ADLER
REAL ESTATE

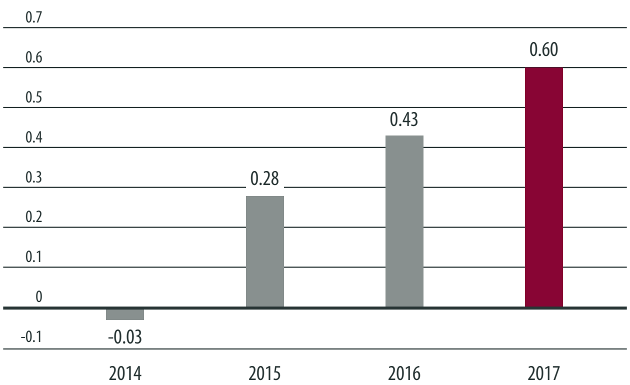
Annual Report /// 2017

/// KEY FINANCIAL FIGURES

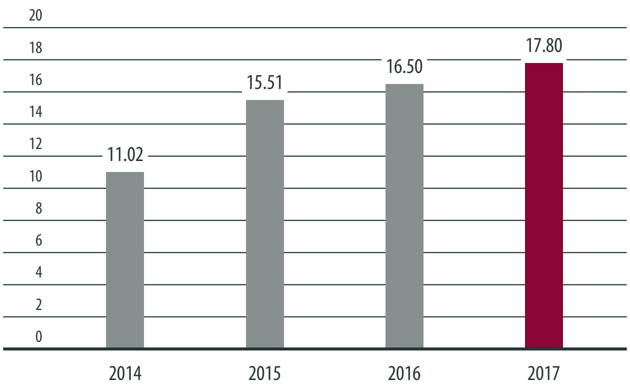
In EUR millions Consolidated Statement of Income	2017	2016
Net rental income	170.3	160.9 [3]
Earnings from property lettings	125.8	109.0 [3]
Earnings from the sale of properties	0.8	-0.5 [3]
EBIT	311.8	268.5 [3]
Consolidated net profit from continuing operations	106.4	112,8
Consolidated net profit	142.6	133.8
FFO I	40.5	27.3
FFO I per share in EUR [1]	0.60	0.43
FFO II	53.1	55.3
FFO II per share in EUR [1]	0.78	0.86
Consolidated Balance Sheet	**31.12.2017**	**31.12.2016**
Investment Properties	3,018.5	2,442.0
EPRA NAV	1,207.2	1,058.4 [3]
EPRA NAV per share in EUR [1]	17.80	16.50 [3]
LTV in % [2]	58.1	60.7 [3]
LTV II in % [2]	59.4	55.3 [3]
Cashflow	**2017**	**2016**
Net cash flow from operating activities	36.3	100.6
of which from continuing operations	66.2	80.2
Net cash flow from investing activities	212.7	-79.5
of which from continuing operations	212.8	-80.7
Net cash flow from financing activities	-4.7	53.4
of which from continuing operations	-17.3	56.2
Employees	**31.12.2017**	**31.12.2016**
Number of employees	555	354
FTEs (Full-time-equivalents)	507	319

[1] based on the number of shares outstanding as at balance sheet date plus shares from assumed conversion of mandatory bond which is considered as equity, previous year´s figures adjusted according to IAS 33.64, see notes (9.15 Earnings per share)
[2] excluding convertible bonds
[3] Adjusted due to sale of trading, see comments in combined management report (3. Results from operations, net assets and financial position) and notes (2.1 Basis of reporting)

FFO I/SHARE in EUR



EPRA NAV/SHARE

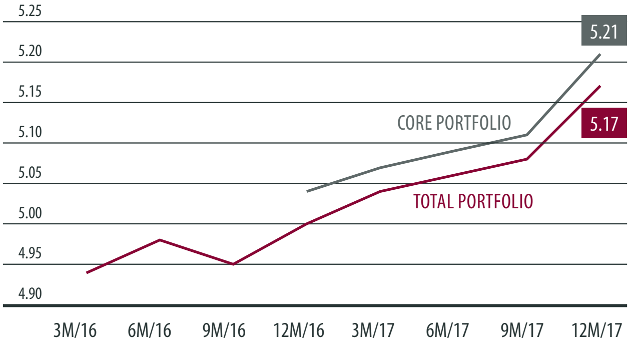


/// Priorities in 2017

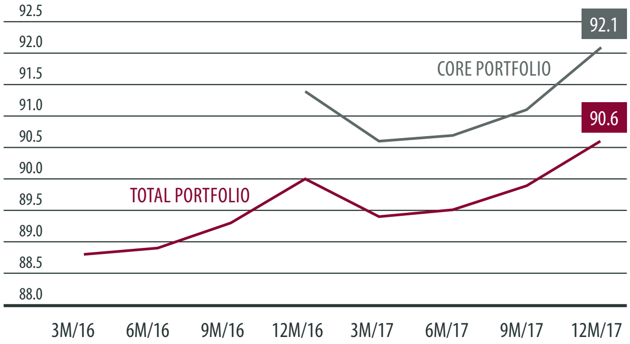
- The operational reorganisation of the Group's Asset and Property Management capabilities to become an integrated property group by insourcing property and facility management.
- The further refinancing of higher-interest liabilities, thereby increasing FFO and other KPI's such as Interest Coverage Ratio and the consequent rating inprovement.
- Continued growth through acquisition of several smaller portfolios.
- Streamlining of the business model by divesting the Group's privatising unit ACCENTRO with the aim to focus on the letting of the existing properties and on tenant-related services.

/// PROPERTY FIGURES

AVERAGE RENT* in EUR/sqm/month



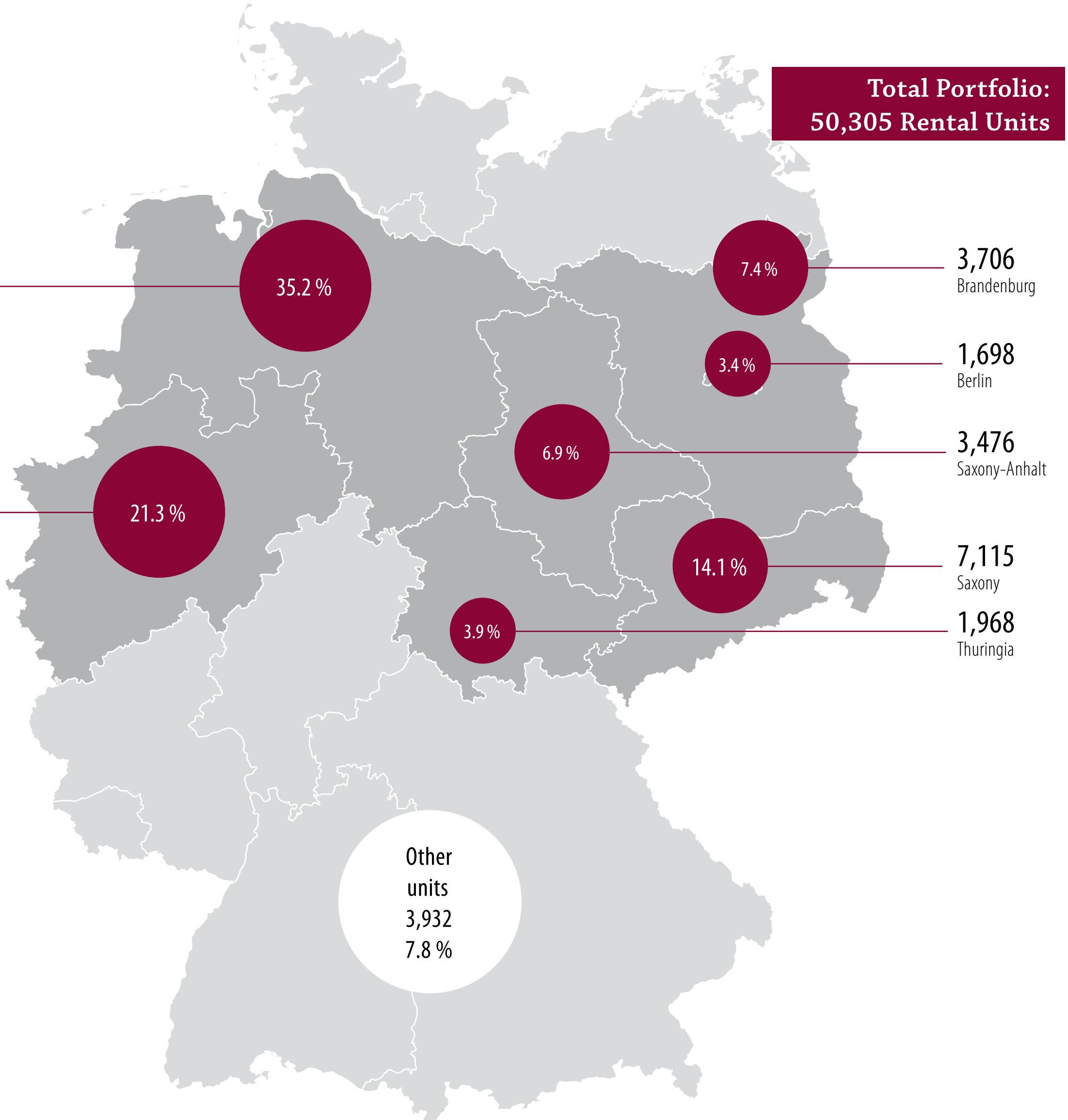
OCCUPANCY RATE* in %



* Core portfolio reporting started at the end of 2016 only

Rental units

as at 31.12.2017



/// CONTENT

/// THE GROUP MANAGEMENT

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

Tomas de Vargas Machuca, born 1974 in London and holder of a Master of Science (MSc) in Economics from Bocconi University in Milan (Italy), has assumed the role of Co-CEO together with Maximilian Rienecker as at 22nd December 2017. de Vargas Machuca has been with ADLER since 2013 as Chairman of the Executive Committee and as such in charge of the capital market activities. He calls on more than 15 years of experience in the European real estate business, 10 of which he spent in senior positions in banking (UBS and Credit Suisse) including private equity, financing and investments.

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

Maximilian Rienecker, born in 1985 in Hamburg and a holder of Master of Science in Management with distinction from the University of Nottingham, has assumed the role of Co-CEO as at 22nd December 2017 together with Tomas de Vargas Machuca. Rienecker has been with ADLER since February 2017, when he was appointed Head of Corporate Finance and Strategy. He calls on more than 4 years of experience in the real estate industry after roles in Sales & Marketing at ING Investment Management in Hong Kong and in Corporate Strategy and M&A at SBM Offshore in Monaco.

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

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

CARSTEN WOLFF

Head of Accounting and Finance and Member of the Executive Committee

Carsten Wolff, a businessman who was born in Cologne in 1960, has been in charge of the accounting and finance department at ADLER Real Estate AG since early 2003. As such, he is the longest-serving current member of the Management at ADLER. He previously worked at Deutsche Steinzeug Cremer & Breuer AG for many years, where his latest position was as head of internal audit.

PEER HOFFMANN

Head of Financing and Member of the Executive Committee

Peer Hoffmann, born 1983 in Berlin, holds a diploma in International Economics from the University of Innsbruck and a Master of Science in International Relations from the Institut Barcelona d'Estudis Internacionals. Since 2014, he has been head of financing with responsibility for financing concepts and structruring of new financings. Before working for ADLER, he successfully completed a traineeship in the financial markets & corporates section of BHF Bank/Frankfurt and for several years advised midsized companies in their financing requirements.

FLORIAN SITTA

Head of Legal and Member of the Executive Committee

Florian Sitta, born in Hamburg in 1975, is a fully qualified lawyer and, since 2002, accredited lawyer. He received his legal education in Kiel, Duesseldorf and New York. He has long-standing experience as head of legal in quoted companies, in particular in capital markets and stock corporation law, company law and e-commerce.

/// LETTER FROM THE MANAGEMENT BOARD

Ladies and Gentlemen,

As we had intended, we essentially focused on three main objectives in 2017: our operational reorganisation as an integrated property group focussing on the letting of our property portfolio, the return to moderate growth and the reduction of net interest by refinancing higher-interest liabilities. In order to focus exclusively on our business model, we sold the majority of our stake in the trading platform ACCENTRO Real Estate AG.

We began our transformation into an integrated property group in 2015 and largely completed this process in 2017. We are now able to offer our tenants all tenant-related services from a single source: the Group Company ADLER Wohnen Service GmbH has assumed the responsibility for property management, ADLER Gebäude Service GmbH is in charge of facility management, and ADLER Energie Service GmbH began handling energy services for our property holdings as of the beginning of 2018. In addition, tenants can now communicate with their ADLER contacts directly and easily using the newly launched tenant app. A uniform IT infrastructure facilitates administration within the company itself – an achievement that was only made possible by taking over all key services. The integration of the Group followed the idea of a regional structure within the operating units, which has been successfully completed and is increasingly proving its value in daily business.

However, we will not deny that assuming property management from our former external service providers caused more friction than anticipated, as it had to be implemented in our organisation, which was still being built up in 2017. As a result, the occupancy rate did not increase in line with what was originally planned, but it should be noted that occupancy was the only key performance indicator that fell short of our targets for 2017.

Growth – this was made possible in 2017 thanks to the acquisition of three smaller portfolios with a total of 3,400 units. As a result, our overall property portfolio has grown by approx. 7 percent during the year. New portfolios have to fit with our business model, which means offering affordable housing for people on average or low incomes on the outskirts of conurbations. As a Group that now provides all tenant-related services independently, we value portfolios that, in terms of their regional location, fit well into the structures of portfolio and facility management that we set up last year. This way, we can achieve the economies of scales that we are aiming for with internalisation: better utilisation of in-house staff capacity and an improved quality of tenant support.

However, when looking for acquisition opportunities this year, we also found that the strategy of growing solely by buying portfolios is now starting to become significantly more expensive, as many more buyers are willing to invest in the same asset class at much tighter yields. Fewer and fewer portfolios are available on the market, and most have significantly higher asking prices than in 2016 and 2015. In such circumstances, development, densification or loft-conversion projects seem to be more attractive alternatives for creating sustainable growth and value. In 2017, we therefore started to pay more attention to these issues – to supplement our existing business model rather than replace it. This includes, for example, expanding our residential estate in Göttingen by more than 200 units, for which we have applied for planning permission. We have also bought a completely planned project in Berlin-Mitte, which comprises approx. 700 new built apartments and is expected to be completed by 2020 at the latest.

These measures allow us to grow from within, making us less dependant on the different offerings available through traditional property transactions – a market which we also became less exposed to by selling, ACCENTRO Real Estate AG, our trading and privatisation arm, near the end of the year. The sale not only reduced the volatility of our business but also enabled us to focus our business model on a single activity: long-term ownership and management of affordable housing available for letting. The sale of ACCENTRO Real Estate AG also triggered a one-notch rating improvement from S&P (From BB- to BB) as the streamlining of the business model to buy and hold is perceived as less risky.

We have also put a lot of hard work into reducing debt and refinancing higher-interest liabilities with lower-interest ones. To this end, we implemented various measures during the year, including issuing a corporate bond of EUR 800 million, which was the second-largest bond of all German property companies in 2017 and the largest by companies with the same rating as ADLER in Europe. We are using the proceeds from the bond to replace most of our promissory notes. These liabilities were cross-collateralised and secured by first-ranking mortgages and therefore severely restricted the options for selling assets deemed or categorised as Non-Core included in our overall property portfolios. These restrictions now no longer apply, so that we are at greater liberty to dispose of our assets. Hopefully, we will be able to finally sell large part of our non-core properties in 2018 – as we have been planning for some time. In addition, the refinancing of promissory notes reduces the weighted average cost of debt by more than we had originally anticipated. Finally, we have seen a further improvement in our rating (BB to BB/Positive Outlook) and therefore taken a big step towards becoming investment grade. This cannot be valued highly enough, because not only does it mean that we will be able to access debt at tighter spreads but, more importantly, that we will have access to a debt market that is far more liquid than that of High Yield, with the result of minimising refinance risk, which is a key industry risk with all participants.

With all these measures and efforts, ADLER Real Estate AG has made 2017 a year of success and achieved all its targets – with the one exception described above. As planned, net rental income on a like-for-like basis increased by 3.4 percent to EUR 177 million, FFO I by a significant almost 50 percent to EUR 40.5 million, EPRA NAV by almost 20 percent to EUR 1,210 million already reduced by approximately EUR 85 million expense incurred as a result of having to pay the make whole amounts due during the EUR 800 million refinancing. LTV II was reduced to 59.4 percent. All these comparisons need to take into account that original plans did not include the sale of ACCENTRO, so comparisons are made against pro forma 2016 figures, which assume ACCENTRO had already been sold in the beginning of the year. LTV is meanwhile computed following the methodology common in the industry as net debt over gross asset value.

In late December 2017, the Supervisory Board decided to appoint a new Management. The new team took over responsibility at the end of the reporting year. Arndt Krienen, the former Chief Executive Officer and Chairman of the Management Board left the Board. We would like to take this opportunity to thank him for all his efforts. We, Tomas de Vargas Machuca and Maximilian Rienecker, have both been newly appointed as the company's Co-CEOs. We have both been with the company for some time – Tomas has served as the long-term chairman of the executive committee, discussing and preparing key decisions, and as acting chief financial officer. Maximilian has been the head of Corporate Finance and Strategy and, previously, a consultant. He has accompanied ADLER for many years. Sven-Christian Frank, member of the Board since June 2016, has maintained his duties as COO unchanged.

The new structure of the Management Board certainly stands for a more dynamic value-creation orientation which will guide ADLER in the years ahead. The start-up phase lasted until 2015 and the consolidation phase will be concluded this year. What will matter in the coming years is satisfying the demands of the capital market. And here we still have a lot of catching up to do with respect to our competitors.

At the same time, however, the newly formed Management Board also stands for stability and operating efficiency. ADLER Real Estate AG's business model and focus are not up for discussion. ADLER will therefore remain an integrated property group that runs its own property and facility management and intends to keep on growing.

In 2018, ADLER expects the new management team to deliver on a more dynamic and value-creative approach, be it through acquisitions, capital market activities or property-related performance and cost optimization. As in 2017, ADLER expects further growth in 2018. According to current planning net rental income is expected to increase by approx. 25 percent year-on-year to EUR 210-220 million, partly due to the acquisition of Brack Capital Properties N.V., partly due to the expectation that both average rent and the occupancy rate will rise. FFO I is set to increase much faster by approx. 65 percent to between EUR 65 and 70 million, as we are anticipating the impact from the Brack Capital acquisition, operational improvements and a considerable decline in our interest expenses. EPRA NAV is expected to increase significantly, the extent to which, however, depends largely on fair-value adjustments, which are hard to predict.

We would like to conclude with just a few further remarks concerning unrelated matters. For 2017, ADLER prepared EPRA reporting for the second time as part of the Annual Report. Last year´s EPRA report had already been awarded EPRA's "Silver Level". In addition, EPRA presented ADLER with the "Most Improved Best Practices Recommendation" award in financial reporting. We are delighted to have received these awards, as they show that ADLER excellently lives up to industry standards in terms of transparency and capital market orientation. The same can be said for the requirements of non-financial reporting that ADLER published separately from its annual report for the first time in 2017. ADLER was not under any obligation to do so for 2017 as it did not yet meet the necessary requirement of employing more than 500 people on average over two consecutive years. However, as social aspects and environmental issues are in shareholders' interests, it certainly seems desirable to report on them. Finally, the 2017 Annual Report for the first time combines the consolidated financial statements and the financial statements of the holding company in one report. ADLER is thereby complying with the requests for greater transparency repeatedly expressed by its shareholders.

Yours sincerely,

Tomas de Vargas Machuca
Co-CEO

Maximilian Rienecker
Co-CEO

Sven-Christian Frank
COO

In 2017, ADLER spent a total of EUR 55.4 million on maintenance and modernisation – which equates to EUR 17.60 per square meter – particularly increasing the spending on renovation and modernisation.

/// Portfolio

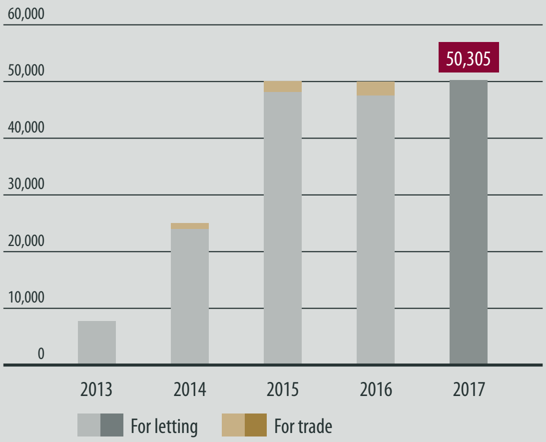
/// PORTFOLIO

After the sale of its trading activities, ADLER Real Estate AG pursues but one business objective: letting permanently held properties. Accordingly, ADLER no longer holds properties specially held for trading. In the balance sheet, the properties let out permanently are recognised at fair value under "investment properties". At the end of 2017, ADLER Real Estate AG held a total of 50,305 rental units, which are located on 2,251 individual premises.

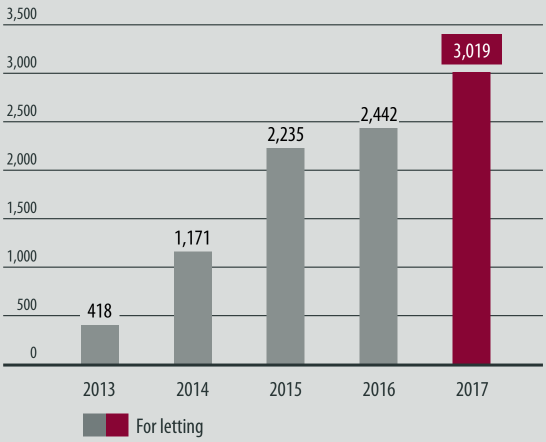
Focus on residential property

ADLER essentially sees itself as a provider of rented apartments. Consistent with this approach, these account for 49,256 units and thus 97.9 percent of the properties held for permanent letting. Nevertheless, the overall portfolio also includes a small share of commercial units. In a certain sense, these are a by-product, as some of the inner-city residential properties also include shop or office space. There were 1,049 such units at the end of 2017, accounting for a 2.1 percent share of the portfolio of properties held for permanent letting.

PORTFOLIO in Units



FAIR VALUE INVESTMENT PROPERTIES in EUR millions



Property holdings expanded through acquisitions

The number of rental units for permanent letting increased by 5.6 percent in 2017. 834 rental units were sold as a result of measures taken to streamline the portfolio. The holdings were augmented in particular through the acquisition of several portfolios, comprising 701 units in the Bremen area in the first quarter, 192 units in Senftenberg/Brandenburg in the second quarter and 2,505 rental units with an emphasis on fast-growing locations in North Rhine-Westphalia, Lower Saxony and Bremen, which were acquired in the third quarter. ADLER has thus met the objective it set itself of moderately expanding its portfolio.

Portfolio realignment	31.12.2017			31.12.2016
		Divestments	Additions	
Rental portfolio (#)	50,305	834	3,499	47,640
of which residential units	49,256	709	3,438	46,527
of which commercial units	1,049	125	61	1,113
Units for privatisation		2,422		2,422

“Non-core” portfolio to be sold

ADLER Real Estate AG intends to dispose of holdings that are economically weak or no longer fit its business model. To identify these “non-core” holdings to be sold, ADLER regularly reviews its holdings within its portfolio management activities. This initially involves evaluating individual properties in terms of their inherent qualities, i.e. to determine the volume of maintenance and renovation expenses required to ensure a quality consistent with market standards. The second assessment criterion adopted involves external market and location factors, such as socio-demographic trends, expected changes in demand, infrastructure measures of all kinds. It also includes political decisions, such as restrictions on contractual rental prices, the tax treatment of property or measures to promote new construction.

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

As of the reporting date, the company had specific intentions to sell a total of 4,126 rental units, corresponding to 8.2 percent of its existing portfolio. ADLER had intended to sell a greater part of these units in 2017 and had initiated a structured sales purpose with an external partner for this purpose. It had also received initial indicative offers in the fourth quarter, but they did not lead to an actual sale. The aim of disposing of significant portions of this “non-core” portfolio will therefore not be achieved until the 2018 financial year. The following table presents the key performance data and average market values of the “non-core” portfolio compared with the figures for the core portfolio (core properties).

STRENGTHENING OF THE CORE PORTFOLIO

31. December 2017	Total	Core	Non core
Rental units (#)	50,305	46,179	4,126
Average rent/sqm/month in EUR	5.17	5.21	4.79
Occupancy rate in %	90.6	92.1	77.4
Market value/sqm in EUR	896	928	595
NRI-Multiple (x)	15.93	16.14	13.39

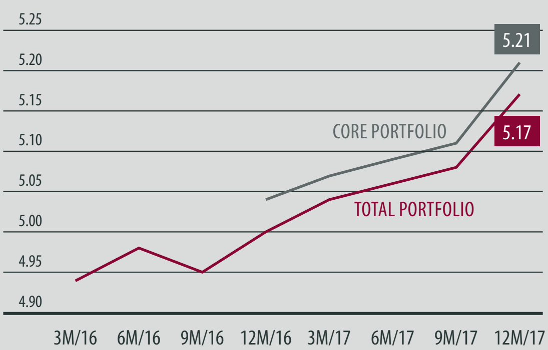
On average, the units held for sale in the non-core portfolio have significantly lower occupancy rates, generate lower rental income and, accordingly, have lower market values per square metre. When properties no longer forming part of the core portfolio are sold, ADLER typically uses the disposal proceeds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

Operating performance data – substantial rise in average rent

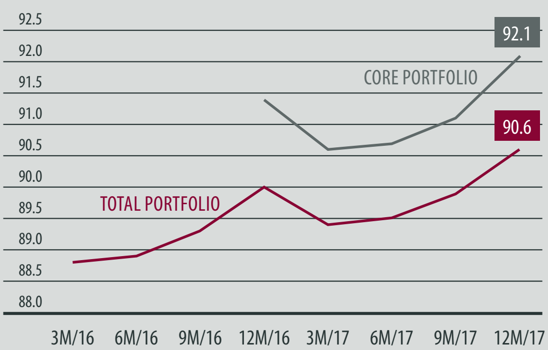
The Group further improved its key performance data in 2017. At the end of the period under report, the average contractually agreed rent per square metre per month for the overall portfolio amounted to EUR 5.17, EUR 0.16 higher than the figure for the same period of the previous year (2016: EUR 5.01). In the core portfolio, the average rent per square metre per month amounted to EUR 5.21 at the end of 2017, up EUR 0.17 on the beginning of the year (EUR 5.04), when this performance indicator was ascertained for the first time. The average rent is already well above the level that ADLER had originally forecast for the year as a whole.

At 90.6 percent, the occupancy rate for the overall portfolio at the end of 2017 was also up year on year (2016: 90.0 percent). The occupancy rate in the core portfolio reached 92.1 percent at the end of 2017. This equates to an improvement of 0.7 percentage points since the beginning of the year, when this performance indicator was also ascertained for the first time (91.4 percent). However, ADLER has not yet met its own target for this key figure. This is mainly due to the fact that the massive transition of tenant support services from external service providers to internal group property and facility management at the beginning of the year gave rise to a certain volume of "friction losses" that had not been expected. These were initially reflected in a higher tenant turnover rate and a higher vacancy rate. Although this negative development has been partially rectified over the course of the year, the original targets were no longer achievable by the end of the year.

AVERAGE RENT* in EUR/sqm/month



OCCUPANCY RATE* in %



* Core portfolio reporting started at the end of 2016 only

The following table presents the changes for the core portfolio on a like-for-like basis, i.e. only for those properties that were in the portfolio both at the end of 2016 and at the end of 2017.

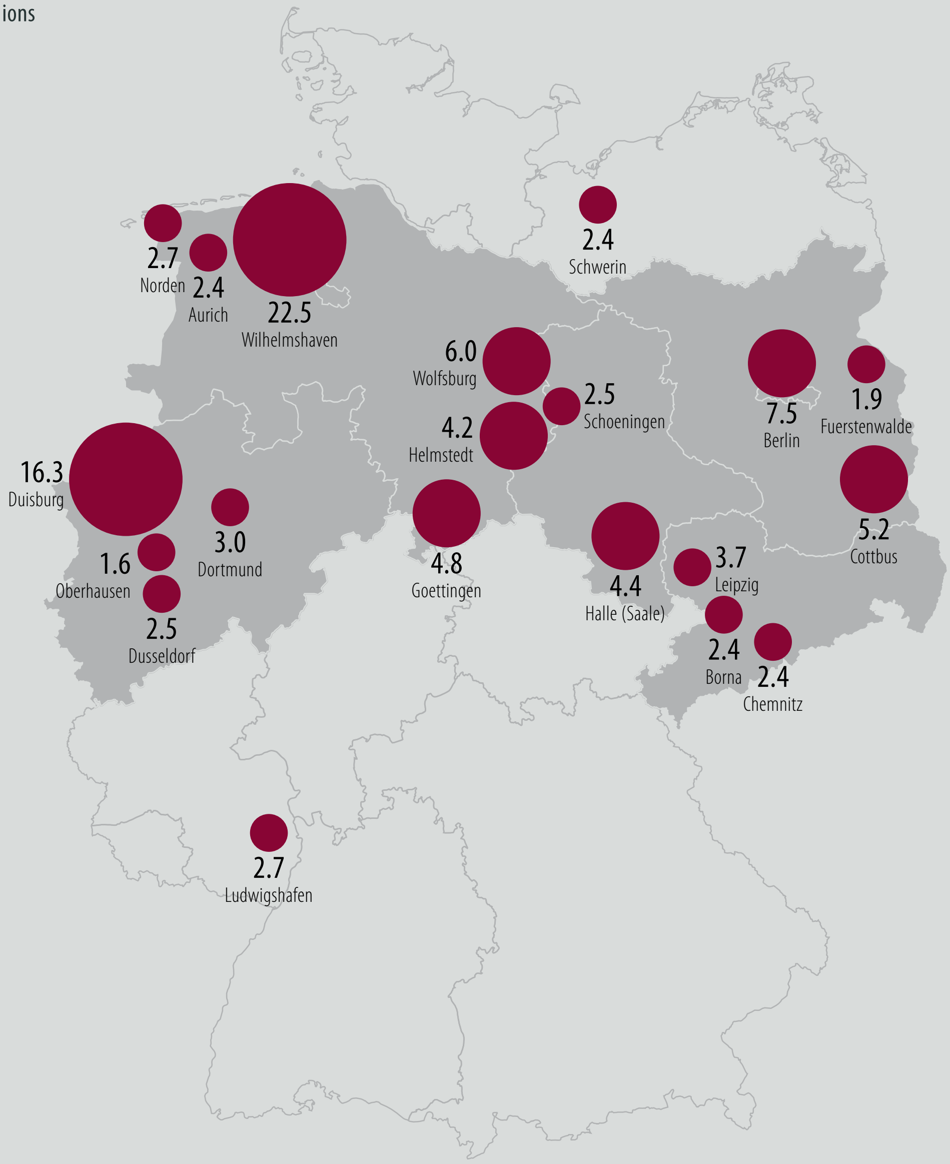
Core portfolio Like-for-like	Units (#)	Average rent in EUR/sqm/month	Change in %	Occupancy rate in %	Change in %
Total	42,421	5.21	3.7	92.1	0.09
Residential	41,735	5.17	3.8	92.4	0.17
Commercial	678	6.66	1.2	82.1	-2.59

Sharp rise in fair value

The fair value of the portfolio calculated in accordance with IFRS amounted to EUR 3,018.5 million at the end of 2017, as compared to EUR 2,442.0 million at the end of last year. This value growth was partly driven by the acquisition of property portfolios, partly by the fair value gains of the existing investment properties. ADLER expended EUR 55.4 million on maintenance and modernisation measures in 2017, more than in the previous year (EUR 43.9 million). This equates to EUR 17.60 per square meter. Of this total, EUR 22.5 million related to ongoing maintenance work and EUR 32.9 million to renovation and modernisation measures eligible for capitalisation. The comparison with the previous year, when EUR 27.5 million was spent on ongoing maintenance work and EUR 16.9 million on modernisation measures eligible for capitalisation shows clearly that expenses for renovation and modernisation have increased in particular. The additional expenses mainly relate to the vacancy refurbishment programme, which involved a total of 1,300 vacant apartments being fully renovated up to the end of 2017.

