ADLER
REAL ESTATE

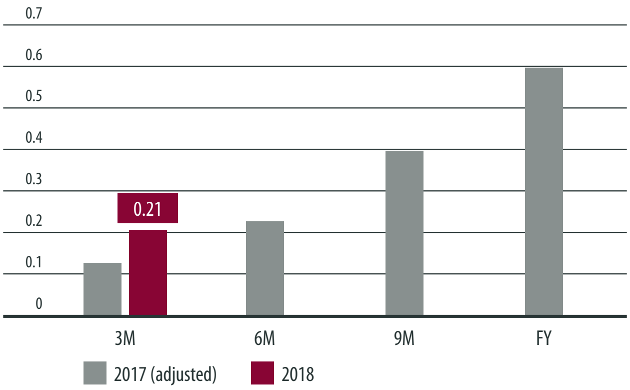
Q1 /// Interim Report for the first three months of 2018

/// KEY FINANCIAL AND PROPERTY FIGURES

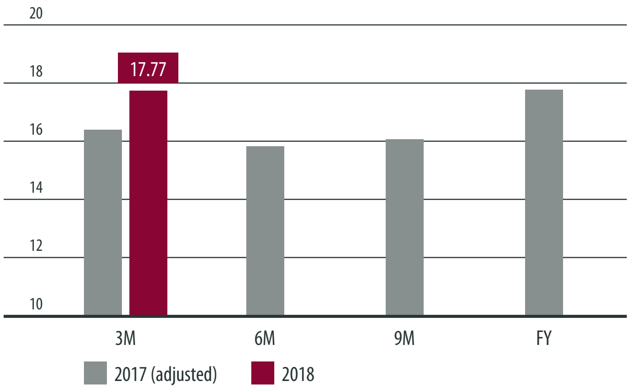
In EUR millions **Consolidated Statement of Income**	**3M 2018**	**3M 2017**
Net rental income	44.9	42.0[3]
Earnings from property lettings	39.0	29.3[3]
Earnings from the sale of properties	0.9	0.1[3]
EBIT	46.2	27.8[3]
Consolidated net profit from continuing operations	-12.4	0.0
Consolidated net profit	-12.8	3.0
FFO I	14.2	7.9
FFO I per share in EUR [1]	0.21	0.13
Consolidated Balance Sheet	**31.03.2018**	**31.12.2017**
Investment Properties	3,054.2	3,018.5
EPRA NAV	1,184.2	1,207.2
EPRA NAV per share in EUR [1]	17.77	17.80
LTV II in % [2]	60.4	59.4
Cashflow	**3M 2018**	**3M 2017**
Net cash flow from operating activities	32.9	-0.6
of which from continuing operations	32.9	7.8
Net cash flow from investing activities	-222.3	389.8
of which from continuing operations	-222.3	389.9
Net cash flow from financing activities	210.1	-321.1
of which from continuing operations	210.1	-324.3
Employees	**31.03.2018**	**31.12.2017**
Number of employees	607	555
FTEs (Full-time equivalents)	551	507

[1] Based on the number of shares outstanding as at balance sheet date plus shares from assumed conversion of mandatory bond that is considered as equity, previous year´s figures adjusted according to IAS 33.64, see notes (Earnings per share)
[2] Excluding convertible bonds
[3] Adjusted due to sale of trading, see comments in management report (Results from operations, net assets and financial position) and notes (Basis of preparation)

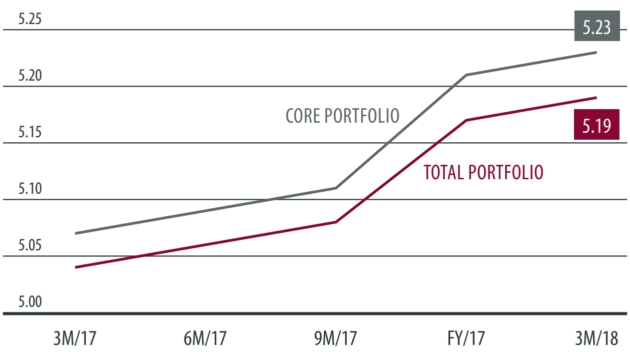
FFO I/SHARE in EUR



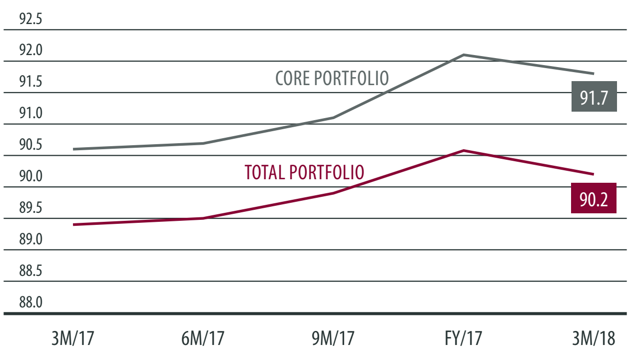
EPRA NAV/SHARE in EUR



AVERAGE RENT in EUR/sqm/month

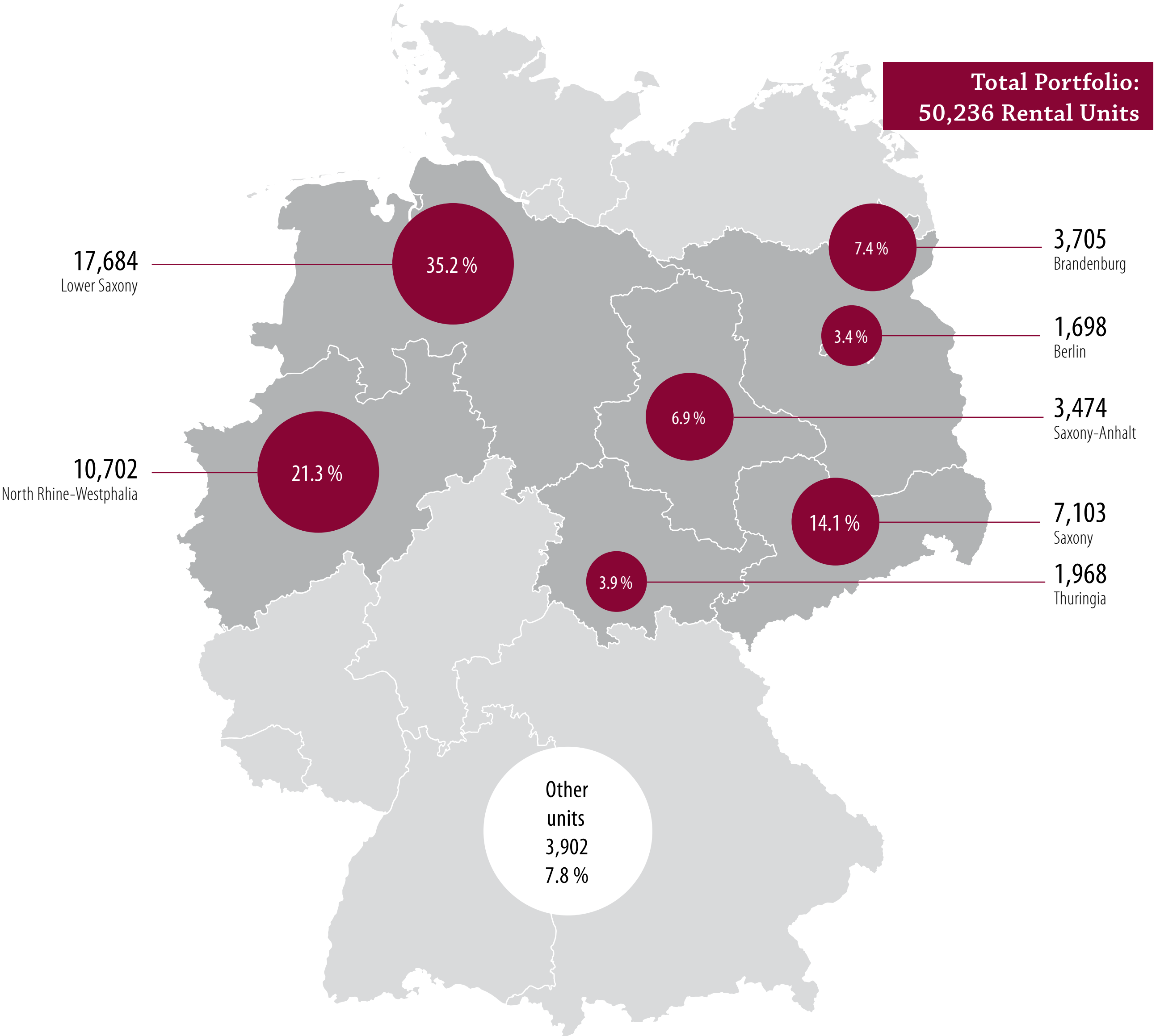


OCCUPANCY RATE in %



Rental units

as at 31 March, 2018



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/// LETTER FROM THE MANAGEMENT BOARD

TOMAS DE VARGAS MACHUCA
Member of the Management Board (Co-CEO) and Chairman of the Executive Committee

MAXIMILIAN RIENECKER
Member of the Management Board (Co-CEO) and of the Executive Committee

SVEN-CHRISTIAN FRANK
Member of the Management Board (COO) and of the Executive Committee

Dear Ladies and Gentlemen,

In the first quarter of 2018, we made a decision that will significantly boost ADLER Real Estate AG's growth: we acquired nearly 70 percent of the shares in Brack Capital Properties N.V. (BCP), a Dutch real estate company whose shares are traded on the Tel Aviv Stock Exchange, but whose properties are entirely located in Germany. This acquisition increases our property holdings by nearly a quarter, improves all key performance figures, strengthens our FFO and provides scope for extensive synergy effects.

We will start to leverage this potential after consolidation in April. Following changes to the Supervisory Board and the management team we aim to integrate BCP in the ADLER Group, incorporating the operating locations in the existing structures and retaining the existing expertise to the largest extent possible. This at least applies to two of the three areas that BCP has in common with ADLER and pursues successfully: residential properties for letting and project development of residential properties. It does not apply to the commercial property sector, in which BCP is also highly active. Here, we are looking for solutions that are compatible with ADLER's business model. It must, of course, be remembered that although we can have a material influence on business policy as the largest shareholder of BCP, the interests of the other shareholders must also be upheld. In any case, we regard the acquisition of BCP as an important step towards becoming a real estate company that can play a leading role in Germany in the long term.

This naturally also involves further improving our operations, increasing the occupancy rate of our properties step by step and raising rental income as planned, which we managed to do again in the first quarter. We expect to continue to do so, as a result of the internalisation of property and facility management that we completed during our 2017 asset and property management reorganisation.

The intended sale of our non-core portfolio, which we are now working on in the context of a totally new framework, will help us to complete this objective too. In conjunction with Benson Elliot Capital Management, an experienced private equity company, we will be setting up a joint venture with the sole purpose of selling our non-core properties into it at a premium to book value. We retain a minority interest here, which will enable us to benefit from the expected profit on the eventual sale. Furthermore, we will be retaining the asset management and property management wing in exchange for an arm's length fee.

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

FLORIAN SITTA
Head of Legal and Member of the Executive Committee

PEER HOFFMANN
Head of Financing and Member of the Executive Committee

In mid-March, we ended our share buyback programme that we had carried out in several tranches since June 2017. Overall, we acquired just under 4.5 percent of our shares at a cost of approx. EUR 34 million. Our aim was to send a signal to the market that the valuation of our company does not correlate with what the NAV actually suggests. The message finally seems to have got through, as after a long spell of fluctuating between EUR 12.50 and EUR 13.50, our shares are now trading at around EUR 15.50 again – with a fully diluted EPRA NAV per share of EUR 16.61 at the end of the first quarter.

Regardless of the current share price performance, we want to help ensure that ADLER Real Estate AG's fundamentals keep improving in line with the significant number of transformational changes we have carried out since Q3 2017. During this period we disposed 94 percent of our stake in ACCENTRO AG, bought back our Schuldscheindarlehen by placing a EUR 800 million BB+ bond. During the first quarter of 2018 we successfully launched and closed a Special Tender Offer to acquire up to 70 percent of the shares in BCP. We also improved our rating from BB- to BB/Positive Outlook. Lastly, the refinancing measures undertaken in April – the placement of EUR 800 million bonds to refinance the acquisition of BCP Bridge loan and to buy back EUR 200 million of our 2015/2020 4.75 percent bond – have contributed to building significant interest and momentum for Adler Real Estate and the opportunities we still have ahead of us.

Best regards,

Tomas de Vargas Machuca *Co-CEO*	Maximilian Rienecker *Co-CEO*	Sven-Christian Frank *COO*

/// Portfolio

/// ADLER on the capital markets

ANDREAS BENING,
Andreas Bening, Head of Portfolio Project Development at ADLER Real Estate AG. He is responsible for the planned expansion of existing residential estates. One of these estates is located in the Vorsfelde district of Wolfsburg. He was invited to the local government offices there in May.

/// PORTFOLIO

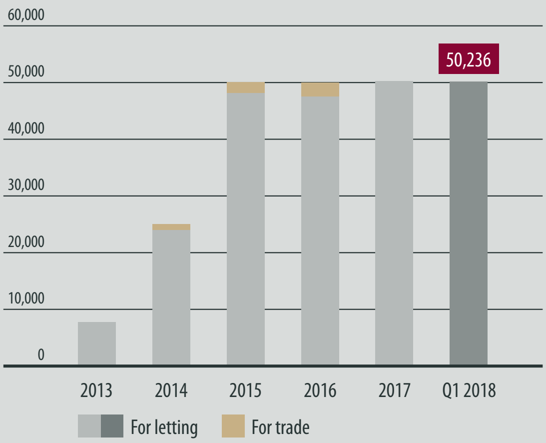
Having sold its trading activities, ADLER Real Estate AG only pursues one business objective: the letting of permanently held properties. Accordingly, ADLER no longer holds properties uniquely held for trading. In the balance sheet, the properties let out permanently are recognised at fair value under "investment properties". At the end of the first quarter of 2018, ADLER Real Estate AG held a total of 50,236 rental units, which are located in 2,247 individual land registries. Following the purchase of the majority of shares in BCP, the portfolio has increased to more than 60,000 units, although this acquisition will only be consolidated from April on after all arrangements have been met.

