ADLER REAL ESTATE

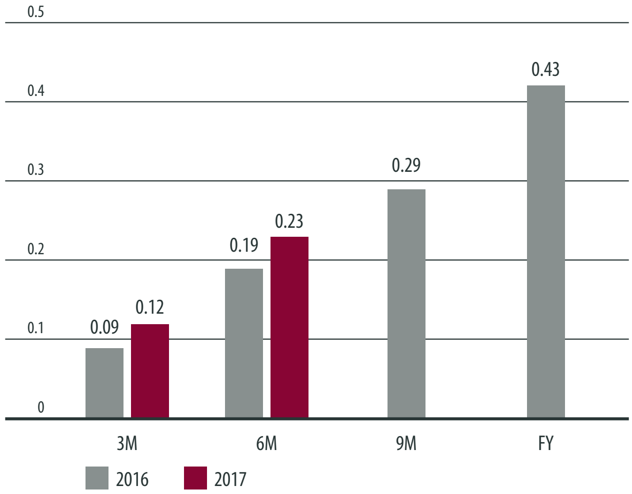
Q2 /// Interim Report First Half-Year of 2017

/// KEY FINANCIAL FIGURES

Consolidated Statement of Income (in EUR millions)	6M 2017	6M 2016
Net rental income	86.4	83.9
Earnings from property lettings	62.5	61.0
Earnings from the sale of properties	11.3	16.5
EBIT	87.7	83.8
Consolidated net profit	21.7	31.8
FFO I	15.7	12.0
FFO I per share in EUR [1]	0.23	0.19
FFO II	20.1	27.4
FFO II per share in EUR [1]	0.29	0.44
Consolidated Balance Sheet (in EUR millions)	**30.06.2017**	**31.12.2016**
Investment properties	2,505.5	2,442.0
EPRA NAV	1,094.9	1,069.9
EPRA NAV per share in EUR [1]	15.87	16.68
LTV (%) [2]	57.8	61.3
Cash flow (in EUR millions)	**6M 2017**	**6M 2016**
Net cash flow from operating activities	-4.4	57.2
Net cash flow from investing activities	377.2	12.7
Net cash flow from financing activities	-330.8	-51.6
Employees	**30.06.2017**	**31.12.2016**
Number of employees	499	354
FTEs (full-time equivalents)	454	319

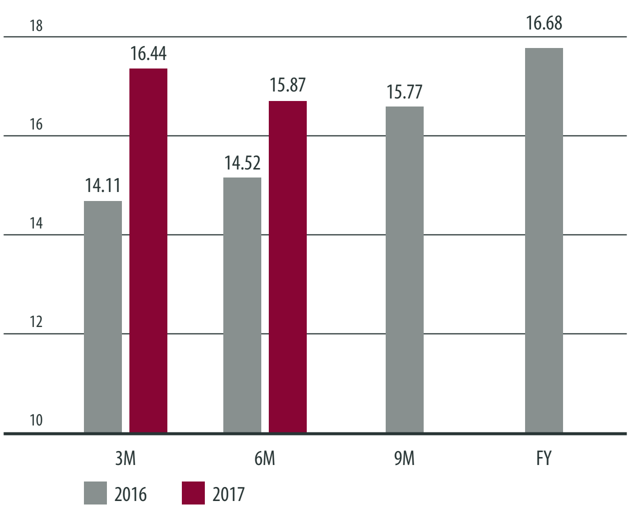
[1] Based on the number of shares outstanding as at balance sheet date plus shares from assumed conversion of mandatory bond, which is considered as equity; previous year adjusted corresponding to IAS 33.64, please see comments in notes to the interim consolidated statements under earnings per share
[2] Excluding convertible bonds

FFO I/SHARE in EUR



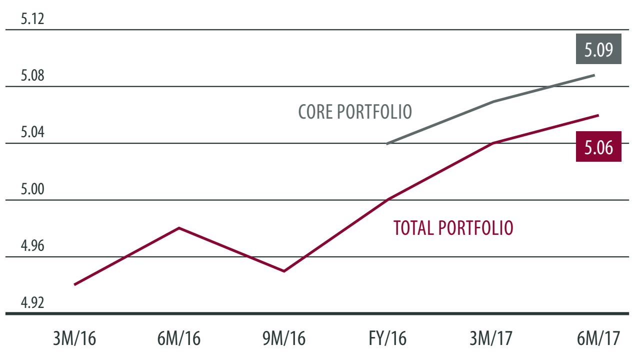
6M/17 after issue of bonus shares and conversion of 2013/2017 convertible

EPRA NAV/SHARE in EUR

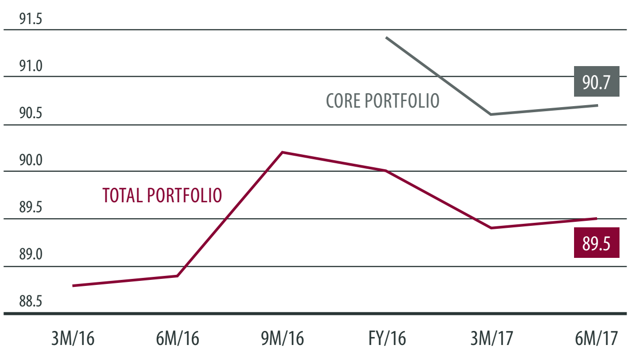


/// PROPERTY FIGURES

AVERAGE RENT* in EUR/sqm/month



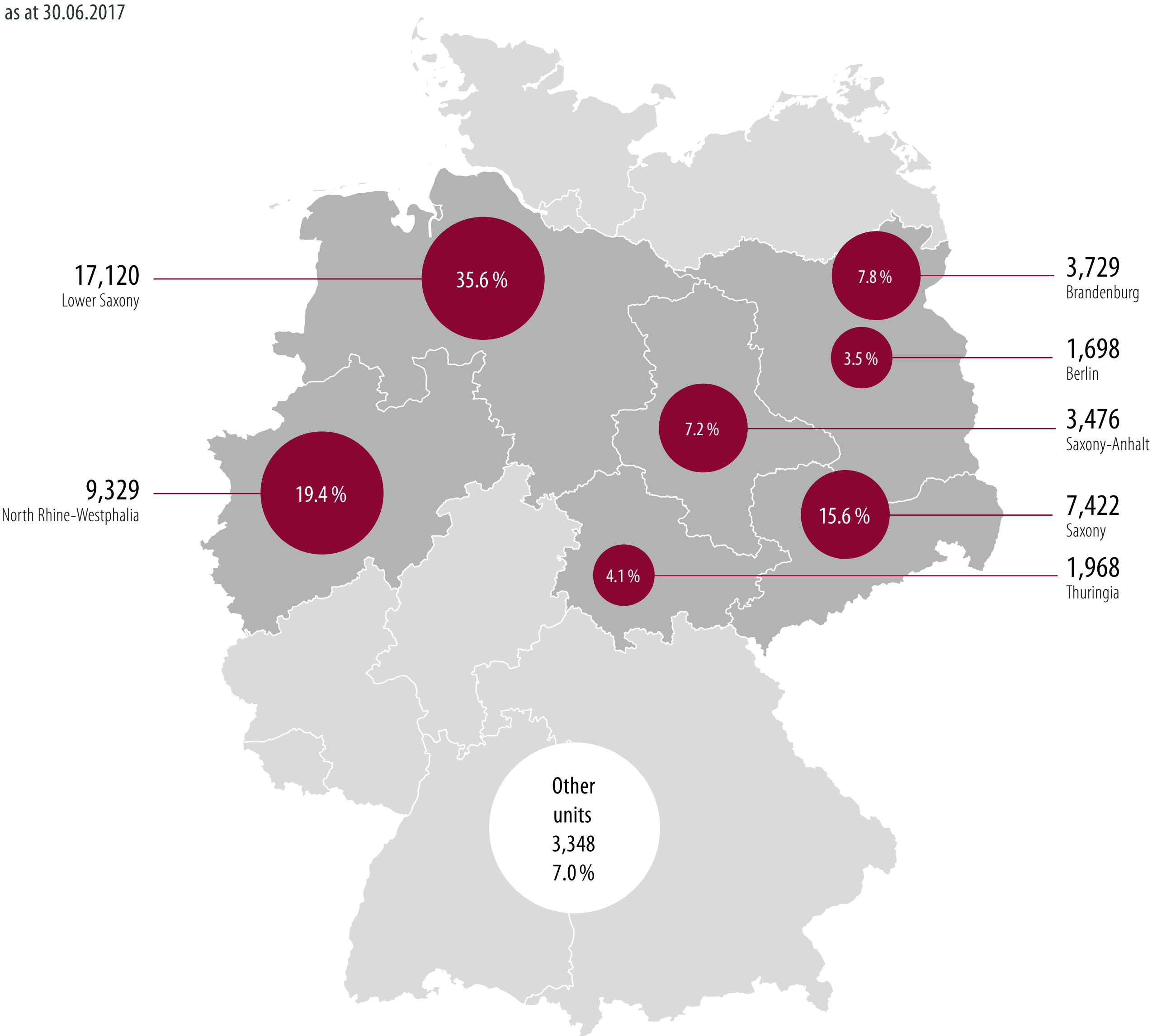
OCCUPANCY RATE* in %



* Reporting core portfolio started end of 2016 only

Rental units

as at 30.06.2017



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/// LETTER FROM THE MANAGEMENT BOARD

Ladies and Gentlemen,

all in all, we can report a successful first half to the current 2017 financial year. We have moderately expanded our portfolio and further improved our key performance figures. We have pressed ahead with structural and organisational topics, reduced our liabilities, and created further value for our shareholders.

The measures taken in the first six months are based on the objective we formulated last year that is, to develop an integrated real estate group capable of offering its tenants the whole range of apartment-related services. To this end, at the beginning of the year we took over the management of more than 10,000 rental units previously administered on our behalf by external service providers. With the same goal in mind, in the second quarter we created the legal framework necessary to integrate further property management companies. Not only that, we are continously expanding our facility management activities, as a result of which we are now already able to cover the caretaker services for more than half of our housing portfolio with in-house staff. In June, we the n introduced our tenant app, initially for a select group of tenants, which is intended to improve our communications. As the app rewards loyalty, we are confident that it will also help us to reduce the tenant turnover rate. Our initial experience, which shows a high level of acceptance for this new instrument, is encouraging.

We continued on schedule with the programme to renovate 1,500 apartments. By mid-year, more than two thirds of the relevant renovation work was complete. Not only that, the refurbishment has proven to be worthwhile, as is documented by the significantly higher rental price we have achieved compared with the existing portfolio. In view of this, we have decided to launch a second programme, latching as it were seamlessly onto the first, and to invest a further EUR 15 million in renovating vacant apartments.

We made great progress with reducing our liabilities in the first half of the year and repaid liabilities totalling EUR 380 million. This was made possible by the receipt in January of EUR 420 million from the sale of our shares in the Austrian company conwert Immobilien Invest SE. Repaying liabilities improves our LTV and will also boost our FFO in the future as it reduces our interest expenses by more than EUR 12 million on a rolling 12 month basis. At the same time, we used the positive market climate to stock up an existing bond by EUR 150 million at a favourable interest rate. We are thus well positioned to acquire a few of the smaller-scale portfolios currently on our shopping list as the year progresses. We have already taken over one such portfolio, located close to Bremen and with around 700 residential units, in the first quarter. Shortly before the end of the period under report, we acquired a further portfolio with just under 200 residential units in Senftenberg. This will supplement our existing portfolio in Brandenburg.

Shareholders at our Annual General Meeting on 7 June approved the proposal to issue bonus shares at a ratio of 10:1. These shares were credited to our shareholders on 22 June. We hope that they will enable our shareholders to benefit even more closely from our company's success in the medium term. Not only that, in mid-June we also initiated a share buyback programme. We intend to use these shares as acquisition currency when suitable opportunities arise. At the same time, we are also signalling to the capital market that we see upward potential for our share price. After all, it is the only share of any listed German real estate company to be traded below its intrinsic value.

The progress made to date means we are well within our budgeted framework. We therefore see no reason to change the targets formulated in the spring for our key financial performance figures. As a result, we still expect our net rental income to increase by more than three percent, our FFO I to rise to EUR 40 million and our NAV to grow at a low double-digit percentage rate. LTV is expected to fall to around 55 percent, while our average debt interest rate should decrease to 3.5 percent.

Yours faithfully,

Arndt Krienen
CEO

Sven-Christian Frank
COO

/// Portfolio

/// ADLER on the capital market

/// PORTFOLIO

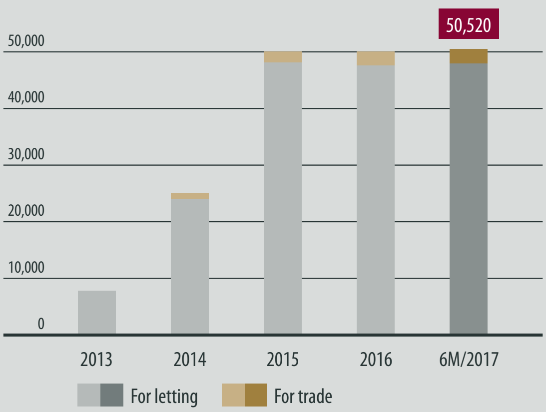
ADLER Real Estate AG pursues two business objectives – letting properties held permanently and trading with properties acquired specifically for this purpose and thus only retained in the portfolio for short periods. In the balance sheet, the properties let out permanently are recognised at fair value under "investment properties", while the properties held for trading are recognised at cost under "inventories". As of 30 June 2017, ADLER Real Estate AG held a total of 50,520 letting units, of which 2,431 units were held for trading and 48,089 units for permanent letting.