ANNUAL NET RENTAL INCOME TOP 20 LOCATIONS

In EUR millions



TOP 20 LOCATIONS

Location	Units	NRI (EUR m)	Area (Thou sqm)	Ø rent EUR/sqm/ month. 31.12.2017	Change against 31.12.2016	Occupancy rate (%) 31.12.2017	Change against 31.12.2016 (PP)
Wilhelmshaven	6,901	22.5	407.1	4.98	0.22	92.3	-0.16
Duisburg	4,146	16.3	260.1	5.33	0.13	97.9	0.39
Cottbus	1,868	5.2	110.0	4.62	0.10	85.6	0.79
Berlin	1,688	7.5	110.9	5.76	0.19	97.9	-0.51
Halle (Saale)	1,656	4.4	93.1	4.59	0.15	86.4	-0.76
Wolfsburg	1,300	6.0	87.5	5.99	0.60	95.0	-2.95
Helmstedt	1,219	4.2	70.7	5.12	0.15	95.7	0.76
Leipzig	1,167	3.7	70.9	4.55	0.19	95.4	2.20
Goettingen	1,139	4.8	76.1	5.46	0.59	96.8	3.49
Borna	900	2.4	50.1	4.59	0.03	85.4	-4.66
Chemnitz	862	2.4	54.0	4.71	0.03	77.5	-2.98
Schoeningen	846	2.5	50.2	5.06	0.28	80.5	0.66
Schwerin	816	2.4	48.0	4.68	0.37	90.7	0.16
Aurich	782	2.6	52.5	4.74	0.24	86.3	1.23
Dortmund	776	3.0	51.7	4.89	0.19	97.4	-0.12
Norden	747	2.7	46.8	5.06	0.37	95.3	-2.09
Fuerstenwalde	573	1.9	30.6	5.64	0.34	93.7	-2.87
Ludwigshafen	526	2.7	34.1	6.95	-0.03	93.8	-1.11
Duesseldorf	466	2.5	28.0	7.85	0.33	96.4	-0.78
Oberhausen	341	1.6	25.4	5.19	0.11	98.8	2.30
Top 20[1)]	**28,719**	**101.1**	**1,758.0**	**5.18**	**0.22**	**92.6**	**-0.15**
Total	**50.305**	**177.2**	**3,149.8**	**5.17**	**0.16**	**90.7**	**0.61**

[1)] Core portfolio only

Key focuses in north and west of Germany

ADLER limits its business activities to Germany and holds most of its properties in the northern and western parts of the country. More than half of ADLER's properties are in the federal states of Lower Saxony (35.2 percent of the overall portfolio) and North Rhine-Westphalia (21.3 percent of the overall portfolio). More than 40 percent of ADLER's portfolio are located in the eastern part of the country, with key focuses here in Saxony (14.1 percent), Brandenburg (7.4 percent) and Saxony-Anhalt (6.9 percent).

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

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

Top 20 locations generate almost two thirds of rental income

The focus on metropolitan regions outlined above also means that the properties in ADLER’s 20 most important towns and cities account for almost two thirds of the company’s total rental income. Wilhelmshaven is the Group’s most important location, with a net rental income per annum of EUR 22.5 million, followed by Duisburg with EUR 16.3 million, Berlin with EUR 7.5 million, Wolfsburg with EUR 6.0 million and Cottbus with EUR 5.2 million. ADLER does not play a significant role in the local housing markets in any of its top 20 locations apart from Wilhelmshaven, where almost one fifth of local housing belongs to the Group. This scale of dominance in a specific market is not automatically a disadvantage. That is apparent in the occupancy rate in Wilhelmshaven at the end of 2017, which at 92.3 percent was ahead of the group average.

Size of apartment	Number of residential units	Total units in %	Rent/sqm/ month in EUR
< 45 sqm	6,827	13.9	5.90
≥ 45 and < 60 sqm	16,804	34.1	5.07
≥ 60 and < 75 sqm	17,555	35.6	5.12
≥ 75 and < 90 sqm	6,338	12.9	5.06
> 90 sqm	1,732	3.5	4.90
Total	**49,256**	**100.0**	**5.15**

Focus on small to medium-sized residential units

Wherever ADLER is present, its portfolio largely comprises small to medium-sized residential units. The apartments have an average size of slightly more than 60 square metres and are thus well aligned to address the needs of the company’s target group, namely tenants with low to medium incomes. For ADLER, this alignment makes economic sense. Its properties satisfy the trend observed for some time now towards an ongoing increase in the number of single-person households in Germany. Moreover, the risk of tenants with low incomes defaulting on their rent payments is reduced as they can obtain support from social security providers if they are unable to settle their obligations from their own incomes. Furthermore, this category of affordable living space is now also in the sights of municipal and local councils on the lookout for permanent homes for refugees.

Customer orientation with in-house property and facility management

ADLER has set itself the target of offering its tenants virtually the whole range of residential services on an in-house basis, rather than via third-party service providers as in the past. To establish maximum direct contact with its tenants, in 2016 ADLER pooled its in-house property management activities into the newly founded company ADLER Wohnen Service GmbH. This company has now built up a regional structure which allows it to manage all group properties as has been the case since the beginning of 2018.

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

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

Programme to reduce vacancies extended

In mid-2016, ADLER initiated a programme to renovate 1,500 vacant residential units, most of which have long been vacant, in order to bring them back in line with market standards and thus reduce the vacancy rate. At the end of 2017, renovation work had been completed on a total of 1,300 apartments. Originally, the company had expected to renovate 1,500 apartments until the end of the 2017 business year. However, since the cost of renovation has lastly been higher than originally expected, the investment budget was exhausted before the target figure was reached. In most cases, renovation has involved replacing the flooring, completely renewing the bathrooms, redesigning the tiled sections in the kitchens, relaying electric cables and in some cases replacing doors and windows. Finally, the apartments were given a fresh coat of paint. Expenses of around EUR 11,000, slightly more than originally planned, have been incurred per apartment. Since the renovated apartments are easily let and the rental income generated from letting the apartments anew is – with an average rent of EUR 5.59/sqm/month – significantly higher than the group average and also ahead of ADLER´s expectations, the Group decided to continue the programme in a second tranche. It will follow seamlessly on from the first tranche and will be completed by the end of 2018. Investment funds of EUR 12 million have been made available once again for this purpose in order to renovate around 1,000 further apartments.

/// THE ADLER SHARE

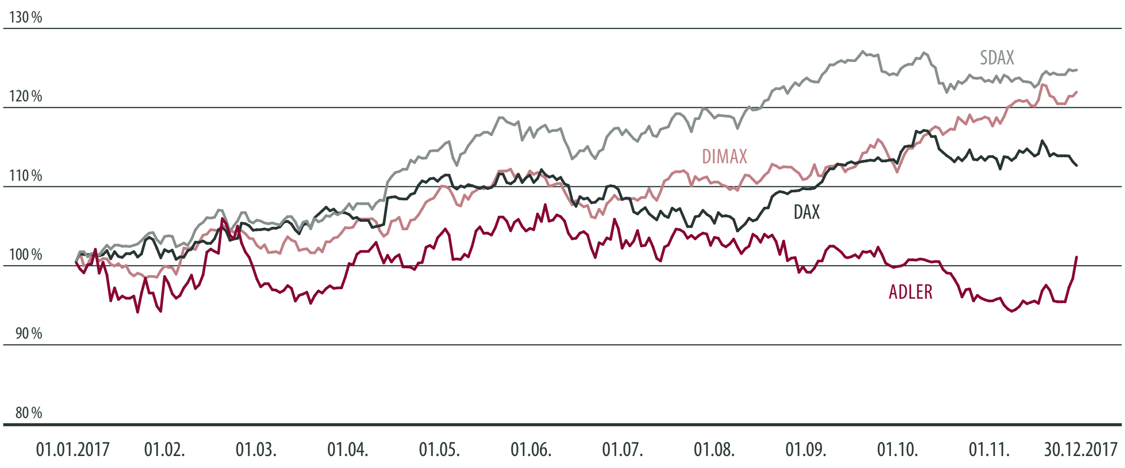
A banner year for shares

The German stock market performed exceptionally well in 2017. The DAX rose by slightly more than 11 percent in the period under review and ended the year only slightly below its November peak at almost 13,000 points. Over the same period, the SDAX – the index in which ADLER has been listed since June 2015 – rose by approx. 23 percent and thus twice as fast. At just under 12,000 points, this index also ended the year only slightly short of its record high from November 2017.

Property stocks performed very positively in 2017 as well. The Solactive DIMAX, the index comprising Germany's main listed property holding companies, was 21 percent higher at the end of the year than at the beginning. Property stocks thus performed almost as well as the SDAX and significantly better than the DAX.

The price of ADLER's shares fluctuated between EUR 12 and EUR 15 over the course of the year, ending it with an increase of around 2 percent and therefore only slightly higher than at the beginning of the year. However, it is key to note that during the Annual General Meeting on the 7th June, it was decided to grant shareholders bonus shares from company funds at a ratio of 10 to 1. These bonus shares were credited to shareholders on the 22nd of June. In purely mathematical terms, without this capital increase, the share price would have been 10 percent higher, putting it significantly closer to the average performance of all property stocks as tracked in the DIMAX.

PERFORMANCE OF DAX, SDAX, DIMAX AND THE ADLER SHARE 2017 | JANUARY 2017 =100



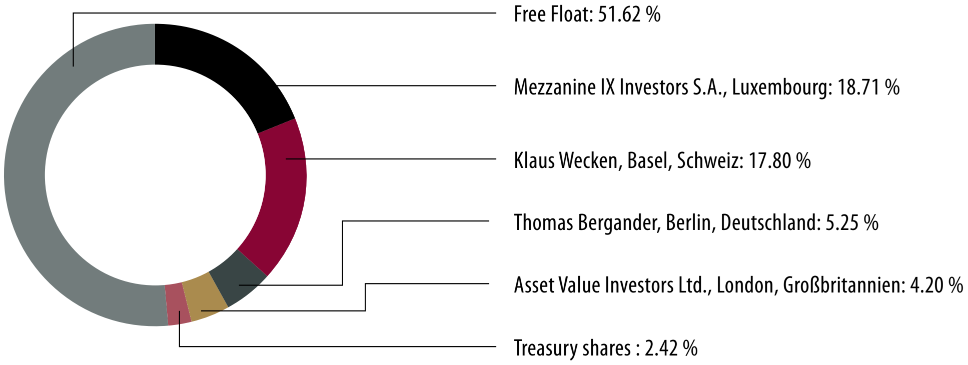
For its part, ADLER resolved to initiate a share buyback programme on the 16th of June, followed by two more later in the year. All in all, ADLER created a framework for acquiring its own shares for a total purchase price of up to EUR 30 million which was largely, but not fully, exhausted by the end of the year. Overall, 1,391,902 shares were acquired for a total price of EUR 18.5 million from June to the end of December. ADLER initiated the programmes because the shares are trading well below their intrinsic value (NAV per share), a difference in which ADLER sees good potential for appreciation.

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

The total number of voting rights in ADLER Real Estate AG was 57,547,740 as at 31 December 2017 compared to 47,702,374 voting rights at the beginning of 2017. This increase is essentially due to the issue of bonus shares (4,773,135 shares) and the conversion of the 2013/2017 convertible bond that matured in June (5,014,206 shares). Voting rights relating to the shares bought back by ADLER by the end of the period under review (1,391,902 shares) can no longer be exercised.

The shareholder structure changed only slightly during the year. The largest single shareholder, Klaus Wecken (Wecken & Cie), has reduced his shareholding, but remains one of the two largest shareholders in ADLER Real Estate AG by some margin. Based on the relevant notifications ADLER has received from its shareholders, the shareholder structure was as follows as at 31 December 2017:

SHAREHOLDER STRUCTURE AS ON DECEMBER 31, 2017



EPRA award for financial reporting

ADLER Real Estate AG was presented with the "EPRA Most Improved Best Practices Recommendation Award" by the European Public Real Estate Association (EPRA) in 2017 – an award for the biggest progress in business reporting according to its specifications. The award was granted because, in addition to reporting in accordance with IFRS, ADLER published, a separate report in accordance with EPRA specifications for the first time in 2016. At the same time, EPRA certified that ADLER had achieved "Silver Level" in compliance with its best-practice recommendations. Companies receive this award if they follow these recommendations by 70 to 85 percent. ADLER therefore achieved EPRA's second-best quality level for reporting right from the outset.

EPRA is a not-for-profit association based in Brussels. One of the goals of this pan-European association of listed property companies is to standardise financial reporting and make it easier to compare companies across national borders.

/// SUPERVISORY BOARD REPORT

Dear Shareholders, Ladies and Gentlemen,

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

Changes in composition

The Supervisory Board of ADLER Real Estate AG did not witness any changes in its composition in the past 2017 financial year.

Mr Arndt Krienen, member of the Management Board and CEO since 1 January 2016, was suspended as a member of the Management Board and CEO on 22 December 2017. His appointment as a member of the Board of Management of the company was revoked with immediate effect by resolution dated 27 December 2017. Mr Tomas de Vargas Machuca and Mr Maximilian Rienecker were appointed to the Management Board of the company as Co-CEOs on 22 December 2017 with immediate effect.

Supervisory Board meetings

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

The Supervisory Board held a total of four scheduled meetings in person in the 2017 financial year. These took place on 23 March, 7 June, 18 October and 7 December. All members of the Supervisory Board attended the meetings held in person. Board resolutions were further taken in two extraordinary Supervisory Board meetings, in 16 telephone conferences and by way of 10 circular procedures. All Supervisory Board members participated in these, too.

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

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

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

Key focuses of activities

At its regular meetings, the Supervisory Board focused consistently on significant questions relating to corporate strategy, corporate planning and business development for the Group and the company as well as questions relating to financial and investment planning. The Board also dealt with risk and compliance reporting.

Another focus of Supervisory Board activities related to the internalisation of various business activities previously outsourced, which had started in 2016. ADLER Wohnen Service GmbH, as an in-house property management company with a regional focus, was joined by ADLER Gebäude Service GmbH with the aim of providing holistic building services at all portfolio locations. The Supervisory Board took account of the increasing demand for digitalisation with the decision to establish a tenant app as a tenant communication platform and tool to optimise property management still further.

Acquisitions of approximately 3,400 additional units in total, a share buyback programme amounting to up to EUR 30 million, the sale of the privatisation platform ACCENTRO Real Estate AG, the acquisition of approximately 700 newly built apartments in the centre of Berlin as a project development and the issuance of a first-ranking, unsecured bond in a total amount of EUR 800 million to finance in particular the buyback of existing, secured promissory note loans, which also improved the company's rating numbered among other focal areas of the Supervisory Board's activities. The Supervisory Board was also involved in the changes to the membership of the Management Board at the end of the financial year.

German Corporate Governance Code (DCGK)

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

The provisions governing the management and supervision of publicly listed companies in Germany as pooled in the German Corporate Governance Code and the recommendations and suggestions included in the Code in regards to internationally and nationally recognised standards of good and responsible corporate management have been implemented at the company since 2002, i.e., since the introduction of the Code by the Management and Supervisory Boards of ADLER Real Estate AG. These provisions were implemented with few exceptions, and this practice has been retained in each case in the years since. To the extent that the provisions of the German Corporate Governance Code in its respectively valid form have not been complied with, these deviations have been explained in the Declaration of Conformity pursuant to § 161 of the German Stock Corporation Act (AktG). This declaration has been made permanently available in its respectively valid version in the Investor Relations section of ADLER's website.

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

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

There were no indications of any conflicts of interest among Supervisory Board members on the part of the Supervisory Board in the 2017 financial year. The Supervisory Board did not investigate whether there were possible conflicts of interest on the part of the Management Board.

2017 annual and consolidated financial statements

The annual financial statements of ADLER Real Estate AG prepared by the Management Board and the consolidated financial statements, including the management and group management reports, for the 2016 financial year have been audited and provided with unqualified audit opinions by Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, the audit company elected by the Annual General Meeting on 7 June 2017.

The annual financial statements (HGB) and the consolidated financial statements (IFRS), including the first-time combined management report, were submitted to the Supervisory Board for review, as were the auditor's reports on its audit of the annual and consolidated financial statements for the business year 2017. At the meeting held to adopt the financial statements on 22 March 2018, the Supervisory Board discussed the documents relating to the annual financial statements and reports with the Management Board. It focused in particular on matters pertaining to the valuation of current and noncurrent assets and held in-depth discussions on this point. At this meeting, the auditor reported on the key findings of its audits and was on hand to provide the Supervisory Board with additional information. Based on its own review of the annual financial statements, consolidated financial statements, the combined management report, the Supervisory Board endorsed the auditor's findings and raised no objections following the final results of its review. By resolution dated 22 March 2018, the Supervisory Board approved the annual financial statements, which were thereby adopted pursuant to § 172 AktG, and the consolidated financial statements.

Members of the Supervisory Board

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

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

Berlin, March 2018

Dr Dirk Hoffmann
Supervisory Board Chairman

In 2017, ADLER Real Estate AG increased Net Rental Income, FFO I and NAV while, at the same time, reducing WACD and partly even outperforming its targets.

/// Consolidated Financial Statements and Combined Management Report 2017

/// COMBINED MANAGEMENT REPORT

1. GROUP FUNDAMENTALS OF ADLER REAL ESTATE AG

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

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

ADLER intends to further expand this portfolio with future acquisitions 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" cities, such as Berlin or Leipzig, in order to benefit from value growth in these markets. Either way, ADLER believes acquisitions only make sense when the properties promise to generate positive cash flows directly from acquisition onwards. As it has become increasingly more challenging to acquire portfolios on the market at attractive yields, ADLER will, also explore the possibility of expanding its portfolio by way of investing in project developments, portfolio densification or loft conversions of existing portfolios as a complement to its existing approach. The exposure to these value-added activities will remain a small percentage of ADLER's balance sheet. It will not hinder any projection towards rating improvements going forward or obtaining an Investment Grade rating as early as possible.

The apartments in ADLER's portfolio have an average size of around 60 square metres and on average comprise of two or three main rooms. The average monthly rent across the entire portfolio (Core and Non-Core) was EUR 5.17 per square metre as at the end of the reporting period. ADLER thus operates in a market segment focused predominantly on tenants with medium to below-average incomes. ADLER offers this target group decent living quality at appropriate market rents. Demand for affordable living space continues to grow as the average age of the population rises in conjunction with an increasing number of single-person households. Furthermore, migration to Germany from various parts of the EU has boosted the demand for such housing as individuals see better employment prospects in Germany. Others come from far away countries to seek asylum. Despite the renewed increase in overall construction activity, the supply of new housing in this segment remains low. This is because new construction is in most cases only viable in the higher-priced rental segment as construction costs still remain significantly higher than the open market value of affordable residential units. This feature is even more the case 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 makes its decisions in order to obtain and maintain sustainable growth, 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. Asset management's objective is therefore to raise occupancy rates and rental income and optimise the cost structure associated with managing the portfolio. Changes in value can also be generated by expanding the existing portfolio by way of acquisitions or by selling parts of the portfolio in the context of identifying "non-core" properties, i.e. the regular measures for portfolio optimisation.

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

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

The Asset Management department, which was reorganised with a regional focus in the middle of 2016, takes measures to reduce vacancy rates, exploit opportunities to increase rents and maintain or enhance the portfolio's rental capacity – for example, by implementing maintenance or modernisation measures. Higher-quality residential apartments are seen as attractive spaces in most areas and thus easier to let. It goes without saying that in its investment measures, the Asset Management department always takes due account of the costs and benefits of individual measures. In addition to ongoing maintenance and modernisation measures, the Group introduced a programme to renovate previously unoccupied residential units in 2016. A total of approx. EUR 15 million was made available for this purpose, and the programme was successfully implemented in 2017. Approx. 1,300 units were fully renovated in the end rather than the originally intended 1,500 apartments. Measures are due to continue until 2018 as part of a second tranche with a similar investment volume. 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 interesting 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 Europa city) is one example. Inevitably, this kind of investment does not immediately contribute to cash flow, instead rather requiring 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) of between 50 and 60 percent (net debt/GAV). 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 has been met with great success in 2017.

ADLER has good access to both the market for secured bank lending and to the market for unsecured financing, as available on the capital markets in the form of, for instance, corporate or convertible bonds. This, too, was proved to a considerable extent in 2017. Access to these two markets reduces refinance risk. The biggest risk associated with the industry. Since the end of 2016, investors, capital-market participants and lending banks have been able 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 was 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 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 as soon as possible from acquisition onwards. 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 perspectives. ADLER intends to take advantage of growth opportunities from increasing the density of use of existing residential estates and closer cooperation with project developers, as the price differential between existing real estate and new properties has noticeably reduced, at least in some regions. ADLER nevertheless also plans to further expand its property holdings by purchasing smaller portfolios in the next few years.

There will be no new portfolios for Trading, as this segment was relinquished after the sale of ACCENTRO end of November 2017.

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 that 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 lastingly, 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 infrastructure, expected demographic developments and potential changes in regional labour markets. An awareness or assessment of these key figures is factored into all decisions concerning the acquisition of properties or property portfolios.

EMPLOYEES

As the Group holding company, ADLER Real Estate AG has three Management Board members but no employees. Operational tasks relating to commercial asset management and central administration for the Group are mostly performed via the wholly-owned subsidiary ADLER Real Estate Service GmbH. Employees at this company are deployed to perform various tasks at the respective Group companies on a flexible basis and in line with their individual specialisms. Due to the strategic objective of internalising functions previously outsourced in the field of property and facility management, the number of employees at the ADLER Group grew in 2017, rising from 354 at the beginning of the year to 555 full-time and part-time employees as at the end of the reporting period. The majority of employees worked at the divisions handling property management (212 employees) and facility management (255 employees).

RESEARCH AND DEVELOPMENT

As a real estate Group, ADLER does not perform any research and development in a traditional sense. However, ongoing market analyses are needed to assess future developments in housing markets. Here, ADLER draws on assessments compiled by estate agents' associations, federal authorities, specialist research institutes, prestigious valuation companies and bank research departments. This information is supplemented by the experienced 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, one that is unique in the sector to date.

2. ECONOMIC REPORT

MACROECONOMIC AND SECTOR-SPECIFIC FRAMEWORK

The macroeconomic and sector-specific settings in Germany remained stable during 2017 – and favourable for the property sector. According to preliminary data released by the Federal Statistical Office, Germany's gross domestic product grew by 2.5 percent in 2017 after adjustment for inflation and calendar effects.

Consumer prices in 2017 were 1.8 percent higher on average than in the previous year. Employment figures set a new record of more than 44 million, while interest rates are still set at a historically low level. The favourable economic situation is expected to continue in 2018. For instance, in its growth forecast for 2018, Deutsche Bundesbank anticipates an increase in gross domestic product of 2.5 percent from the end of 2017. The widely recognised Ifo Business Climate Index was slightly below its peak in December 2017 and reflects the German economy's highly optimistic outlook for 2018. It is also expected that interest will remain at a low level, even though slight increases are foreseen over the course of the year.

Above all, the development of the rental market is of great importance to a company such as ADLER Real Estate AG. 2017 proved a stable year in this regard. According to the cost-of-living index, German rents were 1.6 percent higher nationwide in 2017 than in the previous year. Rents thus rose at a slightly slower 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 mainly operates in "B" locations and on the periphery of conurbations. Such locations typically benefit from sharp rent increases in the city centres, cities or "A" locations, as is the case in most cities in Germany. After all, tenants no longer able or willing to pay higher rents look for alternatives and are often prepared to accept living further from the centre of their city. Moreover, the average does not take into account that the development of rents under new and existing leases usually differs significantly.

Like any market, the development of prices on the rental market also depends on the relationship between supply and demand. In recent years, the increasing demand for rented apartments has not been matched by a corresponding increase in supply, even though the gap seemed to close in 2016 after construction permits rose by more than 20 percent. This trend did not continue in 2017, since the number of approved apartments declined slightly again. The gap between supply and demand therefore did not necessarily become any smaller in the year under review.

Legal framework

There were no significant changes in the legal framework for the property sector in 2017. While there have been discussions in political circles of abolishing the 95-percent limit up to which no property transfer tax has to be paid when acquiring property portfolios, decisions have not yet been made in this regard and are not expected in the immediate future. At an oral hearing on a submission of the Federal Finance Court bill in January 2018, it was indicated that the Federal Constitutional Court had doubts as to whether the calculation of property tax was constitutional. So far, it has been based on assessed values dating back to 1964 in western Germany and 1935 in the East. A decision is expected in summer 2018. It could have effects on the amount of property tax and thus also on the charge of property owners and tenants.

In the coalition discussions between the CDU and the SPD, it emerged that a future government could also become active in the housing sector. A tightening of an official curb on rental increases was discussed alongside the active promotion of housing construction, for example through a government grant scheme to support families building homes or building subsidies. The extent to which such measures can be achieved and when this might be the case cannot be estimated at the time of reporting. However, the policy seems to have set itself the goal of ensuring an increased supply of new housing in the coming years.

The German act implementing the EU's CSR Directive to enhance non-financial reporting by companies in their management and group management reports came into effect on April 19th, 2017. The EU's Corporate Social Responsibility Regulation was thereby implemented into German law. Since then, specific, large capital-market-oriented companies have been obliged to provide non-financial reporting. However, this obligation only applies when the total number of employees exceeds an average of 500 for the year in two consecutive years. This is not yet the case for ADLER Real Estate AG in 2017. Nevertheless, ADLER intends to meet these new requirements and will produce such a report voluntarily. It will be available on the company's website at www.adler-ag.com/investor relations/publications.

The revision of the Markets in Financial Instruments Directive that was adopted in 2007, commonly referred to as MiFID II, became effective on January 3rd, 2018. MiFID II has no immediate impact on property companies because it relates to requirements for the management and organisation of investment firms, admission requirements for regulated markets, regulatory reporting to avoid market abuse, transparency in equity trading and rules for the admission of financial instruments to trading. However, it also provides new regulations for relationships between brokerage houses and listed companies. It stipulates, for example, that brokerage houses can no longer offer aspects of their services, such as research reports or the brokering of contacts between investors and companies, free of charge. It is not yet clear how these new requirements will affect relationships between investors, brokers and stock corporations, but it is expected that small and medium-sized listed companies especially will no longer be subject to brokerage analysis to the same extent as before.

GROUP BUSINESS PERFORMANCE

Following the successful steps taken to generate growth in previous years, ADLER Real Estate AG concentrated on reorganising its Group structures and adapting these to the new requirements arising in the wake of the acquisitions made. These measures all serve the objective of developing ADLER into an integrated real estate group capable of offering all services of key relevance to tenants from a single source by the end of 2017. In line with this objective, a further 10,000 residential units previously administered by external service providers were taken into the proprietary administration portfolio in terms of property and facility management services at the beginning of the year. A further 25,000 units have been taken into proprietary administration as the year progressed. The remainder followed at the turn of the year 2017/2018.

In mid-January 2017, ADLER Real Estate AG received EUR 422 million from the sale of its 26 percent interest in conwert Immobilien Invest SE to Vonovia SE in the context of the voluntary offer made by Vonovia to conwert shareholders. Following receipt of the funds, ADLER Real Estate AG began to pay back its liabilities, mostly those with higher interest rates. Short-term loans with a total volume of EUR 199.7 million used to finance the acquisition of conwert shares were repaid immediately on completion of the transaction in January.

In February 2017, ADLER acquired convertible bonds in the Group company ACCENTRO Real Estate AG with a carrying amount of EUR 12.3 million. This was motivated by the intention to keep ADLER's share of voting rights in the company at a constant level even after the convertible bonds have been exercised, while at the same time reducing liabilities.

In March 2017, ADLER signed a purchase agreement to acquire a real estate portfolio with 693 residential and eight commercial units in Osterholz-Scharmbeck and Schwanewede. Located directly in the Bremen catchment area, these properties fit within ADLER Real Estate AG's objective of offering high-quality yet affordable living space on the edges of conurbations. The portfolio, which generates gross rental income of more than EUR 2 million per year, also represents an advantageous addition to the Group's existing holdings in northern Germany. This acquisition underlines the intention to expand the portfolio moderately once again following a year of consolidation in 2016.

On March 31, 2017, the Group company ACCENTRO Real Estate AG called its 2013/2018 bond and paid it back on 26 June 2017 at 101.5 percent of the nominal amount plus interest accumulated by the repayment date. The bond had a volume of EUR 10 million and bore interest at 9.25 percent p.a.

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

In April 2017, ADLER Real Estate AG executed a private placement to increase its 2015/2020 bond by EUR 150 million. Given the significantly above-par issue price, the tap carried a 2.5 percent p.a. yield to April 2019 call compared to the nominal coupon of 4.75 percent p.a.. ADLER has thus created additional financial scope allowing it to make decisions at short notice on the acquisition of smaller-scale portfolios on favourable terms.