THE PROPERTY PORTFOLIO

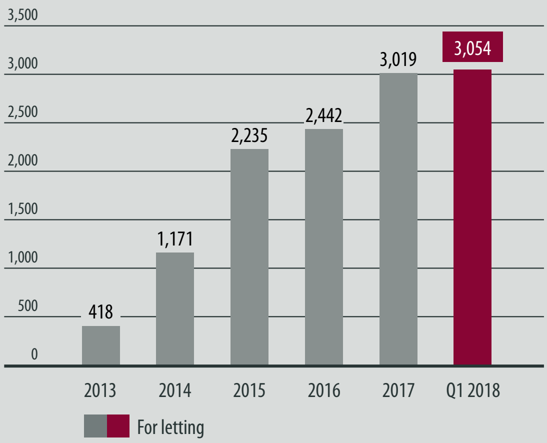
Focus on residential property

ADLER is as a provider of apartments available for rent. Consistent with this approach, these account for 49,216 units and thus 98.0 percent of the properties held for permanent letting. Nevertheless, the overall portfolio also includes limited exposure to commercial units. These are a by-product of owning residential buildings, as some of the inner-city residential properties also include retail or office space on the ground floor. There were 1,020 such units at the end of the first quarter of 2018, accounting for a 2.0 percent share of the portfolio of properties held for permanent letting.

PORTFOLIO in units



FAIR VALUE INVESTMENT PROPERTIES in EUR millions



Property holdings virtually unchanged in the first quarter of 2018, strong growth following acquisition in April

The number of rental units held for permanent letting remained virtually unchanged in the first three months of the current financial year. 69 rental units were sold as a result of measures taken to streamline the portfolio. Although ADLER acquired the majority of shares in BCP and with them a portfolio totalling approx. 12,000 residential units and approx. 300,000 square metres of commercial space, this growth is not yet reflected in the quarterly figures, as the acquisition was completed after the end of the quarter, with the consequence of BCP being consolidated in April 2018.

Portfolio realignment	31.03.2018			31.12.2017
		Divestments	Additions	
Rental portfolio	50,236	69	0	50,305
– of which residential units	49,216	40	0	49,256
– of which commercial units	1,020	29	0	1,049

"Non-core" portfolio to be disposed of

ADLER Real Estate AG intends to dispose of holdings that are economically weak or no longer fit its business model. As of the reporting date, the company had specific intentions to sell a total of 4,061 rental units, corresponding to 8.1 percent of the total portfolio. The following table presents the key performance data and average market values of the units in this portfolio, which is designated as the non-core portfolio, compared with the figures for the core portfolio (core properties).

"Core" and "Non-core" portfolio	Total	Core	Non core for sale
Rental units	50,236	46,175	4,061
Rent/sqm/month in EUR	5.19	5.23	4.76
Occupancy rate in %	90.2	91.7	76.7

In April 2018, ADLER agreed to set up a joint venture with Benson Elliot Capital Management LLP, geared solely towards the sale of ADLER's non-core assets. Once it has been set up, ADLER will contribute rental units with a value of approx. EUR 115 million to the joint venture, representing a approx. 5 percent premium on gross asset value. As a result, the remaining non-core portfolio will be significantly reduced to approx. EUR 60 million in value.

Further improvement in operating performance data

In the first quarter of 2018, the Group once again improved its operating performance. At the end of the reporting period, the average contractually agreed rent per square metre per month for the overall portfolio amounted to EUR 5.19, EUR 0.15 higher than the figure for the same period of the previous year (Q1 2017: EUR 5.04). In the core portfolio alone, the average contractually agreed rent per square metre per month stood at EUR 5.23 at the end of the first quarter of 2018. This was EUR 0.16, or 3.2 percent, higher than one year ago (EUR 5.07).

The occupancy rate for the overall portfolio stood at 90.2 percent at the end of the first quarter of 2018, against 89.4 percent one year earlier. The occupancy rate in the core portfolio reached 91.7 percent at the end of the first quarter of 2018. This equates to an improvement of 1.1 percentage points compared with a year ago (90.6 percent).

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 in the first quarter of 2017 and in the first quarter of 2018.

Rental portfolio (core) Like-for-like (Q1 2018 to Q1 2017)	Residential and commercial units	Change	Residential	Change	Commercial	Change
Units	42,759		42,084		675	
Rent/sqm/month in EUR	5.24	0.19	5.20	0.20	6.78	0.04
Occupancy rate (%)	91.6	0.32 PP	91.9	0.37 PP	82.1	-1.36 PP

Fair value slightly improved in first quarter

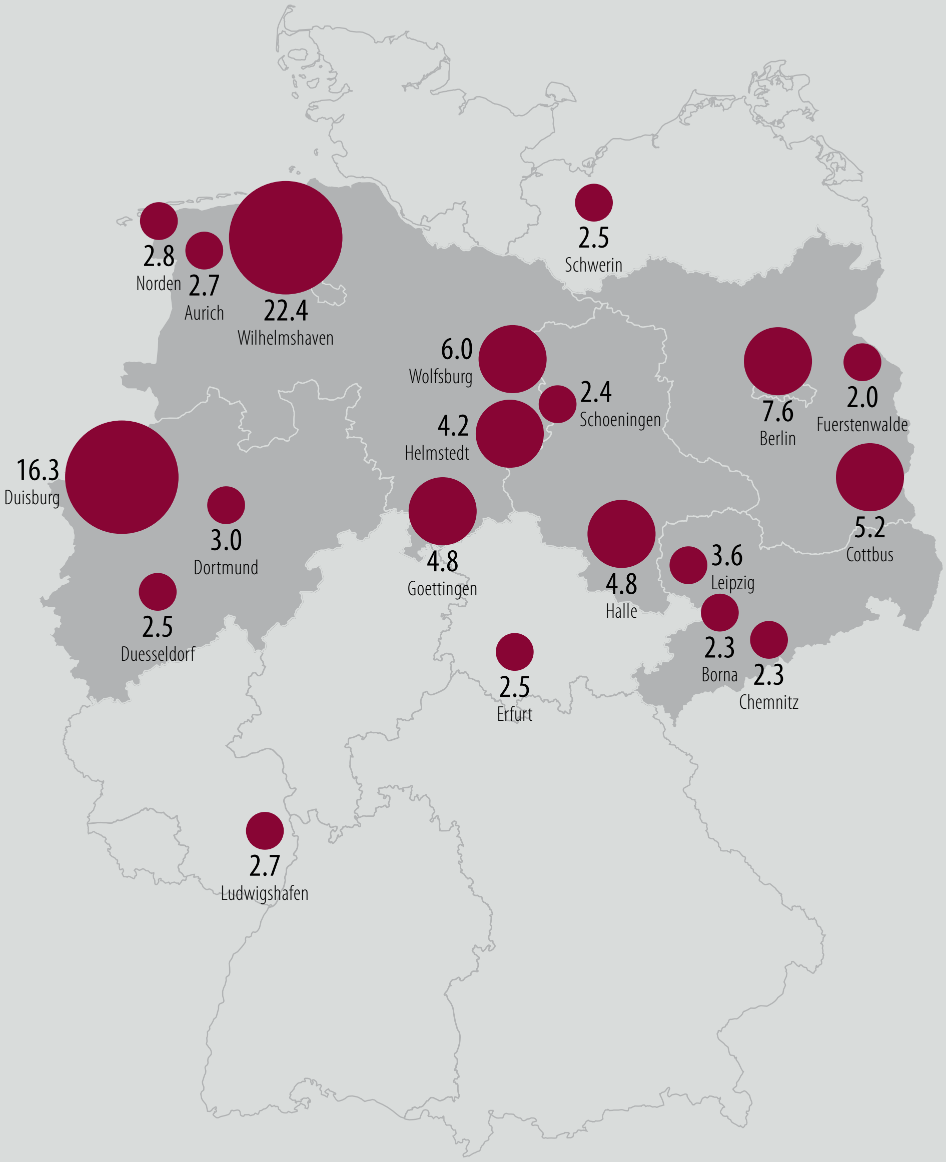
The fair value of the portfolio calculated in accordance with IFRS amounted to EUR 3,054.2 million at the end of the first quarter of 2018. The slight increase over the figure at the end of last year (EUR 3,018.5 million) resulted from fair value adjustments.

Key focuses in north and west of Germany

ADLER focusses its business activities in Germany and holds most of its properties in the northern and western parts of the country. More than half of ADLER's properties are in the federal states of Lower Saxony (35.2 percent of the overall portfolio) and North Rhine-Westphalia (21.3 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 (14.1 percent), Brandenburg (7.4 percent) and Saxony-Anhalt (6.9 percent).

ADLER owns properties located on the edges of larger conurbations. This is particularly apparent in North Rhine-Westphalia, where all of the company's properties are in the Ruhr, which still is Germany's largest industrial region. In Lower Saxony, the property holdings are mainly located in the Wolfsburg/Braunschweig/Helmstedt region, a traditionally strong region in economic terms, and in Wilhelmshaven, a city 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 that after the German reunification initially lost their industry and part of their populations but which are now benefiting from growth once again as a consequence of the significant infrastructure investments carried out over the last 20 years in these areas.

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 affordable apartments are no longer 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 represents the city with ADLER's largest exposure with a net rental income per annum of EUR 22.4 million, followed by Duisburg with EUR 16.3 million, Berlin with EUR 7.6 million, Wolfsburg with EUR 6.0 million, Cottbus with EUR 5.2 million and Halle with EUR 4.8 million. ADLER does not play a significant role in the local housing markets in any of its top 20 locations apart from Wilhelmshaven, where almost one-fifth of local housing belongs to the Group. This scale of asset concentration in a specific market is not automatically a disadvantage.

Location	Units	NRI (EUR m)	Area (Thou sqm)	Rent EUR/sqm/ month	Change against previous year (EUR)	Occupancy rate (%)	Change against previous year (PP)
Wilhelmshaven	6,903	22.4	407.2	4.99	0.22	91.9	0.05
Duisburg	4,146	16.3	260.1	5.34	0.11	98.0	-0.04
Cottbus	1,868	5.2	110.0	4.63	0.10	85.3	0.32
Halle (Saale)	1,717	4.8	97.4	4.71	0.11	86.4	-0.46
Berlin	1,698	7.6	111.6	5.80	0.18	98.2	0.04
Wolfsburg	1,300	6.0	87.5	6.04	0.62	95.3	-1.63
Helmstedt	1,219	4.2	70.7	5.15	0.16	95.5	1.30
Leipzig	1,167	3.6	70.9	4.55	0.17	94.1	0.70
Goettingen	1,139	4.8	76.1	5.49	0.56	96.2	1.08
Borna	900	2.3	50.1	4.57	-0.02	84.0	-4.30
Chemnitz	856	2.3	53.4	4.71	0.04	77.1	-3.49
Schoeningen	846	2.4	50.2	5.07	0.19	80.1	1.61
Schwerin	816	2.5	48.0	4.70	0.33	91.0	0.98
Aurich	782	2.7	52.5	4.83	0.33	88.7	6.17
Dortmund	776	3.0	51.7	4.91	0.14	97.2	0.57
Norden	747	2.8	46.8	5.15	0.41	96.7	-0.74
Erfurt	643	2.5	38.9	5.84	0.38	90.8	23.73
Fuerstenwalde	573	2.0	30.6	5.66	0.34	93.9	-1.46
Ludwigshafen	526	2.7	34.1	7.00	0.06	92.9	-1.41
Duesseldorf	465	2.5	28.0	7.89	0.35	95.6	-1.82
Top 20[1]	**29,087**	**102.7**	**1,776.0**	**5.22**	**0.22**	**92.3**	**0.51**
Total	**50,236**	**179.6**	**3,140.8**	**5.19**	**0.15**	**90.2**	**0.80**

[1] Core portfolio only

Focus on small to medium-sized residential units

Wherever ADLER is present, its portfolio 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. For ADLER, this alignment makes 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. Moreover, the risk of tenants with low incomes defaulting on their rent payments is reduced as they can obtain support from social security providers if they are unable to settle their obligations from their own incomes. Furthermore, this category of affordable living space is now also in the sights of municipal and local councils on the lookout for permanent homes for refugees.

Size of apartment	Units	% of total units	Rent/sqm/ month in EUR
< 45 sqm	6,840	13.9	5.92
≥ 45 and < 60 sqm	16,799	34.1	5.09
≥ 60 and < 75 sqm	17,537	35.6	5.14
≥ 75 and < 90 sqm	6,316	12.8	5.08
> 90 sqm	1,724	3.5	4.91
Total	**49,216**	**100.0**	**5.17**

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 with its tenants, in 2016 ADLER pooled its in-house property management activities into the newly founded company ADLER Wohnen Service GmbH. This company has now built up a regional structure to manage all group properties as has been the case since the beginning of 2018.

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 now performs the predominant share of activities with in-house resources. To this end, ADLER Gebäude Service GmbH has also developed a regional structure largely analogous to its property management counterpart.

At the beginning of 2018, ADLER Energie Service GmbH also commenced operations. This company is now responsible for all energy management in the ADLER Group. This includes procurement of heat and energy as well as responsibility for all heating systems within the Group.

ADLER expects this evolution into an integrated real estate group to boost tenant satisfaction and reduce turnover rates. This process shall be assisted by the ADLER tenant app, an innovative instrument which was initially launched in the Helmstedt region in the second quarter of 2017 and then rolled out gradually to other locations, and which is intended to facilitate communication with tenants and strengthen tenant retention. Initial experience shows that a large number of tenants assess the app positively and also actually use it. This new communication instrument is meanwhile available to all tenants.

Second programme to reduce vacancies under way

After a total of 1,300 apartments were renovated in 2017, bringing the first vacancy-reduction programme to an end, the second tranche is now under way and is scheduled for completion by the end of 2018. Overall, investment funds of EUR 12 million have been made available for the renovation of approx. 1,000 apartments.

/// ADLER ON THE CAPITAL MARKET

Real estate stocks curbed by expected rises in interest rates

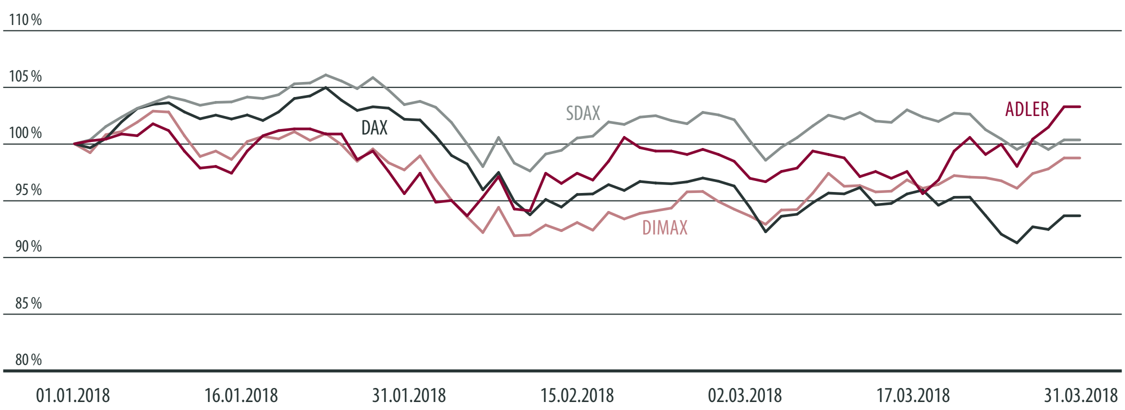
The German stock market fell slightly in the first quarter of 2018. At the end of the reporting period, the DAX was approx. 6 percent lower than at the start of the year. Although the SDAX performed much better, it was up by just 0.3 percent at the end of the first quarter. The performance of property stocks was also slightly negative. Solactive DIMAX, the index comprising Germany's main listed real estate companies, was 1.3 percent lower at the end of March than at the beginning of the year.