THE RENTAL PORTFOLIO

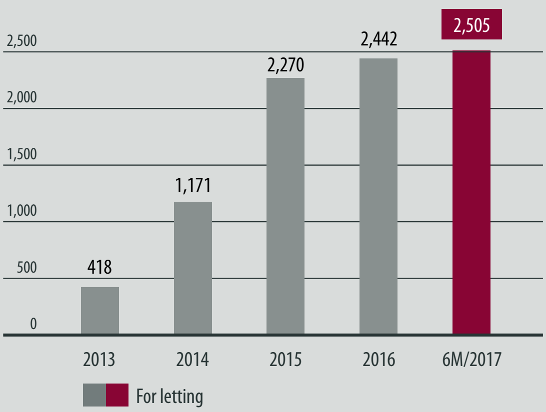
Focus on residential property

ADLER essentially sees itself as a provider of rented apartments. Consistent with this approach, as of 30 June 2017 these accounted for 47,010 units and thus 97.8 percent of the properties held for permanent letting. Having said this, the overall portfolio also includes a small share of commercial units. In a certain sense, these are a by-product as some of the inner-city residential properties also include shop or office space. There were 1,079 such units at the end of the first half of 2017, accounting for a 2.2 percent share of the portfolio of properties held for permanent letting.

PORTFOLIO



FAIR VALUE INVESTMENT PROPERTIES € Mio.



Slight increase in property holdings in first half of 2017

The number of rental units held for permanent letting increased slightly in the first six months of 2017. A total of 252 rental units were sold in the course of streamlining the portfolio to remove units no longer viewed as forming part of the core portfolio. The portfolio was boosted by 701 rental units close to Bremen which ADLER acquired in the first quarter and by a further 192 rental units in Senftenberg which ADLER acquired at the end of the second quarter. These will supplement the portfolio in Brandenburg. ADLER has thus met the objective it has set itself of moderately expanding its portfolio. The number of units held for trading has remained almost unchanged as the number of units sold and units acquired were mor or less balanced.

Portfolio realignment*	30.06.2017			31.12.2016
		Divestments	Additions	
Rental portfolio	48,089	252	701	47,640
– of which residential units	47,010	209	692	46,527
– of which commercial units	1,079	43	9	1,113
Units for privatisation	2,431	327	336	2,422
Total	**50,520**	**579**	**1,037**	**50,062**

* Excluding the 192 units in Senftenberg acquired at the end of Q2 2017

“Non-core” portfolio to be sold

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 2,620 rental units, corresponding to 5.4 percent of its existing portfolio. ADLER intends to sell a large share of these units before the end of 2017 if possible and has therefore stepped up its efforts in this respect. 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[1)]	Core	Non-core
Rental units	48,089	45,469	2,620
Ø rent/sqm/month in EUR	5.06	5.09	4.54
Occupancy rate in %	89.5	90.7	71.3
Market value/sqm in EUR	829.5	851.7	498.1
NRI-multiple	15.3	15.4	12.8

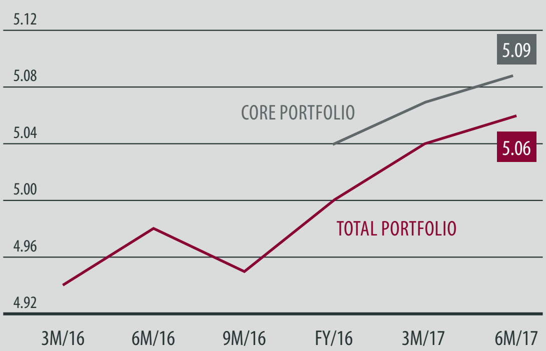
[1)] Excluding the 192 units in Senftenberg acquired at the end of Q2 2017

Further improvement in operating performance data

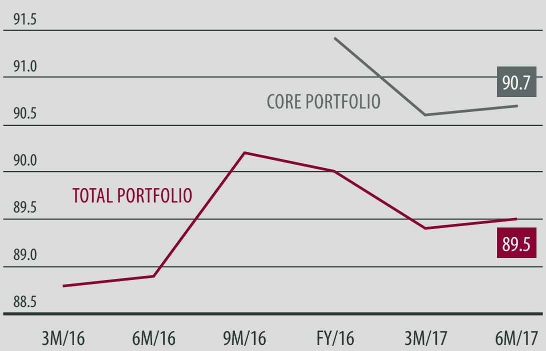
The Group further improved its key performance data in the first half of 2017. As of 30 June 2017, the average rental income (per square metre and month) for the overall portfolio amounted to EUR 5.06. That corresponds to an increase of EUR 0.08 on the corresponding value one year earlier. (H1 2016: EUR 4.98). In the core portfolio the average rental income (per square metre and month) amounted to EUR 5.09 at the mid year stage, up EUR 0.02 on the value at the end of the first quarter of 2017.

The occupancy rate for the overall portfolio came to 89.5 percent at the end of the first half of 2017 against 88.9 percent one year earlier. In the core portfolio the occupancy rate reached 90.7 percent, an improvement over the corresponding figure of the first quarter of 0.1 percentage point (Q1 2017: 90.6 percent). However, ADLER has not yet met its own target for this key figure. This is mainly due to the fact that the massive transition in tenant support services from external service providers to internal group property and facility management at the beginning of the year gave rise to a certain volume of "friction losses" which had not been expected. These were initially reflected in a higher tenant turnover rate and slightly higher vacancy rate.

AVERAGE RENT* in EUR/sqm/month



OCCUPANCY RATE* in %



* Reporting core portfolio started end of 2016 only

The changes compared with the previous quarter are presented in the table below for the core portfolio. The figures are presented on a like-for-like basis, i.e. only refer to properties forming part of the portfolio in both reporting periods.

Investment properties (Core portfolio) Like-for-like (30.06.2017 to 31.03.2017)	Residential and commercial	Change	Residential	Change	Commercial	Change
Units	44,764		43,842		922	
Ø rent EUR/sqm/month	5.09	0.4 %	5.04	0.4 %	6.12	0.0 %
Occupancy rate (%)	90.8	0.1 PP	91.4	0.2 PP	79.8	- 0.1 PP

Further increase in fair values

The fair value of the portfolio calculated in accordance with IFRS amounted to EUR 2,505.5 million at the end of the first half of 2017, as against EUR 2,442.0 million at the end of last year. This value growth was partly driven by the acquisition of two property portfolios with a total of 893 rental units, partly by the fair value gains of the existing investment properties. ADLER expended EUR 23.0 million on maintenance and modernisation measures in the first half of 2017, and thus more than in the comparable period in the previous year (EUR 19.3 million). Of this total, EUR 10.3 million related to ongoing maintenance work and EUR 12.7 million to renovation and modernisation measures eligible for capitalisation (H1 2016: EUR 12.2 million for ongoing maintenance work and EUR 7.1 million for renovation and modernisation measures eligible for capitalisation). The additional expenses mainly relate to the vacancy refurbishment programme which involves a total of 1,500 vacant units being fully renovated.

Key focuses in north and west of Germany

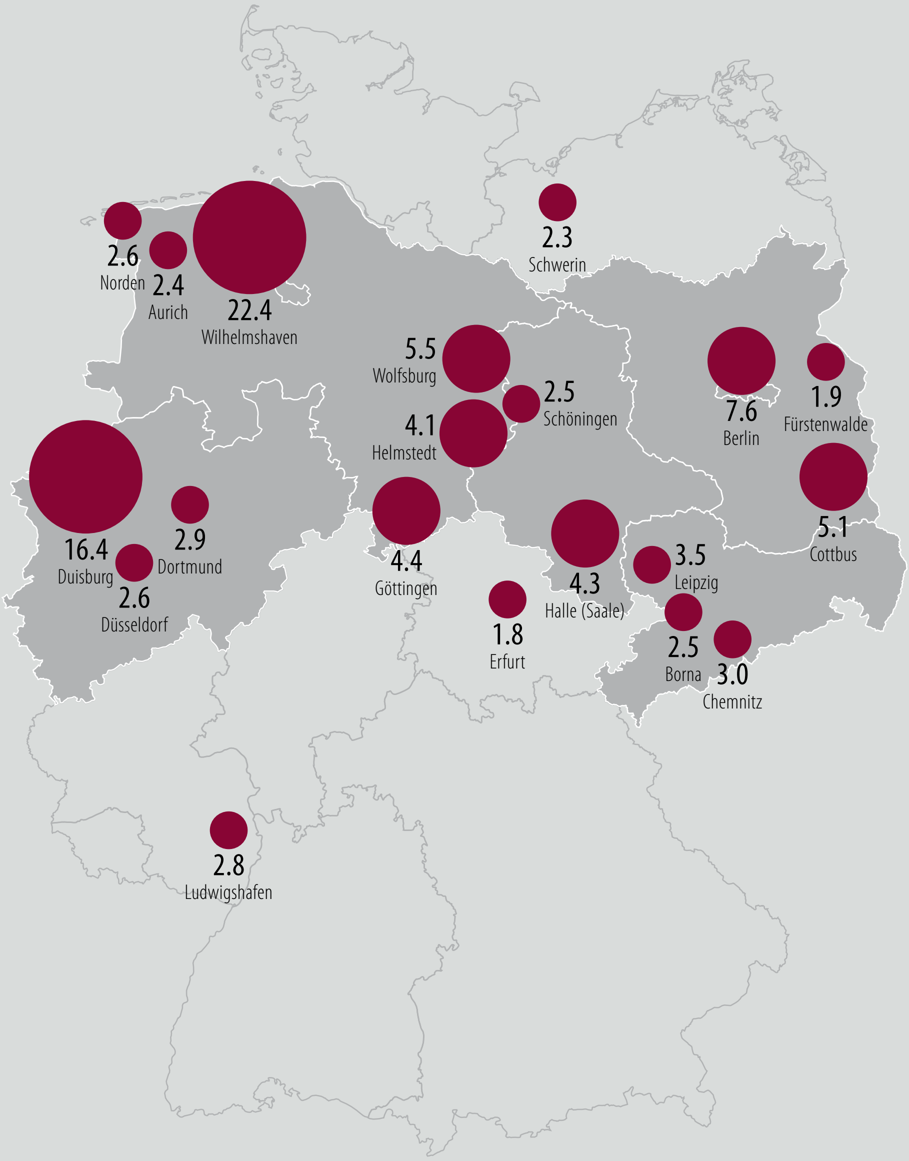
ADLER limits its business activities to Germany and holds most of its properties in the northern and western parts of the country. More than half of ADLER's properties are in the federal states of Lower Saxony (35.9 percent of the overall portfolio) and North Rhine-Westphalia (19.3 percent of the overall portfolio). More than 40 percent of ADLER's portfolio is located in the eastern part of the country, with key focuses here in Saxony (15.4 percent), Brandenburg (7.7 percent) and Saxony-Anhalt (7.2 percent).

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

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

ANNUAL NET RENTAL INCOME

in EUR m



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 10 most important towns and cities generate almost half of the company's total rental income, while the top 20 locations account for almost two thirds of total rental income. Wilhelmshaven is the Group's most important location, with annual basic net rent of EUR 22.4 million, followed by Duisburg with EUR 16.4 million, Berlin with EUR 7.6 million, Wolfsburg with EUR 5.5 million and Cottbus with EUR 5.1 million. ADLER does not play a significant role in the local housing markets in any of its top 20 locations apart from Wilhelmshaven, where almost one fifth of local housing belongs to the Group. This scale of dominance in a specific market is not automatically a disadvantage. That is apparent in the occupancy rate in Wilhelmshaven at the end of the first half of 2017, which at 91.9 percent was clearly ahead of the group average.

Ort	Annual net rental income (€ m)	Units	Area (sqm thou)	Ø rent €/sqm/ month	Change as against 31.03.2017	Occupancy rate (%)	Change as against 31.03.2017 (pp)
Wilhelmshaven	22.4	6,870	404.5	4.77	0.03	91.9	0.5
Duisburg	16.4	4,162	261.5	5.29	0.02	97.6	-0.4
Berlin	7.6	1,698	111.6	5.52	0.02	98.8	0.6
Wolfsburg	5.5	1,300	87.5	5.46	0.04	95.8	-1.2
Cottbus	5.1	1,868	110.0	4.54	0.01	84.9	-4.7
Goettingen	4.4	1,139	76.1	4.98	0.05	96.7	1.6
Halle	4.3	1,656	93.1	4.52	0.02	86.7	-0.6
Helmstedt	4.1	1,219	70.7	5.00	0.01	95.1	0.9
Leipzig	3.5	1,167	70.9	4.40	0.02	93.7	0.2
Chemnitz	3.0	971	60.0	4.74	0.02	79.5	-0.1
Dortmund	2.9	776	51.7	4.75	0.02	95.4	-1.2
Ludwigshafen	2.8	526	34.1	5.93	0.15	96.1	0.1
Norden	2.6	747	46.8	4.80	0.04	96.6	-0.8
Duesseldorf	2.6	474	28.9	7.54	0.05	98.6	0.8
Borna	2.5	913	50.9	4.57	0.00	85.4	-1.1
Schoeningen	2.5	916	53.7	4.91	0.02	75.9	0.4
Aurich	2.4	785	52.7	4.54	0.03	81.5	-0.7
Schwerin	2.3	809	47.4	4.40	0.04	89.5	-0.4
Fuerstenwalde	1.9	567	30.1	5.36	0.01	95.5	0.1
Erfurt	1.8	643	38.9	5.52	0.03	69.3	2.2

Focus on small to medium-sized residential units

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

Size of apartment	Units	% of total units	Ø rent/sqm/ month in EUR
< 45 sqm	6,571	14.0	5.75
> = 45 and < 60 sqm	15,999	34.0	4.93
> = 60 and < 75 sqm	16,712	35.5	4.98
> = 75 and < 90 sqm	6,059	12.9	4.96
> 90 sqm	1,669	3.6	4.82
Total	**47,010[1)]**	**100.0**	**5.02**

[1)] Excluding the 192 units in Senftenberg acquired at the end of Q2 2017

Customer orientation with in-house property and facility management

ADLER has set itself the target of offering its tenants virtually 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 which allows it manage all group properties. By the beginning of 2017, this was the case for just over half of the portfolio. By early 2018, all properties should be managed and supported by internal group employees.

