ADLER REAL ESTATE

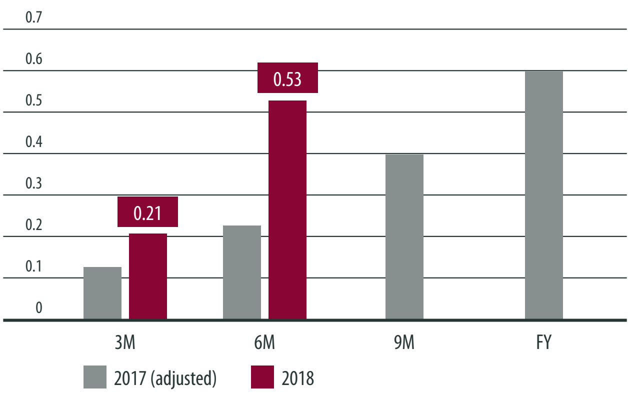
H1 /// Interim Report First Half-Year of 2018

/// KEY FINANCIAL AND PROPERTY FIGURES

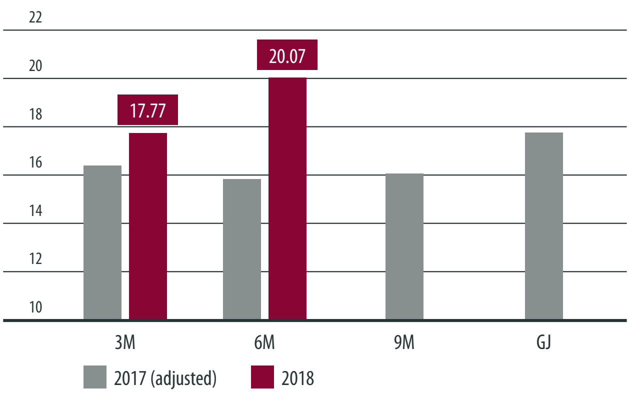
In EUR millions **Consolidated Statement of Income**	**6M 2018**	**6M 2017**
Net rental income	109.1	82.6[3]
Earnings from property lettings	96.5	59.7[3]
Earnings from the sale of properties	3.1	0.3[3]
EBIT	201,5	76.7[3]
Consolidated net profit from continuing operations	65.3	15.7[3]
Consolidated net profit	65.6	21.7
FFO I	35.1	15.7
FFO I per share in EUR [1]	0.53	0.23
Consolidated Balance Sheet	**30.06.2018**	**31.12.2017**
Investment Properties	4,830.3	3,018.5
EPRA NAV	1,339.8	1,207.2
EPRA NAV per share in EUR [1]	20.07	17.80
LTV II in % [2]	67.5	59.4
Cashflow	**6M 2018**	**6M 2017**
Net cash flow from operating activities	66.0	-4.4
of which from continuing operations	65.7	27,2
Net cash flow from investing activities	-492.2	377.2
of which from continuing operations	-492.2	377.1
Net cash flow from financing activities	189.2	-330.8
of which from continuing operations	189.2	-351.0
Employees	**30.06.2018**	**31.12.2017**
Number of employees	766	555

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

FFO I/SHARE in EUR

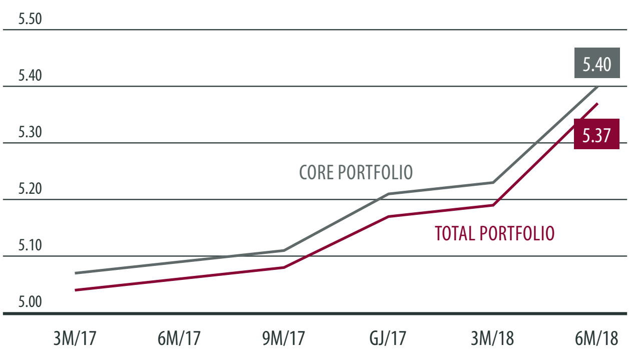


EPRA NAV/SHARE[1] in EUR

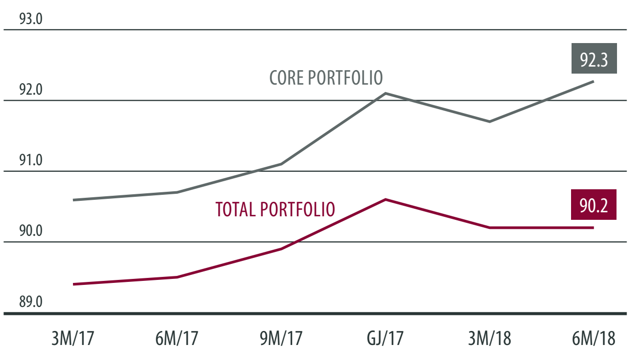


[1] 6M 17 after issue of bonus shares and conversion of 2013/2017 convertible

AVERAGE RENT in EUR/sqm/month

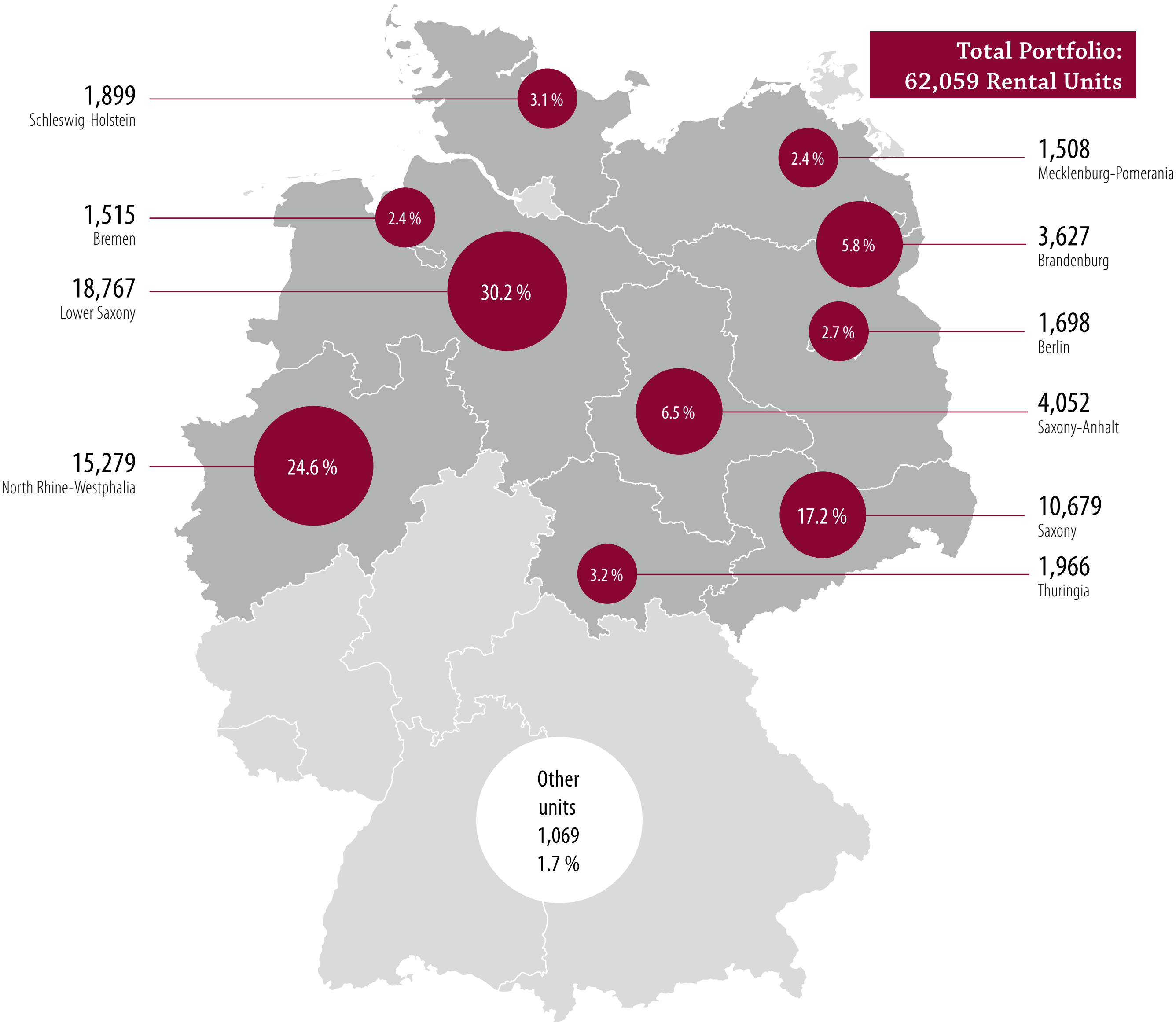


OCCUPANCY RATE in %



Rental units

as at 30 June, 2018



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/// LETTER FROM THE MANAGEMENT BOARD

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

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

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

Dear Ladies and Gentlemen,

The most important events in the second quarter took place in April, hence we already reported them in the first quarter financial statement: the acquisition of almost 70 percent of shares in Brack Capital Properties N.V. (BCP) and the issue of BB+ rated corporate bonds in the amount of EUR 800 million. The acquisition of shares in BCP safeguards the earnings and value-oriented growth of ADLER Real Estate AG. The proceeds from the bonds were used not only to replace the bridging loan for this acquisition, but also to refinance a EUR 200 million higher-yielding bond. Both of these factors have contributed to the prospect of substantially higher FFO for 2018.

Following its successful acquisition, we included BCP in our reporting for the first time, whereby the effects on the balance sheet are naturally much more apparent than on the income statement, as BCP's income and expenses were included pro rata temporis from April 2, 2018, the day of the acquisition only. Compared to the corresponding figures for the previous year, our total assets have increased by 40 percent, the value of our investment properties by even more. The acquisition has thus taken ADLER to a new level.

Meanwhile, we have taken the first steps in the operational integration of BCP into ADLER Real Estate AG. Changes have been made in the management of BCP that ensure that our opinion is heard. For us, maintaining BCP's expertise is a priority. At the same time, however, we also intend to achieve synergies on the cost side by merging activities. We will continue to inform you of any future decisions and measures in our quarterly reporting.

However, aside from these "big" issues we continued to work hard in our day-to-day business in the second quarter, taking care of big and small matters alike – matters that are sometimes the deciding factor in whether or not tenants feel happy in one of our apartments. This includes many things like making sure that the apartments are structurally and technically in good condition, that the surrounding area appears well maintained and that we, as the lessor, are generally satisfying the needs of our customers. To ensure the success of our day-to-day business, we again invested in the maintenance and modernisation of our apartments in large measure, explored the potential for rent increases and increased capacity utilisation. To make it even easier for our tenants to contact us, we have introduced a central phone number in addition to the tenant app. We have also recruited more staff to help improve our service. We have been discussing with tenants our expansion plans in Göttingen and Wolfsburg, which involve adding another floor to buildings, in order to promote the overall process and to take possible objections into account from the outset. The work on our Wasserstadt Mitte project in Berlin is proceeding according to plan and is within the envisaged budget. In total, these efforts had a positive effect on our operating performance indicators.

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

FLORIAN SITTA
Head of Legal and Member of the Executive Committee

PEER HOFFMANN
Head of Financing and Member of the Executive Committee

We see it as a positive as well that you as our shareholders supported the proposal of the Supervisory and the Management Board to grant a dividend for the business year 2017 and voted for it at the extraordinay Annual General Meeting on August 28, 2018.

After the first half of the year, it seems as though the prospects for the economy as a whole are a little less bright. Key sentiment indicators are generally in decline, and the growth outlook for the German economy is no longer as good as was anticipated six months ago. It appears that forecasts are being negatively affected by risks resulting from political uncertainty within the EU, trade conflict with the US, geopolitical unknowns and an at least partial disruption of the established world economic order.

In addition, as it had previously announced, the ECB will be ending its quantitative easing programme. While key interest rates are expected to remain unchanged at their current low level until the middle of 2019, it seems realistic that interest rates will rise from that point, thus making new loans more expensive. However, we do not share others' concerns that this will have a direct impact on the value of our properties, as property valuations always incorporate a discount rate calculated using a long-term average. Rather, the value of our properties could even keep on climbing – if the growth in inflation rates currently observed leads to expectations that inflation will continue to rise. This would then mean further potential for rent increases in future.

We therefore remain confident that, as an integrated property group, we continue to have good prospects for a successful business performance.

Best regards,

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

/// Portfolio

/// ADLER on the capital markets

NICOLE SETZERMANN

As an asset manager, she is responsible for the development of ADLER's existing real estate in north-eastern Germany. She makes sure that the apartments meet the tenants' changing requirements as best possible while also keeping the management costs low.

/// PORTFOLIO

Having sold its trading activities at the end of 2017, ADLER Real Estate AG now only pursues one business objective: the letting of permanently held properties which have been acquired as fully lettable units or need to be constructed as part of a project development. After acquiring almost 70 percent of the shares in BCP, this portfolio has grown significantly bigger. The regional focus has changed to a certain degree, but the basic focus on the affordable housing segment of the market remains the same. The acquisition has improved the company's operating performance indicators. BCP also holds a portfolio of exclusively commercial units with total space of approximately 300,000 square metres. These are not included in the following overviews. ADLER essentially sees itself as a provider of rental apartments. The associated consequences for the portfolio of these exclusively commercial units have not yet been decided conclusively.

THE PROPERTY PORTFOLIO

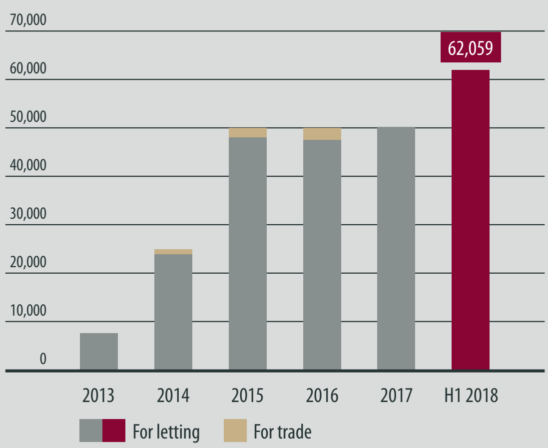
Portfolio significantly expanded

As at the middle of 2018, ADLER Real Estate AG held a total of 62,059 rental units with total space of 3.8 million square metres. This was 23.4 percent more than at the start of the year. The increase is primarily due to the acquisition of the majority of shares in BCP. In addition, ADLER has acquired a small portfolio in Emden with a total of 127 units. In the first six months of the current financial year, 269 rental units were sold from the existing portfolio as part of measures to streamline it.

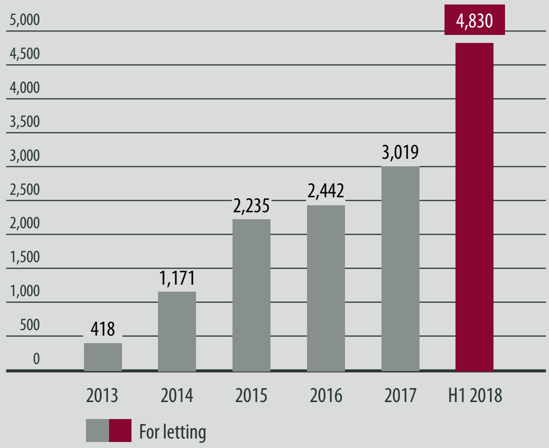
In the balance sheet, the properties let out permanently are recognised at fair value under "investment properties". Properties that are up for sale are reported in the item "assets held for sale".