In this environment, ADLER's shares were among the winners in the first quarter. Having opened the year at EUR 13.22, they then fluctuated between EUR 12.50 and EUR 13.50, and stood at EUR 13.72 at the end of March. This corresponds to an increase of some 4 percent compared with the start of the year.

Number of shares increased by conversion of existing convertible bonds

The slight increase in the number of shares outstanding in the first quarter of 2018 is attributable to the conversion of existing convertible bonds. The number of shares outstanding amounted to 57,547,740 at the end of 2017. By the end of the reporting period, i.e. at the end of March 2018, this total had risen by just under 1,300 to 57,549,017 shares.

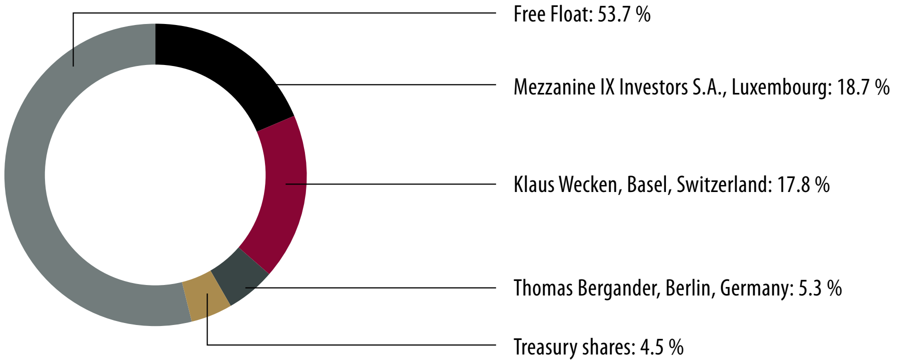
DEVELOPMENT OF THE DAX, SDAX, DIMAX AND THE ADLER SHARE 2018, JANUARY 2018 = 100



In the context of a multi-stage share buyback programme launched in June 2017, the last tranche of which was executed in March 2018, ADLER acquired a total of 2,581,915 shares, equivalent to 4.49 percent of the shares outstanding at the end of the reporting period, for a total price of EUR 34.1 million. ADLER initiated the programmes because the shares are trading well below their intrinsic value (NAV per share), and this difference offers good potential for appreciation. Voting rights relating to the acquired shares cannot be exercised.

There was a slight change to the shareholder structure in the first quarter of 2018, as one shareholder who had previously held almost 5 percent of the shares fell below the lowest reporting threshold of 3 percent. Based on the notifications received by ADLER from shareholders when reaching the relevant thresholds, the shareholder structure as at 31 March 2018 was as follows:

SHAREHOLDER STRUCTURE AS AT 31 MARCH 2018



Every building project requires official permits, so Andreas Bening speaks with city planners and building consultants of the city of Wolfsburg about how structural further development can also improve the overall living environment in the district. It is important, above all, to sound out and take into consideration the interests of current and future tenants.

/// Fundamentals of ADLER Real Estate AG Group

/// FUNDAMENTALS OF ADLER REAL ESTATE AG GROUP

BUSINESS MODEL

Until the end of the fourth quarter of 2017, ADLER Real Estate AG's business model comprised two fields of activity – Rental/Letting (investment properties) and Trading (inventory properties). The company's segment reporting in its quarterly reports was structured accordingly. However, at the end of November 2017, ADLER sold most of its shares in the company involved in the trading business, ACCENTRO Real Estate AG, thus ceasing its trading activities. Going forward, ADLER will focus solely on the letting business and simplify its business model accordingly. This has had implications for the company's segment reporting, which now consists of continued operations only. The discontinued trading operations shall not be shown any further. The earnings figures for the previous year have been adjusted accordingly.

The continued operations segment contains all portfolios of the rental segment, through the letting of which ADLER Real Estate AG aims to generate long-term gross rental income. They are intended to cover all letting-related expenses and prospectively enable the company to pay a dividend to its shareholders. Gross rental income and the expenses associated with the letting business portray the activities of the group's central Asset Management department, which manages the residential units held in the portfolio in both technical and commercial terms. In addition, this segment contains the activities of property and facility management. By incorporating ADLER Wohnen Service GmbH in 2016, ADLER owns a company in which internal group activities relating to property management have been pooled together. These core competences have been greatly strengthened as a result of ADLER fully insourcing these key sections of the group's value chain. Similar plans are in place for facility management under the auspices of ADLER Gebäude Service GmbH.

Since the end of 2017, ADLER Real Estate AG's business model has been focused on all activities relating to the management of investment properties. 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 holding companies. The portfolio is regularly reviewed, adjusted in line with earnings and value considerations, and developed further with the aim of increasing gross rental income and reducing the vacancy rate and optimising the portfolio's costs structure. The investment properties are regularly valued by independent surveyors. With a portfolio of more than 50,000 units, ADLER is now one of Germany's top-five listed residential property companies by number of units.

ADLER intends to further expand this portfolio with future acquisitions of shares in companies or individual portfolios and will continue to focus its investments on residential property portfolios in "B" locations and on the outskirts of large conurbations, where the rental yields are typically higher than in inner-city "A" locations. When suitable market opportunities arise, ADLER also supplements its portfolio by investing in so-called "A" locations in mid-size cities or "A" cities, such as Berlin or Leipzig, 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. As it has become increasingly more challenging to acquire portfolios on the market at attractive yields, ADLER will also explore the possibility of expanding its portfolio by way of investing in project developments, portfolio densification or loft conversions of existing portfolios as a complement to its existing approach. The exposure to these value-added activities will remain a small percentage of ADLER's balance sheet. It will not hinder any projection towards rating improvements going forward or obtaining an investment grade rating as early as possible.

The apartments in ADLER's portfolio have an average size of around 60 square metres and on average have two or three main rooms. The average monthly rent across the entire portfolio (core and non-core) was EUR 5.19 per square metre as at the end of the reporting period. ADLER thus operates in a market segment focused predominantly on tenants with medium to below-average incomes. ADLER offers this target group decent living quality at appropriate market rents. Demand for affordable living space continues to grow as the average age of the population rises in conjunction with an increasing number of single-person households. Furthermore, migration to Germany from various parts of the EU has boosted the demand for such housing as individuals see better employment prospects in Germany. Others come from far away countries to seek asylum. Despite the renewed increase in overall construction activity, the supply of new housing in this segment remains low. This is because new construction is in most cases only viable in the higher-priced rental segment as construction costs still remain significantly higher than the open market value of affordable residential units. This is true to an even greater degree in "B" locations.

In the balance sheet, existing real estate is typically included as investment properties at their fair value, which in turn is determined by independent companies specialising in this kind of valuation. Changes in the value of the properties are recognised through profit or loss in the income statement and also change the Group's net asset value (NAV).

Targets and strategies

ADLER Real Estate AG takes decisions in accordance with its objectives of obtaining and maintaining sustainable growth, thus increasing the company's value and performance. All aspects of the Group's corporate strategy are aligned towards these objectives. The company's value is measured by reference to net asset value (NAV), as defined by the European Public Real Estate Association (EPRA). ADLER is a member of this organisation. A separate report as defined by EPRA is part of the annual report.

The value of the company's real estate portfolio can mainly be increased by achieving the highest possible income from letting activities and ensuring that this income remains stable over time. The objective of the Asset Management department is therefore to raise occupancy rates and rental income and optimise the cost structure associated with managing the portfolio. Changes in value can also be generated by expanding the existing portfolio by way of acquisitions or by selling parts of the portfolio in the context of identifying "non-core" properties, i.e. the regular measures for portfolio optimisation.

In the context of acquisitions, the company's earnings strength can be boosted by exploiting economies 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 bundling services of external service providers by centralising and pooling tasks within the Group and by procurement.

The key focus in optimising the existing portfolio involves identifying those 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 boosts the earnings strength of the remaining portfolio.

The Asset Management department, which was reorganised with a regional focus in the middle of 2016, 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 modernisation measures. Higher-quality residential apartments are seen as attractive spaces in most areas and thus easier to let. 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, the Group introduced a programme to renovate previously unoccupied residential units in 2016. A total of approx. EUR 15 million was made available for this purpose, and the programme was successfully implemented in 2017. Approx. 1,300 units were fully renovated in the end rather than the originally intended 1,500 apartments. Measures are due to continue until 2018 as part of a second tranche with an investment volume of EUR 12 million for the renovation of approx. 1,000 apartments. The programmes are intended to reduce the existing vacancy rate and the associated vacancy costs.

It became apparent in 2017 that the strategy of growth centered around acquisitions of residential portfolios alone needed to be adapted in order to align the company with the changing trends, as suitable portfolios on the market are more difficult to source, especially at attractive prices. In order to continue to grow in spite of this, ADLER therefore decided to supplement its previous strategy by also investing in the densification of its own portfolio, in loft conversions in suitable residential estates and in development. The acquisition of Wasserstadt Mitte in Berlin (Project Riverside in Europacity) is one example. Inevitably, this kind of investment does not immediately contribute to cash flow, and instead requires advance financing. However, over the long term – an appropriate perspective for property holding companies – investments of this sort can contribute significantly to increases in enterprise value.

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), computed as net financial liabilities/value of the entire property portfolio of between 50 and 60 percent. These levels are also consistent with an investment grade rating. This automatically makes it necessary to finance future acquisitions at corresponding ratios if at all possible. In terms of its debt financing, ADLER aims for a maturity structure that corresponds to the long-term nature of the financed assets. By repaying existing liabilities or refinancing existing facilities on more favourable terms, ADLER is also aiming to further reduce its average cost of debt – an aim which was met with success also in the first quarter of 2018.

ADLER has good access to both the market for secured bank lending and the market for unsecured financing, as available on the capital markets in the form of, for instance, corporate or convertible bonds. This, too, was proved to a considerable extent in 2017. Access to these two markets reduces refinance risk, which is biggest risk associated with the industry. Since the end of 2016, investors, capital-market participants and lending banks have been able to benefit from ADLER Real Estate AG's rating from the world-renowned rating agency Standard and Poor's in order to assess the creditworthiness of the company. Since December 2016, it has been raised several times and had a BB/positive outlook as at the reporting date.

Economic success also sometimes depends on the company's own speed of reaction. To be able to respond to any market opportunities at short notice, ADLER has authorised and contingent capital, both of which are approved by shareholders and can be utilised at any time to make acquisitions. The treasury stock purchased under the share buyback programmes could also be used as acquisition currency.

Acquisition strategy

In order to firmly establish itself as a major residential property player in Germany, ADLER aims to generate growth by making acquisitions in shares of companies or individual portfolios in the future as well. Size is not an end in itself but rather a way to enhance financial metrics by drawing on economies of scale and efficiency gains. New portfolios for the letting business should be consistent with the existing business model or supplement it in a reasonable fashion. They should also be expected to generate positive cash flows from as soon after acquisition as possible. However, larger-scale portfolios are currently rarely on offer on the market. Even for smaller real estate portfolios, the prices are often unattractive from a buyer's perspective. ADLER intends to take advantage of growth opportunities from increasing the density of use of existing residential estates and closer cooperation with project developers, as the price differential between existing real estate and new properties has noticeably reduced, at least in some regions. ADLER nevertheless also plans to further expand its property holdings by acquisitions in the next few years.

MANAGEMENT SYSTEM

Financial performance indicators

The financial performance indicators used by ADLER are: net asset value (NAV), which is typically used in the sector to indicate enterprise value, funds from operations I (FFO I) to indicate cash flow-based operating earnings, and loan-to-value (LTV) to indicate financial stability.

ADLER prefers cash flow-based figures, such as FFO I, over earnings-based figures such as EBIT, because this is, firstly, consistent with the goal of generating sustainable cash inflows from lettings, and secondly because all earnings figures stemming directly from the consolidated statement of comprehensive income are typically defined to a significant extent by non-cash fair value adjustment effects in the rental portfolio, which are difficult to predict.

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 few external service providers with which ADLER still cooperates. 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 significantly, then corrective measures are devised.

Non-financial key figures also play a major role in 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 local 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 three Management Board members but no employees. Operational tasks relating to commercial 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 specialisms. Due to the strategic objective of internalising functions previously outsourced in the field of property and facility management, the number of employees at the ADLER Group grew further in the first quarter of 2018, rising from 555 at the beginning of the year to 607 full-time and part-time employees as at the end of the reporting period. The majority of employees worked at the divisions handling property management (235 employees) and facility management (297 employees).

RESEARCH AND DEVELOPMENT

As a real estate Group, ADLER does not perform any research and development in a traditional sense. However, ongoing market analyses 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. This information is supplemented by the experience gained by the company itself from letting properties on site. Moreover, 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. With its new tenant app, ADLER now also has an innovative tool for tenant and customer communication.

The company presses ahead with plans for the expansion long before the official permit processes are complete so that the renovation work can begin quickly once the permit has been granted. An architecture firm is commissioned with this task and Andreas Bening remains in regular contact with the firm.

/// Interim Group Management Report

/// Economic report

/// Report on risks and opportunities

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/// ECONOMIC REPORT

MACROECONOMIC AND SECTOR-SPECIFIC SETTINGS

The macroeconomic and sector-specific settings remained stable, and thus favourable for the property sector, in the first three months of the current financial year. Although no firm figures on the development of gross domestic product are yet available for the first quarter, the leading economic research institutes predicted growth of 2.2 percent for 2018 in their joint forecast issued in April. The inflation rate is moderate at 1.6 percent and employment is at a record high of over 44 million, while interest rates remain at historic low levels.

Above all, the development of the housing rental market is of great importance to a company such as ADLER Real Estate AG. It again proved stable in the first three months of 2018. According to the cost of living index, German rents were 1.6 percent higher nationwide in March 2018 than in the previous year. Rents thus rose at exactly the same rate as the overall cost of living. However, the average figure conceals variations between individual 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 town centres or “A” locations, as is the case 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 city. Moreover, the average does not take into account that the development of rents under new and existing leases usually differs significantly.

Legal framework

In the coalition agreement for the current legislative period, the governing parties in the grand coalition also set out the principles for housing policy in mid-March. These principles contain a commitment to a “three-pronged housing policy of boosting investment, reviving construction of social housing and striking a balance between tenancy law and sociopolitical measures.” This is not necessarily good news for private-sector providers of affordable housing, as rents are subsidised and therefore kept artificially low in the social housing sector. In turn, tenancy law and sociopolitical measures translate into more restricted options to increase rents in “tight” markets. This reduces the profitability of the letting business, thus impairing the value of the properties concerned. In addition, tighter regulation reduces propensity to invest.