The Group is taking a similar approach in its facility management, i.e. for tradesman and caretaker services at and in the properties. Here too, ADLER intends to perform the predominant share of activities with in-house resources. To this end, ADLER Gebäude Service GmbH (previously: Arkadio Facility Management GmbH) has also developed a regional structure largely analogous to its property management counterpart.

ADLER expects this evolution into an integrated real estate group to boost tenant satisfaction and reduce their turnover rates. This process should be assisted by the ADLER tenant app, an innovative instrument so far unique in the sector which was launched at the beginning of May, initially in the Helmstedt region, and which is intended to facilitate communication with tenants and boost tenant retention. Initial experience shows that the large majority of tenants assess the app positively and also actually use it. ADLER has now offered the app to tenants in other regions and expects to make this new communication instrument available to all of its tenants before the end of the year.

Programme to reduce vacancies to be expanded

ln mid-2016, ADLER initiated a programme to renovate 1,500 vacant residential units, most of which have long been vacant, in order to bring them back in line with market standards and thus reduce the vacancy rate. One year later, renovation work has been completed on a total of 951 apartments, while the relevant work is underway or has been commissioned for all other apartments. The project will therefore be completed on schedule in the further course of the third quarter. In most cases, renovation has involved replacing the flooring, completely renewing the bathrooms, redesigning the tiled sections in the kitchens, relaying electric cables and in some cases replacing doors and windows. Finally, the apartments were given a fresh coat of paint. Expenses of around EUR 11,000, and thus slightly more than originally planned, have been incurred per apartment. Based on experience to date, once the work has been completed it takes two to three months to find new tenants for the apartments. At the end of the first half of 2017, new tenants had been found for 633 of the renovated apartments. The rental income generated from letting the apartments anew is significantly higher than the group average and also ahead of our own expectations. As a result, it has been decided to continue the programme in a second tranche which should latch seamlessly onto the first tranche and be completed by the end of 2018. Investment funds of EUR 15 million have been made available once again for this purpose.

THE TRADING PORTFOLIO

The trading business and privatisation of residential units are handled by the group company ACCENTRO Real Estate AG. At the end of the first half of 2017, 2,431 rental units earmarked for privatisation were recognised in the balance sheet, nine units more than at the beginning of the year (2,422 units).

Most of the trading properties are located in Berlin, and thus in a market that has proven to be especially lucrative for the privatisation business in recent years and is also clearly expected to maintain its dynamic performance. However, ACCENTRO has also acquired portfolios in Cologne and Leipzig.

/// ADLER ON THE CAPITAL MARKET

Real estate stocks outperform DAX

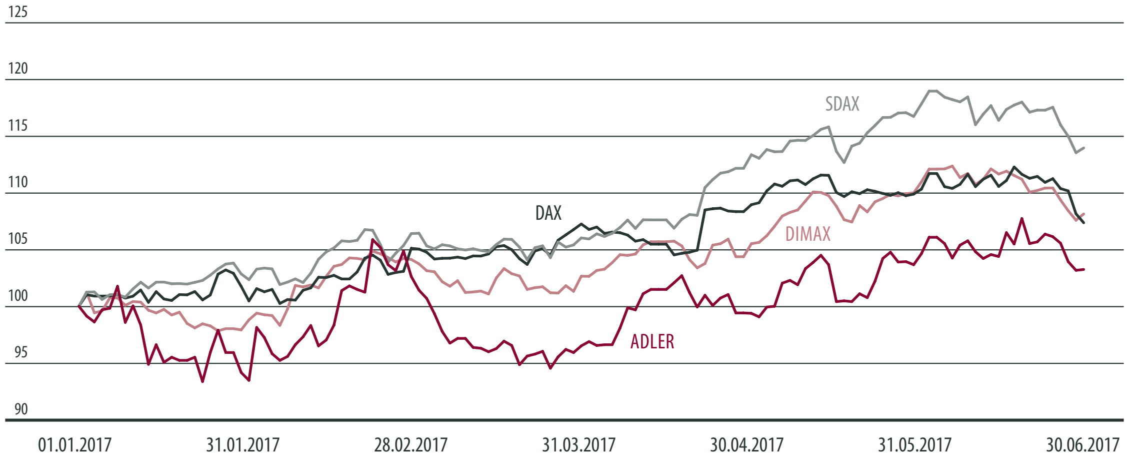
The German stock market performed positively in the first half of 2017. The DAX rose by slightly more than 7 percent in the period under report. At just over 12,300 points, it ended the period just short of the record high seen in mid-June. Over the same period, the SDAX, the index in which ADLER has been listed since June 2015, rose by almost 14 percent, and thus twice as fast. At just under 11,000 points, this index also ended the period just short of its record high.

Real estate stocks also performed positively in the first half of 2017. Solactive DIMAX, the index comprising Germany's main listed real estate companies, was 8 percent higher at the end of June than at the beginning of the year. Real estate stocks thus outperformed the DAX in the first half of the year.

ADLER's share gained slightly more than 3 percent in value in the first six months. Having opened the year at just under EUR 13.20, the share price rose to more than EUR 14 in mid-June and closed the month at EUR 13.60. It should be noted that the Annual General Meeting on 7 June decided to grant shareholders bonus share from company funds at a ratio of 10 to 1. These bonus shares were credited to shareholders on 22 June. The capital increase had a corresponding impact on the share price.

On 16 June, ADLER then adopted a share buyback programme aimed at acquiring treasury stock at a total purchase price of up to EUR 10 million. By the end of the period under report, ADLER had bought a total of 160,539 treasury stock shares, corresponding to almost 0.3 percent of the company's share capital.

ADLER REAL ESTATE AG STOCK, DAX, SDAX AND DIMAX SINCE JANUARY 2017 | JANUARY 2017 = 100

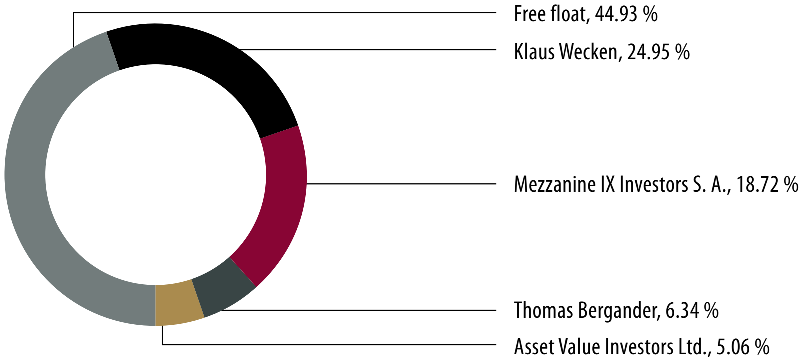


Number of shares significantly increased by bonus shares and conversion of existing convertible bonds

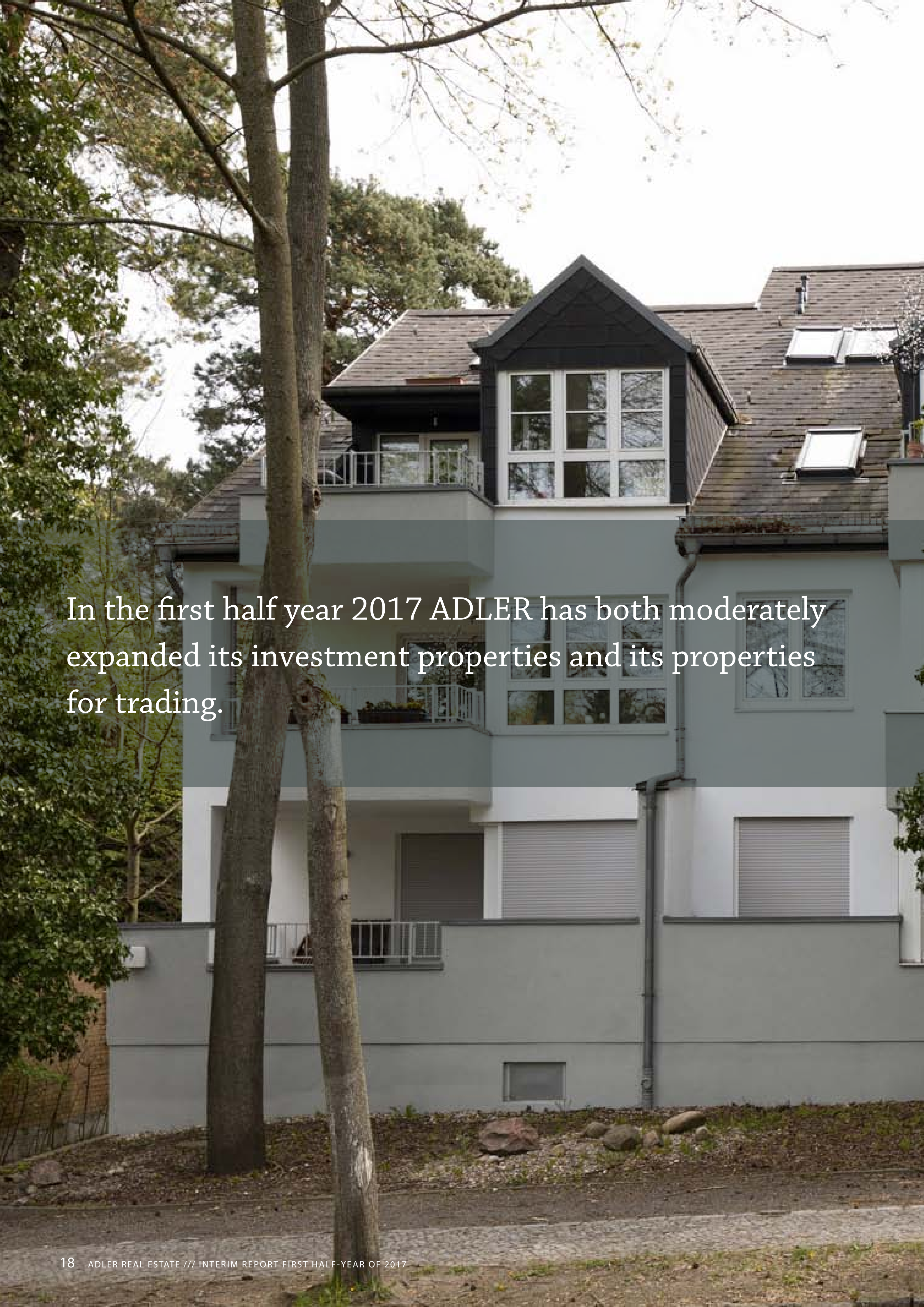
The total number of voting rights in ADLER Real Estate AG amounted to 57,492,650 as of 30 June 2017, compared with 47,702,374 voting rights at the beginning of 2017. This increase by 20.5 percent was chiefly due to the issuing of bonus shares (4,773,135 shares) and to conversions resulting from the expiry in June of the 2013/2017 convertible bond (5,014,206 shares). Voting rights relating to the shares bought back by ADLER by the middle of the year (160,539 shares) can no longer be exercised.

The shareholder structure changed only slightly during the first half of the year. Based on the notifications received by ADLER from shareholders when crossing the relevant thresholds, the shareholder structure as of 30 June 2017 was as follows:

SHAREHOLDER STRUCTURE AS AT 30 JUNE 2017*



* Without consideration of the share buyback programme



In the first half year 2017 ADLER has both moderately expanded its investment properties and its properties for trading.

/// Fundamentals of ADLER Real Estate AG Group

/// FUNDAMENTALS OF ADLER REAL ESTATE AG GROUP

BUSINESS MODEL

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

The Rental segment portrays the activities of the Group's central Asset Management department, which manages residential units held in the portfolio in technical and commercial terms. It performs these activities mostly under its own management. Where this is not the case, it manages external property management companies on location by way of service agreements. With ADLER Wohnen Service GmbH, which was founded in 2016, ADLER now has a company in which internal group activities in the field of property management have been pooled and now expanded to the extent that they cover the predominant share of the Group. ADLER intends to fully integrate this section of its value chain into the Group by the end of 2017. Similar plans are in place for Facility Management, which is responsible for the group company previously operating under the name Arkadio Facility Management GmbH and since renamed as ADLER Gebäude Service GmbH.

The Trading segment is largely managed and directed by a standalone Group company, ACCENTRO Real Estate AG, in which ADLER Real Estate AG owns 86.3 percent of the shares.

Rental

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

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

The apartments in ADLER's portfolio have an average size of around 60 m^2 and have two or three main rooms. The average monthly rent amounts to EUR 5.06 per square metre. ADLER thus operates in a market segment focusing on people with medium to below-average incomes. ADLER offers decent living quality at appropriate market prices to this target group. Demand for affordable living space is continuing to grow as the average age of the population is rising in conjunction with an increasing number of single-person households. Furthermore, people are moving to Germany from various parts of the EU as they see better employment prospects here, while others are coming to Germany as asylum seekers from more distant countries. At the same time, despite the renewed increase in overall construction activity the supply of new housing in this segment remains low. This is because new construction is mostly only viable in the higher priced rental segment.

In the balance sheet, rental properties are typically recognised as investment properties at their fair values, which in turn are 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).

Trading

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

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

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

Targets and strategies

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

Strategy for the Rental segment

The value of the real estate portfolio portrayed in the Rental segment 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 asset management is therefore to raise occupancy rates and rental income. Value growth can also be generated by expanding the existing portfolio and exploiting corresponding benefits of scale, or by changing and optimising the existing portfolio in order to identify and sell those assets less likely to retain their value.

