordable living space is continuing to grow as the average age of the population is rising in conjunction with an increasing number of single-person households. Furthermore, people are moving to Germany from various parts of the EU as they see better employment prospects here, while others are coming to Germany as asylum seekers from further afield. Simultaneously, the supply of new housing in this segment remains low as construction prices are so high that it is not possible to generate attractive returns based on the existing level of rent. The recently introduced political measures aimed at promoting the development of new housing have had little impact in this respect.

In the balance sheet, rental properties are typically recognised as investment properties at their fair values, which in turn are determined by specialised independent valuation companies. Changes in property values are recognised through profit or loss in the income statement and also change the Group's net asset value (NAV).

Trading

Operations in the Trading segment involve the purchase and sale of residential properties and individual apartments. At the ADLER Group, this segment is primarily covered by the majority interest in the listed company ACCENTRO Real Estate AG. ACCENTRO markets suitable residential properties and individual apartments from the ADLER Group and also on behalf of third parties to owner-occupiers and capital investors in Germany and abroad. According to its own assessment, ACCENTRO is Germany's largest privatiser of residential property.

Acting for the Trading segment, ACCENTRO regularly acquires residential properties that are suitable for privatisation. As they are intended for sale, these properties are then only held for short periods. Given that the Trading segment accords priority to marketability factors, when selecting properties ACCENTRO does not automatically target the same locations as those favoured in the Rental business, but consciously also includes properties in A cities in its target portfolio.

In the balance sheet, properties held for trading are recognised at cost as inventories. These items are typically not subject to value changes. Only when they are sold is the difference between the sale price and their respective carrying amount recognised through profit or loss in the income statement.

Targets and strategies

ADLER Real Estate AG bases its decisions on sustainably increasing the company's value. All aspects of the corporate strategy are aligned towards this objective. The company's value is measured by reference to net asset value (NAV) as defined by the European Public Real Estate Association (EPRA), of which ADLER is a member of.

Strategy for the Rental segment

The value of the property portfolio portrayed in the Rental segment can mainly be increased by achieving the highest possible income from letting activities and ensuring that these results remain stable over time. The objective of asset management is therefore to raise occupancy rates and rental income. Value growth can also be generated by expanding the existing portfolio and exploiting corresponding benefits of scale or by changing and optimising the existing portfolio in order to identify and sell those assets less likely to retain their value.

When the portfolios are extended by way of acquisitions, the earnings strength can be boosted by exploiting benefits of scale, as certain fixed costs can then be distributed across a larger portfolio, with a corresponding reduction in the absolute charge per individual unit. Costs can also be reduced and the efficiency of property management enhanced by grouping services at external service providers or by centralising and pooling tasks within the Group.

The key focus in optimising the existing portfolio involves identifying properties that are only able to make below-average contributions to the Group's overall income due to their location or their qualities. Once these are sold, this automatically increases the earnings strength of the remaining portfolio.

Rental portfolios are managed by the Asset Management department, which was reorganised in mid-2016 and provided with a centralised structure at the company's headquarters in Berlin. Asset Management takes measures to reduce vacancy rates, exploit opportunities to increase rents, and maintain or enhance the portfolio's rental capacity – for example by implementing maintenance or building modernisation measures. High residential value makes the apartments attractive and thus easier to let out. It goes without saying that in its investment measures the Asset Management department always takes due account of the costs and benefits of individual measures. In addition to ongoing maintenance and modernisation measures, in 2016 the Group introduced a programme to renovate a total of around 1,500 previously unoccupied apartments and made a sum of around EUR 15 million available for this purpose. This programme should be completed by the end of 2017 and should help to reduce the existing vacancy rate and resultant costs.

Strategy for the Trading segment

In its Trading segment, ADLER creates value by generating the highest possible return on its purchases and sales of residential properties and individual apartments. ACCENTRO Real Estate AG, the group subsidiary responsible for this business field, in some cases draws on properties from within the portfolio of the ADLER Group and partly on properties specifically acquired for trading. ADLER intends to maintain a sufficiently large portfolio of properties earmarked for privatisation at all times in order to generate as consistent a stream of income as possible and thus not have to rely on opportunistic sales. For this reason, a large share of the income generated from the sale of properties is used to restock the supply of inventory properties and maintain these at a suitable level.

Financing strategy

Due to economic efficiency and risk considerations, ADLER believes that the appropriate ratio of equity to debt for financing its group activities is one that produces a loan-to-value (LTV) of between 50 percent and 60 percent. This automatically makes it necessary to finance future acquisitions at corresponding ratios. In terms of its debt financing, ADLER aims to achieve as homogenous a maturity structure as possible over time. By repaying existing liabilities or refinancing existing facilities on more favourable terms, ADLER also aims to reduce its average interest charge.

ADLER has good access both to the market for secured bank lending and to the market for unsecured financing. This was apparent in mid-2016 once again, when the company successfully placed a convertible bond on the market. This two-pronged market access reduces the risks associated with obtaining debt capital and also contributes to reducing financing costs. Economic success sometimes depends on the company's own speed of reaction. To be able to react to any market opportunities on short notice, ADLER retains authorised and conditional capital, both of which approved by shareholders, which can be drawn on at any time to make acquisitions.

Acquisition strategy

To firmly establish itself as a major residential property player in Germany, ADLER aims to generate growth by making acquisitions in the future as well. Size is not an end in itself, but rather a way to enhance viability by drawing on benefits of scale and efficiency gains. New portfolios for the Rental segment should be consistent with the existing business model, or supplement it in a way that makes sense. They should also be expected to generate positive cash flows directly from acquisition onwards. However, larger scale portfolios are currently not on offer on the market. Even for smaller property portfolios the prices are unattractive from a buyer's perspective. In view of this situation, ADLER is also reviewing whether closer cooperation with project developers could harbour opportunities as the price differential between existing and new properties has noticeable reduced in some regions. ADLER nevertheless intends to further expand its property holdings in the years ahead by purchasing smaller portfolios, even if the resultant growth will not be as rapid as in 2014 and 2015.

New portfolios in the Trading segment have to be suitable for resale or privatisation, as in this segment ADLER aims for an average holding period of just a few years.

ADLER is able to take acquisition decisions on short notice and can offer sellers a high degree of transaction security.

Acquisition-driven growth was nevertheless not at the top of the Group's list of priorities for 2016. In the year under report, greater weight was accorded to consolidating the acquisitions made in recent years, reorganising existing property portfolios, adapting the company's structures to its newly attained size and increasing the company's financial solidity.

MANAGEMENT SYSTEM

Financial performance indicators

The financial performance indicators used by ADLER are: the net asset value (NAV) figure typical to the sector indicating the company's value, funds from operations I (FFO I) to indicate cash flow-based operating earnings in the Rental segment, funds from operations II (FFO II) to indicate cash flow-based operating earnings in the Trading and Rental segments and loan-to-value (LTV) to indicate financial stability.

In the Rental segment, greater priority is accorded to key figures based on the cash flow, as this corresponds to the target of generating sustainable inflows of cash from lettings. The Trading segment is, by contrast, more closely focused on earnings before interest and taxes (EBIT) and thus on its contribution to the Group's overall earnings. Having said this, in its group forecast ADLER Real Estate AG does not provide any disclosures on the Group's expected EBIT, as this key figure is typically affected to a significant extent by non-cash-effective valuation items in the Rental portfolio that are difficult to predict. The earnings expectations for the Trading segment are therefore portrayed in the FFO II forecast.

Non-financial performance indicators

Numerous non-financial performance indicators are regularly monitored within the Group's property management activities. This applies both to the Group's own property management and to the external service providers with which ADLER still expects to work together through to the end of 2017. Among others, these indicators include the occupancy rate, the number of contract termination notices received from tenants, the number of new rental agreements, compliance with time schedules for maintenance measures, the availability of property managers and so forth. Should actual figures deviate from budget figures on an ongoing basis, then corrective measures are devised.

Non-financial performance indicators also play a major role upon the acquisition of new property portfolios. After all, the potential development in the value of a property also depends on factors such as changes in infrastructure, expected demographic developments and potential changes in regional labour markets. An awareness or assessment of these key figures is factored into all decisions concerning the acquisition of properties or property portfolios.

EMPLOYEES

As the group holding company, ADLER Real Estate AG has two Management Board members, but no proprietary employees. Operative tasks related to asset management and central administration for the Group are mostly performed via the wholly-owned subsidiary ADLER Real Estate Service GmbH. Employees at this company are deployed to perform various tasks at the respective group companies on a flexible basis and in line with their individual specialisations. The predominant share of employees is employed at the divisions which are in charge of the property and facility management under the roof of the newly founded company ADLER Wohnen Service GmbH. Overall, at the reporting date for the period under report ADLER had a total of 354 full-time and part-time employees, 86 more than one year earlier. This growth was exclusively due to the expansion and internalisation of the Property Management and Facility Management departments. A total of 52 employees worked at the Group's central functions at the end of the year, 13 fewer than in the previous year.

RESEARCH AND DEVELOPMENT

As a property group, ADLER Real Estate AG does not perform any research and development in a traditional sense. Having said this, ongoing market check are needed to assess future developments in housing markets. Here, ADLER draws on assessments compiled by estate agents' associations, federal authorities, specialist research institutes, prestigious valuation companies, and bank research departments, as well as on its own experience of letting properties on location. Not only that, various developments in the construction sector and in building technology also have to be monitored and analysed, as do any changes in regulatory requirements. The insights gained from these analyses form an important basis for all of the company's operating activities.

2. ECONOMIC REPORT

MACROECONOMIC AND SECTOR-SPECIFIC FRAMEWORK

In 2016, the macroeconomic and sector-specific framework remained stable – and thus favourable for the property sector. According to data released by the Federal Statistical Office, Germany's gross domestic product adjusted for price and calendar factors grew by 1.8 percent. The quarterly growth rates reported during the year, also adjusted for price and calendar effects, ranged between 1.7 percent and 1.9 percent. Private consumer spending, which benefited from consistently high employment totals, the low inflation rate and resultant rise in purchasing power amongst broad sections of the population, showed slightly stronger growth. Interest rates remained at historically low levels, even though, for some forms of investment, they rose slightly towards the end of the year in anticipation of forthcoming interest rate adjustments by the US Federal Reserve. This change is widely interpreted as marking the beginning of a turnaround in interest rate policy. The overwhelming majority of capital market players can nevertheless expect the European Central Bank to maintain a generous supply of liquidity. The increase in interest rates relevant to German market players is expected to be moderate and is only expected to be implemented gradually.

For a company like ADLER Real Estate AG which operates in two business fields, residential unit rental and residential unit trading, both the transaction market and the housing rental market are relevant. The transaction market provides a clear picture of the climate in which trading activities take place, while developments in the housing rental market offer insights into potential changes in the viability of the rental business.

Transaction market

According to figures released by consultancy firm Ernst & Young, the volume of portfolio transactions in 2016 fell short of the previous year's level. Among other factors, this was mainly due to the non-recurrence of major company takeovers that had shaped the previous year's figures. Overall, residential properties with a volume of EUR 13.2 billion changed hands in the context of portfolio sales (previous: EUR 23.5 billion) - once the offer made by Vonovia to conwert shareholders to take over all of their shares. Around four fifths of conwert's property holdings are located in Germany.

Another completely separate factor of the transaction market relates to individual sales of newly built or existing apartments. This market is also believed to have developed positively in 2016. That at least is the assumption of our group company ACCENTRO, which, being one of the leading market players, monitors developments very closely in its annual housing ownership report. In 2015, around 135,000 apartments were sold from either new or existing holdings in transactions totalling EUR 28.5 billion. The 2016 figure is expected to have risen by a medium single-digit percentage rate.

Rental market

The climate in the housing rental market is extremely stable. According to the Cost of Living Index, rents in Germany rose by a nationwide rate of between 1.0 percent and 1.5 percent in the course of the year and by 1.2 percent for the year as a whole. Like all averages, however, this figure conceals variations between regions, urban and rural locations, new and existing housing and different apartment sizes. With its properties, ADLER Real Estate AG chiefly operates in B locations and on the periphery of conurbations. Such locations typically benefit from sharp rent increases in the centre of such towns, or A locations. Such increases have been seen in most towns in Germany. After all, tenants no longer able or willing to pay higher rents look for alternatives and are often prepared to accept living further from the centre of their town or city.

Like in any market, the development of prices in the housing rental market also depends on the relationship between supply and demand. The growth in demand for rental apartments in recent years was not countered by a corresponding increase in supply. That was also the case in 2016. Having said this, the number of building permits issued for apartments rose by more than 20 percent in the course of the year. This is not expected to have closed the gap between supply and demand; however, this gap is not thought to have grown any wider in the year under report.

Legal framework

At the beginning of the year, the Federal Government announced its intention to promote the construction of new apartments, in part by allowing accelerated depreciation. The government was, however, unable to agree on suitable legislation during the year. The sharp rise in the number of building permits can nevertheless be attributed to expectations triggered by the corresponding announcement at the beginning of the year.

An amendment to construction law was adopted in November. Its objective being the permission of higher and denser construction in cities and to allow residential and commercial properties to be located in closer proximity to each other. If successfully implemented, this amendment will enable more people to live in these “urban regions”.

Under EU directives, in March the government acted to amend the conditions for awarding mortgage loans. The directive is intended to increase the share of equity underpinning property purchases and ensure that borrowers are able to repay all of their obligations during their lifetimes. The amendment led to a temporary reduction in the number of new agreed mortgage loans.

GROUP BUSINESS PERFORMANCE

Following its successful steps to generate growth in previous years, in 2016 ADLER Real Estate AG concentrated on reorganising its group structures and adapting these to the new requirements arising in the wake of the acquisitions made. To this end, the company relocated its headquarters to Berlin, where the most important central functions, including asset management, have also been pooled. The Frankfurt office was closed.

Within the restructuring programme, the Property Management department was extended, provided with a new regional structure and placed under the management of the newly founded company ADLER Wohnen Service GmbH. The proprietary Facility Management department also extended its range of activities and assumed responsibility for supporting additional properties at various locations within ADLER’s group portfolio. All these measures serve the objective of developing ADLER into an integrated property group capable of offering all services of key relevance to tenants from a single source by the end of 2017.

The Group’s agenda for 2016 did not include extensive acquisitions. ADLER only acquired a total of 228 rental units of which most are located in high-quality residential areas in Berlin. The group company ACCENTRO added 1,464 apartments, mainly in Berlin, to its trading portfolio in the period under report. 675 of these were acquired towards the end of the year from Münchener Baugesellschaft GmbH, a group company of ADLER Real Estate AG. Following renovation, the apartments of this project development are then to be earmarked for privatisation. A total of 1,910 residential units, of which 934 investment properties, were sold in the period under report. A total of 976 units were sold 2016 in the privatisation business.

In July, ADLER successfully placed a convertible bond of EUR 138 million, and that despite adverse market conditions in the wake of the “Brexit” referendum. Of this sum, EUR 62 million was used to refinance existing promissory note loans with higher interest rates, with a correspondingly positive impact on average debt interest rates and FFO, while EUR 15 million is to be used in the current and next financial years to renovate a total of 1,500 vacant apartments to bring them in line with market standards and enable them to be let out. This should impact positively on the occupancy rate and rental income.

In August, the group company ACCENTRO Real Estate AG, which manages ADLER's trading business, sold a property portfolio of 419 residential units in Berlin originally earmarked for privatisation in a single transaction and thus generated an earnings contribution of around EUR 10 million after taxes. This transaction provided the company with liquid funds of more than EUR 30 million, part of which was used to acquire 208 new centrally located residential units in Berlin.

In August, ADLER purchased an option to acquire up to six million additional shares in conwert Immobilien Invest SE. This option was drawn on for five million shares at the beginning of September.

Also in September, Vonovia SE, Germany's largest listed property company, approached ADLER with an offer to exchange ADLER's conwert shares into Vonovia shares in the context of a takeover bid addressed to all conwert shareholders. ADLER issued an irrevocable undertaking to tender these shares to Vonovia once the conditions underpinning the takeover were met. The funds since received by ADLER in January 2017 following the successful completion of the takeover offer are to be used almost entirely to redeem debts.

ADLER Wohnen Service GmbH was also founded in September. This new unit acts as the superordinate company for all property management activities. In 2016, these activities were performed by group-internal companies for some parts of the rental portfolio, but mostly by external service providers. This new company is assigned with pressing ahead with the targeted internalisation of all property management activities by the end of 2017. It thus constitutes an important component of ADLER's strategic objective of expanding into an integrated property group.

At the end of November, ADLER received an "Assessment from the Austrian Takeover Commission in respect of Review Procedures". This document, which does not yet have the force of law, concludes that ADLER Real Estate AG together with other parties qualifies as parties acting in concert as defined in the Austrian Takeover Act, that the company attained a controlling shareholding in conwert on 29 September 2015, and that it then illegitimately failed to make a mandatory bid. ADLER has rejected these charges and filed an appeal at the Austrian Supreme Court. The ruling is still outstanding. This assessment had no direct implications for the voluntary takeover bid addressed by Vonovia SE to the shareholders in conwert Immobilien Invest SE.

In December, as a follow-up obligation to the 2015/20 corporate bond, ADLER obtained a rating from the rating agency Standard & Poor's for the first time. At "BB-/Positive Outlook", this is a success for the company and reflects its financial stability and transparency. The rating will provide the capital market with an internationally acknowledged basis for assessing the company's financial solidity.

Towards the end of the financial year, ADLER decided to take over all of the shares in WESTGRUND AG, a company in which it acquired a majority stake in 2015, during 2017. To be able to execute this squeeze-out, ADLER had acquired additional WESTGRUND shares and thus increased its stake to more than 95 percent. To simplify its corporate structures and reduce complexity, following the successful completion of the squeeze-out process ADLER plans to withdraw WESTGRUND from the stock market.

3.RESULT FROM OPERATIONS, NET ASSETS AND FINANCIAL POSITION

RESULT FROM OPERATIONS

ADLER Real Estate AG generates its revenues from two main activities – property management and property sales. Its business model is based on these activities, which are correspondingly reflected in the statement of comprehensive income and the segment report.

In EUR millions	2016	2015
Gross rental income	252.4	216.6
of which net rental income	167.5	131.6
Expenses from property lettings	-138.8	-125.1
Earnings from property lettings	**113.6**	**91.6**
Income from the sale of properties	160.4	168.2
Expenses from the sale of properties	-124.0	-144.7
Earnings from the sale of properties	**36.4**	**23.5**
Personnel expenses	-19.6	-13.2
Other operating income	8.6	49.9
Other operating expenses	-35.7	-33.1
Income from fair value adjustments of investment properties	199.7	58.9
Depreciation and amortisation	-1.2	-1.0
Earnings before interest and taxes (EBIT)	**301.8**	**176.6**
Net income from at-equity valued investment associates	11.2	-0.3
Financial result	-125.6	-81.4
Earnings before taxes (EBT)	**187.4**	**94.8**
Consolidated net profit	**133.8**	**78.3**

Significant increase in income and earnings from property lettings due to acquisition-driven portfolio expansion

Gross rental income, predominantly comprised of income from property lettings, reached EUR 252.4 million in the 2016 financial year, equivalent to an increase of 16.5 percent on the previous year (EUR 216.6 million). This marked growth was mainly due to the expansion in property holdings as a result of the acquisitions made in the previous year, namely the acquisition of Wohnungsbaugesellschaft JADE GmbH in February 2015, of WESTGRUND AG in June 2015 and of the Ajax portfolio at the end of the third quarter of 2015. All new acquisitions contributed to the income for the full twelve-month period in 2016, in contrast to on a time-apportioned basis in 2015.

Gross rental income nevertheless also benefited from further improvements achieved in our property management performance indicators. At the end of 2016, the average contractually agreed rent per square metre per month in the core portfolio amounted to EUR 5.04. On a like-for-like basis, it was thus EUR 0.06 higher than the previous year’s figure (overall portfolio: EUR 5.00 at the end of 2016; EUR 4.93 at the end of 2015). The occupancy rate in the course of the year under report rose by 1.1 percentage point to 91.4 percent in the core portfolio and by 1.2 percentage points to 90.0 percent in the overall portfolio.

Expenses from property lettings comprise apportionable and unapportionable operating costs and maintenance expenses. Net of these items, earnings from property lettings amounted to EUR 113.6 million in 2016, 24.0 percent more than in the previous year (EUR 91.6 million).

Substantially higher income from the sale of properties

ADLER Real Estate AG generated income of EUR 36.4 million from the sale of properties in 2016 and thus significantly exceeded the previous year's figure (EUR 23.5 million). This income benefited exclusively from the trading and privatisation activities at the group subsidiary ACCENTRO Real Estate AG and in particular from the fact that ACCENTRO was able to sell a portfolio of 419 units located in the centre of Berlin in the third quarter. This portfolio, which had originally been earmarked for individual privatisation, was sold on attractive terms in its entirety.

Sales of non-core units – one of ADLER's strategic objectives since the beginning of 2015, intended to increase the performance capacity of the overall portfolio – are not reflected in earnings as they were predominantly executed at the respective carrying amounts. A total of 934 units were sold from the Group's non-core portfolio. Such units are designated as held for sale as they no longer fit in with ADLER's business model. The non-core portfolio still comprised around 2,800 units at the end of the year. The units sold in 2016 therefore represent a first major step towards achieving the Group's objective.

Property valuation adapted in line with changing market circumstances

At EUR 199.7 million in 2016, income from fair value adjustments of investment properties was significantly higher than the previous year's comparative figure (EUR 58.9 million). This valuation gain was partly driven by the rise in average rents and measures to maintain and modernise the properties, which accounted for a total of EUR 44.4 million (previous year: EUR 36.1 million). The larger share of the positive income from fair value adjustments was due to the fact that ADLER adapted the valuations of individual portfolios to the change in market circumstances, which were characterised by persistent pressure on yields (yield compression). The property valuations are exclusively performed by specialist external service providers with longstanding experience in this area. Income from fair value adjustments of investment properties is not cash-effective and is not included in the calculation of funds from operations.

Company growth leads to higher expenses

The company's growth has automatically been accompanied by increases in most expense items. Part of this cost growth is nevertheless due to the withdrawal of tasks from external service providers in the context of the Group's realignment to become an integrated property group. These tasks have been taken on by internal group departments that have either been newly founded or had their personnel resources increased. As a result, the Group had a total of 354 employees at the end of 2016, 86 more than a year earlier. Personnel expenses came to EUR 19.6 million in 2016 (previous year: EUR 13.2 million). This increase also reflects one-off payments to which employees leaving the company due to restructuring measures in 2016 were entitled, as well as pay rises granted to all employees on a scale customary to the industry.

Other operating expenses amounted to EUR 35.7 million (previous year: EUR 33.1 million). This line item includes general administration expenses, office premise rents, IT expenses, legal and advisory expenses, impairments of receivables and public relations expenses.

At EUR 8.6 million, other operating income was significantly lower in 2016 than in the previous year. Due to a non-recurring extraordinary item, this item amounted to EUR 49.9 million in 2015. Upon the acquisition of Wohnungsbaugesellschaft JADE GmbH, a negative difference of EUR 42.3 million was recognised upon capital consolidation. This goodwill was recognised directly through profit or loss, whereas no comparable income was generated in 2016.

Substantial EBIT growth

After the deduction of all non-financial expenses, earnings before income and taxes (EBIT) for the 2016 financial year amounted to EUR 301.8 million, 70.9 percent higher than in the previous year (EUR 176.6 million).

Interest charge rises in line with Group's growth

At minus EUR 125.6 million, the financial result for 2016 was substantially lower than the equivalent figure for the previous year (minus EUR 81.4 million). This was due on the one hand to the fact that the takeover of WESTGRUND AG automatically also involved assuming the company's liabilities and associated interest obligations. On the other hand, interest expenses also rose as a result of the liabilities taken up by the ADLER Group in the course of 2015. For these liabilities, interest expenses were incurred for the full twelve-month period of 2016, but only on a time-apportioned basis in the previous year. This is particularly true of the corporate bond of EUR 350 million, which bears interest at 4.75 percent and served to finance the WESTGRUND takeover. Furthermore, in the third quarter of 2016 ADLER Real Estate AG issued a convertible bond with a total nominal value of EUR 137.9 million and an interest rate of 2.5 percent. The resultant interest expenses have been included in the financial result for the first time. The financial expenses for 2016 also include prepayment compensation of EUR 11.0 million resulting from the replacement of higher-interest liabilities prior to maturity with lower-interest instruments. These one-off expenses adversely affected earnings in 2016 but will noticeably reduce current interest expenses in the years ahead.

The sale of the shareholding (25.7 percent) held in the Austrian company conwert Immobilien Invest SE to Vonovia SE in the context of the voluntary takeover addressed by Vonovia to conwert's shareholders in January 2017 resulted in a one-off negative earnings contribution of EUR 16.1 million. ADLER had acquired the predominant share of its conwert shares in August 2015 and further increased this shareholding in September 2016. The disposal proceeds did not entirely cover the carrying amount, as a result of which the shares held in conwert Immobilien Invest SE were correspondingly written down as of the balance sheet date.

Financial income hardly changed compared with the previous year. On average, ADLER held higher volumes of liquid funds in 2016 than in the previous year. However, the company was unable to generate higher interest income on these funds due to market circumstances in terms of the European Central Bank's persistently low interest rate policy.

Net income from at equity valued investment associates virtually relates in full to the shareholding held in conwert Immobilien Invest SE.

Net of the financial result and income from investments accounted for using the equity method, earnings before taxes (EBT) for 2016 amounted to EUR 187.4 million (previous year: EUR 94.8 million).

Income tax expenses amounted to EUR 53.7 million in 2016 (previous year: EUR 16.5 million). The year-on-year increase was mainly due to deferred taxes on measurement gains and the rise in taxable profits at the ACCENTRO Real Estate AG subsidiary. Net of taxes, consolidated net income for 2016 amounted to EUR 133.8 million (previous year: EUR 78.3 million). Of consolidated net profit, EUR 120.9 million was attributable to shareholders in the parent company (previous year: EUR 72.1 million).

Segment reporting

In its segment reporting, ADLER Real Estate AG distinguishes between Rental and Trading segments. All business transactions executed in connection with the letting of investment properties are pooled in the Rental segment. The Trading segment includes all activities in connection with the purchase and sale of properties, including the brokerage business on behalf of third parties. Under „Other“ all activities which do not form a specific segment are summed up. „Other“ mainly comprises historic holdings at ADLER Real Estate AG resulting from development projects implemented in former years. Since the Group's realignment, these holdings are in the process of being sold off.

The allocation of income and earnings from the operating business to the Rental and Trading segments largely corresponds to the equivalent line items in the consolidated income statement. Furthermore, the allocation of the various expense items and the financial result to segments is presented in the following table:

ADLER Group	**Trading**		**Rental**		**Other**		**Group**	
In EUR millions	**2016**	**2015 1**	**2016**	**2015 1)**	**2016**	**2015**	**2016**	**2015**
Gross rental income and income from the sale of properties	125.1	39.5	285.7	329.7	2.0	15.6	412.8	384.8
of which gross rental income	6.6	5.8	244.7	208.3	1.1	2.5	252.4	216.6
of which income from disposals	116.9	31.4	41.0	121.3	0.9	13.1	158.8	165.8
of which income from brokerage	1.6	2.3	0.0	0.0	0.0	0.0	1.6	2.3
Change in the value of investment properties	0.0	0.0	199.7	58.9	0.0	0.0	199.7	58.9
Earnings before interest and taxes (EBIT)	**33.9**	**5.3**	**268.1**	**171.5**	**-0.2**	**-0.3**	**301.8**	**176.6**
Income from investments accounted for using the at-equity method	0.5	0.6	10.7	-0.9	0.0	0.0	11.2	-0.3
Financial result	**-5.2**	**-4.1**	**-120.3**	**-77.3**	**0.0**	**0.0**	**-125,6**	**-81.4**
Earnings before taxes (EBT)	**28.7**	**1.2**	**158.7**	**93.9**	**0.0**	**-0.3**	**187.4**	**94.8**

1) Amended statement: please see comments unter „Segment Reporting" in the notes for the group financial statements

Sharp rise in funds from operations (FFO)

As is customary in the property sector, to assess the profitability of its operating business ADLER Real Estate AG refers to funds from operations (FFO) as its major cash flow-based figure. FFO I presents the performance capacity of the property letting business. FFO II additionally presents the results of trading with and sales of properties.

As is documented in the overview provided below, FFO is determined by first calculating earnings before interest, taxes, depreciation and amortisation, impairment losses and income from fair value adjustments of investment properties (EBITDA IFRS) and then adjusting this figure to exclude non-recurring and extraordinary items. The adjustments made involve items that are of non-periodical nature, recur irregularly, are untypical to operations or not cash-effective. These relate in particular to the optimisation and development of existing and new business fields and business processes, acquisition and integration expenses arising in the context of acquisitions, refinancing expenses and capital-related measures and further one-off items such as settlements and impairments of receivables. Interest expenses directly incurred in connection with the operating business are then deducted from this adjusted EBITDA figure (FFO interest charge) as are any earnings generated from the sale of properties and current income taxes. Any investments made to maintain the substance of the properties but which not been capitalised are then added.

In EUR millions		2016	2015
Consolidated net profit		**133.8**	**78.3**
+	Financial result	125.6	81.4
+	Income taxes	53.7	16.5
+	Depreciation and amortisation	1.2	1.0
–	Income from measurement of investment properties	199.7	58.9
–	Income from investments accounted for using the at-equity method	11.2	0.3
EBITDA IFRS		**103.3**	**118.8**
+/–	Non-recurring and extraordinary items	21.0	-23.1
Adjusted EBITDA		**124.3**	**95.6**
–	Interest expense FFO	74.0	64.3
–	Current income taxes	0.8	1.0
+	Capitalisable maintenance measures	10.1	9.1
–	Earnings before interest and taxes from the sale of properties	32.3	23.3
FFO I		**27.3**	**16.1**
+	Earnings after interest and taxes from the sale of properties	19.0	20.1
–	Interest from investments accounted for using the at-equity method	4.5	0.3
+	Value change realised upon sale	4.8	8.5
+	Liquidity-related income from investments accounted for using at-equity method	8.7	0.0
FFO II		**55.3**	**44.3**
Number of shares (basic)[1]		58,308,434	56,709,297
FFO I per share (basic)		0.47	0.28
FFO II per share (basic)		0.95	0.78
Number of shares (diluted)[2]		64,051,744	64,051,744
FFO I per share (diluted)		0.43	0.25
FFO II per share (diluted)		0.86	0.69

[1] 47,702,374 shares as at balance sheet date (previous year: 46,103,237) plus 10,606,060 shares from assumed conversion of mandatory convertible bonds (previous year: 10,606,060) which are considered as equity
[2] Plus 5,743,310 shares from assumed conversion of all other convertible bonds with entitlement to conversion (previous year: 7,342,447)

Non-recurring and extraordinary items are structured as follows:

Non-recurring and extraordinary items **In EUR millions**	**2016**	**2015**
Non-cash income/expenses and one-off payments	9.4	-34.6
costs of acquisition / integration	0.4	2.2
Optimisation of business model, structuring	11.2	9.3
Total of non-recurring and extraordinary items	**21.0**	**-23.1**

The FFO interest charge is derived as follows:

Interest expense FFO **In EUR millions**	**2016**	**2015**
Interest income	2.8	2.9
Interest expenses	-128.4	-84.3
Total interest income	**-125.6**	**-81.4**
Adjustments		
Interest expenses from the sale of properties	5.6	8.0
Prepayment compensation and provision costs	13.2	2.7
Effects of measurement of primary financial instruments	10.9	5.6
Other adjustments	21.9	0.8
Interest expenses FFO	**-74.0**	**-64.3**

The other adjustments in the year under report relate in particular to the impairment losses recognised on the shares held in conwert Immobilien Invest SE and to interest for companies recognised at equity. The latter item has been allocated to FFO II.