The properties held for residential purposes also include commercial units. These consist entirely of shops and offices of the kind that can often be found in city-centre residential properties. As of the middle of the year, these units numbered 1,159 and accounted for 1.9 percent of the properties held for permanent letting. BCP contributed 141 units of this type of commercial property. Accordingly, their share in the total number of rental units has changed only slightly over the course of the year.

PORTFOLIO in units



FAIR VALUE INVESTMENT PROPERTIES in EUR millions



Portfolio realignment	30.06.2018	Divestments	Additions	31.12.2017
Rental portfolio	62,059	269	12,023	50,305
– of which residential units	60,900	238	11,882	49,256
– of which commercial units	1,159	31	141	1,049

"Non-core" portfolio to be disposed of

ADLER Real Estate AG intends to dispose of holdings that are economically weak or no longer fit its business model. As of the reporting date, the company had specific intentions to sell a total of 3,959 rental units, corresponding to 6.4 percent of the total portfolio. These consist entirely of properties that ADLER already owned before the acquisition of BCP. The following table presents the key performance data and average market values of the units in this portfolio, which is designated as the non-core portfolio, compared with the figures for the core portfolio (core properties).

"Core" and "non-core" portfolio	Total	Core	Non core for sale
Rental units	62,059	58,100	3,959
Rent/sqm/month in EUR	5.37	5.40	4.80
Occupancy rate in %	90.2	92.3	76.4

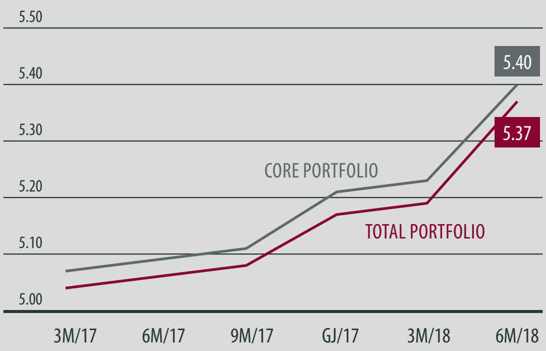
In April 2018, ADLER agreed to set up a joint venture with Benson Elliot Capital Management LLP, geared solely towards the sale of ADLER's non-core assets. Once it has been set up, ADLER will contribute rental units with a value of approx. EUR 115 million to the joint venture, representing an approx. 5 percent premium on gross asset value. As a result, the remaining non-core portfolio will be significantly reduced to approx. EUR 60 million in value. Although the negotiations have reached an advanced stage, the transaction had not yet been completed as of the reporting date.

Further improvement in operating performance data

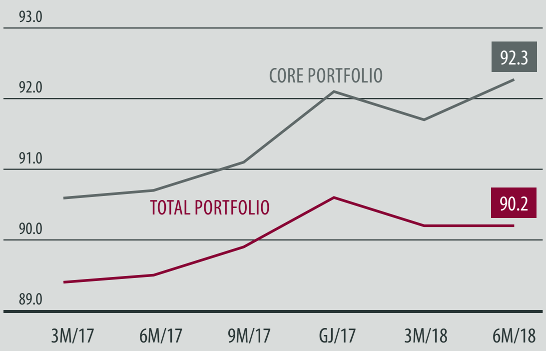
In the first half of 2018, the Group once again improved its operating performance. At the end of the period under review, the average contractually agreed rent per square metre per month for the overall portfolio amounted to EUR 5.37, EUR 0.31 higher than the figure for the same period of the previous year of EUR 5.06, which did not include BCP yet. On a standalone basis, ADLER would have reported an average rent of EUR 5.25 at the end of the first half of the year. BCP alone achieved a higher average rent of EUR 6.01 in the first half of the year. In the core portfolio, which includes BCP and results from the overall portfolio minus the properties that are to be sold as part of the ongoing portfolio reviews, the average contractually agreed rent per square metre per month amounted to EUR 5.40 at the end of the first half of 2018. This was EUR 0.31 more than one year ago (H1 2017: EUR 5.09 not including BCP).

The occupancy rate for the overall portfolio including BCP came to 90.2 percent at the end of the first half of 2018 against 89.5 percent one year earlier. The occupancy rate in the core portfolio reached 92.3 percent at the reporting date in 2018. This equates to an improvement of 1.6 percentage points compared with one year ago (90.7 percent). Part of the increase is also due to the acquisition of BCP. In its former structure, ADLER's occupancy rate came to 92.1 percent and BCP's was 94.4 percent.

AVERAGE RENT in EUR/sqm/month



OCCUPANCY RATE in %



The following table presents the changes for the core portfolio on a like-for-like basis, i.e. only for those properties that were in the portfolio both in the first half of 2017 and in the first half of 2018. As such, this comparison does not include any of BCP's properties.

Rental portfolio (core) Like-for-like (H1 2018 to H1 2017)	Residential and commercial units	Change	Residential	Change	Commercial	Change
Units	43,375		42,702		673	
Rent/sqm/month in EUR	5.26	0.19	5.22	0.19	6.83	0.02
Occupancy rate (%)	92.0	0.51 PP	92.3	0.55 PP	82.1	-0.69 PP

Fair value improved in first half of year

The fair value of the portfolio calculated in accordance with IFRS amounted to EUR 4,830.3 million at the end of the first half of 2018. This was EUR 1,811.7 million more than at the end of the previous year (EUR 3,018.5 million). EUR 1,666.2 million of this increase was attributable to the first-time consolidation of BCP, and EUR 145.5 million to the fair value adjustments of ADLER's existing real estate in its former structure – which corresponds to an increase in value of 4.8 percent over the course of the previous year that was attributable to the operating improvements and positive market developments.

Key focuses in Lower Saxony and North Rhine-Westphalia

ADLER focusses its business activities in Germany and holds most of its properties in the northern and western parts of the country. This remained essentially unchanged after the acquisition of BCP. However, there have been some shifts in the state-specific focus areas. Following the consolidation of BCP, 30.2 percent of ADLER's properties are located in Lower Saxony and 24.6 percent in North Rhine-Westphalia. More than 40 percent of ADLER's portfolio is located in the eastern part of the country, with key focuses here in Saxony (17.2 percent), Saxony-Anhalt (6.5 percent) and Brandenburg (5.8 percent).

With the acquisition of BCP, ADLER has acquired real estate in attractive locations, partly inner cities. Yet its portfolio still predominantly consists of properties located on the outskirts of larger conurbations. This is particularly apparent in North Rhine-Westphalia, where virtually all of the company's properties are located in the Ruhr, which is still Germany's largest industrial region. In Lower Saxony, the property holdings are mainly located in Hanover, the Wolfsburg/Braunschweig/Helmstedt region, a traditionally strong region in economic terms, the Bremen catchment area and in Wilhelmshaven, a city which is benefiting from the deep-water port and the location of the German Navy's largest base on the North Sea. In Saxony and Saxony-Anhalt, the properties are predominantly located in the catchment areas for Halle, Leipzig, Chemnitz and Dresden – cities that after the German reunification initially lost their industry and part of their populations but which are now benefiting from strong growth once again as a consequence of the significant infrastructure investments carried out over the last 20 years in these areas.

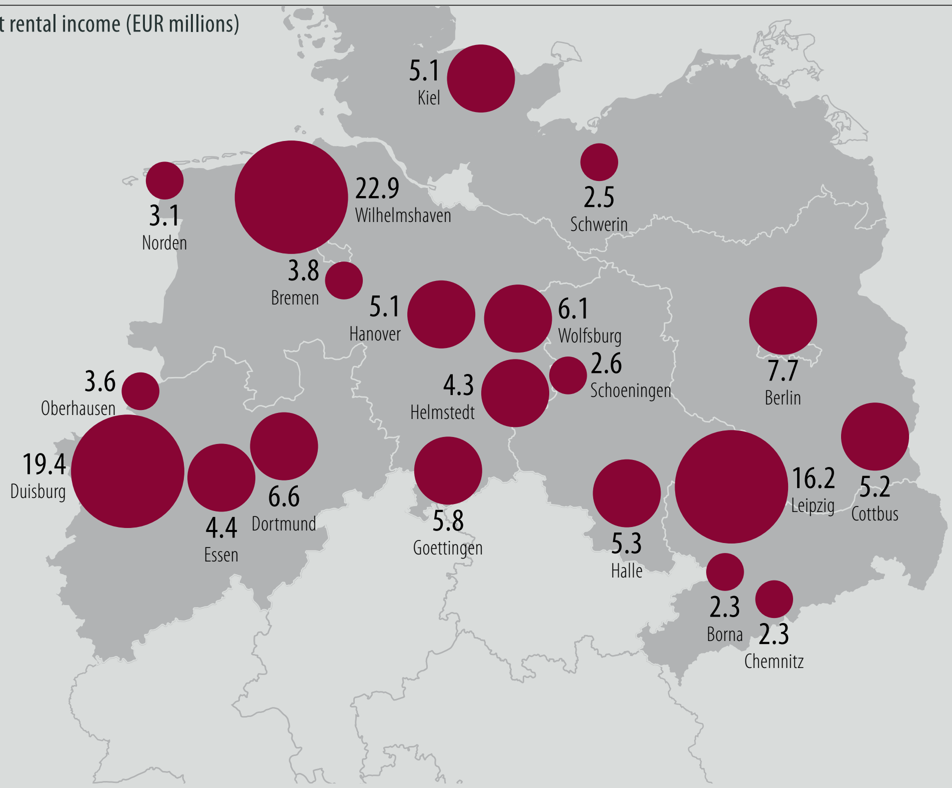
Property holdings on the edges of conurbations are typically characterised by higher vacancy rates, but also generate higher rent yields than properties in central or "A" locations. Peripheral locations benefit to a particularly marked extent from tight rental markets in city centres. When rents rise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

Top 20 locations generate around 60 percent of rental income

The focus on metropolitan regions as outlined above also means that the properties in ADLER's 20 most important towns and cities account for almost 60 percent of the company's total rental income. Following the acquisition of BCP, there have been a number of changes in the list of the most important locations, as BCP contributed relatively large property holdings in cities such as Leipzig, Dortmund and Hanover. Wilhelmshaven is still the most important location for the Group, with 6,900 rental units and a net rental income of EUR 22.9 million per annum. Measured in terms of rental units, it is followed by Duisburg with 4,925 units and a net rental income of EUR 19.4 million per annum and Leipzig with 4,744 units and a net rental income of EUR 16.2 million per annum. Cottbus, Halle and Dortmund rank next. 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.

Top 20 locations

Annual net rental income (EUR millions)



Location	Units	of which ADLER	of which BCP	Area (sqm)	NRI (EUR m)	Rent EUR/sqm/ month	Occupancy rate (%)
Wilhelmshaven	6,900	6,900	0	407,073	22.9	5.00	91.9
Duisburg	4,925	4,281	644	305,003	19.4	5.39	97.1
Leipzig	4,744	1,167	3,577	254,347	16.2	5.59	93.7
Cottbus	1,868	1,868	0	110,045	5.2	4.65	85.0
Halle (Saale)	1,857	1,718	139	105,838	5.3	4.78	86.3
Dortmund	1,727	776	951	100,088	6.6	5.61	97.6
Berlin	1,698	1,698	0	111,576	7.7	5.80	97.4
Goettingen	1,377	1,139	238	85,239	5.8	5.85	95.9
Wolfsburg	1,300	1,300	0	87,539	6.1	6.07	94.3
Helmstedt	1,219	1,219	0	70,703	4.3	5.17	96.3
Hanover	1,118	281	837	63,142	5.1	6.85	95.6
Essen	1,036	409	627	65,651	4.4	5.61	96.1
Kiel	967	56	911	66,588	5.1	6.44	96.8
Borna	900	900	0	50,189	2.3	4.60	81.4
Bremen	873	128	745	53,645	3.8	5.94	95.7
Chemnitz	850	850	0	52,983	2.3	4.72	76.2
Schoeningen	846	846	0	50,192	2.6	5.06	81.5
Oberhausen	818	341	477	62,642	3.6	4.92	95.8
Schwerin	816	816	0	48,021	2.5	4.72	91.3
Norden	794	794	0	50,230	3.1	5.23	97.7
Top 20[1)]	**36,633**	**27,487**	**9,146**	**2,200,734**	**134.2**	**5.38**	**93.0**
Total	**62,059**	**50,163**	**11,896**	**3,835,883**	**229.6**	**5.37**	**90.2**

[1)] Core portfolio only

Focus on small to medium-sized residential units

Wherever ADLER is present, its portfolio largely comprises small to medium-sized residential units. The apartments have an average size of slightly more than 60 square metres and are thus well aligned to address the needs of the company's target group, namely tenants with low to medium incomes. For ADLER, this alignment makes economic sense. This did not change following the acquisition of BCP either, as BCP's portfolio also comprises apartments of a similar size. Its properties satisfy the trend observed for some time now towards an ongoing increase in the number of single-person households in Germany. Moreover, the risk of tenants with low incomes defaulting on their rent payments is reduced as they can obtain support from social security providers if they are unable to settle their obligations from their own incomes. Furthermore, this category of affordable living space is also in the sights of municipal and local councils on the lookout for permanent homes for refugees.

Size of apartment	Units	% of total units	Rent/sqm/ month in EUR
< 45 sqm	9,358	15.4	6.26
≥ 45 and < 60 sqm	20,772	34.1	5.28
≥ 60 and < 75 sqm	20,812	34.2	5.27
≥ 75 and < 90 sqm	7,795	12.8	5.20
> 90 sqm	2,163	3.6	5.03
Total	**60,900**	**100.0**	**5.34**

Customer orientation with in-house property and facility management

ADLER has set itself the target of offering its tenants a complete 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 taken on the management of all group properties. Following the acquisition of BCP, however, the existing structures in the two hitherto independent companies need to be coordinated and adjusted.

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

At the beginning of 2018, ADLER Energie Service GmbH also commenced operations. This company is responsible for all energy management in the ADLER Group. This includes procurement of heat and energy as well as responsibility for all heating systems within the Group. In facility and energy management, too, the structures of the two hitherto independent companies have to be rebalanced following the acquisition of BCP.

ADLER expects this evolution into an integrated real estate group to boost tenant satisfaction and reduce turnover rates. This is also to be supported by an improvement in communication with tenants, for example with the ADLER tenant app, a central phone number, the opening of additional tenants' offices and the introduction of a neighbourhood concierge, as was introduced just recently in Wilhelmshaven.

Second programme to reduce vacancies more than halfway implemented

In 2017, ADLER launched its first programme to reduce vacancies and renovated a total 1,300 apartments. In 2018, this was followed by a second tranche for which investment funds of EUR 12 million were made available for the renovation of approximately 1,000 apartments. As of the middle of the year, more than half of this programme had been implemented.