When the portfolios are extended by way of acquisitions, then the earnings strength can be boosted by exploiting benefits of scale, as certain fixed costs can then be distributed across a larger portfolio, with a corresponding reduction in the absolute charge per individual unit. Not only that, costs can also be reduced and the efficiency of property management enhanced by grouping services with external service providers or by centralising and pooling tasks within the Group.

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. Having said this, the portfolio can also be optimised by increasing the density of existing properties by building new individual residential blocks or adding new floors to existing blocks.

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

This programme, which is intended to reduce the existing vacancy rate and resultant costs, has been successfully implemented and is due to be continued in a second tranche with a similar investment volume.

Strategy for the Trading segment

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

Financing strategy

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

ADLER has good access both to the market for secured bank lending and to the market for unsecured financing. This two-pronged market access reduces the risks associated with obtaining debt capital and also helps reduce financing costs. Economic success sometimes depends on the company’s own speed of reaction. To be able to react to any market opportunities at short notice, ADLER has authorised and conditional capital, both of which approved by shareholders, that can be drawn on at any time to make acquisitions.

Acquisition strategy

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

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

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

MANAGEMENT SYSTEM

Financial performance indicators

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

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

Non-financial performance indicators

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

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

EMPLOYEES

As the Group holding company, ADLER Real Estate AG has two Management Board members, but no proprietary employees. 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. The overwhelming share of employees work at the divisions handling property and facility management. 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 substantially in the first half of 2017, rising from 354 at the beginning to 499 full-time and part-time employees at the end of the period under report.

RESEARCH AND DEVELOPMENT

As a real estate Group, ADLER Real Estate AG does not perform any research and development in a traditional sense. Having said this, 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 experienced gained by the company itself from letting properties on location. Not only that, various developments in the construction sector and in building technology also have to be monitored and analysed, as do any changes in regulatory requirements. The insights gained from these analyses form an important basis for all of the company's operating activities. With the tenant app launched in early June, ADLER now also has an innovative tenant communication and customer instrument, one so far unique in the sector.

At the half year stage the programm to renovate 1,500 vacant apartments had been realized as planned by two thirds.

/// Interim Group Management Report

/// Economic report

/// Report on risks and opportunities

/// Outlook

/// Report on events after the balance sheet date

/// Results from operations, net assets and financial position

/// ECONOMIC REPORT

MACROECONOMIC AND SECTOR-SPECIFIC SETTINGS

The macroeconomic and sector-specific framework in Germany remained stable, and thus favourable for the real estate sector, in the first six months of the current financial year. Adjusted for calendar-related factors, gross domestic product grew by 1.7 percent in the first quarter. No specific figures are available yet for the second quarter. In their joint forecast issued in spring 2017, the leading economic research institutes predicted GDP growth of 1.5 percent for 2017. At 1.6 percent, the inflation rate in the first half of the year was slightly higher than in the previous year. Employment totals are at record highs, while interest rates remain at historic lows. At the end of June 2017, the widely acknowledged "ifo Geschäftsklimaindex", the business confidence index generated by the Munich-based ifo Institute, reached a level last seen seven years ago.

For a company like ADLER Real Estate AG that operates in two business fields, residential unit rental and residential unit trading, both the transaction market and the housing rental market are relevant. According to the consultancy CBRE, transactions worth EUR 5.7 billion were implemented in the transaction market for housing portfolios of 50 units and more in the first half of 2017, 22 percent more than in the same period in the previous year (EUR 4.8 billion). The number of portfolios transferred decreased, as did the number of residential units per portfolio transferred, but the average price per unit was significantly higher than the comparable figure for the previous year.

The climate in the housing rental market also remained stable in the first half of 2017. According to the Cost of Living Index, rents in Germany were 1.8 percent higher on a nationwide basis in June 2017 than in the same month in the previous year. Rents thus rose slightly faster than 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 real estate, ADLER Real Estate AG chiefly operates in B locations and on the periphery of conurbations. Such locations typically benefit from sharp rent increases in the centre of such towns, or A locations, 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 town or city.

GROUP BUSINESS PERFORMANCE

Following its successful steps to generate growth in previous years, in 2016 ADLER Real Estate AG concentrated on reorganising its Group structures and adapting these to the new requirements arising in the wake of the acquisitions made. These measures all serve the objective of developing ADLER into an integrated real estate group capable of offering all services of key relevance to tenants from a single source by the end of 2017. Consistent with this objective, at the beginning of the year a further 10,000 residential units previously administered by external service providers were taken into the proprietary administration portfolio in terms of property and facility management services. A further 7,000 have been taken into proprietary administration as the year has progressed.

In mid-January 2017, ADLER Real Estate AG received EUR 422 million from the sale of its c. 26 percent stake in conwert Immobilien Invest SE to Vonovia SE in the context of the voluntary offer made by Vonovia to shareholders in conwert.

As previously announced, following receipt of the funds ADLER Real Estate AG began to redeem liabilities, mostly those with higher interest rates. In January, short-term loans with a total volume of EUR 199.7 million used to finance the acquisition of conwert shares were repaid immediately upon completion of the transaction.

In February, ADLER acquired convertible bonds in the Group company ACCENTRO Real Estate AG with a carrying amount of EUR 12.3 million. This was motivated by the intention to maintain ADLER's share of voting rights in the company at a constant level even once the convertible bonds have been exercised while at the same time reducing liabilities.

In March, ADLER signed a purchase agreement to acquire a real estate portfolio with 693 residential and 8 commercial units in Osterholz-Scharmbeck and Schwanewede. Located directly in the Bremen catchment area, these properties fit in with the objective of ADLER Real Estate AG of offering high-quality yet affordable living space on the edges of conurbations. The portfolio, which generates rental income of more than EUR 2 million a year, also represents an advantageous addition to the Group's existing holdings in northern Germany. This acquisition underlines our intention to expand our portfolio moderately once again following a year of consolidation in 2016.

The Group company ACCENTRO Real Estate AG called its 2013/2018 bond at the end of March and paid it back on 26 June 2017 at 101.5 percent of the nominal amount plus interest accumulated to the repayment date. The bond had a volume of EUR 10 million and bore interest at 9.25 percent p.a.

Furthermore, ADLER repaid subordinate promissory notes of EUR 33.0 million in the course of the first quarter.

In April, ADLER Real Estate AG executed a private placement to stock up its 2015/2020 bond by EUR 150 million. Given the significantly above-par issue price, the tap carries a 2.5 percent yield to call compared to the nominal coupon of 4.75 percent. With this, ADLER has created additional financial scope enabling it to decide at short notice on the acquisition of smaller-scale portfolios on favourable terms. ADLER is currently reviewing portfolios of this kind on a total scale of several thousand units.

The 2014/2019 bond with a volume of EUR 130 million and an interest rate of 6.0 percent was terminated at the same time in April and subsequently repaid on 10 May 2017 at 101.5 percent of the nominal amount plus interest accumulated and unpaid as at repayment date.

Overall, ADLER repaid liabilities of around EUR 380 million in the first half of 2017. With these steps, ADLER has acted on its intention, communicated on various occasions, of repaying liabilities with higher interest rates as rapidly as possible and thus reducing its interest expenses and boosting its FFO.

The Annual General Meeting held on 7 June 2017 adopted a resolution increasing the company's capital from company funds and providing shareholders with bonus shares at a ratio of 10:1 to existing share capital. This was intended to enable shareholders to benefit from the company's economic performance. The new shares were credited to shareholders' accounts on 22 June 2017. As a result, the company's share capital has risen to the same extent.

In June, ADLER Real Estate AG adopted a share buyback programme under which treasury stock can be acquired for a total purchase price (excluding ancillary expenses) of up to EUR 10 million. The programme was launched on 16 June and the progress made is documented on a week-by-week basis on the company's website.

At the end of June, ADLER acquired a portfolio of 192 residential units with floor space of around 11,600 m² in Senftenberg, a medium-sized town located in the south of Brandenburg around half way between Dresden and Cottbus. The portfolio generates annual rental income of around EUR 0.7 million and will supplement the company's holdings in Brandenburg. This acquisition is consistent with the strategy of investing in medium-sized towns in northern, western and eastern Germany, and especially in B locations as these still allow for the generation of attractive returns from the outset.

/// REPORT ON RISKS AND OPPORTUNITIES

ADLER Real Estate AG reported in detail on the opportunities and risks involved in its business activities in its 2016 Annual Report. Since then, the overall situation at ADLER Real Estate AG has remained essentially unchanged.

At the beginning of the year, the US Federal Reserve took the first steps towards raising base rates. Towards the middle of the year, there were increasing signs that the European Central Bank would soon follow suit. The probability that the period of extremely low interest rates could come to an end in the course of 2017 has therefore increased.

Since the devastating fire at a high-rise block in London's North Kensington in mid-June, fire safety has become a topic of public debate in Germany as well. As a professional landlord, ADLER routinely ensures that fire safety requirements are met at all of the Group's properties. We have also refreshed all of our property managers' awareness of this topic and called upon them to carefully review all relevant fire avoidance and firefighting procedures, where necessary in cooperation with local fire safety authorities.

In connection with the divested stake in conwert Immobilien Invest SE, the Austrian Takeover Commission has determined in review proceedings that are now legally binding that the company achieved a controlling stake in conwert by mutual agreement with other persons and then failed to make a mandatory bid as required. The company could therefore be confronted in future with restitution proceedings and administrative penalties. The company continues to reject the determinations of the Takeover Commission as ascertained in its review, which are not verifiable by any second instance, as inaccurate and erroneous.

/// REPORT ON EXPECTED DEVELOPMENTS

ADLER Real Estate AG also reported in detail on its expectations for the current financial year in its 2016 Annual Report. These forecasts have not changed since then. ADLER Real Estate AG continues to expect that the macroeconomic framework for companies operating in the property sector will remain favourable overall in 2017. By the end of the year, the occupancy rate should be around four percentage points higher than at the beginning of the year, while average rents should rise by 1 to 2 percent and net rental income should increase by more than 3 percent in 2017.

FFO I should rise to more than EUR 40 million in 2017, equivalent to an increase of around 50 percent, while FFO II should amount to around EUR 50 million.

The company's financial indicators will improve, in some cases significantly, in 2017. Over the course of the year, LTV should decrease to around 55 percent – a target that has also remained unchanged following the financing measures implemented in April, while average debt interest should decline to around 3.5 percent.

For its NAV, ADLER expects to see growth in a low double-digit percentage range in 2017.

/// REPORT ON EVENTS AFTER THE BALANCE SHEET DATE

No events that could materially impact on the earnings, assets or 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 outlook.

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

RESULT FROM OPERATIONS

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

In EUR millions	6M 2017	6M 2016
Gross rental income	131.1	130.8
– of which net rental income	86.4	83.9
Expenses from property lettings	68.6	69.8
Earnings from property lettings	**62.5**	**61.0**
Income from the sale of properties	52.8	69.3
Expenses from the sale of properties	-41.5	-52.8
Earnings from the sale of properties	**11.3**	**16.5**
Personnel expenses	-10.6	-8.9
Other operating income	6.0	3.4
Other operating expenses	-16.3	-13.4
Income from fair value adjustments of investment properties	35.4	25.8
Depreciation and amortisation	-0.6	-0.6
Earnings before interest and taxes (EBIT)	**87.7**	**83.8**
Net income from at-equity valued investment associates	0.0	10.9
Financial result	-48.7	-48.6
Earnings before taxes (EBT)	**39.0**	**46.1**
Consolidated net profit	**21.7**	**31.8**

Income and earnings from property lettings slightly up on previous year

Gross rental income, predominantly comprising income from property lettings, came to EUR 131.1 million in the first half of 2017 and thus slightly exceeded the equivalent figure for the previous year (H1 2016: EUR 130.8 million). The same is true for the total number of rental units belonging to the ADLER Group and held for permanent letting. These comprised 48,089 units at mid-year, 180 more than at the same point in the previous year (47,909 units). However, the acquisitions made in the first and second quarters only contributed to income on a time-apportioned basis, or not at all in the case of the acquisitions made in the second quarter. This is because the benefits and obligations were only transferred at the end of the respective quarters.

Our property management performance indicators showed further improvements. At the end of the period under report, the average contractually agreed rent per square metre per month for the overall portfolio amounted to EUR 5.06, EUR 0.08 higher than the figure for the previous year's period (H1 2016: EUR 4.98). In the core portfolio the average rental income (per square meter and month) amounted to EUR 5.09 at the mid year stage, up EUR 0.02 on the value at the end of the first quarter of 2017.

At 89.5 percent, the occupancy rate at the end of the first half of 2017 was also higher than one year earlier (88.9 percent). In the core portfolio the occupancy rate reached 90.7 percent However, both occupancy rates decreased compared with the figures achieved by the end of the previous year. This was mainly due to the fact that, given the massive transition in tenant support services from external service providers to internal Group property and facility management departments, it was not possible to avoid a certain degree of frictional losses. The Group's key performance data was additionally held back by the first-time inclusion of new holdings in Erfurt. Following proprietary project development, ADLER included these in its rental portfolio – and thus began marketing them – at the end of last year. This portfolio developed positively, but had not yet been fully let out at the end of the first half of the year.

Expenses from property lettings comprise apportionable and unapportionable operating costs and maintenance expenses. These expenses decreased slightly in the first half of the year. This is because they include expenses for external property management service providers that are gradually being replaced by internal group services. At EUR 10.3 million, maintenance expenses, which also form part of expenses from property lettings, were significantly lower in the first half of 2017 than in the previous year's period (H1 2016: EUR 12.2 million) as fewer maintenance measures were needed. At EUR 12.7 million, by contrast, the renovation and modernisation measures eligible for capitalisation were significantly higher than in the previous year's period (H1 2016: EUR 7.1 million). Overall, a total of EUR 23.0 million was spent on modernisation and renovation in the first half of 2017, as against EUR 19.3 million in the first half of the previous year. This increase is related to the additional outlays incurred for the programme to renovate 1,500 vacant apartments.