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

The Annual General Meeting on 7 June 2017 resolved to increase the company's capital from company funds and grant the shareholders the bonus shares at a ratio of 10:1 to existing capital stock. This was intended to enable shareholders to benefit from the company's economic performance. The new shares were credited to shareholders' accounts on 22 June 2017. The company's capital stock has increased to the same extent as a result.

In June 2017, ADLER Real Estate AG resolved a share buyback programme to buy back treasury shares for a total purchase price (not including ancillary expenses) of up to EUR 10 million. The programme was ended in mid-September 2017 once the limit was reached.

At the end of June 2017, ADLER acquired a portfolio of 192 residential units with a net rentable area of approx. 11,600 m² in Senftenberg, a medium-sized town located in the south of Brandenburg roughly halfway between Dresden and Cottbus. The portfolio generates annual gross rental income of approx. EUR 0.7 million and will supplement the company's holdings in Brandenburg. This acquisition is consistent with the strategy of investing in medium-sized towns in northern, western and eastern Germany, and especially in "B" locations as these still allow for the generation of attractive returns from the outset.

In September 2017, ADLER acquired a further portfolio of 2,505 units in fast-growing locations. Approx. 60 percent of the 2,453 apartments and 52 commercial units are situated in North Rhine-Westphalia with a focus on the Ruhr area and the eastern Westphalia region, 15 percent each in southern Lower Saxony and Bremen and just under 10 percent in the Hamburg catchment area in Schleswig-Holstein. The new acquisition is also in line with the strategic intention of providing affordable housing in or on the outskirts of conurbations. In addition, the new holdings can be easily integrated into the property and facility management structures now in place. This enables the cost-effective management of the holdings through the resultant economies of scale. The portfolio generates an annual net rental income of more than EUR 9 million and will also have a positive impact on FFO I and WACD. ADLER is firmly on course for growth with this acquisition. The purchase was financed by available cash and cash equivalents.

In September 2017, the Management Board resolved to supplement the first share buyback programme, which ended in mid-September, and purchase additional shares for a total purchase price (not including ancillary costs) of up to EUR 5 million. The programme was launched on 21 September and terminated on 22 November.

On October 20, 2017, ADLER Real Estate AG reached an agreement to sell approx. 80 percent of ACCENTRO Real Estate AG. The agreement comprises also the sale of the 2014/2019 convertible bonds which had been issued by ACCENTRO Real Estate AG and acquired by ADLER in the first quarter of 2017. The buyer was a fund advised by Vestigo Capital Advisors LLP, a company authorised and regulated by the UK Financial Conduct Authority. The purchase price for the stake totalled approx. EUR 180 million. The first payment was made at the end of November 2017, as agreed. The payment of further tranches is planned over the next twelve months. In addition, ADLER Real Estate AG has the option of selling the remaining interest in ACCENTRO Real Estate AG of 6.2 percent to the buyer at the same price per share, amounting to approx. EUR 11 million in total.

With this sale, ADLER has moved away from the trading business and taken a decisive step towards simplifying and concentrating its business model. In the future, ADLER will focus on its letting business, i.e. providing housing in line with market standards and with appealing quality for tenants primarily in the affordable housing segment.

Also in October 2017, the internationally renowned rating agency Standard & Poor's Ratings Services increased ADLER Real Estate AG 's rating by one notch from "BB-/positive outlook" to "BB/stable outlook". Following the sale of the shares in ACCENTRO Real Estate AG, Standard & Poor's expects ADLER to be able to improve its debt/equity ratio and reduce its LTV to below 55 percent.

In November 2017, ADLER Real Estate AG concluded a purchase agreement via an indirect subsidiary for the acquisition of 94.9 percent of shares in eight project development companies that are implementing the "Wasserstadt Mitte – Project Riverside" real estate project development on largely undeveloped land in Berlin Mitte (Europa City). The project development intends for the construction of approx. 750 units with approx. 44,000 m² of living space and approx. 14,000 m² of office and commercial space. Initial construction work has already begun. According to current planning, the project development is likely to be completed by the end of 2019. After the completion and letting of the project, ADLER anticipates an indicative market value of approx. EUR 385 million and annual net rental income of approx. EUR 11 million.

In December 2017, ADLER Real Estate AG successfully placed a corporate bond of EUR 800 million with institutional investors in Europe. The bond was issued in two tranches. The first tranche with a coupon of 1.5 percent p.a. and a volume of EUR 500 million runs until December 2021 and was issued at 99.520 percent. The second tranche with a coupon of 2.125 percent p.a. and a volume of EUR 300 million expires in February 2024 and was issued at 99.283 percent. On average, the interest on the bond is 1.734 percent p.a. Most of the revenue will be used to repurchase almost all the secured promissory notes – with a very positive impact on the weighted average cost of debt (WACD) and future FFO I. In addition, ADLER will have more than EUR 1 billion in unencumbered assets (investment properties). This increases its flexibility in selling non-core properties.

Subsequent to the successful issuance of the corporate bond, Standard & Poor's Ratings Services raised its rating for ADLER Real Estate AG to BB/positive outlook as part of its annual review.

Also in December 2017, the Management Board resolved to supplement the share buyback programme again and purchase additional shares for a total purchase price (not including ancillary costs) of up to EUR 20 million. Based on the share price as at 5 December 2017, this corresponds to up to 1,618,122 shares, or approx. 2.81 percent of the company's statutory capital stock at the time. The programme was still ongoing at the reporting date.

3. RESULT FROM OPERATIONS, NET ASSETS AND FINANCIAL POSITION

PRELIMINARY REMARK

With effect as of 30 November 2017(closing date), ADLER lost its controlling influence over ACCENTRO and its subsidiaries by selling the majority of the shares. ADLER thereby discontinued its Trading business / 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 aggregated in a total as earnings after tax from discontinued operations.

At the same time, ADLER provides net asset pro forma figures for the 2016 financial year. As of 1 January 2016, the disposals of the fully consolidated ACCENTRO and its subsidiaries and the simultaneous acquisition of an investment in ACCENTRO as an associated company are assumed (see also presentation in the notes to the consolidated financial statements under 4.4 Sale of ACCENTRO). This approach is intended to simplify comparison with the figures for the 2017 financial year.

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

The key figures shown in the 2016 financial year and also those adjusted by the Trading division are reported in the year-on-year comparison.

RESULT FROM OPERATIONS

After the sale of the majority of its share in ACCENTRO Real Estate AG, ADLER Real Estate AG generated its income almost exclusively from the management of its existing properties on which its business model is now focused.

In EUR millions	2017	2016 adjusted[1)]	2016 reported
Gross rental income	264.4	245.8	252.4
of which net rental income	170.3	160.9	167.5
Expenses from property lettings	-138.6	-136.8	-138.8
Earnings from property lettings	**125.8**	**109.0**	**113.6**
Income from the sale of properties	34.9	41.9	160.4
Expenses from the sale of properties	-34.1	-42.4	-124.0
Earnings from the sale of properties	**0.8**	**-0.5**	**36.4**
Personnel expenses	-20.3	-16.7	-19.6
Other operating income	9.5	7.9	8.6
Other operating expenses	-38.5	-30.4	-35.7
Income from fair value adjustments of investment properties	235.4	199.7	199.7
Depreciation and amortisation	-0.8	-0.5	-1.2
Earnings before interest and taxes (EBIT)	**311.8**	**268.5**	**301.8**
Financial result	-153.4	-120.3	-125.6
Net income from at-equity valued investment associates	0	10.7	11.2
Earnings before taxes (EBT)	**158.4**	**158.8**	**187.4**
Income taxes	-52.0	-46.0	-53.6
Net consolidated result from continuing operation	**106.4**	**112.8**	**-**
Earnings after tax from discontinued operation[2)]	36.2	21.0	-
Net consolidated result	**142.6**	**133.8**	**133.8**

[1)] Adjusted according to IFRS 5 due to sale of trading segment, see notes (2.1 Basis of preparation)
[2)] Net consolidated result of discontinued trading segment, composition see notes (9.14 Earnings after taxes from discontinued operations)

Rent increases and portfolio growth strengthen earnings from property lettings

In the 2017 financial year, gross rental income came to EUR 264.4 million, 7.6 percent higher than in the same period of the previous year (EUR 245.8 million). Part of this growth is attributable to the expansion of the property portfolio, which increased by 701 units due to acquisitions in the first quarter, by 192 units in the second and by 2,505 rental units in the third quarter. 834 units were sold in the course of the year.

Gross rental income is dominated by net rental income, which amounted to EUR 170.3 million in 2017, up 5.8 percent on the previous year’s adjusted figure (EUR 160.9 million), assuming ACCENTRO Real Estate AG had already been sold in the beginning of 2016. Net rental income increased not only with the expansion of the portfolio, but also because the operating performance indicators continued to improve. At the end of the period under report, the average contractually agreed rent per square metre per month for the overall portfolio amounted to EUR 5.17, EUR 0.16 higher than the figure for the same period of the previous year (2016: EUR 5.01). In the core portfolio, which results from the total portfolio minus the property that is to be sold as part of the ongoing portfolio reviews, the average rental income (per square metre per month) amounted to EUR 5.21 at the end of 2017, also up EUR 0.17 on the start of the year (EUR 5.04), when this performance indicator was ascertained for the first time. The development of average rent is therefore already well above the level that ADLER had originally expected and announced for the year as a whole.

At 90.6 percent, the occupancy rate for the overall portfolio at the end of 2017 was also up year on year (90.0 percent). The occupancy rate in the core portfolio reached 92.1 percent at the end of 2017. This equates to an improvement of 0.7 percentage points since the start of the year, when this performance indicator was also ascertained for the first time (91.4 percent). However, ADLER has not yet met its own target for this key figure. This is mainly due to the fact that the massive transition of tenant support services from external service providers to internal group property and facility management at the beginning of the year gave rise to a certain volume of "friction losses" that had not been expected. These were initially reflected in a higher tenant turnover rate and a higher vacancy rate. Although this negative development was partially rectified over the course of the year, the original targets were no longer achievable by the end of the year.

Expenses from property lettings comprise apportionable and unapportionable operating costs and maintenance expenses. Compared with the adjusted figures for the previous year, they increased by 1.3 percent to EUR 138.6 million, a considerably less dynamic increase than that of net rental income. This reflects the fact that in 2017, ADLER successively terminated the contracts with external property management companies and internalized the services they provided. Consequently, there is also a significant increase in personnel costs.

Net of these expense items, earnings from property lettings amounted to EUR 125.8 million in 2017, 15.4 percent more than in the previous year (EUR 109.0 million).

Earnings contribution from the sales of properties fading

Over the past few years, ADLER Real Estate AG has always made substantial contributions to its earnings from the sale of properties, as this was mainly due to the trading activities of the former Group company ACCENTRO. After the sale of the majority of shares in this company, only a small profit contribution of EUR 0.8 million remains, resulting from the sales of non-core units. Since the beginning of 2015, the disposal of such properties has been ADLER's strategic objective in order to increase the efficiency of the overall portfolio. In 2017, a total of 834 units were sold from properties identified at the Group as non-core holdings. As of the end of the year, the company had specific intentions to sell a total of 4,126 additional rental units, corresponding to 8.2 percent of its existing portfolio and had initiated a structured sales initiative with an external partner for this purpose. It had also received initial indicative offers in the fourth quarter but they did not lead to any signed contract. The aim of disposing of significant portions of this "non-core" portfolio will therefore not be achieved until the 2018 financial year at the earliest.

Valuation of investment properties in line with changing market circumstances

At EUR 235.4 million in 2017, income from fair value adjustments of investment properties was higher than the previous year's comparative figure (EUR 199.7 million). This valuation gain was partly driven by the rise in average rents and measures to maintain and modernise the properties, which accounted for a total of EUR 55.1 million (previous year: EUR 43.9 million) in 2017. The initial market valuation of the newly acquired portfolios also made a contribution. A large share of the income from fair value adjustments was due to the fact that ADLER adjusted the valuations of individual portfolios from the existing portfolio to the change in market circumstances, which were characterised by persistent yield compression in 2017. The property valuations are exclusively performed by independent external service providers with longstanding experience in this area. Income from fair value adjustments of investment properties is not cash-effective and is not included in the calculation of funds from operations.

Internalisation of tasks leads to higher personnel expenses

Personnel expenses in 2017 totalled EUR 20.3 million and were thus above the adjusted previous year‘s level of EUR 16.7 million. The increase in personnel expenses is due to the withdrawal of tasks from independent external service providers in the context of the Group’s realignment toward becoming an integrated real estate group. These tasks have been taken over by internal group departments that have either been newly founded or had their personnel resources increased. As a result, the Company had a total of 555 employees at the end of 2017, 201 more than a year earlier on the basis of the then consolidated figures and 218 more if the employees of ACCENTRO from the previous year‘s figure are excluded. The increase in personnel expenses not only reflects the increase in the number of employees but also the salary increases granted to employees in line with industry-standard levels.

Other operating expenses amounted to EUR 38.5 million (previous year: EUR 30.4 million). This line item includes general administration expenses, office premise rents, IT expenses, legal and advisory expenses, impairments of receivables and public relations expenses. The increase is partly attributable to higher legal and advisory costs, which in turn were related to the various acquisitions and refinancing measures during the financial year. Furthermore, part of the increase is also due to the expenses of establishing the in-house IT infrastructure, including the introduction of a uniform IT system landscape at the operating subsidiaries, a measure that became necessary upon the internalisation of property and facility management activities.

Other operating income amounted to EUR 9.5 million in the 2017 financial year, EUR 1.6 million more than the previous year (EUR 7.9 million).

EBIT increases again

After the deduction of all non-financial expenses, earnings before interest and taxes (EBIT) for the 2017 financial year amounted to EUR 311.8 million. Compared to the previous year‘s EBIT adjusted for the contribution of ACCENTRO, there was an increase of EUR 43.3 million or 16.1 percent. In the context of the Group, ADLER thus more than compensated for the loss of ACCENTRO‘s earnings contribution from the sale of property thanks to a better result from property management and a higher valuation result.

Financial result impacted by one-off expenses in connection with refinancing measures

At minus EUR 153.4 million, the financial result for 2017 was lower than the equivalent figure for the previous year (minus EUR 120.3 million). Different aspects must be taken into account for the change. Financial costs in 2017 included EUR 62.7 million in one-off prepayment penalties and loan commitment fees. This cost was incurred because higher interest rate liabilities – primarily secured promissory notes – were replaced with low-interest unsecured corporate bonds prior to their respective maturities, but the holders of the liabilities asserted a claim for compensation for the interest lost. Furthermore, in 2017, transaction costs amounting to EUR 1.9 million were immediately recognised as an expense as a result of the early repayment of the 2014/2019 bond. Refinancing thus negatively affected the 2017 result but will also noticeably contribute to reducing the average cost of debt in the years ahead. In the previous year, the financial costs of prepayment penalties and loan commitment fees amounted to round about EUR 11.0 million.

In addition, the sale of shares in the Austrian company conwert Immobilien Invest SE resulted in a one-off negative earnings contribution of EUR 16.1 million in the previous year. In 2017, reserves recognised directly in equity for the shares in conwert were reversed in the course of the disposal of the shares, resulting in a negative earnings contribution of EUR 1.6 million.

Financial income increased from EUR 2.5 million in the previous year to EUR 5.4 million. This is particularly due to the increase in interest income from loans to third parties. On the other hand, it was almost impossible to generate interest income on short-term investments due to the ongoing low-interest rate policy of the European Central Bank. In 2017 there was a positive earnings contribution from the measurement of interest hedges.

There was no contribution from at-equity valued investment associates in 2017. In the previous year, it related almost entirely to the shareholding held in conwert Immobilien Invest SE.

Net of the financial result and income from investments accounted for using the equity method, earnings before taxes (EBT) for 2017 amounted to EUR 158.4 million (previous year: EUR 158.8 million without ACCENTRO).

Income tax expenses amounted to EUR 52.0 million in 2017 (previous year: EUR 46.0 million). From the total tax expenses, EUR 1.1 million were cash-effective, and EUR 50.9 million related to deferred, not cash-effective taxes. Consolidated net profit for the year 2017 amounting to EUR 142.6 million (previous year: EUR 133.8 million) comprised two components: consolidated net profit from continuing operations of EUR 106.4 million and earnings from discontinued operations totalling EUR 36.2 million, of which the sale of shares in ACCENTRO Real Estate AG accounts for EUR 22.6 million. Of consolidated net profit, EUR 126.8 million was attributable to the shareholders in the parent company (previous year: EUR 120.9 million).

Segment reporting

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

The portfolios from which ADLER Real Estate AG aims to generate long-term gross rental income through lettings are contained in continuing operations. They are intended to cover all letting-related expenses and prospectively enable the company to pay a dividend to its shareholders. Gross rental income and the expenses associated with the letting business portray the activities of the Group's central Asset Management department, which manages 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 Facility Management under the auspices of ADLER Gebäude Service GmbH, a Group company formed from the former Arkadio Facility Management GmbH.

Other group activities that do not constitute standalone segments are pooled in the "Other" column. These mainly involve historic holdings relating to development projects which 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 segments.

ADLER Group	**Letting**		**Other**		**Group**	
In EUR millions	**2017**	**2016**[1]	**2017**	**2016**	**2017**	**2016**[1]
Gross rental income and income from the sale of properties	297.5	285.7	1.7	2.0	299.2	287.7
of which gross rental income	264.1	244.7	0.3	1.1	264.4	245.8
of which income from disposals	33.5	41.0	1.4	0.9	34.9	41.9
of which income from brokerage	0.0	0.0	0.0	0.0	0.0	0.0
Change in the value of investment properties	235.4	199.7	0.0	0.0	235.4	199.7
Earnings before interest and taxes (EBIT)	**311.8**	**268.7**	**0.0**	**-0.2**	**311.8**	**268.5**
Income from investments accounted for using the at-equity method	0	10.7	0.0	0.0	0.0	10.7
Financial result	**-153.4**	**-120.3**	**0.0**	**0.0**	**-153.4**	**-120.3**
Earnings before taxes (EBT)	**158.4**	**158.8**	**0.0**	**0.0**	**158.4**	**158.8**

[1] Adjusted statement due to sale of trading, see comments in the notes for the group financial statements (2.1 Basis of preparation and 7. Segment reporting)

Sharp rise in funds from operations (FFO)

As is customary in the real estate sector, ADLER Real Estate AG refers to funds from operations (FFO) as its major cash flow-based figure to assess the profitability of its operating business. FFO I presents the performance capacity of the property letting business. FFO II additionally presents the results of trading with and sales of properties. Following the sale of the Trading business, FFO II lost its significance and has dropped out of the group of parameters for which ADLER is making an annual forecast.

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

In EUR millions		2017	2016
Consolidated net profit		**142.6**	**133.8**
of which from continuing operations		**106.4**	**112.8**
+	Financial result	159.4	125.6
	of which from continuing operations	153.4	120.3
+	Income taxes	57.3	53.7
	of which from continuing operations	52.1	46.0
+	Depreciation and amortisation	1.2	1.2
	of which from continuing operations	0.8	0.5
–	Income from measurement of investment properties	235.4	199.7
	of which from continuing operations	235.4	199.7
–	Income from investments accounted for using the at-equity method	0.2	11.2
	of which from continuing operations	0.0	10.7
EBITDA IFRS (continuing and discontinued operation)		**124.9**	**103.3**
+/–	Non-recurring and extraordinary items	3.5	21.0
Adjusted EBITDA		**128.4**	**124.3**
–	Interest expense FFO	71.0	74.0
–	Current income taxes	1.0	0.8
+	Capitalisable maintenance measures	7.2	10.1
–	Earnings before interest and taxes from the sale of properties	23.2	32.3
FFO I		**40.5**	**27.3**
+	Earnings after interest and taxes from the sale of properties	13.0	19.0
–	Interest from investments accounted for using the at-equity method	0.2	4.5
+	Value change realised upon sale	-0.4	4.8
+	Liquidity-related income from investments accounted for using at-equity method	0.2	8.7
FFO II		**53.1**	**55.3**
Number of shares (basic)[1)]		67,822,504	64,142,175
FFO I per share (basic)		0.60	0.43
FFO II per share (basic)		0.78	0.86
Number of shares (diluted)[2)]		80,035,551	70,456,346
FFO I per share (diluted)		0.51	0.39
FFO II per share (diluted)		0.66	0.79

[1)] 56,155,838 shares as at balance sheet date (previous year: 52,475,509) 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 (9.15 earnings per share)

[2)] Plus 12,213,047 shares from assumed conversion of all other convertible bonds with entitlement to conversion (previous year: 6,314,171), previous year adjusted according to IAS 33.64, see notes (9.15 earnings per share)

Non-recurring and extraordinary items are structured as follows:

Non-recurring and extraordinary items In EUR millions	2017	2016
Non-cash income/expenses and one-off payments	-12.1	9.4
Costs of acquisition / integration	1.5	0.4
Optimisation of business model, structuring	14.1	11.2
Total of non-recurring and extraordinary items	**3.5**	**21.0**

The FFO interest charge is derived as follows:

Interest expense FFO In EUR millions	2017	2016
Interest income	5.7	2.8
Interest expenses	-165.1	-128.4
Total interest income	**-159.4**	**-125.6**
Adjustments		
Interest expenses from the sale of properties	4.5	5.6
Prepayment compensation and provision costs	63.7	13.2
Effects of measurement of primary financial instruments	17.7	10.9
Other adjustments	2.5	21.9
Interest expenses FFO	**-71.0**	**-74.0**

The other adjustments in the year under review relate in particular to the reversal of the reserves recognised in equity for the conwert shares in the course of the disposal of the shares amounting to EUR 1.6 million.

Calculated this way, FFO I for 2017 amounted to EUR 40.5 million, EUR 13.2 million or 48.4 percent higher than in the previous year (EUR 27.3 million). The FFO II figure for 2017 is reported at EUR 53.1 million (previous year: EUR 55.3 million).

Calculated on an undiluted basis (shares issued less treasury shares plus shares arising from conversion of the mandatory convertible bond allocated to share capital), FFO I per share amounted to EUR 0.60 as of 31 December 2017. On a diluted basis (shares issued less treasury shares plus shares arising from conversion of the mandatory convertible bond allocated to capital stock, 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 0.51.

NET ASSETS

In EUR millions	31.12.2017	as percentage of total assets	31.12.2016 adjusted[1]	as percentage of total assets	31.12.2016 reported	as percentage of total assets
Non-current assets	**3,125.5**	**82.7**	**2,546.9**	**77.3**	**2,577.6**	**75.1**
of which investments properties	3,018.5	79.9	2,442.0	74.1	2,442.0	71.2
Current assets	**629.9**	**16.7**	**315.1**	**9.6**	**418.2**	**12.2**
of which inventories	3.0	0.1	3.5	0.1	227.1	6.6
of which cash and cash equivalents investments	368.2	9.7	81.4	2.5	123.9	3.6
Non-current assets held for sale	**23.6**	**0.6**	**433.5**	**13.1**	**434.7**	**12.7**
Assets	**3,779.0**	**100.0**	**3,295.5**	**100.0**	**3,430.5**	**100.0**
Equity	**1,037.5**	**27.5**	**944.0**	**28.7**	**914.2**	**26.6**
of which capital stock	56.1	1.5	47.7	1.4	47.7	1.4
of which capital reserve	350.2	9.3	352.1	10.7	352.1	10.3
of which net retained profit	555.4	14.7	483.4	14.7	445.7	13.0
Non-current liabilities	**2,363.2**	**62.5**	**2,040.8**	**61.9**	**2,111.2**	**61.5**
of which liabilities from convertible bonds	119.7	3.2	130.0	3.9	143.9	4.2
of which liabilities from bonds	1,277.6	33.8	499.2	15.1	509.5	14.9
of which financial liabilities to banks	749.2	19.8	1,269.7	38.5	1,312.5	38.3
Current liabilities	**377.5**	**10.0**	**309.3**	**9.4**	**397.5**	**11.6**
of which financial liabilities to banks	278.7	7.4	255.7	7.8	320.3	9.3
Liabilities held for sale	**0.8**	**0.0**	**1.4**	**0.0**	**7.6**	**0.2**
Equity and liabilities	**3,779.0**	**100.0**	**3,295.5**	**100.0**	**3,430.5**	**100.0**

[1] Pro-Forma balance sheet due to sale of ACCENTRO, see notes (4.4 Sale of ACCENTRO)

The balance sheet changed significantly both in total and structure due to the sale of the majority of shares in ACCENTRO Real Estate AG in 2017. Transitional consolidation affected key items in different ways. In the course of the acquisitions and the valuation gains from property valuation, investment properties also increased significantly in value. In turn, the various financing measures structurally changed the liabilities side. As of 31 December 2017, ADLER Real Estate AG reported total assets of EUR 3,779.0 million, 10.2 percent higher than at the end of the previous year including ACCENTRO (EUR 3,430.5 million) and 14.7 percent higher excluding ACCENTRO (EUR 3,295.5 million).

Investment properties with further value growth

The increase in the consolidated balance sheet is largely attributable to the increase in value of property assets, which resulted in part from the acquisitions made (EUR 336.6 million) and partly from valuation gains (EUR 235.4 million) in the portfolio. Investment properties had a market value of EUR 3,018.5 million at the end of the year, 23.6 percent higher than one year earlier (EUR 2,442.0 million). Investment properties accounted for 79.9 percent of total assets at the end of the year under review.

In the previous year, a key item on the asset side of the balance sheet was non-current assets held for sale. It mainly comprised the shares in the Austrian company conwert Immobilien Invest SE (EUR 416.3 million) and totalled EUR 434.7 million. In 2017, this item included only net assets of EUR 23.6 million following the sale of conwert shares. These assets held for sale include EUR 12.6 million of the remaining investment in ACCENTRO and EUR 11.0 million in property.

Following the sale of ACCENTRO at the end of 2017, ADLER held virtually no properties for trading. They were recorded in the item 'inventories'. This item declined accordingly from EUR 227.1 million in the previous year to EUR 3.0 million in the 2017 financial year.

The aforementioned items 'investment properties', 'inventories' and 'non-current assets held for sale' cover all of the property holdings at ADLER Real Estate AG and together accounted for 80.5 percent of the company's total assets.

Solid liquidity resources

Current assets amounted to EUR 629.9 million at the end of the 2017 financial year. This corresponds to an increase of 50.6 percent compared with the previous year. While inventories decreased to a residual amount of EUR 3.0 million (previous year: EUR 227.1 million) due to the discontinuation of the trading business, cash and cash equivalents increased to EUR 368.2 million (previous year: EUR 123.9 million). However, this increase is only temporary since it relates to funds from the newly issued EUR 800 million corporate bond, which could not yet be fully used for the intended refinancing of promissory note loans since the transaction takes a certain amount of time. The refinancing will be completed in the first quarter of 2018 with a corresponding impact on cash and cash equivalents and liabilities to banks.

In addition, current assets include purchase price receivables from the sale of ACCENTRO shares amounting to EUR 161.7 million. There was no comparable position in the previous year.

Further increase in shareholders' equity

Shareholders' equity increased from EUR 914.2 million at the end of 2016 to EUR 1,037.5 million at the end of 2017. An amount of EUR 22.8 million was charged to the capital reserve in the first quarter in connection with the acquisition of convertible bonds in the group company ACCENTRO. This transaction served to stabilise the prorated shareholding in ACCENTRO and reduce liabilities with higher interest rates. In connection with the sale of the shares in ACCENTRO, these convertible bonds were sold too, thus strengthening the capital reserve at the end of the year by a corresponding amount. The issue of bonus shares at a ratio of 10 to 1 (EUR 4.8 million) in June 2017 also led to a reduction in the capital reserve. In this case, however, the same amount was credited to subscribed capital. Due to conversions of convertible bonds, subscribed capital and the capital reserve increased by EUR 9.3 million in total. This was due in particular to the 2013/2017 convertible bond, which matured in June. By the end of the year, ADLER had acquired 1,391,902 treasury shares through the share buyback programmes which began in June, September and December respectively. This led to a reduction in shareholder's equity by EUR 18.5 million.

The equity ratio also increased with shareholder's equity. At the end of the financial year it amounted to 27.5 percent and was thus 0.9 percentage points higher than in the previous year (26.6 percent).

Non-current liabilities changed in scope and structure

Non-current liabilities amounted to EUR 2,363.2 million as at 31 December 2017, EUR 252.0 million higher than in the previous year (EUR 2,111.2 million). The change compared to the previous year is due to various factors:

Non-current liabilities from convertible bonds fell from EUR 143.9 million to EUR 119.7 million due to the expiration of the 2013/2017 convertible bond in June and, to a lesser extent, the conversion of the 2016/2021 convertible bonds. In addition, the 2013/2018 and 2015/2018 convertible bonds were reclassified to current liabilities as they will mature in 2018.

Non-current bond liabilities increased from EUR 509.5 million at the end of 2016 to EUR 1,277.6 million to the end of 2017. Although the EUR 130 million of the 2013/2018 corporate bond was repaid early in the second quarter, the Group company ACCENTRO also repaid a bond with a total nominal value of EUR 10.0 million ahead of schedule. The existing 2015/2020 corporate bond was also tapped by EUR 150 million in the second quarter. In the fourth quarter, ADLER placed a new corporate bond in two traches with different maturities and coupons (2017/2021 and 2017/2024) for a total amount of EUR 800 million. The 2013/2018 bond with a nominal value of EUR 35.0 million was reclassified to current liabilities due its maturity in 2018.

The new bond was issued with the intention of redeeming the majority (approximately EUR 615 million – nominal) of the existing secured promissory note loan. This refinancing had already been implemented by the balance sheet date in the amount of EUR 390.4 million (nominal). This has contributed to a significant decrease in non-current liabilities to banks, from EUR 1,312.5 million at the end of 2016 to EUR 749.2 million at the end of 2017. In the course of the year, in connection with the acquisition of the various portfolios long-term bank financing was also carried over or newly agreed. In addition, EUR 42.8 million of the liabilities to banks were attributable to ACCENTRO, which will no longer be consolidated after the sale of the shares.

Current liabilities amounted to EUR 377.5 million at the end of 2017, EUR 20.0 million lower than at the end of the previous year (EUR 397.5 million). The reduction was mainly due to two effects: firstly, the repayment of liabilities of EUR 199.7 million, which had served to finance the acquisition of conwert shares and were repaid after the sale of these shares in the first quarter. Secondly, the sale of the shares in ACCENTRO, which had a relatively high level of current liabilities when financing the trading portfolio. An increase was reflected in the fact that EUR 225.6 million of promissory note loans previously recognized under non-current debt, which are due for refinancing in the first months of 2018, were reclassified to current liabilities.

Net financial liabilities amounted to EUR 2,106.2 million at the end of 2017, thus slightly down on the figure at the end of the previous year by EUR 65.9 million (previous year: EUR 2,172.1 million).