/// ADLER ON THE CAPITAL MARKET

ADLER share outperformed market

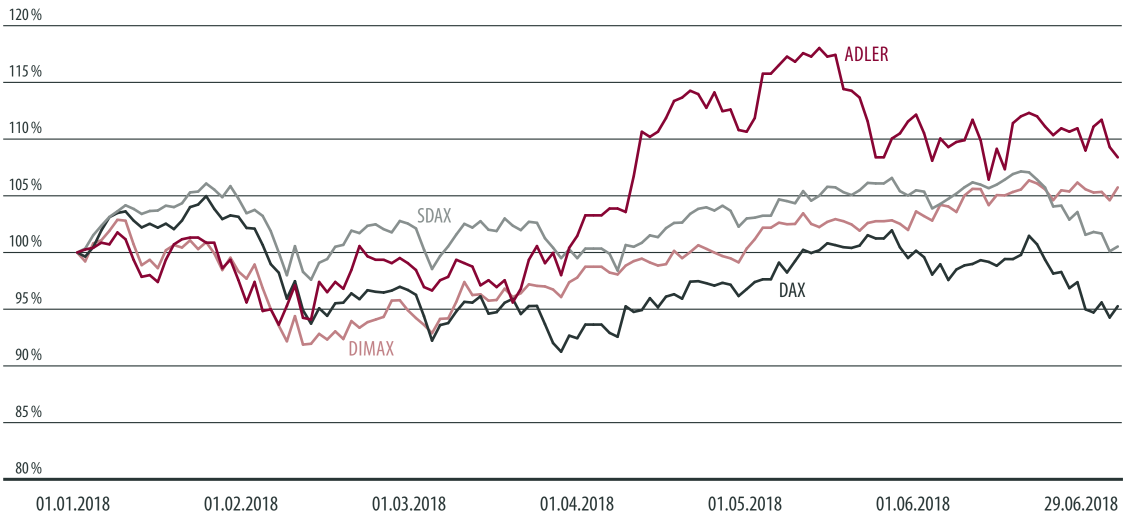
The German stock market fell slightly in the first half of 2018. At the end of the reporting period, the DAX was approx. 5 percent lower than at the start of the year. Although the SDAX performed much better, it was up by just 0.5 percent at the end of the first half-year. The performance of property stocks improved in the second quarter. Solactive DIMAX, the index comprising Germany's main listed real estate companies, was up by nearly 6 percent at the half-year stage compared to the beginning of the year.

In this environment, ADLER's shares were among the winners in the first six months. Having opened the year at EUR 13.22, they climbed to more than EUR 15 in May and stood at EUR 14.50 at the end of June. This corresponds to an increase of more than 9 percent compared with the start of the year.

Number of shares slightly increased by conversion of existing convertible bonds

The slight increase in the number of shares outstanding in the first six months of 2018 is attributable to the conversion of existing convertible bonds. The number of shares outstanding amounted to 57,547,740 at the end of 2017. By the end of the reporting period, i.e. at the end of June 2018, this total had risen by 124,216 shares to 57,671,956 shares.

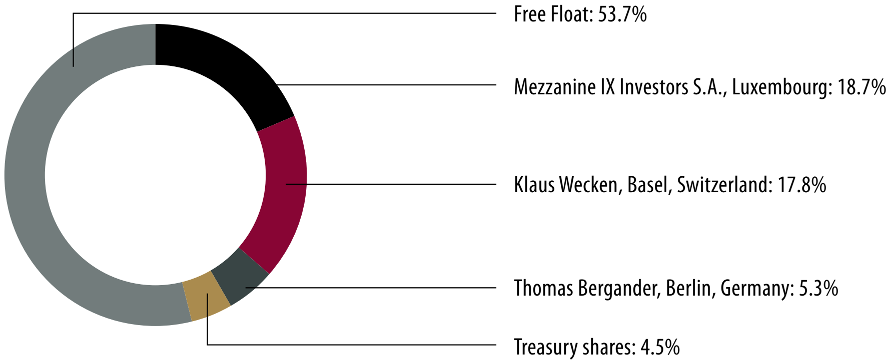
DEVELOPMENT OF THE DAX, SDAX, DIMAX AND THE ADLER SHARE 2018, JANUARY 2018 = 100



In the context of a multi-stage share buyback programme launched in June 2017, the last tranche of which was executed in March 2018, ADLER acquired a total of 2,583.232 shares, equivalent to 4.5 percent of the shares outstanding at the end of the reporting period, for a total price of EUR 34.1 million. ADLER initiated the programmes because the shares were trading well below their intrinsic value (NAV per share), and this difference offers good potential for appreciation. Voting rights relating to the acquired shares cannot be exercised.

Since the last reporting date for the first quarter 2018 there was no change to the shareholder structure. Based on the notifications received by ADLER from shareholders when reaching the relevant thresholds, the shareholder structure as at 30 June 2018 was as follows:

SHAREHOLDER STRUCTURE AS AT 30 JUNE 2018



The holdings managed by Nicole Setzermann include a complex with almost 2,000 units and more than 100,000 m² of residential space in Cottbus. She regularly discusses matters with colleagues from the regional management responsible for administration and from the local building management. Together, they decide what needs to be done to satisfy tenants' wishes or to get new tenants interested in the location.

/// Fundamentals of ADLER Real Estate AG Group

/// FUNDAMENTALS OF ADLER REAL ESTATE AG GROUP

BUSINESS MODEL

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

The continued operations segment contains all portfolios of the rental segment, through the letting of which ADLER Real Estate AG aims to generate long-term gross rental income. Gross rental income and the expenses associated with the letting business portray the activities of the Group's central Asset Management department, which manages the residential units held in the portfolio in both technical and commercial terms. In addition, this segment contains the activities of property and facility management which ADLER maintains through the group companies ADLER Wohnen Service GmbH and ADLER Gebäude Service GmbH.

A separate segment has been created for Brack Capital Properties N.V., of which ADLER had acquired a majority stake on April 2, 2018. It reflects the financial development of that entity in a comparable way, as BCP is currently monitored and managed separately.

Since the end of 2017, ADLER Real Estate AG's business model has been focused on all activities relating to the management of investment properties. These relate almost exclusively to residential units. This portfolio has been built up over the past five years by acquiring individual portfolios or shares in property holding companies – the latest being the acquisition of BCP. The portfolio is regularly reviewed, adjusted in line with earnings and value considerations, and developed further with the aim of increasing gross rental income and reducing the vacancy rate and optimising the portfolio's costs structure. The investment properties are regularly valued by independent surveyors. With a portfolio of more than 62,000 units, ADLER is one of Germany's top-five listed residential property companies by number of units.

With the acquisition of BCP ADLER has also acquired a substantial portfolio of pure commercial units. As ADLER sees itself as a provider of residential properties, it is still unclear what the consequences will be for this particular part of the property portfolio.

ADLER intends to further expand its residential portfolio with future acquisitions of shares in companies or individual portfolios and will continue to focus its investments on residential property portfolios in "B" locations and on the outskirts of large conurbations, where the rental yields are typically higher than in inner-city "A" locations. When suitable market opportunities arise, ADLER also supplements its portfolio by investing in so-called "A" locations in mid-size cities or "A" cities, such as Berlin or Leipzig, in order to benefit from value growth in these markets. The acquisition of BCP was a step in this direction.

Either way, ADLER believes acquisitions only make sense when the properties promise to generate positive cash flows directly from acquisition onwards. As it has become increasingly more challenging to acquire portfolios on the market at attractive yields, ADLER will also explore the possibility of expanding its portfolio by way of investing in project developments, portfolio densification or loft conversions of existing portfolios as a complement to its existing approach. Some such projects have been acquired with BCP too. The exposure to these value-added activities will remain at such a percentage of ADLER's balance sheet that it will not hinder any projection towards rating improvements going forward or obtaining an investment grade rating as early as possible.

The apartments in ADLER's portfolio have an average size of around 60 square metres and on average have two or three main rooms – avarages which been practically unaffected by the acquisition of BCP. The average monthly rent across the entire portfolio (core and non-core) was EUR 5.37 per square metre as at the end of the reporting period. ADLER thus operates in a market segment focused predominantly on tenants with medium to low incomes. ADLER offers this target group decent living quality at appropriate market rents. Demand for affordable living space continues to grow as the average age of the population rises in conjunction with an increasing number of single-person households. Furthermore, migration to Germany from various parts of the EU has boosted the demand for such housing as individuals see better employment prospects in Germany. Others come from faraway countries to seek asylum. Despite the renewed increase in overall construction activity, the supply of new housing in this segment remains low. This is because new construction is in most cases only viable in the higher-priced rental segment as construction costs still remain significantly higher than the open market value of affordable residential units. This is true to an even greater degree in “B” locations.

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

Targets and strategies

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

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

In the context of acquisitions, the company’s earnings strength can be boosted by exploiting economies of scale, as certain fixed costs can then be distributed across a larger portfolio with a corresponding reduction in the absolute charge per individual unit. Costs can also be reduced and the efficiency of property management enhanced by bundling services of external service providers by centralising and pooling tasks within the Group and by procurement. Synergies of this sort are also expected to be realised through the acquisition of BCP.

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

The Asset Management department is in charge of managing the assets, it takes measures to reduce vacancy rates, exploit opportunities to increase rents and maintain or enhance the portfolio’s rental capacity – for example, by implementing maintenance or modernisation measures. Higher-quality residential apartments are seen as attractive spaces in most areas and thus easier to let. It goes without saying that in its investment measures, the Asset Management department always takes due account of the costs and benefits of individual measures. In addition to ongoing maintenance and modernisation measures, the Group introduced a programme to renovate previously unoccupied residential units in 2016. A total of approx. EUR 15 million was made available for this purpose, and the programme was successfully implemented in 2017. Approx. 1,300 units were fully renovated in the end rather than the originally intended 1,500 apartments. Measures are due to continue until 2018 as part of a second tranche with an investment volume of EUR 12 million for the renovation of approx. 1,000 apartments. The programmes are intended to reduce the existing vacancy rate and the associated vacancy costs.

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

Financing strategy

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

ADLER has good access to both the market for secured bank lending and the market for unsecured financing, as available on the capital markets in the form of, for instance, corporate or convertible bonds. This, too, was proved to a considerable extent in 2017 and 2018. Access to these two markets reduces refinance risk, which is biggest risk associated with the industry. Since the end of 2016, investors, capital-market participants and lending banks have been able to benefit from ADLER Real Estate AG's rating from the world-renowned rating agency Standard and Poor's in order to assess the creditworthiness of the company. Since December 2016, it has been raised several times and had a BB/positive outlook as at the reporting date.

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

Acquisition strategy

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

MANAGEMENT SYSTEM

Financial performance indicators

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

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

Non-financial performance indicators

Numerous non-financial performance indicators are regularly monitored within the Group's property management activities. This applies both to the Group's own property management and to the few external service providers with which ADLER still cooperates. These indicators include the occupancy rate, the number of contract termination notices received from tenants, the number of new rental agreements, compliance with time schedules for maintenance measures, the availability of property managers and so forth. Should actual figures deviate from budget figures significantly, then corrective measures are devised.

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

ADLER publishes further non-financial performance indicators in its non-financial report. These are not used for actively managing the company.

EMPLOYEES

As the group holding company, ADLER Real Estate AG has three Management Board members but no employees. Operational tasks relating to commercial asset management and central administration for the Group are mostly performed via the wholly owned subsidiary ADLER Real Estate Service GmbH. Employees at this company are deployed to perform various tasks at the respective Group companies on a flexible basis and in line with their individual specialisms. Due to the strategic objective of internalising functions previously outsourced in the field of property and facility management, the number of employees at the ADLER Group grew further in the first half of 2018, rising from 555 at the beginning of the year to 622 full-time and part-time employees (not including BCP) as at the end of the reporting period. The majority of employees worked at the property management (234 employees) and facility management (307 employees) divisions. The newly acquired BCP had 144 employees at the end of June 2018.

RESEARCH AND DEVELOPMENT

As a real estate Group, ADLER does not perform any research and development in a traditional sense. However, ongoing market analyses are needed to assess future developments in housing markets. Here, ADLER draws on assessments compiled by estate agents' associations, federal authorities, specialist research institutes, prestigious valuation companies and bank research departments. This information is supplemented by the experience gained by the company itself from letting properties on site. Moreover, various developments in the construction sector and in building technology also have to be monitored and analysed, as do any changes in regulatory requirements. The insights gained from these analyses form an important basis for all of the company's operating activities. With its new tenant app, ADLER now also has an innovative tool for tenant and customer communication.

Renovating apartments is a key element of activities to improve the residential quality. In this context, ADLER has developed its own modernisation standard that specifies attractive bathroom fittings, modern design panelled vinyl flooring and papered, whitewashed walls. It goes without saying that the water and power supply technology, which is not visible to the tenants, is also brought up to date.

/// Interim Group Management Report

/// Economic report

/// Report on risks and opportunities

/// Outlook

/// Report on events after the balance sheet date

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/// ECONOMIC REPORT

MACROECONOMIC AND SECTOR-SPECIFIC SETTINGS

The economy at large and the conditions specific to the property industry remained stable and positive in the first six months of the current financial year. Inflation remains moderate at 2.1 percent, although it is now slightly higher than in the first quarter as a result of the ongoing rise in prices for crude oil products and food. The number of people in employment in Germany is still at a record high level of more than 44 million, while interest rates are mired at historically low levels. However, the prospects for the economy as a whole are a little less bright after the first half of the year. Key sentiment indicators – such as the Ifo Business Climate Index calculated by CESifo, Munich, or the Indicator of Economic Sentiment calculated by the Centre for European Economic Research (ZEW), Mannheim, are generally in decline. The growth outlook for the German economy is no longer as good as was anticipated six months ago. Most economic research institutes have scaled back their growth estimates to just below 2 percent. It appears that forecasts are being negatively affected by political uncertainty within the EU, trade conflict with the US, geopolitical unknowns and an at least partial disruption of the established world economic order.

Above all, the development of the housing rental market is of great importance to a company such as ADLER Real Estate AG. It again proved stable in the first six months of 2018. According to the cost of living index, German rents were 1.6 percent higher nationwide in June 2018 than in the previous year. Rents thus rose at a lower rate 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 properties, ADLER Real Estate AG chiefly operates in “B” locations and on the periphery of conurbations. Such locations typically benefit from sharp rent increases in town centres or “A” locations, as is the case in most towns in Germany. After all, tenants no longer able or willing to pay higher rents look for alternatives and are often prepared to accept living further from the centre of their city. Moreover, the average does not take into account the fact that the development of rents under new and existing leases usually differs significantly.

Legal framework

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

At the end of June, the German government ruled to grant a building subsidy (Baukindergeld) to families with children if they buy, or have already bought, residential property between the start of 2018 and the end of 2020. This shall amount to EUR 1,200 per child per year and be paid for ten years. The scheme is open to families with a taxable annual household income of up to EUR 75,000 plus an allowance of EUR 15,000 per child. At the same time, the construction of rental apartments in regions with a tense housing market is being stimulated by higher initial tax benefits for owners.