Net of expenses from property lettings, earnings from property lettings amounted to EUR 62.5 million in the first half of 2017. This key figure was therefore slightly higher than in the first six months of the previous year (H1 2016: EUR 61.0 million).

Income and earnings from the sale of properties fall short of previous year's strong figures

ADLER Real Estate AG generated income of EUR 52.8 million from the sale of properties in the first half of 2017, as against EUR 69.3 million in the previous year's period. Expenses, largely corresponding to the carrying amounts of the units sold, nevertheless also decreased significantly. Earnings from the sale of properties amounted to EUR 11.3 million in the first six months of the current financial year, down from EUR 16.5 million in the first half of the previous year. These earnings were chiefly attributable to trading and privatisation activities at the group subsidiary ACCENTRO Real Estate AG. However, the figures do not adequately reflect ACCENTRO's performance, as the company also had notarial purchase contracts with a volume of more than EUR 30 million as of the balance sheet date for which the respective benefits and obligations had nevertheless not yet been transferred as of the reporting date.

Sales of non-core units – one of ADLER's strategic objectives since the beginning of 2015 and intended to increase the performance capacity of the overall portfolio – are not reflected in earnings to any significant extent as they were predominantly executed at the respective carrying amounts. A total of 252 units were sold from the non-core holdings identified at the Group. These units are earmarked for sale as they no longer fit in with ADLER's business model.

Higher expenses offset by other income items and income from fair value adjustments of investment properties

The company's growth has automatically been accompanied by increases in most expense items. Part of this cost growth is nevertheless due to the withdrawal of tasks from external service providers in the context of the Group's realignment toward becoming an integrated real estate group. These tasks 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 499 employees at the middle of 2017, 194 more than a year earlier. These employees mostly work at the subsidiaries dealing with property and facility management. The growth in the workforce is automatically reflected in personnel expenses, which reached EUR 10.6 million in the first half of 2017 and were thus significantly higher than in the previous year's period (H1 2016: EUR 8.9 million).

Other operating expenses amounted to EUR 16.3 million in the first half of 2017 (H1 2016: EUR 13.4 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 in this item was mainly due to higher legal and consulting expenses incurred in connection with the sale of conwert shares, the financing measures completed in April and the preparations now needed for the squeeze-out at WESTGRUND AG. No such activities occurred in the previous year's period. Furthermore, part of the increase is also due to the introduction of a uniform IT system landscape at the operating subsidiaries, a measure that became necessary upon the internalisation of property and facility management activities. Part of these additional expenses were already reported in the financial statements for the first quarter.

The increasing expenses were more than offset by income from fair value adjustments of investment properties and by additional other income. Other operating income, which comprises numerous individually insignificant items, amounted to EUR 6.0 million in the first half of 2017 and was thus significantly higher than in the first six months of the previous year (H1 2016: EUR 3.4 million).

The fair value measurement of investment properties generated an earnings contribution of EUR 35.4 million in the first half of 2017. This mainly resulted from the revaluation of the portfolio at the WESTGRUND subgroup, which was performed on schedule at mid-year, as well as from the revaluation of individual commercial units whose values had to be adjusted in line with changes in market circumstances. In the first six months of the previous year, fair value adjustments of investment properties gave rise to income of EUR 25.8 million.

EBIT 4.7 percent up on previous year's figure

After the deduction of all non-financial expenses and income, earnings before interest and taxes (EBIT) for the first half of 2017 came to EUR 87.7 million and were thus 4.7 percent higher than the figure for the previous year's period (H1 2016: EUR 83.8 million).

Reduction in current interest charge

The financial result for the first half of 2017 amounted to minus EUR 48.7 million, as against minus EUR 48.6 million in the previous year's period.

This year-on-year comparison nevertheless conceals the fact that ADLER has reduced its current interest charge by buying back various liabilities with higher interest rates. The company bought back promissory note bonds of around EUR 62 million in the third quarter of 2016 and of around EUR 33 million in the first and second quarters of 2017. In the second quarter of 2017, ADLER also repaid a corporate bond with a volume of EUR 130 million and an interest rate of 6 percent. Moreover, in the first quarter of 2017 ADLER acquired convertible bonds in the group company ACCENTRO Real Estate AG at a carrying amount of EUR 12.3 million. These bore interest at 6.25 percent.

When buying back liabilities, however, the company automatically incurs prepayment penalties which increase the interest charge on a one-off basis in the period in which the liabilities are settled. ADLER incurred one-off expenses totalling EUR 7.5 million in this way in the first half of 2017. Of this total, EUR 4.1 million related to prepayment penalties, EUR 1.9 million to transaction costs requiring premature recognition as expenses, and EUR 1.5 million to the reversal of the reserves recognised in equity in the previous year for the shares held in conwert. Excluding these items, interest expenses would have already decreased significantly in the first half of the year, and that even though the company issued a convertible bond with a total nominal value of EUR 137.9 million in the third quarter of 2016 and stocked up its existing 2015/2020 corporate bond by EUR 150 million in the second quarter of 2017.

Financial income only changed immaterially compared with the previous year's period.

At EUR 39.0 million, earnings before taxes (EBT) for the first half of 2017 fell short of the figure for the previous year's period (H1 2016: EUR 46.1 million). This was mainly due to investments in associates accounted for using the equity method, which amounted to EUR 10.9 million in the first half of 2016 but fell to zero following the sale of the conwert shares.

Income tax expenses came to EUR 17.3 million in the first half of 2017, of which EUR 13.7 million related to deferred taxes and EUR 3.6 million to current tax expenses (H1 2016: deferred tax expenses of EUR 8.7 million and current tax expenses of EUR 5.6 million). Net of taxes, consolidated net profit for the period under report amounted to EUR 21.7 million (H1 2016: EUR 31.8 million). Of the consolidated net profit, EUR 17.6 million was attributable to shareholders in the parent company (H1 2016: EUR 28.5 million).

Segment reporting

In its segment reporting, ADLER Real Estate AG distinguishes between its Rental and Trading segments. All business transactions executed in connection with the letting of investment properties are pooled in the Rental segment. The Trading segment includes all activities in connection with the purchase and sale of properties, including the brokerage business on behalf of third parties. The "Other" column mainly comprises other group activities that do not constitute standalone segments. These mainly involve historic holdings relating to development projects that have been sold off since the Group's realignment or are still in the process of being sold off.

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

ADLER Group	Trading		Rental		Other		Group	
In EUR millions	6M 2017	6M 2016[1]	6M 2017	6M 2016[1]	6M 2017	6M 2016	6M 2017	6M 2016
Gross rental income and income from the sale of properties	42.7	53.1	141.1	145.5	0.1	1.5	183.9	200.1
– of which gross rental income	3.8	3.4	127.2	126.6	0.1	0.8	131.1	130.8
– of which income from disposals	38.1	48.9	14.0	18.9	-	0.7	52.0	68.5
– of which income from brokerage	0.8	0.8	-	-	-	-	0.8	0.8
Change in the value of investment properties	-	-	35.4	25.8	-	-	35.4	25.8
Earnings before interest and taxes (EBIT)	**11.0**	**15.5**	**77.0**	**68.4**	**-0.3**	**-0.1**	**87.7**	**83.8**
Income from investments accounted for using the at-equity method	-	0.4	-	10.5	-	-	-	10.9
Financial result	**-3.1**	**-2.7**	**-45.6**	**-46.0**	**0.0**	**0.0**	**-48.7**	**-48.7**
Earnings before taxes (EBT)	**7.9**	**13.3**	**31.4**	**32.9**	**-0.3**	**-0.1**	**39.0**	**46.1**

[1] Amended statement, please see comments under "Segment reporting" in notes to interim consolidated financial statements

Further increase in funds from operations (FFO)

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

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

In EUR millions		6M 2017	6M 2016
Consolidated net profit		**21.7**	**31.7**
+	Financial result	48.7	48.7
+	Income taxes	17.3	14.3
+	Depreciation and amortisation	0.6	0.6
–	Income from measurement of investment properties	35.4	25.8
–	Income from investments accounted for using the at-equity method	0.0	10.9
EBITDA IFRS		**52.8**	**58.5**
+/–	Non-recurring and extraordinary items	5.4	6.6
Adjusted EBITDA		**58.3**	**65.1**
–	Interest expense FFO	35.6	40.2
–	Current income taxes	0.7	0.6
+	Capitalisable maintenance measures	4.1	4.0
–	Earnings before interest and taxes from the sale of properties	10.2	16.4
FFO I		**15.7**	**12.0**
+	Earnings after interest and taxes from the sale of properties	5.0	10.1
–	Interest from investments accounted for using the at-equity method	0.2	2.0
+	Value change realised upon sale	-0.6	0.0
+	Liquidity-related income from investments accounted for using at-equity method	0.2	7.4
FFO II		**20.1**	**27.4**
Number of shares (basic)[1)]		68,998,777	62,568,006
FFO I per share (basic)		0.23	0.19
FFO II per share (basic)		0.29	0.44
Number of shares (diluted)[2)]		81,266,898	70,456,346
FFO I per share (diluted)		0.19	0.17
FFO II per share (diluted)		0.25	0.39

[1)] Number of shares at reporting date: 57,332,111 (previous year: 50,901,340) plus 11,666,666 shares resulting from conversion of mandatory convertible bond counting as share capital (previous year: 11,666,666), previous year adjusted corresponding to IAS 33.64, please see comments in notes to the interim consolidated statements under earnings per share

[2)] Plus assumed conversion of other convertible bonds to the extent that they are already convertible: 12,268,121 (previous year, equally adjusted: 7,888,340), please see comments in notes to the interim consolidated statements under earnings per share

Non-recurring and extraordinary items are structured as follows:

Non-recurring and extraordinary items In EUR millions	6M 2017	6M 2016
Non-cash income/expenses and one-off payments	-0.6	3.5
Costs of acquisition/integration	1.3	0.1
Optimisation of business model, structuring	4.7	3.0
Total of non-recurring and extraordinary items	**5.4**	**6.6**

The FFO interest charge is derived as follows:

Interest expense FFO In EUR millions	6M 2017	6M 2016
Interest income	1.6	0.7
Interest expenses	-50.3	-49.4
Total interest income	**-48.7**	**-48.7**
Adjustments		
Interest expenses from the sale of properties	2.4	1.3
Prepayment compensation and provision costs	4.3	0.3
Effects of measurement of primary financial instruments	4.5	4.3
Other adjustments	1.9	2.0
Interest expenses FFO	**-35.6**	**-40.2**

Calculated this way, FFO I for the first half of 2017 amounted to EUR 15.7 million, EUR 3.7 million or 30.8 percent higher than the figure for the previous year's period (H1 2016: EUR 12.0 million). The FFO II figure is reported at EUR 20.1 million for the period under report. This represents a significant reduction compared with the first half of 2016 (EUR 27.4 million). This is because earnings from the sale of properties were lower while earnings from companies measured at equity fell to zero following the sale of conwert shares.

Calculated on an undiluted basis (shares issued plus shares arising from conversion of the mandatory convertible bond allocated to share capital), FFO I per share amounted to EUR 0.23 in the first half of 2017. On a diluted basis (shares issued plus shares arising from conversion of the mandatory convertible bond allocated to share capital plus shares from the assumed conversion of the other convertible bonds to the extent that they are already convertible), FFO I per share came to EUR 0.19.

NET ASSETS

In EUR millions	30.06.2017	as percentage of total assets	31.12.2016	as percentage of total assets
Non-current assets	**2,641.5**	**83.2**	**2,577.6**	**75.1**
– of which investments properties	2,505.5	78.9	2,442.0	71.2
Current assets	**505.9**	**15.9**	**418.2**	**12.2**
– of which inventories	263.2	8.3	227.1	6.6
– of which cash and cash equivalents investments	165.9	5.2	123.9	3.6
Non-current assets held for sale	**28.8**	**0.9**	**434.7**	**12.7**
Assets	**3,176.2**	**100.0**	**3,430.5**	**100.0**
Equity	**921.0**	**29.0**	**914.2**	**26.6**
– of which capital stock (net of treasury shares)	57.3	1.8	47.7	1.4
– of which capital reserve	328.6	10.3	352.1	10.3
– of which net retained profit	461.3	14.5	445.7	13.0
Non-current liabilities	**2,088.1**	**65.7**	**2,111.2**	**61.5**
– of which liabilities from convertible bonds	123.9	3.9	143.9	4.2
– of which liabilities from bonds	527.3	16.6	509.5	14.9
– of which financial liabilities to banks	1,278.7	40.3	1,312.5	38.3
Current liabilities	**159.7**	**5.0**	**397.5**	**11.6**
– of which financial liabilities to banks	93.4	2.9	320.3	9.3
Liabilities held for sale	**7.4**	**0.2**	**7.6**	**0.2**
Equity and liabilities	**3,176.2**	**100.0**	**3,430.5**	**100.0**

Both the balance sheet total (total assets) and the balance sheet structure changed significantly in the first half of 2017 due to the sale of the shares held in conwert Immobilien Invest SE, the acquisition of 893 rental units and the extensive debt repayments and financing measures. As of 31 December 2016, ADLER Real Estate AG reported assets of EUR 3,430.5 million. Six months later, on 30 June 2017, this figure was 7.4 percent lower (EUR 3,176.2 million). Above all, this is because the proceeds from the sale of the conwert shares were partly used to repay current liabilities of EUR 199.7 million and non-current liabilities of around EUR 183 million.

Investment properties boosted by acquisitions and value growth

Investment properties had a market value of EUR 2,505.5 million at the end of the first half of 2017, 2.6 percent higher than at the end of the previous year (EUR 2,442.0 million). This growth was partly driven by the acquisitions made in the first half of the year. These included the portfolio of 701 rental units close to Bremen, whose benefits and obligations were transferred at the end of the first quarter, and the portfolio of 192 units in Senftenberg taken over towards the end of the second quarter. The value growth resulting from revaluation of existing real estate holdings amounted to EUR 35.4 million in the first half. At the same time, real estate in a low double-digit million euro range was reclassified to “non-current assets held for sale”.