On 10 April, the German Federal Constitutional Court deemed the existing basis for calculating property tax to be unconstitutional, while setting a deadline of the end of 2019 for it to be revised. In strictly legal terms, the ruling only applies to the former West German states, but the situation is similar in the former East German states. A revised calculation basis may lead to an overall increase in payable property tax. This would also make renting more expensive, as the owners of taxable properties are likely to pass on the property tax to tenants.

ECONOMIC DEVELOPMENT OF THE GROUP

Following the successful reorganisation of the ADLER Group as a property company that concentrates solely on the letting business and provides all tenant-related services itself, the focus in 2018 was owners of taxable properties are likely to on growth, improvement of key performance data and a stronger alignment with the capital market in order to obtain an investment-grade rating as soon as possible.

Improved alignment with the capital market was the reason behind refinancing of the promissory notes amounting to ca. EUR 615 million. This was initiated at the end of 2017 with the issue of a corporate bond and completed during the first quarter.

In February 2018, ADLER signed an agreement with Redzone Empire Holding Limited for the purchase of 41.04 percent of the shares in BCP, and also announced a special tender offer (STO) for the purchase of up to 25.8 percent of additional shares.

The acquisition was successfully concluded at the beginning of April. Through the agreement with Redzone, the STO and the purchase of shares that were offered to ADLER by the senior management of BCP, ADLER acquired a nearly 70 percent of the shares in BCP. With this acquisition, ADLER is expanding its portfolio by approx. 12,000 residential units (approx. 24 percent). In addition, key performance and financial data will be significantly improved. BCP is therefore playing its part in ensuring that ADLER can set ambitious targets for 2018.

The purchase is partly financed from ADLER'S own resources, while a bridging loan was also initially available which was refinanced through a corporate bond in April 2018.

In mid-April 2018, ADLER announced the establishment of a joint venture with Benson Elliot Capital Management LLP, geared solely towards the sale of ADLER's non-core assets, on the basis of a joint declaration of intent. ADLER aims to contribute available-for-sale rental units with a value of approx. EUR 115 million to the joint venture. The intention is for Benson Elliot to purchase a majority stake in the joint venture and ADLER to hold a substantial minority stake. ADLER will remain responsible for asset, property and facility management until the properties are eventually sold and will share in any profit on the eventual sale.

In the second half of April 2018, ADER successfully placed a EUR 800 million BB+ senior unsecured bond to institutional investors across Europe. The notes were issued in two tranches. The first tranche with a volume of EUR 500 million matures in April 2023, while the second tranche with a volume of EUR 300 million matures in April 2026. The average coupon for the total issue amounts to 2.30 percent. The net proceeds were predominantly used to refinance the bridge facility that had been provided for the acquisition of BCP. Moreover, ADLER has repurchased EUR 200 million of its outstanding 2015/2020 4.75 coupon bond for which the tender offer had been successfully closed on 27 April, 2018. Remaining parts of the proceeds are to be used for general corporate purposes.

/// REPORT ON RISKS AND OPPORTUNITIES

ADLER Real Estate AG reported in detail on the opportunities and risks involved in its business activities in its 2017 Annual Report. Since then, the overall situation has only changed with regard to the acquisition of BCP and the intended establishment of a joint venture to sell non-core assets.

With the acquisition of BCP, ADLER has gained the opportunity to achieve fast and sustainable growth while improving its key operating and financial performance indicators in order to generate synergies via economies of scale, and thus to create additional value for shareholders. This opportunity is naturally countered by the risk that ADLER incorrectly assessed the recoverability of the assets when setting the purchase price, that integration does not work out as expected or that financing cannot can be carried out in line with the model that currently seems appropriate and right. However, ADLER believes that these risks are manageable – partly because the company boasts a long and successful tradition of acquisitions.

With the intended establishment of the joint venture, ADLER will relieve its balance sheet from properties which are up for sale because they did not – or do no longer – fit with its business model. As a partner in the joint venture, ADLER will still share in the possible profit on the eventual sale to third parties.

/// REPORT ON EXPECTED DEVELOPMENTS

ADLER Real Estate AG reported in detail on its financial guidance for the current financial year in its 2017 Annual Report. The guidance figures included the acquisition of BCP, although it was not consolidated at the time. Since then, expectations have only slightly changed. ADLER Real Estate AG expects the macroeconomic framework for companies in the property sector to remain stable and favourable during 2018. With the general situation remaining positive and on account of the company's own efforts to strengthen its operating business, ADLER expects that at the end of 2018, the occupancy rate will be around 2 percentage points higher, average rents around 4 percent higher and net rental income for 2018 up by approx. 25 per cent compared with the start of the year. This change in letting metrics particularly reflects the growth momentum from the acquisition of BCP.

With the additional contribution of BCP, FFO I is likely to rise to between EUR 65 million and EUR 70 million in 2018, an increase of around 65 percent.

The company's financial indicators will also improve, in some cases significantly, during the course of 2018. The LTV, which ADLER now calculates as the ratio of net financial liabilities to the value of the entire property portfolio in line with customary industry standards, is likely to fall by more than 4 percentage points to 55 percent in the course of the year. Average debt interest, which improved substantially in 2017, is expected to drop by a further 0.2 percentage points to around 2.5 percent.

After the successful buy back of EUR 200 million of its 4.75 percent 2015/2020 bonds end of April, ADLER has revised the guidance in two positions. The weighted average cost of debt is expected to reach 2.4 percent at the end of the year instead of the 2.5 percent guided so far, as liabilities with a coupon of 4.75 percent have been refinanced with liabilities yielding 2.3 percent on average. Interest expenses for 2018 therefore decrease and strengthen FFO I at the same time by approx. EUR 3 million. Guidance for FFO I has therefore been revised to a range of around EUR 68 to EUR 73 million.

For its EPRA NAV, ADLER expects significant growth in 2018, reflecting the investment in and expansion of the portfolio as well as changes in the market. However, it is hard to estimate the extent of this growth, as EPRA NAV is heavily influenced by independent valuations.

/// REPORT ON EVENTS AFTER THE BALANCE SHEET DATE

In April 2018, ADLER Real Estate AG successfully acquired nearly 70 percent of the shares in BCP. BCP will be fully integrated in the reporting for the first half of the year, which will result in all major financial KPIs being affected. Following the financial disclosure for its financial year 2017, BCP recorded net rental income amounting to EUR 74.1 million and FFO I of EUR 37.4 million. As of 31 December, 2017, total assets of BCP amounted to EUR 1,647 million, total debt to EUR 949 million and EPRA NAV reached EUR 689 million. BCP is engaged in three business activities: residential real estate, commercial real estate and project developments.

Also in April 2018, ADLER Real Estate AG agreed, with Benson Elliot Capital Management LLP, based on a letter of intent, to set up a joint venture with the sole purpose of disposing ADLER´s non-core assets. ADLER will transfer its non-core units earmarked for disposal into the joint venture at a total value of approx. EUR 115 million. Benson Elliot intends to acquire a majority stake in the joint venture, while ADLER intends to hold a substantial minority. Until the assets are finally sold to third parties, ADLER maintains the asset, property and facility management of the whole portfolio. Moreover, ADLER will profit from the potential upside of the final sale to third parties. The joint venture will relieve the balance sheet from assets that fall outside the desired areas of exposure and will thus improve the operating KPIs of the ADLER Group.

In the second half of April 2018, ADLER successfully placed a EUR 800 million BB+ senior unsecured bond to institutional investors across Europe. The notes were issued in two tranches, the first one with a volume of EUR 500 million and maturity of April 2023, the second with a volume of EUR 300 million maturing in April 2026. The average coupon for the total issue amounts to 2.3 percent. The net proceeds from the notes issuance were used primarily for the purpose of refinancing the bridge loan structured in connection with the successful acquisition of BCP. Moreover, ADLER has bought back EUR 200 million of principal amount of the existing 2015/2020 notes with a coupon of 4.75 percent. The offer was closed successfully on 27 April, 2018. The remaining proceeds will be used for general corporate purposes.

No further events with the potential to significantly influence the earnings, assets 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 company’s business performance up to the reporting date confirms the statements made in its report on expected developments.

/// RESULTS FROM OPERATIONS, NET ASSETS AND FINANCIAL POSITION

RESULTS FROM OPERATIONS, NET ASSETS AND FINANCIAL POSITION

PRELIMINARY REMARK

With effect as of 30 November 2017 (closing date), ADLER fully de-consolidated ACCENTRO Real Estate by selling the majority of the shares it owned including its controlling influence over ACCENTRO Real Estate AG (ACCENTRO) and its subsidiaries. Consequently ADLER discontinued its trading activities and its trading segment at the same time. The remaining interest in ACCENTRO is reported under non-current assets held for sale.

The Consolidated Statement of Comprehensive Income was adjusted in accordance with IFRS 5, including the previous year's comparative figures, and shows only continuing operations in the respective items, while the discontinued Trading segment – including earnings from the sale of ACCENTRO – is includedd in a total as earnings after taxes from discontinued operations.

In the Consolidated Statement of Cash Flows, cash flows from operating, investing and financing activities are shown separately in the amount in which they relate to continuing and discontinued operations.

RESULT FROM OPERATIONS

After the sale of the majority of its shares in ACCENTRO Real Estate AG, ADLER Real Estate AG generates its income almost exclusively from the management of its existing properties. Its business model is realigned to focus on this.

In EUR millions	3M 2018	3M 2017 adjusted[1]	3M 2017 reported
Gross rental income	68.1	64.9	66.9
of which net rental income	44.9	42.0	43.9
Expenses from property lettings	-29.1	-35.6	-36.1
Earnings from property lettings	**39.0**	**29.3**	**30.8**
Income from the sale of properties	3.0	8.6	27.4
Expenses from the sale of properties	-2.1	-8.5	-22.8
Earnings from the sale of properties	**0.9**	**0.1**	**4.6**
Personnel expenses	-6.1	-4.6	-5.3
Other operating income	1.2	1.8	2.3
Other operating expenses	-11.0	-6.4	-7.3
Income from fair value adjustments of investment properties	22.4	7.7	7.7
Depreciation and amortisation	-0.2	-0.1	-0.3
Earnings before interest and taxes (EBIT)	**46.2**	**27.8**	**32.5**
Financial result	-54.2	-22.7	-24.3
Net income from at-equity valued investment associates	0.0	0.0	0.0
Earnings before taxes (EBT)	**-8.0**	**5.1**	**8.2**
Income taxes	-4.4	-5.1	-5.2
Net consolidated result from continuing operations	**-12.4**	**0.0**	**-**
Earnings after tax from discontinued operations[2]	-0.4	3.0	-
Net consolidated result	**-12.8**	**3.0**	**3.0**

[1] Adjusted according to IFRS 5 due to sale of Trading segment, see notes (Basis of preparation)
[2] Net consolidated result of discontinued Trading segment, see notes (Earnings after taxes from discontinued operations)

Rent increases and portfolio growth strengthen earnings from property lettings

In the first quarter of 2018, gross rental income amounted to EUR 68.1 million. This figure was 4.9 percent higher than in the same period of the previous year as shown in the adjusted statement (not including the sale of ACCENTRO Real Estate AG at the end of 2017) (EUR 64.9 million). Part of this growth is attributable to the expansion of the property portfolio, which took place predominantly in the second and third quarters of last year.

Net rental income amounted to EUR 44.9 million in the first quarter of 2018, up 6.9 percent on the previous year's comparative figure in the adjusted statement (EUR 42.0 million), which excludes the rental income of ACCENTRO. Net rental income increased not only with the expansion of the portfolio, but also due to the performance in asset and portfolio management. At the end of the period under review, the average contractually agreed rent per square metre per month for the overall portfolio amounted to EUR 5.19, EUR 0.15 higher than the figure for the same period of the previous year

(Q1 2017: EUR 5.04). In the core portfolio, which results from the overall portfolio minus the properties that are to be sold as part of the ongoing portfolio reviews, the average contractually agreed rent per square metre per month amounted to EUR 5.23 at the end of the first quarter of 2018. This was EUR 0.16 more than one year ago (EUR 5.07).

The occupancy rate for the overall portfolio came to 90.2 percent at the end of the first three months of 2018, which was also higher than one year earlier (89.4 percent). The occupancy rate in the core portfolio reached 91.7 percent at the reporting date in 2018. This equates to an improvement of 1.1 percentage points compared with one year ago (90.6 percent). The improvement in the operating performance indicators also reflects the fact that ADLER incorporated all its property holdings under the Group's own management over the course of 2017.

Expenses from property lettings comprise recoverable and non-recoverable operating expenses and maintenance expenses. Compared with the adjusted figures for the previous year, these expenses decreased by 18.3 percent to EUR 29.1 million in the first quarter of the year. This particularly reflects the aforementioned performance of asset management and the internalised property management. In 2017, ADLER successively terminated the remaining contracts with external property management companies and performed their services itself, thereby saving costs. However, this automatically meant a rise in the employee headcount, with personnel expenses also going up accordingly. The fact that maintenance expenses amounting to a figure in the low single-digit million-euro range originally planned for the first quarter were deferred to the second quarter provided only temporary relief.

Net of expenses from property lettings, earnings from property lettings amounted to EUR 39.0 million in the first quarter of 2018, 33.1 percent more than in the previous year (EUR 29.3 million).

Earnings contribution from the sale of properties low

ADLER Real Estate AG continues to generate low earnings contributions from the sale of properties after selling the majority of its shares in ACCENTRO Real Estate AG at the end of 2017. In the first quarter of 2018, these contributions amounted to EUR 0.9 million and related to the sales of 69 non-core units altogether. Since the beginning of 2015, the disposal of such properties has been ADLER's strategic objective to increase the efficiency of the overall portfolio. At the end of the first quarter of 2018, the company had specific intentions to sell a total of 4,061 rental units, corresponding to 8.1 percent of its overall portfolio. In mid-April 2018, ADLER announced its intention to incorporate most of these non-core properties at a premium into a joint venture with Benson Elliot Management LLP, in which ADLER intends to hold a minority interest.

Increased contribution from fair value adjustments

At EUR 22.4 million in the first quarter of 2018, income from fair value adjustments of investment properties was much higher than the previous year's comparative figure (EUR 7.7 million). Only those properties showing significant changes with regard to operating performance indicators or the market environment compared with the last valuation were revalued on a case-by-case basis. In some cases, this valuation gain was driven by measures to maintain and renovate the properties. These measures accounted for a total of just EUR 7.9 million in the first quarter of 2018 (Q1 2017: EUR 10.0 million) because some of the work had to be deferred until the next quarter. The property valuations are performed exclusively by independent specialist external service providers with long-standing 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.