Further decrease in loan to value (LTV)

Previously, ADLER had used the LTV as the ratio of financial liabilities to total assets (loan-to-value), with both figures adjusted to exclude cash and cash equivalents. As another formula is more widely used in the real estate sector, ADLER is complying with these practices and replacing the LTV with an LTV II. This shows 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. The LTV II according to this calculation was 59.4 percent, 0.5 percentage points lower than at the end of 2016, assuming that the convertible bonds outstanding at the reporting date were converted into shares.

In EUR millions		31.12.2017	31.12.2016 adjusted[2]	31.12.2016 reported
Convertible bonds		126.2	131.5	145.4
+	Bonds	1,320.3	507.3	517.7
+	Financial liabilities to banks	1,027.9	1,525.3	1,632.8
–	Cash and cash equivalents	368.2	81.4	123.9
=	**Net financial liabilities**	**2,106.2**	**2,082.8**	**2,172.1**
Assets[1]		**3,410.7**	**3,214.1**	**3,306.6**
LTV including convertible bonds in %		61.8	64.8	65.7
LTV excluding convertible bonds in %		58.1	60.7	61.3

[1] Adjusted for cash
[2] Based on Pro-forma consolidated balance sheet as at 31.12.2016 due to the sale of ACCENTRO, see notes (4.4 Sale of ACCENTRO)

In EUR millions		31.12.2017	31.12.2016 adjusted[1]	31.12.2016 reported
Convertible bonds		126.2	131.5	145.4
+	Bonds	1,320.3	507.3	517.7
+	Financial liabilities to banks	1,027.9	1,525.3	1,632.8
–	Cash and cash equivalents	368.2	81.4	123.9
=	**Net financial liabilities**	**2,106.2**	**2,082.8**	**2,172.1**
–	Non-current assets held for sale and purchase price receivables minus liabilities associated with assets held for sale	184.5[2]	599.4	427.1
=	**Adjusted net financial liabilities**	**1,921.7**	**1,483.4**	**1,744.9**
Investment properties		3,018.5	2,442.0	2,442.0
+	Inventories	3.0	3.5	227.1
=	**Gross asset value**	**3,021.5**	**2,445.5**	**2,669.0**
LTV II including convertible bonds in %		63.6	60.7	65.4
LTV II excluding convertible bonds in %		59.4	55.3	59.9

[1] Based on Pro-forma consolidated balance sheet as at 31.12.2016 due to the sale of ACCENTRO, see notes (4.4 Sale of ACCENTRO)
[2] including purchase price receivable ACCENTRO with an amount of EUR 161.7 million

Above all, due to the extensive repayment of liabilities with higher interest rates, it was possible to further reduce the weighted average cost of debt (WACD) for all of the ADLER Group's liabilities in 2017 which, however, will only be effective from 2018 throughout the financial year. The impact of was further diluted by the fact that the current liabilities redeemed for the conwert financing facility had comparatively low interest rates. The sale of ACCENTRO was also not helpful in reducing the average interest rate. Although ACCENTRO held liabilities amounting to EUR 131.8 million, interest of only 2.27 percent was paid, partly due to their short-term nature. In contrast, the repayment of the higher-interest promissory note loans through the corporate bond issued at the end of November 2017 had a particularly positive effect, as liabilities with an interest rate of 4.25 percent were replaced by liabilities with an average interest rate of 1.73 percent. WACD in the ADLER Group amounted to 2.72 percent at the end of the year, compared with 3.69 percent at the end of 2016.

Further increase in net asset value (EPRA NAV)

ADLER Real Estate AG calculates net asset value (NAV) in accordance with the guidelines issued by the European Public Real Estate Association (EPRA). At the end of 2017, NAV reached EUR 1,207.2 million. It is therefore 12.8 percent higher than at the end of 2016 (EUR 1,069.9 million).

At the end of the first quarter of 2017, the company had reported a negative impact on shareholders' equity and NAV in connection with the buyback of convertible bonds at the group company ACCENTRO. This effect reversed after the sale of these convertible bonds, which were sold together with the shares in ACCENTRO.

Based on the total number of existing shares in circulation at the balance sheet date less treasury shares plus the shares resulting from the assumed conversion of the mandatory convertible bond counted as shareholders' equity, undiluted EPRA NAV per share amounted to EUR 17.80 on 31 December 2017, corresponding to an increase of 6.7 percent compared with the previous year. The fact that NAV per share has increased less than the absolute value is mainly due to the significant increase in the number of shares on which the calculation was based following the extensive conversions and issue of bonus shares.

Diluted EPRA NAV per share amounted to EUR 16.64 (previous year: EUR 15.39) as at the balance sheet date. In this case, the reduction particularly reflects the fact that the number of shares accounted for in dilution for the first time now also includes the 2016/2021 convertible bond, as the related conversion rights have been eligible to be exercised since 29 June 2017. ADLER Real Estate AG bases its NAV calculation on the shareholders' equity attributable to owners of the parent company.

In EUR millions	31.12.2017	31.12.2016 adjusted[3]	31.12.2016 reported
Equity	**1,037.5**	**944.0**	**914.2**
Non-controlling interests	-76.9	-63.3	-71.0
Equity attributable to ADLER-shareholders	**960.6**	**880.8**	**843.2**
Deferred tax liabilities on investment properties	235.5	169.5	169.5
Diff. between fair values and carrying amounts of inventory properties	7.0	3.0	52.1
Fair value of derivative financial instruments	5.9	7.4	7.4
Deferred taxes for derivative financial instruments	-1.8	-2.2	-2.2
EPRA NAV	**1,207.2**	**1,058.4**	**1,069.9**
Number of shares, basic[1)]	67,822,504	64,142,175	64,142,175
EPRA NAV per share (basic) in EUR	**17.80**	**16.50**	**16.68**
EPRA NAV adjusted for effects of conversion of convertibles	**1,331.7**	**1,073.1**	**1,084.6**
Number of shares, diluted[2)]	80,035,551	70,456,346	70,456,346
EPRA NAV per share (diluted) in EUR	**16.64**	**15.23**	**15.39**

1) 56,155,838 shares as at balance sheet date (previous year: 52,475,509) 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 (9.15 earnings per share)
2) Plus 12,215,352 shares from assumed conversion of all other convertible bonds with entitlement to conversion (previous year: 6,314,171), previous year adjusted according to IAS 33.64, see notes (9.15 earnings per share)
3) Based on pro-forma consolidated balance sheet as of 31/12/2016 due to the sale of ACCENTRO, see notes (4.4 sale of ACCENTRO)

FINANCIAL POSITION

In EUR millions	2017	2016
Cash flow from operating activities	36.3	100.6
of which from continuing operations	66.2	80.2
Cash flow from investing activities	212.7	-79.5
of which from continuing operations	212.8	-80.7
Cash flow from financing activities	-4.7	53.4
of which from continuing operations	-17.3	56.2
Cash-effective change in cash and cash equivalents	244.3	74.4
Cash and cash equivalents at beginning of period	123.9	49.5
Cash and cash equivalents at end of period	368.2	123.9

Cash flow from operating activities had been subject to considerable fluctuations during the course of the year, mainly due to the disinvestments and reinvestments of ACCENTRO in the trading portfolio. This is no longer the case following the sale of ACCENTRO.

In 2017, cash flow from operating activities came to EUR 36.3 million – less than half of the previous year's figure (EUR 100.6 million). Looking, however, at the cash flow from continuing operations, the decline is more moderate from EUR 80.2 million in the previous year to EUR 66.2 million in the current financial year resulting mainly from increased tax payments. Also, a dividend from the participation in conwert amounting to EUR 7.4 million was included in the previous year´s figures. The new portfolios, which were acquired in the course of the year, each contributed to operating cash flow.

Investing activities resulted in a total cash inflow of EUR 212.7 million in 2017. An amount of EUR 416.3 million – less cost to sell – was attributable to the sale of the shares in conwert Immobilien Invest SE in the first quarter and EUR 20.0 million to the sale of shares and ACCENTRO Real Estate AG in the fourth quarter. Cash outflow resulted from the acquisition of subsidiaries, net of cash acquired, of EUR 154.1 million and investments in existing holdings (investment properties) of EUR 79.1 million.

Financing activities resulted in an outflow of funds of EUR 17.3 million in continuing operations in 2017. An inflow resulted from tapping of the existing 2015/2020 corporate bond in the amount of EUR 150 million in the second quarter and the issue of the new 2017/2021 and 2017/2024 corporate bonds amounting to EUR 800 million. EUR 199.7 million in current liabilities were repaid in the first quarter. This had served to finance the acquisition of the conwert shares. Approximately EUR 140.0 million of liabilities from bonds were repaid in the second quarter. In addition, a total of EUR 390.4 million in promissory notes were repaid before maturity in the course of the year, the refinancing of which was secured by the 2017/2021 and 2017/2024 corporate bond. In addition, comparatively high prepayment penalties and loan commitment fees negatively impacted cash flow from financing activities.

At the end of 2017, the ADLER Group had financial funds (cash and cash equivalents) of EUR 368.2 million (previous year: EUR 123.9 million). The increase is due to the fact that by the end of the year not all promissory notes could be repaid with funds from the corporate bond. The repayment took place in the first quarter of 2018.

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

OVERALL SUMMARY OF BUSINESS PERFORMANCE AND POSITION OF GROUP

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

4. EVENTS AFTER THE BALANCE SHEET DATE

On 17 February 2018, ADLER Real Estate AG announced its intention to acquire up to 70 percent of Brack Capital Properties N.V. (BCP), a company incorporated under Dutch law whose shares are traded on the Tel Aviv Stock Exchange, Israel, with a balance sheet total of approximately EUR 1.6 billion.

As a result, ADLER signed an agreement with Redzone Empire Holding Limited to acquire 41.04 percent of the shares in Brack Capital Properties N.V. (BCP). In addition, members of the Senior Management of BCP have irrevocably undertaken to tender their shares to ADLER (which make up a total of 5.62 percent of BCP) as part of a public purchase offer, which ADLER published on 19 February 2018 with the acquisition of up to 25.8 percent additional shares (special tender offer).

BCP owns a property portfolio of more than 11,000 residential units in Germany with a focus on larger cities in Germany, including Leipzig (30 percent), Bremen (10 percent), Dortmund, Hanover and Kiel (9 percent each). The existing ADLER portfolio will be positively complemented by the BCP portfolio. BCP also brings project developments in the centre of Düsseldorf and in Aachen for around 2,000 new residential units, which ADLER intends to continue.

The transaction will be beneficial for key financial figures (see report on expected developments), partly as ADLER expects operating and financial synergies of approximately EUR 6 million per year.

The acquisition of the shares will be financed in the amount of approximately EUR 350 million through existing cash, the proceeds from the sale of shares in ACCENTRO Real Estate AG and the proceeds from the sale of existing non-core assets. A bridge loan is also available.

On March 22, ADLER Real Estate AG had successfully completed the Special Tender Offer to the shareholders of Brack Capital Properties N.V., in the following of which ADLER AG is now to acquire 70 percent of the shares in the company. As the closing of the transaction is expected to take place not before early April, a detailed description of the impact of the acquisition on ADLER´s key operational and financial metrics will be published in the forthcoming quarterly financial reports.

At the time of the closing of this report the additional acceptance period had not ended yet.

At the beginning of December 2017, ADLER received a total of EUR 800 million (excluding transaction costs incurred) from the issue of two bonds. These funds are to be used to repay higher-interest promissory note loans from subsidiaries with a volume of EUR 676 million. This was already implemented in the 2017 financial year at a level of c. EUR 400 million. Further repurchases are planned for early 2018 or have already been made. The repurchased promissory note loans are to be passed on to the subsidiaries at the beginning of 2018 and replaced by corresponding inter-company financing. This is intended to improve the Group's balance sheet structure and reduce the current interest charge.

No further events with the potential to significantly influence the earnings, asset and financial position of ADLER Real Estate AG occurred between the end of the period under report and the editorial deadline for this report. The company's business performance up to the reporting date confirms the statements made in its report on expected developments.

5. REPORT ON EXPECTED DEVELOPMENTS

The statements made concerning the expected development in key financials for the 2018 financial year are based on current planning at ADLER Real Estate AG. This planning, which includes all group companies, is regularly reviewed and adjusted during the financial year. Such adjustments are made when they are deemed appropriate to account for developments in the intervening period.

Stable macroeconomic framework

ADLER Real Estate AG expects the macroeconomic framework for companies in the property sector to remain overall favourable in 2018. Developments in the first months of 2018 have confirmed this expectation. Macroeconomic developments in Germany would appear to be comparatively robust, with expected economic growth and private consumer spending growth of more than 2 percent. At the same time, the interest rates relevant to Germany are expected to remain persistently low in 2018. Even if interest rates rise as the year progresses, the increase can be expected to remain within limits. This gives reason to expect that German real estate will continue to be a valuable investment category for private and professional investors.

Housing is expected to remain scarce in 2018, with demand continuing to rise due to known socio-demographic developments. In addition, the immigration of people from European and non-European countries is set to continue, albeit in a weakened form. The housing supply, by contrast, will only grow to the extent that new construction projects have already been approved. These will hardly suffice to cover all additional requirements. Although a political stimulus for additional new construction is to be expected, it will hardly affect market conditions due to the necessary lead times in the planning for 2018.

It appears reasonable to expect an increase in the utilisation of existing capacities in the rental accommodation market in 2018, leading to higher occupancy rates. This climate can also be expected to allow a certain degree of rent increases. Overall, conditions are therefore favourable for companies in the property sector to operate successfully once again in 2018.

Stabilise the integrated property group

ADLER Real Estate AG created the structures for an integrated property group in 2017. It is important to stabilise these structures and face the associated new challenges in 2018. These tasks range from the optimisation of the integrated IT infrastructure throughout the Group to new tasks in personnel policy, which are related to the increasing number of employees, to the way in dealing with tenants which establishes a high level of individual responsibility, i.e. the setting up of tenants' offices, tenant consultation hours, use of the tenant app or setting up a tenant hotline.

All measures are geared towards increasing tenant satisfaction, reducing tenant fluctuation rates and, of course, making use of the potential for rent increases. This is to be driven by investments of EUR 12 million for a second program to reduce vacancy rates. Currently vacant apartments are thus made marketable again.

In 2018, ADLER intends to grow further and acquire additional holdings that fit the business model. For that reason, ADLER intends to acquire Brack Capital Properties N.V. with a holding of 11,000 residential units in attractive locations in Germany. However, growth should not only be achieved through the acquisition of new portfolios, but also through projects like „Wasserstadt Mitte - Riverside“ in Berlin or measures of densification or roof constructions in the existing portfolio. The first project of this kind is already underway in Göttingen. The existing residential estates there are to be expanded by a good 220 new residential units. For portfolio optimisation, ADLER also intends to sell 4,126 rental units, which have been identified as 'non-core' for various reasons. Parts of the sale were already planned for 2017 but could not be realised, partly because existing agreements required the consent of all those involved in the financing but could not be obtained. These restrictions no longer exist after the replacement of the previous promissory note loans by a corporate bond.

A key point in the Action Plan for 2018 is further strengthening capital market orientation, which means that ADLER is particularly focusing on improving the financial indicators that are of particular importance to the capital market in valuing the company. When investors ask for an investment in the ADLER Group, they ask for FFO I as an indicator of earnings strength, EPRA NAV as a measure of the company's intrinsic value, LTV as a measure of financial stability and WACD as an indicator of risk premium in addition to operating figures such as occupancy rate and average rent.

Increase of nearly 65 percent in FFO I expected

Based on the expectation of a successful acquisition of Brack Capital Properties N.V., ADLER has set itself ambitious objectives for 2018. The vacancy rate is to be further reduced, partly by means of the investment program to renovate vacant apartments, for which a total of EUR 12 million will be made available. As a result, the occupancy rate in the core portfolio at the end of 2018 should be around 2 percentage points higher than at the beginning of the year. At the same time, ADLER expects to be able to raise average rents in its core portfolio by around 4 percent to a target figure of EUR 5.40 month/sqm. Taking additions and disposals in the portfolio into account, which of course cannot be exactly planned, ADLER expects that, with the acquisition of Brack Capital, net rental income will increase to between EUR 210 and 220 million.

FFO I will profit strongly from the acquisition of Brack Capital in 2018 too. In addition, operational improvements – which include the anticipated efficiency gains from the integration of all tenant-related services – will have a positive impact on FFO I. And a further contribution is expected to come from the extensive refinancing in 2017 which has led to a sharp drop in interest expenses. In total, FFO I amounting to between EUR 65 to EUR 70 million should be achievable in 2018. This would correspond to an increase of more than 65 percent compared to 2017.

The financial indicators are expected to further improve in 2018. ADLER adapted the calculation of LTV to the customary industry standards of Net Debt over Gross Asset Value (GAV). The corresponding LTV – excluding convertible bonds – stood at 59.4 percent at the end of 2017. In 2018, the aim is to improve it to c.55 percent.

Further improvements for the WACD are also expected in 2018, even if it will not be as strong as in 2017 as the upcoming refinancing and thus the repayment of higher-interest liabilities is not extensive enough. However, ADLER expects the WACD to continue to decline to about 2.5 percent in the context of ongoing refinancing, portfolio purchases or projects.

Forecasting EPRA NAV is challenging, as it crucially depends on independent valuations. ADLER expects a further significant increase in 2018 reflecting efforts of renovating the existing portfolio, changes in the portfolio and market developments.

	Results 2017	Targets 2018	Δ Target to result in %
Net rental income (EUR m)	170.3	210-220	c. 25
Occupancy rate in %	92.1	94	c.2 PP
Ø Rent EUR/sqm/month	5.21	5.40	c. 4
FFO I (EUR m)	40.5	65 - 70	c. 65
EPRA NAV	1,207.2	-	significantly up
LTV II in %	59.4	55	c. - 4.4 PP
WACD in %	2.72	2.5	c. - 0.2 PP

Previous year's forecasts largely met

ADLER reached or even exceeded all 2017 forecasts formulated in the 2016 Annual Report, with the exception of the occupancy rate. However, the effects of the transitional consolidation of ACCENTRO must be taken into account. Net rental income from continuing operations, for example, rose to EUR 170.3 million, with forecasts of EUR 172.5 million. However, ACCENTRO was still part of the ADLER Group at the time of the forecast. Including ACCENTRO, net rental income would have reached EUR 177 million. The occupancy rate could not be improved as originally envisaged, but the average rent increased significantly more than planned and clearly exceeded the original target of EUR 5.08 at EUR 5.21/month/sqm, almost doubling the performance guided. FFO I exceeded the set target of EUR 40 million by EUR 0.5 million. Although ADLER had also made a forecast for FFO II at the beginning of the year, this figure no longer has any significance after the sale of the shares in the former Group company ACCENTRO Real Estate AG, which is responsible for the trading business.

The expectation for the 2017 EPRA NAV was EUR 1,250 million. EUR 1,207.2 million was reported. Formally, the target seems to have been missed. However, ADLER acquired treasury shares worth EUR 18.5 million in the year under review and made prepayment penalties for the early repayment of higher-interest promissory note loans in the amount of EUR 62.7 million. Excluding these effects – which were not foreseeable at the time of the last forecast – ADLER would have achieved or even exceeded the target value.

The original forecast of the LTV has become obsolete during the course of the year for two reasons. The acquisition of treasury shares and prepayment penalties in connection with the refinancing of promissory note loans, which had a significant impact on the balance sheet structure, must again be mentioned here. In addition, ADLER decided to adapt the calculation of the LTV to the industry-standard procedure to the end of the year. At the end of 2017, LTV II calculated on the new basis – taking into account the convertible bonds – accounted for 59.4 percent, slightly better than in the previous year (59.9 percent). The LTV I could be improved significantly, although the original target of 55 percent was unattainable, in particular due to the acquisition of treasury shares and the prepayment penalties for the refinancing of borrower‘s note loans which had not been considered in the original planning.

The situation with the WACD is comparable. In 2017, it was reduced to 2.72 percent, largely due to refinancing the promissory note loans (which was not included in the forecast) and thus was pushed down significantly below the originally intended target of 3.45 percent.

All in all, the forecasts for 2017 provided a very accurate picture of the economic development of ADLER Real Estate AG, considering that the sale of ACCENTRO, the aquisition of treasury shares and the refinancing of promissory note loans were not included in the forecasts.

6. ADDITIONAL STATUTORY DISCLOSURES

Supplementary disclosures pursuant to § 289a (1) and § 315a (1) of the German Commercial Code (HGB)

Composition of subscribed capital

The fully paid-up share capital of ADLER Real Estate AG amounted to EUR 57,547,740 as of 31 December 2017 (previous year: EUR 47,702,374) and was divided into 57,547,740 no-par bearer shares (previous year: 47,702,374). All shares confer the same rights. Each share grants one vote and determines the bearer's interest in the company's net profit.

Restrictions on voting rights and transfers of shares

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

Direct or indirect voting rights exceeding 10 per cent

The company is aware of the following direct or indirect equity interests accounting for more than 10 percent of voting rights at the end of 2017:

An equity interest held by Mezzanine IX Investors S.A., Luxembourg, Grand Duchy of Luxembourg, consisting of 10,765,316 voting rights in total. Amounting to a total of at least 10,615,316 voting rights thereby attributable, this constituted a 18.71 percent share of capital stock at the balance sheet date. The voting rights held by Fortitudo Capital SPC, Cayman Islands, and Pruß GmbH, Germany, which in turn hold a 18.45 percent share of voting rights, are attributable to Mezzanine IX Investors S.A.

An equity interest held by Mr Klaus Wecken, Basle, Switzerland, and comprising 10,245,176 voting rights in total. Amounting to a total of 4,305,176 voting rights thereby attributable, this constituted a 17.80 percent share of the capital stock at the balance sheet date. The voting rights held by Wecken & Cie, Basle, Switzerland, which in turn holds a 7.48 percent share of voting rights, are attributable to Mr Klaus Wecken.

Shares with special rights granting powers of control

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

Type of voting right control for employee shareholdings

Like other shareholders, employees with an interest in ADLER's share capital exercise their rights of control in accordance with statutory provisions and the Articles of Association. There is no indirect voting right control.

Powers of the Management Board to issue and buy back shares

Authorisation to acquire treasury stock

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

The company has acquired 1,391,902 treasury shares through three share buyback programmes up to the reporting date. This equates to a stake of 2.42 percent in the capital stock on the reporting date.

Authorised Capital 2015/I

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

Authorised Capital 2017/I

Pursuant to § 4 (2) of the Articles of Association, the Management Board is authorised until 9 May 2022, subject to the approval of the Supervisory Board, to increase the company's capital stock on one or several occasions by a total of up to EUR 12,500,000 by issuing up to 12,500,000 new no-par bearer shares in return for cash contributions or contributions in kind (authorised capital 2017/I). The Management Board is authorised, subject to the approval of the Supervisory Board, to exclude shareholders' subscription rights in the cases listed in § 4 (2) of the Articles of Association.

Contingent Capital 2012/I

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

The contingent capital increase exclusively serves to issue shares to the bearers of warrant or convertible bonds issued until 27 June 2017 on the basis of the authorisation granted by the Annual General Meeting on 28 June 2012 in the version as amended by resolution of the Annual General Meeting on 15 October 2013.

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

Following the exercising of conversion rights in connection with the 2013/2017 convertible bond issued on 14 June 2013 (ISIN DE000A1TNEE3), which matures on 27 June 2017, and the exercising of conversion rights in connection with the 2013/2018 convertible bond issued on 17 December 2013 (ISIN DE000A1YCMH2), Contingent Capital 2012/I still amounted to EUR 1,522,740 at the balance sheet date.

Contingent Capital 2015/I

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

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

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

Following the exercising of conversion rights in connection with the 2016/2021 convertible bond issued on 19 July 2016 (ISIN DE000A161XW6), Contingent Capital 2015/I still amounted to EUR 5,334,944 at the balance sheet date.

Contingent Capital 2015/II

Pursuant to § 4 (6) of the Articles of Association, the company's share capital is contingently increased by up to EUR 11,666,666 by issuing up to 11,666,666 new no-par bearer shares.

The contingent capital increase exclusively serves to issue shares to the bearers of the EUR 175 million mandatory convertible bonds that were issued to part finance the acquisition of MountainPeak Trading Limited on 28 December 2015. The contingent capital increase is executed only to the extent that the bearers of the EUR 175 million mandatory convertible bonds exercise their conversion rights or the mandatory convertible bonds are converted as required at the end of the term. The new shares enjoy dividend entitlement from the beginning of the financial year in which they are issued.

Authorisation to issue warrant and or convertible bonds

2015 Authorisation

By resolution adopted by the Annual General Meeting on 22 May 2015 and most recently adjusted and supplemented by resolution of the Annual General Meeting on 9 June 2016, the Management Board is authorised, subject to approval by the Supervisory Board, to issue, on one or more occasions up to and including 21 May 2020, bearer or registered warrant and/or convertible bonds with a total nominal amount of up to EUR 250,000,000 with a maximum term of ten years and to grant the bearers of warrant and/or convertible bonds warrant and/or conversion rights to new no-par bearer shares in the company in accordance with the more detailed terms and conditions of the warrant or convertible bonds.

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

Other disclosures

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

The appointment and dismissal of Management Board members is based on § 76 et seq. AktG. Accordingly, Management Board members are appointed by the Supervisory Board for a maximum term of five years. Repeated terms in office, or extensions in terms in office, in each case by five years, are permitted. In addition, § 7 of the Articles of Association stipulates that the number of Management Board members is determined by the Supervisory Board and that the Management Board consists of one or more persons. It should also be pointed out that the bond conditions of the corporate bonds and convertible bonds issued by ADLER Real Estate GmbH provide for the fact that the respective bond creditors are entitled to demand premature redemption on the conditions set out in the terms of the respective bonds in the event of any potential change of control as a result of a takeover bid. The convertible bonds may also be converted at an adjusted conversion price set out in the terms of the bonds. Likewise, in the case of a change of control event occurring, the beneficiaries of the stock appreciation right programme (SAR programme) introduced by the company are entitled to claim the share of profit participation attributable to the Stock Appreciation Rights granted to them and already vested upon the event occurring. Should a change of control event occur, then each Management Board member also enjoys special termination rights. Should these rights be exercised, then the respective Management Board member is also entitled to receive a settlement payment corresponding to capitalised basic compensation for the originally agreed remaining term of their employment contract, nevertheless limited to a maximum of two years.

6.2 Basic features of compensation system

Management Board compensation

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

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

On 9 June 2016, the company's Annual General Meeting decided to omit an individualised disclosure of Management Board emoluments pursuant to § 285 No. 9 lit. a) Sentence 5 to 8 et seq. of the German Commercial Code (HGB) and § 315a (2), 314 (1) No. 6 lit. a) Sentence 5 to 8 et seq. of the German Commercial Code (HGB).

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

The insurance premiums for the liability insurance concluded by ADLER (D&O insurance) are paid by the company.

Supervisory Board compensation

The Extraordinary General Meeting held by the company on 15 October 2015 adopted a resolution determining that, alongside the reimbursement of their expenses, each member of the Supervisory Board should receive fixed annual compensation, the amount of which should be determined by the Annual General Meeting. The company's Annual General Meeting on 7 June 2017 set the Supervisory Board compensation as follows: for the 2017 financial year and subsequent financial years, alongside the reimbursement of their expenses, each Supervisory Board member shall receive annual compensation of EUR 50,000. The Chairman receives EUR 100,000 and his Deputy receives EUR 75,000.

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

6.3 Corporate governance declaration pursuant to § 289f HGB and § 315d HGB

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

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

7. REPORT ON RISKS AND OPPORTUNITIES

RISK REPORT

Risk management system

The ADLER Group's risk management system is a key component of the Governance-Risk-Compliance rulebook. The compliance management system, the internal control system and internal audit are included as additional elements. Our risk policy is geared towards the planning and implementation of our corporate strategy. In this connection, ADLER takes appropriate risks to exploit entrepreneurial opportunities. Inappropriate risks are to be avoided.

The core function of the Group-wide risk management system is to recognise developments that pose a risk to its existence, to measure risk-bearing capacity and to assess the extent of the threat. Individual risks are only likely to lead to its existence being threatened in extreme cases. Individual risks, which can affect the existence of the company when considered together, are more dangerous. For instance, negative interest rates combined with a simultaneous decline in market rent could have an extremely negative impact on the values of investment properties. This negative impact could also result in non-compliance with financial covenants.

For this reason, ADLER pursues a risk policy that takes account of the Group's risk-bearing capacity.

Following the strategic realignment of the ADLER Group as an integrated real estate company, which covers all stages of the value added process from purchasing property through administering property portfolios, letting property and managing property to selling non-core properties, numerous new internal processes were created and documented. As part of this realignment, a comprehensive record of the processes and individual risks in risk management and risk compliance was produced. More administrative processes – which were previously handled by external managers for ADLER – were increasingly integrated into the ADLER Group in the 2017 financial year. Following the relocation of the company headquarters to Berlin during the previous year, the shared service centre for managing rental accounts for all ADLER Group properties was developed in Hamburg in the 2017 financial year, where rental accounting for rental units also takes place. ADLER Gebäude Service GmbH and ADLER Energie Service GmbH were also developed alongside the further development of ADLER Wohnen Service GmbH. At the end of the financial year, ADLER divested itself of the Privatisation segment with the sale of the majority stake in ACCENTRO Real Estate AG, Berlin. These changes have resulted in new, further requirements for the risk management system. The partial adjustment of risk categorization and the partial change of focus on risks also took place. The requirements for the establishment of new internal controls in the area of compliance and internal audit were also created.

The risk management system comprises all organisational requirements and activities necessary for the systematic, regular and company-wide implementation of the processes needed for risk management. Each risk is assigned to a designated employee. Risk management coordination is incumbent on the Governance-Risk-Compliance department, which keeps the Management Board regularly informed about the Group's overall risk situation. Within the quarterly Supervisory Board meeting framework, the Management Board in turn then reports the findings to the Supervisory Board.

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

An extensive risk catalogue, which was updated in the financial year, documents all material risks, including the compliance-related risks to which ADLER is exposed. This catalogue was reviewed and adjusted to the changes in the ADLER Group's internal structure in the financial year. The Code of Conduct was also rolled out across the Group in the financial year, the welcome folder for new employees with reference to compliance rules was introduced, and external service providers were called in to help with compliance-related questions and compliance audits.

The risk management system is itself described in a risk policy, which was amended in the 2017 financial year and will be updated each year in future and whenever a specific need arises.

Where possible, or required by relevant regulations, risks are covered by appropriate insurance policies in line with market standards, especially for buildings, general operational risks and personnel as well as management. The adequacy of this insurance cover is regularly reviewed by an insurance broker.