Calculated this way, FFO I for 2016 amounted to EUR 27.3 million, more than EUR 11 million higher than in the previous year (EUR 16.1 million). The FFO II figure for 2016 is reported at EUR 55.3 million, which also represents a substantial increase compared with the previous year (EUR 44.3 million). This key figure benefited from the fact that in the third quarter ACCENTRO was able to sell a property in Berlin-Kreuzberg. Originally earmarked for privatisation, this property was sold in its entirety in a single transaction.

Calculated on an undiluted basis (shares issued plus shares arising from conversion of the mandatory convertible bond allocated to share capital), FFO I per share amounted to EUR 0.47 as of 31 December 2016. On a diluted basis (shares issued plus shares arising from conversion of the mandatory convertible bond allocated to share capital plus shares from the assumed conversion of the other convertible bonds to the extent that they are already convertible), FFO I per share came to EUR 0.43.

NET ASSETS

In EUR millions	31.12.2016	as percentage of total assets	31.12.2015	as percentage of total assets
Non-current assets	**2,577.6**	**75.1**	**2,758.9**	**89.7**
of which investments properties	2,442.0	71.2	2,270.2	73.8
Current assets	**418.2**	**12.2**	**297.3**	**9.7**
of which inventories	227.1	6.6	159.7	5.2
of which cash and cash equivalents investments	123.9	3.6	49.5	1.6
Non-current assets held for sale	**434.7**	**12.7**	**20.1**	**0.7**
Assets	**3,430.5**	**100.0**	**3,076.2**	**100.00**
Equity	**914.2**	**26.6**	**777.9**	**25.3**
of which capital stock	47.7	1.4	46.1	1.5
of which capital reserve	352.1	10.3	449.4	14.6
of which net retained profit	445.7	13.0	223.9	7.3
Non-current liabilities	**2,111.2**	**61.5**	**1,980.4**	**64.4**
of which liabilities from convertible bonds	143.9	4.2	35.0	1.1
of which liabilities from bonds	509.5	14.9	481.6	15.7
of which financial liabilities to banks	1,312.5	38.3	1,368.1	44.5
Current liabilities	**397.5**	**11.6**	**303.5**	**9.9**
of which financial liabilities to banks	320.3	9.3	248.5	8.1
Liabilities held for sale	**7.6**	**0.2**	**14.4**	**0.5**
Equity and liabilities	**3,430.5**	**100.0**	**3,076.2**	**100.0**

Unlike the consolidated statement of income, the consolidated balance sheet for the previous year already reflected the Group's strong acquisition-driven growth. By comparison, total assets showed only a moderate increase in 2016. As of 31 December 2016, ADLER Real Estate AG reported total assets of EUR 3,430.5 million, 11.5 percent higher than at the end of the previous year (EUR 3,076.2 million).

Investment properties with further value growth

The increase in consolidated total assets was mainly driven by growth in the value of property assets. Investment properties had a market value of EUR 2,442.0 million at the end of the year, 7.6 percent higher than one year earlier (EUR 2,270.2 million). As ADLER reduced its property holdings in the course of the year by selling non-core properties, this value growth is exclusively attributable to higher market valuations. This is consistent with the development in the market, which was characterised by rising multiples and thus falling yields (yield compression). Investment properties accounted for 71.2 percent of total assets at the end of 2016.

The second-largest item on the asset side of the balance sheet involves the shareholding of around 26 percent held in conwert Immobilien Invest SE. Owing to the decision to sell this shareholding in the context of the voluntary bid made by Vonovia to conwert shareholders, this item was recognised under "non-current assets held for sale". This item, which was carried at EUR 434.7 million at the end of 2016, is not comparable with the previous year's figure. In 2015, the conwert shares were still recognised under investments in associates. This latter item therefore showed a corresponding reduction in 2016.

Properties held for trading have been recognised under inventories at an amount of EUR 227.1 million. This growth of 42.2 percent compared with the previous year (EUR 159.7 million) was exclusively due to holdings newly acquired in 2016. Properties earmarked for trading or privatisation are mostly held by the group company ACCENTRO. Inventory properties are measured at cost, which usually falls significantly short of the respective market value.

The three aforementioned items cover all of the properties holdings at ADLER Real Estate AG and together account for 90.5 percent of the company's total assets.

Solid liquidity resources

Current assets amounted to EUR 418.2 million at the end of the 2016 financial year. This corresponds to a year-on-year increase of 40.7 percent, one attributable to the aforementioned increase in inventory properties and to the fact that cash and cash equivalents more than doubled to EUR 123.9 million. This development in turn was largely due to the inflow of funds resulting from the successful issue of the convertible bond in July. Around half of these funds were used to repay liabilities, while the other half is being retained for renovation measures and general company purposes.

Rise in equity ratio

The financing structure of ADLER Real Estate AG moved further towards a higher share of equity in 2016. The equity ratio amounted to 26.6 percent and was thus 1.3 percentage points higher than in the previous year (25.3 percent).

The increase in equity from EUR 777.9 million at the end of 2015 to EUR 914.2 million at the end of 2016 was chiefly attributable to net retained profit. The mandatory convertible which served to finance the purchase of shares in conwert in 2015 was also included in the capital reserve in both financial years. Of the reduction in the capital reserve, an amount of EUR 100.9 million is attributable to withdrawals at the parent company, leading to a corresponding increase in retained earnings.

Slight reduction in non-current liabilities to banks

Non-current liabilities amounted to EUR 2,111.2 million as of 31 December 2016, EUR 130.8 million higher than one year earlier (EUR 1,980.4 million). This increase was chiefly due to the issue of the convertible bond of EUR 137.9 million. Of this sum, however, approximately 45 percent was also used to refinance existing higher-interest liabilities. Together with ongoing repayments, this led to a reduction in financial liabilities to banks. Furthermore, there was an increase in liabilities for deferred taxes.

Of non-current liabilities, an amount of EUR 1,312.5 million – and thus the major share – involves secured liabilities to banks. Corporate bonds result in capital market liabilities of EUR 509.5 million, while convertible bonds account for EUR 143.9 million.

At EUR 397,5 million, current liabilities were EUR 94.0 million higher than the previous year's figure (EUR 303.5 million). This on the one hand reflects the increase in income tax liabilities. On the other hand and to a greater extent, it also reflects the increase by EUR 72.0 million in a short-term loan. This was taken up to finance the acquisition of five million additional shares in the Austrian company conwert Immobilien Invest SE in the third quarter in the context of a previously concluded option agreement. The total loan (EUR 199.7 million) taken up to finance the shares in conwert Immobilien Invest SE was repaid directly upon receipt of the proceeds from the sale of the shares at the beginning of 2017.

Net financial liabilities amounted to EUR 2,172.1 million at the end of 2016 and thus rose by EUR 79.5 million compared with the end of the previous year.

Loan to value (LTV) approaches target value

The ratio of financial liabilities to total assets (loan to value), with both figures adjusted to exclude cash and cash equivalents, amounted to 65.7 percent at the end of the year under report, 3.4 percentage points lower than at the beginning of the year. Assuming that the convertible bonds outstanding at the reporting date are converted into shares, LTV would amount to 61.3 percent, 6.7 percentage points lower than at the end of 2015.

ADLER has thus moved closer to reaching its target of reducing LTV below 60 percent.

In EUR millions		31.12.2016	31.12.2015
Convertible bonds		145.4	35.6
+	Bonds	517.7	489.9
+	Financial liabilities to banks	1,632.8	1,616.6
–	Cash and cash equivalents	123.9	49.5
=	**Net financial liabilities**	**2,172.1**	**2,092.6**
Assets[1]		**3,306.6**	**3,026.7**
LTV including convertible bonds in %		65.7	69.1
LTV excluding convertible bonds in %		61.3	68.0

[1] Adjusted for cash

The weighted average cost of debt (WACD) for all of the ADLER Group's liabilities also decreased from 3.99 percent at the end of 2015 to 3.69 percent at the end of 2016.

Further increase in net asset value (EPRA NAV)

ADLER Real Estate AG refers to net asset value (NAV) as a key group management figure and calculates this in accordance with the guidelines issued by the European Public Real Estate Association (EPRA). At the end of 2016, this key figure amounted to EUR 1,069.9 million and was thus 21.6 percent higher than at the end of 2015.

Based on the total number of existing shares in circulation at the balance sheet date plus the shares resulting from the assumed conversion of the mandatory convertible bond counted as equity, undiluted EPRA NAV per share amounted to EUR 18.35.

Diluted EPRA NAV per share came to EUR 16.93. ADLER Real Estate AG bases its NAV calculation on the equity allocable to shareholders in the parent company.

In EUR millions	31.12.2016	31.12.2015
Equity	**914.2**	**777.9**
Non-controlling interests	-71.0	-58.6
Equity attributable to ADLER shareholders	**843.2**	**719.4**
Deferred tax liabilities	169.5	114.8
Difference between fair values and carrying amounts of inventory properties	52.1	40.6
Fair value of derivative financial instruments	7.4	7.0
Deferred taxes for derivative financial instruments	-2.2	-2.3
EPRA NAV	**1,069.9**	**879.5**
Number of shares, basic[1)]	58,308,434	56,709,297
EPRA NAV per share in EUR	**18.35**	**15.51**
Number of shares, diluted[2)]	64,051,744	64,051,744
EPRA NAV per share (diluted) in EUR	**16.93**	**14.05**

[1)] 47,702,374 shares as at balance sheet date (previous year: 46,103,237) plus 10,606,060 shares from assumed conversion of mandatory bond (previous year: 10,606,060)
[2)] Plus 5,743,310 shares from assumed conversion (if possible) of other convertible bonds (previous year: 7,342,447)

FINANCIAL POSITION

In EUR millions	2016	2015
Cash flow from operating activities	100.6	25.0
Cash flow from investing activities	-79.5	-438.7
Cash flow from financing activities	53.4	430.1
Cash-effective change in cash and cash equivalents	74.4	16.4
Cash and cash equivalents at beginning of period	49.5	33.1
Cash and cash equivalents at end of period	123.9	49.5

All properties acquired in 2015 contributed to the Group's earnings and cash flow for the whole of the 2016 reporting period. In the previous year's comparative period, that was only the case for the properties at Wohnungsbaugesellschaft JADE mBH and WESTGRUND AG on a time-apportioned basis. In view of this, the increase in the cash flow from operating activities was correspondingly substantial. At EUR 100.6 million, this key figure was more than four times higher in 2016 than in the previous year (EUR 25.0 million).

The cash flow from investing activities led to an overall outflow of funds of EUR 79.5 million. This mainly resulted from the acquisition of a further five million shares in conwert Immobilien Invest SE. The inflow of funds from disposals of property holdings covered the liquidity requirements for the acquisition of new property holdings and for investments in existing holdings. The outflow of funds of EUR 438.7 million in the previous year resulted in particular from the acquisitions of Wohnungsbaugesellschaft JADE mbH, WESTGRUND AG and MountainPeak Trading Limited.

Financing activities resulted in an overall inflow of funds amounting to EUR 53.4 million in 2016. This was the extent by which interest payments and repayments of existing financing facilities fell short of the funds received from taking up new liabilities. The issue of the 2016/2021 convertible bond in the third quarter of 2016 produced an inflow of funds of EUR 125.7 million following the deduction of issue-related expenses. The previous year was affected mainly by inflows of funds resulting from the stocking up of the 2014/2019 bond and the issue of the 2015/2020 corporate bond.

At the end of 2016, the ADLER Group had financial funds (cash and cash equivalents) of EUR 123.9 million. The Group was at all times able to meet its payment obligations.

OVERALL SUMMARY OF BUSINESS PERFORMANCE AND POSITION OF GROUP

Given the further development of existing property portfolios, the successful initiation of the Group's realignment, the ongoing improvement in its financing structure and the financing facilities secured on a long-term basis, the business performance and position of the Group are assessed as positive. A foundation has therefore been laid for a stable performance in future.

4. EVENTS AFTER THE BALANCE SHEET DATE

In mid-January 2017, ADLER Real Estate AG received funds of EUR 422 million from the sale of its 26 percent stake in conwert Immobilien Invest SE to Vonovia SE. This sale was executed within the framework of the voluntary offer made by Vonovia to conwert's shareholders. ADLER plans to use the funds received from the transaction to repay bank liabilities and capital market bonds with higher interest rates. The company thus aims to improve its balance sheet structure and reduce its current interest expenses. For the current 2017 financial year, ADLER expects these measures to increase funds from operations (FFO I) by around EUR 10 million, to improve its loan-to-value (LTV) and further reduce its weighted average cost of debt (WACD).

As outlined above, following the mid-January receipt of the funds stemming from the sale of its conwert shares, ADLER Real Estate AG began repaying liabilities with higher interest rates. By the reporting date, the company had repaid promissory note bonds of EUR 27.0 million. Furthermore, short-term loans directly related to the transaction and with a total volume of EUR 199.7 million were repaid. These had previously served to finance the acquisition of the conwert shares.

In March, ADLER Real Estate AG signed a purchase contract governing the acquisition of a property portfolio comprising 693 residential and 8 commercial units in Osterholz-Scharmbeck and Schwanewede. The properties are located in the Bremen catchment area and fit in well with ADLER´s objective of offering tenants quality, yet affordable, living space on the edges of larger conurbations. The portfolio currently generates a rental income of more than EUR 2 million per annum and is a useful addition to the existing holdings in northern Germany. After consolidation efforts dominated in 2016, the acquisition underlines the intention to expand the portfolio at a moderate rate once again.

No further events with the potential to significantly influence the earnings, asset and financial position of ADLER Real Estate AG occurred between the end of the period under report and the editorial deadline for this report. The course of business through to the reporting date affirms the statements made in the outlook.

5. REPORT ON EXPECTED DEVELOPMENTS

The statements made concerning the expected development in key financials for the 2017 financial year are based on current planning at ADLER Real Estate AG. This planning, which includes all group companies, is regularly reviewed and adjusted during the financial year. Such adjustments are made when they are deemed appropriate to account for developments in the intervening period.

Stable macroeconomic framework

ADLER Real Estate AG expects the macroeconomic framework for companies in the property sector to remain overall favourable in 2017. Developments in the first months of 2017 have confirmed this expectation. Macroeconomic developments in Germany would appear to be comparatively robust, with expected economic growth and private consumer spending growth of 1.5 percent. At the same time, the interest rates relevant to Germany are expected to remain persistently low in 2017. Even if interest rates rise as the year progresses, the increase can be expected to remain within limits. This gives reason to expect that German real estate will continue to be an attractive investment category for private and professional investors. The framework is therefore set to remain favourable for both segments of ADLER Real Estate AG's business model, namely the rental business and the trading and privatisation business operated by the group company ACCENTRO.

Housing is expected to remain scarce in 2017, with demand continuing to rise due to known socio-demographic developments. In addition, the immigration of people from European and non-European countries is set to continue, albeit not on the same scale as in 2016. The housing supply, by contrast, will only grow to the extent that new construction projects have already been approved. These will hardly suffice to cover all additional requirements. Furthermore, lawmakers have failed to provide any stimulus for further new construction projects as the originally announced measures to promote housing construction have not been adopted.

It appears reasonable to expect increasing use to be made of existing capacities in the rental accommodation market in 2017, thus leading to higher occupancy rates. This climate can also be expected to allow a certain degree of rent increases. Overall, conditions are therefore favourable for companies in the property sector to operate successfully once again in 2017.

ADLER will continue to focus on its consolidation in 2017

In terms of its strategic objectives, in 2017 ADLER Real Estate AG will be focusing on the process of consolidation already initiated in 2016. In its day-to-day business, this will involve improving its key housing management figures, such as further raising its occupancy rate and adjusting rents in line with market developments. Over and above this, the company will be focusing on completing the measures planned to turn itself into an integrated property group. As planned, it will therefore be further expanding its proprietary property and facility management activities.

Portfolio optimisation is a further point on the agenda. Properties identified as non-core are to be sold in order to boost the earning strength of the overall portfolio. However, ADLER intends to grow further and is interested in acquiring properties that match its business model. ADLER is concentrating its portfolio search on regions in which it already operates. At the time of publication of this report, ADLER was reviewing various portfolios that together comprise more than 10,000 rental units.

One key point in the company's action plan for 2017 involves improving its financing structure and reducing its current interest expenses. Pursuant to this objective, ADLER will be using most of the liquid funds received from the sale of the conwert shares to prematurely repay liabilities with high interest rates and already began this process in the first months of the 2017 financial year

Increase of nearly 50 percent in FFO I expected

Against this backdrop, the targets set for 2017 are ambitious but realistic. The vacancy rate is to be further reduced, primarily by means of the investment programme to renovate 1,500 vacant apartments. Launched in 2016, this programme is on schedule and should be fully implemented by the end of 2017. As a result, the occupancy rate at the end of 2017 should be around 4 percentage points higher than at the beginning of the year. At the same time, ADLER expects to be able to raise average rents in its existing property portfolio holdings by one to two percent. This would correspond to the rent rises generally implemented in the past. Based on these expectations, like-for-like gross rental income is set to rise at a medium single-digit rate. Rental income will also increase as ADLER, in the first quarter of 2017, has acquired a portfolio comprising 700 units and intends to purchase further rental units in the course of the year. As the company also plans to sell non-core units, it has to be assumed that a corresponding share of rental income will be lost as the year progresses. Overall, ADLER expect to be able to increase net rental income in 2017 by around 3 percent.

The initial success of the newly established central procurement function should also be visible in 2017. This function was set up to improve control of operating costs and achieve targeted reductions in these items. As with the lowering in vacancy rates and reduction in the interest charge, this factor should impact positively on FFO I. This key figure should therefore increase to around EUR 40 million, equivalent to year-on-year growth of nearly 50 percent.

Due to its nature, FFO II is more difficult to predict, as this key figure also includes the contribution from the property trading business operated by the group company ACCENTRO. This company made an unusually high FFO contribution in 2016 due to the sale of a whole portfolio originally earmarked for privatisation, i.e. individual sale, in a single transaction. No such transaction will occur in 2017. We expect ACCENTRO to contribute around EUR 10 million. Thus, FFO II on a scale of around EUR 50 million should be achievable, less 5 million than 2016.

In 2017, ADLER's financial indicators will show improvements, which are expected to be substantial in some cases. Having begun to buy back corporate bonds with higher interest rates in the first quarter of 2017, the company expects to significantly reduce its LTV figure to between 50 and 55 percent as the year progresses. ADLER would then have reached what it considers to be the right ongoing level, as this offers an optimal balance between the needs of debt capital providers for financial security and those of equity providers for suitable leverage. Furthermore, by redeeming bonds with higher interest rates and implementing refinancing measures ADLER expects to reduce its average interest on debt to around 3.5 percent.

As always, it is particularly difficult to forecast the expected NAV figure, as this crucially depends on the development in the value of property holdings and also on the question whether the expected disposal of „non-core“ portfolios can be achieved and new portfolios can be acquired in the course of the year. Nevertheless, it would not come as a surprise if value growth could be achieved in a low double-digit percentage range in 2017.

	Results 2016	Targets 2017	Δ Target to result in %
Net rental income (EUR mo)	167.5	172.5	+ 3.0
Occupancy rate in %	90.0	94.0	+4.0 PP
Ø Rent EUR/sqm/month	5.00	5.08	+1.6
FFO I (EUR m)	27.3	40	+46.5
FFO II (EUR m)	55.3	50	-9.6
EPRA NAV (EUR m)	1,069.9	1,250	+16.8
LTV in %	61.3	55	-6.3 PP
WACD in %	3,69	3.5	-0.2 PP

Previous year's forecasts met

In the course of the 2016 financial year, the forecasts stated in the 2015 Annual Report for 2016 were raised with regard to FFO II and reduced in respect of LTV, and thus improved in both cases. ADLER essentially met these adjusted forecasts. The occupancy rate and the average rent did not improve to the full extent originally expected. As the income from charging on operating expenses also fell slightly short of the expected budget target, gross rental income rose by 16.5 percent, rather than as originally forecast by around 20 percent. FFO I and FFO II developed in line with the forecast and even slightly exceeded expectations, with a slightly stronger development in FFO I (EUR 27.3 million compared with the forecast of EUR 25 million) than in FFO II (EUR 55.3 million compared with the full-year forecast of EUR 55.0 million published in the half-year report as of 30 June 2016). As expected, the balance sheet structure also improved. By the end of 2016, the LTV figure of 61.3 percent slightly exceeded the forecast in the interim report as of 30 September 2016 (62 percent). The average interest rate of 3.69 percent on liabilities also slightly surpassed the target figure of 3.75 percent. Overall, the forecasts provided an accurate picture of the future developments expected at that time.

	Targets 2016	Results 2016	Δ Result to target in %
Gross rental income (EUR m)	260	252.4	-2.9
Occupancy rate in %	90.8	90.0	-0.8 PP
Ø Rent EUR/sqm/month	5.04	5.00	-0.8
FFO I (EUR m)	25	27.3	+9.2
FFO II (EUR m)	55	55.3	+0.6
EPRA NAV (EUR m)	1,000	1,069.9	+7.0
LTV in %	62	61.3	+0.7 PP
WACD in %	3.75	3.69	+0.06 PP

6. ADDITIONAL STATUTORY DISCLOSURES

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 47,702,374 as of 31 December 2016 (previous year: EUR 46,103,237) and was divided into 47,702,374 no-par bearer shares (previous year: 46,103,237). 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 percent of voting rights at the end of 2016.

An equity interest held by Mezzanine IX Investors S.A., Luxembourg, Grand Duchy of Luxembourg, consisting of 10,042,918 voting rights in total. Amounting to a total of at least 9,404,339 voting rights thereby attributable, this constituted a 21.05 percent share of subscribed capital at the balance sheet date.

The voting rights held by Fortitudo Capital SPC, Cayman Islands, which in turn holds a 13.34 percent share of voting rights, are attributable to Mezzanine IX Investors S.A.

An equity interest held by Mr Klaus Wecken, Basle, Switzerland, and comprising 11,900,000 voting rights in total. Amounting to a total of 6,500,000 voting rights thereby attributable, this constituted a 24.95 percent share of subscribed capital at the balance sheet date.

The voting rights held by Wecken & Cie, Basle, Switzerland, which in turn holds a 13.63 percent share of 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

Like other shareholders, employees with an interest in ADLER's share capital 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 stock

By resolution adopted by the Extraordinary General Meeting of ADLER Real Estate Aktiengesellschaft on 15 October 2015, the Management Board is authorised until 14 October 2020 to acquire and dispose of treasury stock and to use the treasury stock thereby acquired to the exclusion of shareholders' subscription rights. The shares acquired on the basis of this resolution may also be withdrawn. The full wording of the resolution is outlined in the invitation to the General Meeting published in the online Federal Gazette on 8 September 2015.

The company did not hold any treasury stock in the 2016 financial year.

Authorised Capital 2013/II

Pursuant to § 4 (2) of the Articles of Association, the Management Board is authorised, subject to approval by the Supervisory Board, up to and including 14 October 2018 to increase the company's share capital on one or more occasions by a total of up to EUR 8,250,000.00 in return for cash and/or non-cash contributions by issuing up to 8,250,000 new no-par bearer shares. The Management Board is also authorised, subject to approval by the Supervisory Board, to exclude shareholders' subscription rights in the cases listed in § 4 (2) of the Articles of Association.

Authorised Capital 2015/I

Pursuant to § 4 (3) of the Articles of Association, the Management Board is authorised, subject to approval by the Supervisory Board, up to and including 21 May 2020, to increase the company's share capital on one or more occasions by a total of up to EUR 13,300,000.00 in return for cash and/or non-cash contributions by issuing up to 13,300,000 new no-par bearer shares. The Management Board is also authorised, subject to approval by the Supervisory Board, to exclude shareholders' subscription rights in the cases listed in § 4 (3) of the Articles of Association.

Authorised Capital 2015/II

Pursuant to § 4 (7) of the Articles of Association, the Management Board is authorised, subject to approval by the Supervisory Board, up to and including 21 May 2020, to increase the company's share capital on one or more occasions by a total of up to EUR 1,400,000.00 in return for cash and/or non-cash contributions by issuing up to 1,400,000 new no-par bearer shares. The Management Board is also authorised, subject to approval by the Supervisory Board, to exclude shareholders' subscription rights in the cases listed in § 4 (7) of the Articles of Association.

Conditional Capital 2012/I

Pursuant to § 4 (4) of the Articles of Association, the company's share capital is conditionally increased by up to EUR 8,250,000.00 by issuing up to 8,250,000 new no-par bearer shares.

The conditional capital increase serves exclusively to issue shares to bearers of warrant and/or convertible bonds issued up to 27 June 2017 in accordance with the authorisation provided by the Annual General Meeting on 28 June 2012 in the amended version adopted by the Annual General Meeting on 15 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 conversion 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 still amounted to EUR 5,993,309 at the balance sheet date.

Conditional Capital 2015/I

Pursuant to § 4 (5) of the Articles of Association, the company's share capital is conditionally increased by up to EUR 4,850,000.00 by issuing up to 4,850,000 new no-par bearer shares.

The conditional capital increase exclusively serves to issue shares to bearers of warrant and/or convertible bonds issued up to 21 May 2020 in accordance with the authorisation provided by the Annual General Meeting on 22 May 2015 in the amended version adopted by the Annual General Meeting on 9 June 2016.

In accordance with the terms and conditions of the respective warrant and/or convertible bonds, the conditional capital increase also serves to issue shares to bearers of warrant and/or conversion 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

Pursuant to § 4 (6) of the Articles of Association, the company's share capital is conditionally increased by up to EUR 10,606,060.00 by issuing up to 10,606,060 new no-par bearer shares.

The conditional capital increase exclusively serves to issue shares to the bearers 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 exercise 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 million with a maximum term of ten years and to grant the bearers of warrant and/or convertible bonds warrant and/or conversion 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 intrinsically 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 adopted by the Annual General Meeting on 22 May 2015 and most recently adjusted and supplemented by resolution of the Annual General Meeting on 9 June 2016, the Management Board is authorised, 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 250,000,000.00 with a maximum term of ten years and to grant the bearers of warrant and/or convertible bonds warrant and/or conversion rights to 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 intrinsically 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.

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 stipulates 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. Likewise, in the case of a change of control event occurring, the beneficiaries of the stock appreciation right (SAR) programme introduced by the company are entitled to claim the share of profit participation attributable to the SARs granted to them and already vested upon the event occurring. Should a change of control event occur, then each Management Board member also enjoys special termination rights. Should these rights be exercised, then the respective Management Board member is also entitled to receive a settlement payment corresponding to capitalised basic compensation for the originally agreed remaining contractual term, nevertheless limited to a maximum of two years.

6.2 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, in addition to their basic annual compensation Management Board members receive a performance-based bonus each financial year for the duration of their respective employment contracts. Two thirds of the amount of this bonus depends on the achievement of specific agreed performance targets, while one third is determined by the Supervisory Board based on an appraisal of all relevant circumstances. In individual cases, such as exceptional performance and the achievement of exceptional results, the Supervisory Board may grant an additional bonus that exceeds the contractually agreed total.

Furthermore, in the 2015 financial year ADLER introduced a stock appreciation right (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, the amount of which 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 (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 their 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 company's Annual General Meeting on 9 June 2016 set the Supervisory Board compensation as follows: Starting from the financial year ending on 31 December 2016, alongside the reimbursement of their expenses, each Supervisory Board member shall receive annual compensation of EUR 40,000.00. The Chairman receives EUR 80,000.00 and his Deputy receives EUR 60,000.00. The compensation may be paid in quarterly instalments.

Should this compensation and reimbursement of expenses be subject to VAT, then this is also reimbursed by the company in cases where it 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).

6.3 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://adler-ag.com/investor-relations/corporate-governance/declaration-of-corporate-governance

7. REPORT ON OPPORTUNITIES AND RISKS

REPORT ON OPPORTUNITIES

Macroeconomic and industry-specific opportunities

Through to 2016, the ADLER Group decisively strengthened and expanded its market position by acquiring individual portfolios and company shareholdings. In 2016, the Group increasingly focused on consolidating its organisational structures, improving its financial stability and creating a basis for its future alignment as an integrated property group.

As a result, ADLER has moved up into the group of significant German listed property players. Two factors set ADLER apart from its major competitors. Firstly, via its majority stake in ACCENTRO, ADLER operates a business segment which deals with the privatisation and trading of properties. Secondly, ADLER invests in property holdings primarily located in B locations and/or on the peripheries of conurbations. These kinds of property holdings are typically characterised by higher vacancy rates, but also by higher rent yields than properties in central or A locations. Peripheral locations benefit, to a marked extent, from tight rental markets in city centres. Once no apartments are available in desirable locations, demand automatically shifts to the surrounding areas. This represents one of ADLER's most important business opportunities.

The persistently high level of demand for apartments continues to be driven by the same factors that played a key role in past years – demographic change, the increasing number of single-person households and people's ongoing inclination to head to cities and avoid the country. A further factor behind the continuing high level of demand is the arrival of people from abroad – people from other European countries looking for work in Germany and people coming to Germany from outside the European Union in order to apply for asylum here. Furthermore, despite growing demand in the "affordable" housing segment in which ADLER operates there is hardly any new supply. Compared with previous years, more apartments were once again built and approved in 2016. However, prices for newly built apartments are significantly higher than those for existing housing, with correspondingly marked differences in rental prices. For price-sensitive tenants, living in apartments such as those offered by ADLER generally represents the most appealing option.

Operating opportunities

ADLER sees the 2016-launched programme to renovate 1,500 vacant residential units as a particularly significant opportunity to improve its occupancy rates and rental income. Initial experience shows that, following renovation, the apartments become marketable once again and can be let out at appropriate prices. The investment funds of more than EUR 15 million which were earmarked for the project should pay off over a period of three to four years, not least as ADLER stands to avoid existing vacancy-related costs when the apartments are let out.

Given continuously low interest rates and the associated poor level of returns on alternative capital investments, property investment opportunities remain attractive. This results in substantial opportunities for the business model pursued by ADLER's subsidiary ACCENTRO Real Estate AG, which focuses on the sale of apartments to owner-occupiers or investors ("privatisation"). Having said this, ACCENTRO is not expected to repeat the financial success seen in 2016, when the company benefited from the successful sale of a property earmarked for individual privatisation but then sold its entirety.

ADLER intends to extend its value chain in the future by including activities over and above the mere letting of apartments and has to this end founded a proprietary energy supply company. During 2017, ADLER intends to take all legal and organisational measures necessary to enable this company to start operating at the beginning of 2018. The aim is to replace existing energy suppliers, internalise energy procurement and supply activities for the Group's housing portfolios and thus secure part of the energy supply value chain for the Group.

ADLER launched a comparable insourcing programme for its property and facility management activities in 2016. This process is to be continued in 2017 to enable all of the property holdings to be under proprietary management by the end of the year. Alongside efficiency gains, this approach is expected to boost tenant satisfaction levels due to the provision of more direct, and thus better, support. This in turn should result in lower tenant fluctuation rates.

Financial Opportunities

Having sold its stake of around 26 percent in conwert Immobilien Invest SE in the context of the takeover offer received from Vonovia SE, ADLER now has extensive liquid funds at its disposal. These are to be predominantly used for the premature repayment of higher-interest liabilities. With regard to the repayment of corporate bonds in particular, these opportunities are very likely to be realisable as the relevant bond terms explicitly provide for the possibility of premature redemption. These repayments will increase the company's financial stability, improve its debt/equity ratio and boost its FFO. The repayment of debt can also be expected to improve the rating ADLER received at the end of 2016. Together, all these factors will boost ADLER's standing on the capital markets as a company with increasingly solid financial resources. This in turn should notably assist the Group in its future capital procurement activities and enable it to obtain significantly better refinancing terms – should it then actually require capital.