Internalised property and facility management leading to greater personnel expenses

Personnel expenses totalled EUR 6.1 million in the first quarter of 2018 and were thus above the adjusted previous year's level of EUR 4.6 million. The increase in personnel expenses is due to the withdrawal of tasks from external service providers in the context of ADLER's realignment towards becoming an integrated real estate group. These functions have been taken over 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 607 employees as at 31 March 2018, 227 more than one year earlier if the employees of ACCENTRO from the previous year's figure are excluded.

Other operating expenses amounted to EUR 11.0 million in the first quarter of 2018 (previous year: EUR 6.4 million). This line item includes general administration expenses, office premise rents, IT expenses, legal and advisory expenses, impairments of receivables and public relations expenses. The increase is partly attributable to higher legal and advisory expenses, which in turn were related to various acquisitions and refinancing measures such as the acquisition of BCP and the issuing of EUR 800 million in bonds.

Other operating income amounted to EUR 1.2 million in the first three months of the current financial year, EUR 0.6 million lower than in the same period of the previous year (EUR 1.8 million).

Significant increase in EBIT

After the deduction of all non-financial expenses, earnings before income and taxes (EBIT) for the first quarter of 2018 amounted to EUR 46.2 million. Compared with the EBIT figure for the first quarter of the previous year (EUR 27.8 million), which had been adjusted for the contribution of ACCENTRO, there was a significant increase of 66.2 percent. The largely cash-effective earnings from property lettings and the non-cash-effective income from fair value adjustments of investment properties contributed to this increase.

Financial result comprises high one-off expenses

At minus EUR 54.2 million, the financial result for the first quarter of 2018 was significantly lower than the equivalent figure for the previous year (minus EUR 22.7 million). This change can be attributed exclusively to one-off expenses (prepayment penalties, loan commitment fees and transaction costs). EUR 37.4 million of these expenses relate to the refinancing of outstanding promissory note loans totalling approximately EUR 615 million, which was largely initiated in 2017 but not concluded until the first quarter of 2018.

In the first quarter of the previous year, financial costs included one-off expenses of EUR 3.5 million.

The significant deterioration in the financial result due to one-off factors resulted in earnings before taxes (EBT) of negative EUR 8.0 million in the first quarter of 2018 (Q1 2017: EUR 5.1 million not including ACCENTRO).

Income tax expenses came to EUR 4.4 million in the first quarter of 2018 (previous year: EUR 5.1 million). From the total tax expenses, EUR 0.4 million were current tax expenses and EUR 4.0 million related to deferred, non-cash-effective taxes. The consolidated net loss for the first quarter of 2018 amounting to minus EUR 12.8 million (Q1 2017: EUR 3.0 million) is comprised of two components: the consolidated net loss from continuing operations of minus EUR 12.4 million and the result from discontinued operations totalling minus EUR 0.4 million. Of the consolidated net loss, minus EUR 16.0 million is attributable to shareholders in the parent company (Q1 2017: EUR 1.5 million).

Segment reporting

In previous years, ADLER Real Estate AG distinguished between its Rental and Trading segments in its segment reporting. This is no longer the case following the sale of the majority of the shares in ACCENTRO Real Estate AG, the company responsible for the trading business, at the end of 2017. From this date, only continuing operations are to be presented in the segment reporting. The discontinued Trading segment will no longer be shown.

All portfolios from which ADLER Real Estate AG aims to generate long-term gross rental income through lettings, which are combined in the Rental segment, are contained in continuing operations. Gross rental income and the expenses associated with the letting business portray the activities of the Group's central Asset Management department, which manages residential units held in the portfolio in technical and commercial terms. This segment also includes the expenses of ADLER Wohnen Service GmbH, founded in 2016, which bundles the Group's own property management activities, and has now expanded to such an extent that ADLER has almost completely integrated this section of the value chain into the Group. Similar plans are in place for the Facility Management department under the auspices of ADLER Gebäude Service GmbH, a group company formed from the former Arkadio Facility Management GmbH.

Other group activities that do not constitute standalone segments are pooled in the "Other" column. These mainly involve historic holdings relating to development projects that are still in the process of being sold off since the Group's realignment in 2014.

The following table shows the allocation of income and earnings, operating and financial expenses and results to the various segments.

ADLER Group	Rental		Other		Group	
In EUR millions	**3M 2018**	**3M 2017**	**3M 2018**	**3M 2017**	**3M 2018**	**3M 2017[1)]**
Gross rental income and income from the sale of properties	71.1	73.5	0.0	0.0	71.1	73.5
of which gross rental income	68.1	64.9	0.0	0.0	68.1	64.9
of which income from disposals	3.0	8.6	0.0	0.0	3.0	8.6
of which income from brokerage	0.0	0.0	0.0	0.0	0.0	0.0
Change in the value of investment properties	22.4	7.7	0.0	0.0	22.4	7.7
Earnings before interest and taxes (EBIT)	**46.2**	**27.9**	**0.0**	**-0.1**	**46.2**	**27.8**
Income from investments accounted for using the at-equity method	0.0	0.0	0.0	0.0	0.0	0.0
Financial result	**-54.2**	**-22.7**	**0.0**	**0.0**	**-54.2**	**-22.7**
Earnings before taxes (EBT)	**-8.0**	**5.2**	**0.0**	**-0.1**	**-8.0**	**5.1**

[1)] Adjusted statement due to sale of Trading segment, see comments in the notes for the group financial statements (Basis of preparation and Segment reporting)

Funds from operations (FFO) almost doubled

As is customary in the real estate sector, ADLER Real Estate AG refers to funds from operations (FFO) as its major cash-flow-based performance indicator in order to assess the profitability of its operating business. FFO I represents the performance of the property letting business. Following the sale of the trading business ADLER no longer reports FFO II, which 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 a non-periodic nature, recur irregularly, not typical for operations, or non-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 charges), as are any earnings generated from the sale of properties and current income taxes. Any investments made to maintain the condition of the properties but that have not been capitalised are then added.

In EUR millions		3M 2018	3M 2017
Consolidated net profit		**-12.8**	**3.0**
of which from continuing operations		**-12.4**	**3.1**
+	Financial result	54.6	24.3
	of which from continuing operations	54.2	22.7
+	Income taxes	4.4	5.2
	of which from continuing operations	4.4	5.1
+	Depreciation and amortisation	0.2	0.3
	of which from continuing operations	0.2	0.1
–	Income from measurement of investment properties	22.4	7.7
	of which from continuing operations	22.4	7.7
–	Income from investments accounted for using the at-equity method	0.0	0.0
	of which from continuing operations	0.0	0.0
EBITDA IFRS (continuing and discontinued operation)		**24.0**	**25.1**
+/–	Non-recurring and extraordinary items	6.2	2.7
Adjusted EBITDA		**30.2**	**27.8**
–	Interest expense FFO	14.7	18.1
–	Current income taxes	0.4	0.2
+	Capitalisable maintenance measures	0.0	2.8
–	Earnings before interest and taxes from the sale of properties	0.9	4.4
FFO I		**14.2**	**7.9**
Number of shares (basic)[1)]		66,633,768	59,377,694
FFO I per share (basic)		0.21	0.13
Number of shares (diluted)[2)]		78,845,541	65,683,211
FFO I per share (diluted)		0.18	0.12

[1)] 54,967,102 shares as at balance sheet date (previous year: 47,711,028) plus 11,666,666 shares from assumed conversion of mandatory convertible bonds (previous year: 11,666,666) which are considered as equity, previous year adjusted according to IAS 33.64, see notes (Earnings per share)

[2)] Plus 12,211,773 shares from assumed conversion of all other convertible bonds with entitlement to conversion (previous year: 6,305,517), previous year adjusted according to IAS 33.64, see notes (Earnings per share)

Non-recurring and extraordinary items are structured as follows:

Non-recurring and extraordinary items In EUR millions	3M 2018	3M 2017
Non-cash income/expenses and one-off payments	1.9	0.0
Costs of acquisition/integration	2.0	0.2
Optimisation of business model, structuring	2.3	2.5
Total of non-recurring and extraordinary items	**6.2**	**2.7**

The FFO interest charge is derived as follows:

Interest expense FFO In EUR millions	3M 2018	3M 2017
Interest income	2.3	0.7
Interest expenses	56.9	25.0
Total interest income (continuing and discontinued operations)	**-54.6**	**-24.3**
Adjustments		
Interest expenses from the sale of properties	0.0	1.1
Prepayment compensation and provision costs	32.8	2.1
Effects of measurement of primary financial instruments	7.1	1.4
Other adjustments	0.0	1.6
Interest expenses FFO	**-14.7**	**-18.1**

Calculated this way, FFO I for the first quarter of 2018 amounted to EUR 14.2 million, EUR 6.3 million or 79.7 percent higher than the figure for the previous year's period (EUR 7.9 million).

Calculated on an undiluted basis (shares issued less treasury shares plus shares arising from conversion of the mandatory convertible bond allocated to share capital), FFO I per share amounted to EUR 0.21 as at 31 March 2018. On a diluted basis (shares issued less treasury shares 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 0.18.

NET ASSETS

In EUR millions	31.03.2018	as percentage of total assets	31.12.2017	as percentage of total assets
Non-current assets	**3,367.4**	**82.7**	**3,125.5**	**82.7**
of which investments properties	3,054.2	75.0	3,018.5	79.9
Current assets	**677.5**	**16.6**	**629.9**	**16.7**
of which inventories	3.0	0.1	3.0	0.1
of which cash and cash equivalent investments	388.7	9.6	368.2	9.7
Non-current assets held for sale	**25.0**	**0.6**	**23.6**	**0.6**
Assets	**4,069.9**	**100.0**	**3,779.0**	**100.0**
Equity	**1,007.7**	**24.8**	**1,037.5**	**27.5**
of which capital stock	54.9	1.3	56.1	1.5
of which capital reserve	350.2	8.6	350.2	9.3
of which net retained profit	525.0	12.9	555.4	14.7
Non-current liabilities	**2,368.9**	**58.2**	**2,363.2**	**62.5**
of which liabilities from convertible bonds	120.9	3.0	119.7	3.2
of which liabilities from bonds	1,277.9	31.4	1,277.6	33.8
of which financial liabilities to banks	750.3	18.4	749.2	19.8
Current liabilities	**689.9**	**17.0**	**377.5**	**10.0**
of which financial liabilities to banks	583.3	14.3	278.7	7.4
Liabilities held for sale	**3.4**	**0.1**	**0.8**	**0.0**
Equity and liabilities	**4,069.9**	**100.0**	**3,779.0**	**100.0**

At the end of the first quarter of 2018, the balance sheet changed both in total and structure due mainly to the refinancing of outstanding promissory note loans, which was initiated in 2017 but not concluded until the first quarter of 2018, and preparations for the acquisition of BCP and the associated financing thereof. As at 31 March 2018, ADLER Real Estate AG reported assets of EUR 4,069.9 million, 7.7 percent more than at the end of the previous year (EUR 3,779.0 million).

Improvement in non-current assets

The increase in the consolidated balance sheet is largely attributable to the increase in value of non-current assets. An increase of EUR 205.8 million was the result of an advance payment in connection with the purchase of the majority of shares in BCP. This purchase was not completed until after the end of the quarter.

The fact that the fair value of investment properties continued to rise as a result of the fair value adjustments also caused non-current assets to increase. At the end of the year, investment properties had a fair value of EUR 3,018.5 million. At the end of the first quarter of 2018, this figure was EUR 3,054.2 million.

There was also an increase in current assets from EUR 629.9 million at the end of 2017 to EUR 677.5 million at the end of the first quarter of 2018. This increase can be attributed mainly to increased cash and cash equivalents. This in turn is related to the fact that ADLER took out a bridge loan in connection with the special tender offer was made to finance the acquisition of BCP. This was utilised for the aforementioned advance payment in the period under review and again in April (after the end of the reporting period) to purchase the shares.

Following the sale of ACCENTRO at the end of 2017, ADLER now holds virtually no properties for trading. These were reported under "Inventories".

Slight decrease in shareholders' equity

Shareholders' equity amounted to EUR 1,007.7 million at the end of the first quarter of 2018. This figure was somewhat lower than at the end of the previous year (EUR 1,037.5 million). This is because net retained profit declined by EUR 30.4 million as a result of the accumulated loss and the share buyback programme in the first quarter and because after the end of the share buyback programme share capital – offset against the low number of conversions – was EUR 1.2 million lower than at the end of the previous year. This equates to an equity ratio of 24.8 percent.

Non-current liabilities unchanged, current liabilities increased

Non-current liabilities amounted to EUR 2,368.9 million as at 31 March 2018, remaining at virtually the same level as three months ago (EUR 2,363.2 million).

Current liabilities totalled EUR 689.9 million at the end of the first quarter of 2018, up significantly on the figure for the end of 2017 (EUR 377.5 million). Of this increase, EUR 532.7 million can be accounted for by the bridging loan that was taken out to finance the acquisition of BCP and that was redeemed in April (after the end of the reporting period) through non-current bonds. The repayment of promissory note loans worth EUR 225.6 million had an opposite effect. At the end of the year, these were transferred from non-current to current liabilities on account of the upcoming premature repayment.

Net financial liabilities amounted to EUR 2,401.9 million at the end of the first quarter of 2018, up EUR 295.7 million on the figure at the end of the previous year (EUR 2,106.2 million). This can be attributed primarily to the financing requirements for the acquisition of BCP and the prepayment penalties paid.

Slight increase in loan to value (LTV)

Previously, ADLER had used LTV as the ratio of financial liabilities to total assets (loan to value), with both figures adjusted to exclude cash and cash equivalents. As another formula is more widely used in the real estate sector, ADLER is complying with these practices and is now using LTV II in place of the previous LTV. This showed the ratio of financial liabilities (adjusted for cash and cash equivalents, non-current assets held for sale, purchase price receivables and liabilities held for sale) to ADLER's total property assets. LTV II according to this calculation was 60.4 percent, 1.0 percentage point higher than at the end of 2017, assuming that the convertible bonds outstanding at the reporting date were converted into shares.

The share buyback program has a transitional negative impact on the LTV. If LTV was adjusted for the effects of the buyback program based on the acquisition values as have been recorded in the balance sheet, it would have stood at 59.3 percent at the end of the first quarter 2018.

This change is only temporary. The consolidation of Brack Capital Properties set to take place over the course of the second quarter will positively impact LTV. At the end of the year, ADLER therefore still anticipates an LTV of around 55 percent.