The German Corporate Governance Code was updated in February 2017. The more stringent target requirements in the Code were also taken into consideration in Compliance Management. The partial non-application of the Code is reflected in the declaration pursuant to § 289f HGB resp. § 315d HGB and is published in accordance with § 161 Stock Corporation Act.

Risk classification

The risk officers (risk owners) assess the individual risks of their area of responsibility on a quarterly basis as well as on an ad-hoc basis and forward them to central risk management to prepare the risk management report. They assess the risk classification, i.e. the impact that the risk would have on ADLER or the portfolio to be valued, and the probability of risk occurrence. By default, the risk classification is based on the following descriptions:

Risk classification

The risk classification is based on the following classifications:

Classification	Value	Description
Low	1	No significant impact
Medium	2	Slight impact on one or more business processes
Significant	3	Noticeable impact on one or more business processes
Severe	4	Considerable impact on one or more business processes
Dangerous to company/portfolio	5	Impact threatening the existence of the entire company or total/sub-portfolio

Probability of occurrence

The probability of occurrence is based on the following classifications:

Classification	Value	Description
Improbable	1	Risk has not yet occurred, even with comparable companies. Risk cannot be ruled out.
Remote	2	Occurrence is expected within five years, or repeated occurrence in the past seven years.
Infrequent	3	Occurrence is expected within three years, or repeated occurrence in the past five years.
Possible	4	Occurrence is expected within one year, or repeated occurrence in the past two years.
Probable	5	Occurrence is expected within the next three months, or repeated occurrence in the past year.

ADLER measures its risks using a scoring model (1-5) that facilitates the operationalisation, evaluation and weighting of all individual risks at the ADLER Group. The scorings are derived from the average of the figure given as a value in the table above. For each risk, the possible amount of damage and probability of occurrence are determined before the respective (counter) measures (gross method). Material risks are governed by threshold values which, if reached, automatically trigger specific measures, such as a notification duty or the direct implementation of appropriate measures. In this respect, ADLER has set up targeted mitigation measures to reduce or eliminate risks. The risk classification system was adjusted to the new structures and requirements in the financial year.

Internal control system in respect of the financial reporting process

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

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

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

Accounting processes are recorded using accounting systems customary to the market. Sub-ledger accounting for the properties is executed on a decentralised basis using certified housing management software systems. The consolidated financial statements are prepared centrally using a leading IT system which is customary to the market and certified by external specialists. In the WESTGRUND AG subgroup, consolidation is carried out by means of Microsoft Excel with the support of an external auditor.

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

Internal Audit

Because of the expansion in its remit, the ADLER Group has reinforced Internal Audit, both when the situation demands it and when this is not the case, with the aim of stepping up the controls and recognising potential for improvement. Internal Audit's reviews also comprise Compliance audits in part, which also aim to check the effectiveness of the internal control system, the risk management and the compliance management system.

Internal audits were carried out in accordance with the principles of Internal Audit under the direction of the Management Board and the Governance-Risk-Compliance department with the support of external auditors.

Presentation of the most significant individual risks

The ADLER Group is exposed to a range of different risks that, either individually or in aggregate, could have an adverse effect on the Group's asset, financial and earnings position, or on its business performance moving forward. The following risks are listed according to their importance. In determining their importance, the possible effects on the ADLER Group are presented.

Due to the strategic realignment of the ADLER Group and the partial change of processes, the most significant individual risks are as follows:

	Risks	Risk categories	Valuation
1.	Deterioration in the external corporate rating	Market/Financing/operations	High relevance
2.	Valuation risk	Market/ Financing/Accounting	High relevance
3.	Refinancing risk	Financing	High relevance
4.	Risk of non-compliance with financial covenants	Financing	High relevance
5.	Negative change in interest rates	Market/Financing/operations	High relevance
6.	Reduction in the market rent	Market/Financing/operations	Substantial relevance
7.	Increase in the vacancy rate	Market/Financing/operations	Substantial relevance
8.	Profitability risk	Financing/operations	Substantial relevance
9.	Reputational risk – damage to our public image	Market/operations	Substantial relevance
10.	Negative change in the macroeconomic and property sector framework	Market/Real estate law	Substantial relevance

Alongside general risks that apply to all companies, the ADLER Group is exposed in particular to property-specific risks resulting from the purchase, management and sale of property holdings and to real economic and financial risks associated therewith, especially integration risks from previously foreign service providers (property and facility management companies).

(1) Deterioration in the external corporate rating

Over the past few years, the ADLER Group has gradually increased its activities on the capital market and has had an external rating carried out by the international, external rating agency Standard & Poor's (S&P). As a result of the future further intensification of its efforts on the capital market and the aim of obtaining an investment grade rating (BBB rating), the ADLER Group regards the potential deterioration of this external corporate rating as important. However, ADLER considers the likelihood of a current deterioration in the company rating as 'remote'.

Although none of ADLER‘s debt, be it bank loans, bonds or convertible bonds, is currently tied to a specific rating, an investment-grade rating for institutional investors is often a basic requirement of an investment. Obtaining and maintaining an investment-grade rating is therefore important to ADLER for further refinancing on the capital market.

If a rating that has been awarded deteriorates, this will have an impact on the rate of interest paid for financing and the Group’s reputation on the capital market. In addition, if debt is tied to a specific rating, it may be necessary to repay the funds received – depending on the contractual nature of the funding – if the rating deteriorates below a certain level.

ADLER counters this risk by means of a consistent risk strategy and risk measures in the form of Group-wide risk management to improve financial covenants.

(2) Valuation risk

The valuation of properties is a crucial issue for property companies. Essentially, the valuation is influenced by the discount rate, market rent and vacancy rate. In this respect, the risk lies in having to adjust the value of property portfolios if the trend in the parameters mentioned above is negative. There is also the intrinsic risk that the values determined by experts cannot be realised in the market.

The ADLER Group reacts to the valuation risk by commissioning renowned valuation institutes such as Jones Lang LaSalle and by cautiously determining the valuation parameters. The likelihood of occurrence is currently estimated as ‘remote’ by risk officers.

(3) Refinancing risk

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

The interest rate risks chiefly relate to follow-up financing facilities, given that ADLER has only a very low volume of financing facilities with floating interest rates. In the 2017 financial year, ADLER succeeded in placing a corporate bond in the amount of EUR 800 million with a coupon of approximately 1.7 percent. The weighted average cost of debt (WACD) was thus lowered more than budgeted to a value of approximately 2.7 percent. In the current climate and against the backdrop of the issued corporate bond as well as the record low interest rates, the risk of obtaining follow-up financing only at higher interest rates upon the expiry of existing facilities is extremely low.

With interest rates rising moderately again, follow-up financing with sufficient collateral can be expected to be more favourably priced than the expiring facilities for the foreseeable future. ADLER expects refinancing to have a positive effect on cash flow. Any refinancing clusters are countered through adopting solutions and measures in good time.

(4) Risk of non-compliance with financial covenants

Any infringement by the companies in the ADLER Group of obligations under convertible bonds, bonds and loan agreements (financial covenants and bond conditions) may result in the loans becoming prematurely due for repayment, the bonds being prematurely terminated or infringements of contractual conditions identified. Compliance with financial covenants is therefore monitored and managed by the Financing Facilities department on an ongoing basis. It is also monitored within the risk management system at regular intervals or when the situation demands it. Creditors are kept informed of the relevant indicators within the framework of routine bank reporting. Conversations to avoid infringements were held with creditors in good time in the 2017 financial year.

(5) Negative change in interest rates

The ADLER Group only has debts denominated in its functional currency and is therefore only exposed to interest rate risks denominated in euros.

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

The impact of rising interest rates on the IFRS value of investment properties alone is very substantial given the size of the ADLER Group's property assets. If, for instance, the discount rate increases by 0.5percent, this may have a negative impact of approx. ten percent on the value of investment properties and goodwill. ADLER considers the negative interest rate change alone to be a significant risk. The probability of occurrence and the potential increase in interest rates, on the other hand, are considered to be remote.

(6) Reduction in the market rent

The risk of deterioration in the market rent may negatively affect the recoverability of investment properties. For this reason, ADLER considers the risk to be significant. The valuation of investment properties is based on an achievable rent. If this achievable rent is viewed as falling, the property values – considered alone in this development – will decline.

Currently the forecasts for the property sector and the increasing shortage of housing do not seem to make the risk of reducing the market rent very significant. This valuation results from current low probability of risk occurrence due to the general housing shortage.

(7) Increase in the vacancy rate

Another risk of considerable importance and possible impact on the value of the property portfolio and the ADLER Group's earning strength is – in its own right – the increase in the vacancy rate. When viewed in isolation, ADLER sees this risk as considerable in principle. Since above average vacancy rates are being recorded in subportfolios, countermeasures were required to stop the further increase. ADLER is pursuing a policy of targeted investment in its own residential lettings portfolio with the aim of bringing units that were not previously let to the market once more.

ADLER is lowering its vacancy rate by implementing ongoing maintenance measures and programmes. The probability of occurrence of increasing vacancy rates in sub-portfolios is rated as 'possible'.

(8) Profitability risk

A company can be profitable (positive) but not generate a sufficient return. The risk of lack of profitability is considered a significant risk. ADLER counters the risk with decisions on the basis of stated returns before any investment decisions. Subsequent acquisitions or investments are followed by a post calculation to further counter the profitability risk. Following acquisition of a portfolio, it continues to be investigated as part of portfolio management to identify which units are to be sold or which holdings can developed to make them more profitable.

(9) Reputational risk – damage to our public image

Damage to the public image of the ADLER Group (reputational risk) is a considerable risk. The ADLER Group has established a good image on the capital and property market by now. To maintain this and to avoid any loss of reputation, ADLER is at pains at all times to foster an open communication policy with its tenants, business associates and financial partners as well as with its shareholders. This communication is done in different ways to suit the situation. ADLER currently views this risk as considerable but manageable.

(10) Negative change in the macroeconomic and property sector framework

The economic performance of the ADLER Group depends to a material extent on developments in the German property market. This in turn is affected by macroeconomic developments. One principal indicator for the scarcity of rented accommodation is the price paid for the temporary assignment of such. As long as rents continue to rise, as is presently apparent in Germany, the risk of losing tenants due to a change in overall conditions on the housing market, and thus of having to accept higher vacancy rates, is limited.

In the case of regulatory and political measures in the area of property, potential changes must be investigated at short notice and, if necessary, countermeasures developed.

The fact that ADLER has a diversified portfolio in terms of the regions covered throughout the Group can also be viewed as a risk distribution measure. The ADLER Group is represented by its portfolios in eleven federal states. The majority are in the federal states of Lower Saxony, Brandenburg and Saxony, while the other federal states each make up less than ten percent of ADLER's total property portfolio. In addition, the overall Group portfolio is continually being improved. The reporting of non-core holdings that are earmarked for sale serves to identify unviable properties, sell these and thus offset the associated market risk.

Additional risks

Alongside the significant and important risks mentioned above, ADLER is exposed to the usual financial, property-sector-related and operational risks. These risks relate, in particular, to the market price risk of investments, the rent default risk, liquidity risks, investment risks, property and project-specific risks.

In the financial year, ADLER reorganised its information technology (IT) and its processing of electronic data (EDP). ADLER's business processes could be significantly impeded by disruptions, failures or manipulations of its IT systems, as well as by unauthorised access to such systems. To counter this risk, ADLER works exclusively with established market software offering a high standard of security. In the 2017 financial year, ADLER stepped up these precautions and has been using a new IT service provider since the third quarter of 2017, which is transforming its IT into managed information technology. The increased data security requirements introduced by EU General Data Protection Regulation on 25 May 2016 – which will penalise the absence of safeguards as of 25 May 2018 – will be addressed by appropriate measures, technical and organisational regulations and agreements (data protection officers). Furthermore, operations, maintenance and administration contracts concluded with specialist external IT service providers ensure that all electronic applications run as smoothly as possible.

Like any other company, the ADLER Group is also exposed to risks inherent in its own organisational structures (management and organisational risks). ADLER has a lean management and organisational structure. The resultant benefits in terms of lower personnel expenses are countered by the risk of losing staff performing key functions. This risk is reduced with suitable deputisation regulations and by sharing all significant information relevant to ongoing business operations and transactions.

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

Following the devastating fire at a high-rise block in London's North Kensington in mid-June 2017, fire safety has become a topic of public debate in Germany as well. As a professional landlord, ADLER routinely ensures that fire safety requirements are met at all of the Group's properties. We have also refreshed all of our property managers' awareness of this topic and called upon them to carefully review all relevant fire avoidance and fire-fighting procedures in cooperation with fire safety authorities, where necessary. The increased awareness of this issue has triggered measures to further improve fire safety in some locations. The technical survey of high-rise blocks plus properties that are not classified as high-rise is continuing.

The ADLER Group also grew in personnel terms in the 2017 financial year as a result of the internalisation of the Property Management and Facility Management departments. The Group particularly counters personnel risks through a defined selection process and through various measures taken when employees join the Group (welcome folder and instruction).

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

In connection with the divested stake in conwert Immobilien Invest SE, the Austrian Takeover Commission has determined in review proceedings which are now legally binding that the company achieved a controlling stake in conwert by mutual agreement with other persons and then failed to make a mandatory bid as required. The company could therefore be confronted in future with restitution proceedings and administrative penalties. ADLER AG continues to reject the determinations of the Takeover Commission as ascertained in its review as inaccurate and erroneous, due to being verifiable by any second instance.

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

According to the agreement of 19 February 2018, ADLER intends to acquire up to 70 percent of the shares in the future through the purchase of 41.04 percent of Brack Capital Properties N.V (BCP). BCP is a company incorporated under Dutch law. The company is traded on the Tel Aviv Stock Exchange, Israel. Its balance sheet total amounts to approximately EUR 1.6 billion. The purchase and further acquisition of BCP shares involves inherent risks of financing and – in case of later full integration into the ADLER Group – integration risks. The company considers itself well positioned thanks to financial commitments and its own financial resources and sees the risks as manageable.

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

Summary of the ADLER Group's risk situation

The above significant and important risks and the additional further risks currently do not jeopardize the continued existence of ADLER AG and Group management either individually or aggregately. ADLER is convinced that it will succeed in managing the existing threats to its existence and challenges associated with these risks in future as well and will develop countermeasures to avert any threat to its existence in good time.

REPORT ON OPPORTUNITIES

As part of the ADLER Group's opportunity policy, those responsible regularly assess our entrepreneurial opportunities for the entire Group. The evaluation of entrepreneurial opportunities is carried out within the framework of the ADLER Group risk management system by the individual risk officers. The following describes the key opportunities that are closely related to the risks.

Presentation of the most significant individual opportunities

The key opportunities are described below in the order of their importance. This valuation reflects an indication of the current significance of these opportunities for ADLER.

(1) Improvement in the external corporate rating

ADLER was awarded a corporate rating by a well-known international rating agency for the first time in December 2016. The rating was upgraded from BB- to BB in October of the current financial year. A further improvement in the rating and, in particular, obtaining an investment grade rating offers ADLER opportunities with respect to further (re)financing on the capital market. These opportunities are of great importance. These increased in importance for ADLER with the issue of the corporate bond in the fourth quarter of 2017. An investment grade rating also often constitutes a basic requirement for institutional investors to even consider a possible investment.

The current low or negative interest rate policy of the European Central Bank and the Federal Reserve is currently leading to a high degree of investment pressure on the part of (institutional) investors. This was also reflected in the financial year by the two-and-a-half times oversubscription of ADLER's bond of EUR 800 million placed in November. ADLER can benefit from this investment pressure since an improvement in the rating could further reduce the weighted average cost of debt (WACD).

The importance of the external corporate rating is considered essential by the Management Board. Further investments with financing via the capital market are planned as promotional measures.

(2) Operating opportunities of the integrated real estate company

ADLER sees the 2016 launched programme to renovate vacant residential units, which was extended in the 2017 financial year, as a particularly significant opportunity to improve its occupancy rates and rental income. Initial experience shows that, following renovation, the apartments become marketable once again and can be let at appropriate prices. The investment funds, which have been earmarked for the project in the 2017 financial year, should pay off in the medium term. ADLER also saves on existing vacancy costs by letting apartments that were previously vacant.

ADLER intends to extend its value chain in the future by including activities over and above the mere letting of apartments and has to this end founded a proprietary energy supply company, ADLER Energie Service GmbH. The aim is to replace existing energy suppliers, internalise energy procurement and supply activities for the Group's housing portfolios and thus secure part of the energy supply value chain for the Group. All legal and organisational measures were taken in the 2017 financial year. The company started operating at the beginning of 2018. Economies of scale and potential savings in energy management are expected in the future.

The internalisation of the Property and Facility Management departments, which had started the previous year, was largely completed in the 2017 financial year. Almost all housing portfolios have been managed in-house since the beginning of 2018. The organisation of the integration of rental housing management and billing as well as extensive management by means of its own facility management has been implemented with the realignment of ADLER Wohnen Service GmbH and ADLER Gebäude Service GmbH. Cost savings and further economies of scale are expected due to ADLER AG's own administration and support of property portfolios within the main process of property management.

The stake in ADLER Assekuranzmakler GmbH & Co. KG will bring improved insurance benefits and continue to lead to added value and more intensive support for ADLER companies.

(3) Refinancing opportunity

The current interest rate level, the good rating and any expiring fixed interest rates are currently providing the ADLER Group with opportunities for further good refinancing on the capital market and with commercial banks. Thus, the weighted average cost of debt financing could be reduced above plan to around 2.7 percent.

(4) Positive change in interest rates

The possibility of using lower interest rates also offers ADLER financial opportunities. The fall in interest rates observed in recent years led to falling discount rates for property valuations, which led in turn to higher IFRS values (fair value). Sensitivity analyses in the reduction of the discount rate by 0.5 percent have led to an increase in IFRS values by about 11 percent for ADLER. However, the parameters of market rent and vacancy should also be considered in this context as they could exacerbate this development or have an opposite effect. This opportunity is essentially rated as significant and important. The probability of occurrence of a (further) decreasing interest rate is regarded as low.

(5) Increase in the market rent

Rising market prices are currently observed everywhere. ADLER also recorded an increase in its average rent price in the 2017 financial year. In this respect, ADLER also believes that there is an opportunity in future for further growth in market prices to have a positive impact on the IFRS values of investment properties. The continuing high demand for housing with dwindling supply due to low construction permits and full utilization of the construction companies is leading to rising market rents and thus to higher fair values of the properties. The opportunity is considered essential as more factors speak in favour of an increase than against it.

(6) Reduction in the vacancy rate

ADLER was able to achieve substantial earnings and a reduction in the vacancy rate in the 2016 and 2017 financial years through intensive programmes to modernise previously vacant residential units. For this reason, ADLER started a second modernisation programme in the 2017 financial year to further reinforce and intensify this trend. The financial opportunities were reflected in the higher profitability of property portfolio and in the savings in vacancy costs as a result of the leasing. In addition, residential estates are becoming more attractive due to higher occupancy rates and investments in the district, and staff turnover is falling, leading to further savings (rental commissions, lettings renovations, temporary vacancies).

(7) Digitalisation in the ADLER Group

ADLER sees further digitalisation as an opportunity to make administrative processes more efficient and thereby permanently reduce administrative expenses.

The Group-wide introduction of the standardized ERP management software 'WODIS-Sigma' creates the basis for the uniform recording of all tenant and property data and secures the basis for timely and comprehensive reporting and controlling of all property activities. In addition, a tenant app was developed in the financial year to enable better communication with the tenants. The planned introduction of a 'Real Estate Operation Centre' will provide the tenants with a central communication platform in the future. The associated increase in efficiency should also have a positive effect on ADLER's cost structure.

In the digitalisation area, a pilot project on the use of mobile solutions in property management by electronic means will be introduced at the end of the financial year. Improving communication with the tenant is also the top priority here. So it is conceivable that apartment handovers will take place by electronic means.

(8) Opportunities in purchasing and selling properties

'Profit is in purchasing' is a phrase often cited in property circles. The chances of making a 'lucky buy' are reduced with a higher information density. Nevertheless, there are good opportunities for property buying and selling if market participants want to withdraw for strategic reasons or if they have a financial emergency. Due to its market position and market power, ADLER has great opportunities when purchasing property or even in the sale of non-core properties without time pressure to generate profit opportunities. The profit opportunities in sales have increased in a few years, especially in times of significant increases in the market value of properties.

(9) Opportunities in project development

In addition to classic portfolio management, there is another core process within the ADLER Group in the area of project development. Although project developments are generally associated with risks in the form of cost increases, with professional project management and the establishment of good framework arrangements, these risks may be subordinated to opportunities. The ADLER Group sees good opportunities for future project developments and developments of existing properties (densification, increasing floors and modernisation, especially in the locations of Göttingen and Wolfsburg) to create affordable housing, to seize opportunities and to generate financial benefits.

Past experience and the consideration of the current market situation in project development show significant (return) opportunities for ADLER. In the past financial year, it was increasingly difficult for ADLER to acquire property portfolios at a factor of the annual net rental income per annum accepted in the past due to an increasing shortage of supply. Project development can contribute to the fact that newly constructed properties have an overall better quality than offered portfolios and thus have a higher potential for generating rents above the group average. The non-operating costs are often also lower than those of properties with higher vacancy rates.

(10) Positive change in the macroeconomic and property sector framework

The ADLER Group continued to improve its financial stability in the 2017 financial year, the further consolidation of the organisational structure and the development towards an integrated property group were driven forward and largely completed. As a result, ADLER has moved up into the group of significant German listed property players. In the fourth quarter of 2017, ADLER divested itself of its majority holding in ACCENTRO Real Estate AG with economic success and in pursuit of its corporate strategy.

ADLER distinguishes itself from key competitors by focusing its property investments primarily in B locations and/or on the outskirts of conurbations. These kinds of property holdings are typically characterised by higher vacancy rates but also by higher rent yields than properties in central or A locations. Peripheral locations benefit to a particularly marked extent from tight rental markets in city centres. Once no apartments are available in desirable locations, demand automatically shifts to the surrounding areas. This represents one of ADLER's most significant business opportunities. The consideration of opportunities and risks are inseparable. For this reason, ADLER pursues a risk-oriented opportunity policy.

There is still a high level of demand for apartments. It continues to be driven by the same factors that played a key role in past years – demographic change, the increasing number of single-person households and people's ongoing inclination to head to cities and avoid the country. It is true that signs of an urban exodus to the outskirts of major cities are also apparent. However, this trend is overlaid by the arrival of people from abroad – people from other European countries looking for work in Germany and people coming to Germany from outside the European Union in order to apply for asylum here.

Furthermore, despite growing demand in the "affordable" housing segment in which ADLER operates, there is hardly any new supply. Compared with previous years, more apartments were built and approved in 2017. However, prices for newly built apartments are significantly higher than those for existing housing, with correspondingly marked differences in rental prices. For pricesensitive tenants, living in apartments such as those offered by ADLER generally represents the most appealing option.

Summary of the ADLER Group's opportunity situation

Considering the current property sector policy and framework, the above opportunities of the ADLER Group are promising.

The further improvement of the financial covenants such as IFRS property values as a result of price increases, loan to value, and lower weighted average cost of debt (WACD) are just some of the parameters. The current low interest rate level is one of the determining factors in realising our opportunities.

However, the trend-setting realignment of the ADLER Group into an integrated property group, the future-increased concentration on the capital market and the investment in A and B locations also offered opportunities for a positive further development of the ADLER Group.

8. REPORTING FOR ADLER REAL ESTATE AG ACCORDING TO GERMAN COMMERCIAL LAW

The management report of ADLER Real Estate AG (ADLER AG) is combined with the group management report of the ADLER AG according to Section 315 (5) of the German Commercial Code (Handelsgesetzbuch – HGB) in connection with Section 298 (2) HGB. In addition to the reporting on the ADLER Group, the development of ADLER AG is presented below.

Contrary to the consolidated financial statements, the annual financial statements of ADLER AG are not prepared in accordance with the International Financial Reporting Standards (IFRS), but instead according to the rules of the German Commercial Code (Handelsgesetzbuch – HGB).

8.1 BUSINESS FUNDAMENTALS AND ECONOMIC REPORT

ADLER AG conducts its business through independent subsidiaries. As an operating investment holding company, the Company provides customary management, administrative and financing functions to its Group companies. ADLER AG is integrated in the Group-wide management system.

Due to the connections between ADLER AG and the Group companies, the macroeconomic and industry-specific development as well as the economic development correspond to those of the Group.

8.2 RESULTS FROM OPERATIONS, NET ASSETS AND FINANCIAL POSITION

Result of operations

Due to its holding function, ADLER AG's result of operations is characterised by cost allocations to subsidiaries and their functional expenses.

In EUR m	2017	2016
Turnover	5.7	4.0
Other operating income	75.4	0.2
Personnel expenses	-1.2	-2.2
Other operating expenses	-33.2	-18.6
Income from participations	0.1	0.1
Income from securities and lendings of financial assets	16.2	16.8
Other financial and similar income	13.3	4.2
Depreciation on financial assets and on securities from currents assets	-2.3	-22.4
Other financial and similar expenses	-42.3	-40.2
Income taxes	0.1	0.0
Earnings after taxes	**31.8**	**-58.2**
Other taxes	0.0	-0.1
Net result/Net loss	**31.8**	**-58.3**
Losses carried forward from previous year	0.0	-42.7
Transfer from capital reserves	0.0	100.9
Purchase of treasure shares	-17.1	0.0
Net retained profit	**14.7**	**0.0**

In the 2017 financial year, ADLER AG generated revenue amounting to EUR 5.7 million (previous year: EUR 4.0 million) from services to Group companies.

Other operating income increased from EUR 75.2 million in the previous year to EUR 75.4 million. The reason for this improvement is the income of EUR 73.4 million generated by ADLER from the sale of the majority of its stake (80.0 percent) in ACCENTRO. The sale became economically effective on 30 November 2017.

Personnel expenses amounted to EUR 1.2 million. The decline compared to the previous year, when personnel expenses were EUR 2.2 million, is attributable to changes in the Management Board. In 2016, the Management Board consisted of three people, then only two by the middle of the year.

Other operating expenses rose by EUR 14.6 million year-on-year to EUR 33.2 million. The changes compared to the previous year mainly related to the costs of issuing an EUR 800 million bond at the end of the year and tapping an existing bond by EUR 150 million in the spring. The expenses thus incurred totalled EUR 16.4 million (comparable expenses in the previous year: EUR 5.9 million) plus legal and advisory costs of EUR 6.2 million (previous year: EUR 4.7 million).

The Company generated income of EUR 29.5 million (previous year: EUR 21.0 million) from loans to Group companies and current financial and security investments. The year-on-year increase is particularly due to the acquisition of further promissory note loans and a dividend from ACCENTRO.

These incomes are offset by interest expenses of EUR 42.3 million (previous year: EUR 40.2 million), which mainly result from issued bonds and convertibles.

Write-downs of long-term financial assets and investments classified as current assets amounted to EUR 2.3 million in the 2017 financial year and thus declined significantly compared to the previous year (EUR 22.4 million). They include write-downs on other securities classified as current assets amounting to EUR 1.0 million and a further unscheduled write-downs on the MountainPeak Trading Limited shares totalling EUR 1.1 million. A write-down of EUR 22.2 million had already been made on the shares of this subsidiary in the 2016 financial year. The investment in MountainPeak Trading Limited suffered permanent impairment due to the sale of the 25.7 percent stake in the Austrian company conwert Immobilien Invest SE to Vonovia SE in January 2017 as part of Vonovia‘s voluntary takeover bid to the shareholders of conwert.

ADLER AG reports net income of EUR 31.8 million for the 2017 financial year (previous year: net loss of EUR 58.3 million). This positive earnings performance is largely attributable to the income from the sale of the shares in ACCENTRO.

On 16 June 2017, ADLER began a share buyback program, which has been supplemented twice in the course of the year. In total, 1,391,902 no-par-value shares were acquired as of 31 December 2017. The nominal amount of EUR 1.4 million of the treasury shares acquired will be deducted from the subscribed capital and the additional acquisition costs of EUR 17.1 million will reduce the net retained profit.

Financial position and net assets

In EUR m	31.12.2017	31.12.2016
Non-current assets	**751.8**	**788.9**
Financial assets	750.1	787.4
Property, plant and equipment	1.7	1.5
Current assets	**1,062.3**	**139.6**
Receivables agains associatd companies	324.6	29.1
Other assets	177.1	22.8
Other securities	533.4	63.2
Deposits	27.2	24.5
Deferred income	**21.9**	**27.6**
Assets	**1,836.0**	**956.0**
Equity	**98.6**	**76.0**
Capital stock (minus treasury stock)	56.2	47.7
Capital reserve	27.8	28.3
Retained profit	14.7	0.0
Provisions	**4.0**	**3.6**
Liabilities	**1,728.4**	**876.2**
Liabilities from convertibles and bonds	1,662.4	851.1
Trade payables	1.9	0.3
Liabilities against associated companies	63.4	24.5
Other liabilities	0.7	0.2
Deferred expenses	**5.0**	**0.3**
Equity and liabilites	**1,836.0**	**956.0**

In 2017, ADLER AG's balance sheet total almost doubled compared with the previous year. This increase in the balance sheet total is mainly due to the fact that ADLER AG raised an EUR 800 million bond at the end of the year in order to repurchase existing promissory note loans of its subsidiaries. Some of this took place in 2017, while part of the repurchase has taken place in the first quarter of 2018. This is reflected in particular in liabilities from convertibles and bonds, other securities and receivables from affiliated companies.

Because ADLER AG is a Group parent company, its assets consist primarily of financial assets. In 2017, its financial assets amounted to EUR 750.1 million (previous year: EUR 787.4 million). Other material assets include EUR 324.6 million in receivables from affiliated companies (previous year: EUR 29.1 million), EUR 533.4 million in securities classified as current assets (previous year: EUR 63.2 million), EUR 27.2 million deposits with banks (previous year: EUR 24.5 million) and EUR 21.9 million in prepaid expenses (previous year: EUR 27.6 million).

Excluded from the financial assets are:

- EUR 411.2 million (previous year: EUR 217.5 million) to Münchener Baugesellschaft GmbH, of which EUR 7.7 million (previous year: EUR 7.7 million) for shareholding and EUR 403.5 million (previous year: EUR 209.8 million) on loans to this company.

- EUR 265.7 million (previous year: EUR 265.2 million) for WESTGRUND AG shareholding. In the 2017 financial year, ADLER acquired further shares in WESTGRUND at a price of EUR 0.5 million.