On 10 April 2018, the German Federal Constitutional Court deemed the existing basis for calculating property tax to be unconstitutional, while setting a deadline of the end of 2019 for it to be revised. In strictly legal terms, the ruling only applies to the former West German states, but the situation is similar in the former East German states. A revised calculation basis may lead to an overall increase in payable property tax. This would also make renting more expensive, as the owners of taxable properties are likely to pass on the burden of the property tax to tenants.

ECONOMIC DEVELOPMENT OF THE GROUP

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

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

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

The acquisition was successfully concluded at the beginning of April 2018. Through the agreement with Redzone, the STO and the purchase of shares that were offered to ADLER by the senior management of BCP, ADLER acquired 69.81 percent of the shares in BCP.

With this acquisition, ADLER is expanding its portfolio by approx. 12,000 residential units (approx. 24 percent). In addition, key performance and financial data will be significantly improved. BCP is therefore playing its part in ensuring that ADLER could set ambitious targets for 2018.

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

In mid-April 2018, ADLER announced the establishment of a joint venture with Benson Elliot Capital Management LLP, geared solely towards the sale of ADLER's non-core assets, on the basis of a joint declaration of intent. ADLER aims to contribute available-for-sale rental units with a value of approx. EUR 115 million to the joint venture. The intention is for Benson Elliot to purchase a majority stake of around 70 percent in the joint venture and ADLER to hold a substantial minority stake of around 30 percent. ADLER will remain responsible for asset, property and facility management until the properties are eventually sold and will share in any profit on the eventual sale. However, the plan was not enacted in the first half-year as some details of the contract for the joint venture still had to be clarified.

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

At the end of April 2018, ADLER acquired 94.9 percent of shares in the property company TGA Immobilien Erwerb 10 GmbH and thus acquired investment properties in the amount of EUR 8.6 million. These relate to a small portfolio of 127 rental units in Emden that advantageously complement the holdings in Lower Saxony.

/// REPORT ON RISKS AND OPPORTUNITIES

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

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

With the acquisition ADLER has entered into a concrete currency risk as BCP holds bonds in the equivalent book value of nearly EUR 140 million in New Israeli Shekels (ILS). A decision on how and to what extent this exposure shall be hedged is still pending.

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

/// REPORT ON EXPECTED DEVELOPMENTS

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

With the additional contribution of BCP and the effects resulting from the refinancing of EUR 200 million of the corporate bond 2015/2020, FFO I is likely to rise to between EUR 68 million and EUR 73 million in 2018, an increase of around 75 percent.

The company's financial indicators will also improve, in some cases significantly, during the course of 2018. The LTV, which ADLER now calculates as the ratio of net financial liabilities to the value of the entire property portfolio in line with customary industry standards, is likely to fall by more than 4 percentage points to 55 percent in the course of the year. The forecast for weighted average cost of debt which was 2.4 percent for the full year has already been outperformed due to the effects resulting from the refinancing of EUR 200 million of the corporate bond 2015/2020 and the acquisition of BCP.

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

/// REPORT ON EVENTS AFTER THE BALANCE SHEET DATE

The extraordinary Annual General Meeting on August 28, 2018 accepted with majority the resolution by the Management and the Supervisory Board on the appropriation of the net retained profit. As a result, shareholders will receive a dividend of EUR 0,04 per share for the business year 2017. The remaining net retained profit will be carried forward to new account.

Further events with the potential to significantly influence the earnings, assets and financial position of ADLER Real Estate AG did not occurr between the end of the period under report and the editorial deadline for this report. The company's business performance up to the reporting date confirms the statements made in its report on expected developments.

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

RESULTS FROM OPERATIONS, NET ASSETS AND FINANCIAL POSITION

PRELIMINARY REMARK

At the beginning of the second quarter of 2018, ADLER acquired nearly 70 percent of the shares in BCP and consolidated the company and its subsidiaries since then for the first time.

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

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

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

RESULT FROM OPERATIONS

After the sale of the majority of its shares in ACCENTRO Real Estate AG, ADLER Real Estate AG generates its income almost exclusively from the management of its existing properties. Its business model is designed to focus on this. Since April 2018, this also includes properties of BCP that were fully consolidated for the first time in the financial statements for the first half of 2018.

In EUR millions	6M 2018	6M 2017 adjusted[1]	6M 2017 reported
Gross rental income	166.7	127.3	131.1
of which net rental income	109.1	82.6	86.4
Expenses from property lettings	-70.2	-67.6	-68.6
Earnings from property lettings	**96.5**	**59.7**	**62.5**
Income from the sale of properties	24.4	13.9	52.8
Expenses from the sale of properties	-21.3	-13.6	-41.5
Earnings from the sale of properties	**3.1**	**0.3**	**11.3**
Personnel expenses	-13.8	-9.2	-10.6
Other operating income	4.3	4.9	6.0
Other operating expenses	-34.6	-14.1	-16.3
Income from fair value adjustments of investment properties	146.6	35.4	35.4
Depreciation and amortisation	-0.5	-0.3	-0.6
Earnings before interest and taxes (EBIT)	**201.6**	**76.7**	**87.7**
Financial result	-91.9	-45.6	-48.7
Net income from at-equity valued investment associates	0.0	0.0	0.0
Earnings before taxes (EBT)	**109.7**	**31.1**	**39.0**
Income taxes	-44.4	-15.4	-17.3
Net consolidated result from continuing operations	**65.3**	**15.7**	**21.7**
Earnings after tax from discontinued operations[2]	0.3	6.0	-
Net consolidated result	**65.6**	**21.7**	**21.7**

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

Rent increases and portfolio growth strengthen earnings from property lettings

In the first half of 2018, gross rental income amounted to EUR 166.7 million. This figure was 31.0 percent higher than in the same period of the previous year as shown in the adjusted statement (not including the sale of ACCENTRO at the end of 2017) (EUR 127.3 million). EUR 140.2 million of gross rental income is attributable to the former structure of ADLER Real Estate AG, while BCP contributed EUR 26.5 million during the consolidation period, which includes the three months of the second quarter.

Net rental income amounted to EUR 109.1 million in the first half of 2018, up 32.1 percent on the previous year's comparative figure in the adjusted statement (EUR 82.6 million), which excludes the rental income of ACCENTRO. In turn, EUR 89.5 million is attributable to ADLER in its previous structure and EUR 19.6 million to the newly acquired BCP. Net rental income increased not only due to the expansion of the portfolio, but also due to the improved performance in asset and portfolio management. At the end of the period under review, the average contractually agreed rent per square metre per month for the overall portfolio amounted to EUR 5.37, EUR 0.31 higher than the figure for the same period of the previous year (H1 2017: EUR 5.06). Not including BCP, ADLER would have reported an average rent of EUR 5.25 at the end of the first half of the year. Compared to ADLER, BCP alone achieved a higher average rent of EUR 6.01 in the first half of the year. In the core portfolio, which results from the overall portfolio minus the properties that are to be sold as part of the ongoing portfolio reviews, the average contractually agreed rent per square metre per month amounted to EUR 5.40 at the end of the first half of 2018. This was EUR 0.31 more than one year ago (EUR 5.09).

The occupancy rate for the overall portfolio came to 90.2 percent at the end of the first half of 2018 against 89.5 percent one year earlier. The occupancy rate in the core portfolio reached 92.3 percent at the reporting date in 2018. This equates to an improvement of 1.6 percentage points compared with one year ago (90.7 percent). Part of the increase is also due to the acquisition of BCP. In its former structure, ADLER had an occupancy rate of 92.1 percent, BCP of 94.4 percent. However, the improvement in the operating performance indicators also reflects the fact that ADLER incorporated all its property holdings in its former structure under the Group's own management over the course of 2017.

Expenses from property lettings comprise recoverable and non-recoverable operating expenses and maintenance expenses. Compared with the adjusted figures for the previous year (EUR 67.6 million), these expenses increased by 3.8 percent to EUR 70.2 million in the first half of the year. Not including BCP, ADLER would have reported a decline to EUR 61.3 million, which is a reflection of the aforementioned internalisation of the property management. In 2017, ADLER successively terminated the remaining contracts with external property management companies and performed their services itself, thereby saving costs. However, this automatically meant a rise in employee headcount, with personnel expenses also going up accordingly. The fact that maintenance expenses amounting to a figure in the low single-digit million-euro range originally planned for the first and second quarter were deferred provided only temporary relief.

Net of expenses from property lettings, earnings from property lettings amounted to EUR 96.5 million in the first half of 2018, 61.7 percent more than in the previous year (EUR 59.7 million). EUR 17.6 million of this amount is attributable to BCP.

Earnings contribution from the sale of properties remain low

ADLER Real Estate AG continues to generate low earnings contributions from the sale of properties after selling the majority of its shares in ACCENTRO Real Estate AG at the end of 2017. In the second quarter, BCP made an earnings contribution of EUR 2.5 million from the project development business. Project development properties that have not yet been sold will be added to the BCP portfolio after completion.

In the first half of 2018, the sales of 269 non-core units in total resulted in an earnings contribution of EUR 0.6 million. Since the beginning of 2015, ADLER's strategic objective has been to dispose of such properties in order to increase the efficiency of the overall portfolio. At the end of the first half of 2018, the company had specific intentions to sell a total of 3,959 rental units, corresponding to 6.4 percent of its overall portfolio. In mid-April 2018, ADLER announced its intention to incorporate most of these non-core properties at a premium into a joint venture with Benson Elliot Management LLP, in which ADLER intends to hold a minority interest. This transaction has not yet been concluded in the period under report.

Good contribution from fair value adjustments

At EUR 146.6 million in the first half of 2018, the contribution from fair value adjustments of investment properties was much higher than the previous year's comparative figure (EUR 35.4 million). The contribution amounting to EUR 145.5 million is attributable to the market valuation of the properties that ADLER already held before the acquisition of BCP. This valuation improved due to the rise in average rents and measures to maintain and modernise the properties, which accounted for a total of EUR 20.2 million in the first half of 2018 and EUR 19.4 million at ADLER in its former structure (H1 2017: EUR 22.8 million). The property valuations are performed exclusively by independent specialist external service providers with long-standing experience in this area. Income from fair value adjustments of investment properties is not cash-effective and is not included in the calculation of funds from operations.

Internalised property and facility management leading to greater personnel expenses

Personnel expenses totalled EUR 13.8 million in the first half of 2018 and were thus above the adjusted previous year's level of EUR 9.2 million. This increase in personnel expenses was attributable to two factors. The first-time consolidation of BCP increased expenses by EUR 1.1 million. The remaining increase is due to the withdrawal of tasks from external service providers in the context of ADLER's realignment towards becoming an integrated real estate group. These functions have been taken over by internal group departments that have either been newly founded or had their personnel resources increased. As a result, ADLER had a total of 622 employees in its previous structure as at 30 June 2018, 123 more than one year earlier if the employees of ACCENTRO from the previous year's figure are excluded. 144 BCP employees were added to the total number of employees in the ADLER Group. In total, 766 employees were working at ADLER as at the end of the first half of the year.

Other operating expenses amounted to EUR 34.6 million in the first half of 2018 (previous year: EUR 14.1 million). This line item includes general administration expenses, office premise rents, IT expenses, legal and advisory expenses, impairments of receivables and public relations expenses. EUR 3.0 million was attributable to BCP, and EUR 31.6 million to ADLER in its former structure. This is partly attributable to one-off costs for legal and advisory costs which were primarily related to the acquisition of BCP and the issuing of EUR 800 million in corporate bonds.

Other operating income amounted to EUR 4.3 million in the first six months of the current financial year, which are fully attributable to ADLER in its former structure. In the same period of the previous year, other operating income was EUR 4.9 million.

Significant increase in EBIT

After the deduction of all non-financial expenses, earnings before interest and taxes (EBIT) amounted to EUR 201.6 million for the first half of 2018. Compared with the EBIT figure for the first half of the previous year (EUR 76.7 million), which had been adjusted for the contribution of ACCENTRO, this corresponded to an increase of 162.8 percent. BCP's EBIT contributed EUR 17.2 million here. A substantial contribution came from the largely cash-effective earnings from property lettings and a larger one still from the non-cash-effective income from fair value adjustments of investment properties.

Financial result comprises high one-off expenses

At minus EUR 91.9 million, the financial result for the first half of 2018 was significantly lower than the equivalent figure for the previous year (minus EUR 45.6 million). A minus of EUR 1.7 million is attributable to BCP's contribution and minus EUR 90.2 million to the financial result of ADLER in its previous structure, which was significantly negatively impacted by one-off expenses (prepayment penalties, loan commitment fees and transaction costs). EUR 55.5 million of these expenses relate to the refinancing of outstanding promissory note loans totalling approximately EUR 615 million, which was initiated in 2017 but not concluded until the first quarter of 2018, and the early refinancing of the 2015/2020 corporate bond in the amount of EUR 200 million and the bridging loan for the acquisition of the majority of shares in BCP that was redeemed at the end of April. In the first half of the previous year, financial costs included one-off expenses of EUR 7.5 million.

After taking into account the net of the financial result, earnings before taxes (EBT) amounted to EUR 109.7 million in the first half of 2018. Of this total, BCP contributed EUR 15.5 million, while EUR 94.2 million was contributed by ADLER in its former structure (H1 2017: EUR 31.1 million not including ACCENTRO).

Income tax expenses came to EUR 44.4 million in the first half of 2018 (previous year: EUR 15.4 million). From the total tax expenses, EUR 1.4 million were current tax expenses and EUR 43.0 million related to deferred, non-cash-effective taxes.

The consolidated net result for the first half of 2018 amounting to EUR 65.6 million (H1 2017: EUR 21.7 million) is comprised of two components: the consolidated net result from continuing operations of EUR 65.3 million and the result from discontinued operations totalling EUR 0.3 million. Of the consolidated net result, EUR 53.6 million are attributable to shareholders in the parent company (H1 2017: EUR 17.6 million).

Segment reporting

In previous years, ADLER Real Estate AG distinguished between its Rental and Trading segments in its segment reporting. Following the sale of the majority of the shares in ACCENTRO Real Estate AG at the end of 2017, only continuing operations in the Rental segment are presented in the segment reporting. The discontinued Trading segment will no longer be shown. BCP, the majority of which was acquired in April 2018, is currently presented as an independent segment in accordance with internal reporting to the Management Board.

The Rental segment includes all ADLER's portfolios in its earlier structure before the acquisition of BCP through the letting of which ADLER Real Estate AG aims to generate long-term gross rental income. Gross rental income and the expenses associated with the letting business portray the activities of the Group's Asset Management department, which manages residential units held in the portfolio in technical and commercial terms. This segment also includes the expenses of ADLER Wohnen Service GmbH, founded in 2016, which bundles the Group's own property management activities, and has now expanded to such an extent that ADLER has almost completely integrated this part of the value chain into the Group. The same applies for the Facility Management department under the auspices of ADLER Gebäude Service GmbH, which was also established in 2016.

A separate segment has now been created for BCP. BCP owns a property portfolio of 11,678 residential units with a focus on larger cities in Germany. BCP also contributes around 300,000 square metres of commercial space and project development in the centres of Düsseldorf and Aachen for around 2,000 new residential units which are expected to be added to the portfolio after completion if they have not yet been sold to non-group companies up to the date of preparing the financial statements.