In EUR millions		31.03.2018	31.12.2017
Convertible bonds		126.3	126.2
+	Bonds	1,330.7	1,320.3
+	Financial liabilities to banks	1,333.6	1,027.9
–	Cash and cash equivalents	388.7	368.2
=	**Net financial liabilities**	**2,401.9**	**2,106.2**
–	Non-current assets held for sale, purchase price receivables and advance payments minus liabilities associated with assets held for sale[1)]	428.7	184.5
=	**Adjusted net financial liabilities**	**1,973.3**	**1,921.7**
Investment properties		3,054.2	3,018.5
+	Inventories	3.0	3.0
=	**Gross asset value**	**3,057.2**	**3,021.5**
LTV II including convertible bonds in %		64.5	63.6
LTV II excluding convertible bonds in %		60.4	59.4

[1)] Advance payments for purchase of shares in BCP with an amount of EUR 205.8 million; purchase price receivable ACCENTRO including interest with an amount of EUR 163.2 million (previous year: EUR 161.7 million); advance payment for repayment of the 2013/2018 bond with an amount of EUR 38.1 million; non-current assets held for sale with an amount of EUR 25.0 million (previous year: EUR 23.6 million) and liabilities associated with assets held for sale with an amount of EUR 3.4 million (previous year: EUR 0.8 million)

Due to the extensive repayments of promissory note loans with higher interest rates and the favourable conditions for the bridging loan, it was possible to further reduce the weighted average cost of debt (WACD) significantly for all of the ADLER Group's liabilities in the first quarter of 2018. As at the end of March, it was 2.38 percent (compared to 2.72 percent at the end of the previous year).

Net asset value (EPRA NAV) at a high level

Net asset value (EPRA NAV), which is calculated in accordance with the guidelines issued by the European Public Real Estate Association (EPRA), reached EUR 1,184.2 million at the end of the first quarter of 2018. It is therefore slightly below the figure at the end of 2017 (EUR 1,207.2 million). This equates to a decrease of 1.9 percent compared with the end of 2017. The main reason for this is the reduction in shareholders' equity, which in turn is attributable to the consolidated net loss in the first quarter of 2018 and the further acquisition of treasury shares.

Based on the total number of existing shares in circulation at the balance sheet date less treasury shares plus the shares resulting from the assumed conversion of the mandatory convertible bond counted as shareholders' equity, undiluted EPRA NAV per share amounted to EUR 17.77 as at 31 March 2018 (end of 2017: EUR 17.80).

Diluted EPRA NAV per share amounted to EUR 16.61 at the end of the first quarter of 2018 (end of 2017: EUR 16.64).

In EUR millions	31.03.2018	31.12.2017
Equity	**1,007.7**	**1,037.5**
Non-controlling interests	-80.1	-76.9
Equity attributable to ADLER shareholders	**927.6**	**960.6**
Deferred tax liabilities on investment properties	245.7	235.5
Difference between fair values and carrying amounts of inventory properties	7.0	7.0
Fair value of derivative financial instruments	5.6	5.9
Deferred taxes for derivative financial instruments	-1.7	-1.8
EPRA NAV	**1,184.2**	**1,207.2**
Number of shares, basic[1]	66,633,768	67,822,504
EPRA NAV per share (basic) in EUR	**17.77**	**17.80**
EPRA NAV adjusted for effects of conversion of convertibles	**1,309.6**	**1,331.7**
Number of shares, diluted[2]	78,845,541	80,035,551
EPRA NAV per share (diluted) in EUR	**16.61**	**16.64**

[1] 54,967,102 shares as at balance sheet date (previous year: 56,155,838) plus 11,666,666 shares from assumed conversion of mandatory convertible bonds (previous year: 11,666,666) which are considered as equity, previous year adjusted according to IAS 33.64, see notes (Earnings per share)
[2] Plus 12,211,773 shares from assumed conversion of all other convertible bonds with entitlement to conversion (previous year: 12,213,047), previous year adjusted according to IAS 33.64, see notes (Earnings per share)

FINANCIAL POSITION

In EUR millions	3M 2018	3M 2017
Cash flow from operating activities	32.9	-0.6
– of which from continuing operations	32.9	7.8
Cash flow from investing activities	-222.3	389.8
– of which from continuing operations	-222.3	389.9
Cash flow from financing activities	210.1	-321.1
– of which from continuing operations	210.1	-324.3
Cash-effective change in cash and cash equivalents	20.6	68.1
Non-cash-effective change in cash and cash equivalents	-0.2	0.0
Cash and cash equivalents at beginning of period	368.2	123.9
Cash and cash equivalents at end of period	388.7	192.0

Cash flow from operating activities came to EUR 32.9 million in the first quarter of 2018. In the same period of the previous year, cash flow from continuing operations was EUR 7.8 million. This increase reflects the qualitative improvement in the operating business, due partly to the internalisation of property management activities.

There was an outflow of funds from investing activities of EUR 222.3 million in the first quarter of 2018 relating primarily to advance payments in connection with the acquisition of BCP. The cash inflow of EUR 389.9 million in the corresponding quarter of the previous year was attributable mainly to the sale of the shares held in conwert Immobilien Invest SE.

There was an inflow of funds from financing activities of EUR 210.1 million in the first quarter of 2018. This figure resulted primarily from the balance of the inflow of EUR 532.7 million from the bridging loan and the cash outflow of EUR 225.6 million to repay the outstanding promissory note loans.

As at 31 March 2018, the ADLER Group had financial funds (cash and cash equivalents) of EUR 388.7 million (previous year: EUR 192.0 million). The high level of cash and cash equivalents can be explained by the fact that financial resources were available to finance the acquisition of Brack Capital Properties but had still not been utilised at the reporting date because the transaction was not concluded until after the end of the reporting period.

The Group was at all times able to meet its payment obligations.

OVERALL SUMMARY OF BUSINESS PERFORMANCE AND POSITION OF GROUP

Given the acquisition-related growth, the further development of existing property portfolios, the successful implementation 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 been laid for an attractive performance in the future.

/// Group interim financial statement as at 31 March 2018

Andreas Bening consults with the commissioned architecture firm to discuss combining work to modernise the building and adding a top floor. Other topics for discussion include the maintenance and improvement of green areas and tree populations, additional parking spots, safe play areas for children and organising refuse facilities.

/// CONSOLIDATED BALANCE SHEET

(IFRS) as at 31 March 2018

In EUR '000	31.03.2018	31.12.2017
Assets	**4,069,867**	**3,778,967**
Non-current assets	**3,367,439**	**3,125,490**
Goodwill	101,198	101,198
Intangible assets	538	567
Property, plant and equipment	5,247	4,948
Investment properties	3,054,198	3,018,518
Loans to associated companies	0	0
Investments in associated companies	25	25
Other financial investments	28	28
Other non-current assets	206,205	205
Deferred tax assets	0	0
Current assets	**677,431**	**629,895**
Inventories	2,973	2,978
Trade receivables	17,888	10,717
Income tax receivables	4,664	4,459
Other current assets	263,187	243,508
Cash and cash equivalents	388,718	368,233
Non-current assets held for sale	**24,997**	**23,582**

In EUR '000	31.03.2018	31.12.2017
Equity and liabilities	**4,069,867**	**3,778,967**
Shareholders' equity	**1,007,673**	**1,037,500**
Capital stock	57,549	57,548
Treasury shares	-2,528	-1,392
	54,967	56,156
Capital reserve	350,206	350,203
Retained earnings	-2,714	-1,310
Currency translation reserve	85	86
Net retained profit	525,033	555,442
Equity attributable to owners of the parent company	927,578	960,576
Non-controlling interests	80,095	76,924
Non-current liabilities	**2,368,940**	**2,363,126**
Pension provisions	3,939	3,989
Deferred tax liabilities	168,423	164,571
Other provisions	2,325	1,664
Liabilities from convertible bonds	120,858	119,731
Liabilities from bonds	1,277,905	1,277,640
Financial liabilities to banks	750,279	749,188
Other non-current liabilities	45,211	46,344
Current liabilities	**689,871**	**377,512**
Other provisions	9	46
Income tax liabilities	2,491	2,516
Liabilities from convertible bonds	5,449	6,505
Liabilities from bonds	52,832	42,679
Financial liabilities to banks	583,305	278,676
Trade payables	29,901	29,125
Other current liabilities	15,883	17,964
Liabilities held for sale	**3,383**	**829**

/// CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(IFRS) for the period from 1 January to 31 March 2018

In EUR '000	**3M 2018**	**3M 2017[1)]**
Gross rental income	68,073	64,926
Expenses from property lettings	-29,136	-35,666
Earnings from property lettings	**38,938**	**29,260**
Income from the sale of properties	3,077	8,613
Expenses from the sale of properties	-2,139	-8,481
Earnings from the sale of properties	**938**	**132**
Personnel expenses	-6,092	-4,607
Other operating income	1,255	1,774
Other operating expenses	-11,021	-6,374
Income from fair value adjustments of investment properties	22,387	7,677
Depreciation and amortisation	-235	-109
Earnings before interest and taxes (EBIT)	**46,170**	**27,752**
Financial income	2,265	675
Financial costs	-56,485	-23,384
Net income from at-equity valued investment associates	0	0
Earnings before taxes (EBT)	**-8,050**	**5,042**
Income taxes	-4,385	-5,083
Consolidated net profit from continuing operations	**-12,408**	**-41**
Earnings after taxes of discontinued operations	-395	3,079
Consolidated net profit	**12,803**	**3,038**
Actuarial gains/losses before taxes	0	0
Deferred taxes on actuarial gains/losses	0	0
OCI gains/losses not reclassifiable into profit or loss	**0**	**0**
Gains/losses from currency translation	-1	2
Change in value of interests in companies accounted for under at-equity	0	1,589
Change in value of financial assets at fair value	-323	0
OCI gains/losses reclassifiable into profit or loss	**-324**	**1,592**
Total comprehensive income	**-13,127**	**4,630**

In EUR '000	3M 2018	3M 2017[1]
Carry-over total comprehensive income	**-13,127**	**4,630**
Net profit from continuing operations:		
Owners of the parent company	-15,615	-990
Non-controlling interests	3,207	949
Consolidated net profit attributable to:		
Owners of the parent company	-16,010	1,525
Non-controlling interests	3,207	1,513
Total comprehensive income attributable to:		
Owners of the parent company	-16,334	3,117
Non-controlling interests	3,207	1,513
Earnings per share, basic in EUR (consolidated net profit from continuing operations)	-0.23	-0.02
Earnings per share, diluted in EUR (consolidated net profit from continuing operations)	-0.18	-0.01
Earnings per share, basic in EUR (consolidated net profit) [2]	-0.24	0.02
Earnings per share, diluted in EUR (consolidated net profit) [2]	-0.18	0.02

[1] Adjusted statement due to sale of Trading segment, see comments in the notes for the group financial statements (Basis of preparation)
[2] Previous year adjusted corresponding to IAS 33.64; please see comments in notes to the consolidated financial statements (Earnings per share)

/// CONSOLIDATED STATEMENT OF CASH FLOWS

(IFRS) for the period from 1 January to 31 March 2018

	In EUR '000	3M 2018	3M 2017
	Earnings before interest and taxes (EBIT) – continuing and discontinued operations	46,170	32,505
+	Depreciation and amortisation	235	261
–/+	Net income from fair value adjustments of investment properties	-22,387	-7.677
–/+	Non-cash income/expenses	577	1,327
–/+	Changes in provisions and accrued liabilities	574	-803
–/+	Increase/decrease in inventories, trade receivables and other assets not attributable to investment or financing activities	14,478	-956
–/+	Decrease/increase in trade payables and other liabilities not attributable to investment or financing activities	-6,721	-12,132
+	Interest received	51	440
+	Dividends received	0	173
+/–	Tax payments	-78	-2,632
=	**Operating cash flow before de-/reinvestment into the trading portfolio**	**32,899**	**10,506**
–/+	Increase/decrease in inventories (commercial properties)	0	-11,128
=	**Net cash flow from operating activities**	**32,899**	**-622**
	thereof continuing operations	32,899	7,798
	thereof discontinued operations	0	-8,420
–	Acquisition of subsidiaries, net of cash acquired	-205,757	-488
–	Purchase of investment properties	-17,571	-33,855
+	Disposal of investment properties, net of cash disposed	1,890	8,247
–	Purchase of property, plant and equipment and intangible assets	-914	-176
+	Disposal of property, plant and equipment and intangible assets	0	8
+	Proceeds from deinvestments of financial assets less costs to sell	14	416,260
–	Investments in financial assets	0	-137
=	**Net cash flows from investing activities**	**-222,338**	**389,859**
	thereof continuing operations	-222,338	389,863
	thereof discontinued operations	0	-4
–	Payments for acquisition of treasury shares including acquisition costs	-15,604	0
–	Payments for acquisition and repayment of convertible bonds	0	-35,127
–	Repayment of bonds	-35,000	0
–	Interest payments	-45,096	-23,276
+	Proceeds from bank loans	536,995	16,878
–	Repayment of bank loans	-231,218	-279,602
=	**Net cash flows from financing activities**	**210,077**	**-321,127**
	of which from continuing operations	210,077	-324,333
	of which from discontinued operations	0	3,206

In EUR '000		3M 2018	3M 2017
	Reconciliation to Consolidated Balance Sheet		
	Cash and cash equivalents at beginning of periods	**368,233**	**123,911**
	Non-cash changes in cash and cash equivalents	-153	0
	Net cash flow from operating activities	32,899	-622
	Net cash flow from investing activities	-222,338	389,859
	Net cash flow from financing activities	210,077	-321,127
=	**Cash and cash equivalents at end of periods**	**388,718**	**192,021**

/// CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(IFRS) for the period from 1 January to 31 March 2018

In EUR '000	Capital stock	Treasury shares	Capital reserves
As at 1 January 2017	**47,702**	**0**	**352,105**
Consolidated net profit	0	0	0
Other comprehensive income (OCI) – reclassifiable	0	0	0
Other comprehensive income (OCI) – non-reclassifiable	0	0	0
Change in scope of consolidation	0	0	0
Increase/decrease in shareholding with no change in status	0	0	0
Convertible bond acquisition	0	0	-22,883
Conversion of convertible bonds	9	0	13
As at 31 March 2017	**47,711**	**0**	**329,235**
As at 1 January 2018	**57,548**	**-1,392**	**350,203**
Consolidated net profit	0	0	0
Other comprehensive income (OCI) – reclassifiable	0	0	0
Other comprehensive income (OCI) – non-reclassifiable	0	0	0
IFRS 9 conversion	0	0	0
Change in scope of consolidation	0	0	0
Acquisition of treasury shares	0	-1,190	0
Conversion of convertible bonds	1	0	3
As at 31 March 2018	**57,549**	**-2,582**	**350,206**

Retained earnings	Currency translation reserve	Net retained profit	Equity attributable to the owners of the parent company	Non-controlling interests	Total equity
-2,510	**90**	**445,786**	**843,173**	**71,048**	**914,222**
0	0	1,525	1,525	1,513	3,038
1,589	2	0	1,591	0	1,591
0	0	0	0	0	0
0	0	0	0	-2	-2
0	0	0	0	-488	-488
0	0	0	-22,883	0	-22,883
0	0	0	22	343	365
-921	**92**	**447,310**	**823,427**	**72,415**	**895,842**
-1,310	**86**	**555,442**	**960,576**	**76,924**	**1,037,500**
0	0	-16,010	-16,010	3,207	-12,803
-323	-1	0	-324	0	-324
0	0	0	0	0	0
-1,081	0	0	-1,081	-38	-1,119
0	0	0	0	2	2
0	0	-14,399	-15,589	0	-15,589
0	0	0	4	0	4
-2,714	**85**	**525,033**	**927,577**	**80,095**	**1,007,673**

/// Selected notes on the group interim financial statements in accordance with IFRS as at 31 March 2018

You have to be in situ in order to assess whether the plans can be put into reality. The goal is clear: Senior citizens, families and single people alike should happily call Wolfsburg Vorsfelde their home.

/// SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IFRS) AS AT 31 MARCH 2018

GENERAL INFORMATION

ADLER Real Estate Aktiengesellschaft (hereinafter "ADLER") is the parent company of the Group and has its legal domicile at Joachimsthaler Strasse 34, Berlin, Germany. 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 real estate company focusing on establishing and developing a substantial and profitable property portfolio. Its activities centre on the acquisition, development and management of residential properties throughout Germany. In addition to this, ADLER has also been expanding its portfolio through forward pourchases of new-build project developments since the 2017 financial year.

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 included trading with residential properties and individual apartments. Within the ADLER Group, trading activities were largely covered by the Group's majority interest in the listed company ACCENTRO Real Estate AG (hereinafter "ACCENTRO"). In mid-October 2017, ADLER sold most of its shares in ACCENTRO. Please refer to our comments in the consolidated financial statements as at 31 December 2017.

BASIS OF ACCOUNTING

Basis of preparation

The interim consolidated financial statements as at 31 March 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS) as requiring mandatory application in the European Union. The consolidated financial statements, comprising the consolidated balance sheet, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and selected note disclosures, also take particular account of the requirements of IAS 34 "Interim Financial Reporting".

In accordance with IAS 34.41, greater reference is made to estimates and assumptions when preparing the interim consolidated financial statements than is the case for annual reporting. ADLER has adjusted the valuation of its investment properties to changes in the market environment. No other changes in estimates with material implications for the Group's net assets, financial position and results of operations arose in the interim reporting period.

With the sale of the majority stake in ACCENTRO, ADLER discontinued its Trading segment and reported the remaining investment in ACCENTRO under non-current assets held for sale. The Consolidated Statement of Comprehensive Income and the Consolidated Statement of Cash Flows were adjusted in accordance with IFRS 5, including the previous year's comparative figures. The Consolidated Statement of Comprehensive Income shows only continuing operations in the respective items, while the discontinued operations from the Trading segment is included in a total (earnings after tax from discontinued operations). With regard to the Consolidated Statement of Cash Flows, cash flows from operating, investing and financing activities are shown in relation to continuing and discontinued operations.

The interim consolidated financial statements have been prepared in euros (EUR), the functional currency of the Group. Unless otherwise indicated, all figures presented in euros have been rounded up or down to the nearest thousand euro (EUR thousands). Statements of thousand-euro amounts may result in discrepancies due to rounding up or down. Figures in brackets generally refer to the previous year.

Further information about the accounting policies can be found in the consolidated financial statements as of 31 December 2017, which form the basis for these interim consolidated financial statements.

Accounting standards applicable for the first time in the 2018 financial year

The Group made application of the following new and revised IFRS standards and interpretations in the 2018 financial year:

Standard/Interpretation	Title	IASB effective date[1]	Initial application date in the EU[1]
IFRS 9	Financial instruments	01.01.2018	01.01.2018
IFRS 15 and Amend. IFRS 15	Revenues from contracts with customers	01.01.2018	01.01.2018
IFRIC 22	Foreign currency transactions and advance consideration	01.01.2018	01.01.2018
Amend. IAS 40	Transfer of investment properties	01.01.2018	01.01.2018
Amend. IFRS 2	Classification and measurement of share-based payment transactions	01.01.2018	01.01.2018
Amend. IFRS 4	Applying IFRS 9 with IFRS 4	01.01.2018	01.01.2018
Annual improvement process (2014–2016 cycle)	Changes to IFRS 1 and IAS 28	01.01.2018	01.01.2018

[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. 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.

IFRS 9 does not have any material implications for ADLER's consolidated financial statements. ADLER's financial net assets were mainly categorised under IAS 39 as loans and receivables and were measured at amortised cost. This is now also the case under IFRS 9. Furthermore, there are no changes in financial liabilities, as the existing categorisation requirements in IAS 39 are largely duplicated in IFRS 9. 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 net assets – with the exception of cash and cash equivalents – predominantly consist of current trade receivables (leases under IAS 17 and receivables from contracts with customers under IFRS 15), the simplified impairment model will predominantly be used. Cash and cash equivalents are held by credit institutions with good to very good credit ratings, so that overall there will be no material implications on loan loss provisions. As at 1 January 2018, additional impairment losses of EUR 1,463k occurred after adapting IFRS 9, which were recognised directly in equity taking deferred tax assets into account through retained earnings. The comparative information for previous periods has not been adjusted with regard to the changes in classification and measurement.

With regard to the reconciliation of the original measurement categories in accordance with IAS 39 to the new measurement categories in accordance with IFRS 9, as well as the reconciliation of the closing balance of the impairments in accordance with IAS 39 and the opening balance of loan loss provisions in accordance with IFRS 9, please refer to the disclosures in the section "Disclosures on financial instruments and fair values".

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.

IFRS 15 does not have any material implications for ADLER's consolidated financial statements. The Group's revenue from letting items of real estate is attributable to leases (IAS 17 and IFRS 16 as at 1 January 2019) and is therefore excluded from the scope of IFRS 15. An analysis of the income from charged operating costs has shown that a distinction must be made between those non-lease components of the continuing obligation in which the tenant does not receive a separate service, but has to replace ADLER in the context of accounting for operating costs (property tax and building insurance – not subject to IFRS 15 but IFRS 16 as of 2019), and those in which ADLER has a commitment to provide a service (other operating costs – subject to IFRS 15). Other operating costs and their additional charges are still recognised using the principal method. This is due in particular to ADLER's business model, which provides for a high share of in-house services relevant to operating costs. ADLER is regarded by the tenant as being primarily responsible for the provision of services and also has an inventory risk for all services that are not provided in-house. The reporting of expenses related to operating costs and the corresponding income from additional charges to the tenant was therefore not offset in accordance with IFRS 15 in the Consolidated Statement of Comprehensive Income. Income from charged operating costs will continue to be recognised over a given period.

With regard to revenue generated from the sale of properties, IFRS 15 did not result in any changes, as the respective contracts only provide for this single performance obligation and the date of revenue recognition is therefore specified. IFRS 15 also resulted in no changes to revenue from other property management; revenue recognition continues to be based on the period.

The aforementioned other amendments did not have any material implications. No premature application has been made of new standards and interpretations only requiring mandatory application from 1 January 2019.

BASIS OF CONSOLIDATION

Subsidiaries are included in the consolidated financial statements in accordance with the requirements of IFRS 10. Subsidiaries are all entities that are controlled by the Group. The Group controls an entity when it has direct or indirect decision-making powers over the respective group company in the form of voting or other rights, participates in the positive and negative variable returns from the group company and can influence these returns due to its decision-making powers. These criteria have to be cumulatively fulfilled.

Subsidiaries are included in the consolidated financial statements (full consolidation) from the date on which the Group gains control. They are deconsolidated from the date on which control ceases.

Companies over which the Group can exercise significant influence are recognised as associates using the equity method in accordance with IAS 28. Significant influence is presumed when a Group company directly or indirectly holds no less than 20 percent but no more than 50 percent of the voting rights.

Further information about consolidation principles can be found in the comments in the "Consolidation principles" section of the 2017 Annual Report.

SCOPE OF CONSOLIDATION AND BUSINESS COMBINATIONS

Including the parent company, the scope of consolidation includes a total of 114 companies (31 December 2017: 111) that are fully consolidated and two companies that are recognised at equity.

Three companies were newly included in the scope of consolidation in the period under report. The additions result from three newly founded companies that are expected to act as intermediate holding companies in the Rental segment. These measures did not have any material implications for the Group's net assets, financial position and results of operations.

SEGMENT REPORTING

The ADLER Group was previously organised in the following segments:

1. Rental: this comprises all business transactions executed in connection with the letting of 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 residential privatisation was also allocated to this segment. As the properties were temporarily owned by the company alongside income from the sale of properties, a low volume of gross rental income was also reported in this segment.

With the sale of the majority stake in ACCENTRO in fourth quarter of 2017, ADLER discontinued its segment or Trading segment and reported the remaining investment in ACCENTRO under non-current assets held for sale. This has implications for segment reporting, which now presents the only continuing business area. The discontinued Trading segment will no longer be shown and the previous year's comparative earnings figures have been adjusted accordingly.

The portfolios from which ADLER aims to generate long-term gross rental income through lettings, which are combined in the Rental segment, are contained in continuing operations. Gross rental income and the expenses associated with the letting business reflect the activities of the Group's central Asset Management department, which manages residential units held in the portfolio in technical and commercial terms. This segment also includes the expenses of ADLER Wohnen Service GmbH, founded in 2016, which bundles the Group's own property management activities, and has now expanded to such an extent that ADLER has almost completely integrated this part of the value chain into the Group. Similar plans are in place for the Facility Management department under the auspices of ADLER Gebäude Service GmbH.

Other group activities that 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 Trading segment is consistent with the internal reporting system to ADLER's Management Board, which is the top management body pursuant to IFRS (management approach). The Group only trades in properties that are located in Germany. No geographical segmentation has been performed.

Income and EBIT for the period from 1 January 2018 to 31 March 2018 and for the previous year's comparative period are broken down as follows:

ADLER Group In EUR '000 – 3 months/Q1	Rental 2018	Rental 2017	Other 2018	Other 2017	Group 2018	Group 2017[1)]
Gross rental income and income from the sale of properties	71,103	73,492	47	47	71,150	73,539
– thereof gross rental income	68,026	64,879	47	47	68,073	64,926
– thereof income from sales	3,077	8,613	0	0	3,077	8,613
– thereof income from brokerage	0	0	0	0	0	0
Change in the value of investment property	22,387	7,677	0	0	22,387	7,677
EBIT	**46,215**	**27,883**	**-45**	**-131**	**46,170**	**27,752**
Income from investments accounted for using the equity method	0	0	0	0	0	0
Financial result	**-54,229**	**-22,715**	**9**	**6**	**-54,220**	**-22,709**
Earnings before taxes (EBT)	**-8,014**	**5,166**	**-36**	**-124**	**-8,050**	**5,042**

[1)] Adjusted statement due to sale of Trading segme

Revenues in the Rental segment amounted to EUR 71,103k (EUR 73,492k). Gross rental income increased from EUR 64,879k to EUR 68,026k. Changes in the value of investment properties amounted to EUR 22,387k (EUR 7,677k) in the first three months of the year. Three-month EBIT in the Rental segment amounted to EUR 46,215k (EUR 27,883k), while earnings before taxes came to EUR -8,014k (EUR 5,166k). In the first three months, earnings before taxes were negatively impacted by one-off expenses with an amount of EUR 37,436k (EUR 1,968k) for early repayments of promissory note loans with higher interest rates.

Segment assets, segment liabilities and segment investments were structured as follows as at 31 March 2018:

ADLER Group In EUR '000 as at 31 March 2018	Rental	Other	Consolidation	Group
Segment assets	4,057,834	6,644	-6,880	4,057,598
Investments accounted for using the equity method	25	0	0	25
Total segment assets	**4,057,859**	**6,644**	**-6,880**	**4,057,623**
Non-current assets held for sale	-	-	-	12,244
Segment liabilities	**3,062,062**	**7,012**	**-6,880**	**3,062,194**
Segment investments	**17,257**	**0**	**0**	**17,257**

Segment assets, segment liabilities and segment investments were structured as follows as at 31 December 2017:

ADLER Group In EUR '000 as at 31 December 2017	Rental	Other	Consolidation	Group
Segment assets	3,766,501	7,329	-7,527	3,766,303
Investments accounted for using the equity method	25	0	0	25
Total segment assets	**3,766,526**	**7,329**	**-7,527**	**3,766,328**
Non-current assets held for sale	-	-	-	12,639
Segment liabilities	**2,741,336**	**7,658**	**-7,527**	**2,741,467**
Segment investments	**375,203**	**0**	**0**	**375,203**

SELECTED NOTES ON THE CONSOLIDATED BALANCE SHEET

Investment properties

The carrying amount of investment properties amounted to EUR 3,054,198k as at the balance sheet date (31 December 2017: EUR 3,018,518k). This increase was chiefly due to EUR 12,709k from investments in property development and measurement results of EUR 22,387k. These items were countered by disposals, including IFRS 5 reclassified items, amounting to EUR 3,824k.

Other non-current assets

As at the reporting date, other non-current assets amounted to EUR 206,205k (31 December 2017: EUR 205k). The increase is attributable to an amount of EUR 205,757k for advance payments for shares in Brack Capital Properties N.V. (BCP). In February 2018, ADLER signed an agreement with Redzone Empire Holding Limited for the acquisition of 41.04 percent of the shares in BCP, and also announced a special tender offer (STO) for the purchase of up to 25.8 percent of additional shares. The acquisition was concluded at the beginning of April. Via the agreement with Redzone, the STO and the purchase of shares that were offered to ADLER by the senior management of BCP, ADLER acquired a total of nearly 70 percent of the shares in BCP.

Cash and cash equivalents

Cash and cash equivalents amounted to EUR 388,718k at the balance sheet date, as against EUR 368,233k at the end of the previous year. An amount of EUR 340,268k is subject to restraints on disposal (EUR 276,077k). ADLER can dispose of these resources, but they are intended for a special use. As at the balance sheet date, a cash amount of EUR 325,328k will be deposited to report a further purchase price share for the acquisition of shares in BCP. As at the end of the 2017 financial year, the amount primarily results from the funds deposited for the repurchase of promissory note loans.

Non-current assets held for sale

In connection with the sale of the majority of the shares in ACCENTRO, ADLER carried out a transitional consolidation on 30 November 2017 and included the remaining investment in ACCENTRO of 6.2 percent as an associated company in accordance with IAS 28 in the consolidated financial statements. Shares were measured in accordance with IFRS 10 at fair value (stock market price) amounting to EUR 12,639k at the date of transitional consolidation and reported under non-current assets held for sale.