- EUR 58.7 million (previous year: EUR 213.5 million) on the investment in MountainPeak Trading Limited, through which the shares in the Austrian company conwert Immobilien Invest SE were held until the sale in January 2017. Of this, EUR 58.4 million (previous year: EUR 59.5 million) is attributable to the shareholding and EUR 0.4 million (previous year: EUR 154.0 million) to loans to MountainPeak Trading Limited. In the 2017 financial year, a further write-down on the investment in MountainPeak Trading Limited of EUR 1.1 million was made due to a permanent impairment. MountainPeak has paid the proceeds from the sale of its shares in conwert to ADLER, meaning that the loan has been largely repaid and that ADLER has liabilities to MountainPeak of EUR 58.8 million as at the balance sheet date.

- EUR 0.0 million (previous year: EUR 78.3 million) for shareholding in ACCENTRO Real Estate AG. On 20 October 2017, ADLER reached an agreement to sell an 80 percent stake in ACCENTRO. The buyer is a partnership advised by Vestigo Capital Advisors LLP, a company authorised and regulated by the UK Financial Conduct Authority. With economic effect as of 30 November 2017, ADLER lost controlling influence over ACCENTRO and the interest of EUR 72.6 million was disposed of. In this context the remaining interest in ACCENTRO of EUR 5.7 million (6.2 percent) was reclassified to other securities classified as current assets.

Receivables from affiliated companies rose by EUR 295.5 million to EUR 324.6 million. Of this amount, EUR 259.8 million is attributable to receivables with the subsidiaries WBR Wohnungsbau Rheinhausen GmbH, Magnus Zweite Immobilienbesitz und Verwaltungs GmbH, Magnus Dritte Immobilienbesitz und Verwaltungs GmbH, Magnus-Relda Holding Vier GmbH and Wohnungsbaugesellschaft Jade mbH. This is the deposit of purchase prices for borrower‘s note loans where the respective companies are borrowers. In the 2018 financial year, these promissory note loans will be acquired by the existing creditors in the name and for the account of ADLER.

The increase in other assets amounting to EUR 177.1 million (previous year: EUR 22.8 million) is due in particular to the purchase price receivable from the sale of ACCENTRO. A purchase price of EUR 146.0 million was agreed for the shareholding. In addition to the investment, the 2014/2019 convertible bonds issued by ACCENTRO, which ADLER acquired in the first quarter of 2017, were also sold to the buyer of the investment. The purchase price for the convertible bonds was set at EUR 35.3 million. In total, EUR 20.0 million was paid by the buyer when the contract was concluded on 20 October 2017. The remaining purchase price receivable at the amount of EUR 161.3k is to be paid by the end of November 2018, subject to customary interest and collateral. By contrast, short-term interest-bearing loans decreased by EUR 12.7 million.

Other securities classified as current assets amounting to EUR 533.4 million (previous year: EUR 63.2 million) include interest-bearing borrower‘s note loans of EUR 509.1 million (previous year: EUR 62.4 million). Furthermore, in the 2017 financial year, a short-term fixed-interest bond with a fair value of EUR 17.8 million and the remaining shares in ACCENTRO amounting to EUR 5.7 million were reported.

Deposits with banks increased to EUR 27.2 million (previous year: EUR 24.5 million).

Prepaid expenses of EUR 21.9 million (previous year: EUR 27.6 million) essentially comprised the premium resulting from the issuance of convertibles and bonds.

Equity rose by EUR 22.6 million to EUR 98.6 million (previous year: EUR 76.0 million), due particularly to the annual result of EUR 31.8 million (previous year: EUR -58.3 million). The Annual General Meeting of ADLER decided on 7 June 2017 to increase the capital stock by EUR 4.8 million from company funds by issuing 4,773,135 no-par ordinary shares (bonus shares). Capital reserve was reduced accordingly. Through the exercise of conversion rights subscribed capital increased by EUR 5.1 million and the capital reserve by EUR 4.3 million. The purchase of treasury shares in the amount of EUR 18.5 million had a counteracting effect. ADLER reports net retained profit of EUR 14.7 million (previous year: EUR 0.0 million) at the end of the financial year. The equity ratio amounts to 5.4 percent (previous year: 8.0 percent) as at the balance sheet date.

Liabilities increased overall by EUR 852.2 million to EUR 1,728.4 million (previous year: EUR 876.2 million), with EUR 811.3 million of this increase being attributable to liabilities from convertibles and bonds. In December 2017, the EUR 500.0 million 2017/2021 bond and the EUR 300.0 million 2017/2024 bond were issued. The outstanding 2013/2017 convertible bond was due on 30 June 2017, but was almost completely converted into ADLER shares. The EUR 130 million 2014/2019 bond was terminated and prematurely repaid on 10 May 2017. The 2015/2020 bond was tapped by EUR 150.0 million in April 2017.

Deferred income of EUR 5.0 million (previous year: EUR 0.3 million) mostly comprises the difference between the issue price (104.4 percent) and the nominal value from tapping the 2015/2020 bond.

At all times, ADLER AG was able to meet its payment obligations.

Overall summary of business performance and position of the Company

Given the further development of existing property portfolios, the successful initiation of the 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 Company are assessed as positive. A foundation has been laid for a stable performance in the future.

8.2 REPORT ON EVENTS AFTER THE BALANCE SHEET DATE

Significant events after the balance sheet date correspond to the matters described in the report on events after the balance sheet date of the ADLER Group.

8.3 REPORT ON EXPECTED DEVELOPMENTS

The expectations for ADLER AG are reflected in the forecast of the ADLER Group due to their links with the Group companies.

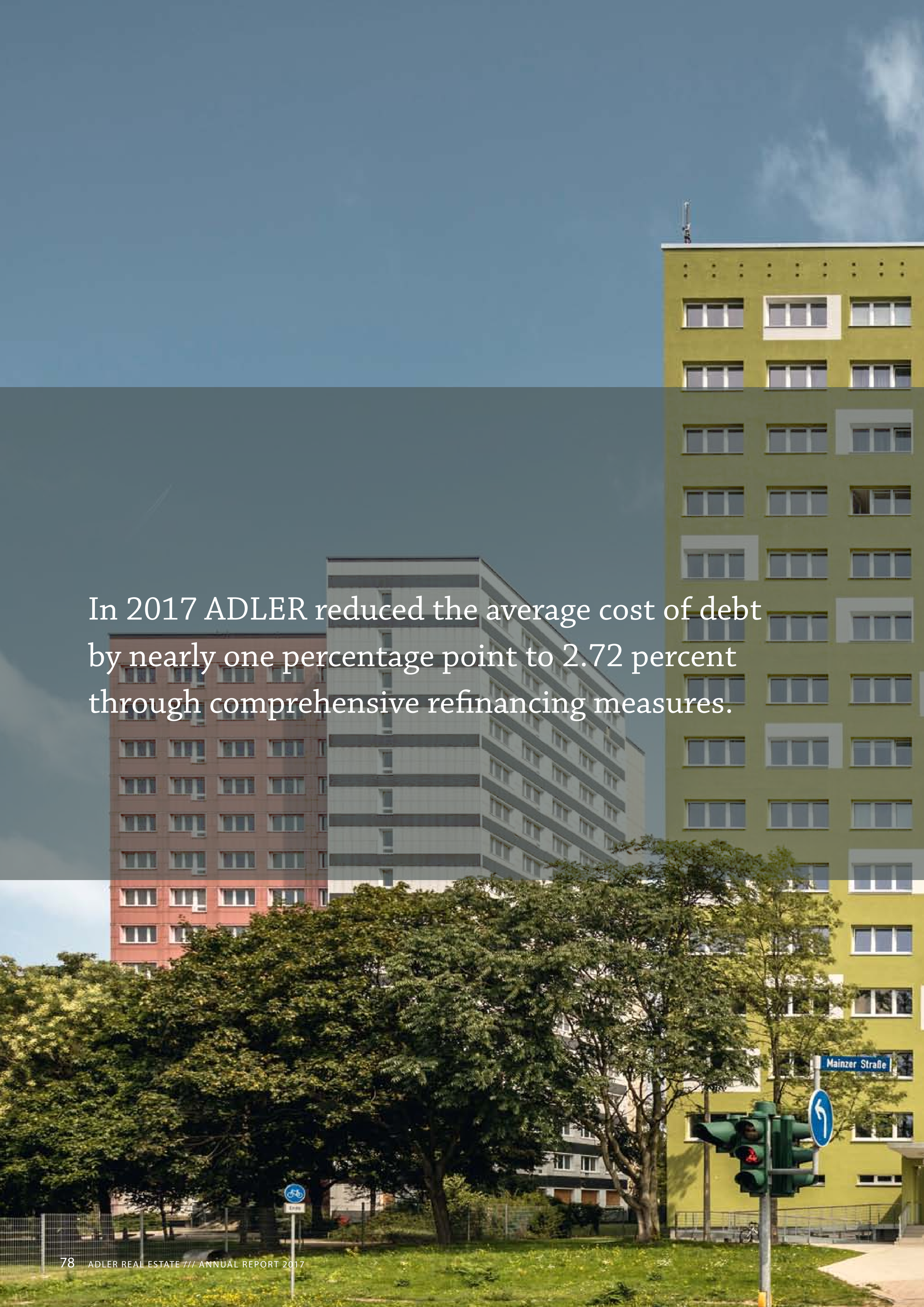
ADLER AG expects a negative result in the separate financial statements for the 2018 financial year since the success of business activity is only evident in the subsidiaries, expenses are incurred within the framework of the holding structure and, moreover, it cannot be expected that income from the sale of assets as in 2017 will be generated again in 2018.

8.4 REPORT ON RISKS AND OPPORTUNITIES

As parent company of the ADLER Group, ADLER AG is integrated in the Group risk management system and the Group accounting-related internal control system. ADLER AG's business development is essentially subject to the same opportunities and risks as the ADLER Group.

Berlin, den 22. March 2018

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



In 2017 ADLER reduced the average cost of debt by nearly one percentage point to 2.72 percent through comprehensive refinancing measures.

/// Consolidated Balance Sheet
/// Consolidated Statement of Income and Accumulated Earnings
/// Consolidated Cash Flow Statement
/// Consolidated Statement of Changes in Equity

/// CONSOLIDATED BALANCE SHEET

(IFRS) as at 31 December 2017

In EUR '000	Note	31.12.2017	31.12.2016
Assets		**3,778,967**	**3,430,477**
Non-current assets		**3,125,490**	**2,577,578**
Goodwill	8.1	101,198	130,552
Intangible assets	8.1	567	583
Property, plant and equipment	8.2	4,948	3,434
Investment properties	8.3	3,018,518	2,441,988
Loans to associated companies	8.4	0	0
Investments in associated companies	8.5	25	497
Other financial investments	8.6	28	69
Other non-current assets	8.6	205	48
Deferred tax assets	8.7	0	408
Current assets		**629,895**	**418,211**
Inventories	8.8	2,978	227,057
Trade receivables	8.9	10,717	11,749
Income tax receivables	8.9	4,459	1,407
Other current assets	8.9	243,508	54,086
Cash and cash equivalents	8.10	368,233	123,911
Non-current assets held for sale	**8.11**	**23,582**	**434,688**

In EUR '000	Note	31.12.2017	31.12.2016
Equity and liabilities		**3,778,967**	**3,430,477**
Shareholders' equity		**1,037,500**	**914,222**
Capital stock	8.12	57,548	47,702
Treasury shares	8.12	-1,392	0
		56,156	47,702
Capital reserve	8.13	350,203	352,105
Retained earnings	8.14	-1,310	-2,510
Currency translation reserve	8.15	86	90
Net retained profit		555,442	445,786
Equity attributable to owners of the parent company		960,576	843,174
Non-controlling interests	8.16	76,924	71,048
Non-current liabilities		**2,363,126**	**2,111,222**
Pension provisions	8.17	3,989	4,954
Deferred tax liabilities	8.7	164,571	113,142
Other provisions	8.18	1,664	1,622
Liabilities from convertible bonds	8.19	119,731	143,870
Liabilities from bonds	8.20	1,277,640	509,454
Financial liabilities to banks	8.21	749,188	1,312,502
Other non-current liabilities	8.22	46,344	25,677
Current liabilities		**377,512**	**397,482**
Other provisions	8.18	46	3,926
Income tax liabilities	8.23	2,516	13,969
Liabilities from convertible bonds	8.19	6,505	1,554
Liabilities from bonds	8.20	42,679	8,281
Financial liabilities to banks	8.21	278,676	320,328
Trade payables	8.23	29,125	22,492
Other current liabilities	8.23	17,964	26,931
Liabilities held for sale	8.11	**829**	**7,553**

/// CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(IFRS) for the period from 1 January to 31 December 2017

In EUR '000	Note	2017	2016[1]
Gross rental income	9.1	264,388	245,802
Expenses from property lettings	9.2	-138,589	-136,771
Earnings from property lettings		**125,799**	**109,031**
Income from the sale of properties	9.3	38,854	41,905
Expenses from the sale of properties	9.4	-34,065	-42,408
Earnings from the sale of properties		**789**	**-503**
Personnel expenses	9.5	-20,302	-16,694
Other operating income	9.6	9,508	7,927
Other operating expenses	9.7	-38,535	-30,390
Income from fair value adjustments of investment properties	9.8	235,386	199,677
Depreciation and amortisation	9.9	-826	-560
Earnings before interest and tax (EBIT)		**311,820**	**268,487**
Financial income	9.10	5,392	2,509
Financial costs	9.11	-158,775	-122,876
Net income from at-equity valued investment associates	9.12	0	10,653
Earnings before tax (EBT)		**158,437**	**158,772**
Income taxes	9.13	-52,066	-46,036
Consolidated net profit from continuing operations		**106,371**	**112,736**
Earnings after taxes of discontinued operations	9.14	36,260	21,040
Consolidated net profit		**142,631**	**133,776**
Actuarial gains/losses before taxes	8.17	821	-823
Deferred taxes on actuarial gains/losses	8.17	-244	260
OCI gains/losses not reclassifiable into profit or loss		**577**	**-563**
OCI SWAP – reclassifiable	10.3	0	-399
Deferred taxes OCI – reclassifiable	10.3	0	129
OCI own bonds – reclassifiable		0	0
Gains/losses from currency translation	8.15	-4	-2
Change in value of interests in companies accounted for under at-equity	8.5	1,589	-1,589
Change in value of available-for-sale financial assets	10.1	-966	0
OCI gains/losses not reclassifiable into profit or loss		**619**	**-1,861**
Total comprehensive income		**143,827**	**131,352**

In EUR '000	Note	2017	2016[1]
Carry-over total comprehensive income		**143,827**	**131,352**
Net profit from continuing operations :			
Owners of the parent company		92,112	102,812
Non-controlling interests		14,259	9,924
Consolidated net profit attributable to:			
Owners of the parent company		126,754	120,948
Non-controlling interests		15,877	12,828
Total comprehensive income attributable to:			
Owners of the parent company		127,950	118,524
Non-controlling interests		15,877	12,828
Earnings per share, basic in EUR (consolidated net profit from continuing operations)	9.15	1.39	1.63
Earnings per share, diluted in EUR (consolidated net profit from continuing operations)	9.15	1.30	1.50
Earnings per share, basic in EUR (consolidated net profit) [2]	9.15	1.91	1.92
Earnings per share, diluted in EUR (consolidated net profit) [2]	9.15	1.78	1.76

[1] Adjusted statement due to sale of trading, see comments in the notes for the group financial statements (2.1 Basis of preparation)
[2] Previous year adjusted corresponding to IAS 33.64; please see comments in notes to the consolidated statements under earnings per share

/// CONSOLIDATED STATEMENT OF CASH FLOWS

(IFRS) for the period from 1 January to 31 December 2017

	In EUR '000	2017	2016
	Earnings before interest and taxes (EBIT) – continuing and discontinued operations	359,086	301,835
+	Depreciation and amortisation	1,173	1,174
–/+	Net income from fair value adjustments of investment properties	-235,386	-199,677
–/+	Non-cash income/expenses	-12,582	6,555
–/+	Changes in provisions and accrued liabilities	-2,673	2,790
–/+	Increase/decrease in inventories, trade receivables and other assets not attributable to investment or financing activities	-11,245	15,009
–/+	Increase/decrease in trade payables and other liabilities not attributable to investment or financing activities	6,036	-8,529
+	Interest received	3,048	714
+	Dividends received	223	8,720
+/–	Tax payments	-8,479	-1,164
=	**Operating cash flow before de-/reinvestment into the trading portfolio**	**99,201**	**127,427**
–/+	Increase/decrease in inventories (commercial properties)	-62,853	-26,877
=	**Net cash flow from operating activities**	**36,348**	**100,550**
	thereof continuing operations	66,221	80,239
	thereof discontinued operations	-29,873	20,311
–	Acquisition of subsidiaries, net of cash acquired	-154,061	-16,666
+	Disposal of subsidiaries, net of cash disposed	7,133	3,968
–	Purchase of investment properties	-79,081	-40,659
+	Disposal of investment properties, net of cash disposed	32,618	45,813
–	Purchase of property, plant and equipment and intangible assets	-2,827	-537
+	Disposal of property, plant and equipment and intangible assets	56	398
–	Payments into short-term deposits	-28,244	-20,024
+	Payments from short-term deposits	20,822	27,187
+	Proceeds of from deinvestments of financial assets less costs to sell	416,260	0
–	Investments in financial assets	0	-78,979
=	**Net cash flows from investing activities**	**212,676**	**-79,499**
	thereof continuing operations	212,766	-80,738
	thereof discontinued operations	-90	1,239
–	Payments for acquisition of treasury shares including acquisition costs	-18,507	0
–	Transactions with non-controlling interests	-4,811	0
+	Proceeds from issue of convertible bonds	0	131,006
–	Payments for acquisition and repayment of convertible bonds	-35,178	0
+	Proceeds from issue of bonds	956,545	23,651
–	Repayment of bonds	-142,100	0
–	Payments from issuing debt	-19,366	-5,261
–	Interest payments	-147,112	-94,166
+	Proceeds from bank loans	170,182	509,727
–	Repayment of bank loans	-764,355	-511,599
=	**Net cash flows from financing activities**	**-4,702**	**53,358**
	of which from continuing operations	-17,284	56,230
	of which from discontinued operations	12,582	-2,872

	In EUR '000	2017	2016
	Reconciliation to Consolidated Balance Sheet		
	Cash and cash equivalents at beginning of periods	**123,911**	**49,502**
	Net cash flow from operating activities	36,348	100,550
	Net cash flow from investing activities	212,676	-79,499
	Net cash flow from financing activities	-4,702	53,358
=	**Cash and cash equivalents at end of periods**	**368,233**	**123,911**

/// CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(IFRS) for the period from 1 January to 31 December 2017

In EUR '000	Capital stock	Treasury shares	Capital reserves
As at 1 January 2016	**46,103**	**0**	**449,360**
Consolidated net profit	0	0	0
Withdrawals from reserves	0	0	-100,946
Other comprehensive income (OCI) – reclassifiable	0	0	0
Other comprehensive income (OCI) – non-reclassifiable	0	0	0
Change in scope of consolidation	0	0	0
Increase/decrease in shareholding with no change in status	0	0	-12,888
Convertible bond issue	0	0	12,676
Conversion of convertible bonds	1,599	0	3,903
As at 31 December 2016	**47,702**	**0**	**352,105**

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 payments to shareholders	0	0	0
Change in scope of consolidation	0	0	0
Increase/decrease in shareholding with no change in status	0	0	-1,369
Capital increase from company funds	4,773	0	-4,773
Acquisition of treasury shares	0	-1,392	0
Convertible bond acquisition	0	0	0
Conversion of convertible bonds	5,073	0	4,240
As at 31 December 2017	**57,548**	**-1,392**	**350,203**

Retained earnings	Currency translation reserve	Net retained profit	Equity attributable to the owners of the parent company	Non-controlling interests	Total equity
-88	**92**	**223,891**	**719,358**	**58,562**	**777,921**
0	0	120,949	120,949	12,828	133,777
0	0	100,946	0	0	0
-1,859	-2	0	-1,861	0	-1,861
-563	0	0	-563	0	-563
0	0	0	0	748	748
0	0	0	-12,888	-1,838	-14,726
0	0	0	12,676	0	12,676
0	0	0	5,502	748	6,250
-2,510	**90**	**445,786**	**843,173**	**71,048**	**914,222**
-2,510	**90**	**445,786**	**843,173**	**71,048**	**914,222**
0	0	126,753	126,753	15,878	142,631
632	-4	0	619	0	619
577	0	0	577	0	577
0	0	0	0	-511	-511
0	0	0	0	-2,973	-2,973
0	0	0	-1,369	-6,960	-8,329
0	0	0	0	0	0
0	0	-17,097	-18,489	0	-18,489
0	0	0	0	0	0
0	0	0	9,313	442	9,755
-1,310	**86**	**555,442**	**960,576**	**76,924**	**1,037,500**

In 2017 ADLER spent EUR 15 million on the renovation of 1,300 previously vacant apartments. This programme will be continued in 2018, with EUR 12 million allocated to the renovation of a further 1,000 residential units.

/// Notes to the Consolidated Financial Statements 2017

/// NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

Furthermore, ADLER's core activities also included trading with residential properties and individual apartments. Within the ADLER Group, trading activities were largely covered by the Group's majority interest in the listed company ACCENTRO Real Estate AG (hereinafter "ACCENTRO"). Mid-October 2017 ADLER has sold most of its shares in ACCENTRO. Please refer to our comments under 2.1 Basis for the preparation of financial statements and 4.4 Disposal of ACCENTRO.

The consolidated financial statements and the group management report were approved for publication by the Management Board, subject to approval by the Supervisory Board, on 22 March 2018.

2. BASIS OF ACCOUNTING

2.1 Basis for the preparation of financial statements

ADLER's consolidated financial statements as at 31 December 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRS) requiring mandatory application in the European Union. Supplementary application has been made of the requirements of § 315e (1) of the German Commercial Code (HGB). The requirements of the standards applied have been met and the financial statements represent a true and fair view of the company's asset, financial and earnings position.

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

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

With economic effect as of 30 November 2017, ADLER lost its controlling influence over ACCENTRO and its subsidiaries by selling the majority of the shares in that company. 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 Trading segment is aggregated in a total (earnings after tax from discontinued operations, see Note 9.14). 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 consolidated financial statements have been prepared in euros, the Group's functional currency. Unless otherwise indicated, all figures presented in euros have been rounded up or down to the nearest thousand euros (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.

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

The Group made application of the following new and revised IFRS standards and interpretations in the 2017 financial year:

Standard/Interpretation	Title	IASB Effective date[1]	Initial application date in the EU[1]
Amend. IAS 7	Statement of cash flows	01.01.2017	01.01.2017
Amend. IAS 12	Recognition of deferred tax assets for unrealised losses	01.01.2017	01.01.2017
Annual improvement process (2014-2016 cycle)	Changes to IFRS 12	01.01.2017	01.01.2017

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

Amendment to IAS 7 – Statement of cash flows

The amendments pursue the objective that entities should provide disclosures enabling users of financial statements to evaluate changes in liabilities arising from financing activities. Assuming that the information is relevant to decisions taken by users, an entity is basically required to make disclosures on liabilities arising from financing activities in the following cases: changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates and changes in fair values. One way of presenting the required disclosures involves providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. ADLER has provided this reconciliation as a table supplementing its statement of cash flows (see 12.6, "Notes to the cash flow statement").

Amendment IAS 12 – Recognition of deferred tax assets for unrealised losses

In particular, the amendments clarify that an unrealised loss on a debt instrument that is measured at fair value leads to a deductible temporary difference if the tax value of the debt instrument corresponds to its acquisition cost. This applies regardless of whether the holder expects to hold the instrument to maturity in order to obtain the nominal value or whether it intends to dispose of the instrument.

Annual improvement process (2014–2016 cycle)

Amendments were made to IFRS 12 as part of the Annual Improvement Project. It was clarified that the disclosure requirements of IFRS 12, except for those in IFRS 12.B10-B16, also apply to an equity's interests in a subsidiary, joint venture or associate that are within the scope of IFRS 5 and are classified as held for sale.

The aforementioned amendments did not have any material implications.

2.3 Standards and interpretations not prematurely applied

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

Standard/Interpretation	Title	IASB effective date[1]	Initial application date in the EU[1]
EU-endorsement achieved:			
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
IFRS 16	Leasing	01.01.2019	01.01.2019
EU-endorsement outstanding:			
Amend. IAS 40	Transfer of investment properties	01.01.2018	Expected 01.01.2018
IFRIC 23	Uncertainty over income tax treatment	01.01.2019	Expected 01.01.2019

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

IFRS 9 – Financial Instruments

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

Other than additional note disclosures, IFRS 9 does not have any material implications for ADLER's consolidated financial statements. ADLER's financial assets are at present mainly categorised as loans and receivables and are measured at amortised cost. This will also be the case under IFRS 9. Furthermore, no material changes of financial liabilities are expected, as the existing categorisation requirements in IAS 39 are largely duplicated in IFRS 9. Financial liabilities will therefore largely continue to be measured at amortised cost. The Group only makes application of hedge accounting to a very minor extent, as a result of which derivatives will still mainly continue to be measured at fair value through profit or loss. As ADLER's financial assets – with the exception of cash and cash equivalents – predominantly consist of current trade receivables, 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 of 1 January 2018, ADLER anticipates that adapting to IFRS 9 will result in additional impairment losses of approximately EUR 1.0 million to EUR 2.0 million, which are recognised directly in equity.

IFRS 15 – Revenue from Contracts with Customers

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

IFRS 15 will 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 and is therefore excluded from the scope of IFRS 15. With regard to revenue generated from the sale of properties, IFRS 15 is not expected to result in any material changes, as the respective contracts only provide for this one single performance obligation and the date of revenue recognition is therefore specified. Overall, application of this standard will only result in extended note disclosures.

IFRS 16 – Leases

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

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

As ADLER mainly acts as a lessor in its property letting activities, IFRS 16 is not expected to have any material implications for the consolidated financial statements. The obligations previously entered into as lessee for operating leases with terms of more than one year are of subordinate significance. ADLER anticipates that the rights of use and leasing liabilities which need to be additionally recognised on the balance sheet as a result of the adoption to IFRS 16 will not make up more than 1 percent of the current balance sheet. Overall, the standard will therefore particularly result in extended note disclosures. ADLER is expected to apply the modified standard retrospectively, i.e. without adjusting the comparison periods.

Amendment IAS 40 – Transfer of Investment Properties

Specifically, the amendments clarify that an entity may reclassify property, including properties under construction or development, from or to the investment property portfolio only if there is evidence of a change in use. A change in management's use intentions does not meet the requirements for a change of use. ADLER will apply these changes as soon as they come into effect. Since the current approach is consistent with the published clarifications, ADLER does not expect it to have any effect on its consolidated financial statements.

IFRIC 23 – Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the accounting for uncertainty regarding income taxes. On this basis an entity shall use discretion in determining whether each tax treatment should be considered individually or whether some tax treatments should be considered collectively. The decision should be based on which approach allows better prediction of the resolution of the uncertainty. An entity has to assume that a taxation authority will have the right to examine any amounts reported and will have full knowledge of all relevant information. In determining the relevant income taxable amounts, the entity shall assess whether it is probable that the relevant taxation authority will accept the respective tax treatment used or plans to use in its income tax filing. If it is not probable that the tax treatment is accepted, the most likely or expected amount is to be applied, depending on which method enables the better prediction of the resolution of the uncertainty. If facts and circumstances change, this leads to a reassessment of the assessments needed in the interpretation. ADLER will apply these changes as soon as they come into effect. ADLER does not expect these changes to have any effect on its consolidated financial statements.

3.BASIS OF CONSOLIDATION

3.1 Subsidiaries

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

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

All material subsidiaries are included in the consolidated financial statements (see Note 4.1, “Investments in subsidiaries”). Investments in subsidiaries that are of subordinate significance from the Group’s perspective are recognised as available-for-sale financial assets.

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

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

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

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

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

3.2 Joint arrangements

Joint arrangements are based on contractual agreements according to which two or more partners undertake an economic activity that is subject to joint control. Joint control exists when the partners have to work together to manage the relevant activities of the joint arrangement and decisions require the unanimous consent of the partners involved. A joint arrangement constitutes a joint venture when the partners exercising joint control have rights to the net assets of the arrangement. Where, by contrast, the partners have direct rights to the assets attributable to the joint arrangement and assume obligations for its liabilities, the arrangement constitutes a joint operation.

Where a joint arrangement is embodied by a legally independent partnership or corporation with its own corporate assets, as a result of which ADLER's interest only results in a prorated claim to the net assets of the company, such an arrangement generally constitutes a joint venture. In the case of joint arrangements taking the form of a company under German civil law (such as associations) for which the legal form does not in itself result in an asset and financial structure separate from the partners, the decision as to whether the arrangement constitutes a joint venture or a joint operation is taken by additionally referring to the contractual provisions and the object of the joint arrangement.

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

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

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

3.3 Associates

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

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

4. SCOPE OF CONSOLIDATION, BUSINESS COMBINATIONS AND PROPERTY COMPANIES

4.1 Investments in subsidiaries

Including the parent company, the scope of consolidation comprises a total of 111 fully consolidated companies (previous year: 127). The Group does not own any properties outside Germany.

The scope of consolidation developed as follows:

Quantity	2017	2016
As of 01.01.	127	122
Additions	20	12
Disposals	32	3
Mergers/accruals	4	4
As of 31.12.	**111**	**127**

Twenty companies were newly added in the scope of consolidation and 32 companies were sold in the period under report. Four companies were merged with other companies within the scope of consolidation.

In the period under review, ADLER acquired shares in four property holding companies and eight project development companies (new construction for the portfolio). In each case, the acquisitions do not constitute a business as defined in IFRS 3 and were recognised as a direct property acquisition (see “Acquisition of property companies and property development companies” in Note 4.3).

In addition, a service company (KKL Immobilienservice GmbH) was acquired (see Note 4.2, “Business combinations”). The other additions result from seven companies newly founded for the privatisation business of ACCENTRO. These measures did not have any material implications for the Group’s net assets, financial position or results of operations.

All disposals resulted from the fact that on 20 October 2017, ADLER reached an agreement to sell an 80 percent stake in ACCENTRO. With economic effect as of 30 November 2017 (date of closing), ADLER lost its controlling influence over ACCENTRO and its subsidiaries. As a result, ADLER carried out a transitional consolidation for ACCENTRO and its subsidiaries and included the remaining 6.2 percent stake in ACCENTRO in the consolidated financial statements due to its significant influence as an associated company and reported under non-current assets held for sale (see “Disposal of ACCENTRO” in Note 4.4).