RISK REPORT

Risk management system

Following years of rapid growth, in 2016 the ADLER Group prescribed itself a period of consolidation in which it realigned its structures. The company headquarters was relocated to Berlin and central functions pooled there. The basic structure of the risk management system has not been affected by these structural changes. It still comprises all organisational requirements and activities necessary for the systematic, regular and company-wide implementation of the processes needed for risk management. Each risk is assigned to a designated employee. Risk management coordination is incumbent on the Corporate Governance department, which keeps the Management Board regularly informed about the Group's overall risk situation. Within the quarterly Supervisory Board meeting framework, the Management Board in turn then reports the findings to the Supervisory Board.

The superordinate objective of the group-wide risk management system, whose functionality is safeguarded by regular internal and external reviews, is to sustainably secure the existence of ADLER Real Estate AG.

An extensive risk catalogue documents all material risks, including the compliance-related risks to which ADLER is exposed. This catalogue is regularly reviewed and, if necessary, adjusted. The risk management system is itself described in a risk policy that is updated each year and whenever a specific need arises.

Where possible, or required by relevant regulations, risks are covered by appropriate insurance policies in line with market standards. The adequacy of this insurance cover is regularly reviewed.

Risk Classification

ADLER measures its risks using a scoring model that facilitates the operationalisation, evaluation and weighting of all individual risks at the ADLER Group. Material risks are governed by threshold values which, if reached, automatically trigger specific measures, such as a notification duty or the direct implementation of appropriate measures.

Internal control system in respect of the financial reporting process

ADLER's internal control system in respect of the financial reporting process comprises all group-wide principles, procedures and measures intended to safeguard the efficiency, reliability and correctness of its financial reporting and to secure compliance with the most important legal requirements in order to ensure that external reporting provides a true and fair view of the company. This includes organisational requirements, such as the dual control principle and routine IT process checks performed mechanically. Written group and accounting instructions also set out how the relevant requirements are to be applied at the ADLER Group.

One key aspect determining the correctness and reliability of financial reporting involves the deliberate segregation of administration, execution, invoicing and approval functions. ADLER safeguards this by appropriately assigning responsibilities. To ensure that assets are accurately valued in line with market standards, ADLER draws on the expertise of external service providers specialising in property valuation. Other regulatory and control activities are intended to ensure that the information provided by accounting records is reliable and transparent.

Overall, the organisational measures are aimed at ensuring that any company-specific or group-wide changes in business activities are promptly and suitably reflected in the company's financial reporting. The internal control system also safeguards the presentation of changes in the economic or legal environment of ADLER Real Estate AG and the ADLER Group and ensures the suitable application of new or amended legal accounting requirements.

Accounting processes are recorded using accounting systems customary to the market. Sub-ledger accounting for the properties is executed on a decentralised basis using certified housing management software systems. The consolidated financial statements are prepared centrally using a leading IT system which is customary to the market and certified by external specialists.

When preparing the ADLER Group's consolidated financial statements, subsidiaries supplement their separate financial statements with the required reporting packages. All figures and data are checked and evaluated by the Controlling or Accounting departments at ADLER. The separate financial statements submitted by group companies are also subject to bespoke review mechanisms and plausibility checks in the IT system used for consolidation, in which all consolidation entries are then made and documented.

Presentation of individual risks

The ADLER Group is exposed to a range of different risks that, either individually or in aggregate, could have an adverse effect on the Group's asset, financial and earnings position, or on its business performance moving forward. Alongside general risks that apply to all companies, the ADLER Group is exposed in particular to property-specific risks resulting from the valuation of property holdings and to economic and financial risks associated with the acquisition of property portfolios or the takeover of majority shareholdings in other companies.

(1) Macroeconomic and industry-specific Risks (market risks)

The economic performance of the ADLER Group depends to a certain extent on developments in the German property market. This in turn is affected by macroeconomic developments. One key indicator for the scarcity of rented accommodation is the price paid for the temporary assignment of such. As long as rents continue to rise, as is the case in Germany, the risk of losing tenants due to a change in overall conditions on the housing market, and thus of having to accept higher vacancy rates, is limited. It should always be noted, however, that demand for rented apartments may vary widely from region to region.

The fact that ADLER has a diversified portfolio in terms of the regions covered can also be viewed as a risk distribution measure. Not only that, the portfolio is continually being adjusted. The reporting of non-core holdings that are earmarked for sale serves to identify unviable properties, sell these and thus offset the associated market risk. Furthermore, ADLER is lowering its vacancy risk by implementing ongoing maintenance measures and by launching its vacancy reduction programme recently.

(2) Strategic risks

Given the persistently low level of interest rates, property is an especially interesting asset class for capital investors. Accordingly, property prices in Germany have consistently risen for years now, in some cases significantly so. Residential property portfolios can no longer be acquired on the same attractive terms as just a few years ago. In these circumstances, any strategy of rapid growth would automatically involve accepting higher risks. In view of this, within its existing strategy ADLER is increasingly focusing on investing mainly in peripheral locations of conurbations and on acquiring smaller-scale portfolios in regions in which price increases are not yet so pronounced.

(3) Financial risks

Consistent with the growth course pursued in recent years, the total volume of financial liabilities outstanding at the ADLER Group has also risen sharply. The loan-to-value figure – a key indicator of the Group's financial stability and of the financing-related risk for lenders – nevertheless improved slightly. Measured in terms of this indicator, the ADLER Group's financial risk of not being able to obtain new financing facilities if needed has therefore decreased in line with its growth.

Where financing facilities or fixed interest agreements expire, the Group automatically faces the risk of being unable to obtain refinancing, or only on poorer terms. However, 2016 showed that this risk may also become an opportunity, such as when former, higher-interest liabilities are replaced with low-interest facilities. This is documented by the consistent reduction in the average borrowing interest rate in the course of the 2016 financial year. Looking ahead, ADLER stands to benefit from the fact that, following its successful growth and successful consolidation, the company has now received a rating from Standard & Poor's. This means that for the first time the capital market now has an internationally recognised basis for assessing the company's financial solidity.

Even in the current positive climate, ADLER constantly monitors the following financial risks:

- Financial covenants

Any infringement by the companies in the ADLER Group of obligations under loan agreements and bonds (financial covenants) may result in the loans becoming prematurely due for repayment or, in the case of bonds, prematurely terminated. Compliance with financial covenants is therefore monitored within the risk management system at regular intervals and on an ad-hoc basis. Creditors are kept informed of the relevant indicators within the framework of routine bank reporting. No breaches of covenants arose in any form in 2016.

- Interest rate risk

The ADLER Group only has debts denominated in its functional currency and is therefore only exposed to interest rate risks denominated in euros. These interest rate risks chiefly relate to follow-up financing facilities, given that ADLER has only a very low volume of financing facilities with floating interest rates. In the current climate of record low interest rates, the risk of only obtaining follow-up financing at higher interest rates upon the expiry of existing facilities is extremely low. As a newcomer to the property business, ADLER has been obliged to accept comparatively high risk premiums on its financing facilities in recent years. This means that, even if interest rates rise again, follow-up financing can, for the foreseeable future, be expected to be more favourably priced than the expiring facilities. Not only that, refinancing measures can also be expected to have a positive impact on the cash flow.

Following a certain delay, changes in interest rates also impact on the fair values of existing assets such as investment properties. This non-cash interest rate risk, i.e. potential changes in fair values, basically also applies for all fixed-interest medium and long-term receivables and liabilities.

- Market price risk for equity interests

Minority interests in the equity of listed companies, such as that held by the ADLER Group in conwert Immobilien Invest SE at the end of the year under report, are exposed to impairment risk if the fair value falls significantly or permanently below cost. ADLER initially countered this risk by holding a position in conwert's Administrative Board, thus enabling it to exercise a degree of influence on the company's management. Following the decision to sell the shares in conwert, this risk materialised in the form of an accounting loss and now no longer applies.

- Rent default risk

In its capacity as lessor of residential property, the ADLER Group is exposed to the risk that tenants may fail to meet their contractually agreed rental payment obligations. Given the large numbers of cases involved, this risk cannot be statistically forecast with any degree of reliability. In the company's internal calculations, the risk is stated at 1.5 percent of total contractually agreed rental income. Among other factors, default risk is limited by the fact that a not inconsiderable number of the tenants are recipients of social security benefits, as a result of which their rental obligations are covered by the relevant security authorities.

Any payment defaults arising are actively pursued with the receivables management practised by the group company Magnus Inkasso GmbH.

- Liquidity risk

The ADLER Group chiefly generates liquidity from net rental income on its property portfolios and from the sale of properties no longer forming part of its core business or designated in advance as held for trading. Its liquidity requirements chiefly relate to purchasing services of all kinds, paying employees, financing investments and acquisitions and repaying financial liabilities. As inflows and outflows of funds are not always congruent in terms of their maturities, in its central liquidity management ADLER permanently maintains an adequate reserve of liquid funds. The Group only makes acquisitions when it has already ensured in advance that sufficient equity and debt funds are available or can be procured via the capital market. To date, the ADLER Group has always been able to meet all of its financial obligations.

(4) Financing risks

As a property company with a high share of debt financing, ADLER is automatically exposed to the risk that the financing required for acquisition projects will not be obtained. However, there are currently no signs of restrictive lending policies on the part of banks. To ensure that its financing risk is reduced, ADLER cooperates with several banks and private investors. The Group is therefore not dependent on any individual creditor. Furthermore, ADLER draws on different forms of financing instruments, such as mortgage loans, corporate bonds and convertible bonds. Thus, it has gained various forms of access to the capital market that can also be drawn on independently of each other.

Contracts for derivative financial instruments are, if at all, only concluded with financial institutions with high credit ratings.

(5) Property acquisition risks (investment risks)

The ADLER Group's business performance depends to a significant extent on the acquisition of suitable properties for rental and trading (privatisation via ACCENTRO). There is the risk that such properties may be incorrectly valued for any number reasons and that the Group is therefore paying too high an acquisition price. ADLER counters these acquisition-related risks by thoroughly inspecting the relevant properties or property companies. In order to accomplish this, the Group has employees with the necessary professional skills and experience.

(6) Property-specific and project-specific risks (performance risks)

Property-specific risks involve those risks to which individual properties or portfolios of properties may be exposed due to inadequate maintenance, structural damage, inadequate fire protection, damage caused by tenants, site contamination, hazardous substances in construction materials or breaches in construction law requirements and conditions.

Should any such risk materialise, the valuations of the properties thereby affected have to be adjusted. This is regularly the case. In recent years, however, this kind of impairment loss has always turned out significantly lower than value growth in other sections of portfolios resulting, among other factors, from vacancy rate reduction measures, rental adjustments or modernisation measures. As a result, in recent years the ADLER Group has consistently reported net gains from the valuation of its investment properties.

(7) Property disposal risks (divestment, selling and marketing risks)

Alongside its rental business, the ADLER Group's business activities also include trading with and privatising properties. In its trading activities, the Group is exposed to the risks that the profit margins expected or required to cover costs cannot be achieved or that statutory liability requirements are infringed upon the sale of properties, a development that could result in damages claims. ADLER counters these risks as well by employing staff with the necessary professional skills and experience. Since its takeover in 2014, ACCENTRO Real Estate AG, the group company specialising in trading, has consistently made positive contributions to group earnings.

(8) Information technology risks (IT)

ADLER's business processes could be significantly impeded by disruptions, failures or manipulations of its IT systems, as well as by unauthorised access to such systems. To counter this risk, ADLER works exclusively with established market software offering a high standard of security. Furthermore, operations, maintenance and administration contracts concluded with specialist external IT service providers ensure that all electronic applications run as smoothly as possible.

(9) Company-specific risks

Like any other company, the ADLER Group is also exposed to risks inherent in its own organisational structures.

- Management and organisational risks

ADLER has a lean management and organisational structure. The resultant benefits in terms of lower personnel expenses are countered by the risk of losing staff performing key functions. This risk is minimised with suitable deputisation regulations and by sharing all significant information relevant to ongoing business operations and transactions

- Compliance risks

All activities at the company have to be consistent with the externally prescribed statutory and regulatory framework while also complying with the company's self-imposed internal guidelines. This general requirement gives rise to a wide variety of compliance risks, such as risks relating to third-party service performance in portfolio management, as well as to investment, divestment, data protection and security, IT, insider trading, labour law, money laundering and general operating risks. ADLER averts these risks with a compliance policy and by offering suitable training to those employees entering into specific compliance-risks associated with their respective activities. Furthermore, ADLER has a self-imposed Code of Conduct and has undertaken to comply with it.

- Personnel risks

The ADLER Group's business performance is significantly dependent on the quality of its workforce and its employees' willingness to perform. Finding and retaining the right employees and maintaining a high-performing personnel structure represents a challenge for the central departments in particular, as these have extremely lean structures. As well as financial incentives, the company offers working conditions in a small, professional team and thus provides individuals with great freedom to develop their own skills. Experience has shown that this approach is sufficiently attractive to retain high-performing employees and to avoid any difficulties in filling such positions should they become vacant. This has also proven to be the case in periods of structural change, such as that witnessed by the ADLER Group in 2016.

- Legal and tax risks

Legal risks arise whenever private contracts, such as letting arrangements, the purchase or sale of properties, financing agreements with banks, capital market activities or company law agreements are involved. Legal risks also arise in connection with the company's obligation to comply with a wide variety of requirements, laws and conditions governing property ownership and management. These also apply to the requirements of the statutory rent cap ("Mietpreisbremse"). The ADLER Group has secured suitable personnel resources to deal with its legal affairs and avoid legal risks. Where necessary, in individual cases the Group also draws on external expertise. Any risks becoming apparent in connection with legal disputes are accounted for by recognising an appropriate volume of provisions in the accounts.

ADLER Real Estate AG is involved in a legal dispute in connection with the stake now sold in conwert Immobilien Invest SE. This dispute was triggered by the assessment reached by the Austrian Takeover Commission that ADLER had achieved a controlling stake in conwert by mutual agreement with other persons and had then illegitimately failed to make a mandatory bid. The company has appealed against this assessment to the Supreme Court. Should the Supreme Court confirm the contents of the assessment by the Takeovers Commission, then the company could face a number of restitution proceedings. As far as can be seen, proceedings of this nature have not been conducted in Austria in the past. From a current perspective, neither the number nor the specific structure of such cases can be determined.

Tax risks may arise in the event of changes being made to the tax framework in Germany.

(10) General acquisition and integration risks

Following its rapid, acquisition-driven growth in previous years, the ADLER Group took 2016 as an opportunity to consolidate, centralise and standardise its organisational structures. This involves the risk associated with all changes – that the expectations placed in those changes may fail to materialise, or only do so in part. On the other hand, these expectations also reflect the opportunities that may be accessed by implementing the changes. In the case of the restructuring measures, these opportunities take the form of cost savings, of exploitation of economies of scale and of concentrating of task.

Risk clusters

To avoid risk clusters, the ADLER Group's property portfolio is widely distributed across different regions. Given key focuses in Lower Saxony, North Rhine-Westphalia and Saxony, however, the company's business performance is significantly dependent on developments in the property markets in these federal states.

Other external risk factors

The ADLER Group's business performance may be affected by various external factors, in some cases unforeseeable, which lie outside the company's control, such as acts of terror or natural disasters. Prospective earnings from the rental and trading of property may also be affected, either positively or negatively, by political decisions in respect of monetary policy, tax policy, rental law or the subsidisation of housing construction.

Summary of the ADLER Group's risk situation

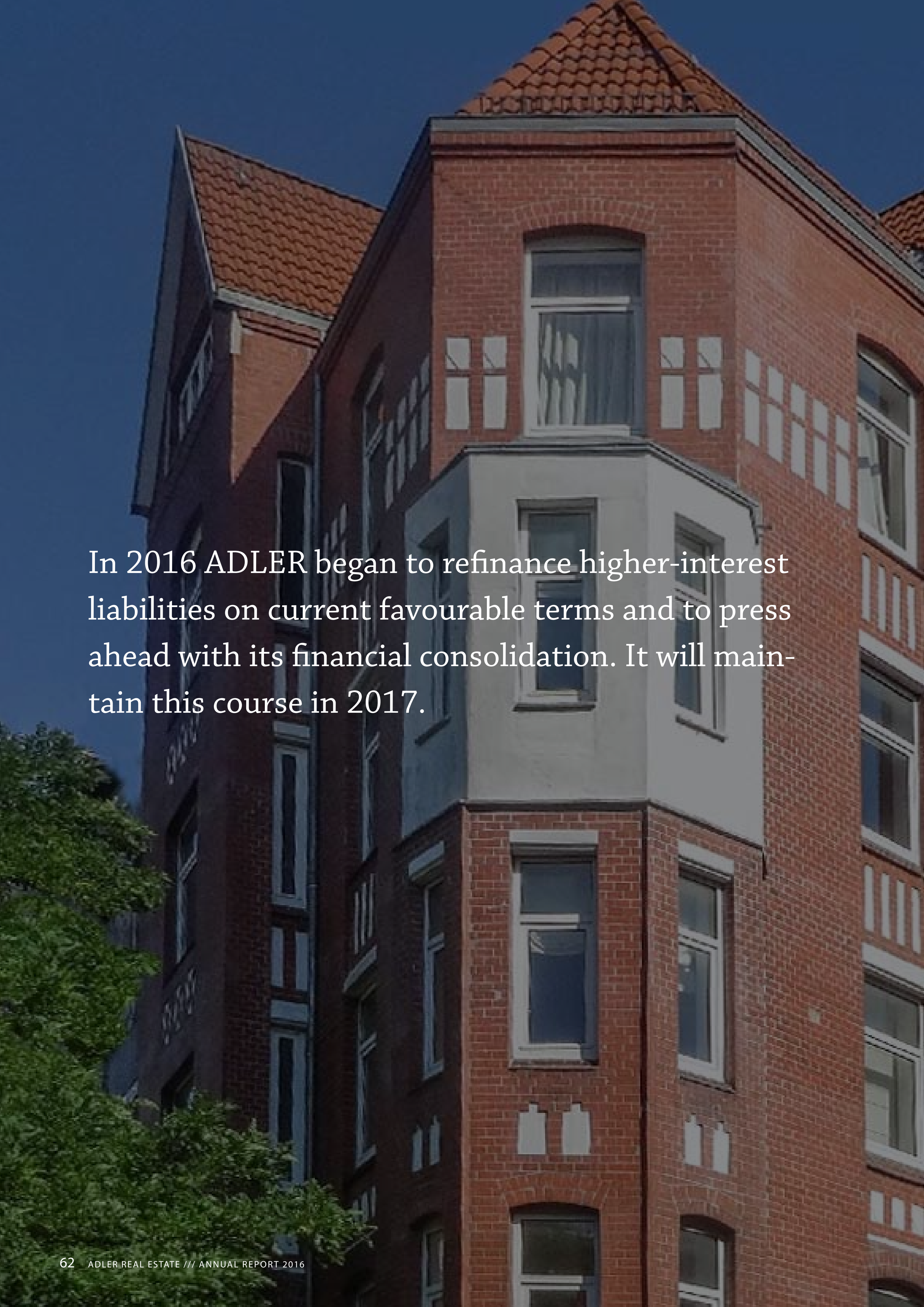
None of the aforementioned risks, whether individually or aggregately, has the potential to threaten the company's continued existence.

ADLER is convinced that it will succeed in managing the challenges associated with these risks in future as well.

Berlin, 23 March 2017

Arndt Krienen
CEO

Sven-Christian Frank
COO



In 2016 ADLER began to refinance higher-interest liabilities on current favourable terms and to press ahead with its financial consolidation. It will maintain this course in 2017.

/// 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 2016

In EUR '000	**Note**	**31.12.2016**	**31.12.2015**
Assets		**3,430,477**	**3,076,246**
Non-current assets		**2,577,578**	**2,758,878**
Goodwill	8.1	130,552	130,552
Intangible assets	8.1	583	1,358
Property, plant and equipment	8.2	3,434	1,269
Investment Properties	8.3	2,441,988	2,270,187
Loans to associated companies	8.4	0	0
Investments in associated companies	8.5	497	353,343
Other financial investments	8.6	69	1,230
Other non-current assets	8.6	48	473
Deferred tax assets	8.7	408	465
Current assets		**418,211**	**297,252**
Inventories	8.8	227,057	159,654
Trade receivables	8.9	11,749	16,309
Income tax receivables	8.9	1,407	243
Other current assets	8.9	54,086	71,544
Cash and cash equivalents	8.10	123,911	49,502
Non-current assets held for sale	**8.11**	**434,688**	**20,117**

In EUR '000	Note	31.12.2016	31.12.2015
Equity and liabilities		**3,430,477**	**3,076,246**
Shareholders' equity		**914,222**	**777,921**
Capital stock	8.12	47,702	46,103
Capital reserve	8.13	352,105	449,360
Retained earnings	8.14	-2,510	-88
Currency translation reserve	8.15	90	92
Net retained profit		445,786	223,890
Equity attributable to owners of the parent company		843,174	719,357
Non-controlling interests	8.16	71,048	58,563
Non-current liabilities		**2,111,222**	**1,980,375**
Pension provisions	8.17	4,954	4,268
Deferred tax liabilities	8.7	113,142	70,139
Other provisions	8.18	1,622	756
Liabilities from convertible bonds	8.19	143,870	34,982
Liabilities from bonds	8.20	509,454	481,599
Financial liabilities to banks	8.21	1,312,502	1,368,125
Other non-current liabilities	8.22	25,677	20,507
Current liabilities		**397,482**	**303,529**
Other provisions	8.18	3,926	2,688
Income tax liabilities	8.23	13,969	5,406
Liabilities from convertible bonds	8.19	1,554	623
Liabilities from bonds	8.20	8,281	8,265
Financial liabilities to banks	8.21	320,328	248,524
Trade payables	8.23	22,492	20,174
Other current liabilities	8.23	26,931	17,849
Liabilities held for sale	8.11	**7,553**	**14,421**

/// CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(IFRS) for the period from 1 January to 31 December 2016

In EUR '000	Note	2016	2015
Gross rental income	9.1	252,399	216,639
Expenses from property lettings	9.2	-138,803	-125,052
Earnings from property lettings		**113,596**	**91,587**
Income from the sale of properties	9.3	160,413	168,154
Expenses from the sale of properties	9.4	-124,018	-144,689
Earnings from the sale of properties		**36,395**	**23,466**
Personnel expenses	9.5	-19,648	-13,191
Other operating income	9.6	8,694	49,859
Other operating expenses	9.7	-35,704	-32,965
Income from fair value adjustments of investment properties	9.8	199,677	58,860
Depreciation and amortisation	9.9	-1,174	-1,030
Earnings before interest and tax (EBIT)		**301,835**	**176,586**
Financial income	9.10	2,803	2,908
Financial costs	9.11	-128,378	-84,342
Net income from at-equity valued investment associates	9.12	11,185	-330
Earnings before tax (EBT)		**187,444**	**94,822**
Income taxes	9.13	-53,668	-16,539
Consolidated net profit		**133,776**	**78,283**
Actuarial gains/losses before taxes	8.17	-823	-34
Deferred taxes on actuarial gains/losses	8.17	260	11
OCI gains/losses not reclassifiable into profit or loss		**-563**	**-23**
OCI SWAP – reclassifiable	10.3	-399	419
Deferred taxes OCI – reclassifiable	10.3	129	-135
OCI own bonds – reclassifiable		0	0
Gains/losses from currency translation	8.15	-2	72
Change in value of interests in companies aacounted for under at-equity	8.5	-1,589	0
OCI gains/losses not reclassifiable into profit or loss		**-1,861**	**356**
Total comprehensive income		**131,352**	**78,616**
Profit attributable to:			
Owners of the parent company		120,948	72,117
Non-controlling interests		12,828	6,166
Total comprehensive income attributable to:			
Owners of the parent company		118,524	72,450
Non-controlling interests		12,828	6,166
Earnings per share, basic (EUR)	9.14	2.11	1.83
Earnings per share, diluted (EUR)	9.14	1.94	1.56

/// CONSOLIDATED STATEMENT OF CASH FLOWS

(IFRS) for the period from 1 January to 31 December 2016

	In EUR '000	2016	2015[1]
	Earnings before interest and taxes (EBIT)	301,835	176,586
+	Depreciation and amortisation	1,174	1,030
–/+	Net income from fair value adjustments of investment properties	-199,677	-58,861
–/+	Non-cash income/expenses	6,555	-34,358
–/+	Changes in provisions an accrued liabilities	2,790	2,069
–/+	Increase/decrease in inventories, trade receivables and other assets not attributable to financing activities	15,009	-11,022
–/+	Increase/decrease in trade payables and other liabilities not attributable to investment or financing activities	-8,529	-4,425
+	Interest received	714	996
+	Dividends received	8,720	0
+/–	Tax payments	-1,164	-117
=	**Operating cash flow before de-/reinvestment into the trading portfolio**	**127,427**	**71,898**
–/+	Increase/decrease in inventories (commercial properties)	-26,877	-46,924
=	**Net cash flow from operating activities**	**100,550**	**24,974**
–	Acquisition of subsidiaries, net of cash acquired	-16,666	-355,266
+	Disposal of subsidiaries, net of cash disposed of	3,968	0
–	Purchase of investment properties	-40,659	-152,677
+	Disposal of investment properties, net of cash disposed of	45,813	82,916
–	Purchase of property, plant and equipment and intangible assets	-537	-650
+	Disposal of property, plant and equipment and intangible assets	398	0
–	Payments into short-term deposits	-20,024	-22,019
+	Payments from short-term deposits	27,187	8,365
+	Proceeds of from deinvestments of financial assets	0	625
–	Investments in financial assets	-78,979	0
=	**Net cash flows from investing activities**	**-79,499**	**-438,706**
–	Costs of issuing equity	0	-1,215
+	Proceeds from issue of convertible bonds	131,006	0
+	Proceeds from issue of bonds	23,651	351,803
–	Payments from issuing debt	-5,261	-15,234
–	Interest payments	-94,166	-68,287
+	Proceeds from bank loans	509,727	355,116
–	Repayment of bank loans	-511,599	-192,009
=	**Net cash flows from financing activities**	**53,358**	**430,174**
	Reconciliation to Consolidated Balance Sheet		
	Cash and cash equivalents at beginning of periods	**49,502**	**33,060**
	Net cash flow from operating activities	100,550	24,974
	Net cash flow from investing activities	-79,499	-438,706
	Net cash flow from financing activities	53,358	430,174
=	**Cash and cash equivalents at end of periods**	**123,911**	**49,502**

[1] The classification has been adapted: net income from at-equity not stated separately

/// CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(IFRS) for the period from 1 January to 31 December 2016

In EUR '000	Capital stock	Capital reserves
As at 1. January 2015	**31,877**	**108,078**
Consolidated net profit	0	0
Other comprehensive income (OCI) – reclassifiable	0	0
Other comprehensive income (OCI) – non-reclassifiable	0	0
Change in scope of consolidation	0	0
Capital increase	14,075	168,528
Convertible bond issue	0	172,491
Conversion of convertible bonds	151	263
As at 31. December 2015	**46,103**	**449,360**

As at 1. January 2016	**46,103**	**449,360**
Consolidated net profit	0	0
Withdrawals from reserves	0	-100,946
Other comprehensive income (OCI) – reclassifiable	0	0
Other comprehensive income (OCI) – non-reclassifiable	0	0
Change in scope of consolidation	0	0
Increase/decrease in shareholding with no change in status	0	-12,888
Convertible bond issue	0	12,676
Conversion of convertible bonds	1,599	3,903
As at 31. December 2016	**47,702**	**352,105**

Retained earnings	Currency translation reserve	Net retained profit	Equity attributable to the owners of the parent company	Non-controlling interests	Total equity
-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**
-88	**92**	**223,891**	**719,358**	**58,562**	**777,921**
0	0	120,949	120,949	12,828	133,777
0	0	100,946	0	0	0
-1,859	-2	0	-1,861	0	-1,861
-563	0	0	-563	0	-563
0	0	0	0	748	748
0	0	0	-12,888	-1,838	-14,726
0	0	0	12,676	0	12,676
0	0	0	5,502	748	6,250
-2,510	**90**	**445,786**	**843,173**	**71,048**	**914,222**

In 2016 ADLER has created a comprehensive, uniform and regionally oriented organisational structure for its asset, property and facility management in order to supply all tenant-related services from 2017 on.

/// Notes to the Consolidated Financial Statements 2016

/// NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

ADLER Real Estate Aktiengesellschaft (hereinafter "ADLER") is the Group's parent company and has its legal domicile at Joachimsthaler Strasse 34, Berlin, Germany (formerly: Herriotstrasse 5, Frankfurt am Main). The company is entered in the Commercial Register of Charlottenburg District Court under HRB 180360. Its financial year is the calendar year.

ADLER is a publicly listed property company focused on establishing and developing a substantial and profitable property portfolio. Its activities centre on the acquisition and management of residential properties throughout Germany.

ADLER's activities have the objective of investing in residential properties that offer sustainable potential for value appreciation and whose current income contributes to the company's overall success. The company's operating strategy also includes active value creation, i.e. improving its existing residential property portfolios by means of expansion, conversion or modernisation measures.

Furthermore, ADLER's core activities also include trading with residential properties and individual apartments. Within the ADLER Group, trading activities are largely covered by the Group's majority interest in the listed company ACCENTRO Real Estate AG (hereinafter "ACCENTRO").

The consolidated financial statements and the group management report were approved for publication by the Management Board, subject to approval by the Supervisory Board, on 23 March 2017.

2. BASIS OF ACCOUNTING

2.1 Basis of preparation

ADLER's consolidated financial statements as of 31 December 2016 have been prepared in accordance with the International Financial Reporting Standards (IFRS) requiring mandatory application in the European Union. Supplementary application has been made of the requirements of § 315a of the German Commercial Code (HGB). The requirements of the standards applied have been met and the financial statements represent a true and fair view of the company's asset, financial and earnings position.

The financial years of the parent company, its subsidiaries and associates are equivalent to the calendar year. The financial statements of subsidiaries have been prepared on the basis of uniform accounting policies. The statement of comprehensive income has been prepared using the total cost method.

The preparation of the consolidated financial statements requires the use of discretionary decisions, estimates and assumptions in respect of recognition and measurement. The areas which are more subject to judgement and complexity and those areas where assumptions and estimates are of decisive significance for the consolidated financial statements have been presented in Note 6.

The consolidated financial statements have been prepared in euros, the Group's functional currency. Unless otherwise indicated, all financial data has been rounded up or down to the nearest thousand euro figure (EUR ´000). This may lead to discrepancies resulting from figures being rounded up or down. Figures presented in brackets generally refer to the previous year.

2.2 Accounting requirements applicable for the first time in the 2016 financial year

The Group made application of the following new and revised IFRS standards and interpretations in the 2016 financial year:

Standard/Interpretation	Title	IASB Effective date[1]	Initial application date in the EU [1]
Annual improvement (period 2010-2012 cycle)	Amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16/38 and IAS 28	01.07.2014	01.02.2015
Amendment to IAS 1	Disclosure initiative (Amendments to IAS 1)	01.01.2016	01.01.2016
Amendment to IAS 11	Accounting for acquisitions of interests in joint operations	01.01.2016	01.01.2016
Amendment to IAS 36 und IAS 38	Clarification of acceptable methods of depreciation and amortisation	01.01.2016	01.01.2016
Annual improvement process (period 2012-2014 cycle)	Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34	01.01.2016	01.01.2016

[1] For financial years beginning on or after this date

Annual improvement process (2010-2012 cycle)

Amendments were made to seven standards in the context of the annual improvement process, with existing regulations being clarified by adjusting the wording in individual IFRS standards. These related to the following standards: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16/38 and IAS 24.

Amendment to IAS 1 – Disclosure Initiative

The amendments relate to different reporting issues. They clarify that note disclosures are only required if their contents are not immaterial. This also explicitly applies when an IFRS requires a list of minimum disclosures. Furthermore, notes to the aggregation and disaggregation of items in the balance sheet and statement of comprehensive income have been added as a requirement. The amendments further clarify how shares in other comprehensive income at companies recognised using the equity method should be presented in the statement of comprehensive income. Finally, the model note structure has been deleted to enable companies to take more specific account of factors relevant to their individual situations.