As at the balance sheet date, the fair value less costs to sell was lower than the book value, but above the selling price sighted by an option meaning that a EUR 395k valuation allowance had to be made. ADLER has the option to sell the remaining holding in ACCENTRO to the buyer at the same price that had been agreed for its 80 percent holding.

The other non-current assets held for sale include properties recognised at a value of EUR 12,753k (31 December 2017: EUR 10,943k), for which notarial purchase contracts were available at the balance sheet date. Liabilities relating to the properties sold have accordingly been reported as liabilities held for sale. The disposal of the non-current assets held for sale in the previous year did not have any material impact on earnings, as the assets were already measured at fair value. This corresponded to the sale price for the properties less related expenses.

Shareholders' equity

The capital stock of ADLER AG amounted to EUR 57,549k as at 31 March 2018 (31 December 2017: EUR 57,548k) and is divided into 57,549,017 no-par ordinary shares (31 December 2017: 57,547,740) with one voting right per share.

Due to the exercising of conversion rights, capital stock increased by EUR 1k and the capital reserve increased by EUR 3k.

The company acquired 2,581,915 (31 December 2017: 1,391,902) treasury shares through share buyback programmes as at the reporting date. The nominal amount of the treasury stock thereby acquired has been deducted from share capital, while the acquisition costs in excess of the nominal amount have been deducted from net retained profit.

As at 1 January 2018, additional impairment losses of EUR 1,081 k have occurred after adapting IFRS 9, which were recognised after netting with the related deferred taxes through retained earnings.

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

Liabilities for convertible bonds

Liabilities for convertible bonds were structured as follows as at the balance sheet date:

In EUR '000	31.03.2018	31.12.2017
2013/2018 convertible bond	4,024	3,990
2015/2018 mandatory convertible bond	562	777
2016/2021 convertible bond	121,722	121,469
Total	**126,307**	**126,236**
– thereof non-current	120,858	119,731
– thereof current	5,449	6,505

The non-current liabilities relate to the debt capital component of the convertible bonds after deducting proportionate transaction costs if the remaining term is longer than one year and providing that no change has been made as at the balance sheet date. The current liabilities from convertible bonds include the interest claims of the bondholders as at the balance sheet date.

Liabilities for bonds

Liabilities for bonds were structured as follows as at the balance sheet date:

In EUR '000	31.03.2018	31.12.2017
2013/2018 bond	37,225	36,349
2015/2020 bond	506,382	499,992
2017/2021 bond	492,129	490,370
2017/2024 bond	295,003	293,608
Total	**1,330,737**	**1,320,319**
– thereof non-current	1,277,905	1,277,640
– thereof current	52,832	42,679

The 2013/2018 bond was due on 3 April 2018. Repayment was made at the nominal amount of the bond plus interest accumulated and as yet unpaid. The transfer of the amount repayable was already made as at the end of March 2018 due to the Easter holidays. As at the balance sheet date, the amount repayable was therefore reported under other current assets as an advance payment claim.

Nominal bond amounts have been recognised under non-current liabilities less transaction costs, which are expensed on a time-apportioned basis using the effective interest method if the remaining term is longer than one year. Bondholders' interest claims as at the balance sheet date have been recognised under current liabilities.

Financial liabilities to banks

Non-current financial liabilities to banks amounted to EUR 750,279k as at the balance sheet date (31 December 2017: EUR 749,188k).

Current financial liabilities to banks amounted to EUR 583,305k as at the balance sheet date (31 December 2017: EUR 278,676k). The change compared to the end of the previous year is primarily due to two counter effects. As planned, promissory note loans amounting to EUR 225,550k (nominal) – which were bought back in January and February 2018 – were therefore reclassified from non-current to current financial liabilities as at 31 December 2017. A bridging loan amounting to EUR 532,679k had already been utilised as at the end of March 2018 to finance the acquisition of the shares in BCP at the beginning of April 2018.

SELECTED NOTES ON THE STATEMENT OF COMPREHENSIVE INCOME

Gross rental income

Gross rental income is structured as follows:

In EUR '000	3M 2018	3M 2017
Net rental income	44,852	41,973
Income from recoverable expenses	22,579	22,443
Other income from property management	643	510
Total	**68,074**	**64,926**

Expenses from property lettings

Expenses from property lettings are broken down as follows:

In EUR '000	3M 2018	3M 2017
Apportionable and non-apportionable operating costs	25,147	29,899
Maintenance	3,847	5,498
Other property management expenses	142	269
Total	**29,136**	**35,666**

Income from fair value adjustments of investment properties

Income from fair value adjustments of investment properties amounted to EUR 22,387k (previous year: EUR 7,677k) and comprises income of EUR 22,659k from fair value adjustments (previous year: EUR 7,760k) and expenses of EUR 272k for fair value adjustments (previous year: EUR 83k).

Financial costs

Financial costs are structured as follows:

In EUR '000	3M 2018	3M 2017
Interest expenses for bank loans	10,056	10,027
Interest expenses for bonds	11,631	7,572
Interest expenses for convertible bonds	2,081	2,225
Adjustment of shares conwert (OCI)	0	1,589
Other	32,717	1,971
Total	**56,485**	**23,384**

The interest expenses for bank loans include transaction costs of EUR 4,719k that required immediate recognition as expenses due to the premature repayment of promissory note loans.

Other financial costs include an amount of EUR 32,717k (previous year: EUR 1,968k) for early repayments of promissory note loans with higher interest rates.

Earnings after taxes from discontinued operations

In EUR ´000	3M 2018	3M 2017
Income from property lettings	0	1,943
Expenses from property lettings	0	-450
Earnings from property lettings	**0**	**1,493**
Income from the sale of properties	0	18,847
Expenses from the sale of properties	0	-14,347
Earnings from the sale of properties	**0**	**4,500**
Personnel expenses	0	-672
Other operating income	0	512
Other operating expenses	0	-928
Income from fair value adjustments of investment properties	0	0
Depreciation and amortisation	0	-152
Earnings before interest and taxes (EBIT)	**0**	**4,753**
Financial income	0	23
Financial expenses	-395	-1,607
Income from at-equity valued investment associates	0	0
Earnings before taxes (EBT)	**-395**	**3,169**
Income taxes	0	-90
Earnings after tax from discontinued operations	**-395**	**3,079**

Earnings per share

In Q2 2017, the number of no-par ordinary shares increased due to the issue of 4,773,135 bonus shares. Accordingly, the number of potential no-par ordinary shares from convertible bonds also increased due to the issuing of bonus shares and the resultant adjustments to conversion prices and conversion ratios. Pursuant to IAS 33.64, the calculation of basic and undiluted earnings per share therefore has to be retrospectively corrected for all periods presented.

The income per share is structured as follows:

	3M 2018 Continuing operations	3M 2018 Discontinued operations	3M 2018 Total
Consolidated net earnings (in EUR ´000)	-12,408	-395	-12,803
Consolidated net earnings without non-controlling interests	-15,615	-395	-16,010
Expenses including deferred taxes on convertibles	1,451	0	1,451
Consolidated net earnings without non-controlling interests (diluted)	-14,164	-395	-14,559
Number of shares (in thousands)			
Weighted number of subscribed shares	67,099	67,099	67,099
Effect of conversion of convertibles	12,212	12,212	12,212
Weighted number of shares (diluted)	79,311	79,311	79,311
Earnings per share (in EUR)			
Basic earnings per share	-0,23	-0,01	-0,24
Diluted earnings per share	-0,18	0,00	-0,18

	3M 2017 Continuing operations	3M 2017 Discontinued operations	3M 2017 Total
Consolidated net earnings (in EUR ´000)	-41	3,079	3,038
Consolidated net earnings without non-controlling interests	-990	2,515	1,525
Expenses including deferred taxes on convertibles	222	0	222
Consolidated net earnings without non-controlling interests (diluted)	-768	2,515	1,747
Number of shares (in thousands)			
Weighted number of subscribed shares[1)]	64,149	64,149	64,149
Effect of conversion of convertibles[1)]	6,306	6,306	6,306
Weighted number of shares (diluted)[1)]	70,455	70,455	70,455
Earnings per share (in EUR)			
Basic earnings per share[1)]	-0,02	0,04	0,02
Diluted earnings per share[1)]	-0,02	0,04	0,02

1) Adjusted in accordance with IAS 33.64

DISCLOSURES ON FINANCIAL INSTRUMENTS AND FAIR VALUE DISCLOSURES

The tables below show the reconciliation of the original measurement categories in accordance with IAS 39 and the new IFRS 9 measurement categories, including the respective carrying amounts and the reconciliation of the closing balance of the impairments in accordance with IAS 39 and the opening balance of loss provisions in accordance with IFRS 9.

31.12.2017 In EUR ´000	Category according to IAS 39
Assets	
Loans to associated companies	lar
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
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	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	Impairment losses IAS 39
0	0	0	0	0	-3,603
28	28	0	28	0	0
205	205	205	0	0	0
10,717	10,717	10,717	0	0	-61,551
243,508	241,276	223,171	18,105	0	-58
368,233	368,233	368,233	0	0	0
2,475,248	2,475,248	2,475,248	0	0	-
29,125	29,125	29,125	0	0	-
64,308	57,999	44,648	0	13,351	-
-	602,326	602,326	0	0	-65,212
-	18,133	0	18,133	0	0
-	13,351	0	0	13,351	-
-	2,549,021	2,549,021	0	0	-

01.01.2018 In EUR ´000	Category according to IFRS 9
Assets	
Loans to associated companies	aac
Other financial investments	aafvOCI
Other non-current assets	aac
Trade receivables	aac
Other current assets	aac, aafvOCI
Cash and cash equivalents	aac
Liabilities	
Financial liabilities to banks and (convertible) bonds	flac
Trade payables	flac
Other liabilities	flac, lafv
of which aggregated by IFRS 9 categories	
Financial assets measured at amortised costs	aac
Financial assets at fair value through other comprehensive income	aafvOCI
Financial liabilities at fair value through profit or loss	lafv
Financial liabilities measured at amortised costs	flac

Abbreviation	Category
aac	Financial assets measured at amortised costs
aafv	Financial assets at fair value through profit or loss
aafvOCI	Financial assets at fair value through other comprehensive income
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

The classification of financial instruments required in accordance with IFRS 7 was unchanged compared with 1 January 2018. There were no reclassifications within the categories of financial instruments or the fair value hierarchy levels in the period under report.

The allocation of assets and liabilities measured at fair value in accordance with the input factors of the respective measurement method was unchanged compared with 31 December 2017. Investment properties are still allocated to Level 3 in the fair value hierarchy.

Total carrying amount	Carrying amount of financial instruments	Amortised cost	Fair value directly to equity	Fair value through profit or loss	Impairment losses IFRS 9
0	0	0	0	0	–3,603
28	28	0	28	0	0
205	205	205	0	0	0
10,673	10,673	10,673	0	0	–61,595
243,508	240,991	223,171	18,105	0	–553
367,309	367,309	367,309	0	0	–924
2,475,248	2,475,248	2,475,248	0	0	–
29,125	29,125	29,125	0	0	–
64,308	57,999	44,648	0	13,351	–
–	601,073	601,073	0	0	–66,465
–	18,133	0	18,133	0	–210
–	13,351	0	0	13,351	–
–	2,549,021	2,549,021	0	0	–

OTHER DISCLOSURES

Related party disclosures

There have been no material changes in related parties compared with the information provided as at 31 December 2017.

Financial risk management

The material risks monitored and managed by the Group's financial risk management include interest rate, default, liquidity and financing risks. There have been no material changes in these risks since 31 December 2017. A detailed description of these risks can be found in the notes to the consolidated financial statements as of 31 December 2017.

Events after the balance sheet date

In April 2018, ADLER Real Estate AG successfully acquired nearly 70 percent of the shares in BCP. BCP will be fully integrated in the reporting for the first half of the year, which will result in all major financial KPIs being affected. Following the financial disclosure for its financial year 2017, BCP recorded net rental income amounting to EUR 74.1 million and FFO I of EUR 37.4 million. As of 31 December, 2017, total assets of BCP amounted to EUR 1,647 million, total debt to EUR 949 million and EPRA NAV reached EUR 689 million. BCP is engaged in three business activities: residential real estate, commercial real estate and project developments.

In April 2018, ADLER also agreed to the establishment of a joint venture with Benson Elliot Capital Management LLP, geared solely towards the sale of ADLER's non-core assets. ADLER will contribute rental units with a value of approx. EUR 115 million representing a premium to the book value of the units to the joint venture. Benson Elliot intends to acquire a majority share in the joint venture; ADLER a substantial minority. ADLER will remain responsible for asset, property and facility management of the portfolio until the properties are finally sold, and will share in any profit on the eventual sale. The joint venture removes assets that do not fit with the business model from the balance sheet and contributes to improving the operating performance indicators in the ADLER Group.

In the second half of April 2018, ADLER successfully placed EUR 800 million of corporate bonds rated "BB +" with institutional investors in Europe. The bonds were issued in two tranches, the first with a volume of EUR 500 million and a term until April 2023 and the second with a volume of EUR 300 million and a term until April 2026. On average, the interest on the bond overall is 2.3 percent. The net proceeds were largely used to refinance the bridging loan which ADLER had raised in connection with the successful acquisition of BCP. ADLER has also repurchased EUR 200 million 2015/2020 corporate bonds that bore interest at 4.75 percent. The takeover bid was successfully completed on 27 April. In addition, remaining funds from the bond will be used for general company-related purposes.

No further material events with the potential to significantly influence the earnings, asset and financial position of ADLER Real Estate AG occurred.

/// AFFIRMATION BY THE LEGAL REPRESENTATIVES

"We hereby affirm to the best of our knowledge, pursuant to the applicable accounting principles for interim financial reporting, that these 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, 16 May 2018

Tomas de Vargas Machuca
Vorstand

Maximilian Rienecker
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.

/// 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. (One-offs and non-recurring items comprise non-cash expenses and earnings, special payments, acquisition projects and integration expenses, expenses for refinancing and capital increases, as far as they have not been considered under capital procurement expenses as well as expenses for the optimisation of the business model.)

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 from the sale of properties – an indicator of cash flow-based operating earnings excluding disposals.

EPRA

European Public Real Estate Association

Association of publicly listed real estate companies, after which the EPRA Index is named with legal domicile in Brussels.

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 II

Loan-to-value II

Ratio of net financial liabilities (net of cash, non-current assets held for sale, purchase price receivables, advance payments and liabilites associated with assets held for sale) to gross asset value – 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	
Tomas de Vargas Machuca	Member of the Management Board (Co-CEO)
Maximilian Rienecker	Member of the Management Board (Co-CEO)
Sven-Christian Frank	Member of the Management Board (COO)
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 57,549,017[1)]
Classification	57,549,017[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 March 2018

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