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

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

ADLER Group	Rental		BCP		Other		Group	
In EUR millions	**6M 2018**	**6M 2017**	**6M 2018**	**6M 2017**	**6M 2018**	**6M 2017**	**6M 2018**	**6M 2017[1)]**
Gross rental income and income from the sale of properties	153.6	141.1	37.4	-	0.1	0.1	191.1	141.2
of which gross rental income	140.1	127.2	26.5	-	0.1	0.1	166.7	127.3
of which income from disposals	13.5	14.0	10.9	-	0.0	0.0	24.4	14.0
of which income from brokerage	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0
Change in the value of investment properties	145.5	35.4	1.1	-	0.0	0.0	146.6	35.4
Earnings before interest and taxes (EBIT)	**184.5**	**77.0**	**17.2**	**-**	**-0.1**	**-0.3**	**201.6**	**76.7**
Income from investments accounted for using the at-equity method	0.0	0.0	0.0	-	0.0	0.0	0.0	0.0
Financial result	**-90.3**	**-45.6**	**-1.7**	**-**	**0.0**	**0.0**	**-91.9**	**-45.6**
Earnings before taxes (EBT)	**94.3**	**31.4**	**15.5**	**-**	**-0.1**	**-0.3**	**109.7**	**31.1**

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

Funds from operations (FFO) more than doubled

As is customary in the real estate sector, ADLER Real Estate AG refers to funds from operations (FFO) as its major cash-flow-based performance indicator in order to assess the profitability of its operating business. FFO I represents the performance of the property letting business. Following the sale of the trading business ADLER no longer reports FFO II, which additionally presents the results of trading with and sales of properties.

As is documented in the overview provided below, FFO is determined by first calculating earnings before interest, taxes, depreciation and amortisation, impairment losses and income from fair value adjustments of investment properties (EBITDA IFRS) and then adjusting this figure to exclude non-recurring and extraordinary items. The adjustments made involve items that are of a non-periodic nature, recur irregularly, are not typical for operations or are non-cash-effective. These relate in particular to the optimisation and development of existing and new business fields and business processes, acquisition and integration expenses arising in the context of acquisitions, refinancing expenses and capital-related measures and further one-off items such as settlements and impairments of receivables. Interest expenses directly incurred in connection with the operating business are then deducted from this adjusted EBITDA figure (FFO interest charges), as are any earnings generated from the sale of properties, the minority interests in the BCP Holding (30.19 percent) and current income taxes. Any investments made to maintain the condition of the properties but which have not been capitalised are then added.

In EUR millions		6M 2018	6M 2017
Consolidated net profit		**65.6**	**21.7**
of which from continuing operations		**65.3**	**15.7**
+	Financial result	91.9	48.7
	of which from continuing operations	91.9	45.6
+	Income taxes	44.4	17.3
	of which from continuing operations	44.4	15.4
+	Depreciation and amortisation	0.5	0.6
	of which from continuing operations	0.5	0.3
–	Income from measurement of investment properties	146.6	35.4
	of which from continuing operations	146.6	35.4
–	Income from investments accounted for using the at-equity method	0.3	0.0
	of which from continuing operations	0.0	0.0
EBITDA IFRS (continuing and discontinued operation)		**55.5**	**52.8**
+/–	Non-recurring and extraordinary items	21.0	5.4
Adjusted EBITDA		**76.5**	**58.3**
–	Interest expense FFO	33.7	35.6
–	Current income taxes	1.4	0.7
+	Capitalisable maintenance measures	0.0	4.1
–	Earnings before interest and taxes from the sale of properties	6.3	10.2
FFO I		**35.1**	**15.7**
Number of shares (basic)[1]		66,755,390	68,998,777
FFO I per share (basic)		0.53	0.23
Number of shares (diluted)[2]		78,844,224	81,266,898
FFO I per share (diluted)		0.44	0.19

[1] 55,088,724 shares as at balance sheet date (previous year: 57,332,111) plus 11,666,666 shares from assumed conversion of mandatory convertible bonds (previous year: 11,666,666) which are considered as equity. [2] Plus 12,088,834 shares from assumed conversion of all other convertible bonds with entitlement to conversion (previous year: 12,268,121).

Non-recurring and extraordinary items are structured as follows:

Non-recurring and extraordinary items In EUR millions	6M 2018	6M 2017
Non-cash income/expenses and one-off payments	3.0	-0.6
Costs of acquisition/integration	10.9	1.3
Optimisation of business model, structuring	7.1	4.7
Total non-recurring and extraordinary items	**21.0**	**5.4**

The FFO interest charge is derived as follows:

Interest expense FFO In EUR millions	6M 2018	6M 2017
Interest income	5.0	1.6
Interest expenses	-96.9	-50.3
Total interest income (continuing and discontinued operations)	**-91.9**	**-48.7**
Adjustments		
Interest expenses from the sale of properties	0.0	2.4
Prepayment compensation and provision costs	42.2	4.3
Effects of measurement of primary financial instruments	14.8	4.5
Other adjustments	1.2	1.9
Interest expenses FFO	**-33.7**	**-35.6**

Calculated this way, FFO I for the first half of 2018 amounted to EUR 35.1 million. ADLER in its previous structure contributed EUR 27.5 million and BCP contributed EUR 7.6 million. Compared to the same period of the previous year (EUR 15.7 million), FFO I has more than doubled.

Calculated on an undiluted basis (shares issued less treasury shares plus shares arising from conversion of the mandatory convertible bond allocated to share capital), FFO I per share amounted to EUR 0.53 as at 30 June 2018. On a diluted basis (shares issued less treasury shares plus shares arising from conversion of the mandatory convertible bond allocated to share capital, plus shares from the assumed conversion of the other convertible bonds to the extent that they are already convertible), FFO I per share came to EUR 0.44.

NET ASSETS

In EUR millions	30.06.2018	as percentage of total assets	31.12.2017	as percentage of total assets
Non-current assets	**5,010.0**	**91.9**	**3,125.5**	**82.7**
of which investments properties	4,830.3	88.6	3,018.5	79.9
Current assets	**426.4**	**7.8**	**629.9**	**16.7**
of which inventories	30.7	0.6	3.0	0.1
of which cash and cash equivalent investments	131.1	2.4	368.2	9.7
Non-current assets held for sale	**17.8**	**0.3**	**23.6**	**0.6**
Assets	**5,454.2**	**100.0**	**3,779.0**	**100.0**
Equity	**1,307.7**	**24.0**	**1,037.5**	**27.5**
of which capital stock	55.1	1.0	56.1	1.5
of which capital reserve	351.4	6.4	350.2	9.3
of which net retained profit	594.6	10.9	555.4	14.7
of which non controlling interests	309.1	5.7	76.9	2.0
Non-current liabilities	**3,907.2**	**71.6**	**2,363.2**	**62.5**
of which liabilities from convertible bonds	120.8	2.2	119.7	3.2
of which liabilities from bonds	1,974.9	36.2	1,277.6	33.8
of which financial liabilities to banks	1,445.7	26.5	749.2	19.8
Current liabilities	**239.3**	**4.4**	**377.5**	**10.0**
of which financial liabilities to banks	121.5	2.2	278.7	7.4
Liabilities held for sale	**0.0**	**0.0**	**0.8**	**0.0**
Equity and liabilities	**5,454.2**	**100.0**	**3,779.0**	**100.0**

Overall, over the course of the first half of 2018, ADLER Real Estate AG's balance sheet and structure has significantly changed. This is partly due to the fact that BCP, the majority of which was acquired in April, was included in the consolidated financial statements for the first time at the end of the first half of the year. However, it was also due to the fact that the refinancing of outstanding promissory note loans completed in the first quarter of 2018, the new issuing of the 2018/23/26 corporate bonds and the associated replacement of the short-term bridge loan arranged for the acquisition of BCP have left their mark. As at 30 June 2018, ADLER Real Estate AG reported assets of EUR 5,454.2 million, 44.3 percent more than at the end of the previous year (EUR 3,779.0 million).

Improvement in non-current assets

The increase in the consolidated balance sheet is largely attributable to the increase in the value of non-current assets and in particular in investment properties, which were recognised at EUR 4,830.3 million at the end of the first half of the year. This was EUR 1,811.8 million more than at the end of the previous year (EUR 3,018.5 million). EUR 1,616.6 million of this increase was attributable to the first-time consolidation of BCP, and EUR 145.5 million to the fair value adjustments of ADLER's existing real estate in its former structure – an increase in value of 4.8 percent over the course of the previous year that was attributable to the operating improvements and positive market developments.

Although goodwill accounted for only a small amount of non-current assets, it significantly increased as a result of the acquisition of BCP. As at the end of the first half of the year, it accounted for EUR 169.2 million (2017: EUR 101.2 million).

Current assets were recognised at EUR 426.4 million at the end of the first half of the year, EUR 203.5 million less than at the end of the previous year (EUR 629.9 million). Although BCP contributed EUR 150.2 million in current assets, ADLER's current assets in its former structure included a large volume of cash and cash equivalents intended for the repayment of promissory note loans as at the end of 2017, but was only used accordingly over the course of the 2018 financial year. ADLER's current assets in its former structure decreased accordingly by EUR 353.7 million to EUR 276.2 million.

Inventories primarily comprise properties from BCP project developments, which are expected to be sold to non-group companies.

Increase in shareholders' equity

Shareholders' equity amounted to EUR 1,307.7 million at the end of the first half of 2018. This was 26.0 percent higher than at the end of the previous year (EUR 1,037.5 million) with contributions from the net retained profit and the non-controlling interests which increased by EUR 225.5 million due to the first-time consolidation of BCP. As a result of the end of the share buyback programme in March 2018, capital stock – offset against the low number of conversions – was EUR 1.0 million lower than at the end of the previous year. The shareholders' equity ratio reached 24.0 percent as at the end of the first half of the year.

Non-current liabilities increased, current liabilities decreased

Non-current liabilities amounted to EUR 3,907.2 million as at 30 June 2018, a significant increase compared to the figure at the end of 2017 (EUR 2,363.2 million). This was partly due to the fact that BCP's non-current liabilities, which accounted for EUR 919.4 in total, were included in the consolidated financial statements for the first time. ADLER's non-current liabilities in its former structure have also increased. Borrowings of EUR 800.0 million in connection with the 2018/2023 and 2018/2026 corporate bonds respectively were offset by the repayment of the 2013/2018 corporate bond in the amount of EUR 35.0 million and the early repayment of the 2015/2020 corporate bond in the amount of EUR 200.0 million.

Current liabilities significantly decreased in the first half of 2018. At the end of the first half of 2018, they were recognised at EUR 239.3 million, EUR 138.2million less than at the end of the previous year (EUR 377.5 million). BCP's current liabilities, which were recognised for the first time, accounted for EUR 139.5 million. ADLER's current liabilities in its previous structure decreased by EUR 277.7 million, primarily because promissory note loans that were reclassified to current liabilities at the end of 2017 have since been repaid.

Net financial liabilities amounted to EUR 3,571.0 million at the end of the first half of 2018, up EUR 1,464.8 million on the figure at the end of the previous year (EUR 2,106.2 million). This can be attributed primarily to the financing requirements for the acquisition of BCP, the prepayment penalties paid for the early repayment of the different financial instruments and the first-time consolidation of BCP.

Temporary increase in Loan to value (LTV)

Since the first quarter of 2018, ADLER has been calculating LTV as the ratio of financial liabilities (adjusted for cash and cash equivalents, non-current assets held for sale, purchase price receivables and liabilities held for sale) to ADLER's total property assets – as is customary in the industry. LTV, according to this calculation, was 67.5 percent at the end of the first half of the year, 8.1 percentage points higher than at the end of 2017, assuming that the convertible bonds outstanding at the reporting date were converted into shares. The acquisition of BCP had a significant influence on the change. LTV would also have improved by over half a percentage point if ADLER had remained in its previous structure.

A temporary negative effect also came from the share buy back programme. If LTV was adjusted for the effects of the share buy back programme based on the acquisition values as have been recorded in the balance sheet, it would have stood at 66.8 percent (excluding convertibles) at the end of the first half 2018.

At the end of the year, ADLER still anticipates an LTV of around 55 percent.

In EUR millions		30.06.2018	31.12.2017
Convertible bonds		126.9	126.2
+	Bonds	2,008.0	1,320.3
+	Financial liabilities to banks	1,567.2	1,027.9
–	Cash and cash equivalents	131.1	368.2
=	**Net financial liabilities**	**3,571.0**	**2,106.2**
–	Non-current assets held for sale. purchase price receivables and advance payments minus liabilities associated with assets held for sale[1]	165.0	184.5
=	**Adjusted net financial liabilities**	**3,406.0**	**1,921.7**
Investment properties		4,830.3	3,018.5
+	Inventories	30.7	3.0
+	Investments in real estate companies	**0.2**	**0.0**
=	**Gross asset value**	**4,861.1**	**3,021.5**
LTV II including convertible bonds in %		70.1	63.6
LTV II excluding convertible bonds in %		67.5	59.4

[1] Purchase price receivable ACCENTRO including interest amounting to EUR 147.2 million (previous year: EUR 161.7 million); non-current assets held for sale amounting to EUR 17.8 million (previous year: EUR 23.6 million) and liabilities associated with assets held for sale amounting to EUR 0.0 million (previous year: EUR 0.8 million)

The liabilities from BCP are included in the calculation of the weighted average cost of debt (WACD) for all of the ADLER Group's liabilities for the first time as at the end of the first half of 2018. WACD accounted for 2.26 percent as at the end of the first half of the year. It amounted to 2.72 percent at the end of the previous year. A positive effect resulted from the extensive repayment of promissory note loans with higher interest rates, the prompt repayment of the 2013/2018 corporate bond and the early repayment of EUR 200.0 million of the 2015/20 corporate bond. Another positive effect resulted from the fact that BCP's liabilities have a slightly lower interest rate on average than ADLER's liabilities in its earlier structure.

Further increase in net asset value (EPRA NAV)

Net asset value (EPRA NAV), which is calculated in accordance with the guidelines issued by the European Public Real Estate Association (EPRA), reached EUR 1,339.8 million at the end of the first half of 2018. It is therefore EUR 132.6 million above the figure at the end of 2017 (EUR 1,207.2 million). This corresponds to an increase of 11.0 percent, and is attributable to the increase in shareholders' equity and the increase in deferred tax liabilities on investment properties.

Based on the total number of existing shares in circulation at the balance sheet date less treasury shares plus the shares resulting from the assumed conversion of the mandatory convertible bond counted as shareholders' equity, undiluted EPRA NAV per share amounted to EUR 20.07 as at 30 June 2018 (end of 2017: EUR 17.80).

Diluted EPRA NAV per share amounted to EUR 18.58 at the end of the first half of 2018 (end of 2017: EUR 16.64).