Investment properties accounted for 78.9 percent of total assets at the end of the first half of 2017.

Following the sale of the shareholding of around 26 percent in conwert Immobilien Invest SE in the first quarter of 2017, non-current assets held for sale – the second-largest item on the asset side of the balance sheet at the end of the previous year - have now decreased significantly. At the end of 2016, this item amounted to EUR 434.7 million but by the end of the first half of 2017 it only included assets of EUR 28.8 million.

Properties held for trading have been recognised under inventories at an amount of EUR 263.2 million at the end of the first six months. This corresponds to an increase of 15.9 percent compared with the balance at the end of the previous year (EUR 227.1 million). ACCENTRO, the group company operating in the trading and privatisation business, sold a total of 327 units from its holdings in the first half and acquired 336 units with correspondingly higher fair values. Alongside properties in Berlin, the newly acquired holdings also include properties in Cologne and Leipzig. Inventory properties are measured at cost, which usually falls significantly short of the respective market value.

Investment properties, inventory properties and non-current assets for sale cover all of the property holdings at ADLER Real Estate AG and together accounted for 88.1 percent of the company's total assets.

Solid liquidity resources

Current assets amounted to EUR 505.9 million at the end of the first half of 2017. The increase compared with the end of the previous year was due in part to the growth in inventory properties referred to above and in part to cash and cash equivalents, which rose from EUR 123.9 million to EUR 165.9 million. ADLER does not intend to retain those cash and cash equivalents exceeding its working capital requirements on a permanent basis. The funds are rather to be used to repay liabilities with higher interest rates or to acquire additional real estate portfolios.

Further increase in equity ratio

Due to the repayment of liabilities, the financing structure of ADLER Real Estate AG moved towards a higher share of equity in the first half of 2017. The equity ratio came to 29.0 percent and was thus 2.4 percentage points higher than at the end of the previous year (26.6 percent).

Equity increased from EUR 914.2 million to EUR 921.0 million in the period under report. An amount of EUR 22.8 million was charged to the capital reserve in the first quarter in connection with the acquisition of convertible bonds in the group company ACCENTRO. This transaction served to stabilise the prorated shareholding in ACCENTRO and reduce liabilities with higher interest rates. The issue of bonus shares at a ratio of 10 to 1 (EUR 4.8 million) also led to a reduction in the capital reserve; in this case, however, the same amount was credited to share capital. Due to conversions of convertible bonds, share capital and the capital reserve increased by EUR 9.1 million in total. This was due in particular to the 2013/2017 convertible bond, which matured in June. The share buyback programme initiated on 16 June led to a reduction in equity by EUR 2.3 million by the reporting date.

Reduction in liabilities

Non-current liabilities amounted to EUR 2,088.1 million as of 30 June 2017, EUR 23.1 million lower than at the end of the previous year (EUR 2,111.2 million). Liabilities for convertible bonds decreased as a result of ADLER Real Estate AG buying back corresponding papers at ACCENTRO with a carrying amount of EUR 12.3 million and of the expiry of the 2013/2017 convertible bond in June.

Bond liabilities increased from EUR 509.5 million at the end of 2016 to EUR 527.3 million at mid-year in 2017. The 2013/2018 corporate bond with a volume of EUR 130 million was repaid prematurely, but the existing 2015/2020 corporate bond was stocked up by EUR 150 million.

Non-current liabilities to banks fell by EUR 33.8 million. At the end of the first half of 2017, these liabilities amounted to EUR 1,278.7 million and thus accounted for the largest share of non-current liabilities. The reduction in this item was mainly due to the premature buyback of promissory note bonds with higher interest rates.

Current liabilities showed the sharpest reduction, falling by EUR 237.8 million from EUR 397.5 million at the end of the previous year to EUR 159.7 million at the end of the first half of 2017. Above all, this reduction reflects the repayment of liabilities of EUR 199.7 million that had served to finance the acquisition of conwert shares and were repaid following the sale of these shares in the first quarter. Furthermore, at the end of the second quarter of 2017 the group company ACCENTRO repaid a bond with a total nominal amount of EUR 10.0 million which was previously recognised under current liabilities.

Net financial liabilities amounted to EUR 1,865.3 million at the end of the first six months of the current financial year and thus decreased substantially compared with the end of the previous year (EUR 2,172.1 million).

Further improvement in loan to value (LTV)

The ratio of financial liabilities to total assets (loan-to-value), with both figures adjusted to exclude cash and cash equivalents, amounted to 62.0 percent at the end of the period under report, 3.7 percentage points lower than at the beginning of the year (65.7 percent). Assuming that the convertible bonds outstanding at the reporting date are converted into shares, LTV would amount to 57.8 percent, 3.5 percentage points lower than at the end of 2016.

ADLER thus made substantial progress in the first six months of the current financial year alone towards reaching the target it has set itself for 2017 of reducing LTV to 55 percent.

In EUR millions		**30.06.2017**	**31.12.2016**
Convertible bonds		125.6	145.4
+	Bonds	533.5	517.7
+	Financial liabilities to banks	1,372.1	1,632.8
–	Cash and cash equivalents	165.9	123.9
=	**Net financial liabilities**	**1,865.3**	**2,172.1**
Assets[1]		**3,010.3**	**3,306.6**
LTV including convertible bonds in %		62.0	65.7
LTV excluding convertible bonds in %		57.8	61.3

[1] Adjusted for cash

Due to the extensive repayments of liabilities with higher interest rates, it was possible to further reduce the weighted average cost of debt (WACD) for all of the ADLER Group's liabilities in the first half of the year. The impact of this approach was nevertheless diluted by the fact that the current liabilities redeemed for the conwert financing facility had comparatively low interest rates. WACD amounted to 3.66 percent at the end of the first half, compared with 3.69 percent at the end of 2016. ADLER is nevertheless upholding its objective of reducing its WACD to 3.45 percent by the end of the year.

Further increase in net asset value (EPRA NAV)

ADLER Real Estate AG refers to net asset value (NAV) as its key group management figure and calculates this in accordance with the guidelines issued by the European Public Real Estate Association (EPRA). At the end of the first half of 2017, NAV reached EUR 1,094.9 million, 2.3 percent higher than at the end of the previous year (EUR 1,069.9 million). At the end of the first quarter of 2017, the company had reported a negative impact on equity and NAV in connection with the buyback of convertible bonds at the group company ACCENTRO. For the year as a whole, ADLER expects NAV to increase in a low double-digit percentage range, an increase that given market developments would still appear to be realistic.

Based on the total number of existing shares in circulation at the balance sheet date plus the shares resulting from the assumed conversion of the mandatory convertible bond counted as equity, undiluted EPRA NAV per share amounted to EUR 15.87 at the end of the first half of 2017. The fact that NAV per share is lower than one year ago is mainly due to the significant increase in the number of shares on which the calculation has been based following the extensive conversion measures and issue of bonus shares.

Diluted EPRA NAV per share amounted to EUR 14.98. This also represents a reduction compared with the previous year's figure. In this case, the reduction particularly reflects the fact that the number of shares accounted for in dilution for the first time now also includes the 2016/2021 convertible bond, as the related conversion rights have been eligible to be exercised since 29 June 2017. ADLER Real Estate AG bases its NAV calculation on the equity attributable to shareholders in the parent company.

In EUR millions	**30.06.2017**	**31.12.2016**
Equity	**921.0**	**914.2**
Non-controlling interests	-74.6	-71.0
Equity attributable to ADLER shareholders	**846.4**	**843.2**
Deferred tax liabilities	187.6	169.5
Difference between fair values and carrying amounts of inventory properties	56.7	52.1
Fair value of derivative financial instruments	6.0	7.4
Deferred taxes for derivative financial instruments	-1.8	-2.2
EPRA NAV	**1,094.9**	**1,069.9**
Number of shares, basic[1]	68,998,777	64,142,175
EPRA NAV per share in EUR	**15.87**	**16.68**
Number of shares, diluted[2]	81,266,898	70,456,346
EPRA NAV per share (diluted) in EUR	**14.98**	**15.39**

[1] Number of shares at reporting date: 57,332,111 (previous year: 52,475,509) plus 11,666,666 shares resulting from conversion of mandatory convertible bond counting as share capital (previous year: 11,666,666), previous year adjusted corresponding to IAS 33.64, please see comments in notes to the interim consolidated statements under earnings per share

[2] Plus assumed conversion of other convertible bonds to the extent that they are already convertible: 12,268,121 (previous year, equally adjusted: 6,314,171)

FINANCIAL POSITION

In EUR millions	6M 2017	6M 2016
Cash flow from operating activities	-4.4	57.2
Cash flow from investing activities	377.2	12.7
Cash flow from financing activities	-330.8	-51.6
Cash-effective change in cash and cash equivalents	42.0	18.4
Cash and cash equivalents at beginning of period	123.9	49.5
Cash and cash equivalents at end of period	165.9	67.9

At EUR -4.4 million, the cash flow from operating activities in the first six months of the current financial year fell short of the previous year's figure (EUR 57.2 million). This development was influenced in particular by the increase in trading properties at ACCENTRO (outgoing payments of EUR 36.2 million), which contrasted with the reduction in property holdings in the previous year's period (incoming payments of EUR 19.0 million). At EUR 31.8 million, by contrast, the operating cash flow before divestments/reinvestments in the trading portfolio was only around EUR 6.4 million lower than the previous year's figure (EUR 38.2 million). The difference here was due in particular to tax payments of EUR 3.3 million made in the first six months of the current financial year and to the fact that the previous year's figure also included the conwert dividend of EUR 7.4 million.

The cash flow from investing activities led to an overall inflow of funds of EUR 377.2 million in the first half of 2017. An amount of EUR 416.3 million was attributable to the sale of the shares held in conwert Immobilien Invest SE. This item was countered by an outflow of funds of EUR 50.7 million for investments in existing holdings (investment properties).

Financing activities resulted in an outflow of funds amounting to EUR -330.8 million in the first half of 2017. This was the extent by which funds were channelled into interest payments and repayments of existing financing facilities. Repayments particularly included current liabilities of EUR 199.7 million which had served to finance the acquisition of the conwert shares and bond liabilities of around EUR 140.0 million. Furthermore, non-current promissory note bond liabilities of EUR 33.0 million were prematurely redeemed. These items were countered by the inflow of EUR 150 million due to the stocking up of the existing 2015/2020 corporate bond.

As of 30 June 2017, the ADLER Group had financial funds (cash and cash equivalents) of EUR 165.9 million.

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

OVERALL SUMMARY OF BUSINESS PERFORMANCE AND POSITION OF GROUP

Given the further development in existing real estate portfolios, the acquisitions – in some cases already implemented and in some cases still planned – of new portfolios, the successful initiation of the Group's realignment, the consistent 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 a stable performance in future.

During the first half year 2017 liabilities amounting to EUR 380 million were repaid.

/// Group interim financial statement as at 30 June 2017

/// CONSOLIDATED BALANCE SHEET

(IFRS) as at 30 June 2017

In EUR ´000	30.06.2017	31.12.2016
Assets	**3,176,186**	**3,430,477**
Non-current assets	**2,641,489**	**2,577,578**
Goodwill	130,552	130,552
Intangible assets	302	583
Property, plant and equipment	3,323	3,434
Investment properties	2,505,457	2,441,988
Investments in associated companies	280	497
Other financial investments	206	69
Other non-current assets	314	48
Deferred tax assets	1,055	408
Current assets	**505,909**	**418,211**
Inventories	263,192	227,057
Trade receivables	12,648	11,749
Income tax receivables	2,989	1,407
Other current assets	61,206	54,086
Cash and cash equivalents	165,874	123,911
Non-current assets held for sale	**28,787**	**434,688**

In EUR ´000	30.06.2017	31.12.2016
Equity and liabilities	**3,176,186**	**3,430,477**
Shareholders' equity	**920,968**	**914,222**
Capital stock	57,493	47,702
Treasury shares	–161	0
	57,332	47,702
Capital reserve	328,565	352,105
Retained earnings	-921	-2,510
Currency translation reserve	89	90
Net retained profit	461,308	445,786
Equity attributable to owners of the parent company	846,373	843,174
Non-controlling interests	74,595	71,048
Non-current liabilities	**2,088,136**	**2,111,222**
Pension reserves	4,786	4,954
Deferred tax liabilities	127,449	113,142
Other provisions	1,766	1,622
Liabilities from convertible bonds	123,857	143,870
Liabilities from bonds	527,271	509,454
Financial liabilities to banks	1,278,685	1,312,502
Other non-current liabilities	24,323	25,677
Current liabilities	**159,708**	**397,482**
Other provisions	2,282	3,926
Income tax liabilities	13,121	13,969
Liabilities from convertible bonds	1,724	1,554
Liabilities from bonds	6,202	8,281
Financial liabilities to banks	93,442	320,328
Trade payables	24,806	22,492
Other current liabilities	18,131	26,931
Liabilities held for sale	**7,375**	**7,553**

/// CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(IFRS) for the period from 1 January to 30 June 2017