Amendment to IFRS 11 – Accounting for Acquisitions of Interests in Joint Ventures

The amendments clarify that upon the acquisition of an interest in a joint operation that constitutes a business pursuant to IFRS 3 application must be made of all principles applicable to the recognition of business combinations as set out in IFRS 3 and other IFRSs to the extent that these do not contradict the guidance provided in IFRS 11.

Amendment to IAS 16 and IAS 38

The amended version of IAS 36 clarifies that revenue-based methods of depreciation are not appropriate for items of property, plant and equipment, as these methods do not reflect the consumption of the asset. The amendment to IAS 38 introduces the rebuttable presumption that revenues do not constitute a suitable basis for presenting the amortisation of intangible assets.

Annual improvement process (2012-2014 cycle)

Amendments were made to four standards in the context of the annual improvement process, with existing regulations being clarified by adjusting the wording in individual IFRS standards. These related to the following standards: IFRS 5, IFRS 7, IAS 19 and IAS 34.

The aforementioned amendments did not have any material implications.

The other standards and interpretations requiring mandatory application for the first time as of 1 January 2016 basically do not have any relevance for ADLER's consolidated financial statements.

2.3 Standards and interpretations not prematurely applied

Alongside the new standards and interpretations listed below which are of basic relevance, a number of further standards and interpretations were also adopted. These are not expected to have any material implications for the consolidated financial statements. Because of this, we have foregone listing and describing these standards and interpretations. The Group does not intend to make any premature application of any of the new standards and interpretations.

Standard/Interpretation	Title	IASB Effective date[1]	Initial application date in the EU [1]
EU-Endorsement as following:			
IFRS 9	Financial instruments	01.01.2018	01.01.2018
IFRS 15	Revenues from contracts with customers	01.01.2018	01.01.2018
EU endorsement outstanding			
Amendment to IAS 7	Statement of Cash Flows	01.01.2017	Expected 01.01.2017
IFRS 16	Leases	01.01.2019	Expected 01.01.2019

[1] For financial years beginning on or after this date

IFRS 9 – Financial Instruments

IFRS 9 "Financial Instruments" will replace IAS 39 and introduce a uniform approach towards the classification and measurement of financial assets and liabilities. In the future, the subsequent measurement of financial assets will be based on three categories with different valuation standards and different methods used to recognise value changes. Instruments will be categorised by reference both to the contractual cash flows of the instrument and to the business model in which the instrument is held. For financial liabilities, by contrast, the existing categorisation requirements in IAS 39 have largely been duplicated in IFRS 9. Furthermore, IFRS 9 provides a new impairment model based on expected credit losses. IFRS 9 also includes new requirements governing the application of hedge accounting intended to better portray the company's risk management activities, particularly in respect of the management of non-financial risks. Finally, IFRS 9 will result in additional note disclosure requirements.

Other than additional note disclosures, IFRS 9 is not expected to have any material implications for ADLER's consolidated financial statements. ADLER's financial assets are at present mainly categorised as loans and receivables and are measured at amortised cost. Based on the information currently available, this will continue to be the case when application is made of IFRS 9. Furthermore, no material changes of financial liabilities are expected, as the existing categorisation requirements in IAS 39 are largely duplicated in IFRS 9. Financial liabilities will therefore largely continue to be measured at amortised cost. The Group only makes application of hedge accounting to a very minor extent, as a result of which derivatives will still mainly continue to be measured at fair value through profit or loss. As ADLER's financial assets predominantly involve current receivables, application is expected to be made of the simplified impairment model, as a result of which no material implications for risk provisions are expected.

IFRS 15 – Revenue from Contracts with Customers

This new standard replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts" and the related interpretations. IFRS 15 sets out a comprehensive framework for the determination of whether, in which amount and when revenue is to be recognised. The core principle underpinning IFRS 15 is that an entity should recognise revenue when the goods have been supplied or the service rendered. Within the standard, this core principle is delivered in a five-step model context. To this end, it is first necessary to identify the relevant contracts with the customer and the performance obligations included therein. Once the transaction price has been determined, this must then be allocated to the separate performance obligations. Revenue recognition is then based on the amount of consideration expected for each separate performance obligation either at a given date or over a given period. Furthermore, IFRS 15 includes detailed application guidelines covering numerous individual topics. Moreover, the standard extends the scope of note disclosures. The new note disclosure requirements are intended to provide information about the nature, amount, timing and uncertainty relating to revenue resulting from contracts with customers, including the related cash flows.

IFRS 15 is not expected to have any material implications for ADLER's consolidated financial statements. The Group's revenue from letting items of real estate is attributable to leases and is therefore excluded from the scope of IFRS 15. With regard to revenue generated from the sale of properties, IFRS 15 is not expected to result in any material changes, as the respective contracts only provide for this one single performance obligation and the date of revenue recognition is therefore specified. Overall, application of this standard will only result in extended note disclosures.

Amendment to IAS 7 – Statement of Cash Flows

The amendments pursue the objective that entities should provide disclosures enabling users of financial statements to evaluate changes in liabilities arising from financing activities. Assuming that the information is relevant to decisions taken by users, an entity is basically required to make disclosures on liabilities arising from financing activities in the following cases: changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, and changes in fair values. One way of presenting the required disclosures involves providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Once the amendment has been adopted in EU law, ADLER expects to provide this reconciliation as a table supplementing its statement of cash flows.

IFRS 16 – Leases

IFRS 16 provides new requirements governing the recognition, measurement, presentation and disclosure obligations for leases. Under IFRS 16, the distinction previously made for lessees between operating and finance leases no longer applies. For all of its leases, a lessee will recognise a right-of-use asset and a corresponding lease liability. The right of use will be amortised over the contractual term by application of the requirements governing intangible assets. The lease liability will be recognised in accordance with the requirements applicable to financial instruments under IAS 39 and in future IFRS 9. In the income statement, the items will be recognised separately as amortisation of assets and interest on the liability. Simplified requirements apply for the recognition of short-term leases and low-value asset leases. Here, the lease payments will be expensed over the term of the lease.

Note disclosures will be extended and should enable users to assess the amount, timing and uncertainty involved in leases. For lessors, by contrast, the provisions of the new standard are similar to existing IAS 17 requirements. Leases will continue to be classified either as financing or operating leases.

As ADLER mainly acts as a lessor in its property letting activities, IFRS 16 is not expected to have any material implications for the consolidated financial statements. The obligations previously entered into as lessee for operating leases with terms of more than one year are of subordinate significance. Overall, the standard will particularly result in extended note disclosures.

3. CONSOLIDATION PRINCIPLES

3.1 Subsidiaries

Subsidiaries involve all entities (including special purpose entities) controlled by ADLER. The Group assumes control over a company when it is exposed to variable returns or has a right to such returns and the ability to influence these returns by way of its influence over the company. It is generally the case that control coincides with a share of voting rights of more than 50 percent. When assessing whether the Group has control, account is taken of the existence and effect of potential voting rights that are currently exercisable or convertible.

Subsidiaries are fully consolidated from the date on which control passes to the parent company. They are deconsolidated upon the expiry of control.

All material subsidiaries are included in the consolidated financial statements (c.f. Note 4.1 Investments in Subsidiaries). Investments in subsidiaries that are of subordinate significance from the Group's perspective are recognised as available-for-sale financial assets.

In the case of company acquisitions, it is assessed (c.f. Note 6. Significant Discretionary Decisions and Estimates) whether the respective acquisition constitutes a business combination pursuant to IFRS 3 or merely the acquisition of a group of assets and liabilities that do not qualify as a company.

Company acquisitions meeting the IFRS 3 definition are recognised using the purchase method. This involves allocating the cost of the company acquisition to individually identifiable assets, liabilities and contingent liabilities in accordance with their fair values. Any surplus between the consideration given and the net assets is recognised as goodwill, while any corresponding deficit is charged to earnings. Incidental acquisition costs are expensed.

Shares in the net assets of subsidiaries not attributable to ADLER are recognised as separate components of equity under non-controlling interests. When calculating the share of consolidated net profit attributable to non-controlling interests, account is also taken of consolidation entries recognised through profit or loss. Non-controlling interests in partnerships are recognised under other liabilities.

The acquisition of property companies that do not constitute businesses pursuant to IFRS 3 are presented as the direct acquisition of an aggregate unit, in particular of real estate. This involves allocating the acquisition cost to individually identifiable assets and liabilities in accordance with their fair values. As a result, the acquisition of property companies does not produce any positive or negative goodwill from capital consolidation. The sale of property companies is accordingly presented as the sale of an aggregate unit, in particular of real estate.

When preparing the consolidated financial statements, intragroup receivables, liabilities and results are eliminated within the consolidation of debt, expense and income items. The income and expenses resulting from intragroup transfers of assets are also eliminated. Accounting policies at subsidiaries are based on uniform group-wide standards.

3.2 Joint arrangements

Joint arrangements are based on contractual agreements according to which two or more partners undertake an economic activity that is subject to joint control. Joint control exists when the partners have to work together to manage the relevant activities of the joint arrangement and decisions require the unanimous consent of the partners involved. A joint arrangement constitutes a joint venture when the partners exercising joint control have rights to the net assets of the arrangement. Where, by contrast, the partners have direct rights to the assets attributable to the joint arrangement and assume obligations for its liabilities, the arrangement constitutes a joint operation. Where a joint arrangement is embodied by a legally independent partnership or corporation with its own corporate assets, as a result of which ADLER's interest only results in a prorated claim to the net assets of the company, such arrangement generally constitutes a joint venture.

In the case of joint arrangements taking the form of a company under German civil law (such as associations) for which the legal form does not in itself result in an asset and financial structure separate from the partners, the decision as to whether the arrangement constitutes a joint venture or a joint operation is taken by additionally referring to the contractual provisions and the object of the joint arrangement.

Should neither the legal form nor the contractual provisions or other factors or circumstances indicate whether ADLER has direct rights over the assets or obligations for the liabilities of the joint arrangement in question, such arrangement constitutes a joint venture.

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

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

3.3 Associates

Investments over which ADLER exerts significant influence – generally as a result of shareholdings between 20 percent and 50 percent – are basically measured using the equity method. For investments requiring measurement at equity, the acquisition cost is increased or decreased each year by the changes in equity attributable to the Group. Upon the initial inclusion of investments measured using the equity method, any differential amounts (goodwill) resulting from first-time consolidation are treated 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 PROPERTY COMPANIES

4.1 Investments in subsidiaries

Including the parent company, the scope of consolidation comprises a total of 127 fully consolidated companies (previous year: 122). The Group does not own any properties outside Germany.

The scope of consolidation developed as follows:

Quantity	2016	2015
As of 01.01.	122	77
Additions	12	54
Disposals	3	6
Mergers / accruals	4	3
As of 31.12.	127	122

Twelve companies were newly added in the scope of consolidation and three companies were sold in the period under report. Four companies were merged with other companies within the scope of consolidation.

Via Magnus Neunte Immobilienbesitz und Verwaltungs GmbH, an intermediate holding company in which ADLER indirectly owns a 100 percent stake, shares were acquired in three property companies. This acquisition does not constitute a business as defined in IFRS 3 and was recognised as a direct property acquisition (c.f. acquisition of property companies in Note 4.3).

The further additions of nine companies result from the foundation of five new companies for the privatisation business and three companies newly founded by intermediate holding companies. Furthermore, one service company was acquired. The disposals result from the sale of immaterial companies. These had no material implications for the Group's asset, financial or earnings position.

Adler Projekt Homburg GmbH and ADLER US Real Estate GmbH were merged into MÜBAU Real Estate GmbH. ESTAVIS Friedrichshöhe GmbH was merged into ACCENTRO. Furthermore, Estavis 37. Wohnen GmbH & Co. KG was accreted into ACCENTRO.

ADLER's shareholdings, also corresponding to its share of voting rights, were as follows as of 31 December 2016:

No.	Company	Headquarters
	Subsidiaries fully consolidated	
1	ADLER Real Estate AG (parent company)	Berlin
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	MÜBAU Real Estate GmbH	Hamburg
8	ADLER Lux S.à.r.l.	Luxembourg / Grand Duchy of Luxembourg
9	Adler McKinney LLC	McKinney / USA
10	Münchener Baugesellschaft mbH	Hamburg
11	ADLER Wohnen Service GmbH (formerly: Magnus Sechste Immobilienbesitz und Verwaltungs GmbH)	Hamburg
12	MBG Beteiligungsgesellschaft mbH & Co. KG	Hamburg
13	MBG Dallgow GmbH & Co. KG	Hamburg
14	MBG Großbeeren GmbH & Co. KG	Hamburg
15	MBG Trachau GmbH & Co. KG	Hamburg
16	MBG Moosburg GmbH & Co. KG	Hamburg
17	MBG Wohnbau Verwaltungsgesellschaft mbH	Hamburg
18	MBG Erste Vermögensverwaltungs GmbH	Hamburg
19	Magnus zweite Immobilienbesitz und Verwaltungs GmbH	Hamburg
20	Energy AcquiCo I GmbH	Frankfurt am Main
21	Magnus Dritte Immobilienbesitz und Verwaltungs GmbH	Hamburg
22	EAGLE BidCo GmbH	Hamburg
23	Magnus Fünfte Immobilienbesitz und Verwaltungs GmbH	Hamburg
24	WBG GmbH	Helmstedt
25	WER 1. Wohnungsgesellschaft Erfurt Rieth GmbH	Berlin
26	WER 2. Wohnungsgesellschaft Erfurt Rieth GmbH	Berlin
27	Accentro Real Estate AG	Berlin
28	Accentro GmbH	Berlin
29	Accentro 5. Wohneigentum GmbH (formerly: ESTAVIS Sachsen Verwaltungsgesellschaft mbH)	Berlin
30	ACCENTRO Wohneigentum GmbH	Berlin
31	Koppenstraße Wohneigentum GmbH	Berlin
32	ESTAVIS 6. Wohnen GmbH	Berlin
33	ESTAVIS 7. Wohnen GmbH	Berlin
34	ESTAVIS 8. Wohnen GmbH	Berlin
35	ESTAVIS 9. Wohnen GmbH	Berlin
36	RELDA 36. 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	7	Intermediate holding company
	100.0	1	Intermediate holding company
	100.0	10	Intermediate holding company
1)	94.9	10	Intermediate holding company
1)	100.0	10	Project development
1)	100.0	10	Project development
1)	100.0	10	Project development
1)	100.0	10	Project development
	100.0	10	Intermediate holding company
	100.0	10	Intermediate holding company
	100.0	10	Intermediate holding company
	100.0	19	Intermediate holding company
	100.0	10	Intermediate holding company
	100.0	1	None
	100.0	10	Intermediate holding company
	94.9	20	Portfolio management
	94.9	10	Project development
	94.9	10	Project development
	86.8	1	Holding
	100.0	27	Service company
	100.0	27	Intermediate holding company
	100.0	27	Trading
	100.0	30	Trading
	94.9	45	Portfolio management
	5.1	27	
	94.9	45	Portfolio management
	5.1	27	
	94.9	45	Portfolio management
	5.1	27	
	94.9	45	Portfolio management
	5.1	27	
	94.9	45	Portfolio management
	5.1	27	

No.	Company	Headquarters
	Subsidiaries fully consolidated	
37	RELDA 38. Wohnen GmbH	Berlin
38	RELDA 39. Wohnen GmbH	Berlin
39	ESTAVIS 43. Wohnen GmbH & Co. KG	Berlin
40	RELDA 45. Wohnen GmbH	Berlin
41	RELDA Bernau Wohnen Verwaltungs GmbH	Berlin
42	ESTAVIS Wohneigentum GmbH	Berlin
43	ESTAVIS Beteiligungs GmbH & Co. KG	Berlin
44	MBG Sachsen GmbH	Aue
45	Magnus-Relda Holding Vier GmbH	Berlin
46	Cato Immobilienbesitz und -verwaltungs GmbH	Hamburg
47	Magnus Immobilienbesitz und Verwaltungs GmbH	Hamburg
48	WBR Wohnungsbau Rheinhausen GmbH	Hamburg
49	S.I.G. RE B.V.	Rotterdam / The Netherlands
50	Resident Baltic GmbH	Berlin
51	Resident Sachsen P&K GmbH	Berlin
52	Resident West GmbH	Hamburg
53	MBG Schwelm GmbH	Hamburg
54	MBG Lüdenscheid GmbH	Hamburg
55	MBG Dorsten GmbH & Co. KG	Hamburg
56	Alana Properties GmbH	Hamburg
57	Aramis Properties GmbH	Hamburg
58	REO-Real Estate Opportunities GmbH	Frankfurt am Main
59	Roslyn Properties GmbH	Hamburg
60	Rostock Verwaltungs GmbH	Hamburg
61	Sepat Properties GmbH	Hamburg
62	Wallace Properties GmbH	Hamburg
63	Zweite REO-Real Estate Opportunities GmbH	Frankfurt am Main
64	Phoenix F1 Neubrandenburgstrasse GmbH	Erlangen
65	Uhlandstraße 79 Immobilien GmbH	Berlin
66	ADLER ImmoProjekt Erste GmbH	Hamburg
67	ADLER ImmoProjekt Zweite GmbH	Hamburg
68	MountainPeak Trading Limited	Nikosia / Cyprus
69	Accentro Gehrensee GmbH (formerly: Magnus Siebte Immobilienbesitz und Verwaltungs GmbH)	Hamburg
70	Magnus Achte Immobilienbesitz und Verwaltungs GmbH	Hamburg
71	Magnus Neunte Immobilienbesitz und Verwaltungs 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
	94.9	45	Portfolio management
	5.1	27	
	94.9	45	Portfolio management
	5.1	27	
	100.0	27	Portfolio management
	94.9	45	Portfolio management
	5.1	27	
	94.0	45	Portfolio management
	94.0	27	Trading
	6,0	43	
	94.0	27	Portfolio management
	94.8	10	Portfolio management
	53.1	10	Holding
	46.9	27	
	94.9	19	Portfolio management
	100.0	10	Service company
	94.9	47	Portfolio management
	100.0	18	Intermediate holding company
	94.8	49	Portfolio management
	94.8	49	Portfolio management
	94.8	49	Portfolio management
	94.9	19	Portfolio management
	94.9	10	Portfolio management
	5.1	12	
1)	94.0	19	Portfolio management
	6.0	10	
	94.4	21	Portfolio management
	94.8	21	Portfolio management
	94.9	21	Portfolio management
	94.8	21	Portfolio management
	94.0	21	Portfolio management
	94.8	21	Portfolio management
	94.8	21	Portfolio management
	94.9	21	Portfolio management
	94.9	27	Trading
	50 + 1 vote	27	Trading
	100.0	1	None
	100.0	1	Intermediate holding company
	100.0	1	Intermediate holding company
	100.0	27	Intermediate holding company
	100.0	10	Intermediate holding company
	100.0	10	Intermediate holding company

No.	Company	Headquarters
	Subsidiaries fully consolidated	
72	WBL Wohnungsgesellschaft Berlin Lichtenberg 1 GmbH	Berlin
73	WBL Wohnungsgesellschaft Berlin Lichtenberg 2 GmbH	Berlin
74	WBL Wohnungsgesellschaft Berlin Lichtenberg 3 GmbH	Berlin
75	WBL Wohnungsgesellschaft Berlin Lichtenberg 4 GmbH	Berlin
76	WBL Wohnungsgesellschaft Berlin Lichtenberg 5 GmbH	Berlin
77	MBG Projektentwicklungsgesellschaft mbH	Hamburg
78	Magnus Inkasso GmbH	Helmstedt
79	ADLER Immo Invest GmbH	Hamburg
80	Accentro Verwaltungs GmbH	Berlin
81	MBG 2. Sachsen Wohnen GmbH	Berlin
82	Kantstraße 130b/Leibnizstraße 36, 36a Immobilien Gesellschaft mbH	Berlin
83	Kantstraße 130b/Leibnizstraße 36,36a GbR	Berlin
84	Wohnungsbaugesellschaft JADE mbH	Wilhelmshaven
85	JADE Immobilien Management GmbH	Wilhelmshaven
86	Arkadio Facility Management GmbH	Wilhelmshaven
87	Westgrund Aktiengesellschaft	Berlin
88	Westgrund Immobilien GmbH	Berlin
89	Westgrund Immobilien II. GmbH	Berlin
90	Westconcept GmbH	Berlin
91	IMMOLETO Gesellschaft mit beschränkter Haftung	Berlin
92	ICR Idee Concept und Realisation von Immobilienvorhaben GmbH	Berlin
93	HKA Grundstücksverwaltungsgesellschaft mbH & Co. Kommanditgesellschaft	Berlin
94	HKA Verwaltungsgesellschaft mbH	Berlin
95	Westgrund Immobilien Beteiligung GmbH	Berlin
96	Westgrund Immobilien Beteiligung II. GmbH	Berlin
97	Westgrund Immobilien Beteiligung III. GmbH	Berlin
98	Westgrund Westfalen GmbH & Co. KG	Berlin
99	WESTGRUND Immobilien IV. GmbH	Berlin
100	WESTGRUND Immobilien V. GmbH	Berlin
101	WESTGRUND Immobilien VI. GmbH	Berlin
102	Wiederaufbau-Gesellschaft mit beschränkter Haftung	Ludwigshafen am Rhein
103	TREUHAUS Hausbetreuungs-GmbH	Ludwigshafen am Rhein
104	WAB Hausverwaltungsgesellschaft mbH	Ludwigshafen am Rhein
105	Westgrund Wolfsburg GmbH	Berlin
106	Westgrund Niedersachsen Süd GmbH	Berlin
107	Westgrund Niedersachsen Nord GmbH	Berlin
108	Westgrund Brandenburg GmbH	Berlin
109	Westgrund VII. GmbH	Berlin
110	Westgrund I. Halle GmbH	Berlin
111	Westgrund Halle Immobilienverwaltung GmbH	Berlin
112	Westgrund Immobilien II. Halle GmbH & Co. KG	Berlin
113	Westgrund VIII. GmbH	Berlin

[2] Control without voting majority due to contractual agreements i.s.d. IFRS 10.B38

	Equity interest in %	Held by No.	Business activity
	94.9	69	Project development
	94.9	69	Project development
	94.9	69	Project development
	94.9	69	Project development
	94.9	69	Project development
	100.0	1	Project development
	100.0	1	Collection services
	100.0	1	Project development
	100.0	27	General partner
	100.0	27	Portfolio management
2)	41.0	42	Trading
2)	94.0	82	Trading
	94.9	23	Portfolio management
	100.0	84	Service company
	100.0	10	Services company
	96.7	1	Holding
	94.9	87	Portfolio management
	94.9	87	Portfolio management
	100.0	87	Services company
	100.0	87	Intermediate holding company
	94.9	91	Portfolio management
	100.0	92	Portfolio management
	100.0	92	Service company
	100.0	87	None
	100.0	87	None
	94.9	87	Portfolio management
	94.9	92	Portfolio management
	94.9	87	Portfolio management
	94.0	87	Portfolio management
	94.9	87	Portfolio management
	94.8	87	Portfolio management
	100.0	90	Property management
	100.0	102	None
	94.9	87	Portfolio management
	94.9	87	Portfolio management
	94.9	87	Portfolio management
	94.9	87	Portfolio management
	94.9	87	Portfolio management
	94.9	87	Portfolio management
	100.0	110	General partner
	100.0	110	Portfolio management
	94.9	87	Portfolio management

No.	Company	Headquarters
	Subsidiaries fully consolidated	
114	Westgrund IX. GmbH	Berlin
115	Xammit GmbH	Berlin
116	Magnus Zehnte Immobilienbesitz und Verwaltungs GmbH	Hamburg
117	Magnus Elfte Immobilienbesitz und Verwaltungs GmbH	Hamburg
118	Zweite CM Real Estate GmbH	Berlin
119	Dritte CM Real Estate GmbH	Berlin
120	Vierte CM Real Estate GmbH	Berlin
121	Accentro 2. Wohneigentum GmbH	Berlin
122	Accentro 3. Wohneigentum GmbH	Berlin
123	Accentro 4. Wohneigentum GmbH	Berlin
124	Accentro 6. Wohneigentum GmbH	Berlin
125	Accentro 7. Wohneigentum GmbH	Berlin
126	WEAVED Immo Finance B.V.	Amsterdam / The Netherlands
127	J2P Service GmbH	Chemnitz
	Associated Companies and Joint Ventures included in the consolidated financial statements	
128	Worthing Lake Forest Investors LLC (associated company - at-equity)	Atlanta / USA
129	Wohneigentum Berlin GbR (joint venture - at-equity)	Berlin
130	SIAG Sechzehnte Wohnen GmbH & Co. KG (associated company - at-equity)	Berlin
131	GG Erlabrunn Verwaltungs UG (associated company - at-equity)	Aue
132	Malplaquetstr. 23 Grundstücksverwaltungsgesellschaft mbH (associated company - at-equity)	Berlin
133	conwert Immobilien Invest SE (associated company - non-current asset held for sale)	Wien / Austria
	Companies not significant enough to be included at equity in the consolidated financial statements[1)]	
134	MRT (Mountleigh Roland Ernst) B.V.	Rotterdam / The Netherlands
135	Stovago B.V.	Rotterdam / The Netherlands
136	Deutsche Immobilien- und Industrieassekuranz GmbH (D.I.A.S.)	Hamburg
137	ADLER Real Estate Assekuranzmakler GmbH & Co. KG	Düsseldorf

[1)] Companies included in the consolidated financial statement which are not using the equity method on grounds of materiality shall be classified as assets and hold for sale.

	Equity interest in %	Held by No.	Business activity
	100.0	87	None
	100.0	87	None
	100.0	10	Intermediate holding company
	100.0	10	Intermediate holding company
	94.9	71	Portfolio management
	94.9	71	Portfolio management
	94.9	71	Portfolio management
	100.0	27	Trading
	100.0	27	Trading
	100.0	27	Trading
	100.0	27	Trading
	100.0	27	Trading
	100.0	1	Portfolio management
	100.0	11	Service company
	30.0	9	Project development
	33.3	42	Trading
	50.0	27	Portfolio management
	50.0	44	Portfolio management
	50.0	42	Trading
	25.7	68	Portfolio management
	50.0	1	None
	50.0	1	None
	30.0	1	Insurance broker
	50.0	1	Insurance broker

4.2 Business combinations

One service company (J2P Service GmbH) was acquired (purchase price: EUR 41k) and fully consolidated in accordance with IFRS 3 in the year under report. Given the minor scope of its business activities, this company does not have any material implications for the Group (c.f. list of shareholdings in Note 4.1).

WESTGRUND Aktiengesellschaft, Berlin (hereinafter "WESTGRUND") was acquired by ADLER as of 26 June 2015 and included in the consolidated financial statements for the first time in accordance with the requirements of IFRS 3. Overall, the WESTGRUND acquisition resulted in 31 companies being newly included in the scope of consolidation. As of 31 December 2015, the allocation of the purchase price to the assets and liabilities thereby acquired was still provisional. However, no material changes arose in this respect in the period under report. The purchase price allocation gave rise to goodwill of EUR 103,471k. Goodwill results from synergies expected to arise from the companies operating jointly and relates to structural costs, management, purchasing, portfolio management and local residential services. At the same time, ADLER's competence in terms of privatisation measures and property trading can also be profitably applied to WESTGRUND's portfolio. The first-time allocation of goodwill for impairment testing purposes had not been completed as of 31 December 2015. This allocation was completed in the fourth quarter of 2016 (c.f. goodwill in Note 8.1).

4.3 Acquisition of property companies

Via Magnus Neunte Immobilienbesitz und Verwaltungs GmbH, an intermediate holding company in which ADLER indirectly owns a 100 percent stake, shares were acquired in the following property companies:

- Zweite CM Real Estate GmbH (94.9 percent)
- Dritte CM Real Estate GmbH (94.9 percent)
- Vierte CM Real Estate GmbH (94.9 percent).

This acquisition does not constitute a business as defined in IFRS 3 and was recognised as a direct property acquisition. This involved allocating the cost of acquiring the property companies to the identifiable assets and liabilities in accordance with their fair values. Via these property companies, the Group acquired investment properties amounting to EUR 10,811k.

5. SPECIFIC ACCOUNTING POLICIES

5.1 Intangible assets and property, plant and equipment

Upon first-time recognition, separately purchased intangible assets are measured at cost. Following initial recognition, intangible assets with finite useful lives are subject to straight-line amortisation over their expected useful lives, generally over three to five years, and are tested for impairment as soon as there are any indications of such. Impairments of intangible assets are recognised through profit or loss under amortisation of intangible assets.

Intangible assets with indefinite useful lives, which include goodwill in particular, are not subject to scheduled amortisation. These assets are tested for impairment at least once a year on individual asset or cash-generating group level. An impairment test is also performed should any triggering event occur.

Property, plant and equipment is recognised at cost, less accumulated depreciation and accumulative impairments. Cost includes expenses directly attributable to the acquisition. Subsequent acquisition or production costs are only capitalised when it is likely that future economic benefits will accrue 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 subject to straight-line depreciation over its expected useful life, generally over three to 20 years (office equipment) or six to 13 years (vehicle fleet and outdoor facilities). The depreciation methods used and economic useful lives are reviewed and, if necessary, adjusted at each balance sheet date. Carrying amounts of property, plant and equipment are tested for impairment as soon as there are any indications that they exceed the respective recoverable amounts.

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

Gains and losses from disposals of assets are calculated as the difference between the income from disposals and the respective carrying amounts and are recognised through profit or loss.

5.2. Investment properties

Investment properties include all properties held for long-term rental income and value appreciation. Unlike investment properties, inventories constitute assets that are held for sale in the normal course of business and that are in the process of construction for such sale or which are used to manufacture products or perform services. Consequently, properties held for sale in the normal course of business or are constructed or developed with the intention of being sold are outside the scope of IAS 40. Such properties require recognition as inventories and are therefore covered by IAS 2.

Investment properties are measured at cost, including incidental acquisition costs, upon addition and subsequently at fair value. Ongoing maintenance costs are expensed in the statement of comprehensive income. Modernisation measures in excess of ongoing maintenance are capitalised when it is likely that future economic benefits will accrue to the company. Valuation results are presented in the “Income from fair value adjustments of investment properties” line item in the consolidated statement of comprehensive income.

The fair value of a property is the price that would be received for the sale of the asset between knowledgeable, willing and independent market participants in an orderly transaction or, in the case of the transfer of a liability, the price that would be paid. The fair value basically implies the sale of the asset. It equates to the (theoretical) price to be paid to the seller in a (hypothetical) sale of properties on the measurement date.

Fair value can be determined by applying the market approach, the cost approach or the income approach. In this, the use of significant observable market-based input factors is maximised, while the use of non-observable input factors is kept to a minimum.

IFRS 13 requires investment property measured at fair value to be classified and the input factors referred to when determining fair value to be cited. Classification is based on the following three-step measurement hierarchy:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2: Directly or indirectly observable input factors not allocable to Level 1
- Level 3: Unobservable input factors.

Investment properties are not traded in active markets but are rather measured by reference to unobservable input factors based on market data (Level 3).

The fair values of investment properties are determined by reference to surveys compiled by external experts on the basis of current market data and using internationally recognised valuation methods. In this, application is made of discounted cash flow methods. Reference is also made to the disclosures on valuation methods in 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 upon their retirement. Gains or losses resulting from disposal or discontinuation are recognised in the year of disposal or discontinuation. Gains or losses correspond to the difference between the disposal price and the carrying amount plus costs to sell.

Properties initially acquired for trading purposes and correspondingly allocated to inventories are reclassified to investment properties when it becomes apparent that the company no longer intends to sell the properties but rather plans to retain the properties in its own portfolio over a longer period of time in order to benefit from long-term rental income and value appreciation.