In EUR millions	**30.06.2018**	**31.12.2017**
Equity	**1,307.7**	**1,037.5**
Non-controlling interests	-309.1	-76.9
Equity attributable to ADLER shareholders	**998.5**	**960.6**
Deferred tax liabilities on investment properties	386.7	235.5
Goodwill from deferred taxes on investment properties	-58.0	0
Difference between fair values and carrying amounts of inventory properties	7.0	7.0
Fair value of derivative financial instruments	7.9	5.9
Deferred taxes for derivative financial instruments	-2.4	-1.8
EPRA NAV	**1,339.8**	**1,207.2**
Goodwill from synergies	-111.2	-101.2
Adjusted EPRA NAV	**1,228.6**	**1,105.0**
Diluted EPRA NAV	**1,464.9**	**1,331.7**
Adjusted diluted EPRA NAV	**1,353.7**	**1,230.5**
Number of shares, basic[1]	66,755,390	67,822,504
EPRA NAV per share (basic) in EUR	**20.07**	**17.80**
Number of shares, diluted[2]	78,844,224	80,035,551
EPRA NAV per share (diluted) in EUR	**18.58**	**16.64**
Adjusted EPRA NAV per share (diluted) in EUR	**17.17**	**15.37**

[1] 55,088,724 shares as at balance sheet date (previous year: 56,155,838) plus 11,666,666 shares from assumed conversion of mandatory convertible bonds (previous year: 11,666,666), which are considered as equity, previous year adjusted according to IAS 33.64; see notes (Earnings per share)

[2] Plus 12,088,834 shares from assumed conversion of all other convertible bonds with entitlement to conversion (previous year: 12,213,047), previous year adjusted according to IAS 33.64; see notes (Earnings per share)

FINANCIAL POSITION

In EUR millions	6M 2018	6M 2017
Cash flow from operating activities	66.0	-4.4
– of which from continuing operations	65.7	27.2
Cash flow from investing activities	-492.2	377.2
– of which from continuing operations	-492.2	377.1
Cash flow from financing activities	189.2	-330.8
– of which from continuing operations	189.2	-351.0
Cash-effective change in cash and cash equivalents	-237.0	42.0
Non-cash-effective change in cash and cash equivalents	-0.1	0.0
Cash and cash equivalents at beginning of period	368.2	123.9
Cash and cash equivalents at end of period	131.1	165.9

Cash flow from operating activities came to EUR 65.7 million in the first half of 2018. In the same period of the previous year, cash flow from continuing operations was EUR 27.2 million. This increase partly reflects the qualitative improvement in the operating business, due partly to the internalisation of property management activities, partly it is attributable to the first-time consolidation of BCP.

There was an outflow of funds from investing activities of EUR 492.2 million in the first half of 2018 relating primarily to the acquisition of BCP. The cash inflow of EUR 377.1 million in the corresponding period of the previous year was attributable mainly to the sale of the shares held in conwert Immobilien Invest SE.

Financing activities resulted in an inflow of funds amounting to EUR 189.2 million in the first half of 2018. This figure resulted primarily from the balance of the inflow of EUR 800.0 million from the issuing of the 2018/2023 and 2018/2026 corporate bonds and the cash outflow to repay the outstanding promissory note loans, the different corporate bonds and the short-term bridging loan which was taken out for the acquisition of BCP.

As at 30 June 2018, the ADLER Group had financial funds (cash and cash equivalents) of EUR 131.1 million (previous year: EUR 165.9 million). EUR 88.8 million of this is attributable to BCP (thereof restricted: EUR 17.8 million).

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

OVERALL SUMMARY OF BUSINESS PERFORMANCE AND POSITION OF GROUP

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

/// Group interim financial statement as at 30 June 2018

Before new tenants move in, the condition of a freshly renovated apartment is checked carefully for compliance with the technical regulations, the ADLER renovation standard and individual requirements such as accessibility or adjustments to the floor plan.

/// CONSOLIDATED BALANCE SHEET

(IFRS) as at 30 June 2018

In EUR '000	30.06.2018	31.12.2017
Assets	**5,454,180**	**3,778,967**
Non-current assets	**5,009,977**	**3,125,490**
Goodwill	169,163	101,198
Intangible assets	625	567
Property, plant and equipment	6,298	4,948
Investment properties	4,830,252	3,018,518
Loans to associated companies	0	0
Investments in associated companies	192	25
Other financial investments	28	28
Other non-current assets	2,173	205
Deferred tax assets	1,246	0
Current assets	**426,425**	**629,895**
Inventories	30,697	2,978
Trade receivables	30,396	10,717
Income tax receivables	4,791	4,459
Other current assets	229,459	243,508
Cash and cash equivalents	131,082	368,233
Non-current assets held for sale	**17,777**	**23,582**

In EUR '000	30.06.2018	31.12.2017
Equity and liabilities	**5,454,180**	**3,778,967**
Shareholders' equity	**1,307,685**	**1,037,500**
Capital stock	57,672	57,548
Treasury shares	-2,583	-1,392
	55,089	56,156
Capital reserve	351,397	350,203
Retained earnings	-2,639	-1,310
Currency translation reserve	88	86
Net retained profit	594.605	555,442
Equity attributable to owners of the parent company	998.540	960,576
Non-controlling interests	309.145	76,924
Non-current liabilities	**3,907,223**	**2,363,126**
Pension provisions	3,891	3,989
Deferred tax liabilities	307,362	164,571
Other provisions	4,986	1,664
Liabilities from convertible bonds	120,753	119,731
Liabilities from bonds	1,974,919	1,277,640
Financial liabilities to banks	1,445,657	749,188
Other non-current liabilities	49,654	46,344
Current liabilities	**239,261**	**377,512**
Other provisions	90	46
Income tax liabilities	13,276	2,516
Liabilities from convertible bonds	6,101	6,505
Liabilities from bonds	33,085	42,679
Financial liabilities to banks	121,548	278,676
Trade payables	35,618	29,125
Other current liabilities	29,543	17,964
Liabilities held for sale	**12**	**829**

/// CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(IFRS) for the period from 1 January to 30 June 2018

In EUR '000	6M 2018	6M 2017[1)]	Q2 2018	Q2 2017[1)]
Gross rental income	166,712	127,279	98,638	62,353
Expenses from property lettings	-70,164	-67,583	-41,029	-31,917
Earnings from property lettings	**96,548**	**59,696**	**57,610**	**30,436**
Income from the sale of properties	24,382	13,956	21,305	5,343
Expenses from the sale of properties	-21,263	-13,623	-19,124	-5,142
Earnings from the sale of properties	**3,119**	**333**	**2,181**	**201**
Personnel expenses	-13,849	-9,210	-7,757	-4,603
Other operating income	4,271	4,871	3,016	3,097
Other operating expenses	-34,602	-14,104	-23,581	-7,730
Income from fair value adjustments of investment properties	146,611	35,408	124,224	27,731
Depreciation and amortisation	-521	-267	-286	-158
Earnings before interest and taxes (EBIT)	**201,577**	**76,727**	**155,407**	**48,975**
Financial income	4,987	1,631	2,327	956
Financial costs	-96,866	-47,248	-39,986	-23,864
Net income from at-equity valued investment associates	0	0	0	0
Earnings before taxes (EBT)	**109,698**	**31,110**	**117,748**	**26,068**
Income taxes	-44,438	-15,437	-40,080	-10,354
Consolidated net profit from continuing operations	**65,260**	**15,673**	**77,668**	**15,714**
Earnings after taxes of discontinued operations	263	5,998	658	2,917
Consolidated net profit	**65,523**	**21,671**	**78,326**	**18,631**
Actuarial gains/losses before taxes	0	0	0	0
Deferred taxes on actuarial gains/losses	0	0	0	0
OCI gains/losses not reclassifiable into profit or loss	**0**	**0**	**0**	**0**
Gains/losses from currency translation	2	-1	4	-3
Change in value of interests in companies accounted for under at-equity	0	1,589	0	0
Capital stock OCI	-32	0	-32	0
Deferred taxes OCI	10	0	10	0
Change in value of financial assets at fair value	-226	0	96	0
OCI gains/losses reclassifiable into profit or loss	**-246**	**1,588**	**78**	**-3**
Total comprehensive income	**65,277**	**23,259**	**78,404**	**18,628**

In EUR '000	6M 2018	6M 2017[1]	Q2 2018	Q2 2017[1]
Carry-over total comprehensive income	**65,277**	**23,259**	**78,404**	**18,628**
Net profit from continuing operations:				
Owners of the parent company	53,299	12,453	69,914	13,443
Non-controlling interests	11,961	3,220	8,754	2,271
Consolidated net profit attributable to:				
Owners of the parent company	53,562	17,607	69,572	16,080
Non-controlling interests	11,961	4,064	8,754	2,551
Total comprehensive income attributable to:				
Owners of the parent company	53,316	19,195	69,650	16,077
Non-controlling interests	11,961	4,064	8,754	2,551
Earnings per share, basic in EUR (consolidated net profit from continuing operations)	0.80	0.20	1.03	0.21
Earnings per share, diluted in EUR (consolidated net profit from continuing operations)	0.71	0.20	0.89	0.21
Earnings per share, basic in EUR (consolidated net profit)	0.80	0.27	1.04	0.25
Earnings per share, diluted in EUR (consolidated net profit)	0.72	0.27	0.90	0.25

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

/// CONSOLIDATED STATEMENT OF CASH FLOWS

(IFRS) for the period from 1 January to 30 June 2018

	In EUR '000	6M 2018	6M 2017
	Earnings before interest and taxes (EBIT) – continuing and discontinued operations	201,577	87,677
+	Depreciation and amortisation	521	565
–/+	Net income from fair value adjustments of investment properties	-146,611	-35,408
–/+	Non-cash income/expenses	5,597	598
–/+	Changes in provisions and accrued liabilities	-186	-1,668
–/+	Increase/decrease in inventories, trade receivables and other assets not attributable to investment or financing activities	-2,419	-3,362
–/+	Decrease/increase in trade payables and other liabilities not attributable to investment or financing activities	3,561	-14,020
+	Interest received	98	428
+	Dividends received	263	223
+/–	Tax payments	-397	-3,280
=	**Operating cash flow before de-/reinvestment into inventories (previozs year: in the trading portfolio)**	**62,004**	**31,753**
–/+	Increase/decrease in inventories (previous year: commercial properties)	3,956	-36,173
=	**Net cash flow from operating activities**	**65,960**	**-4,420**
	thereof continuing operations	65,697	27,166
	thereof discontinued operations	263	-31,586
–	Acquisition of subsidiaries, net of cash acquired	-472,278	-1,833
+	Disposal of subsidiaries, net of cash disposed	17,107	0
–	Purchase of investment properties	-56,175	-50,660
+	Disposal of investment properties, net of cash disposed	27,570	13.610
–	Purchase of property, plant and equipment and intangible assets	-1,665	-868
+	Disposal of property, plant and equipment and intangible assets	0	64
+	Proceeds from deinvestments of financial assets less costs to sell	14	416,260
–	Investments in financial assets	0	-144
+	Payments from short-term deposits	0	2,000
–	Payments into short-term deposits	-6,790	-1,251
=	**Net cash flows from investing activities**	**-492,217**	**377,178**
	thereof continuing operations	-492,217	377,144
	thereof discontinued operations	0	34
–	Payments for acquisition of treasury shares including acquisition costs	-15,604	-2,250
–	Transactions with non-controlling interests	-5,368	-511
+	Proceeds from issue of convertible bonds	0	0
–	Payments for acquisition and repayment of convertible bonds	0	-35,178
+	Proceeds from issue of bonds	789,953	156,545
–	Repayment of bonds	-234,203	-142,100
–	Repayment from issuing debt	-23,596	-2,154
–	Interest payments	-75,909	-48,882
+	Proceeds from bank loans	636,371	58,892
–	Repayment of bank loans	-882,409	-315,157
=	**Net cash flows from financing activities**	**189,224**	**-330,795**
	of which from continuing operations	189,224	-351,002
	of which from discontinued operations	0	20,207

In EUR '000		6M 2018	6M 2017
	Reconciliation to Consolidated Balance Sheet		
	Cash and cash equivalents at beginning of periods	**368,233**	**123,911**
	Non-cash changes in cash and cash equivalents	-188	0
	Net cash flow from operating activities	65,960	-4,420
	Net cash flow from investing activities	-492,217	377,178
	Net cash flow from financing activities	189,224	-330,795
=	**Cash and cash equivalents at end of periods**	**131,082**	**165,874**

/// CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(IFRS) for the period from 1 January to 30 June 2018

In EUR '000	Capital stock	Treasury shares	Capital reserves
As at 1 January 2017	**47,702**	**0**	**352,105**
Consolidated net profit	0	0	0
Other comprehensive income (OCI) – reclassifiable	0	0	0
Other comprehensive income (OCI) – non-reclassifiable	0	0	0
Dividend payment 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 company shares	0	-161	0
Convertible bond acquisition	0	0	-22,883
Conversion of convertible bonds	5,018	0	4,116
As at 30 June 2017	**57,493**	**-161**	**328,565**

In EUR '000	Capital stock	Treasury shares	Capital reserves
As at 1 January 2018	**57,548**	**-1,392**	**350,203**
Consolidated net profit	0	-1	0
Other comprehensive income (OCI) – reclassifiable	0	0	0
Other comprehensive income (OCI) – non-reclassifiable	0	0	0
IFRS 9 conversion	0	0	0
Change in scope of consolidation	0	0	0
Transactions with non-controlling interests	0	0	0
Acquisition of treasury shares	0	-1,190	0
Conversion of convertible bonds	124	0	1,194
As at 30 June 2018	**57,672**	**-2,583**	**351,397**

Retained earnings	Currency translation reserve	Net retained profit	Equity attributable to the owners of the parent company	Non-controlling interests	Total equity
-2,510	**90**	**445,786**	**843,173**	**71,048**	**914,222**
0	0	17,607	17,607	4,064	21,671
1,589	-1	0	1,588	0	1,588
0	0	0	0	0	0
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	-22,883
0	0	0	9,134	431	9,565
-921	**89**	**461,308**	**846,373**	**74,595**	**920,968**
-1,310	**86**	**555,442**	**960,576**	**76,924**	**1,037,500**
0	0	53,562	53,561	11,961	65,522
-248	1	0	-247	0	-247
0	0	0	0	0	0
-1,081	0	0	-1,081	-38	-1,119
0	0	0	0	225,666	225,666
0	0	0	0	-5,368	-5,368
0	0	-14,399	-15,589	0	-15,589
0	0	0	1,318	0	1,318
-2,639	**87**	**594,605**	**998,539**	**309,145**	**1,307,684**

/// Selected notes on the group interim financial statements in accordance with IFRS as at 30 June 2018

Plans to improve the residential environment – such as redesigning the outdoor areas, building a playground or organising the bin areas – are checked for feasibility directly on site. The Asset Management department then checks for economic efficiency, the Technical department for feasibility and the Property Management department for expediency.

/// SELECTED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IFRS) AS AT 30 JUNE 2018

GENERAL INFORMATION

ADLER Real Estate Aktiengesellschaft (hereinafter “ADLER”) is the parent company of the Group and has its legal domicile at Joachimsthaler Strasse 34, Berlin, Germany. The company is entered in the Commercial Register of Charlottenburg District Court under HRB 180360. Its financial year is the calendar year.