In EUR ´000	6M 2017	6M 2016	Q2 2017	Q2 2016
Gross rental income	131,105	130,809	64,236	65,330
Expenses from property lettings	-68,644	-69,835	-32,527	-35,086
Earnings from property lettings	**62,461**	**60,974**	**31,708**	**30,244**
Income from the sale of properties	52,814	69,333	25,354	47,700
Expenses from the sale of properties	-41,550	-52,810	-18,722	-36,685
Earnings from the sale of properties	**11,264**	**16,523**	**6,632**	**11,015**
Personnel expenses	-10,649	-8,931	-5,370	-4,616
Other operating income	6,069	3,401	3,783	1,856
Other operating expenses	-16,311	-13,420	-9,009	-8,383
Income from fair value adjustments of investment properties	35,408	25,846	27,731	21,035
Depreciation and amortisation	-565	-583	-304	-305
Earnings before interest and tax (EBIT)	**87,677**	**83,810**	**55,171**	**50,846**
Financial income	1,672	757	974	427
Financial costs	-50,359	-49,445	-25,368	-24,238
Net income from at-equity valued investment associates	0	10,930	0	10,290
Earnings before taxes (EBT)	**38,990**	**46,052**	**30,777**	**37,325**
Income taxes	-17,319	-14,301	-12,146	-10,054
Consolidated net profit	**21,671**	**31,751**	**18,631**	**27,271**
OCI SWAP – reclassifiable	0	259	0	141
Deferred taxes OCI – reclassifiable	0	-84	0	-46
Gains/losses from currency translation	-1	-5	-3	-1
Change in value of interests in companies accounted for under at equity	1,589	-1,056	0	-1,344
OCI gains/losses reclassifiable into profit or loss	**1,588**	**-886**	**-3**	**-1,250**
Total comprehensive income	**23,259**	**30,865**	**18,628**	**26,021**
Profit attributable to:				
Owners of the parent company	17,607	28,503	16,080	25,074
Non-controlling interests	4,064	3,248	2,551	2,197
Total comprehensive income attributable to:				
Owners of the parent company	19,195	27,617	16,077	23,824
Non-controlling interests	4,064	3,248	2,551	2,197
Earnings per share, basic (EUR) [1]	0.27	0.46	0.25	0.41
Earnings per share, diluted (EUR) [1]	0.27	0.41	0.25	0.36

[1] previous year adjusted according to IAS 33.64, please see comments in notes to the interim consolidated statements under earnings per share

/// CONSOLIDATED STATEMENT OF CASH FLOWS

(IFRS) for the period from 1 January to 30 June 2017

In EUR ´000		6M 2017	6M 2016
Earnings before interest and taxes (EBIT)		87,677	83,810
+	Depreciation and amortisation	565	583
–/+	Net income from fair value adjustments of investment properties	-35,408	-25,846
–/+	Non-cash income/expenses	598	-879
–/+	Changes in provisions and accrued liabilities	-1,668	-8
–/+	Increase/decrease in inventories, trade receivables and other assets not attributable to investment or financing activities	-3,362	-21,886
–/+	Increase/decrease in trade payables and other liabilities not attributable to investment or financing activities	-14,020	-4,408
+	Interest received	428	37
+	Dividends received	223	7,406
+/–	Tax payments	-3,280	-602
=	**Operating cash flow before de-/reinvestment into the trading portfolio**	**31,753**	**38,207**
–/+	Increase/decrease in inventories (commercial properties)	-36,173	18,990
=	**Net cash flow from operating activities**	**-4,420**	**57,197**
–	Acquisition of subsidiaries, net of cash acquired	-1,833	-1,225
–	Purchase of investment properties	-50,660	-17,610
+	Disposal of investment properties, net of cash disposed	13,610	20,215
–	Purchase of property, plant and equipment	-868	-306
+	Disposal of property, plant and equipment	64	342
+	Proceeds from deinvestments of financial assets less costs to sell	416,260	0
–	Investments in financial assets	-144	0
–	Proceeds from short-term deposits	2,000	11,300
+	Payments into term deposits	-1,251	0
=	**Net cash flows from investing activities**	**377,178**	**12,716**
–	Payments for acquisition of treasury shares	-2,250	0
–	Dividend payments to non-controlling interests	-511	0
+	Proceeds from issue of bonds	156,545	23,652
–	Repayment of bonds	-142,100	0
–	Payments for acquisition and repayment of convertible bonds	-35,178	0
–	Payments from issuing debt	-2,154	-14
–	Interest payments	-48,882	-45,047
+	Proceeds from bank loans	58,892	19,675
–	Repayment of bank loans	-315,157	-49,817
=	**Net cash flows from financing activities**	**-330,795**	**-51,551**
	Reconciliation to consolidated balance sheet		
	Cash and cash equivalents at beginning of periods	**123,911**	**49,502**
	Net cash flow from operating activities	-4,420	57,197
	Net cash flow from investing activities	377,178	12,716
	Net cash flow from financing activities	-330,795	-51,551
=	**Cash and cash equivalents at end of periods**	**165,874**	**67,864**

/// CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(IFRS) for the period from 1 January to 30 June 2017

In EUR ´000	Subscribed capital	Treasury shares	Capital reserve
As at 1 January 2016	**46,103**	**0**	**449,360**
Net result	0	0	0
Other result – reclassifiable	0	0	0
Change in scope of consolidation	0	0	0
Conversion of convertible bonds	25	0	25
As at 30 June 2016	**46,128**	**0**	**449,385**
As at 1 January 2017	**47,702**	**0**	**352,105**
Net result	0	0	0
Other result – reclassifiable	0	0	0
Dividend payments to shareholders	0	0	0
Change in scope of consolidation	0	0	0
Increase/decrease in shareholding with no change in status	0	0	0
Capital increase from company funds	4,773	0	-4,773
Acquisition of treasury shares	0	-161	0
Acquisition of convertible bonds	0	0	-22,883
Conversion of convertible bonds	5,018	0	4,116
As at 30 June 2017	**57,493**	**-161**	**328,565**

Retained profit	Currency translation reserve	Net profit/loss	Capital and reserves attributable to the shareholders of the parent company	Minority interests	Total equity
-88	**92**	**223,891**	**719,358**	**58,562**	**777,921**
0	0	28,503	28,503	3,248	31,751
-881	-5	0	-886	0	-886
0	0	0	0	154	154
0	0	0	50	630	680
-969	**87**	**252,394**	**747,025**	**62,594**	**809,620**
-2,510	**90**	**445,786**	**843,173**	**71,048**	**914,222**
0	0	17,607	17,607	4,064	21,671
1,589	-1	0	1,588	0	1,588
0	0	0	0	-511	-511
0	0	0	0	51	51
0	0	0	0	-488	-488
0	0	0	0	0	0
0	0	-2,085	-2,246	0	-2,246
0	0	0	-22,883	0	-22,833
0	0	0	9,134	431	9,565
-921	**89**	**461,308**	**846,373**	**74,595**	**920,968**

In the first half year 2017 ADLER focused on improving the capital structure. As a result, LTV declined by 3.5 percentage points and the equity ratio increased by 2.4 percentage points.

/// Selected notes on the group interim financial statements in accordance with IFRS as at June 2017

/// SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

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 B. 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 and management of residential properties throughout Germany.

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

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

BASIS OF ACCOUNTING

Basis of preparation

The interim consolidated financial statements as of 30 June 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) which are mandatory 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 measurement of investment properties in line with changes in market conditions. 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.

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 euros (EUR 000s). Statement 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 2016, which form the basis for these interim consolidated financial statements.

Accounting standards applicable for the first time in the 2017 financial year

To date, there have been no amendments to standards or interpretations requiring first-time mandatory application in the EU in the 2017 financial year which would impact materially on the consolidated financial statements.

No premature application has been made of new standards and interpretations only requiring mandatory application from 1 January 2018 and in subsequent years.

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 2016 Annual Report.

SCOPE OF CONSOLIDATION AND BUSINESS COMBINATIONS

Including the parent company, the scope of consolidation includes a total of 130 companies (31 December 2016: 127) that are fully consolidated and a further five companies that are recognised at equity.

Five companies were newly included in the scope of consolidation in the period under report. Two companies were merged into other companies within the scope of consolidation.

A service company (KKL Immobilienservice GmbH) was acquired in the second quarter (purchase price: EUR 375k) and fully consolidated pursuant to IFRS 3. Due to the low volume of its business activities, however, this company does not have any material implications for the Group.

Furthermore, in the second quarter the company also acquired shares (94.9 percent) in a property company (TGA Immobilien Erwerb 3 GmbH). This acquired company does not constitute a business operation as defined in IFRS 3 and has been presented as a direct real estate acquisition. The costs of acquiring the property company have been allocated to the individual identifiable assets and liabilities based on their fair values. Investment properties of EUR 9,981k were acquired via this property company.

The other additions result from three companies newly founded for the privatisation business in the first quarter. Following the exit of one shareholder in each case, MBG Moosburg GmbH & Co. KG and Dritte ADLER Real Estate GmbH & Co. KG were each merged into the respective remaining shareholder within the scope of consolidation.

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 is organised in the following segments:

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

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

Other Group activities 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 Rental and Trading segments is consistent with the internal reporting system to ADLER’s Management Board, which is the top management body pursuant to IFRS (management approach). As the Group only trades in properties that are located in Germany, no geographical segmentation has been performed.

In the course of the strategic realignment of ACCENTRO, this subsidiary has focused on the Trading segment. Segment reporting was correspondingly adjusted in the 4th quarter of 2016. This particularly involves a higher share of ACCENTRO's personnel and financial expenses being allocated to the Trading segment. The previous year's comparative earnings figures have been adjusted accordingly.

Income and EBIT for the period from 1 January 2017 to 30 June 2017 and for the previous year's comparative period are broken down across the segments as follows:

ADLER Group	Trading		Rental		Other		Group	
In EUR 000s – 6 months/ 6M	2017	2016[1]	2017	2016[1]	2017	2016	2017	2016
Gross rental income and income from the sale of properties	42,684	53,095	141,142	145,524	93	1,523	183,919	200,142
– of which gross rental income	3,826	3,351	127,186	126,637	93	821	131,105	130,809
– of which income from sales	38,090	48,947	13,956	18,887	0	702	52,046	68,536
– of which income from brokerage	768	797	0	0	0	0	768	797
Change in the value of investment property	0	0	35,408	25,846	0	0	35,408	25,846
EBIT	**10,950**	**15,541**	**77,018**	**68,394**	**-291**	**-125**	**87,677**	**83,810**
Income from investments accounted for using the equity method	0	389	0	10,541	0	0	0	10,930
Financial result	**-3,071**	**-2,672**	**-45,628**	**-46,010**	**11**	**-6**	**-48,688**	**-48,688**
Earnings before taxes (EBT)	**7,879**	**13,258**	**31,391**	**32,923**	**-280**	**-130**	**38,990**	**46,051**

[1] Amended statement

The Trading segment generated income of EUR 42,684k in the first six months (EUR 53,095k), of which EUR 38,090k (EUR 48,947k) resulted from sales. EBIT in this segment amounted to EUR 10,950k (EUR 15,541k) and earnings before taxes came to EUR 7,879k (EUR 13,258k). The reduction in earnings compared with the first six months of the previous year is mainly due to postponements in the recognition of revenues from sales. As of 30 June 2017, the company had notarial purchase contracts with a revenue volume of more than EUR 30 million for which the transfer of rights and obligations had not yet taken place.

Revenues in the Rental segment amounted to EUR 141,142k (EUR 145,524k). Gross rental income increased from EUR 126,637k to EUR 127,186k. Changes in the value of investment property amounted to EUR 35,408k (EUR 25,846k) in the first six months of the year. Six-month EBIT in the Rental segment amounted to EUR 77,018k (EUR 68,394k), while earnings before taxes came to EUR 31,391k (EUR 32,923k).

The EBIT and earnings before taxes were negatively affected in the first months of the period under report by one-off items relating in particular to the Rental segment. Personnel expenses rose by a total of EUR 1,565k compared with the first six months of the 2016 financial year. In the course of ADLER's realignment as an integrated real estate group tasks have been removed from third-party service providers and taken over by departments within the Group that have either been newly created or whose personnel resources have been boosted. Furthermore, legal and advisory costs rose by around EUR 2,000k, a development due in particular to the redemption of financial liabilities and the announced squeeze-out at WESTGRUND AG (hereinafter

"WESTGRUND"). The increase in IT costs by around EUR 1,300k was mainly due to the implementation of a uniform IT system landscape across the Group in the context of its realignment. Financial expenses of around EUR 4,100k were incurred for prepayment penalties in connection with the redemption of financial liabilities with higher interest rates and bonds. The premature repayment of the 2014/2019 bond also led to the immediate recognition of transaction costs of EUR 1,920k which would otherwise have been spread over the term. The reversal of reserves recognised in equity resulting from the assignment of conwert shares led to financial expenses of EUR 1,589k. In the previous year, by contrast, the company reported income of EUR 10,541k from the recognition of conwert shares at equity.