If assigned to the Trading segment, investment properties are reclassified to inventory properties.

5.3 Impairment of intangible assets and property, plant and equipment

To the extent that they are definitively allocated upon acquisition to a cash-generating unit, intangible assets with indefinite useful lives or that are not yet ready for use are not subject to scheduled amortisation but rather are tested annually for impairment. The same applies to goodwill. Assets subject to scheduled amortisation are tested for impairments when events or changes in circumstances indicate that the carrying amount may no longer be recoverable. Impairment losses are recognised 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 costs to sell and its value in use. For impairment testing purposes, assets are aggregated at the lowest level for which cash flows can be separately identified (cash-generating units). Goodwill is reviewed on the level of a single cash-generating unit or a group of cash-generating units to which it is allocated.

A cash-generating unit is the smallest group of assets including the respective asset and generating cash flows that are largely independent of the cash flows generated by other assets or groups of assets. Goodwill acquired upon a business combination is allocated to the cash-generating unit or group of cash-generating units expected to derive economic benefit from the synergies generated by the combination.

The main cash-generating units defined at the Group relate to properties and interests in properties. Investment properties are already measured using the fair value model and therefore require no additional impairment testing. In the context of the Group's operating management, properties are aggregated in business units structured along geographical lines. As these regional business units (North, West, East, Central) represent the lowest level within the company on which goodwill is monitored for internal management purposes, the annual impairment test is performed on the level of the regional business units. Assets are allocated to the business units based on the geographical location of the properties.

A further group of cash-generating units for which goodwill is monitored for internal management purposes relates to the existing Trading segment. As in the previous year, the Trading segment aggregates the business activities at ACCENTRO in connection with the acquisition and disposal of properties, including privatisation and intermediary activities performed in this context.

Assets may only be written up to a maximum of amortised cost. No write-ups are recognised for goodwill.

5.4 Financial assets

Financial assets are classified in 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 does not have any held-to-maturity financial assets. Classification to individual categories depends on the purpose for which the financial asset was acquired. Management determines the classification for each financial asset upon first-time recognition and reviews this classification as of each balance sheet date.

Reclassification is only possible when certain conditions are met. No financial assets were reclassified in the year under report.

Financial assets measured at fair value through profit or loss

This category has two sub-categories: financial assets classified from the outset as held for trading (HfT) and financial assets qualified from the outset 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 designated as such by management.

Assets in this category are recognised as current assets if they are either held for trading or expected to be realised within twelve months of the balance sheet date.

Upon addition, financial assets in this category are recognised at fair value taking account of transaction costs. They are derecognised when the rights to payments from the investment expire or are assigned and the Group has assigned substantially all of the risks and rewards of ownership. After initial recognition, the assets are subsequently measured at fair value, with gains and losses, including any interest and dividend income recognised through 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 on 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 maturities are not scheduled more than twelve months of the balance sheet date. The latter are recognised under non-current assets. Loans and receivables are included in the balance sheet under trade receivables, other loans, other current assets and cash and cash equivalents.

Loans and receivables are recognised initially at fair value and subsequently at amortised cost using the effective interest method and less impairment losses. The effective interest method is only used if the receivable has a maturity of more than twelve months. Impairment losses are recognised when there are objective and substantial indications that the amounts due are not fully collectible. The relevant analysis is largely based on the age structure of the assets. Lease receivables are written down by 40 percent if they are due from tenants still occupying the leased properties and by 90 percent if they are due from tenants who have moved out.

The amount of impairment loss is measured as the difference between the carrying amount of the receivable and the present value of the estimated future cash flows from this receivable discounted using the effective interest method. Impairment losses are recognised through profit or loss as other operating expenses in the statement of comprehensive income. If the reasons for impairment no longer apply in full or in part, the receivables are written up through profit or loss to a maximum of amortised cost.

If a receivable has become uncollectible, it is offset against the impairment account for trade receivables. Subsequent payments received on amounts previously derecognised are recognised through profit or loss as other operating income.

Available-for-sale financial assets

Available-for-sale financial assets, which chiefly relate to investments, are determined as being available for sale and not allocated to any other category. After initial recognition, the asset is measured at fair value, if this can be reliably determined, with any gains or losses recognised in other comprehensive income. Where the fair value cannot be reliably determined, the assets are measured at a maximum of historic cost, with any subsequent impairments and reversals being recognised through profit or loss.

5.5 Derivative financial instruments and hedges

The Group works in particular with interest rate hedges intended to hedge changes in interest rates. If included in hedge accounting, the instrument relates exclusively to a cash flow hedge.

All interest rate hedges are initially recognised on the date of the trade and are initially measured at fair value. The fair values of hedge instruments are determined using standard market valuation methods and take account of the market data available on the valuation date. Changes in the fair values of hedge instruments not included in hedge accounting pursuant to IAS 39 are recognised through profit or loss in the income statement.

If the hedge instruments are included in hedge accounting within a cash flow hedge, the hedge-effective portion of unrealised gains or losses is initially recognised in other comprehensive income. These amounts are reclassified to the income statement at the same time that the underlying transaction is presented in the income statement. The hedge-ineffective portion of changes in fair value is directly credited or charged to the interest result.

5.6 Inventories

Properties acquired exclusively for the purpose of resale in the normal course of business or for development and resale are recognised as inventories. Other inventories, such as heating oil stocks, are also recognised in this line item.

These items are initially measured at cost and subsequently at the lower of cost or their net realisable value. Net realisable value corresponds to the estimated selling price less estimated costs through to completion and the estimated required disposal costs.

5.7 Cash and cash equivalents

Cash and cash equivalents comprise cash, demand deposits and other short-term highly liquid financial assets with initial terms of up to three months. They also include credit balances at banks with original terms of no longer than six months and intended for short-term debt service.

5.8 Non-current assets and liabilities held for sale

A non-current asset or a group of non-current assets are classified as held for sale if the associated carrying amount will predominantly be recovered via a sale transaction rather than through continued use, if the assets are available for immediate sale and the sale is considered highly probable. The assets are measured at the lower of their previous carrying amount and fair value less disposal costs. These assets or groups of assets, as well as the associated liabilities, are reported separately in the balance sheet. Liabilities are classified as held for sale if they are connected to an asset held for sale and are also due to be acquired by the respective buyer.

Investment properties and other assets are classified as held for sale if ADLER makes a decision to sell the respective assets, if the assets are available for immediate sale and the sale can be expected to be completed within one year of 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 the associated liabilities. Equity instruments are recognised in the amount of the issue proceeds, less directly attributable issuance costs.

Issuance costs are costs that would have not been incurred if the equity instrument had not been issued. Such costs of an equity transaction, less all associated income tax benefits, are deducted from equity and directly offset against the capital reserves.

The components of a hybrid instrument issued by the Group (convertible bond) are separately recognised as financial liabilities and equity instruments in accordance with the economic substance of the arrangement. Upon 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 using the effective interest method through to settlement upon conversion or maturity of the respective instrument. The equity component is calculated by subtracting the value of the debt component from the fair value of the overall instrument. The resultant value, less income tax effects, is recognised under equity and is subsequently not measured.

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. Service cost is recognised under personnel expenses, while the interest portion of the increase in the provision is recognized in the financial result. Like deferred taxes, actuarial gains and losses arising in this regard are recognised under other comprehensive income. The amount recognised corresponds to the present value of the defined benefit obligation (DBO).

ADLER also pays contributions to state pension schemes in accordance with statutory provisions. Current payments for these defined contribution obligations are recognised within personnel expenses as social security contributions.

5.11 Other provisions

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

The company recognises provisions for onerous contracts when the benefit expected from the contractual claim is lower than the unavoidable costs of fulfilling the contractual obligation.

Measurement is based on the best estimate of the current scope of the obligation as of the balance sheet date. Non-current provisions are recognised at their respective settlement amounts discounted as of the balance sheet date.

5.12 Liabilities

Upon initial recognition, loan liabilities and other liabilities are recognised 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, rescinded or have expired. Liabilities are classified as current liabilities when the Group does not have the unconditional right to defer the redemption of the liability to a time later than at least twelve months after the balance sheet date.

When determining the fair value, the expected future cash flows are discounted using market interest rates with matching maturities. Individual characteristics of the financial instruments being measured are accounted for by way of standard credit rating and liquidity spreads.

The fair value of the financial liabilities is determined on the basis of the input factors in Levels 1, 2 and 3 of the measurement hierarchy.

5.13 Taxes

Current tax refund claims and tax liabilities are measured at the amount of refund or payment expected to or from the tax authorities based on the tax rate and tax laws applicable as of the balance sheet date.

Pursuant to IAS 12, deferred taxes are recognised 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 for tax loss carryovers. Application has been made for the exemption provided as per IAS 12.15b relating to the acquisition of property companies that have been included in the consolidated financial statements as acquisitions of groups of assets and liabilities rather than in accordance with IFRS 3. Where the Group's acquisition costs exceed tax carrying amounts, deferred taxes are only recognised for the difference between the fair values and the Group's acquisition costs.

The tax rates used to calculate deferred taxes are determined on the basis of currently valid statutory provisions. For German group companies, application is made of tax rates of 15.0 percent for corporate income tax, 5.5 percent for the solidarity surcharge, and 14.4 percent for trade tax (previous year: 16.5 percent). Deferred tax claims for temporary differences and for tax loss carryovers are recognised in the amount to which it is likely that temporary differences will be offset against future positive tax income and taking due account of minimum taxation requirements. When measuring deferred taxes, account is taken of the expected implications of what is known as the extended property deduction on domestic trade tax.

No deferred taxes are recognised for taxable temporary differences, whether positive or negative, in connection with interests in Group companies for as long as the Group is able to control their reversal and such differences 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 current tax refund claims against current tax liabilities and if such apply to income taxes of the same taxable entity and are levied by the same tax authority.

5.14 Leases

Economic ownership of the leased items is attributable to the lessee when all major risks and rewards associated with ownership of the asset are also attributable to the lessee (finance lease). Leases in which a substantial portion of the risks and rewards associated with ownership of the asset remain with the lessor are classified as operating leases. Payments made in connection with an operating lease are recognised in the income statement on a straight-line basis over the term of the lease. Where the lessee bears all major risks and rewards, upon addition the lessee measures measures the leased item at its fair value or at the present value of future leasing payments, if lower, with a lease liability being recognised in the same amount. In subsequent periods, the lease liability is amortised and carried forward using the effective interest method.

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

5.15 Recognition of income

Income is recognised when it is probable that the economic benefits will accrue to the Group and possible to reliably determine the amount of income.

Rental income is recognised on an accrual basis in accordance with the provisions of the underlying contracts. Income from the sale of properties is recognised when the risks and rewards associated with 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 coincides with the completion of the transfer of the respective shares.

Revenues from the rendering of services are recognised in the financial year in which the respective services are performed. For services rendered over more than one period, revenues are recognised for the services already performed as a proportion of the total services due to be rendered.

Interest income is recognised on a time-apportioned basis, taking due account of 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 functional currency of the relevant group company using the exchange rate on the transaction date. Monetary foreign currency items are subsequently translated at the respective reporting date rate. The currency translation differences arising upon the settlement of foreign currency transactions and from the translation of monetary foreign currency items at the reporting date rate are recognised in the income statement under other operating income or expenses. The functional currency of the foreign companies is the respective national currency, as the foreign companies conduct their business independently in financial, economic and organisational terms.

At the end of the year, assets and liabilities at foreign companies are translated into euros using the relevant reporting date rates, while income and expenses at such companies are translated using annual average exchange rates. Equity components are translated using the historical exchange rates applicable from a group perspective upon the dates of their respective addition to the scope of consolidation. The currency translation differences thereby arising compared with the reporting date rates are recognised in equity in the “currency translation reserve” line item.

5.17 Residual interests and dividend distributions

In its consolidated financial statements, ADLER also includes subsidiaries that have the legal form of partnerships with minority interests. Pursuant to IAS 32, the shareholder position attributable to these minorities requires recognition as a liability due to their statutory and non-excludable termination rights. When such liability arises, it is measured at the present value of the settlement claim attributable to the respective shareholder. This generally corresponds to the amount of capital contribution made by the shareholder. In subsequent periods, the liability is carried forward and adjusted to account for the company’s earnings prior to the recognition of this liability within earnings. To the extent that it is not due to capital contributions or withdrawals, the change in the liability is recognised through profit or loss. Where the carry-forward procedure results in an imputed claim against the shareholder, such procedure is deferred until it once again results in a liability due from the shareholder.

For the stock corporations included in the Group, liabilities for dividends to shareholders are basically only recognised in the period in which the corresponding resolution concerning the appropriation of profit is adopted by the relevant shareholders’ meeting. Obligations for minimum profit distributions are deferred as liabilities.

5.18 Cash flow statement

The cash flow statement presents the development in the Group’s payment flows in the financial year under report. In the consolidated financial statements, the cash flow from operating activities is calculated using the indirect method, with earnings before interest and taxes (EBIT) being adjusted to exclude non-cash-effective and include cash-effective items. The cash flow statement presents the cash flows from operating, investing and financing activities.

5.19 Share-based payments

ADLER has a share-based compensation plan which grants beneficiaries at the company stock appreciation rights, and thus the possibility of participating in the company’s value growth. The stock appreciation rights provided in the relevant programme (“SAR Programme”) constitute a share-based cash-settled payment programme pursuant to IFRS 2. Provisions for these personnel obligations have been recognised in the amount of the expected expenses, with such being allocated in instalments over the fixed overall term of the respective tranches. The fair value is calculated in reference to recognised financial valuation models. The recognition of stock appreciation rights requires assumptions and estimates concerning the development in performance indicators and personnel. The identification is carried out using an apporpriate option price model.

6. SIGNIFICANT DISCRETIONARY DECISIONS AND ESTIMATES

In preparing its consolidated financial statements, the company makes assessments and assumptions concerning expected future developments based on the circumstances extant at the balance sheet date. The estimates derived on this basis may deviate from actual circumstances at a later point in time. In this case, the assumptions and the carrying amounts of the relevant assets or liabilities are adjusted as appropriate on a prospective basis.

The assumptions and estimates are continually reviewed and are based on past experience and other factors, including expectations concerning future events that appear reasonable in the given circumstances.

In applying accounting policies, the Management Board made the following estimates which materially impact the amounts recognised in the consolidated financial statements:

- When testing goodwill for impairment, estimates have to be made concerning the recoverable amounts of the respective cash-generating units or groups of cash-generating units. The recoverable amounts correspond to the higher of fair value less disposal costs and the value in use. When determining the value in use, the estimated future cash surpluses are discounted to their present values. This procedure is based on the company planning adopted by the Management Board. For regional business units operating in the property management business, this process particularly requires estimates to be made concerning future rental income, vacancy rates and maintenance and modernisation measures. The group of cash-generating units in the Trading segment requires ranges of estimates to be made particularly with regard to the potential disposal income to be generated in future and the trading margins achievable in future. Based on forecast market developments and past experience, the assumptions underlying these figures are factored into a planning horizon of up to ten years. The payment surpluses thereby determined are discounted to their present values, taking due account of market-based equity and debt financing costs, as well as of a market-based risk premium. 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.

- The market values of investment properties are based on the findings of independent experts commissioned to this end. These assessments are based on the discounted future cash surpluses determined using the discounted cash flow methods over a ten-year planning horizon. To perform the valuation, the surveyors have to estimate various factors, such as future rental income, vacancy rates, maintenance and modernisation measures and applicable interest rates. All these factors directly influence the fair value of the investment properties. Furthermore, due account is also taken of transaction costs in an amount deemed likely by ADLER.

- Further estimates apply to the net disposal prices of inventory properties to enable these to be recognised at the lower of their net disposal values and their respective cost. Not only that, assessments concerning the attractiveness of micro-locations and the development in purchasing power also form the basis for estimating net disposal values. The range of net disposal values is based on the location of the respective property. The amounts recognised in the balance sheet are regularly reviewed to determine whether they are reasonable and adjusted where appropriate.

- Estimates also influence the assessments concerning the recoverability of rent receivables. The assessments about the collectability of outstanding receivables in the "Trading" segment are based on the maturity structure of such receivables. Based on past experience, the default likelihood of receivables older than three months is assumed to range between 25 percent and 100 percent. An impairment loss is therefore recognised for the resultant share of receivables. For rent receivables in the "Rental" segment, impairment losses of 40 percent and of 90 percent are recognised for receivables due from resident and non-resident tenants respectively.

- Deferred taxes: Based on its current planning, the Management Board decides to what extent future loss carryovers can be utilised. This decision is thus based on the taxable income expected at the respective company.

- For other provisions, various assumptions have to be made concerning the probabilities of occurrence and level of utilisation. Account is taken of all information known when preparing the financial statements.

In applying accounting policies, the Management Board made the following discretionary decisions materially impacting the amounts recognised in the consolidated financial statements

- In respect of the properties held by the Group, the Management Board has to decide as of each balance sheet date whether these assets are to be held for long-term rental and value appreciation purposes or rather classified as held for sale. Depending on this decision, the properties are reported as investment properties, under inventories, or as non-current assets held for sale.

- Upon the addition of property companies, a decision has to be made whether this constitutes the acquisition of a business operation. When the acquisition involves not only assets and liabilities, but also a business operation (integrated group of activities), then the transaction constitutes a business combination. For example, the business processes of asset and property management, receivables management and accounting are deemed to represent an integrated group of activities. A further key indication that the takeover involves a business operation is the fact that personnel is also employed by the company thereby taken over. All these processes and indications could be negated in the case of the acquisitions of Zweite CM Real Estate GmbH, Dritte CM Real Estate GmbH and Vierte CM Real Estate GmbH, as a result of which the acquisitions have not been presented as business combinations pursuant to IFRS 3 in 2016.

- Upon the initial recognition of financial instruments, a decision has to be made as to which of the four measurement categories they should be allocated to: measured at fair value through profit or loss, loans and receivables, assets held to maturity or available-for-sale financial assets.

7. SEGMENT REPORTING

The ADLER Group is organised in the following segments:

1. Rental: This segment chiefly comprises investment properties. It also includes a small number of inventory properties not allocated to the Trading segment.

2. Trading: This segment includes purchases and sales of properties, in which individual apartments are generally sold to private investors. The brokerage business associated with the privatisation of residential properties is also allocated to this segment. As the properties are temporarily owned by the company, alongside income from the sale of properties, a low volume of gross rental income is also reported in this segment.

Other Group activities which do not constitute standalone segments are pooled in the "Other" column. These mainly relate to historic holdings at ADLER that have already been or are in the process of being sold.
Segment reporting based on the Rental and Trading segments is consistent with the internal reporting system to ADLER's Management Board, which is the top management body pursuant to IFRS (management approach). As the Group only trades in properties that are located in Germany, no geographical segmentation has been performed.

Following ACCENTRO's strategic realignment, this subsidiary will focus on the Trading segment. Segment reporting has been adjusted accordingly. This particularly involves allocating a higher share of ACCENTRO's personnel and financial expenses to the Trading segment. The previous year's comparative earnings figures have been adjusted accordingly.

Income and EBIT are broken down across the segments as follows:

ADLER Group In EUR ´000	**Trading 2016**	**Rental 2016**	**Other 2016**	**Group 2016**
Income from the management of properties and from the sale of properties	125,105	285,677	2,030	412,812
– of which letting	6,597	244,697	1,105	252,399
– of which disposals	116,920	40,980	925	158,825
– of which brokerage	1,588	0	0	1,588
Change in the fair value of investment properties	0	199,677	0	199,677
Earings before interest and tax (EBIT)	**33,880**	**268,121**	**-166**	**301,835**
Result of investments accounted for using the equity method	532	10,653	0	11,185
Financial result	**-5,208**	**-120,341**	**-26**	**-125,575**
Result before taxes (EBT)	**28,671**	**158,729**	**44**	**187,444**

The Trading segment generated income of EUR 125,105k (previous year: EUR 39,496k), of which EUR 116,920k resulted from sales (previous year: EUR 31,430k). EBIT in this segment amounted to EUR 33,880k (previous year: EUR 5,301k) and earnings before taxes came to EUR 28,671k (previous year: EUR 1,207k). Revenues in the Rental segment amounted to EUR 285,677k (previous year: EUR 329,650k), of which EUR 244,697k was attributable to rentals (previous year: EUR 208,346k). At EUR 268,121k, EBIT in the Rental segment was significantly ahead of the previous year's figure (EUR 171,534k). Earnings before taxes in the Rental segment amounted to EUR 158,729k (previous year: EUR 93,909k).

Income from fair value adjustments of investment properties predominantly result from estimates of the fair value of individual properties performed pursuant to IAS 40 following the acquisition of these properties in the context of portfolio acquisitions. This income is allocated to the Rental segment.

Financing expenses are attributable on one hand to the direct financing of property holdings and on the other to the issuing of bonds and convertible bonds.

The depreciation of property, plant and equipment and amortisation of intangible assets are broken down across the segments as follows:

ADLER Group In EUR ´000	Trading 2016	Rental 2016	Other 2016	Group 2016
Depreciation of property, plant and equipement	-85	-329	0	-414
Amortisation of intangible assets	-28	-732	0	-760

In the previous year, income and EBIT were allocated to the segments as follows:

ADLER Group In EUR ´000	Trading 2015[1)]	Rental 2015[1)]	Other 2015	Group 2015
Income from the management of properties and from the sale of properties	39,496	329,650	15,646	384,793
– of which letting	5,754	208,346	2,539	216,639
– of which disposals	31,430	121,304	13,107	165,841
– of which brokerage	2,313	0	0	2,313
Change in the fair value of investment properties	0	58,860	0	58,860
Earings before interest and tax (EBIT)	**5,301**	**171,534**	**-250**	**176,585**
Result of investments accounted for using the equity method	573	-903	0	-330
Financial result	**-4,094**	**-77,293**	**-47**	**-81,434**
Result before taxes (EBT)	**1,207**	**93,909**	**-295**	**94,821**

[1)] amended statement

In the previous year, the depreciation of property, plant and equipment and amortisation of intangible assets were broken down across the segments as follows:

ADLER Group In EUR ´000	Trading 2015[1)]	Rental 2015[1)]	Other 2015	Group 2015
Depreciation of property, plant and equipement	-68	-251	-1	-320
Amortisation of intangible assets	-29	-680	0	-709

[1)] amended statement

Segment assets, segment liabilities and segment investments are structured as follows:

ADLER Group In EUR ´000	Trading 2016	Rental 2016	Other 2016	Consoli- dation 2016	Group 2016
Assets per segment	290,198	3,157,181	7,681	-25,080	3,429,980
Result of investments accounted for using the equity method	472	25	0	0	497
Total segment assets	**290,670**	**3,157,206**	**7,681**	-25,080	**3,430,477**
Segment liabilities	**160,068**	**2,374,046**	**7,223**	**-25,080**	**2,516,257**
Segment investments	**96,075**	**133,154**	**0**	**0**	**229,229**

In the previous year, segment assets, segment liabilities and segment investments were structured as follows:

ADLER Group In EUR ´000	Trading 2015	Rental 2015	Other 2015	Consoli- dation 2015	Group 2015
Assets per segment	197,689	2,527,020	12,148	-13,954	2,722,903
Result of 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**

Segment assets mainly comprise property, plant and equipment, investment properties, inventories and receivables due from third parties and the “Other” segment. Goodwill of EUR 29,354k is allocated to the Trading segment (previous year: EUR 27,081k), while goodwill of EUR 101,198k is reported in the Rental segment (previous year: EUR 103,471k). Reference is made to the comments in Note 8.1 “Goodwill and intangible assets”.

Group-internal debt consolidation between the reporting segments and the “Other” column is presented under “Consolidation”.

Segment liabilities mainly comprise financial liabilities, operating liabilities and liabilities due to the “Other” segment.

Segment investments include additions to property, plant and equipment, intangible assets, investment properties, properties recognised under inventories and investments in associates.

8. NOTES TO THE CONSOLIDATED BALANCE SHEET

8.1 Goodwill and intangible assets

In EUR ´000 2016	Goodwill	Customer relationships and similar assets	Other intangible assets	Total intangible assets
Cost				
As at 01.01.2016	130,552	1,412	1,066	2,478
Additions from acquisitions (+)	0	0	0	0
Additions (+)	0	0	126	126
Reclassifications (+)	0	0	0	0
Disposals (-)	0	0	-167	-167
As at 31.12.2016	**130,552**	**1,412**	**1,025**	**2,437**
Amortisation				
As at 01.01.2016	0	705	415	1,120
Additions (+)	0	498	262	760
Disposals (-)	0	0	-26	-26
As at 31.12.2016	**0**	**1,203**	**651**	**1,854**
Carrying amounts 01.01.2016	130,552	707	651	1,358
Carrying amounts 31.12.2016	**130,552**	**209**	**374**	**583**

In EUR ´000 2015	Goodwill	Customer relationships and similar assets	Other intangible assets	Total intangible assets
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
Buchwerte 31.12.2015	**130,552**	**707**	**651**	**1,358**

Of goodwill, EUR 103,471k is attributable to the acquisition of WESTGRUND in June 2015 and EUR 27,081k to the acquisition of ACCENTRO in June 2014.

The goodwill resulting from the ACCENTRO acquisition was allocated to a group of cash-generating units (business divisions) that form the existing Trading segment in June 2014 already. The allocation of the goodwill resulting from the WESTGRUND acquisition to groups of cash-generating units was completed in the period under report and took due account of the sustainable synergies (financing, administrative and operating synergies) expected to result from the business combination. Of the goodwill resulting from the WESTGRUND acquisition, EUR 101,198k was allocated to the regional business divisions (North, Central, West, East) in the Rental segment and EUR 2,273k to the Trading segment.

Mandatory annual impairment testing was performed in the fourth quarter of the year under report. To determine the recoverable amounts of the business divisions, the respective values in use were first calculated by comparison with the measurement of investment properties (c.f. Note 8.3) on the basis of company planning adopted by the Management Board with a planning horizon of up to ten years. Perpetuity figures were computed on the basis of the cash inflows in the final year covered by the planning. The planning was determined by reference to influenceable and non-influenceable factors.

The Management Board determined the cash flows budgeted for the detailed planning stage on the basis of the positive developments shown by the respective business model in the past and of positive expectations as to future market developments. For the regional business divisions within the Rental segment, the key value drivers are the planned increase in rent per square meter (target rent) and the reduction in the vacancy rate. Developments in the Trading segment were determined with particular reference to the income achievable from future sales (attributable to sales proceeds and the trading margins achievable). These are based on forecast developments in the number of residential units sold or brokered and, assuming increasing experience in the trading business, on rising earnings contributions per residential unit.

Further major parameters used to determine the recoverable amounts include weighted average costs of capital (WACC) before taxes and the sustainable growth rates assumed for perpetuity. The weighted average costs of capital (WACC) are derived from market-based costs of equity and debt capital weighted to account for the company's capital structure. These have been calculated using the capital asset pricing model (CAPM) as used in theory and practice. This involves accounting for a risk-free interest rate, a market-based risk premium (market risk premium and beta factor) and a risk premium from industrial bonds. The calculation was performed by reference to comparative peer group data. The sustainable growth rate presents the market development expected in the future. With regard to the regional business units, the figures have been based on specific developments in actual rents.

Cash Generating Units of 31.12.2016	North	Central	West	East	Trade	Total
Goodwill in EUR ´000	21,333	14,80	27,428	37,636	29,354	130,552
WACC before tax in %	3.5	3.5	3.5	3.5	5.4	-
Sustainable growth rate in %	1.0	1.0	1.0	1.0	0.8	-

In the previous year, the budgeted cash flows for the Trading segment were discounted using a weighted cost of capital rate of 11.5 percent before taxes (7.8 percent after taxes). This capital cost rate reflects the specific risks to which the Trading segment is exposed when compared with the market portfolio. Had a market-based discount rate been calculated for the Trading segment in the previous year using the same method as in the year under report,this would have amounted to 7.4 percent before taxes (5.0 percent after taxes). This calculation has no implications for the recoverability of goodwill in the Trading segment (previous year: EUR 27,081k).

The impairment test performed as of the balance sheet date identified significant surplus cover of the carrying amounts in all business divisions. The recoverability of goodwill has therefore been confirmed. Sensitivity analyses were performed to test the impact of changes in key parameters while retaining the other assumptions. Neither a reduction in the target rent (in EUR per square metre of rented space) by 1.0 percent nor an increase in the vacancy rate (as a percentage of the target rent) by 1.0 percent would result in any impairment of the carrying amounts of the North, Central, West or East business divisions. If the cash flow budgeted after the end of the detailed planning period were to halve, this would not result in any impairment in the carrying amount of the Trading segment. If the weighted average cost of capital (WACC) were to increase by 0.5 percentage points or the growth rate in perpetuity to decrease by 0.5 percentage points, this too would not have any impact on the recoverability on the respective carrying amounts of any business divisions.

Customer values and similar recognised rights also result from the purchase price allocation performed upon the initial consolidation of ACCENTRO, relate to that company's broker network and are being amortised over a three-year period.

8.2 Intangible Assets and Property, Plant and Equipment

In EUR ´000	2016	2015
Cost		
As at 01.01.	1,752	666
Additions from acquisitions (+)	16	445
Additions (+)	2,594	650
Reclassifications (+)	0	0
Disposals (-)	-47	-9
As at 31.12.	**4,314**	**1,752**
Amortisation		
As at 01.01.	483	172
Additions (+)	414	320
Disposals (-)	-17	-9
As at 31.12.	**880**	**483**
Carrying amounts 01.01.	1,269	494
Carrying amounts 31.12.	**3,434**	**1,269**

8.3 Investment Properties

In EUR ´000	2016	2015
Carrying amounts 01.01.	**2,270,187**	**1,170,159**
Additions through acquisitions IFRS 3 (+)	0	1,010,309
Additions through investment properties / property companies (+)	15,642	155,355
Other additions (+)	35,796	23,894
Fair value increase (+)	219,483	108,679
Fair value decrease (-)	-19,806	-49,819
Reclassifications (+/-)	-68,089	-53,416
Disposals (-)	-11,225	-94,974
Carrying amounts 31.12.	**2,441,988**	**2,270,187**

Investment properties are encumbered with land charges provided as security for liabilities to banks.

The additions in the year under report mainly relate to the acquisitions of the property companies Zweite CM Real Estate GmbH, Dritte CM Real Estate GmbH and Vierte CM Real Estate GmbH, as well as to further properties acquired during the financial year. The disposals result from the disposal of sections of portfolios and individual units. Valuation gains of EUR 219,483k and valuation losses of EUR 19,806k were recognised in the 2016 financial year (previous year: EUR 108,679k and EUR 49,819k). Due to these gains and losses, net income from fair value adjustments of investment properties came to EUR 199,677k (previous year: EUR 58,860k).

During the financial year, investment properties of EUR 40,545k were acquired on a group-internal basis by the Trading segment and consequently reclassified to inventory properties. A further reclassification of EUR 27,544k relates to investment properties classified in accordance with IFRS 5 as non-current assets held for sale.

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

In EUR ´000	**2016**	**2015**
Income from property management	244,697	208,346
Expenses from property management	-127,244	-104,300
Earnings from property management	**117,453**	**104,046**

The fair value of individual properties or individual property portfolios (level 3 of the fair value measurement hierarchy) has been determined on the basis of discounted future cash flows using the DCF method.

The Management Board is responsible for determining the measurement methods and processes used at the Group and for coordinating the relevant processes. Properties are measured by external surveyors based on the data as of the measurement date, much of which is provided by ADLER's Asset Management department. This way, it is ensured that the properties are measured in line with market conditions and as of the reporting date. The year-on-year changes in fair values are subject to plausibility reviews by the Group Accounting and Asset Management departments. The results of the measurement process are then discussed with the Management Board.