ADLER is a publicly listed real estate company focusing on establishing and developing a substantial and profitable property portfolio. Its activities centre on the acquisition, development and management of residential properties throughout Germany. In addition to this, ADLER has also been expanding its portfolio through new-build project developments since the 2017 financial year.

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

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

BASIS OF ACCOUNTING

Basis of preparation

The interim consolidated financial statements as at 30 June 2018 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 valuation of its investment properties to changes in the market environment. No other changes in estimates with material implications for the Group’s net assets, financial position and results of operations arose in the interim reporting period.

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

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

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

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

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

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

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

IFRS 9 – Financial Instruments

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

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

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

IFRS 15 – Revenue from Contracts with Customers

This new standard replaces IAS 18 “Revenue” and IAS 11 “Construction Contracts” and the related interpretations. IFRS 15 sets out a comprehensive framework for the determination of whether, in which amount and when revenue is to be recognised. The core principle underpinning IFRS 15 is that an entity should recognise revenue when goods have been supplied or a service rendered. Within the standard, this core principle is delivered in a five-step model context. To this end, it is first necessary to identify the relevant contracts with the customer and the performance obligations included therein. Once the transaction price has been determined, this must then be allocated to the separate performance obligations. Revenue recognition is then based on the amount of consideration expected for each separate performance obligation either at a given date or over a given period.

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

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

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

BASIS OF CONSOLIDATION

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

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

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

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

SCOPE OF CONSOLIDATION AND BUSINESS COMBINATIONS

Including the parent company, the scope of consolidation includes a total of 225 companies (31 December 2017: 111) that are fully consolidated and five companies that are recognised at equity (31 December 2017: 2) .

A hundred and fifteen companies were newly included in the scope of consolidation in the period under report. An inactive company (WEAVED Immo Finance B.V., Amsterdam/Netherlands) was liquidised.

In the first quarter, the additions result from three newly founded companies that are expected to act as intermediate holding companies in the Rental segment. Furthermore, in the second quarter ADLER also acquired shares (94.9 percent) in a property company (TGA Immobilien Erwerb 10 GmbH). The company does not operate as a business operation as defined in IFRS 3. Thus, this acquired company 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 8,604k were acquired via this property company. These measures did not have any material implications for the Group's net assets, financial position or results of operations.

At the beginning of the second quarter, ADLER acquired nearly 70 percent of the shares in BCP and consolidated the company and its 111 subsidiaries for the first time.

Acquisition of Brack Capital Properties N.V.

In February 2018, ADLER signed an agreement with Redzone Empire Holding Limited for the acquisition of 41.04 percent of the shares in BCP, and also announced a special tender offer (STO) for the purchase of up to 25.8 percent of additional shares. The acquisition was successfully concluded on 2 April 2018. Via the agreement with Redzone, the STO and the purchase of shares that were offered to ADLER by the senior management of BCP, ADLER acquired a total of nearly 5,397,270 of the shares in BCP. This corresponds to a 69.81 percent share of the capital stock and voting rights in BCP. The acquisition was completed by means of a cash offer.

The acquisition date on which ADLER gained control of BCP was 2 April 2018. On this day, the last closing condition to the takeover bid was fulfilled. As at 2 April 2018, this transaction was dealt with as a company acquisition in accordance with IFRS 3 and included in the interim consolidated financial statements as at 30 June 2018 for the first time. Due to the acquisition of BCP, in total 111 companies will be included in the scope of consolidation.

BCP is a company incorporated under Dutch law, headquartered in Amsterdam, whose shares are traded on the Tel Aviv Stock Exchange, Israel. BCP owns a property portfolio of 11,678 residential units in Germany with a focus on larger cities in Germany, including Leipzig (36 percent), Hanover (10 percent), Bremen (9 percent), Kiel (9 percent) and Dortmund (8 percent). The existing ADLER portfolio will be positively complemented by the BCP portfolio. BCP also contributes around 300,000 square metres of commercial space and project developments in the centres of Düsseldorf and Aachen for around 2,000 new residential units, which are expected to be added to the BCP portfolio after completion if they have not yet been sold to non-group companies up to the date of preparing the financial statements. ADLER expects an improvement in the quality of the rental portfolio and operating and financial synergies from the BCP acquisition. The transaction will be beneficial for ADLER's key financial figures.

The purchase price for the acquisition of 69.81 percent of the shares in BCP's capital stock totals EUR 554,788k and was paid in cash. The currency risk arising from the acquisition of a majority stake in BCP by paying the purchase price in New Israeli Shekels (NIS) was almost completely covered by hedging transactions.

The net outflow of cash, net of cash acquired, amounted to EUR 472.278k.

The allocation of the purchase price to the assets and liabilities acquired is provisional, as a final purchase price allocation had not yet been made as at the balance sheet date. The provisional fair values of the assets and liabilities assumed reported as at the date of first-time consolidation are as follows:

In EUR ´000	
Goodwill	67,965
Investment properties	1,616,551
Other non-current assets	1,068
Current assets	71,078
Cash and cash equivalents	82,510
Acquired assets	**1,839,172**
Non-current liabilities	864,485
Current liabilities	194,364
Acquired liabilities	**1,058,848**
Net assets at 100 %	**780,324**
Minority interests	225,536
Purchase price	**554,788**

The provisional purchase price allocation results in goodwill of EUR 67,965k, which is attributable to the workforce and the high profitability of the acquired business. The first-time allocation of goodwill has not been concluded yet.

At the time of acquisition, the investment property primarily comprised land with 11,678 residential units and 27 commercial units with a rentable area of approximately 1 million square metres and basic net rents of approximately 79 million per year. Furthermore, project developments in the centre of Düsseldorf and in Aachen for approximately 2,000 new residential units should be maintained, which are expected to be added to the BCP portfolio after completion. At the time of acquisition, the fair values of investment property were calculated on the basis of reports of external experts based on discounted cash flow methods.

The current assets acquired includes EUR 24,466k in properties from project developments that are sold to non-group companies. At the time of acquisition, the fair values of these properties were calculated on the basis of reports of external experts based on discounted cash flow methods. In addition, this includes EUR 1,306k of services that have not yet been invoiced from the transferable management costs and trade receivables (EUR 17,674k) and other receivables (EUR 15,732k). Payments received from the tenants' payments of ancillary expenses were reported net with the services that had not yet been invoiced from the transferable management costs. The carrying amounts of the receivables acquired have already taken necessary impairment losses into account and correspond to their fair values as at the time of acquisition.

In total non-current liabilities were aquired in the amunt of EUR 629,681k, thereof fininancial liabilities to banks in the amount of EUR 116,995k, liabilities for bonds in the amount of EUR 105,908k, deferred tax liabilities in the amount of EUR 8,447k and other liabilities at their fair value. A contingent liability of EUR 3,454k was recognised on the acquisition of BCP for a pending lawsuit in which the entity is a defendant. The claim has arisen from a general contractor demanding payment for services performed for a development project. The potential undiscounted amount of all future payments that the Group could be required to make if there was an adverse decision related to the lawsuit is estimated to be approximately EUR 13,817k.

Financial liabilities to banks in the amount of EUR 146,760k, liabilities from bonds in the amount of EUR 18,317k, trade payables in the amount of EUR 6,427k and other liabilities in the amount of EUR 15,852k were acquired at their fair value as current liabilities.

The option of IFRS 3.19 was used to value the non-controlling interests at fair value when calculating the non-controlling interests.

Following the first-time consolidation, BCP has contributed gross rental income BCP has contributed gross rental income in the amount of EUR 26,537k, income from the sale of properties in the amount of EUR 10,876k and earnings before taxes in the amount of EUR 15,509k in the Group's total comprehensive income for the year. If BCP had already been fully consolidated as at 1 January 2018, the company would have contributed to gross rental income in the amount of EUR 52,873k, the income from the sale of properties in the amount of EUR 29,305k and earnings before taxes in the amount of EUR 35,305k.

The costs associated with the business combination in the amount of EUR 10,756k were recognised through profit or loss under other operating expenses.

SEGMENT REPORTING

In previous years, ADLER Real Estate AG distinguished between its Rental and Trading segments in its segment reporting. Following the sale of the majority of the shares in ACCENTRO Real Estate AG at the end of 2017, only continuing operations in the Rental segment are presented in the segment reporting. The discontinued Trading segment will no longer be shown. BCP, the majority of which was acquired in April 2018, is currently presented as an independent segment in accordance with internal reporting to the Management Board.

This includes all ADLER's portfolios in its earlier structure before the acquisition of BCP through the letting of which ADLER Real Estate AG aims to generate long-term gross rental income. Gross rental income and the expenses associated with the letting business portray the activities of the Group's Asset Management department, which manages residential units held in the portfolio in technical and commercial terms. This segment also includes the expenses of ADLER Wohnen Service GmbH, founded in 2016, which bundles the Group's own property management activities, and has now expanded to such an extent that ADLER has almost completely integrated this part of the value chain into the Group. Similar plans are in place for the Facility Management department under the auspices of ADLER Gebäude Service GmbH that was also established in 2016.

BCP owns a property portfolio of 11,678 residential units in Germany with a focus on larger cities in Germany. BCP also contributes around 300,000 square metres of commercial space and project developments in the centre of Düsseldorf and Aachen for around 2,000 new residential units, which are expected to be added to the BCP portfolio after completion if they have not yet been sold to non-group companies up to the date of preparing the financial statements.

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

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

Income and EBIT for the period from 1 January 2018 to 30 June 2018 and for the previous year's comparative period are broken down as follows:

ADLER Group	Rental		BCP		Other		Group	
In EUR '000 – 6 months/6M	2018	2017	2018	2017	2018	2017	2018	2017[1]
Gross rental income and income from the sale of properties	153,588	141,142	37,413	-	93	93	191,094	141,235
– of which gross rental income	140,082	127,186	26,537	-	93	93	166,712	127,279
– of which income from sales	13,506	13,596	10,876	-	0	0	24,382	13,596
– of which income from brokerage	0	0	0	-	0	0	0	0
Change in the value of investment property	145,503	35,408	1,108	-	0	0	146,611	35,408
EBIT	**184,511**	**77,018**	**17,164**	**-**	**-98**	**-291**	**201,577**	**76,727**
Income from investments accounted for using the equity method	0	0	0	-	0	0	0	0
Financial result	**-90,247**	**-45,628**	**-1,655**	**-**	**23**	**11**	**-91,879**	**-45,617**
Earnings before taxes (EBT)	**94,264**	**31,391**	**15,509**	**-**	**-75**	**-280**	**109,698**	**31,110**

[1] Adjusted statement due to sale of Trading segment

Revenues in the Rental segment amounted to EUR 153,588k (EUR 141,142k). Gross rental income increased from EUR 127,186k to EUR 140,082k. Changes in the value of investment property amounted to EUR 145,503k (EUR 35,408k) in the first six months of the year. Six-month EBIT in the Rental segment amounted to EUR 184,511k (EUR 77,018k), while earnings before taxes came to EUR 94,264k (EUR 31,391k).

Revenues in the BCP segment amounted to EUR 37,413k, gross rental income to EUR 26,537k. Changes in the value of investment property amounted to EUR 1,108k. EBIT in the BCP segment amounted to EUR 17,164k, while earnings before taxes came to EUR 15,509k.

The EBIT and earnings before taxes were negatively affected in the first six months by one-off items. Legal and advisory costs increased by EUR 10,756k due to the acquisition of shares in BCP. In addition, one-off expenses amounted to EUR 37,436k (EUR 2,140k) for the early repayment of promissory note loans with higher interest rates and for the early repayment of bonds in the amount of EUR 8,770k (EUR 1,960k). The bridging loan to finance the acquisition of the shares in BCP that was added in the first quarter resulted in transaction costs in the amount of EUR 9,313k that required immediate recognition as expenses due to early repayment.

The income and EBIT for the second quarter from 1 April 2018 to 30 June 2018 and for the equivalent period in the previous year can be broken down as follows:

ADLER Group In EUR '000 – 3 Monate/Q2	Rental		BCP		Other		Group	
	2018	2017	2018	2017	2018	2017	2018	2017[1)]
Gross rental income and income from the sale of properties	82,485	67,650	37,413		46	46	119,944	67,696
– of which gross rental income	72,056	62,307	26,537	-	46	46	98,639	62,353
– of which income from sales	10,429	5,343	10,876	-	0	0	21,305	5,343
– of which income from brokerage	0	0	0	-	0	0	0	0
Change in the value of investment property	123,116	27,731	1,108	-	0	0	124,224	27,731
EBIT	**138,296**	**49,135**	**17,164**	**-**	**-53**	**-160**	**155,407**	**48,975**
Income from investments accounted for using the equity method	0	0	0	-	0	0	263	0
Financial result	**-36,018**	**-22,913**	**-1,655**	**-**	**14**	**5**	**-37,264**	**-22,908**
Earnings before taxes (EBT)	**102,278**	**26,225**	**15,509**	**-**	**-39**	**-156**	**118,406**	**26,069**

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

Segment assets, segment liabilities and segment investments were structured as follows as at 30 June 2018:

ADLER Group In EUR '000 as at 30 June 2018	Rental	BCP	Other	Consolida-tion	Group
Segment assets	3,528,645	1,845,007	6,733	-7,001	5,441,349
Investments accounted for using the equity method	25	167	0	0	192
Total segment assets	**3,528,670**	**1,845,174**	**6,733**	**-7,001**	**5,441,541**
Non-current assets held for sale	0	0	0	0	12,639
Segment liabilities	**3,087,432**	**1,058,932**	**7,133**	**-7,001**	**4,146,496**
Segment investments	**47,887**	**5,547**	**0**	**0**	**53,434**

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

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

SELECTED NOTES ON THE CONSOLIDATED BALANCE SHEET

Investment properties

The carrying amount of investment properties amounted to EUR 4,830,252k as at the balance sheet date (31 December 2017: EUR 3,018,518k). This increase was chiefly due to EUR 1,616,552k for the acquisition of BCP, EUR 28,629k for investments in project development properties under construction, EUR 8,604k for the acquisition of the property company TGA Immobilien Erwerb 10 GmbH and measurement results of EUR 146,611k. These items were countered by disposals, including IFRS 5 reclassified items, amounting to EUR 6,826k.

Cash and cash equivalents

Cash and cash equivalents amounted to EUR 131,082k at the balance sheet date, as against EUR 368,233k at the end of the previous year. EUR 20,175k is subject to restraints on disposal (EUR 276,077k). ADLER can dispose of these resources, but they are intended for a special use. As at the end of the 2017 financial year, the amount primarily results from the funds deposited for the repurchase of promissory note loans.

Non-current assets held for sale

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

In the first quarter, an impairment of EUR 395k was recognised at fair value less costs to sell the shares. Owing to the increase in the fair value of the shares in the second quarter, the impairment was reversed in the amount of EUR 395k. ADLER has the option to sell the remaining holding in ACCENTRO to the buyer at the same price that had been agreed for its 80 percent holding. ADLER received a dividend of EUR 263k for the remaining share in ACCENTRO in the period under report.