The income and EBIT for the second quarter from 1 April 2017 to 30 June 2017 and for the equivalent period in the previous year can be broken down across the segments as follows:

ADLER Group	Trading		Rental		Other		Group	
In EUR 000s – 3 months/ Q2	2017	2016[1]	2017	2016[1]	2017	2016	2017	2016
Gross rental income and income from the sale of properties	21,894	32,575	67,650	79,509	46	946	89,590	113,030
– of which gross rental income	1,883	1,600	62,307	63,005	46	725	64,236	65,330
– of which income from sales	19,595	30,477	5,343	16,504	0	221	24,938	47,202
– of which income from brokerage	416	498	0	0	0	0	416	498
Change in the value of investment property	0	0	27,731	21,035	0	0	27,731	21,035
EBIT	**6,197**	**9,793**	**49,135**	**41,208**	**-160**	**-155**	**55,172**	**50,846**
Income from investments accounted for using the equity method	0	389	0	9,901	0	0	0	10,290
Financial result	**-1,487**	**-1,329**	**-22,913**	**-22,485**	**5**	**3**	**-24,395**	**-23,811**
Earnings before taxes (EBT)	**4,710**	**8,854**	**26,225**	**28,620**	**-156**	**-151**	**30,779**	**37,323**

[1] Amended statement

Segment assets, segment liabilities and segment investments were structured as follows as of 30 June 2017:

ADLER Group In EUR 000s as at 30 June 2017	Trading	Rental	Other	Consolidation	Group
Segment assets	307,918	2,873,848	10,018	-15,878	3,175,906
Investments accounted for using the equity method	255	25	0	0	280
Total segment assets	**308,173**	**2,873,873**	**10,018**	**-15,878**	**3,176,186**
Segment liabilities	**169,829**	**2,090,673**	**10,595**	**-15,878**	**2,255,219**
Segment investments	**62,858**	**52,344**	**0**	**0**	**115,202**

Segment assets, segment liabilities and segment investments were structured as follows as of 31 December 2016:

ADLER Group In EUR 000s as at 31 December 2016	Trading	Rental	Other	Consolidation	Group
Segment assets	290,198	3,157,181	7,681	-25,080	3,429,980
Investments accounted for using the equity method	472	25	0	0	497
Total segment assets	**290,670**	**3,157,206**	**7,681**	**-25,080**	**3,430,477**
Segment liabilities	**160,068**	**2,374,046**	**7,223**	**-25,080**	**2,516,257**
Segment investments	**96,075**	**133,154**	**0**	**0**	**229,229**

SELECTED NOTES ON THE CONSOLIDATED BALANCE SHEET

Investment properties

The carrying amount of investment properties amounted to EUR 2,505,457k at the balance sheet date (31 December 2016: EUR 2,441,988k). This increase was chiefly due to an amount of EUR 28,500k for the acquisition as of 31 March 2017 of a real estate portfolio in Osterholz-Scharmbeck and Schwanewede, an amount of EUR 9,981k for the acquisition as of 30 June 2017 of a further real estate portfolio in Senftenberg via the property company TGA Immobilien Erwerb 3 GmbH and measurement results of EUR 35,408k. These items were opposed by disposals, including IFRS 5 reclassifications, amounting to EUR 23,766k.

Inventories

Inventories include an amount of EUR 257,947k for properties acquired for sale (31 December 2016: EUR 219,523k), an amount of EUR 5,204k for advance payments (31 December 2016: EUR 7,486k) and an amount of EUR 41k for other inventories (31 December 2016: EUR 49k). The increase in inventory properties acquired for sale was mainly due to the acquisition by ACCENTRO of apartments earmarked for privatisation. This development was countered by retirements resulting from disposals of inventory properties at ACCENTRO.

Cash and cash equivalents

Cash and cash equivalents amounted to EUR 165,874k at the balance sheet date, as against EUR 123,911k at the end of the previous year. An amount of EUR 13,486k is subject to restraints on disposal (EUR 13,370k).

Non-current assets held for sale

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

The shares were measured at the lower of their carrying amount and their fair value less costs to sell. As of 31 December 2016, fair value less costs to sell as based on the consideration offered in Vonovia's voluntary takeover bid was lower than the previous carrying amount, as a result of which it was necessary to recognise an impairment loss. Apart from the reversal of the reserves recognised in equity for the conwert shares, the retirement of the shares at a carrying amount of EUR 416,260k has therefore not impacted on earnings in the 2017 financial year. The reversal of the reserves recognised in equity for the conwert shares led to expenses of EUR 1,589k, which have been recognised in the financial result in line with the impairment loss recognised in the previous year.

The other non-current assets held for sale include properties recognised at an amount of EUR 28,452k (31 December 2016: EUR 18,428k) for which notarial purchase contracts were mostly 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 reported as 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 57,493k as of 30 June 2017 (31 December 2016: EUR 47,702k) and is divided into 57,492,650 no-par ordinary shares (31 December 2016: 47,702,374) with one voting right per share.

The Annual General Meeting of ADLER decided on 7 June 2017 to increase the share capital by EUR 4,773k from company funds by issuing 4,773,135 no-par ordinary shares (bonus shares). The new shares are attributable to shareholders in accordance with their share of existing share capital and have dividend entitlement from 1 January 2017. The issue of bonus shares has changed the conversion prices and conversion ratios of outstanding convertible bonds.

Due to the exercising of conversion rights, share capital increased by EUR 5,018k and the capital reserve increased by EUR 4,116k.

On 16 June 2017, the company approved a share buyback programme with a total purchase price (excluding ancillary costs) of up to EUR 10,000k. ADLER is authorised to buy back treasury stock by resolution of the Extraordinary General Meeting held in October 2015. A total of 160,539 no-par ordinary shares had been bought back as of 30 June 2017. The nominal amount of the treasury stock thereby acquired (EUR 161k) has been deducted from share capital, while the acquisition costs in excess of the nominal amount (EUR 2,085k) have been deducted from accumulated net profit.

Due to the acquisition of convertible bonds in ACCENTRO, the capital reserve was already reduced by the respective equity share of EUR 22,883k in the first quarter. Moreover, in the first quarter ADLER also further increased its shareholding in WESTGRUND without this resulting in any change of status.

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 at the balance sheet date:

In EUR 000s	30.06.2017	31.12.2016
2013/2017 convertible bond	0	9,009
2013/2018 convertible bond	4,097	4,036
2015/2018 mandatory convertible bond	1,157	1,594
2016/2021 convertible bond	119,207	116,897
ACCENTRO AG 2014/2019 convertible bond	1,121	13,888
Total	**125,582**	**145,424**
– of which non-current	123,858	143,870
– of which current	1,724	1,554

Due to the issuing of bonus shares, the conversion prices and conversion ratios of outstanding convertible bonds have changed as follows:

Description	Nominal value per unit	Old Conversion Price	New Conversion Price	Old Conversion Ratio	New Conversion Ratio
2013/2017 convertible bond	2.00	2.00	1.8182	1.0000	1.0999
2013/2018 convertible bond	3.75	3.75	3.4091	1.0000	1.0999
2015/2018 mandatory convertible bond	100,000.00	16.50	15.0000	6060.6061	6666.6666
2016/2021 convertible bond	13.79	13.79	12.5364	1.000	1.0999

The 2013/2017 convertible bond matured as of 30 June 2017. Virtually all of the outstanding convertible bonds were converted into ADLER shares.

The reduction in the liabilities for the ACCENTRO AG 2014/2019 convertible bond mainly resulted from the acquisition by ADLER of bonds with a nominal value of EUR 11,858k.

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

Liabilities for bonds

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

In EUR 000s	30.06.2017	31.12.2016
2013/2018 bond	34,568	35,884
2014/2019 bond	0	129,761
2015/2020 bond	498,905	341,747
ACCENTRO AG 2013/2018 bond	0	10,443
Total	**533,473**	**517,735**
– of which non-current	527,271	509,454
– of which current	6,202	8,281

In April 2017, ADLER Real Estate AG successfully stocked up its 2015/2020 bond (EUR 350 million; 4.75 percent) by EUR 150 million at an issue price of 104.4 percent (equivalent to a return of around 2.5 percent).

The 2014/2019 bond with a volume of EUR 130 million and an interest rate of 6.0 percent was terminated and prematurely redeemed on 10 May 2017 at 101.5 percent of the nominal amount plus interest accumulated and as yet unpaid as of the repayment date.

In the first quarter, ACCENTRO decided to prematurely repay its 2013/2018 bond. This bond, which had a total nominal volume of EUR 10 million, was fully repaid on 26 June 2017 at a price of 101.5 percent plus interest accumulated on the nominal amount as of the repayment date.

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. Bondholders' interest claims as of the balance sheet date have been recognised under current liabilities.

Financial liabilities to banks

Non-current financial liabilities to banks amounted to EUR 1,278,685k as of the balance sheet date (31 December 2016: EUR 1,312,502k). Of the reduction compared with the end of the previous year, around EUR 33,000k was due to unscheduled repayments of promissory note bonds with higher interest rates.

Current financial liabilities to banks amounted to EUR 93,442k as of the balance sheet date (31 December 2016: EUR 320,328k). The reduction compared with the end of the previous year was mainly due to repayment of the loan to finance the acquisition of conwert shares (EUR 199,707k, including interest).

SELECTED NOTES ON THE STATEMENT OF COMPREHENSIVE INCOME

Gross rental income

Gross rental income is structured as follows:

In EUR 000s	6M 2017	6M 2016
Net rental income	86,415	83,922
Income from recoverable expenses	43,695	45,409
Other income from property management	995	1,478
Total	**131,105**	**130,809**

Expenses from property lettings

Expenses from property lettings are broken down as follows:

In EUR 000s	6M 2017	6M 2016
Apportionable and non-apportionable operating costs	57,651	57,251
Maintenance	10,344	12,214
Other property management expenses	649	370
Total	**68,644**	**69,835**

Income from the sale of properties

Income from the sale of properties is structured as follows:

In EUR 000s	6M 2017	6M 2016
Income from the sale of inventory properties	38,090	49,648
Income from the sale of investment properties	13,956	18,888
Brokerage revenue	768	797
Total	**52,814**	**69,333**

Income from the sale of inventory properties relates exclusively to disposals at ACCENTRO AG (previous year: EUR 48,947k)

Expenses from the sale of properties

Expenses from the sale of properties are structured as follows:

In EUR 000s	6M 2017	6M 2016
Retirement of inventory properties	26,495	32,448
Retirement of investment properties	13,455	18,629
Sales-related costs	1,181	1,216
Services procured for brokerage revenue	419	517
Total	**41,550**	**52,810**

Retirements of inventory properties relate exclusively to disposals at ACCENTRO AG (previous year: EUR 31,784k).

Income from the measurement of investment properties

Income from the measurement of investment properties amounted to EUR 35,408k (previous year: EUR 25,846k) and comprises income of EUR 45,142k from fair value adjustments (previous year: EUR 30,686k) and expenses of EUR 9,733k for fair value adjustments (previous year: EUR 4,840k).

Financial costs

Financial costs are structured as follows:

In EUR 000s	6M 2017	6M 2016
Interest expenses for bank loans	22,056	28,699
Interest expenses for bonds	18,099	15,594
Interest expenses for convertible bonds	4,488	871
Other	5,716	4,281
Total	**50,359**	**49,445**

Bond expenses include transaction costs of EUR 1,920k which required immediate recognition as expenses due to the premature repayment of the 2014/2019 bond.

Other financial costs include an amount of EUR 4,100k for prepayment penalties for repayments of financial liabilities with higher interest rates and an amount of EUR 1,589k for the reversal of the reserves recognised in equity for the conwert shares. Reference is made in this respect to the comments under “Non-current assets held for sale”. In the previous year, other financial costs mainly related to interest swap expenses.

Earnings per share

The number of no-par ordinary shares has increased due to the issue of 4,773,135 bonus shares. Accordingly, the number of potential no-par ordinary shares from convertible bonds has 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 number of shares used as a basis for the calculation is as follows:

In 000s	6M 2017	6M 2016[1]
Weighted numer of shares issued	64.445	62.552
Effect of the conversion of convertible bonds	1.444	7.888
Weighted numer of shares (diluted)	65.889	70.440

1) Retrospectively adjusted

DISCLOSURES ON FINANCIAL INSTRUMENTS AND FAIR VALUE DISCLOSURES

The classification of financial instruments required in accordance with IFRS 7 was unchanged compared with 31 December 2016. 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 2016. Investment properties are still allocated to Level 3 in the fair value hierarchy.

OTHER DISCLOSURES

Related party disclosures

There have been no material changes in related parties compared with the information provided as of 31 December 2016.

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 2016. A detailed description of these risks can be found in the notes to the consolidated financial statements as of 31 December 2016.

Events after the balance sheet date

No material events have occurred since the balance sheet date.

/// AFFIRMATION BY THE LEGAL REPRESENTATIVES

Statements Pursuant to § 37y No. 1 of the Securities Trading Act

“We hereby affirm to the best of our knowledge, pursuant to the applicable accounting principles for interim financial reporting, with due regard for the requirements of § 37w of the Securities Trading Act, that 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, 14 August 2017

Arndt Krienen
CEO

Sven-Christian Frank
COO

/// 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.

FFO I

Funds from Operations I

Adjusted EBITDA less interest charge for FFO, current taxes on income, investments to maintain substance and earnings before interest and taxes in the Trading and Other Activities segment – an indicator of cash flow-based operating earnings excluding disposals.

FFO II

Funds from Operations II

FFO I plus earnings from disposals of investment property – an indicator of cash flow-based operating earnings including disposals.

EPRA

European Public Real Estate Association Association of publicly listed real estate companies, after which the EPRA Index is named.

EPRA – NAV

Net asset value based on EPRA

Equity allocable to shareholders adjusted to exclude deferred taxes, value differences between fair values and carrying amounts of real estate and present value of derivative financial instruments – an indicator of company value.

LTV

Loan-to-value

Ratio of net financial liabilities (liabilities to banks less cash and cash equivalents) to total assets less cash and cash equivalents – an indicator of financial stability.

Swap

Designation for financial derivatives (financial instruments) based on a payment flow swap transaction between two parties. An interest swap designates a swap transaction in which two parties undertake to periodically swap interest payments over a previously agreed period.

Dilution of shares

Reduction in the value of a share resulting from new shares being issued in a capital increase executed without subscription rights.

WACD

Weighted average cost of debt

Weighted average cost of interest paid on debt – a measurement of current interest charge on debt financing.

/// AT A GLANCE

Supervisory Board	
Dr. Dirk Hoffmann	Chairman of the Supervisory Board
Thomas Katzuba von Urbisch	Vice Chairman of the Supervisory Board
Thilo Schmid	Member of the Supervisory Board
Management Board	
Arndt Krienen	Chairman of the Management Board
Sven-Christian Frank	Member of the Management Board
Company Facts	
Legal domicile	Berlin Charlottenburg, Berlin HRB 180360 B
Address	ADLER Real Estate Aktiengesellschaft Joachimsthaler Straße 34 10719 Berlin Phone: +49 30 398 018 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 2000 914 29 E-Mail: r.grass@adler-ag.com
Total voting rights	EUR 57,492,650[1)]
Classification of shares	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 Baader Bank 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 30 June 2017

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Berlin-Charlottenburg

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