The DCF method involves discounting the cash flows expected to be generated by a property to the measurement date. To this end, the cash flows from the respective property are determined for a detailed planning period (ten years). These involve the net balance of expected inflows and outflows of cash. While inflows generally relate to net rents, the (gross) outgoing payments particularly involve the operating costs borne by the owner. The net cash flows for each period are then discounted to the balance sheet date as of 31 December 2016 by application of a market-based, property-specific discount rate.

This results in the capitalised value of the net cash flows for the respective period. A potential discounted disposal value (terminal value) is forecast for the property at the end of the detailed planning period. This reflects the price most likely to be achievable at the end of the detailed planning period. This involves capitalising the discounted net cash flows as perpetuity figures by application of the capitalisation rate of the respective property (exit rate). The sum of the discounted cash flows and the discounted potential disposal value provides the gross value of the property to be assessed. Market-specific transaction costs incurred by any potential buyer and quantified at 5.5 percent to 10.5 percent are then deducted from this gross value (previous year: 7.5 percent to 10.5 percent), following which the properties are recognised at net value.

The following overview presents the significant assumptions and results used to determine the fair values of investment properties when measuring them using the DCF method:

Valuation parameters	Unit	Average	Range
Discount rate	%	5.41	3.75 - 6.66
Capitalisation rate	%	4.59	3.41 - 5.87
Maintenance costs	EUR/sqm	8.78	6.00 - 10.26
Administrative expenses	EUR/per rental unit/ year	254.33	250.00 - 298.00
Stabilised vacancy rate	%	4.10	0.76 - 15.00
Valuation results			
Actual rent multiplier		15.57	10.24 - 24.82
Market value per sqm	EUR/sqm	995.19	430.00 - 1,949.63

In the previous year, measurement was based on the following parameters:

Valuation parameters	Unit	Average	Range
Discount rate	%	5.80	4.75 - 6.75
Capitalisation rate	%	5.08	3.40 - 9.00
Maintenance costs	EUR/sqm	8.16	5.0 - 11.45
Administrative expenses	EUR/per rental unit/ year	255.94	250.00 - 307.27
Stabilised vacancy rate	%	4.0	1.25 - 11.00
Valuation results			
Actual rent multiplier		14.36	9.42 - 20.64
Market value per sqm	EUR/sqm	846.05	400.00 - 1,650.00

Various parameters were referred to when determining the discount rate. This rate comprises the base rate and a risk premium. The risk premium represents an interest rate suitable to the specific sub-segment, the type of use and the quality of the property. These assessments were made by reference to current market data and official documents, as well as to information from the valuation committee. The risk premium therefore varied from property to property.

In the previous year, some properties (market value EUR 6,560k) were valued using the capitalised earnings method and taking due account of the German Property Valuation Ordinance (ImmoWertV). This involved determining the fair value of the investment properties based on income and expenses discounted by a risk-adjusted discount rate specific to the property. The land value was determined separately from the market value of the property.

The following overview presents the significant assumptions used to determine the fair values of investment properties using the capitalised earnings method:

	2015	
	Average	**Range**
Property-specific interest rate in %	5.5	5.0 – 5.75
Remaining useful life in year	39	30 – 45
Maintenace costs EUR/sqm	11.9	9.68 – 12.55
Administrative costs in % of gross profit	7.2	4.52 – 9.67

The fair values determined using the capitalised earnings method applied here correspond to the net values. It was therefore not necessary to deduct transaction expenses. In the year under report, these properties were also measured using the DCF method.

The valuation parameters stated above represent averages weighted by market value. None of the margins stated account for exceptional individual cases. The assumptions used to value existing properties were made by an independent surveyor based on his longstanding professional experience. The surveys commissioned by the Group are governed by the requirements of the Royal Institution of Chartered Surveyors (RICS).

The chosen interest rate, underlying market rents and stabilised occupancy rates were identified as the main value drivers influenced by the market. The effects of potential fluctuations in these parameters are presented separately in the table below. Interaction between these parameters is possible. Given the complexity of the relationships involved, however, the effects of such interaction are not quantifiable.

	Capitalisation rate		Market Rent		Vacancy rate	
	-0.5%	**+0.5%**	**-10,0%**	**+10,0%**	**-1.0%**	**+1.0%**
Change in value						
In EUR ´000	279,429	-222,469	-316,190	306,725	41,227	-41,419
in %	11.44	-9.11	-12.95	12.56	1.69	-1.70

The following overview presents the geographical distribution of the property portfolios broken down by rental space, market values and the main parameters used in the valuation methods outlined above.

	Total rental area in sqm	Discoun-trate in %	Capitalisa-tionrate in %	Actual rent multiplier	Stabilised vacancy rate in %	Market value 2016 in EUR ´000
Lower Saxony	1,032,594	5.61	4.63	14.90	4.27	807,767
North Rhine Westphalia	643,197	4.82	4.39	15.45	3.41	548,790
Saxony	454,108	5.53	4.89	14.31	4.74	305,853
Saxony-Anhalt	197,876	5.72	4.87	13.73	5.65	128,306
Brandenburg	224,581	5.63	4.88	14.54	5.42	163,595
Other	433,135	5.51	4.39	18.45	3.36	487,677
Total	**2,985,491**	**5.41**	**4.59**	**15.57**	**4.10**	**2,441,988**

Of the market value, EUR 217,180k relates to non-core rental units no longer forming part of the core portfolio.

In the previous year, the geographical distribution of the property portfolios was as follows:

	Total rental area in sqm	Discoun-trate in %	Capitalisa-tionrate in %	Actual rent multiplier	Stabilised vacancy rate in %	Market value 2015 in EUR ´000
Lower Saxony	1,028,149	5.90	5.00	13.90	3.82	731,483
North Rhine Westphalia	678,509	5.47	5.04	15.17	4.70	535,054
Saxony	472,325	5.85	5.25	13.47	4.48	297,756
Saxony-Anhalt	216,231	6.00	5.24	13.08	4.81	130,003
Brandenburg	225,156	5.92	5.40	13.65	3.86	148,532
Other	422,129	5.91	4.97	15.40	2.90	427,359
Total	**3,042,498**	**5.80**	**5.08**	**14.36**	**4.00**	**2,270,187**

8.4 Loans to associates

As in the previous year, loans to associates have been written down in full.

8.5 Investments in associates and joint ventures

Five companies were included in the consolidated financial statements using the equity method as of the balance sheet date (previous year: six companies). Four associates (previous year: three) have not been included at equity due to materiality considerations.

In EUR´000	2016	2015
Carrying amounts 01.01.	**353,343**	**1,123**
Additions (+)	0	352,550
Disposals (-)	0	0
Share of gains and losses (at-equity-Ergebnis)	11,185	-330
Other result, attributable to the Group	-1,590	0
Dividends received	-9,059	0
Reclassifications (+/-)	-353,382	0
Carrying amounts 31.12.	**497**	**353,343**

The shareholding held in conwert Immobilien Invest SE (as of 31 December 2016: 25.7 percent; as of 31 December 2015: 23.5 percent; upon acquisition: 24.8 percent) represents the Group's only material investment in associates. The shareholding in conwert Immobilien Invest SE ("conwert") was previously recognised as an associate in the Rental segment and measured using the equity method. conwert's annual general meeting in June 2016 approved the distribution of a dividend of EUR 0.35 per share. For the Group, this resulted in a prorated dividend of EUR 7,406k (previous year: EUR 0k), which was received in June 2016 and charged to the carrying amount directly in equity. Of net income from at-equity value investment associates, an amount of EUR 10,653k relates to the share of conwert's earnings (previous year: EUR -768k). The share of conwert's other comprehensive income attributable to the Group amounted to EUR -1,590k (previous year: EUR 0k).

With the approval of the Supervisory Board, the Management Board decided to tender all of its shareholding in conwert held via its subsidiary MountainPeak Trading Ltd. ("MountainPeak") for the takeover bid announced by Vonovia SE ("Vonovia") to conwert's shareholders on 5 September 2016. ADLER thus tendered its entire existing shareholding in conwert, amounting to 21.2 million shares plus five million further conwert shares acquired via an exercised call option, to the takeover bid. Within the framework of a tender commitment agreement concluded with Vonovia, ADLER and MountainPeak issued an irrevocable undertaking to accept Vonovia's takeover bid. As a result of the tender commitment agreement with Vonovia, the shares were then recognised under non-current assets held for sale for the first time in the third quarter of 2016 (reclassification) and measured at the lower of their previous carrying amount and their fair value less costs to sell.

Further information about the development in the conwert shareholding can be found in Note 8.11 "Non-current assets held for sale".

No summarised financial information about conwert has been presented here. This can be found in the disclosures on non-current assets held for sale.

The Group also holds investments in five other associates and joint ventures that are not of material significance. The carrying amounts and the share of profit and other comprehensive income of these associates are presented in aggregated form in the table below:

In EUR ´000	2016	2015
Carrying amount of shares on not vital at equity consolidated companies	**497**	**1,618**
Group's share in the result of non-vital at-equity companies:		
– Profit from continuing operations	532	439
– Other result	0	0
Total result	532	439

The prorated share of profit and loss at the companies included using the equity method has been recognised in full in 2016. There are no accumulated unrecognised losses.

8.6 Other financial assets and other non-current assets

The 5.1 percent shareholding in Immeo Berlin C GmbH (previously: CITEC Immo Deutschland GmbH) recognised in the previous year under other financial assets at EUR 1,188k was sold by ACCENTRO in the 2016 financial year. This resulted in a profit of EUR 137k at the Group.

8.7 Deferred taxes

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

In EUR´000	2016	2015
Tax loss carryforwards (deferred tax assets)	52,298	39,465
Valuation of investement porperties (deferred tax assets)	0	56
Valuation of other liabilities (deferred tax assets)	5,953	5,131
Valuation of pension provisions (deferred tax assets)	499	271
Valuation of (convertible) bonds (deferred tax assets)	8,341	6,586
Valuation of financial liabilities (deferred tax assets)	5,322	5,311
Valuation of investment properties / inventories (deferred tax liabilities)	-169,515	-114,813
Valuation of (convertible) bonds (deferred tax liabilities)	-12,335	-6,270
Accrual of financing costs (deferred tax liabilities)	-5,126	-6,901
Other	1,828	1,490
Total deferred tax assets	74,241	56,820
Total deferred tax liabilities	-186,976	-126,494
Offsetting	-73,833 73,833	-56,355 56,355
Reported deferred tax assets	**408**	**465**
Reported deferred tax liabilities	**-113,142**	**-70,139**

Deferred tax assets for tax loss carryovers are recognised at the amount at which the corresponding tax benefits are likely to be realised through future taxable income (recognised at no less than the value of deferred tax liabilities). The loss carryovers exclusively relate to Germany and are therefore not expected to expire. In view of this, the maturity structures of those loss carryovers which have not been capitalised have not been disclosed.

No deferred tax assets have been recognised for corporate tax loss carryovers of around EUR 140.3 million (previous year: around EUR 64.3 million) and trade tax loss carryovers of around EUR 147.8 million (previous year: around EUR 97.5 million) as their realisation is not sufficiently certain.

No deferred tax liabilities have been recognised on amounts of EUR 15.9 million (previous year: EUR 10.9 million) in connection with shareholdings in group companies. This is due to the Group’s ability to control their reversal, which is not expected in the foreseeable future.

8.8 Inventories

Inventories include an amount of EUR 219,523k for properties acquired for sale (previous year: EUR 158,822k), an amount of EUR 7,486k for advance payments (previous year: EUR 784k) and an amount of EUR 49k for other inventories (previous year: EUR 48k). The portfolio of inventory properties acquired for sale developed as follows:

In EUR ´000	2016	2015
Costs		
As at 01.01.	165,330	95,989
Additions through acquisition (+)	0	182
Additions (+)	99,950	73,681
Disposals (-)	-79,756	-37,822
Reclassifications (+/-)	40,507	33,300
As at 31.12.	**226,031**	**165,330**
Amortisation		
As at 01.01.	6,508	6,387
Additionals (+)	0	121
Write ups (-)	0	0
Disposals (-)	0	0
As at 31.12.	**6,508**	**6,508**
Carrying amounts 01.01.	158,822	89,602
Carrying amounts 31.12.	**219,523**	**158,822**

Inventories at the ADLER Group mainly comprise properties acquired for sale. These are recognised at the lower of cost and net realisable value. The costs include the purchase price of the property plus directly allocable incidental costs, such as broker's fees, property transfer tax, notary fees and deed registration fees. Renovation costs resulting in a material improvement of the property are capitalised. The net realisable value is equivalent to the sales proceeds achievable in the ordinary course of business less the estimated costs through to completion and sales-related expenses still to be incurred.

No material write-ups or write-downs were recognised on properties recognised under inventories in the financial year under report.

The carrying amount of inventories pledged as securities for liabilities amounts to EUR 216,080k (previous year: EUR 155,337k).

Inventory properties with total carrying amounts of EUR 99,667k (previous year: EUR 76,652k) are only expected to be sold after more than twelve months.

8.9 Trade receivables, income tax claims and other current assets

Current trade receivables comprise the following items:

In EUR ´000	2016	2015
Receivables from company disposals and sale of land	3,347	10,259
Rent receivables	7,523	5,985
Other	879	65
Total	**11,749**	**16,309**

As rent payments are always required in advance, the rent receivables stated here are mostly overdue. In view of this, individual allowances of 40 percent and 90 percent per receivable have been recognised for sitting tenants and for tenants who have moved out respectively.

Trade receivables were structured as follows as of the balance sheet date:

In EUR´000	2016	2015
Trade receivables	11,749	16,309
– of which not impaired as of the reporting date and not overdue	2,020	614
– of which not impaired as of the reporting date and not overdue by up to 30 days	128	2,141
– of which not impaired as of the reporting date and not overdue between 31 to 60 days	72	813
– of which not impaired as of the reporting date and not overdue between 61 to 90 days	60	529
– of which not impaired as of the reporting date and not overdue between 91 to 180 days	87	332
– of which not impaired as of the reporting date and not overdue between 181 to 360 days	342	1,295
– of which not impaired as of the reporting date and not overdue above 360 days	1,517	4,600
– Net value of impaired trade receivables	7,523	5,985

Impairments of trade receivables developed as follows:

In EUR ´000	2016	2015
As at 01.01.	**56,188**	**53,215**
Change in the scope of consolidation	0	-4
Contributions (Depreciation)	7,147	5,588
Utilisation	-6,701	-2,611
As at 31.12.	**56,634**	**56,188**

Other current assets comprise the following items:

In EUR ´000	2016	2015
Current securities	78	26
Earmarked financial assets	14,785	17,981
Short-term loans to third parties	30,124	35,216
Notary escrow account	17	9,262
Sales tax receivables	1,331	0
Advance payment of financing costs	588	634
Other current assets	7,163	8,425
Total	**54,086**	**71,544**

Current securities comprise temporary investments of surplus liquidity.

Earmarked financial assets comprise restricted bank balances that may only be used for maintenance measures and bank balances with restrictions on utilisation that may only be used to redeem specified current financial liabilities or for maintenance measures.

Impairment losses of EUR 55k have been recognised on other current assets (previous year: EUR 422k). All items within other current assets are of a short-term nature as they mainly result from contractual arrangements due to be settled within one year.

8.10 Cash and cash equivalents

Cash and cash equivalents include cash on hand and credit balances at banks.

Cash and cash equivalents amounted to EUR 123,911k as of the balance sheet date (previous year: EUR 49,502k), of which an amount of EUR 13,370k was subject to restrictions on disposal (previous year: EUR 8,669k).

Due to the restrictions on disposal, bank credit balances of EUR 14,785k have been reported for the year under report under other current assets (previous year: EUR 17,981k).

8.11 Non-current assets and liabilities held for sale

The shareholding in conwert was previously recognised using the equity method as an associate in the Rental segment. Due to the tender commitment agreement with Vonovia, the shares were recognised as non-current assets held for sale for the first time in the third quarter of 2016.

Via its MountainPeak subsidiary, in mid-July ADLER concluded an option agreement with Petrus Advisors Investment Funds L.P. (“Petrus Advisors”) which entitled the company until mid-September 2016 to acquire up to six million shares in conwert from Petrus Advisors. The price thereby agreed corresponded to the price of the shares as of the agreement date. Via MountainPeak, on 2 September 2016 ADLER exercised the call option thereby granted to acquire five million conwert shares. The acquisition of further shares was executed on 27 and 29 September 2016 and was financed by a bank loan.

In December 2016, the ADLER Group tendered its shareholding of around 26 percent in conwert within the framework of the voluntary takeover bid successfully addressed by Vonovia to conwert's shareholders. With Vonovia's approval, it selected the option of cash consideration. The shares in conwert were assigned and the consideration was received in cash in January 2017.

The shares have been measured at the lower of their previous carrying amount and their fair value less costs to sell. As of the balance sheet date, fair value less costs to sell as based on the consideration offered in Vonovia's voluntary takeover bid was lower than the previous carrying amount. As a result, an impairment loss of EUR 16,102k was recognised.

The shareholding in conwert developed as follows as of the balance sheet date:

In EUR ´000	2016	2015
Carrying amounts 01.01. (acquisition date as at previous year)	**351,725**	**352,493**
Profit from continuing operations, attributable to the Group[1)]	19,579	5,775
Impact of the change in the participation rate against the time of acquisition[1)]	-8,926	-6,543
At-equity result[1)]	**10,653**	**-768**
Other result, attributable to the Group[1)]	-1,590	0
Dividend received	-7,406	0
Acquisition of additional shares (Call-Option)	78,980	0
Write-downs	-16,102	0
Carrying amounts as of the date of reporting	**416,260**	**351,725**

[1)] Includes estimates, on which non-published financial information are available

The other non-current assets held for sale involve an amount of EUR 18,428k for properties for which notarised purchase agreements were available as of the balance sheet date (previous year: EUR 20,117k). Liabilities related to the properties thereby sold have been correspondingly recognised as liabilities held for sale. The disposal of the non-current assets held for sale reported in the previous year did not have any material impact on earnings as these items had already been measured at fair value, which corresponded to the disposal price of the properties less related costs.

8.12 Share capital

The fully paid up share capital at ADLER amounted to EUR 47,702k as of 31 December 2016 (previous year: EUR 46,103k) and was divided into 47,702,374 (prvious year: 46,103,237) no-par bearer shares with equal voting rights.

The increase in share capital by EUR 1,599k was attributable to the exercising of conversion rights in connection with convertible bonds.

The number of shares outstanding is as follows:

Amount	2016	2015
1st January	46,103,237	31.876.672
Conversion of convertible bonds	1,599,137	151,410
Non-cash capital increas through company acquisition	0	14,075,155
As at 31.12.	**47,702,374**	**46,103,237**

Treasury stock
By resolution of ADLER's Extraordinary General Meeting on 15 October 2015, the company's Management Board is authorised until 14 October 2020 to acquire or dispose of treasury stock up to a total of 10 percent of the company's existing share capital and to use the treasury stock thereby acquired to the exclusion of shareholders' subscription rights. The treasury stock acquired on the basis of this resolution may also be retired. The full wording of the resolution is stated in the invitation to the General Meeting published in the Federal Gazette (Bundesanzeiger) on 8 September 2015.

The company did not own any treasury stock in the 2016 financial year.

Authorised Capital 2013/II
Pursuant to § 4 (2) of the Articles of Association, the Management Board is authorised until 14 October 2018, subject to the approval of the Supervisory Board, to increase the company's share capital on one or several occasions by a total of up to EUR 8,250k by issuing up to 8,250,000 new no-par bearer shares in return for cash contributions or contributions in kind. The Management Board is authorised, subject to the approval of the Supervisory Board, to exclude shareholders' subscription rights in the cases listed in § 4 (2) of the Articles of Association.

Authorised Capital 2015/I
Pursuant to § 4 (3) of the Articles of Association, the Management Board is authorised until 21 May 2020, subject to the approval of the Supervisory Board, to increase the company's share capital on one or several occasions by a total of up to EUR 13,300k by issuing up to 13,300,000 new no-par bearer shares in return for cash contributions or contributions in kind. The Management Board is authorised, subject to the approval of the Supervisory Board, to exclude shareholders' subscription rights in the cases listed in § 4 (3) of the Articles of Association.

Authorised capital 2015/II
Pursuant to § 4 (7) of the Articles of Association, the Management Board is authorised until 14 October 2020, subject to the approval of the Supervisory Board, to increase the company's share capital on one or several occasions by a total of up to EUR 1,400k by issuing up to 1,400,000 new no-par bearer shares in return for cash contributions or contributions in kind. The Management Board is authorised, subject to the approval of the Supervisory Board, to exclude shareholders' subscription rights in the cases listed in § 4 (7) of the Articles of Association.

Conditional Capital 2012/I
Pursuant to § 4 (4) of the Articles of Association, the company's share capital is conditionally increased by up to EUR 8,250k by issuing up to 8,250,000 new no-par bearer shares.

The conditional capital increase exclusively serves to issue shares to the bearers of warrant or convertible bonds issued until 27 June 2017 on the basis of the authorisation granted by the Annual General Meeting on 28 June 2012 in the version as amended by resolution of the Annual General Meeting on 15 October 2013. In accordance with the terms of the respective warrant and convertible bonds, the conditional capital increase also serves to issue shares to the bearers of warrant or convertible bonds furnished with option or conversion obligations. The conditional capital increase is only executed to the extent that the bearers of warrant and/ or convertible bonds exercise their option and conversion rights or that the bearers of warrant or convertible bonds obliged to exercise their options or convert their bonds meet such obligations to exercise their options or convert their bonds, to the extent that the option or conversion rights are not satisfied by issuing treasury stock or that other forms of settlement are not drawn on to satisfy the respective claims. The new shares enjoy dividend entitlement for all financial years for which the Annual General Meeting has not yet adopted any resolutions in respect of the appropriation of profit.

Following the exercising of conversion rights for the 2013/2017 convertible bond of EUR 10 million issued on 14 June 2013 and the exercising of conversion rights for the 2013/2018 convertible bond of EUR 11.25 million issued on 17 December 2013, Conditional Capital 2012/I amounted to EUR 5,993k at the balance sheet date.

Conditional Capital 2015/I
Pursuant to § 4 (5) of the Articles of Association, the company's share capital is conditionally increased by up to EUR 4,850k by issuing up to 4,850,000 new no-par bearer shares.

The conditional capital increase exclusively serves to issue shares to the bearers of warrant or convertible bonds issued until 21 May 2020 on the basis of the authorisation granted by the Annual General Meeting on 22 May 2015 in the version set out in the authorisation adopted by the Annual General Meeting on 9 June 2016.

In accordance with the terms of the warrant and convertible bonds, the conditional capital increase also serves to issue shares to the bearers of warrant or convertible bonds furnished with option or conversion obligations. The conditional capital increase is only executed to the extent that the bearers of warrant and/ or convertible bonds exercise their option and conversion rights or that the bearers of warrant or convertible bonds obliged to exercise their options or convert their bonds meet such obligations to exercise their options or convert their bonds, to the extent that the option or conversion rights are not satisfied by issuing treasury stock or that other forms of settlement are not drawn on to satisfy the respective claims. The new shares enjoy dividend entitlement for all financial years for which the Annual General Meeting has not yet adopted any resolutions in respect of the appropriation of profit.

Conditional Capital 2015/II
Pursuant to § 4 (6) of the Articles of Association, the company's share capital is conditionally increased by up to EUR 10,606k by issuing up to 10,606,060 new no-par bearer shares.

The conditional capital increase serves exclusively to issue shares to the bearers of the mandatory convertible bonds (EUR 175 million) issued on 28 December 2015 to partially finance the acquisition of MountainPeak Trading Limited.

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.

8.13 Capital reserve

The capital reserve mainly relates to the premiums paid on capital increases in previous years offset against the costs of the respective capital increases. Furthermore, the capital reserve includes the difference between the imputed nominal value of treasury stock and the acquisition or issue price of such shares, as well as the equity component of the convertible bonds issued net of allocable transaction costs and income tax effects. Moreover, differential amounts arising from acquisitions of shares not leading to a change of status are also recognised in the capital reserve.

An amount of EUR 100,946k was withdrawn from the capital reserve at the parent company in the 2016 financial year, leading to a corresponding increase in retained earnings. These withdrawals were made to settle the annual net deficit and losses carried forward at ADLER Real Estate AG.

The capital reserve, increased by the equity component of the convertible bond issued in the financial year under report, amounts to EUR 13,480k (previous year: EUR 169,043k). In the current financial year, equity procurement costs of EUR 804k (previous year: EUR 564k) were recognised directly in equity in the capital reserve following the deduction of associated income tax benefits of EUR 383k (previous year: EUR 23k). These costs primarily consist of fees for the issuing bank, legal and consulting expenses.

A further amount of EUR 3,903k of the increase in the capital reserve resulted from the exercising of conversion rights in connection with convertible bonds.

In the year under report, the capital reserve was reduced by EUR 11,518k due to the sale of shareholdings not leading to a loss of control at the respective property companies at the WESTGRUND subgroup. Furthermore, ADLER, in order to raise its share of that company's share capital to more than 95 percent, acquired further shares in WESTGRUND. ADLER is now the primary shareholder in WESTGRUND pursuant to § 327a (1) Sentence 1 of the German Stock Corporation Act (AktG). As a result, the capital reserve has been reduced by EUR 1,370k, which is the amount by which the purchase price exceeds the carrying amount of the non-controlling interests.

Further details can be found in the consolidated statement of changes in equity.

8.14 Retained earnings

Retained earnings include adjustments in the opening balance sheet due to the conversion of accounting from the German Commercial Code (HGB) to International Financial Reporting Standards (IFRS) implemented in 2005 (first-time adoption), items resulting from changes to accounting policies pursuant to IAS 8 and current items resulting from the remeasurement of pension provisions and hedge accounting. Furthermore, shares in the other comprehensive income (OCI) of companies measured at equity are also recognised here. In the financial year under report, an amount of EUR -1,589k was recognised for the share in conwert's OCI attributable to the Group. Moreover, gains and losses amounting to a net total of EUR -563k were recognised for the remeasurement of pension provisions (previous year: EUR -23k). Finally, the change in the hedge-effective portion of interest hedges led to the recognition of an amount of EUR -270k net of allocable taxes (previous year: EUR 284k).

The cash flow hedge reserve amounted to EUR 0k at the balance sheet date (previous year: EUR 270k). The respective sums were reclassified to profit and loss in the period under report.

8.15 Currency translation reserve

The currency translation reserve includes the accumulated exchange rate difference between the initial consolidation in the consolidated balance sheet and the subsequent consolidations using the respective reporting date rates of Adler McKinney LLC. This amount is directly recognised in equity in the currency translation reserve. The change in the reserve by EUR -2k was attributable to the subsequent consolidation of Adler McKinney LLC.

8.16 Non-controlling interests

This item comprises the share of equity and annual earnings of consolidated subsidiaries and property companies attributable to non-group shareholders. The consolidated net income attributable to shareholders in the parent company corresponds to the difference between the consolidated net income before non-controlling interests and the non-controlling interests reported in the income statement.

Non-controlling interests developed as follows in the 2016 financial year:

In EUR ´000	2016	2015
Subsidiary WESTGRUND	31,745	26,977
Subsidiary ACCENTRO	17,276	12,359
Subsidiary JADE	8,016	6,151
WBR Wohnungsbau Rheinhausen GmbH	7,606	6,676
Other	6,405	6,400
Carrying amounts 31.12.	**71,048**	**58,563**

The development in non-controlling interests is presented separately in the statement of changes in equity. Alongside the allocation of the respective share of earnings, the change in non-controlling interests at the WESTGRUND subgroup was mainly due to two opposing items. On the one hand, shares in property companies were sold without this leading to a loss of control. On the other hand, ADLER further increased its shareholding in WESTGRUND without any change of status (please see capital reserve in Note 8.13). These two opposing items led to a reduction of EUR 1,838k in non-controlling interests at the WESTGRUND subgroup.

The key financials of those subsidiaries with non-controlling interests which are of material relevance to the Group are presented in the following tables. The amounts are presented prior to consolidation.

Combined balance sheets	Subsidiary WESTGRUND		Subsidiary Accentro	
Headquart Minority interest %	**Berlin 3.32**	**Berlin 5.86**	**Berlin 13.22**	**Berlin 13.02**
In EUR ´000	**2016**	**2015**	**2016**	**2015**
Current assets[1]	95,757	60,974	281,649	205,610
Current liabiliets[1]	63,631	52,294	98,483	99,937
Net current assets	**32,126**	**8,680**	**183,166**	**105,673**
Investment properties	1,001,090	888,146	0	168,337
Non-current assets	333	839	18,897	21,257
Non-current liabilities	533,990	518,016	65,227	186,026
Net fixed assets	**467,433**	**370,969**	**-46,330**	**3,568**
Equity	**499,559**	**379,649**	**136,836**	**109,241**

[1] includes non-current assets and liabilities held for sale

Combined statement of comprehensive income	Subsidiary WESTGRUND		Subsidiary Accentro	
In EUR ´000	**2016**	**2015**	**2016**	**2015[1]**
Revenue	90,110	80,508	125,105	39,497
Annual result	**107,568**	**75,021**	**26,473**	**22,786**
Other comprehensive incomes	-161	662	0	0
Net result	**107,407**	**75,683**	**26,473**	**22,786**
Profit or loss attributable to non-controlling interests	173	87	181	138

[1] amended statement due to recognition of a discontinued business unit

Combined cash flow statement	Subsidiary WESTGRUND		Subsidiary Accentro	
In EUR ´000	**2016**	**2015**	**2016**	**2015**
Cash flow from operating activities	24,000	15,708	21,714	-74,593
Cash flow from investing activities	-3,813	-91,154	22,169	68,776
Cash flow from financing activities	-11,172	48,156	-30,683	5,698
Change in cash and cash equivalents	**9,015**	**-27,291**	**13,200**	**-119**

The WESTGRUND subgroup has been included in the scope of consolidation since 26 June 2015.

8.17 Pension provisions

The projected unit credit method was used for the recognition and measurement of pension provisions as of 31 December 2016. This accounts for both the pensions and known pension entitlements at the balance sheet date and the increases in pension and salaries expected in future.

The calculation was based on the following material actuarial assumptions:

In EUR ´000	31.12.2016	31.12.2015
Discount rate	1.00 %	2.00 %
Future salary increases	0.00 % bis 2.50 %	0.00 % bis 2.50 %
Future pension increases	1.5 % bis 1.75 %	1.50 % bis 1.75 %
Best-estimate actuarial assumptions	2005G mortality tables by Dr. Klaus Heubeck	2005G mortality tables by Dr. Klaus Heubeck

As the pension provisions at ADLER Real Estate Service GmbH solely comprise historic commitments to employees who have left the company (vested claims and current benefits), the personnel turnover rate is 0 percent (previous year: 0 percent). A customary personnel turnover rate was used to measure the pension provision at WBG GmbH.

Pension provisions developed as follows:

In EUR ´000	31.12.2016	31.12.2015
Pension provisions at 01.01.	**4,268**	**4,280**
Actuarial gains /losses	-824	-35
Acquisitions	0	78
Acquisition of plan assets	0	0
Interest expense	105	104
Pension payments	-250	-206
Addition	35	27
Change in plan assets at 31.12.	28	20
Pension provisions at 31.12.	**4,954**	**4,268**

Plan assets developed as follows:

In EUR ´000	2016	2015
Plan assets at 01.01.	**1,115**	**1,073**
Acquisitions	0	0
Interest income from plan assets	22	22
Income from plan assets (excl. interest income)	1	6
Contributions to plan assets	31	39
Pension payments from plan assets	-26	-25
Actuarial losses	0	0
Plan assets at 31.12.	**1,143**	**1,115**

Actuarial losses of EUR 823k (excluding deferred taxes) were recognised in other comprehensive income in 2016 (previous year: loss of EUR 35k).