The other non-current assets held for sale include properties recognised at a value of EUR 5,138k (31 December 2017: EUR 10,943k), for which notarial purchase contracts were available at the balance sheet date. Liabilities relating to the properties sold have accordingly been reported as liabilities held for sale. The disposal of the non-current assets held for sale in the previous year did not have any material impact on earnings, as the assets were already measured at fair value. This corresponded to the sale price for the properties less related expenses.

Shareholders' equity

The capital stock of ADLER AG amounted to EUR 57,672k as at 30 June 2018 (31 December 2017: EUR 57,548k) and is divided into 57,671,956 no-par ordinary shares (31 December 2017: 57,547,740) with one voting right per share.

Due to the exercising of conversion rights, capital stock increased by EUR 124k and the capital reserve increased by EUR 1,194k.

The company acquired 2,583,232 (31 December 2017: 1,391,902) treasury shares (including bonus shares) through share buyback programmes as at the reporting date. The nominal amount of the treasury stock thereby acquired has been deducted from share capital, while the acquisition costs in excess of the nominal amount have been deducted from net retained profit.

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

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

Liabilities for convertible bonds

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

In EUR '000	30.06.2018	31.12.2017
2013/2018 convertible bond	4,032	3,990
2015/2018 mandatory convertible bond	345	777
2016/2021 convertible bond	122,477	121,469
Total	**126,854**	**126,236**
– of which non-current	120,753	119,731
– of which current	6,101	6,505

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

Liabilities for bonds

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

In EUR´000	30.06.2018	31.12.2017
Bond 2013/2018	0	36,349
Bond 2015/2020	297,392	499,992
Bond 2017/2021	494,635	490,370
Bond 2017/2024	296,849	293,608
Bond 2018/2023	489,478	0
Bond 2018/2026	292,981	0
Bond BCP 2011/2020 (A)	44,515	0
Bond BCP 2013/2024 (B)	52,013	0
Bond BCP 2014/2026 (C)	40,141	0
Total	**2,008,004**	**1,320,319**
– of which non-current	1,974,919	1,277,640
– of which current	33,085	42,679

The 2013/2018 bond was due on April 3, 2018 and was paid back at its nominal value plus accrued, as yet unpaid interest.

In April 2018, ADLER successfully placed EUR 800 million of bonds with institutional investors in Europe. The bonds were issued in two tranches, the first with a volume of EUR 500 million and a term until April 2023 and the second with a volume of EUR 300 million and a term until April 2026. On average, the interest on the bonds overall is 2.3 percent. The net proceeds were largely used to refinance the bridging loan which ADLER had raised in connection with the acquisition of BCP. ADLER has also repurchased EUR 200 million 2015/2020 corporate bonds that bore interest at 4.75 percent.

As part of the acquisition of BCP, ADLER has acquired liabilities for bonds in three tranches with a total volume of EUR 124.3 million. Tranche A has a term up to 2020 and has a 4.8 percent interest rate. Tranche B has a term up to 2024 and has a 3.29 percent interest rate. Tranche C has a term up to 2026 and has a 3.3 percent interest rate. The interest rate and the amortizement of the three tranches is also linked to the development of the Israeli Consumer Price Index.

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

Financial liabilities to banks

Non-current financial liabilities to banks amounted to EUR 1,445,657k as at the balance sheet date (31 December 2017: EUR 749,188k). The increase is attributable to an amount of EUR 689,635k for the acquisition of BCP.

Current financial liabilities to banks amounted to EUR 121,548k as at the balance sheet date (31 December 2017: EUR 278,676k). The change compared to the end of the previous year is primarily due to two counter effects. As planned, promissory note loans amounting to EUR 225,550k (nominal) – which were bought back in January and February 2018 – were therefore reclassified from non-current to current financial liabilities as at 31 December 2017. Current financial liabilities increased by EUR 92,148k as a result of the acquisition of BCP.

SELECTED NOTES ON THE STATEMENT OF COMPREHENSIVE INCOME

Gross rental income

Gross rental income is structured as follows:

In EUR '000	6M 2018	6M 2017
Net rental income	109,138	82,589
Income from recoverable expenses	56,242	43,695
Other income from property management	1,332	995
Total	**166,712**	**127,279**

At EUR 19,668k, net rental income is attributable to an amount of EUR 6,870k from the income from recoverable expenses and EUR 0k from the business of BCP.

Expenses from property lettings

Expenses from property lettings are broken down as follows:

In EUR '000	6M 2018	6M 2017
Apportionable and non-apportionable operating costs	60,445	56,891
Maintenance	9,466	10,043
Other property management expenses	253	649
Total	**70,164**	**67,583**

The operating costs amounting to EUR 8,082k, resulted from EUR 821k from maintenance expenses, EUR 0k from the business of BCP.

Income from the sale of properties

Income from the sale of properties is structured as follows:

In EUR´000	6M 2018	6M 2017
Income from the disposal of inventory properties	10,839	0
Income from the sale of investment properties	13,543	13,956
Brokerage revenue	0	0
Total	**24,382**	**13,956**

Expenses from the sale of properties

Expenses from the sale of properties are structured as follows:

In EUR´000	6M 2018	6M 2017
Carrying amount of disposed inventory properties	8,316	0
Carrying amount of disposed investment properties	12,638	13.455
Cost of disposal	309	168
Purchased services for brokerage revenue	0	0
Total	**21,263**	**13.623**

The retirements of inventory properties are attributable to the project development of BCP.

Income from fair value adjustments of investment properties

Income from fair value adjustments of investment properties amounted to EUR 146,611k (previous year: EUR 35,408k) and comprises income of EUR 150,370k from fair value adjustments (previous year: EUR 45,142k) and expenses of EUR 3,759k for fair value adjustments (previous year: EUR 9,733k).

Financial costs

Financial costs are structured as follows:

In EUR '000	6M 2018	6M 2017
Interest expenses for bank loans	27,637	19,853
Interest expenses for bonds	23,532	17,188
Interest expenses for convertible bonds	4,159	4,488
Adjustment of shares conwert (OCI)	0	1,589
Other	41,143	4,130
Total	**96,471**	**47,248**

The interest expenses for bank loans include transaction costs of EUR 4,719k that required immediate recognition as expenses due to the early repayment of promissory note loans. This also includes transaction costs of EUR 9,313k that required immediate recognition as expenses due to the early repayment of the bridging loan.

Other financial costs include prepayment penalties of EUR 32,717k (previous year: EUR 2,140k) for early repayments of promissory note loans with higher interest rates and for early repayments of bonds amounting to EUR 8,770k (previous year: EUR 1,960k).

Earnings after taxes from discontinued operations

In EUR ´000	6M 2018	6M 2017
Income from property lettings	0	3,826
Expenses from property lettings	0	-1,061
Earnings from property lettings	**0**	**2,765**
Income from the sale of properties	0	38,858
Expenses from the sale of properties	0	-27,927
Earnings from the sale of properties	**0**	**10,931**
Personnel expenses	0	-1,439
Other operating income	0	1,198
Other operating expenses	0	-2,207
Income from fair value adjustments of investment properties	0	0
Depreciation and amortisation	0	-298
Earnings before interest and taxes (EBIT)	**0**	**10,950**
Financial income	395	40
Financial expenses	-395	-3,111
Income from at-equity valued investment associates	263	0
Earnings before taxes (EBT)	**263**	**7,879**
Income taxes	0	-1,882
Earnings after tax from discontinued operations	**263**	**5,988**

Earnings per share

Earnings per share are structured as follows:

	6M 2018 Continuing operations	6M 2018 Discontinued operations	6M 2018 Total
Consolidated net earnings (in EUR ´000)	65,260	263	65,523
Consolidated net earnings without non-controlling interests	53,299	263	53,562
Expenses including deferred taxes on convertibles	2,924	0	2,924
Consolidated net earnings without non-controlling interests (diluted)	56,223	263	56,486
Number of shares (in thousands)			
Weighted number of subscribed shares	66,908	66,908	66,908
Effect of conversion of convertibles	12,089	12,089	12,089
Weighted number of shares (diluted)	78,997	78,997	78,997
Earnings per share (in EUR)			
Basic earnings per share	0.80	0.00	0.80
Diluted earnings per share	0.71	0.00	0.72

	6M 2017 Continuing operations	6M 2017 Discontinued operations	6M 2017 Total
Consolidated net earnings (in EUR ´000)	15,673	5,998	21,671
Consolidated net earnings without non-controlling interests	12,453	5,154	17,607
Expenses including deferred taxes on convertibles	484	0	484
Consolidated net earnings without non-controlling interests (diluted)	12,937	5,154	18,091
Number of shares (in thousands)			
Weighted number of subscribed shares	64,445	64,445	64,445
Effect of conversion of convertibles	1,444	1,444	1,444
Weighted number of shares (diluted)	65,889	65,889	65,889
Earnings per share (in EUR)			
Basic earnings per share	0.20	0.07	0.27
Diluted earnings per share	0.20	0.07	0.27

DISCLOSURES ON FINANCIAL INSTRUMENTS AND FAIR VALUE DISCLOSURES

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

31.12.2017 In EUR ´000	Category according to IAS 39
Assets	
Loans to associated companies	lar
Other financial investments	afs
Other non-current assets	lar
Trade receivables	lar
Other current assets	lar; afs
Cash and cash equivalents	lar
Liabilities	
Financial liabilities to banks and (convertible) bonds	flac
Trade payables	flac
Other liabilities	flac, lafv
of which aggregated by IAS 39 categories	
Loans and receivables	lar
Available-for-sale financial assets	afs
Financial liabilities at fair value through profit or loss	lafv
Financial liabilities carried at cost	flac

Abbreviation	Category
lar	Loans and receivables
aafv	Financial assets at fair value through profit or loss
afs	Available-for-sale financial asset
flac	Financial liabilities measured at amortised costs
lafv	Financial liabilities at fair value through profit or loss
lafvoci	Financial liabilities at fair value through other comprehensive income

Total carrying amount	Carrying amount of financial instruments	Amortised cost	Fair value directly to equity	Fair value through profit or loss	Impairment losses IAS 39
0	0	0	0	0	–3,603
28	28	0	28	0	0
205	205	205	0	0	0
10,717	10,717	10,717	0	0	–61,551
243,508	241,276	223,171	18,105	0	–58
368,233	368,233	368,233	0	0	0
2,475,248	2,475,248	2,475,248	0	0	–
29,125	29,125	29,125	0	0	–
64,308	57,999	44,648	0	13,351	–
–	602,326	602,326	0	0	–65,212
–	18,133	0	18,133	0	0
–	13,351	0	0	13,351	–
–	2,549,021	2,549,021	0	0	–

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

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

The classification of financial instruments required in accordance with IFRS 7 was unchanged compared with 1 January 2018. There were no reclassifications within the categories of financial instruments or the fair value hierarchy levels in the period under report. The financial instruments acquired from BCP have already been recognised at fair value as part of the first-time consolidation and have been allocated according to the Group's previous classification.

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

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

OTHER DISCLOSURES

Related party disclosures

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

Financial risk management

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

In the course of the acquisition of BCP, ADLER took over three bonds (series A, B and C) issued in New Israeli Shekel (NIS) and linked to the Consumer Price Index (CPI) for Israel. The carrying amount of these instruments as per 30.06.2018 amounts to EUR 136,588k. As there are no matching assets with such characteristics in Adler Group, ADLER is exposed to the foreign exchange risk for the currency pair EUR/NIS as well as to a fluctuation in the CPI. The changes in these factors can lead to an increase in interest payments and principal repayments of the bonds.

Events after the balance sheet date

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

/// AFFIRMATION BY THE LEGAL REPRESENTATIVES

"We hereby affirm to the best of our knowledge, pursuant to the applicable accounting principles for interim financial reporting, that these interim consolidated financial statements convey a true and fair view of the Group's financial, earnings and liquidity position, that the course of business, including the results of operations and the position of the Group, is represented in the interim consolidated management report in such a manner as to convey a true and fair view and that all essential opportunities and risks foreseeable for the Group in the remainder of the financial year are described."

Berlin, 30 August 2018

Tomas de Vargas Machuca Vorstand	Maximilian Rienecker Vorstand	Sven-Christian Frank Vorstand

/// LEGAL REMARK

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

/// GLOSSARY

EBIT

Earnings before Interest and Tax

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

EBITDA

Earnings before Interest, Tax, Depreciation and Amortisation

Defined as operating earnings (earnings before interest and taxes) plus depreciation and amortisation, or as earnings before interest, taxes, depreciation and amortisation. This key figure is unaudited. Potential investors should note that EBITDA is not a uniformly applied or standardised key figure and that its calculation may vary widely from company to company. Taken alone, EBITDA therefore does not necessarily provide a basis for comparison with other companies.

Adjusted EBITDA

EBITDA adjusted to exclude the result of measurement of investment property, associates measured at equity results and one-off and non-recurring items – an indicator of operating earnings excluding measurement and special items. (One-offs and non-recurring items comprise non-cash expenses and earnings, special payments, acquisition projects and integration expenses, expenses for refinancing and capital increases, as far as they have not been considered under capital procurement expenses as well as expenses for the optimisation of the business model.)

FFO I

Funds from Operations I

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

EPRA

European Public Real Estate Association

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

EPRA – NAV

Net asset value based on EPRA

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

LTV

Loan-to-value

Ratio of net financial liabilities (financial liabilities net of cash, non-current assets held for sale, purchase price receivables, advance payments and liabilites associated with assets held for sale) to gross asset value – an indicator of financial stability.

Swap

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

Dilution of shares

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

WACD

Weighted average cost of debt

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

/// AT A GLANCE

Supervisory Board	
Dr Dirk Hoffmann	Chairman of the Supervisory Board
Thilo Schmid	Vice Chairman of the Supervisory Board
Claus Jorgensen	Member of the Supervisory Board
Management Board	
Tomas de Vargas Machuca	Member of the Management Board (Co-CEO)
Maximilian Rienecker	Member of the Management Board (Co-CEO)
Sven-Christian Frank	Member of the Management Board (COO)
Company Facts	
Legal domicile	Berlin Charlottenburg, Berlin HRB 180360 B
Address	ADLER Real Estate Aktiengesellschaft Joachimsthaler Straße 34 10719 Berlin Phone: +49 30 39 80 18 – 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
Capital stock	EUR 57,671,956[1)]
Classification	57,671,956[1)] no-par value shares
Arithmetical value	EUR 1 per share
Voting right	1 vote per share
Identification	WKN 500 800 ISIN DE0005008007 Ticker symbol ADL Reuters ADLG.DE
Designated sponsors	ODDO SEYDLER BANK AG HSBC Trinkaus & Burkhardt AG
Stock exchanges	Xetra, Frankfurt am Main
Indices	SDAX, CDAX, FTSE EPRA/NAREIT Global Real Estate Index, GPR General Index, DIMAX
Financial year	Calendar year

1) As at 30 June 2018

ADLER REAL ESTATE AKTIENGESELLSCHAFT
Berlin-Charlottenburg

Registered Office Location:
Joachimsthaler Straße 34
10719 Berlin
Phone: +49 30 398018 – 10
E-Mail: info@adler-ag.com

www.adler-ag.com