Following the exit of one shareholder in each case, MBG Moosburg GmbH & Co. KG and the Dritte ADLER Real Estate GmbH & Co. KG were each merged into the respective remaining shareholder within the scope of consolidation. KKL Immobilienservice GmbH and J2P Service GmbH were merged into another service company in the scope of consolidation in the third quarter of 2017.

ADLER’s shareholdings, also corresponding to its share of voting rights, were as follows as at 31 December 2017:

No.	Company	Headquarters
	Subsidiaries fully consolidated	
1	ADLER Real Estate AG (parent company)	Berlin
2	ADLER Real Estate Service GmbH	Hamburg
3	Verwaltungsgesellschaft ADLER Real Estate mbH	Hamburg
4	Achte ADLER Real Estate GmbH & Co. KG	Hamburg
5	ADLER Real Estate Properties GmbH & Co. KG	Hamburg
6	MÜBAU Real Estate GmbH	Hamburg
7	ADLER Lux S.à r.l.	Luxembourg/Grand Duchy of Luxembourg
8	ADLER McKinney LLC	McKinney / USA
9	Münchener Baugesellschaft mbH	Hamburg
10	ADLER Wohnen Service GmbH	Hamburg
11	MBG Beteiligungsgesellschaft mbH & Co. KG	Hamburg
12	MBG Dallgow GmbH & Co. KG	Hamburg
13	MBG Großbeeren GmbH & Co. KG	Hamburg
14	MBG Trachau GmbH & Co. KG	Hamburg
15	MBG Wohnbau Verwaltungsgesellschaft mbH	Hamburg
16	MBG Erste Vermögensverwaltungs GmbH	Hamburg
17	Magnus zweite Immobilienbesitz und Verwaltungs GmbH	Hamburg
18	Energy AcquiCo I GmbH	Frankfurt am Main
19	Magnus Dritte Immobilienbesitz und Verwaltungs GmbH	Hamburg
20	EAGLE BidCo GmbH	Hamburg
21	Magnus Fünfte Immobilienbesitz und Verwaltungs GmbH	Hamburg
22	WBG GmbH	Helmstedt
23	WER 1. Wohnungsgesellschaft Erfurt Rieth GmbH	Berlin
24	WER 2. Wohnungsgesellschaft Erfurt Rieth GmbH	Berlin
25	ESTAVIS 6. Wohnen GmbH	Berlin
26	ESTAVIS 7. Wohnen GmbH	Berlin
27	ESTAVIS 8. Wohnen GmbH	Berlin
28	ESTAVIS 9. Wohnen GmbH	Berlin
29	RELDA 36. Wohnen GmbH	Berlin

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

	Equity interest in %	Held by No.	Business activity
			Holding
	100.0	1	Service company
	100.0	1	General partner
1)	100.0	1	Project development
1)	100.0	1	Project development
	100.0	1	None
	100.0	1	None
	100.0	6	Intermediate holding company
	100.0	1	Intermediate holding company
	100.0	9	Service company
1)	94.9	9	Intermediate holding company
1)	100.0	9	Project development
1)	100.0	9	Project development
1)	100.0	9	Project development
	100.0	9	Intermediate holding company
	100.0	9	Intermediate holding company
	100.0	9	Intermediate holding company
	100.0	17	Intermediate holding company
	100.0	9	Intermediate holding company
	100.0	1	None
	100.0	9	Intermediate holding company
	94.0	18	Portfolio management
	94.9	9	Portfolio management
	94.9	9	Portfolio management
	94.9	35	Portfolio management
	94.9	35	Portfolio management
	94.9	35	Portfolio management
	94.9	35	Portfolio management
	94.9	35	Portfolio management

No.	Company	Headquarters
	Subsidiaries fully consolidated	
30	RELDA 38. Wohnen GmbH	Berlin
31	RELDA 39. Wohnen GmbH	Berlin
32	RELDA 45. Wohnen GmbH	Berlin
33	RELDA Bernau Wohnen Verwaltungs GmbH	Berlin
34	MBG Sachsen GmbH	Aue
35	Magnus-Relda Holding Vier GmbH	Berlin
36	Cato Immobilienbesitz und -verwaltungs GmbH	Hamburg
37	Magnus Immobilienbesitz und Verwaltungs GmbH	Hamburg
38	WBR Wohnungsbau Rheinhausen GmbH	Hamburg
39	S.I.G. RE GmbH (vormals: S.I.G. RE B.V.)	Hamburg
40	Resident Baltic GmbH	Berlin
41	Resident Sachsen P&K GmbH	Berlin
42	Resident West GmbH	Hamburg
43	MBG Schwelm GmbH	Hamburg
44	MBG Lüdenscheid GmbH	Hamburg
45	MBG Dorsten GmbH & Co. KG	Hamburg
46	Alana Properties GmbH	Hamburg
47	Aramis Properties GmbH	Hamburg
48	REO-Real Estate Opportunities GmbH	Frankfurt am Main
49	Roslyn Properties GmbH	Hamburg
50	Rostock Verwaltungs GmbH	Hamburg
51	Sepat Properties GmbH	Hamburg
52	Wallace Properties GmbH	Hamburg
53	Zweite REO-Real Estate Opportunities GmbH	Frankfurt am Main
54	ADLER ImmoProjekt Erste GmbH	Hamburg
55	ADLER Energie Service GmbH (formerly: ADLER ImmoProjekt Zweite GmbH)	Hamburg
56	MountainPeak Trading Limited	Nikosia/Cyprus
57	Magnus Achte Immobilienbesitz und Verwaltungs GmbH	Hamburg
58	Magnus Neunte Immobilienbesitz und Verwaltungs GmbH	Hamburg

[1] The Company intends to utilise the exemption option under § 254 b HGB with regard to disclosure requirements

	Equity interest in %	Held by No.	Business activity
	94.9	35	Portfolio management
	94.9	35	Portfolio management
	94.9	35	Portfolio management
	94.0	35	Portfolio management
	90.8	9	Portfolio management
	98.1	9	Portfolio management
	94.9	17	Portfolio management
	100.0	9	Intermediate holding company
	94.9	37	Portfolio management
	100.0	16	Intermediate holding company
	94.8	39	Portfolio management
	94.8	39	Portfolio management
	94.8	39	Portfolio management
	94.9	17	Portfolio management
	94.9	9	Portfolio management
	5.1	11	
1)	94.0	17	Portfolio management
	6.0	9	
	94.4	19	Portfolio management
	94.8	19	Portfolio management
	94.9	19	Portfolio management
	94.8	19	Portfolio management
	94.0	19	Portfolio management
	94.8	19	Portfolio management
	94.8	19	Portfolio management
	94.9	19	Portfolio management
	100.0	1	None
	100.0	1	Service company
	100.0	1	Intermediate holding company
	100.0	9	Portfolio management
	100.0	9	Intermediate holding company

No.	Company	Headquarters
	Subsidiaries fully consolidated	
59	MBG Projektentwicklungsgesellschaft mbH	Hamburg
60	Magnus Inkasso GmbH	Helmstedt
61	ADLER Immo Invest GmbH	Hamburg
62	Wohnungsbaugesellschaft JADE mbH	Wilhelmshaven
63	JADE Immobilien Management GmbH	Wilhelmshaven
64	ADLER Gebäude Service GmbH (formerly: Arkadio Facility Management GmbH)	Wilhelmshaven
65	WESTGRUND Aktiengesellschaft	Berlin
66	WESTGRUND Immobilien GmbH	Berlin
67	WESTGRUND Immobilien II. GmbH	Berlin
68	Westconcept GmbH	Berlin
69	IMMOLETO Gesellschaft mit beschränkter Haftung	Berlin
70	ICR Idee Concept und Realisation von Immobilienvorhaben GmbH	Berlin
71	HKA Grundstücksverwaltungsgesellschaft mbH & Co. Kommanditgesellschaft	Berlin
72	HKA Verwaltungsgesellschaft mbH	Berlin
73	WESTGRUND Immobilien Beteiligung GmbH	Berlin
74	WESTGRUND Immobilien Beteiligung II. GmbH	Berlin
75	WESTGRUND Immobilien Beteiligung III. GmbH	Berlin
76	WESTGRUND Westfalen GmbH & Co. KG	Berlin
77	WESTGRUND Immobilien IV. GmbH	Berlin
78	WESTGRUND Immobilien V. GmbH	Berlin
79	WESTGRUND Immobilien VI. GmbH	Berlin
80	Wiederaufbau-Gesellschaft mit beschränkter Haftung	Ludwigshafen am Rhein
81	TREUHAUS Hausbetreuungs-GmbH	Ludwigshafen am Rhein
82	WAB Hausverwaltungsgesellschaft mbH	Ludwigshafen am Rhein
83	WESTGRUND Wolfsburg GmbH	Berlin
84	WESTGRUND Niedersachsen Süd GmbH	Berlin
85	WESTGRUND Niedersachsen Nord GmbH	Berlin
86	WESTGRUND Brandenburg GmbH	Berlin
87	WESTGRUND VII. GmbH	Berlin
88	WESTGRUND I. Halle GmbH	Berlin
89	WESTGRUND Halle Immobilienverwaltung GmbH	Berlin
90	WESTGRUND Immobilien II. Halle GmbH & Co. KG	Berlin
91	WESTGRUND VIII. GmbH	Berlin

	Equity interest in %	Held by No.	Business activity
	100.0	1	Project development
	100.0	1	None
	100.0	1	Project development
	94.9	21	Portfolio management
	100.0	62	Service company
	100.0	9	Service company
	96.8	1	Holding
	94.9	65	Portfolio management
	94.9	65	Portfolio management
	100.0	65	Service company
	100.0	65	Intermediate holding company
	94.9	69	Portfolio management
	100.0	70	Portfolio management
	100.0	70	General partner
	100.0	65	None
	100.0	65	None
	94.9	65	Portfolio management
	94.9	70	Portfolio management
	94.9	65	Portfolio management
	94.0	65	Portfolio management
	94.9	65	Portfolio management
	94.8	65	Portfolio management
	100.0	68	Service company
	100.0	80	None
	94.9	65	Portfolio management
	94.9	65	Portfolio management
	94.9	65	Portfolio management
	94.9	65	Portfolio management
	94.9	65	Portfolio management
	94.9	65	Portfolio management
	100.0	88	General partner
	100.0	88	Portfolio management
	94.9	65	Portfolio management

No.	Company	Headquarters
	Subsidiaries fully consolidated	
92	RESSAP – Real Estate Service Solution Apllications – GmbH (formerly: WESTGRUND IX. GmbH	Berlin
93	Xammit GmbH	Berlin
94	Magnus Zehnte Immobilienbesitz und Verwaltungs GmbH	Hamburg
95	Magnus Elfte Immobilienbesitz und Verwaltungs GmbH	Hamburg
96	Zweite CM Real Estate GmbH	Berlin
97	Dritte CM Real Estate GmbH	Berlin
98	Vierte CM Real Estate GmbH	Berlin
99	WEAVED Immo Finance B.V.	Amsterdam / The Netherlands
100	TGA Immobilien Erwerb 3 GmbH	Berlin
101	ADP Germany S.à.r.l	Luxembourg / Grand Duchy of Luxembourg
102	AFP (Germany) II S.à.r.l	Luxembourg / Grand Duchy of Luxembourg
103	AFP (Germany) III S.à.r.l	Luxembourg / Grand Duchy of Luxembourg
104	RIV Harbour West MI 1 GmbH	Berlin
105	RIV Harbour East WA 1 GmbH	Berlin
106	RIV Total MI 2 GmbH	Berlin
107	RIV Central WA 2 GmbH	Berlin
108	RIV Square West MI 3 GmbH	Berlin
109	RIV Square East WA 3 GmbH	Berlin
110	RIV Channel MI 4 GmbH	Berlin
111	RIV Kornspeicher GmbH	Berlin
	Associated Companies or Joint Ventures included in the consolidated financial statements	
112	Worthing Lake Forest Investors LLC (associated company – at-equity)	Atlanta / USA
113	GG Erlabrunn Verwaltungs UG (associated company – at-equity)	Aue
114	ACCENTRO Real Estate AG (associated company – non-current asset held for sale)	Berlin
	Companies not significant enough to be included at equity in the consolidated financial statements [1)]	
115	MRT (Mountleigh Roland Ernst) B.V.	Rotterdam / The Netherlands
116	Stovago B.V.	Rotterdam / The Netherlands
117	ADLER Real Estate Assekuranzmakler GmbH & Co. KG	Düsseldorf

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

	Equity interest in %	Held by No.	Business activity
	100.0	65	Service company
	100.0	65	None
	100.0	9	Intermediate holding company
	100.0	9	Intermediate holding company
	94.9	58	Portfoilio management
	94.9	58	Portfoilio management
	94.9	58	Portfoilio management
	100.0	1	None
	94.9	19	Portfoilio management
	94.9	95	Portfoilio management
	94.0	95	Portfoilio management
	94.0	95	Portfoilio management
	94.9	94	Portfoilio management
	94.9	94	Portfoilio management
	94.9	94	Portfoilio management
	94.9	94	Portfoilio management
	94.9	94	Portfoilio management
	94.9	94	Portfoilio management
	94.9	94	Portfoilio management
	94.9	94	Portfoilio management
	30.0	8	Project development
	50.0	34	Portfoilio management
	6.2	1	Holding
	50.0	1	none
	50.0	1	none
	50.0	1	Insurance broker

4.2 Business combinations

A service company (KKL Immobilienservice GmbH) was acquired in the second quarter of 2017 (purchase price: EUR 375k) and fully consolidated pursuant to IFRS 3. Given the minor scope of its business activities, which are exercised almost exclusively within the Group, this company does not have any material implications for the group financial statements.

4.3 Acquisition of property companies and project development companies

At the end of the second quarter of 2017, the company also acquired shares (94.9 percent) in a property company (TGA Immobilien Erwerb 3 GmbH). This acquired company does not constitute a business operation as defined in IFRS 3 and has been presented as a direct real estate acquisition. The costs of acquiring the property company have been allocated to the individual identifiable assets and liabilities based on their fair values. Investment properties of EUR 9,981k were acquired via this property company.

In mid-September 2017, shares (94.9 percent respectively 94.0 percent) were acquired in the following property companies via Magnus Elfte Immobilienbesitz und Verwaltungs GmbH, an intermediate holding company in which ADLER indirectly owns a 100 percent stake: ADP Germany S.à.r.l (hereinafter "ADP"), AFP (Germany) II S.à.r.l (hereinafter "AFP II") and AFP (Germany) III S.à r.l. (hereinafter "AFP III"). This acquired company does not constitute a business operation as defined in IFRS 3 and has been presented as a direct real estate acquisition. This involved allocating the cost of acquiring the property companies to the identifiable assets and liabilities in accordance with their fair values. Via these property companies, the Group acquired investment properties amounting to EUR 137,824k and financial liabilities to banks amounting to EUR 68,865k.

In mid-November 2017, ADLER acquired the shares (94.9 percent) in the following eight project development companies through the intermediate holding company Magnus Zehnte Immobilienbesitz und Verwaltungs GmbH – in which ADLER holds an indirect interest of 100 percent – which is implementing the property project development "Wasserstadt Mitte" on largely undeveloped land in Berlin Mitte (Europa City): RIV Harbor West MI 1 GmbH, RIV Harbor East WA 1 GmbH, RIV Total MI 2 GmbH, RIV Central WA 2 GmbH, RIV Square West MI 3 GmbH, RIV Square East WA 3 GmbH, RIV Channel MI 4 GmbH and RIV Kornspeicher GmbH. The intention of the project development is to construct approx. 750 units with approx. 44,000 square metres of living space and approx. 14,000 square metres of office and commercial space for the ADLER portfolio. Initial construction work has already begun. According to current planning, the project development is largely to be completed by the end of 2019. This acquired company does not constitute a business operation as defined in IFRS 3 and has been presented as a direct real estate acquisition. This involved allocating the cost of acquiring the project development companies to the identifiable assets and liabilities in accordance with their fair values. Via these project development companies, the Group acquired investment properties amounting to EUR 158,850k and financial liabilities to banks amounting to EUR 43,859k.

4.4 Disposal of ACCENTRO

ACCENTRO is a publicly listed corporation whose operations primarily consist of trading (buying and selling) residential properties and individual apartments as well as providing brokerage services associated with residential privatisation. Until now, the trading business of ACCENTRO was the trading segment of ADLER. With the sale of ACCENTRO, ADLER has discontinued its trading segment.

On 20 October 2017, ADLER reached an agreement to sell an 80 percent stake in ACCENTRO. The buyer is a partnership advised by Vestigo Capital Advisors LLP, a company authorised and regulated by the UK Financial Conduct Authority. With economic effect as of 30 November 2017 (date of closing), ADLER lost its controlling influence over ACCENTRO and its subsidiaries. A purchase price of EUR 145,979k was agreed for the shareholding. In addition to the investment, the convertible bonds 2014/2019 (ISIN DE000A1YC4S6) issued by ACCENTRO, which ADLER acquired in the first quarter of 2017, were also sold to the buyer of the investment. The purchase price for the convertible bonds was set at EUR 35,252k. In total, EUR 20,000k was paid by the buyer when the contract was concluded on 20 October 2017. The remaining purchase price receivable at the amount of EUR 161,231k is to be paid by the end of November 2018, subject to customary interest and collateral. ADLER also has the option to sell the remaining holding of up to 6.2 percent in ACCENTRO to the buyer at the same price per share.

As a result of the sale of the majority of the shares, ADLER no longer exercises control over ACCENTRO and its subsidiaries. Due to the continued holding of shares in ACCENTRO and the possibility of exercising a significant influence through a member of the Supervisory Board, ADLER carried out a transitional consolidation on 30 November 2017 and included the investment in ACCENTRO as an associated company in accordance with IAS 28 in the consolidated financial statements. In accordance with IFRS 10 the remaining 6.2 percent interest in ACCENTRO was measured at fair value (stock market price) at the date of transitional consolidation and reported under non-current assets held for sale (see Note 8.11).

In addition to ACCENTRO, the following 31 subsidiaries also left the group of fully consolidated companies of the ADLER Group during the transitional consolidation (in the following subgroup ACCENTRO):

Company	Headquarters
ACCENTRO Real Estate AG	Berlin
ACCENTRO GmbH	Berlin
ACCENTRO Wohneigentum GmbH	Berlin
Koppenstraße Wohneigentum GmbH	Berlin
Estavis 43. Wohnen GmbH & Co. KG	Berlin
ESTAVIS Wohneigentum GmbH	Berlin
ESTAVIS Beteiligungs GmbH & Co. KG	Berlin
Phoenix F1 Neubrandenburgstrasse GmbH	Erlangen
Uhlandstraße 79 Immobilien GmbH	Berlin
ACCENTRO Gehrensee GmbH	Berlin
WBL Wohnungsgesellschaft Berlin Lichtenberg 1 GmbH	Berlin
WBL Wohnungsgesellschaft Berlin Lichtenberg 2 GmbH	Berlin
WBL Wohnungsgesellschaft Berlin Lichtenberg 3 GmbH	Berlin
WBL Wohnungsgesellschaft Berlin Lichtenberg 4 GmbH	Berlin
WBL Wohnungsgesellschaft Berlin Lichtenberg 5 GmbH	Berlin
ACCENTRO Verwaltungs GmbH	Berlin
MBG 2. Sachsen Wohnen GmbH	Berlin
Kantstraße 130b/Leibnizstraße 36, 36a Immobiliengesellschaft mbH	Berlin
Kantstraße 130b/Leibnizstraße 36, 36a GbR	Berlin
ACCENTRO 2. Wohneigentum GmbH	Berlin
ACCENTRO 3. Wohneigentum GmbH	Berlin
ACCENTRO 4. Wohneigentum GmbH	Berlin
ACCENTRO 5. Wohneigentum GmbH	Berlin
ACCENTRO 6. Wohneigentum GmbH	Berlin
ACCENTRO 7. Wohneigentum GmbH	Berlin
ACCENTRO 8. Wohneigentum GmbH	Berlin
ACCENTRO 9. Wohneigentum GmbH	Berlin
ACCENTRO 10. Wohneigentum GmbH	Berlin
ACCENTRO 11. Wohneigentum GmbH	Berlin
ACCENTRO 12. Wohneigentum GmbH	Berlin
ACCENTRO 13. Wohneigentum GmbH	Berlin
Quartier Hasenheide GmbH (formerly: Curvystr. 44,45 Bestand GmbH)	Berlin

The following tables provide summarised financial information of the ACCENTRO subgroup (in the following subgroup ACCENTRO) – before consolidation – at the time of the transitional consolidation period:

In EUR ´000	**30.11.2017**	**31.12.2016**
Assets	**346,325**	**300,546**
Non-current assets	19,468	18,897
of which goodwill	17,776	17,776
Current assets	310,372	259,949
of which inventories	286,266	223,565
of which cash and cash equivalents	12,867	15,143
Non-current assets held for sale	16,485	21,700
Equity and liabilities	**346,325**	**300,546**
Shareholders' equity	145,258	136,836
of which non-controlling interests	1,787	1,758
Non-current liabilities	90,903	65,228
of which financial liabilities to banks	78,253	42,716
of which liabilities from convertible bonds/bonds	12,045	21,644
Current liabilities	104,006	92,290
of which financial liabilities to banks	53,531	64,807
of which liabilities from convertible bonds/bonds	134	138
Liabilities held for sale	6,158	6,192

In EUR ´000	**2017[1)]**	**2016**
Income from sale of inventories	92,984	116,920
Expenses from sale of inventories	-69,001	-80,543
Earnigns from sale of inventories	23,983	36,377
Income from property lettings	7,170	6,597
Expenses from property lettings	-2,068	-2,032
Earnigns from property lettings	5,102	4,565
Income from services	1,376	1,588
Expenses from services	-731	-979
Earnigns from services	645	609
EBIT (earnings before interest and tax)	24,960	33,936
EBT (earnings before tax)	18,476	28,070
Consolidated net profit from continuing operations	13,410	20,680
Earnings from discontinued operations	-1,698	5,792
Consolidated net profit	11,712	26,473
of which non-controlling interests	29	181
of which owners of the parent company	11,682	26,291

[1)] From 1 January until 30 November 2017

In EUR ´000	2017[1)]	2016
Cash flow from operating activities	-30,030	21,715
of which from continuing operations	-30,096	20,311
of which from discontinued operations	66	1,404
Cash flow from investing activities	5,503	22,170
of which from continuing operations	133	1,239
of which from discontinued operations	5,371	20,931
Cash flow from financing activities	22,253	-30,682
of which from continuing operations	22,464	-5,841
of which from discontinued operations	-212	-24,841
Change in cash and cash equivalents	-2,274	13,204

[1)] From 1 January until 30 November 2017

The transitional consolidation result of the subgroup ACCENTRO breaks down as follows:

In EUR ´000	30.11.2017
Disposal of assets of subgroup ACCENTRO	-346,325
Disposal of liabilities of subgroup ACCENTRO	201,067
Disposal of non-controlling interests of subgroup ACCENTRO	1,787
Disposal of goodwill at the level of ADLER	-11,578
Disposal of non-controlling interests at the level of ADLER	17,029
Disposal of revalued assets and liabilities incl. deferred taxes at the level of ADLER	191
Purchase price of shares in ACCENTRO	145,979
Fair value of the remaining shares in ACCENTRO	12,639
Result from the transitional consolidation	**20,790**

The disposal of the convertible bonds 2014/2019 issued by ACCENTRO (ISIN DE000A1YC4S6), which ADLER acquired in the first quarter of 2017, resulted in a gain of EUR 1,766k. Together with the result from the transitional consolidation, the yield from the disposal of ACCENTRO amounts to EUR 22,556k, which is reported under the item “Earnings after tax from discontinued operations” (see Note 9.15).

Due to the acquisition of the convertible bonds issued by ACCENTRO in 2014/2019 (ISIN DE000A1YC4S6), ADLER’s capital reserve had been reduced by an equity share of EUR 22,883k. As a result of the sale of the convertible bond, the equity share of EUR 22,883k was returned to the capital reserve.

Pro forma previous year figures

The following financial statements listed below are based on the IDW statement on accounting: previous year's figures in the commercial law consolidated financial statements and consolidated accounting in the event of a change in scope of consolidation (IDW RS HFA 44), the consolidated balance sheet as at the balance sheet dates 31 December 2017 and 31 December 2016 and pro forma figures for the balance sheet date as at 31 December 2016.

The pro forma figures for the 2016 financial year showing the disposals of the fully consolidated ACCENTRO and its subsidiaries as at 1 January 2016 and the simultaneous acquisition of an investment in ACCENTRO as an associated company are as if the sale had already taken place at the beginning of the 2016 financial year. This is to facilitate comparability with the consolidated balance sheet as at 31 December 2017. Since pro forma financial information reflects a hypothetical situation, it does not provide all the details that would have resulted if the events to be considered had actually taken place at the beginning of the previous year (pro forma balance sheet), nor does it reflect the actual financial situation. Pro forma figures for the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Cash Flows have been omitted as the respective prior-year comparative figures were adjusted in accordance with the requirements of IFRS 5.

Consolidated balance sheet of ADLER Real Estate AG (pro forma):

In EUR ´000	31.12.2017 (as reported)	31.12.2016 (as reported)	31.12.2016 (Pro forma)
Assets	**3,778,967**	**3,430,477**	**3,295,511**
Non-current assets	**3,125,490**	**2,577,578**	**2,546,854**
Goodwill	101,198	130,552	101,198
Intangible assets	567	583	303
Property, plant and equipment	4,948	3,434	3,248
Investment properties	3,018,518	2,441,988	2,441,988
Loans to associated companies	0	0	0
Investments in associated companies	25	497	26
Other financial investments	28	69	43
Other non-current assets	205	48	48
Deferred tax assets	0	408	0
Current assets	**629,895**	**418,211**	**315,111**
Inventories	2,978	227,057	3,464
Trade receivables	10,717	11,749	9,694
Income tax receivables	4,459	1,407	927
Other current assets	243,508	54,086	219,662
Cash and cash equivalents	368,233	123,911	81,364
Non-current assets held for sale	**23,582**	**434,688**	**433,546**

In EUR ´000	31.12.2017 (as reported)	31.12.2016 (as reported)	31.12.2016 (Pro forma)
Equity and liabilities	**3,778,967**	**3,430,477**	**3,295,511**
Shareholders' equity	**1,037,500**	**914,222**	**944,043**
Capital stock	57,548	47,702	47,702
Treasury shares	-1,392	0	0
Capital reserve	350,203	352,106	352,106
Retained earnings	-1,310	-2,510	-2,510
Currency translation reserve	86	90	90
Net retained profit	555,442	445,786	483,366
Equity attributable to owners of the parent company	960,576	843,174	880,754
Non-controlling interests	76,924	71,048	63,289
Non-current liabilities	**2,363,126**	**2,111,221**	**2,040,812**
Pension provisions	3,989	4,954	4,954
Deferred tax liabilities	164,571	113,142	109,783
Other provisions	1,664	1,622	1,605
Liabilities from convertible bonds	119,731	143,870	129,982
Liabilities from bonds	1,277,640	509,454	499,150
Financial liabilities to banks	749,188	1,312,502	1,269,661
Other non-current liabilities	46,344	25,677	25,677
Current liabilities	**377,512**	**397,481**	**309,295**
Other provisions	46	3,926	897
Income tax liabilities	2,516	13,969	4,700
Liabilities from convertible bonds	6,505	1,554	1,554
Liabilities from bonds	42,679	8,281	8,142
Financial liabilities to banks	278,676	320,328	255,656
Trade payables	29,125	22,492	17,112
Other current liabilities	17,964	26,931	21,234
Liabilities held for sale	**829**	**7,553**	**1,361**

5. SPECIFIC ACCOUNTING POLICIES

5.1 Intangible assets and property, plant and equipment

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

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

Property, plant and equipment is recognised at cost, less accumulated depreciation and accumulative impairments. Cost includes expenses directly attributable to the acquisition. Subsequent acquisition or production costs are only capitalised when it is likely that future economic benefits will accrue to the company. Repairs and maintenance are expensed in the statement of comprehensive income in the period in which they are incurred.

Property, plant and equipment is subject to straight-line depreciation over its expected useful life, generally over three to 20 years (office equipment) or six to 13 years (vehicle fleet and outdoor facilities). The depreciation methods used and economic useful lives are reviewed and, if necessary, adjusted at each balance sheet date. Carrying amounts of property, plant and equipment are tested for impairment as soon as there are any indications that they exceed the respective recoverable amounts.

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

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

5.2 Investment properties

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

Investment properties are measured at cost, including incidental acquisition costs, upon addition and subsequently at fair value. In subsequent periods, the investment properties are measured at their fair values. Ongoing maintenance costs are expensed in the statement of comprehensive income. Modernisation measures, insofar as they go beyond the ongoing maintenance, are enabled if it is probable that the company will derive an economic benefit in the future. Measurement results are presented in the Consolidated Statement of Comprehensive Income under the item "Income from fair value adjustments of investment properties".

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

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

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

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

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

The fair values of investment properties are determined by reference to surveys compiled by external experts on the basis of current market data and using internationally recognised valuation methods. In this, application is made of discounted cash flow methods. For properties under construction (project development/project properties), which will be held in the long term to generate gross rental income and capital appreciation after completion, the residual value method is applied (reference is also made to the disclosures on measurement methods in Note 8.3).

Investment properties are derecognised when they are sold or unused over a sustained period of time and no future economic benefit is expected upon their retirement. Gains or losses resulting from disposal or discontinuation are recognised in the year of disposal or discontinuation. Gains or losses correspond to the difference between the disposal price and the carrying amount plus costs to sell.

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

5.3 Impairment of intangible assets and property, plant and equipment

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

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

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

A further group of cash-generating units for which goodwill was monitored for internal management purposes related to the existing Trading segment. The Trading segment has so far aggregated the business activities at ACCENTRO in connection with the acquisition and disposal of properties, including residential privatisation and intermediary activities performed in this context. The disposal of ACCENTRO in November 2017 resulted in the discontinuation of the Trading segment.

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

5.4 Financial assets

Financial assets are classified in the following categories:

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

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

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

Financial assets measured at fair value through profit or loss

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

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

Upon addition, financial assets in this category are recognised at fair value taking account of transaction costs. They are derecognised when the rights to payments from the investment expire or are assigned and the Group has assigned substantially all of the risks and rewards of ownership. After initial recognition, the assets are subsequently measured at fair value, with gains and losses, including any interest and dividend income recognised through profit or loss under other operating income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise when the Group directly provides money, goods or services to a debtor without any intention of trading these receivables. If their maturity date falls within twelve months of the balance sheet date they are included under current assets; if the maturity date falls after this twelve-month period, they are recognised under non-current assets. Loans and receivables are included in the balance sheet under trade receivables, other loans, other current assets and cash and cash equivalents.