Sensitivity analysis: if all other assumptions remain unchanged, an increase or decrease in material actuarial assumptions would have had the following impact on the DBO as of 31 December 2016:

In EUR ´000		2016	2015
Acturial interest	Increase of 0.5 %	-404	-332
	Decrease of 0.5 %	450	369
Pension increase	Increase of 0.25 %	65	62
	Decrease of 0.25 %	-63	-60
Income trend	Increase of 0.25 %	1	1
	Decrease of 0.25 %	-1	-1

Of pension provisions, an amount of EUR 250k is due to mature within one year (previous year: EUR 239k). This amount has been uniformly reported together with the other pension obligations under non-current liabilities.

As the commitments mainly relate to employees who have left the company and no new commitments are being made, an annual disbursement of around EUR 250k is expected in future years as well.

8.18 Other provisions

Other provisions developed as follows in the 2015 and 2016 financial years:

In EUR '000	As at 01.01.2016	Additions through acquisitions	Utilisation	Reversal	Addition	As at 31.12.2016	Non-current
Provisions for personnel obligations	504	0	-158	-25	1,359	1,695	1,479
Provisions for warranties	1,318	0	-201	-95	780	1,802	8
Miscellaneous other provisions	1,622	0	-540	-108	1,098	2,050	135
Total	**3,444**	**0**	**-899**	**-228**	**3,237**	**5,547**	**1,622**

In EUR '000	As at 01.01.2015	Additions through acquisitions	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**

The provision for warranties covers statutory and contractual warranty obligations upon the sale of properties.

Non-current provisions for personnel obligations include amounts of EUR 230k for early retirement commitments (previous year: EUR 402k), EUR 1,208k (previous year: EUR 66k) for the SAR programme and EUR 41k for anniversary provisions (previous year: EUR 35k).

8.19 Convertible bond liabilities

In EUR '000	2016	2015
Convertible bond 2013/2017	9,009	8,810
Convertible bond 2013/2018	4,036	9,138
Mandatory convertible bond 2015/2018	1,594	2,470
Convertible bond 2016/2021	116,897	0
ACCENTRO convertible bond 2014/2019	13,888	14,584
WESTGRUND convertible bond 2014/2016	0	604
Total	**145,424**	**35,606**
– of which non-current	143,870	34,982
– of which current	1,554	623

Upon expiry of the subscription deadline on 15 July 2016, ADLER placed 10 million convertible bonds (2016/2021) with a five-year term. The initial conversion price, corresponding to the nominal value, was set at EUR 13.79 per bond, while the interest rate amounts to 2.5 percent per annum. The net issue proceeds are being used to refinance existing loans and bonds with comparatively high interest rates, finance future property acquisitions, modernise the proprietary property portfolio and for general company purposes.

In December 2015, ADLER issued a mandatory convertible bond with a total nominal amount of EUR 175,000k and a three-year term. The mandatory convertible bond furnishes its bearers with conversion rights to an initial total of up to 10,606,060 new no-par bearer shares in ADLER from its conditional capital. The initial conversion price amounts to EUR 16.50 per share. Should the conversion right not be exercised by the end of the term, the bonds are automatically converted into new no-par bearer shares in ADLER at the conversion price then applicable. Given the certainty that the bonds will be converted into shares in ADLER, pursuant to IAS 32 the mandatory convertible bond only constitutes debt in the amount of the present value of interest payable. This amount has been recognised under convertible bond liabilities. Following the deduction of transaction costs, the remaining amount of EUR 172,540k was allocated to the capital reserve.

In June 2013, ADLER issued its 2013/2017 convertible bond with a total number of 5,000,000 bonds with a nominal value of EUR 2.00 per bond. The convertible bond totals EUR 10,000k, has an interest rate of 6 percent and matures on 30 June 2017. ADLER grants each bondholder the right to convert each bond into a no-par bearer share in ADLER with an amount in the company's share capital of EUR 1.00 attributable to each share as of the issue date. Subject to potential adjustments, the conversion price amounts to EUR 2.00.

In December 2013, ADLER issued its 2013/2018 convertible bond with a total number of 3,000,000 bonds and a nominal value of EUR 3.75 per bond. The convertible bond totals EUR 11,250k, has an interest rate of 6 percent and matures on 27 December 2018. ADLER grants each bondholder the right to convert each bond into a no-par bearer share in ADLER with an amount in the company's share capital of EUR 1.00 attributable to each share as of the issue date. Subject to potential adjustments, the conversion price amounts to EUR 3.75.

In the 2016 financial year, a total of 1,599,137 convertible bonds from ADLER's aforementioned bond programmes were converted (previous year: 151,410).

On 5 March 2014, ACCENTRO issued 6,000,000 convertible bonds (2014/2019) with a nominal value of EUR 2.50 per bond. The original nominal amount of the bearer bonds totalled EUR 15,000k. The convertible bond bears interest at 6.25 percent and matures on 27 March 2019. As of 31 December 2016, 600,000 bonds had been bought back and 60,325 bonds converted into ACCENTRO shares.

To the extent that they have not yet been converted as of the balance sheet date, the debt capital components of the convertible bonds have been recognised less prorated transaction costs under non-current liabilities. Current bond liabilities involve the interest claims of the bondholders as of the balance sheet date.

8.20 Bond liabilities

These liabilities were structured as follows as of the balance sheet date:

In EUR '000	2016	2015
Bond 2013/2018	35,884	35,447
Bond 2014/2019	129,761	105,421
Bond 2015/2020	341,747	338,366
ACCENTRO Bond 2013/2018	10,443	10,628
Total	**517,735**	**489,862**
– of which non-current	509,454	481,599
– of which current	8,281	8,265

In March 2013, ADLER issued a bearer bond (2013/2018) of EUR 35,000k with an interest rate of 8.75 percent. This bond has a five-year term and matures on 3 April 2018.

In April 2014, ADLER issued a bearer bond (2014/2019) with a total amount of EUR 100,000k at an interest rate of 6.00 percent. In January 2015, this was increased by EUR 30,000k to EUR 130,000k. The bond has a five-year term and matures on 1 April 2019. In the 2015 financial year, bonds with a total nominal value of EUR 23,719k were bought back. Pursuant to IAS 39, these were recognised as a retirement of financial liabilities. During the period under report, the bonds bought back in the previous year were placed on the market once again.

In April 2015, ADLER issued a bearer bond of EUR 300,000k with an interest rate of 4.75 percent that was increased by a further EUR 50,000k in October 2015. This bond has a five-year term and matures on 8 April 2020.

Furthermore, bond liabilities also include a corporate bond of EUR 10,000k placed by ACCENTRO with a five-year term in November 2013. The interest rate amounts to 9.25 percent and the bond matures on 14 November 2018.

The nominal amounts of the bond have been recognised less transaction costs under non-current liabilities. These amounts are expensed on a time-apportioned basis using the effective interest method.

The interest claims of the bondholders as of the balance sheet date have been recognised under current liabilities.

8.21 Financial liabilities

Non-current liabilities to banks include liabilities relating to the acquisition and financing of investment properties and properties recognised in inventories. The liabilities to finance investment properties have terms that are in most cases medium to long-term and mostly also have fixed interest rates. Non-current loans with floating interest rates are largely hedged with interest swaps.

Of current liabilities to banks, an amount of EUR 199,243k relates to a loan liability to banks at MountainPeak Trading Limited, a company taken over in the 2015 financial year (previous year: EUR 127,216k). The increase in this item was due in particular to the financing of the acquisition of five million further shares in conwert. Furthermore, this item includes current interest liabilities and scheduled principal repayments due within one year.

Liabilities to banks are largely secured with land charges. Further security includes the assignment of rental income, the pledging of bank credit balances and shareholdings and letters of subordination.

When taking up borrowing facilities or taking over loan agreements upon company acquisitions, the company has in some cases provided the financing banks with undertakings to comply with specified key financials (covenants). These include requirements typical to the industry in terms of loan-to-mortgage lending value, interest and capital coverage, overall debt-to-equity ratio, minimum total rental income and minimum investment amounts. Failure to comply with these covenants may result in the termination of the respective facilities or the mandatory deposit of additional security.

Financial liabilities are secured by assets as follows:

In EUR '000	2016	2015
Investment properties	1,309,993	1,557,444
Investments in associated companies	199,243	127,216
Properties in inventories	99,259	155,337
Deposits with banks	61,631	27,248
Restricted assets	4,369	10,904
Rent receivables	8,099	5,884

The shares held in the associate conwert, which were recognised in the year under report under non-current assets held for sale, have been assigned to the bank by MountainPeak Trading Limited as security for its financial liabilities.

8.22 Other non-current liabilities

Other non-current liabilities mainly include non-current lease liabilities at EUR 5,300k (previous year: EUR 5,313k), the negative fair values of long-term interest hedges at EUR 7,170k (previous year: EUR 6,316k) – further information about these can be found in Note 10.3 "Derivative financial instruments and hedge accounting" – and the liability to the Federal and State Government Employees Retirement Fund (VBL) at EUR 8,745k (previous year: EUR 8,327k). The obligation to the VBL results from the acquisition of JADE and was measured at fair value as of the balance sheet date. Distribution claims on the part of non-controlling interests have been recognised at EUR 3,922k (previous year: EUR 0k).

The lease liabilities result from the acquisition of WESTGRUND. Leasehold contracts generally provide for preferential rights of renewal in the event of a renewed leasehold following the expiry of the contract or for the first right of refusal in the event of the land being sold. The ground rent is mainly index-based. The carrying amounts are determined by discounting future cash flows with property specific rates of 4.0 percent to 7.8 percent. The carrying amounts and minimum lease payments are structured by maturity as follows:

In EUR '000	Carrying amount 2016	Minimum lease payments 2016	Carrying amount 2015	Minimum lease payments 2015
Up to one year	14	353	13	353
1 to 5 years	61	1,413	58	1,413
More than 5 years	5,225	43,177	5,242	43,534
	5,300	44,943	5,313	45,300
Excl. future interest costs	-	-39,643	-	-39,987
Total	5,300	5,300	**5,313**	**5,313**

8.23 Trade payables, income tax liabilities and other current liabilities

All of the trade payables of EUR 22,492k (previous year: EUR 20,174k) are current and owed to third parties (previous year: EUR 20,174k). These items mainly relate to letting liabilities but also include unbilled maintenance measures and advisory services.

The income tax liabilities of EUR 13,969k involve corporate income and trade tax obligations for the current and previous financial years. Of the year-on-year increase, EUR 7,255k is attributable to ACCENTRO.

Other current liabilities comprise the following items:

In EUR '000	2016	2015
Purchase price liabilities	0	5,000
Advance payments received for inventory properties	9,299	1,302
Deferred rental income	3,705	4,295
Prepayment compensations	2,600	0
Security deposits received	598	469
Personnel obligations	1,061	940
Other current liabilites	9,668	5,843
Total	**26,931**	**17,849**

The purchase price liabilities involve an item of security received in the previous year in connection with the acquisition of JADE. This item has been recognised at the same amount under other assets.

Advance payments received for properties relate to disposals for which the benefits and obligations have not yet been transferred.

Deferred rental income mainly involves rent payments from social security authorities for the January of the following financial year.

Deferred prepayment compensation relates to the premature repayment of financial liabilities to banks.

9. NOTES TO THE STATEMENT OF INCOME AND ACCUMULATED EARNINGS

9.1 Gross rental income

Gross rental income is structured as follows:

In EUR '000	2016	2015
Net income	167,531	131,581
Income from on charged operating costs	81,245	82,163
Other income from property management	3,623	2,896
Total	**252,399**	**216,639**

9.2 Expenses from property lettings

Expenses from property lettings are structured as follows:

In EUR '000	2016	2015
Apportionable and non-apportionable operating costs	110,273	103,613
Maintenance	27,525	21,139
Other property management expenses	1,005	300
Total	**138,803**	**125,052**

9.3 Income from the sale of properties

Income from the sale of properties is structured as follows:

In EUR '000	2016	2015
Income from the disposal of inventory properties	117,845	44,752
Income from the disposal of investment properties	40,980	121,088
Brokerage revenue	1,588	2,314
Total	**160,413**	**168,154**

9.4 Expenses from the sale of properties

Expenses from the sale of properties are structured as follows:

In EUR '000	2016	2015
Carrying amount of disposed inventory properties disposed of	79,756	37,822
Carrying amount of disposed investment properties disposed of	40,468	103,407
Costs of disposal	2,803	2,517
Purchased services for brokerage revenue	992	942
Total	**124,019**	**144,689**

9.5 Personnel expenses

Personnel expenses include the following items:

In EUR '000	2016	2015
Wages, salaries and other benefits	16,816	11,256
Social security contributions	2,458	1,927
Old age pension expenses	374	8
Total	**19,648**	**13,191**

Stock appreciation right programme

ADLER introduced a stock appreciation right (SAR) programme in the 2015 financial year. This aims to retain the beneficiaries at the company and to enable them to participate in the company's value growth. Based on a resolution adopted by the Supervisory Board, the rules of the scheme provide for a total volume of 500,000 stock appreciation rights. These rights entitle their beneficiaries to compensation whose amount is dependent on ADLER's share price performance. Rights are in all cases granted by concluding individual agreements between the company and the beneficiary. These agreements provide for cash settlement.

The exercising of the rights granted by the stock appreciation programme is dependent on the beneficiary completing a specified period of service. Should the beneficiary prematurely leave the company for whatever reason, then their entitlement to as yet unvested SAR rights is forfeited without replacement. The beneficiary is entitled to one third of the stock appreciation rights thereby granted for the first time and then in full at the end of one year. Entitlement to the remaining two thirds of the stock appreciation rights is granted on a quarterly basis at an amount of one twelfth per quarter through to the expiry of a three-year period.

The details of this share-based compensation scheme are as follows:

Valuation as at 31.12.2016	Total	Of which Board
Number of fully earned SAR	66,667	6,667
Proportional recorded number of SAR in expenses	244,947	76,080
Fair value per SAR in EUR	4.80	3.29
Expenses in the reporting period in EUR´000	1,142	247
Provision for due date in EUR´000	**1,208**	**247**
Of which intrinsic value for the earned SAR in EUR´000	428	5

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

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

Structure / valuation parameter 2016	**Total**	**Of which Board**
Maximum amount of granted SARs	500,000	130,000
Balance/Payment	in cash	in cash
Structur	**in EUR/SAR**	**in EUR/SAR**
SARs granted at the beginning of reporting period		
Total number	220,000	60,000
Weighted basis price	8.01	9.54
SARs granted in the reporting period		
Total number	210,000	110,000
Weighted basis price	13.50	13.48
SARs contractually vested in the reporting period		
Total number	66,667	6,667
Weighted basis price	8.07	13.75
SARs forfeited in the reporting period		
Total number	51,666	40,000
Weighted basis price	7.44	7.44
SARs exercised in the reporting period		
Total number	8,334	-
Weighted basis price	7.44	-
Weighted average share price upon excercise	14.18	-
Exercise date	30.09.2016	-
SARs outstanding at the end of reporting period		
Total number	370,000	130,000
Weighted basis prices	11.22	13.52
Min basis price	7.44	12.74
Max basis price	13.90	13.90
Weighted average remaining term in years	2.03	2.13
SARs exercisabel		
Total number	-	-
Weighted basis price	-	-
Value determination		
Weighted average fair value of the option	4.80	3.29
Applied pricing model	Binominalmodel	Binominalmodel
Weighted average share price	14.49	14.49
Weighted average basis price	11.22	13.52
Anticipated yearly volatility	37.17 %	37.17 %
Anticipated dividend	0.00	0.00
Risk-free yearly interest rate	-0.80 %	-0.80 %

Expected volatility has been estimated in reference to the historic volatility of daily equity return logarithms over a two-year period. This period approximates to the remaining term of the stock appreciation rights as of the measurement date:

Structure / valuation parameter 2015	**Total**	**Of which Board**
Maximum amount of granted SARs	500,000	40,000
Balance/Payment	in cash	in cash
Structur	in EUR/SAR	in EUR/SAR
SARs granted in the reporting period		
Total number	220,000	40,000
Weighted basis price	8.01	7.44
SARs outstanding at the end of reporting period		
Total number	220,000	40,000
Weighted basis price	8.01	7.44
Min basis price	7.44	7.44
Max basis price	13.75	7.44
Weighted average remaining term in years	2.94	2.94
Value determination		
Weighted average fair value of the option	7.44	7.73
Applied pricing model	Binominalmodel	Binominalmodel
Weighted average share price	14.22	14.22
Weighted average basis price	8.01	7.44
Anticipated yearly volatility	48.00 %	48.00 %
Anticipated dividend	0.00	0.00
Risk-free yearly interest rate	-0.26 %	-0.26 %

Due to the Group's very strong growth, historic volatility over a three-year period was significantly higher than at peer group companies and also showed a declining trend. As a result, reference has been made to the historic volatility of daily equity return logarithms over a one-year period.

9.6 Other operating income

Other operating income is structured as follows:

In EUR '000	2016	2015
Negative goodwill	0	41,646
Reversal of provisions and of provision-like liabilities	1,506	1,602
Insurance claims	1,948	831
Other	5,240	5,780
Total	**8,694**	**49,859**

In the previous year, other operating income mainly related to a negative differential amount (EUR 41,646k) resulting from the JADE acquisition. This was immediately recognised as a non-recurring item through profit or loss.

9.7 Other operating expenses

Other operating expenses are structured as follows:

In EUR '000	2016	2015
Legal and consulting expenses	8,751	9,565
Write-downs of receivables	7,147	5,588
General and administrative expenses	3,844	2,940
Purchased services	2,415	919
Office and IT expenses	2,529	1,899
Cost of premises	1,627	1,219
Public relations	1,225	1,385
Miscellaneous other expenses	8,166	9,450
Total	**35,704**	**32,965**

Legal and consulting expenses mainly comprise consulting expenses relating to transactions and strategic and management consulting services.

Write-downs of receivables mainly result from write-downs of rent receivables from existing rental contracts (40% write-down) and terminated rental contracts (90% write-down).

General and administrative expenses mainly comprise expenses for asset management services for the acquired property companies.

9.8 Net Income from Fair Value Adjustments of Investment Properties

These items include gains and losses on the fair value measurement of investment properties as of the balance sheet date. Further information can be found in Note 8.3.

9.9 Depreciation, amortisation and impairment losses

This item includes the amortisation of intangible assets and depreciation of property, plant and equipment at an amount of EUR 1,174k (previous year: EUR 1,030k).

9.10 Financial income

Financial income is structured as follows:

In EUR ´000	2016	2015
Loan interest, associated companies	159	324
Loan interest, third parties	425	683
Income from current deposits	1,309	1,617
Other	910	285
Total	**2,803**	**2,908**

9.11 Financial expenses

Financial expenses are structured as follows:

In EUR '000	2016	2015
Interest on bank loans	71,354	52,039
Bond interest	32,774	26,237
Convertible bond interest	5,710	1,701
Adjustment of shares conwert	16,101	0
Other	2,439	4,366
Total	**128,378**	**84,342**

Information about the write-down recognised on conwert shares can be found in Note 8.11 “Non-current assets held for sale”.

9.12 Net income from at-equity valued investment associates

This item comprises the prorated gains/losses from consolidated associates and essentially refers to prorated income from conwert Immobilien Invest SE, amounting to EUR 10,653k (previous year: EUR -769k) and at other at-equity investments, amounting to EUR 532k (previous year: EUR 439k). Further details can be found in Note 8.5 and 8.11.

9.13 Taxes on income

Taxes on income are structured as follows:

In EUR '000	2016	2015
Current income tax expense	7,739	2,373
Income tax expense (income) from other accounting periods	1,742	-396
Actual income tax expense	**9,481**	**1,977**
Deffered tax expense (income), loss carry-forwards	-12,965	-15,573
Deferred tax expense (income), temporary differences	57,152	30,134
Deferred taxes	**44,187**	**14,561**
Total	**53,668**	**16,538**

Current tax expenses are determined on the basis of taxable income for the financial year under report. For the 2016 financial year, the tax rate for domestic companies, which combines corporate income tax and the solidarity surcharge, amounts to 15.8 percent (previous year: 15.8 percent). Including the trade tax rate of around 14.4 percent (previous year: 16.5 percent), the group tax rate therefore amounts to 30.2 percent (previous year: 32.3 percent). The expected implications of the extended trade tax reduction for the domestic trade tax charges are accounted for when measuring deferred taxes.

The tax on the Group's pre-tax profit deviates from the theoretical tax rate that would result from applying the group tax rate of 30.175 percent (previous year: 32.275 percent) as follows:

In EUR '000	2016	2015
Earnings before taxes	187,444	94,822
Expected income tax 30.175% (previous year: 32.275 %)	56,561	30,603
Reconciliation due to tax effects:		
Income taxes, previous years	2,044	-187
Derecognition of deferred tax assets, previous years	430	894
Sales proceeds exempt from taxes	-909	-21,162
Different tax rates	-16,788	-8,869
Utilisation of loss carry-forwards not capitalised as deferred taxes	-11,036	-1,122
Non-deductible expenses	12,128	1,107
Unrecognised deferred tax assets on losses	7,605	10,771
Deferred taxes on loss carry-forwards acquired	-78	-222
Trade tax effects	4,065	4,671
Change of tax rate	-2,967	0
deferred taxes, previous years	3,397	0
Other	-783	54
Total	**53,668**	**16,538**

9.14 Earnings per share

Earnings per share reflects the amount of earnings generated in a given period that are attributable to each share. This involves dividing consolidated net income by the weighted number of shares outstanding. This key figure is diluted by what are known as “potential shares” (e.g. from convertible bonds). Pursuant to IAS 33.23, all potential shares that may result from the conversion of a convertible bond must be treated as shares already issued and should be included in the calculation of basic earnings per share. This increases the number of outstanding shares by the potential shares that would result from the actual conversion of the mandatory convertible bonds. Overall, the existing mandatory convertible bonds entitle their holders to subscribe 10,606,060 shares.

The income per share is structured as follows:

In EUR ‘000	2016	2015
Consolidated net earnings (in EUR ´000)	133,776	78,283
Consolidated net earnings without non-controlling interests Interest	120,948	72,117
Expenses including deferred taxes on convertible bonds[1)]	1,076	1,137
Consolidated net earnings without non-controlling interests (diluted)	122,024	73,254
Number of shares (in ‘000)		
Weighted number of shares issued	57,264	39,489
Effect of the conversion of convertible bonds[1)]	5,743	7,342
Weighted number of shares (diluted)	63,007	46,831
Earnings per share (in EUR)		
Basic earnings per share	2.11	1.83
Diluted earnings per share	1.94	1.56

[1)] Excluding 10 millions convertible bonds (2016/2021) as these were not yet convertible at balance sheet date.

10. DISCLOSURES ON FINANCIAL INSTRUMENTS AND FAIR VALUES

10.1 Additional disclosures on financial instruments

(A) Classification

The ADLER Groups bases its classification of financial instruments as required by IFRS 7 on the respective balance sheet items. The tables below show the reconciliation of the carrying amounts for each IFRS 7 category (balance sheet item) and the IAS 39 measurement categories as of the individual balance sheet dates.

31.12.2016 In EUR ´000	Category according to IAS 39
Assets	
Other financial investments	Afs
Other non-current assets	Lar
Trade receivables	Lar
Other current assets	Lar
Cash and cash equivalents	Lar
Liabilities	
Financial liabilities to banks and (convertible) bonds	FLAC
Trade payables	FLAC
Other liabilities	FLAC, Lafv
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 carried at cost	FLAC

Abbreviation	IFRS 7 category
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

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
69	69	0	69	0	69
48	48	48	0	0	48
11,749	11,749	11,749	0	0	11,749
54,086	52,025	52,025	0	0	52,025
123,911	123,911	123,911	0	0	123,911
2,303,542	2,303,542	2,303,542	0	0	2,575,006
22,492	22,492	22,492	0	0	22,492
52,608	47,226	31,105	0	16,121	47,226
-	187,733	187,733	0	0	187,733
-	69	69	69	0	69
-	16,121	0	0	16,121	16,121
-	2,357,139	2,357,139	0	0	2,628,603

31.12.2015 **In EUR ´000**	**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
Liabilities	
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

Abbreviation	IFRS 7 category
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

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

In the financial year under report, liabilities from advance operating cost payments amounting to EUR 51,118k (previous year: EUR 41,330k) were netted against an amount of EUR 47,378k (previous year: EUR 40,911k) for receivables from unbilled services, with the net amount being recognised under liabilities.

(B) Fair value disclosures

Financial assets and liabilities measured at fair value can be classified and assigned to levels according to the significance of the factors and information used in their measurement. Assets and liabilities are classified based on the significance of the input factors for their overall measurement. This in turn is based on those input factors in the lowest level relevant or significant for overall measurement. The measurement levels are hierarchically structured in line with 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			
31.12.2016 In EUR ´000	**Total Carrying amount**	**of which Level 1**	**of which Level 2**	**of which Level 3**
Assets				
Investment properties	2,441,988	0	0	2,441,988
Other financial investments: Classified as AfS	69	0	0	69
Non-current assets held for sale IFRS 5	434,688	422,720	0	11,968
Equity and liabilities				
Derivative financial liabilities: Measured at fair value through profit or loss	7,376	0	7,376	0
Derivative financial liabilities: Cash flow hedges	0	0	0	0
Other non-current liabilities	8,745	0	0	8,745
Liabilities held for sale IFRS 5	7,553	0	0	7,553

	Overview of the calculation methods used to determine fair values			
31.12.2015 **In EUR ´000**	**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 liabilites				
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

Trade receivables, other current assets and cash and cash equivalents have short residual terms. Their carrying amounts as of the balance sheet date therefore approximate to their fair values. The same applies for current liabilities to banks, trade payables and other current liabilities.

The fair value of non-current liabilities to banks and of other non-current liabilities is determined by discounting future cash flows. Discounting is based on a market interest rate that is congruent in respect of its term and risk. The fair values of bond and convertible bond liabilities are determined by reference to their market prices as of 31 December 2016.

(C) Net result from financial instruments

The net result from financial instruments broken down into individual IAS 39 measurement categories is presented in the following table. Interest income and interest expense from financial instruments represent a component of the net result. The gains and losses are due to impairments and reversals.

		Net result 2016			Net result 2015		
In EUR ´000	Category accroding to IAS 39	Interest	Profit/ Loss	Total	Interest	Profit/ Loss	Total
Loans and receivables	Lar	2,680	-7,147	-4,467	1,078	-5,462	-4,384
Available for sale financial assets	Afs	0	162	162	1,504	48	1,552
Financial liabilities at fair value through profit or loss	Lafv	-940	-375	-1,315	-1,086	424	-662
Financial liabilities at fair value through other comprehensive income	LafvOCI	0	-399	-399	0	419	419
Financial liabilities measured at amortised cost	FLAC	-112,023	819	-111,204	-81,595	49	-81,546
Total		**-110,283**	**-6,940**	**-117,223**	**-80,099**	**-4,522**	**-84,621**

Interest income and interest expenses are presented in the corresponding line items in the consolidated income statement. Gains and losses on cash flow hedges are recognised in other comprehensive income. All other income and expenses are recognised as appropriate in other operating income or expenses.

10.2 Financial risk management and IFRS 7 disclosures

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

(A) Interest rate risk

Virtually all of the interest rate risks to which the ADLER Group is exposed are in the euro area.

Interest rate risks arise upon the conclusion of credit facilities with floating interest rates, in the context of follow-up financing or in the event of any significant change in capital market conditions. To a limited extent, changes in interest rates may therefore lead to higher interest payments. However, ADLER predominantly finances its business with financial liabilities that have interest rates that are fixed either permanently or for longer periods. The Group thus basically pursues a risk-averse financing policy.

The interest risk for all of the Group's current and non-current financial liabilities with floating interest rates is determined in a sensitivity analysis which also takes account of fixed-interest periods. By analogy with the interest rate scenarios used to determine the value of investment properties, two interest scenarios have been referred to for the sensitivity analysis of loans. Based on the financial liabilities outstanding as of 31 December, any increase/decrease in the loan interest rate by 0.5 percent would have led to the following increase/decrease in interest expenses:

Interest rate risk sensitivity analysis in EUR ´000	**31.12.2016**		**31.12.2015**	
Change in interest rate	+ 50 bp	- 50 bp	+ 50 bp	- 50 bp
Effect on interest expense	785	-785	1,416	-1,416

Given the low impact on the carrying amount and income and the currently favourable capital market conditions, the Group's interest rate risk, taking due account of existing interest rate sensitivities, is assessed as moderate.

To reduce its interest rate risk further, ADLER deploys interest rate hedging instruments in the form of swaps (please see Note 10.3 “Derivative financial instruments and hedge accounting”). Had the interest rate level as of 31 December 2016 been 100 base points higher/lower, then the fair values of derivatives (EUR -7,376k; previous year: EUR -6,979k) would have changed by EUR +4,887k (previous year: EUR +5,276k) or EUR -5,287k (previous year: EUR -5,703k).

(B) Default risk

Default risk refers to the risk that contractual partners fail to meet their contractually agreed payment obligations. The maximum default risk corresponds to the carrying amounts of financial assets.

This risk is managed centrally on group level for the overall Group. Defined regulations are in place to ensure that transactions are only concluded with business partners who have demonstrated adequate payment behaviour in the past. Trade receivables are mainly owed by large numbers of customers (tenants). Priority is accorded to a sound credit history in the tenant selection process already. The Group does not have any significant clusters of potential credit risks.

(C) Liquidity risk

Responsibility for liquidity risk management rests with the Management Board, which has developed a suitable concept for managing the company's short, medium and long-term financing and liquidity requirements. The Group manages liquidity risks by continually monitoring its expected and actual cash flows and aligning the maturity profiles of financial assets and liabilities. Liquidity management aims to ensure that the Group is always able to meet its payment obligations by maintaining adequate liquidity reserves and optimising group-internal liquidity flows.

In credit agreements assumed in the context of acquisitions, the Group has in some cases undertaken to comply with contractually agreed financial covenants. Among other aspects, these relate to the generation of cash flows on property company level. Asset management for these portfolios is geared to ensure compliance with these financial covenants.

Similarly, credit terms have also been agreed for the bonds issued. Any failure to comply with these terms could also lead to a liquidity risk. Infringement of the credit terms, such as a change of control, may result in the premature termination and repayment of these bonds and convertible bonds.

The ADLER Group had cash and cash equivalents of EUR 123,911k at the balance sheet date (previous year: EUR 49,502k). In addition, cash and cash equivalents of EUR 14,785k are subject to restrictions on disposal and have been recognised under other assets (previous year: EUR 17,981k).

The following liquidity analyses present the contractually agreed (undiscounted) cash flows for primary financial liabilities and derivative financial instruments, including interest payments, as of the respective balance sheet date. The analyses include all financial instruments held on the respective reporting date. Budget figures for future new liabilities are not included. Floating-rate interest payments have been calculated by reference to the relevant spot rates on the respective balance sheet dates. With regard to outflows of cash for convertible bonds, it has been assumed that these will not be converted.

31.12.2016 In EUR ´000	Cash outflows					
	2017	2018	2019	2020	2021	> 2021
Liabilities to banks	376,235	121,660	84,051	106,441	271,352	929,586
Liabilities from bonds	28,463	73,207	150,525	358,313	0	0
Liabilities from convertible bonds	13,974	8,864	17,352	3,448	141,348	0
Trade payables	22,492	0	0	0	0	0
Other liabilities	23,606	1,112	436	434	433	11,187
Total	**464,770**	**204,843**	**252,363**	**468,635**	**413,132**	**940,773**

31.12.2015 In EUR ´000	Cash outflows					
	2016	2017	2018	2019	2020	> 2022
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**

Further information about outflows of cash for lease liabilities can be found in Note 8.22 “Other non-current financial liabilities”.

(D) Financing risk

In making further acquisitions, the Group depends on the granting of loans or capital increases. Expiring loans also have to be extended or refinanced. In all cases, the Group faces the risk that such facilities cannot be extended, or only on different terms. Furthermore, within the scope of consolidation there are loan agreements with a total carrying amount of around EUR 1,469 million for which the banks have imposed requirements in the form of financial covenants (previous year: EUR 1,616 million). Depending on the property to which such agreements apply, the Group must achieve a debt service coverage ratio (DSCR) of between 103 percent and 111 percent (previous year: between 101 percent and 120 per cent), an interest coverage ratio (ICR) of 1.16 to 2.30 (previous year: 1.14 to 2.30), a loan-to-value (LTV) ratio of between 55 percent and

80 percent (previous year: between 55 percent and 80 percent) or a loan-to-mortgage-lending-value (LTMLV) ratio of no more than 80 percent (previous year: no more than 80 percent). Individual credit agreements require a minimum amount of maintenance work or rental income. Should the maintenance measures agreed in the loan agreement not be carried out, the company must maintain a cash reserve of the same amount on restricted accounts. Failure to comply with covenants entitles the lenders to impose various sanctions, which may also include terminating the respective facility.

Similarly, credit terms have also been agreed for the convertible and corporate bonds issued. Failure to comply with such terms may result in a liquidity risk. In some cases, failure to comply with the terms may lead to the termination and premature repayment of these convertible and corporate bonds.

10.3 Derivative financial instruments and hedge accounting

Derivative financial instruments are used at the Group to hedge interest rate risks for floating-rate loan agreements. No material creditworthiness risk is involved, as the interest hedges are concluded with the financing banks.

The fair values of the interest hedge contracts amounted to EUR -7,376k as of the balance sheet date (previous year: EUR -6,979k). The fair values and nominal values of the interest hedge contracts broken down by maturity are presented below:

	Fair Values		Nominal	
In EUR ´000	**2016**	**2015**	**2016**	**2015**
Up to 1 year	-206	-663	1,411	33,867
Due between 1 and 5 years	-4,745	-883	36,219	17,816
Due between 5 and 10 years	-2,425	-5,433	51,202	62,874
Total	**-7,376**	**-6,979**	**88,832**	**114,557**

The interest hedge contracts are measured upon addition at fair value, which is determined as of the contract date. Subsequent measurement is based on the fair value as of the respective balance sheet date.

The fair values of interest hedges broken down by balance sheet item are presented below:

Balance sheet item In EUR ´000	**Hedging relationship under IAS 39**	**31.12.2016**	**31.12.2015**
Other current liabilities	yes	0	-558
Other current liabilites (measured at fair value through profit or loss)	no	-206	-105
Other non-current liabilities (measured at fair value through profit or loss)	no	-7.170	-6.316
Summe		**-7.376**	**-6.979**

The method used to recognise gains and losses depends on whether the derivative interest hedge is included in a cash flow hedge as defined in IAS 39. Fluctuations in the fair values of derivatives not included in IAS 39 hedges are recognised through profit or loss in the interest result. In the financial year under report, interest expenses of EUR -896k were recognised for derivatives not included in hedge relationships (previous year: EUR -1,069k).

In cash flow hedges, the effective portion of the fair value hedge, net of deferred taxes, is recognised in equity in the cash flow hedge reserve. The interest hedges included in cash flow hedges expired in the year under report. The cash flow hedge reserve was therefore reclassified to the income statement.

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 going concerns. Consolidated equity as posted in the balance sheet is referred to as an important key figure for capital management.

As a stock corporation, the company is subject to the minimum capital requirements set out in the German Stock Corporation Act (AktG). Furthermore, the Group is subject to both standard and industry-specific minimum capital requirements imposed by lenders, especially for the financing of specific property projects. These minimum capital requirements are continually monitored and were met in the year under report and the previous year.

Risk management reviews the Group's capital structure on a quarterly basis. Accounting ratios are identified and projected in order to ensure compliance with external capital requirements and the financial covenants applicable to numerous credit agreements. These also include property-specific debt service ratios, loan-to-value figures and contractually defined balance sheet and income ratios.

The year-end equity ratio was determined as follows:

In EUR ´000	**31.12.2016**	**31.12.2015**
Equity (incl. non-controlling interest)	914,222	777,921
Total assets	3,430,477	3,076,246
Equity ratio in %	**26.6**	**25.3**

Excluding convertible bonds, the ratio of net financial liabilities to assets net of cash (LTV) amounted to 61.3 percent (previous year: 68.0 percent). Further details can be found in the disclosures on the asset position in the Group Management Report.

12. OTHER DISCLOSURES

12.1 Minimum lease payments from operating leases

Disclosures on operating leases pursuant to IAS 17.56 In EUR ´000	Comparative period 2015	Reporting period 2016	2017	2018 to 2021	from 2022
			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	139,940	160,533	41,225	2,550	1,350

The 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 more far-reaching claims to minimum lease payments. Minimum lease payments include rental income, excluding allocable operating costs.

12.2 Other financial obligations and contingent liabilities

(A) Other financial obligations

The Group had the following significant financial obligations at the balance sheet date:

In EUR ´000	2016	2015
Rental and lease obligations		
Due within one year	5,745	5,366
Due between 1 and 5 years	10,046	6,685
Due in more than 5 years	4,268	4,010
	20,059	16,061
Management contracts, support agreements		
Due within one year	13,222	9,723
Due between 1 and 5 years	4,748	8,486
Due in more than 5 years	2,960	5,112
	20,930	23,321
Obligations from acquisitions		
Acquisition of properties/property companies	58,040	6,250
Acquisition of companies	0	0
Other	0	0
	58,040	6,250
Total	**99,029**	**45,632**

Rental and lease obligations chiefly relate to the rental of office space in non-cancellable operating leases. There are no purchase options or extension options beyond the fixed lease terms.

(B) Contingent liabilities
In March 2016, the Austrian Takeovers Commission ("ÜbK") initiated a review procedure pursuant to § 33 of the Austrian Takeovers Act ("ÜbG") to investigate whether ADLER and further persons qualify as persons acting in concert pursuant to § 1 No. 6 ÜbG in respect of conwert and whether they breached an obligation to submit a mandatory offer pursuant to § 22 et seq. ÜbG. In an assessment dated 30 November 2016, the ÜbK ruled that the company, acting in concert with other persons, had acquired a controlling stake in conwert on 29 September 2015 and pursuant to § 33 (1) No. 2 ÜbG had wrongly failed to submit a mandatory offer.

ADLER submitted an appeal against this assessment to the Supreme Court (OGH) on 14 December 2016, and thus within the respective deadline. The OGH is expected to rule on the case at the earliest during the second half of 2017. On 16 January 2017, the company sold and transferred its conwert shares to VONOVIA SE within the current takeover of conwert by VONOVIA SE. Should the Supreme Court confirm the contents of the assessment by the ÜbK, then the company could face a number of restitution proceedings. As far as can be seen, proceedings of this nature have not been conducted in Austria in the past. From a current perspective, neither the number nor the specific structure of such cases can be determined

Should the OGH uphold the ÜbK's assessment, there is also the risk that the ÜbK would initiate administrative penal proceedings pursuant to § 35 (1) No. 1 ÜbG against the respective companies and the directors and officers in office at the time at which control was gained due to the failure to submit a mandatory offer. In this case, the potential penalties range from EUR 5,000 to EUR 50,000 per defendant. Recipients of penalty notifications from the ÜbK would be entitled to appeal to the Austrian Federal Administrative Court and the Austrian Higher Administrative Court. Overall, an outflow of resources is not viewed as probable.

The ACCENTRO subsidiary is liable to the buyer of a group company for the risks relating to a legal dispute. The existing litigation value amounts to EUR 8,321k and could be extended to EUR 17,845k. ACCENTRO in turn has rights of recourse in the same amount. Having discussed the matter with its lawyers, the company sees only a low risk of being held to account. The rights of recourse are secured by cash deposits of EUR 1,000k.

12.3 Related parties

Pursuant to IAS 24 "Related Party Disclosures", related parties are defined as closely related companies and persons, including parent companies and subsidiaries, subsidiaries of a common parent company, associates, legal entities influenced by the management, as well as the company's own management. Transactions between ADLER AG and its subsidiaries are eliminated through consolidation and are therefore not disclosed in the notes.

The following material transactions were executed between the Group and related parties.

A member of the company's Supervisory Board is the Managing Director of KvU Land- und Jagdimmobilien GmbH (hereinafter "KvU"), formerly Deutsche Land- und Jagdimmobilien GmbH, which holds minority interests in twenty-two of ADLER's property companies. In the year under report, the Group and KvU, which constitutes a related party, executed transactions in the form of loan agreements. The loans granted by ADLER and its subsidiaries, including accrued interest claims, were valued as follows at the balance sheet date:

Loan provider in the ADLER Group In EUR ´000	2016	Of which interest 2016	2015	Of which interest 2015
ADLER Real Estate AG	476	29	450	26
Magnus Zweite Immobilienbesitz und Verwaltungs GmbH	3,653	196	3,456	195
Magnus Dritte Immobilienbesitz und Verwaltungs GmbH	31	2	30	2
Münchner Baugesellschaft mbH	54	3	51	3
Magnus Fünfte Immobilienbesitz und Verwaltungs GmbH	4,826	273	4,553	251
Total	**9,040**	**503**	**8,540**	**477**

The loans have indefinite terms and may be terminated by ADLER at any time with a notice period of one month to the end of the quarter. No write-downs were recognised on the loan receivables in the financial year under report. In addition to the loan receivables, in the previous year the Group recognised a liability of EUR 124k due to KvU.

In the year under report, the company sold 5.1 percent of the shares held in Westgrund Immobilien GmbH, Westgrund Immobilien II. GmbH, Westgrund Immobilien Beteiligung III. GmbH, Westgrund Immobilien IV. GmbH, Westgrund Immobilien VI. GmbH, Westgrund VII. GmbH, Westgrund VIII. GmbH, Westgrund Wolfsburg GmbH, Westgrund Brandenburg GmbH, Westgrund Niedersachsen Nord GmbH and Westgrund Niedersachen Süd GmbH as well as all of the shares held in Liaen Lorentzen Partners AG, Zug/Switzerland to Manoir des Aiglons S.á r.l., Luxembourg, at a total price of EUR 4,000k. No receivables are outstanding in this respect. Furthermore, in connection with the shares thereby transferred the company undertook to provide the buyer with a minimum profit distribution of EUR 380k in total (before taxes) per year for a ten-year period. These dividend claims have been recognised under non-current other liabilities. The company in question is a related party as one member of ADLER's Supervisory Board is the Managing Director and a shareholder in Manoir des Aiglons S.á r.l.

CARE4 AG, Basle/Switzerland, is a related company as it is influenced Klaus Wecken & Cie., Basle/Switzerland, which is a shareholder in ADLER (share of voting rights in ADLER: approx. 25 percent). ADLER concluded a contract governing the premature conversion of convertible bonds with CARE4 AG. This company held a total of 1,541,856 bonds within ADLER's 2013/2018 convertible bond. The nominal amount per bond amounts to EUR 3.75 and is equivalent to the conversion price. As compensation for premature conversion, CARE4 AG received an amount of EUR 0.492 per bond from ADLER. This compensation corresponds to the discounted total of the interest which would have been payable through to maturity on 27 December 2018.

The Group had the following material loan receivables, including interest claims, due from unconsolidated companies, associates or joint ventures, as of the balance sheet date:

In EUR ´000	2016	2015
MRT (Mountleigh Roland Ernst B.V.)	2,560	2,535
Stovago B.V.	861	737
Malplaquetstraße 23. Grundstücksverwaltungsgesellschaft mbH	0	221
Wohneigentum Berlin GbR	0	211
SIAG Sechzehnte Wohnen GmbH & Co. KG	17	17
Total nominal value	**3,438**	**3,721**
Accumulated value adjustment	-3,421	-3,273
Carrying amounts as of 31.12.2016	**17**	**448**

In addition to the aforementioned receivables, in the previous year the Group also reported liabilities due to associates, namely an amount of EUR 329k to Wohneigentum GbR and EUR 6k to Malplaquetstrasse 23. Grundstücksverwaltungsgesellschaft mbH.

One indirect subsidiary of ADLER acts as general partner in the joint venture Wohneigentum Berlin GbR. This results in liability for the debts of this venture amounting to EUR 914k (previous year: EUR 1,861k).

The Group's other business relationships with unconsolidated companies, associates and joint ventures are of subordinate overall significance.

The Supervisory Board and Management Board hold the key management positions at ADLER AG. The compensation paid to these persons is structured as follows:

In EUR ´000	2016	2015
Supervisory Board remuneration	180	180
Management Board remuneration	872	364

In addition to their regular compensation, in the financial year under report the members of the Management Board received a total of 110,000 SARs within the programme introduced in 2015. These had an average fair value of EUR 3.29 per SAR. Detailed disclosures on these rights can be found in Note 9.5 "Personnel expenses".

Individualised disclosure of Management Board compensation pursuant to § 314 (1) No. 6a, Sentences 5 to 9 of the German Commercial Code (HGB) has been waived as the 2016 Annual General Meeting adopted a corresponding resolution that will remain valid for five years.

12.4 Auditor's fee

The total fee invoiced by the auditor for the financial year under report is structured as follows:

In EUR ´000	2016	2015
Audit of financial statements	715	894
Other assurance services	61	198
Other services	30	69
Total	**806**	**1,161**

Of financial statement audit fees, an amount of EUR -48k relates to the previous year (previous year: EUR 109k).

12.5 Employees

The average number of employees was as follows:

Number	2016	2015
Member of Board	2	1
Full-time employees	317	258
Total	**319**	**259**

12.6 Notes to the consolidated cash flow statement

Financial funds correspond to cash and cash equivalents.

Furthermore, liquid funds of EUR 14,785k with restrictions on disposability have been recognised under other assets (previous year: EUR 17,981k).

Cash flows are subdivided into cash flows from operating, investing and financing activities. The indirect method has been used to present the cash flow from operating activities.

Net of non-cash income and expenses and including changes in working capital, the ADLER Group generated a cash flow before divestments and reinvestments of EUR 127,427k from operating activities in the Trading portfolio (previous year: EUR 71,898k). Cash outflows of EUR 26,877k (previous year: EUR 46,924k) were recorded for investments in inventory properties (Trading portfolio). Including these outflows of funds for investments in inventory properties, ADLER generated a net inflow of funds of EUR 100,550k from operating activities (previous year: EUR 24,974k).

The outflow of funds of EUR 79,499k for investing activities (previous year: EUR 438,706k) mainly resulted from the acquisition of a further five million shares in conwert Immobilien Invest SE. The outflow of funds in the previous year was due in particular to the acquisition of Wohnungsbaugesellschaft JADE GmbH, WESTGRUND AG and MountainPeak Trading Limited.

The inflow of funds from financing activities came to EUR 53,358k (previous year: EUR 430,174k). This is the amount by which the volume of funds required for interest and principal payments on existing financing facilities fell short of the proceeds from taking up new liabilities. Net of related costs, the issue of the 2016/2021 convertible bond in the third quarter of 2016 resulted in an inflow of funds of EUR 125,745k. The previous year's figure was influenced in particular by the inflow of funds received from stocking up the 2014/2019 bond and from the issue of the 2015/2020 corporate bond.

Long-term promissory note loans and financial loans totalling EUR 509,727k were newly taken up to finance or refinance property portfolios in the year under report (previous year: EUR 355,116k). The funds newly taken up were in some cases used to repay existing financial loans. Alongside these measures, scheduled repayments and redemptions were made in connection with the sale of properties and property portfolios. Overall, this led to an outflow of funds of EUR 511,599k (previous year: EUR 192,009k).

Overall, cash and cash equivalents increased by EUR 74,409k (previous year: EUR 16,442k).

12.7 Management Board and Supervisory Board

The Management Board of ADLER Real Estate Aktiengesellschaft, Berlin, comprises the following members: Arndt Krienen, lawyer, Remscheid, and since 9 June 2016 Sven-Christian Frank, lawyer and real estate manager (IRE/BS), Berlin. Axel Harloff, a graduate in business administration, Hamburg, retired from the Management Board upon the conclusion of the Annual General Meeting on 9 June 2016.

Members of the Supervisory Board:

- Dr. Dirk Hoffmann, Rum/Austria, lawyer and banker, Chairman
- Thomas Katzuba von Urbisch, Monte Carlo/Monaco, lawyer and businessman, Deputy Chairman
- Thilo Schmid, Blotzheim/France, project controller

The following members of the Supervisory and Management Boards of ADLER Real Estate Aktiengesellschaft, Berlin, held the following further positions on supervisory boards and other supervisory bodies as defined in § 125 (1) Sentence 5 of the German Stock Corporation Act (AktG):

Dr. Dirk Hoffmann
- Squadra Immobilien GmbH & Co. KGaA, Frankfurt am Main (Supervisory Board Chairman)
- Bremer Kreditbank AG, Bremen (Deputy Supervisory Board Chairman until 31 March 2016)
- ACCENTRO Real Estate G, Berlin (Deputy Supervisory Board Chairman)
- Dexia Kommunalbank Deutschland AG, Berlin (Supervisory Board member until 30 June 2016)
- Aggregate Holding SA, Luxembourg (until 21 December 2016)
- conwert Immobilien Invest SE, Vienna/Austria (Administrative Board member from 17 March 2016 until 27 January 2017)

Thilo Schmid
- Jedox AG, Freiburg (Supervisory Board member)
- DTH S.A., Luxembourg (Member of the Board)
- Mindlab Solutions GmbH, Stuttgart (Advisory Board member)

Axel Harloff
- ACCENTRO Real Estate AG, Berlin (Supervisory Board Chairman)
- WESTGRUND Aktiengesellschaft, Berlin (Supervisory Board member)

Thomas Katzuba von Urbisch, Arndt Krienen and Sven-Christian Frank do not hold any positions on other supervisory bodies as defined in § 125 (1) Sentence 5 of the German Stock Corporation Act (AktG).

12.8 Events after the balance sheet date

In January 2017, ADLER received funds of around EUR 422 million from the transfer of its 25.7 percent shareholding in conwert to Vonovia in the context of the voluntary offer made by Vonovia to conwert's shareholders.

ADLER will use the funds received from the transaction to repay bank liabilities and capital market bonds with higher interest rates and thus improve its balance sheet structure and reduce its current interest charge.

In March 2017, ADLER Real Estate AG concluded a purchase contract to acquire a property portfolio with 693 residential and eight commercial units in Osterholz-Scharmbeck and Schwanewede. These properties, with are located within the Bremen catchment area, currently generate rental income of more than 2 million euros a year.

No other material events have occurred since the balance sheet date.

12.9 Declaration of Conformity with the German Corporate Governance Code

The Declaration of Conformity of ADLER AG was most recently submitted by the Management Board in January 2017. It is permanently available to shareholders at:

http://adler-ag.com/en/investor-relations/corporate-governance/declaration-of-compliance/

The Declaration of Conformity of ACCENTRO AG was most recently submitted by that company's Management Board in March 2017. It is permanently available to shareholders at:

http://www.accentro.ag/en/investor-relations/corporate-governance/corporate-governance.html

The Declaration of Conformity of WESTGRUND AG was most recently submitted by that company's Management Board in September 2016. It is permanently available to shareholders at:

http://www.westgrund.de/en/investor-relations/corporate-governance/declaration-of-corporate-governance/

Berlin, 23 March 2017

Arndt Krienen
Management Board

Sven-Christian Frank
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."

Berlin, 23 March 2017

Arndt Krienen
Vorstand

Sven-Christian Frank
Vorstand

/// LEGAL REMARK

This report contains future-oriented statements that reflect the current management views of ADLER Real Estate AG regarding future events. Every statement in this report that reflects intentions, assumptions, expectations or predictions, as well as the assumptions on which they are based, constitutes such a future-oriented statement. These statements are based on plans, estimates and forecasts currently available to the management of ADLER Real Estate AG. Therefore, they only apply to the day on which they are made. By their nature, future-oriented statements are subject to risks and uncertainty factors, and the actual developments can deviate considerably from the future-oriented statements or the events implicity expressed in them. ADLER Real Estate AG is not obligated, nor does it intend, to update such statements in view of new information or future events.

/// AUDITOR'S REPORT

We have audited the consolidated financial statements of ADLER Real Estate Aktiengesellschaft, Berlin, consisting of the balance sheet, statement of comprehensive income, statement of shareholders' equity, cash flow statement and notes, as well as the group management report, for the financial year from 1 January to 31 December 2016. Preparation of the consolidated financial statements and group management report in accordance with IFRS, as applied in the EU, as well as the applicable provisions of commercial law in accordance with § 315a (1) of the German Commercial Code (HGB), is the responsibility of the management board. Our task is to submit an assessment of the consolidated financial statements and group management report based on our audit.

We have conducted our audit of the consolidated financial statements in accordance with § 317 of the German Commercial Code (HGB) 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 positions conveyed by the group 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 environments of the company and expectations of 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 group 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 group 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 German Commercial Code (HGB), and convey a true and fair view of the Group's financial, earnings and liquidity position. The group management report is consistent with the consolidated financial statements, conforms to statutory requirements and generally gives an accurate presentation of the Group's position and accurately represents the opportunities and risks of future development.

Hamburg, 23 March 2017

Ebner Stolz GmbH & Co. KG
Wirtschaftprüfungsgesellschaft
Steuerberatungsgesellschaft

Jens Lingthaler
Auditor

Dirk Heide
Auditor

/// REPORT ACCORDING TO EPRA RECOMMENDATIONS

The European Public Real Estate Association (EPRA) is a non-commercial organisation based in Brussels which represents the interests of publicly listed European property companies. It sees its role as raising awareness and understanding of investment opportunities in publicly listed property companies in Europe as an alternative to traditional forms of investment. ADLER AG has been a member of EPRA since 2013. To enhance the comparability of property companies and foster the presentation of matters specific to the property industry, EPRA has created a framework for standardised reporting over and above IFRS requirements. These EPRA recommendations (best practice recommendations – BPR) are presented below. ADLER AG only draws on some of these recommendations for its key management figures; in some cases, the figures are therefore commented on outside the management report. The recommendations constitute non-GAAP measures. We would like to point out that the EPRA best practice recommendations refer both to residential and to commercial property companies.

In EUR million	2016	2015	Change in %
EPRA NAV	1,069.9	879.5	21.7
Adjusted EPRA NAV	939.4	748.9	25.4
EPRA NNNAV	880.5	746.0	18.0
EPRA earnings	-29.6	-22.4	32.6
Adjusted EPRA earnings	32.4	8.8	267.3
EPRA net initial yield (NIY) in %	3.9	4.1	-6.8
EPRA "topped-up" NIY in %	3.9	4.1	-6.8
EPRA vacancy rate in %	9.6	10.5	-9.0
EPRA cost ratio (incl. direct vacancy costs) in %	41.7	42.5	-1.9
EPRA cost ratio (excl. direct vacancy costs) in %	37.4	38.6	-3.1

NAV/NNNAV

Based on the EPRA definition, the NAV presentation should show the net asset value in a business model with a long-term focus. The equity attributable to shareholders in Adler AG is adjusted to account for deferred taxes on investment properties/properties held for sale, the differences between fair values and carrying amounts of inventory properties as well as for the fair value of derivative financial instruments and deferred taxes on derivative financial instruments. To enhance transparency, an adjusted EPRA NAV figure, in which goodwill has been fully eliminated, is also reported.

Based on the EPRA NAV figure, adjustments are then made to account for the fair value of financial liabilities and allocable taxes. This results in the EPRA NNNAV figure, which presents the fair value of a property company.

In EUR million	31.12.2016	31.12.2015	Change in %
Equity attributable to shareholders in ADLER	843.2	719.4	17.2
Deferred taxes on investment properties/properties held for sale	169.5	114.8	47.7
Differences between fair values and carrying amounts of inventory properties	52.1	40.6	28.3
Fair value of derivative financial instruments	7.4	7.0	5.7
Deferred taxes on derivative financial instruments	-2.2	-2.3	-1.2
EPRA NAV	**1,069.9**	**879.5**	**21.7**
Goodwill	-130.6	-130.6	0.0
Adjusted EPRA NAV	**939.4**	**748.9**	**25.4**
EPRA NAV per share in EUR[1)]	18.4	15.5	18.3
Adjusted EPRA NAV per share in EUR[1)]	16.1	13.2	22.0

In EUR million	31.12.2016	31.12.2015	Change in %
EPRA NAV	1,069.9	879.5	21.7
Fair Value financial liabilities	-271.3	-197.0	37.7
Deferred taxes on fair values of financial liabilities	81.9	63.6	28.8
EPRA NNNAV	**880.5**	**746.0**	**18.0**
EPRA NNNAV per share in EUR[1)]	15.1	13.2	14.8

[1)] based on the number of shares outstanding as at balance sheet date plus shares from assumed conversion of mandatory bond which is considered as equity

EPRA EARNINGS

The EPRA earnings figure presents the sustainable dividend capacity of a property company as a portfolio holder. Based on net income for the given period, adjustments are made to account for changes in the values of assets and liabilities and for income from negative goodwill. As company-specific adjustments, non-recurring and extraordinary items, non-period and one-off interest expenses are eliminated, as are all taxes other than current income taxes.

In EUR million	2016	2015	Change in %
Net income for the period (IFRS)	133.8	78.3	70.9
Revaluation of investment properties	-199.7	-58.9	239.0
Income from the sale of properties	-27.2	-21.0	29.5
Taxes on profits or losses on disposals	8.2	1.1	645.5
Revaluation of financial instruments and associated transaction costs	0.4	0.7	-38.9
Negative goodwill	0.0	-41.6	-
Deferred taxes in respect of EPRA adjustments	54.9	19.1	186.6
EPRA earnings	**-29.6**	**-22.4**	**-32.6**
EPRA earnings per share	-0.5	-0.4	-118.2
Adjustment for non-recurring and extraordinary items	21.0	18.5	13.4
Adjustment for non-period/one-off interest expenses	51.6	17.1	201.4
Adjustment for other deferred/non-period taxes	-10.6	-4.4	137.6
Adjusted EPRA earnings	**32.4**	**8.8**	**267.3**
Adjusted EPRA earnings per share in EUR[1)]	0.6	0.2	257.2

[1)] based on the number of shares outstanding as at balance sheet date plus shares from assumed conversion of mandatory bond which is considered as equity

EPRA NET INITIAL YIELD

The EPRA net initial yield (NIY) presents annualised rental income as a proportion of the adjusted fair values of the properties. This involves adjusting the fair values to eliminate any ancillary acquisition costs. The "topped-up" net initial yield is additionally adjusted to account for lease incentives.

In EUR million	2016	2015	Change in %
Investment properties	2,442.0	2,270.2	7.6
Fair value of inventory properties	271.6	199.4	36.2
Assets held for sale	18.4	20.1	-8.4
Market value of property portfolio (net)	2,732.0	2,489.7	9.7
Ancillary acquisition costs	232.2	211.6	9.7
Market value of property portfolio (gross)	2,964.3	2,701.4	9.7
Annualised rental income	168.9	167.4	0.9
Non-allocable property costs	-54.6	-55.6	-1.8
Annualised net rental income	114.3	111.8	2.2
Adjustment for lease incentives	0.0	0.0	-
Topped-up annualised rental income	114.3	111.8	2.2
EPRA net initial yield in %	**3.9**	**4.1**	**-6.8**
Topped-up EPRA net initial yield in %	**3.9**	**4.1**	**-6.8**

EPRA VACANCY RATE

The EPRA vacancy rate portrays the rental value of vacant residential space as a proportion of the rental value of the overall residential portfolio, i.e. the vacancy rate as presented in the property management chapter is valued by reference to the rental value of the residential properties.

In EUR million	31.12.2016	31.12.2015	Change in %
Market rent of vacant units	1.5	1.6	-8.0
Market rent of residential property portfolio	15.6	15.4	1.1
EPRA vacancy rate in %	**9.6**	**10.5**	**-9.0**

EPRA COST RATIO

The EPRA cost ratio presents EPRA costs as a proportion of gross rental income and thus indicates the cost efficiency of a property company. Adjustments are made to exclude ground rent costs and direct vacancy costs. This way, the EPRA cost ratio corresponds to an EBITDA margin. To enhance transparency, a company-specific adjustment is made to account for maintenance expenses, as these depend on the company's individual accounting policy with regard to capitalising maintenance work and the company's individual maintenance strategy. The adjusted EPRA cost ratio then corresponds to an EBITDA margin excluding maintenance.

In EUR million	31.12.2016	31.12.2015	Change in %
Adjusted EBITDA rental/portfolio	-92.1	-72.3	27.4
Rental income	158.3	125.8	25.8
Maintenance expenses	-27.1	-20.6	31.3
Property management expenses	39.2	32.9	19.0
Maintenance expenses	27.1	20.6	31.3
Ground rent	-0.5	-0.2	175.6
EPRA costs (including direct vacancy costs)	65.7	53.4	23.2
Direct vacancy costs	-6.8	-4.9	37.8
EPRA costs (excluding direct vacancy costs)	59.0	48.4	21.7
Rental income	158.3	125.8	25.8
Ground rent	-0.5	-0.2	175.6
Gross rental income	157.8	125.6	25.6
EPRA cost ratio (including direct vacancy costs) in %	**41.7**	**42.5**	**-1.9**
EPRA cost ratio (excluding direct vacancy costs) in %	**37.4**	**38.6**	**-3.1**
Maintenance adjustment	27.1	20.6	31.3
Adjusted EPRA costs (including direct vacancy costs)	38.7	32.7	18.1
Adjusted EPRA costs (excluding direct vacancy costs)	31.9	27.8	14.6
Adjusted EPRA cost ratio (including direct vacancy costs) in %	**24.4**	**26.0**	**-6.2**
Adjusted EPRA cost ratio (excluding direct vacancy costs) in %	**20.1**	**22.1**	**-8.9**

/// GLOSSARY

EBIT

Earnings before Interest and Tax

Consolidated earnings before interest and tax – an indicator of the result of operations, also includes measurement gains/losses for investment property and profits generated from real estate disposals.

EBITDA

Earnings before Interest, Tax, Depreciation and Amortisation

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, associates measured at equity results and one-off and non-recurring items – an 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 – an indicator of cash flow-based operating earnings excluding disposals.

FFO II

Funds from Operations II

FFO I plus earnings from disposals of investment property – an 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

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 – an 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 – an 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 – a measurement of current interest charge on debt financing.

/// AT A GLANCE

Supervisory Board	
Dr. Dirk Hoffmann	Chairman of the Supervisory Board
Thomas Katzuba von Urbisch	Vice Chairman of the Supervisory Board
Thilo Schmid	Member of the Supervisory Board
Management Board	
Arndt Krienen	Chairman of the Management Board
Sven-Christian Frank	Member of the Management Board
Company Facts	
Legal domicile	Berlin Charlottenburg, Berlin HRB 180360 B
Address	ADLER Real Estate Aktiengesellschaft Joachimsthaler Straße 34 10719 Berlin Phone: +49 30 398018 – 10 E-Mail: info@adler-ag.com
Website	www.adler-ag.com
Investor relations/public relations	ADLER Real Estate Aktiengesellschaft Dr. Rolf-Dieter Grass Joachimsthaler Straße 34 10719 Berlin Phone: +49 30 2000914 – 29 E-Mail: r.grass@adler-ag.com
Capital stock	EUR 47,680,793[1)]
Classification	47,680,793[1)] no-par value shares
Arithmetical value	EUR 1 per share
Voting right	1 vote per share
Identification	WKN 500 800 ISIN DE0005008007 Ticker symbol ADL Reuters ADLG.DE
Designated sponsors	ODDO SEYDLER BANK AG HSBC Trinkaus & Burkhardt AG
Stock exchanges	Xetra, Frankfurt am Main
Indices	SDAX, CDAX, FTSE EPRA/NAREIT Global Real Estate Index, GPR General Index, DIMAX
Financial year	Calendar year

1) as at 31 December 2016

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Berlin-Charlottenburg

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