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

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

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

Available-for-sale financial assets

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

5.5 Derivative financial instruments and hedges

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

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

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

5.6 Inventories

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

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

5.7 Cash and cash equivalents

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

5.8 Non-current assets and liabilities held for sale

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

ADLER recognises investment properties as non-current assets held for sale if there are notarised purchase agreements or purchase intentions signed by both parties as of the balance sheet date, but the transfer of ownership will not take place until the following period as agreed in the contract. Initial recognition takes place at the contractually agreed sale price and subsequently at fair value after deducting the costs of disposal, providing this is lower.

5.9 Shareholders' equity

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

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

The components of a hybrid instrument issued by the Group (convertible bond) are separately recognised as financial liabilities and equity instruments in accordance with the economic substance of the arrangement. Upon issue, the fair value of the debt component is determined on the basis of the market interest rate applicable to a comparable non-convertible instrument. This amount is carried as a financial liability at amortised cost using the effective interest method through to settlement upon conversion or maturity of the respective instrument. The equity component is calculated by subtracting the value of the debt component from the fair value of the overall instrument. The resultant value, less income tax effects, is recognised under equity and is subsequently not measured.

5.10 Pension provisions

Provisions for pensions and similar obligations are measured by external actuaries using the projected unit credit method for defined benefit plans. Service cost is recognised under personnel expenses, while the interest portion of the increase in the provision is recognised in the financial result. Like deferred taxes, actuarial gains and losses arising in this regard are recognised under other comprehensive income. The amount recognised corresponds to the present value of the defined benefit obligation (DBO).

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

5.11 Other provisions

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

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

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

5.12 Liabilities

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

Financial liabilities are derecognised when they are redeemed, i.e. when the obligations stipulated in the contract have been settled, rescinded or have expired. Liabilities are classified as current liabilities when the Group does not have the unconditional right to defer the redemption of the liability to a time later than at least twelve months after the balance sheet date or if settlement is expected within twelve months of the balance sheet date.

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

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

5.13 Taxes

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

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

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

No deferred taxes are recognised for taxable temporary differences, whether positive or negative, in connection with interests in group companies for as long as the Group is able to control their reversal and such differences will not be reversed in the foreseeable future.

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

5.14 Leases

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

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

5.15 Recognition of income

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

Rental income is recognised on an accrual basis in accordance with the provisions of the underlying contracts.

Income from the sale of properties is recognised when the risks and rewards associated with ownership of the properties have passed to the buyer (transfer of ownership rights, benefits and obligations arising from the properties). When disposing of property companies, this date regularly coincides with the completion of the transfer of the respective shares.

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

Interest income is recognised on a time-apportioned basis, taking due account of the remaining claim and the effective interest rate over the remaining term.

5.16 Currency translation reserve

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

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

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

5.17 Residual interests and dividend distributions

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

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

5.18 Cash flow statement

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

5.19 Share-based payments

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

6. SIGNIFICANT DISCRETIONARY DECISIONS AND ESTIMATES

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

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

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

- When testing goodwill for impairment, estimates have to be made concerning the recoverable amounts of the respective cash-generating units or groups of cash-generating units. The recoverable amounts correspond to the higher of fair value less disposal costs and the value in use. When determining the value in use, the estimated future cash surpluses are discounted to their present values. This procedure is based on the company planning adopted by the Management Board. For regional business units operating in the property management business, this process particularly requires estimates to be made concerning future rental income, vacancy rates and maintenance and modernisation measures. Based on forecast market developments and past experience, the assumptions underlying these figures are factored into a planning horizon of up to ten years. The payment surpluses thereby determined are discounted to their present values, taking due account of market-based equity and debt financing costs, a market-based risk premium as well as of a sustainable growth rate. The figure that best reflects the market value based on various scenarios and under consideration of all known input factors is reported in the consolidated financial statements.

- The market values of investment properties are based on the findings of independent experts commissioned to this end. These assessments are based on the discounted future cash surpluses determined using the discounted cash flow methods over a ten-year planning horizon. To perform the valuation, the surveyors have to estimate various factors, such as future rental income, vacancy rates, maintenance and modernisation measures and applicable interest rates. All these factors directly influence the fair value of the investment properties. Furthermore, due account is also taken of transaction costs in an amount deemed likely by ADLER. In the case of valuation of property under construction, under the residual value method the construction costs still to be incurred as well as risk deductions for risk and profit until completion must be estimated. Further estimates will be made with regard to the fair value costs of disposal of properties held for sale.

- Estimates also influence the assessments concerning the recoverability of rent receivables. For rent receivables in the "Rental" segment, impairment losses of 40 percent and of 90 percent are recognised for receivables due from resident and non-resident tenants respectively.

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

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

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

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

- Upon the addition of property companies, a decision has to be made whether this constitutes the acquisition of a business operation. When the acquisition involves not only assets and liabilities, but also a business operation (integrated group of activities), then the transaction constitutes a business combination. For example, the business processes of asset and property management, receivables management and accounting are deemed to represent an integrated group of activities. A further key indication that the takeover involves a business operation is the fact that personnel is also employed by the company thereby taken over. All of these processes and indications could be negated in the case of the acquisitions of property companies and property development companies in the 2017 financial year, as a result of which the acquisitions have not been presented as business combinations pursuant to IFRS 3 in 2017.

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

7. SEGMENT REPORTING

The ADLER Group was previously organised in the following segments:

1. Rental: a ll business transactions executed in connection with the letting of investment properties. It also includes a small number of inventory properties not allocated to the Trading segment.

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

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

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

Other group activities that do not constitute standalone segments are pooled in the "Other" column. These mainly relate to historic holdings at ADLER that have already been or are in the process of being sold.

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

Income and EBIT are broken down as follows:

ADLER Group In EUR ´000	Rental 2017	Other 2017	Group 2017
Income from the management of properties and from the sale of properties	297,548	1,694	299,242
– of which letting	264,087	301	264,388
– of which disposals	33,461	1,393	34,854
– of which brokerage	0	0	0
Change in the fair value of investment properties	235,386	0	235,386
Earnings before interest and tax (EBIT)	**311,803**	**17**	**311,820**
Result of investments accounted for using the equity method	0	0	0
Financial result	**-153,408**	**25**	**-153,383**
Result before taxes (EBT)	**158,445**	**-8**	**158,437**

Revenues in the Rental segment amounted to EUR 297,548k (previous year: EUR 285,677k), of which EUR 264,087k was attributable to rentals (previous year: EUR 244,697k). At EUR 311,803k, EBIT in the Rental segment was significantly ahead of the previous year's figure (EUR 268,653k). Earnings before taxes in the Rental segment amounted to EUR 158,445k (previous year: EUR 158,729k).

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

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

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

ADLER Group In EUR ´000	Rental 2017	Other 2017	Group 2017
Depreciation of property, plant and equipment	-651	0	-651
Amortisation of intangible assets	-176	0	-176

Income and EBIT were broken down in the previous year as follows:

ADLER Group In EUR ´000	Rental 2016	Other 2016	Group 2016
Income from the management of properties and from the sale of properties	285,677	2,030	287,707
– of which letting	244,697	1,105	245,802
– of which disposals	40,980	925	41,905
– of which brokerage	0	0	0
Change in the fair value of investment properties	199,677	0	199,677
Earnings before interest and tax (EBIT)	**268,653**	**-166**	**268,487**
Result of investments accounted for using the equity method	10,653	0	10,653
Financial result	**-120,341**	**-26**	**-120,367**
Result before taxes (EBT)	**158,729**	**44**	**158,773**

The depreciation of property, plant and equipment and amortisation of intangible assets in the previous year were broken down as follows:

ADLER Group In EUR ´000	Rental 2016[1)]	Other 2016	Group 2016
Depreciation of property, plant and equipement	-329	0	-329
Amortisation of intangible assets	-231	0	-231

1) Amended statement

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

ADLER Group In EUR ´000	Rental 2017	Other 2017	Consoli- dation 2017	Group 2017
Assets per segment	3,766,501	7,329	-7,527	3,766,303
Result of 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**

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

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

Segment assets of continuing operations mainly comprise property, plant and equipment, investment properties and receivables due from third parties and the “Other” segment. Goodwill of EUR 29,354k (previous year: EUR 29,354k) was allocated to the Trading segment and was disposed of as part of the loss of control of ACCENTRO. Goodwill of EUR 101,198k is reported in the Rental segment (previous year: EUR 101,198k). Reference is made to the comments in Note 8.1, “Goodwill and intangible assets”.

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

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

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

8. NOTES TO THE CONSOLIDATED BALANCE SHEET

8.1 Goodwill and intangible assets

In EUR ´000 2017	Goodwill	Customer relationships and similar assets	Other intangible assets	Total intangible assets
Cost				
As at 01.01.2017	130,552	1,412	1,025	2,437
Additions from acquisitions (+)	0	0	0	0
Additions (+)	0	0	448	448
Reclassifications (+)	0	0	0	0
Disposals ACCENTRO (-)	-29,354	-1,412	-84	-1,496
As at 31/12/2017	**101,198**	**0**	**1,389**	**1,389**
Amortisation				
As at 01.01.2017	0	1,203	651	1,854
Additions (+)	0	209	231	440
Disposals ACCENTRO (-)	0	-1,412	-60	-1,472
As at 31/12/2017	**0**	**0**	**822**	**822**
Carrying amounts 01/01/2017	130,552	209	374	583
Carrying amounts 31/12/2017	**101,198**	**0**	**567**	**567**

In EUR ´000 2016	Goodwill	Customer relationships and similar assets	Other intangible assets	Total intangible assets
Cost				
As at 01.01.2016	130,552	1,412	1,066	2,478
Additions from acquisitions (+)	0	0	0	0
Additions (+)	0	0	126	126
Reclassifications (+)	0	0	0	0
Disposals (-)	0	0	-167	-167
As at 31/12/2016	**130,552**	**1,412**	**1,025**	**2,437**
Amortisation				
As at 01.01.2016	0	705	415	1,120
Additions (+)	0	498	262	760
Disposals (-)	0	0	-26	-26
As at 31/12/2016	**0**	**1,203**	**651**	**1,854**
Carrying amounts 01/01/2016	130,552	707	651	1,358
Carrying amounts 31/12/2016	**130,552**	**209**	**374**	**583**

Goodwill of EUR 101,198k is attributable to the regional business units (North, Middle, West, East) of the Rental segment and results from the acquisition of WESTGRUND in June 2015. The allocation of the goodwill resulting from the WESTGRUND acquisition to groups of cash-generating units was completed in the 2016 financial year and took due account of the sustainable synergies (financing, administrative and operating synergies) expected to result from the business combination.

The goodwill of EUR 29,354k that was allocated to the Trading segment was disposed of as part of the loss of control of ACCENTRO due to the sale of the majority of the investment as of 30 November 2017 (see "Disposal of ACCENTRO" in Note 4.4).

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

The Management Board determined the cash flows budgeted for the detailed planning stage on the basis of the positive developments shown by the business model in the past and of expectations as to future market developments. For the regional business divisions within the Rental segment, the key value drivers are the planned increase in rent per square metre (target rent) and the reduction in the vacancy rate.

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

Cash Generating Units as of 31.12.2017	North	Central	West	East	Total
Goodwill in EUR ´000	21,333	14,801	27,428	37,636	101,198
WACC before tax in %	4.9	4.9	4.9	4.9	-
Sustainable growth rate in %	1.5	1.5	1.5	1.5	-

Cash Generating Units as of 31.12.2016	North	Central	West	East	Trade	Total
Goodwill in EUR ´000	21,333	14,801	27,428	37,636	29,354	130,552
WACC before tax in %	3.5	3.5	3.5	3.5	5.4	-
Sustainable growth rate in %	1.0	1.0	1.0	1.0	0.8	-

The impairment test performed in the fourth quarter of the year identified significant surplus cover of the carrying amounts in all business divisions. The recoverability of goodwill has therefore been confirmed. Sensitivity analyses were performed to test the impact of changes in key parameters while retaining the other assumptions.

In the year under review, a 1.0 percentage point decrease in the target rent (in EUR/square metre rental space) for the Central and West business units would not lead to an impairment of the respective book value, whereas for the North and East business units a complete write-down of the respective goodwill would be necessary. An increase in the vacancy rate (as a percentage of the target rent) by 1.0 percentage point would not lead to an impairment of the book value for any of the divisions. A 0.5 percentage point increase in the weighted average cost of capital (WACC) or a 0.5 percentage point decrease in the sustainable growth rate would have no impact on the recoverability of the book values of the Mid and West businesses, while the North and East business lines would require a complete write-down of the respective goodwill.

In the previous year, neither a reduction in the target rent (in EUR/square metre of rental area) by 1.0 percentage point nor an increase in the vacancy rate (as a percentage of the target rent) by 1.0 percentage point resulted in any impairment of the carrying amounts of the North, Central, West or East business divisions. If the cash flow budgeted after the end of the detailed planning period had halved, this would not have resulted in any impairment in the carrying amount of the Trading segment. If the weighted average cost of capital (WACC) had increased by 0.5 percentage points or the growth rate in perpetuity to decrease by 0.5 percentage points, this too would not have had any impact on the recoverability on the respective carrying amounts of any business divisions.

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

8.2 Property, plant and equipment

In EUR ´000	2017	2016
Cost		
As at 01.01.	4,314	1,752
Additions from acquisitions (+)	0	16
Additions (+)	2,852	2,594
Reclassifications (+)	0	0
Disposals (-)	-439	-47
Disposals ACCENTRO (–)	-669	0
As at 31.12.	**6,058**	**4,314**
Amortisation		
As at 01.01.	880	483
Additions (+)	711	414
Disposals (-)	0	-17
Disposals ACCENTRO (–)	-481	0
As at 31.12.	**1,110**	**880**
Carrying amounts 01.01.	3,434	1,269
Carrying amounts 31.12.	**4,948**	**3,434**

8.3 Investment properties

In EUR ´000	Let investment properties	Project development properties	Total 2017	Total 2016
Carrying amounts 01.01.	**2,441,988**	**0**	**2,441,988**	**2,270,187**
Additions through acquisitions IFRS 3 (+)	0	0	0	0
Additions through investment properties/ property companies (+)	177,730	158,850	336,580	15,642
Other additions (+)	34,144	4,479	38,623	35,796
Fair value increase (+)	217,443	29,671	247,114	219,483
Fair value decrease (-)	-11,728	0	-11,728	-19,806
Reclassifications (+/-)	-33,600	0	-33,600	-68,089
Disposals (-)	-458	0	-458	-11,225
Carrying amounts 31.12.	**2,825,518**	**193,000**	**3,018,518**	**2,441,988**

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

The additions to leased existing properties in the year under review resulted from the following: an addition of EUR 29,925k was due to the acquisition on 31 March 2017 of a real estate portfolio in Osterholz-Scharmbeck and Schwanewede, EUR 9,981k was due to the acquisition on 30 June 2017 of the real estate portfolio in Senftenberg via the property company TGA Immobilien Erwerb 3 GmbH and EUR 137,824k was due to the acquisition in September 2017 of a further real estate portfolio with a total of 2,505 rental units in North Rhine-Westphalia, Lower Saxony, Bremen and Schleswig-Holstein via the property companies ADP, AFP II and AFP III.

In mid-November 2017, ADLER acquired shares in eight project development companies that are implementing the “Wasserstadt Mitte” property development project on largely undeveloped land in Berlin Mitte (Europa City). The project development intends for the construction of approx. 750 units with approx. 44,000square metres of living space and approx. 14,000 square metres of office and commercial space for the ADLER portfolio. Initial construction work has already begun. According to current planning, the project development is largely to be completed by the end of 2019. Via these property companies, the Group acquired investment properties under construction amounting to EUR 158,850k.

The disposals result from the disposal of sections of portfolios and individual units. Valuation gains of EUR 247,114k and valuation losses of EUR 11,728k were recognised in the 2017 financial year (previous year: EUR 219,483k and EUR 19,806k). Due to these gains and losses, net income from fair value adjustments of investment properties came to EUR 235,386k (previous year: EUR 199,677k). The reclassifications amounting to EUR 33,600k relate to investment properties classified in accordance with IFRS 5 as non-current assets held for sale.

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

In EUR ´000	2017	2016
Income from property management	264,087	244,697
Expenses from property management	-137,969	-127,244
Earnings from property management	**126,118**	**117,453**

The fair value of individual properties or individual property portfolios (level 3 of the fair value measurement hierarchy) has been determined on the basis of discounted future cash flows using the DCF method. For properties under construction (project development/project properties), which will be held in the long term to generate gross rental income and capital appreciation after completion, the residual value method will be applied to determine the fair value (level 3 of the fair value measurement on the basis of measurement models).

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

Let investment properties

The DCF method involves discounting the cash flows expected to be generated by a property to the measurement date. To this end, the cash flows from the respective properties are determined for a detailed planning period (ten years). These involve the net balance of expected inflows and outflows of cash. While inflows generally relate to net rents, the (gross) outgoing payments particularly involve the operating costs borne by the owner. The net cash flows for each period are then discounted to the balance sheet date as at 31 December 2017 by application of a market-based, property-specific discount rate.

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

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

Valuation parameters	Unit	Average	Range
Discount rate	%	5.16	3.80–6.47
Capitalisation rate	%	4.62	3.05–6.00
Maintenance costs	EUR/sqm	8.82	6.50–10.50
Administrative expenses	EUR/per rental unit/ year	248.69	200.00–300.00
Stabilised vacancy rate	%	2.32	0.00–13.00
Valuation results			
Actual rent multiplier		16.04	9.35–27.25
Market value per sqm	EUR/sqm	1,046.46	480.00–2,250.20

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

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

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

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

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

	Capitalisation rate		Market Rent		Vacancy rate	
	-0.5 PP	+0.5 PP	-10.0%	+10.0%	-1.0 PP	+1.0 PP
Change in value						
In EUR ´000	259,287	-211,761	-353,371	348,380	44,705	-39,942
in %	9.18	-7.49	-12.51	12.33	1.58	-1.41

In the previous year, the following effects resulted from possible fluctuations of the respective measurement parameters:

	Capitalisation rate[1)]		Market Rent		Vacancy rate	
	-0.5 PP	+0.5 PP	-10.0%	+10.0%	-1.0 PP	+1.0 PP
Change in value						
In EUR ´000	248,370	-210,959	-316,190	306,725	41,227	-41,419
in %	10.17	-8.64	-12.95	12.56	1.69	-1.70

1) the change in value for 2016 has been adjusted

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

	Total rental area in sqm	Discount rate in %	Capitalisa-tion rate in %	Actual rent multiplier	Stabilised vacancy rate in %	Market value 2017 in EUR ´000
Lower Saxony	1,090,759	5.28	4.69	15.12	2.32	959,354
North Rhine Westphalia	707,187	4.76	4.55	15.81	1.56	655,344
Saxony	444,840	5.21	5.09	14.82	3.57	324,585
Saxony-Anhalt	197,532	5.47	5.00	13.33	0.43	137,206
Brandenburg	216,165	5.54	4.87	13.68	0.90	168,784
Other	476,271	5.22	4.16	19.88	3.35	580.245
Total	**3,132,754**	**5.16**	**4.62**	**16.04**	**2.32**	**2,825,518**

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

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

Project development properties

The determination of the fair value of property under construction – which are held in the long term for the purpose of generating gross rental income and capital appreciation after completion – takes place using the residual value method, since the value of these properties is primarily determined by the value of the specific development concept. In the case of the residual value method, an indicative market value of the finished and leased object is initially determined on the basis of the future expected annual net income using the DCF method. All remaining costs that are incurred in connection with the preparation of the project are deducted from this value. These possible costs include all construction costs, building ancillary costs, fees, financing costs, marketing costs and incidental acquisition costs. There is also a risk deduction for risk and profit.

The following overview presents the most significant assumptions used to determine the fair values of investment properties using the residual value method:

Valuation parameters	Unit	Average	Range
Capitalisation rate	%	3.30	-
Calculated construction costs of the net rentable area	in EUR/sqm	3,000.00	-
Risk deduction for risk and profit	%	15.00	-
Multiplier gross annual profit		27.5	-

Currently the residual value method is applied only for project development. For this reason there is no range for the valuation parameters.

The risk deduction for risk and profit refers to the yet-to-be-generated added value of the respective project.

The chosen interest rate, underlying market rents and calculated construction costs were identified as the main value drivers influenced by the market. The effects of potential fluctuations in these parameters are presented separately in the table below:

	Capitalisation rate		Market Rent		Calculated building costs[1)]	
	-0.5 PP	+0.5 PP	-10%	+10%	-10 %	+10 %
Change in value						
In EUR ´000	80,390	-57,510	40,310	40,290	21,290	-21,310
in %	41.65	-29.80	-20.88	20.87	11.03	-11.04

1) Without consideration of potential project guarantees

8.4 Loans to associated companies

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

8.5 Investments in associates and joint ventures

Two companies were included in the consolidated financial statements using the equity method as at the balance sheet date (previous year: five companies). Three associates (previous year: four) have not been included at equity due to materiality considerations.

In EUR´000	2017	2016
Carrying amounts 01.01.	**497**	**353,343**
Share of gains and losses (at-equity-result)	225	11,185
Other results attributable to the Group	0	-1,590
Dividends received	-217	-9,059
Reclassifications (+/-)	0	-353,382
Disposals ACCENTRO (–)	-480	0
Carrying amounts 31.12.	**25**	**497**

In connection with the sale of the majority of the investment in ACCENTRO, the investments in Wohneigentum Berlin GbR, SIAG Sechzehnte Wohnen GmbH & Co. KG and Malplaquetstr. 23 Grundstücksverwaltungsgesellschaft mbH were disposed of. The remaining 6.2 percent interest in ACCENTRO will continue to be recognised as an associate in the consolidated financial statements due to its ability to exercise significant influence through a member of the Supervisory Board. However, it will be included in non-current assets held for sale due to the proposed disposal (see Note 8.11).

In the previous year, ADLER transferred the entire investment in conwert Immobilien Invest SE (conwert) to the shareholders of conwert in the takeover offer announced on 5 September 2016 by Vonovia SE (Vonovia). As part of the agreed-upon Tender Commitment Agreement with Vonovia, ADLER has irrevocably undertaken to accept the takeover offer from Vonovia. Due to the tender commitment agreement with Vonovia, the shares were initially recognised as non-current assets held for sale for the first time in the third quarter of 2016 (reclassification). In January 2017, return from the transfer of the shares was received. Please refer to the comments under Note 8.11 “Non-current assets held for sale”.

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

In EUR ´000	**2017**	**2016**
Carrying amount of shares on not-vital-at-equity consolidated companies	**25**	**497**
Group‘s share in the result of non-vital-at-equity companies:		
– Profit from continuing operations	0	532
– Other results	0	0
Total result	**0**	**532**

The prorated share of profit and loss at the companies included using the equity method has been recognised in full in 2017. There are no accumulated unrecognised losses.

8.6 Other financial investments and other non-current assets

Other non-current assets mainly include advance payments made.

8.7 Deferred taxes

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

In EUR ´000	2017	2016
Tax loss carryforwards (deferred tax assets)	67,925	52,298
Valuation of other liabilities (deferred tax assets)	5,094	5,953
Valuation of pension provisions (deferred tax assets)	234	499
Valuation of (convertible) bonds (deferred tax assets)	0	8,341
Valuation of financial liabilities (deferred tax assets)	9,954	5,322
Valuation of investment properties/inventories (deferred tax liabilities)	-235,525	-169,515
Valuation of (convertible) bonds (deferred tax liabilities)	-7,239	-12,335
Accrual of financing costs (deferred tax liabilities)	-5,145	-5,126
Other	130	1,828
Total deferred tax assets	83,337	74,241
Total deferred tax liabilities	-247,909	-186,976
Offsetting	-83,337 83,337	-73,833 73,833
Reported deferred tax assets	**0**	**408**
Reported deferred tax liabilities	**-164,571**	**-113,142**

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

No deferred tax assets have been recognised for corporate tax loss carryovers of around EUR 183.9 million (previous year: around EUR 140.3 million) and trade tax loss carryovers of around EUR 160.5 million (previous year: around EUR 147.8 million) as their realisation is not sufficiently certain.

No deferred tax liabilities have been recognised on amounts totalling EUR 23.2 million (previous year: EUR 15.9 million) in connection with shareholdings in group companies. This is due to the Group's ability to control their reversal, which is not expected to be the case in the foreseeable future.

8.8 Inventories

Inventories include an amount of EUR 2,941k for properties acquired for sale (previous year: EUR 219,523k), an amount of EUR 0 for advance payments (previous year: EUR 7,486k) and an amount of EUR 37k for other inventories (previous year: EUR 49k). The portfolio of inventory properties acquired for sale developed as follows:

In EUR ´000	2017	2016
Costs		
As at 01.01.	226,031	165,330
Additions through acquisition (+)	0	0
Additions (+)	129,371	99,950
Disposals (-)	-66,993	-79,756
Disposals ACCENTRO (–)	-279,081	0
Reclassifications (+/-)	0	40,507
As at 31.12.	**9,328**	**226,031**
Amortisation		
As at 01.01.	6,508	6,508
Additionals (+)	0	0
Write-ups (-)	0	0
Disposals (-)	0	0
Disposals ACCENTRO (-)	-121	0
As at 31.12.	**6,387**	**6,508**
Carrying amounts 01.01.	219,523	158,822
Carrying amounts 31.12.	**2,941**	**219,523**

In the context of the loss of control of ACCENTRO due to the sale of the majority of the investment as at 30 November 2017, the majority of the properties acquired for sale and all advance payments made have been disposed of (see “Disposal of ACCENTRO” in Note 4.4).

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

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

The carrying amount of inventories pledged as securities for liabilities amounts to EUR 0 (previous year: EUR 216,080k). Inventory properties with total carrying amounts of EUR 0 (previous year: EUR 99,667k) are only expected to be sold after more than twelve months.

8.9 Trade receivables, income tax claims and other current assets

Current trade receivables comprise the following items:

In EUR ´000	2017	2016
Receivables from company disposals and sale of land	305	3,347
Rent receivables	10,326	7,523
Other	87	879
Total	**10,717**	**11,749**

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

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

In EUR´000	2017	2016
Trade receivables	10,717	11,749
– of which not impaired as of the reporting date and not overdue	1,594	2,020
– of which not impaired as of the reporting date and not overdue by up to 30 days	0	128
– of which not impaired as of the reporting date and not overdue between 31 to 60 days	44	72
– of which not impaired as of the reporting date and not overdue between 61 to 90 days	0	60
– of which not impaired as of the reporting date and not overdue between 91 to 180 days	284	87
– of which not impaired as of the reporting date and not overdue between 181 to 360 days	0	342
– of which not impaired as of the reporting date and not overdue above 360 days	13	1,517
– Net value of impaired trade receivables	8,782	7,523

Impairments of trade receivables developed as follows:

In EUR ´000	2017	2016[1)]
As at 01.01.	**61,941**	**61,495**
Change in the scope of consolidation	-38	0
Contributions (depreciation)	7,815	7,147
Utilisation	-8,168	-6,701
As at 31.12.	**61,551**	**61,941**

[1)] the opening value 2016 has been adjusted

Other current assets comprise the following items:

In EUR ´000	2017	2016
Purchase price receivable ACCENTRO including interest claims	161,729	0
Current securities	18,191	78
Earmarked financial assets	38,984	14,785
Short-term loans to third parties	17,392	30,124
Notary escrow account	0	17
Sales tax receivables	0	1,331
Advance payment of financing costs	772	588
Receivables reductions in purchase price	190	0
Other current assets	6,250	7,163
Total	**243,508**	**54,086**

Current securities comprise temporary investments of surplus liquidity.

Earmarked financial assets comprise bank balances with specific use restrictions that should only be used for the repayment of certain financial liabilities, as security for specific obligations or for particular maintenance measures. ADLER can not specify the disposal.

Impairment losses of EUR 58k have been recognised on other current assets (previous year: EUR 55k). All items within other current assets are of a short-term nature as they mainly result from contractual arrangements due to be settled within one year.

8.10 Cash and cash equivalents

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

Cash and cash equivalents amounted to EUR 368,233k as at the balance sheet date (previous year: EUR 123,911k), of which an amount of EUR 276,077k was subject to restrictions on disposal (previous year: EUR 13,370k). ADLER can dispose of these resources, but they are intended for a special use. In particular these are credit accounts on which funds are accumulated, which are then used for interest payment and repayment. The year-on-year increase of EUR 259,752k was due to the deposit of purchase prices for the repurchase of borrower's note loans in the 2018 financial year.

Due to the specific restrictions on disposal, bank credit balances of EUR 38,984k have been reported for the year under report under other current assets (previous year: EUR 14,785k).

8.11 Non-current assets and liabilities held for sale

In connection with the sale of the majority of the investment in ACCENTRO, ADLER carried out a transitional consolidation on 30 November 2017 and included the investment in ACCENTRO 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 (see Note 4.4). As at the balance sheet date, the fair value less costs to sell was higher than the book value, meaning that no valuation allowance had to be made. ADLER also has the option to sell the remaining holding in ACCENTRO to the buyer at the same price agreed for its 80 percent holding.

In December 2016, the ADLER Group tendered its shareholding of approx. 26 percent in conwert within the framework of the voluntary takeover bid successfully addressed by Vonovia SE to shareholders in conwert. With Vonovia's approval, it selected the option of cash consideration. In January 2017, the consideration was received for the assignment of the conwert shares within the voluntary takeover bid addressed by Vonovia to conwert's shareholders. The shares were measured at the lower of their carrying amount and their fair value less costs to sell. As of 31 December 2016, fair value less costs to sell as based on the consideration offered in Vonovia's voluntary takeover bid was lower than the previous carrying amount, as a result of which it was necessary to recognise an impairment loss. Apart from the reversal of the reserves recognised in equity for the conwert shares, the retirement of the shares at a carrying amount of EUR 416,260k has therefore not impacted on earnings in the 2017 financial year. The reversal of the reserves recognised in equity for the conwert shares led to expenses of EUR 1,589k, which have been recognised in the financial result in line with the impairment loss recognised in the previous year.

The other non-current assets held for sale involve an amount of EUR 10,943k for properties for which notarised purchase agreements were available as at the balance sheet date (previous year: EUR 18,428k). 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.

8.12 Capital stock

The fully paid up share capital at ADLER amounted to EUR 57,548k as at 31 December 2017 (previous year: EUR 47,702k) and was divided into 57,547,740 (previous year: 47,702,374) no-par bearer shares with equal voting rights.

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

Due to the exercising of conversion rights, capital stock increased by EUR 5,072k.

The number of shares outstanding is as follows:

Amount	2017	2016
As at 01.01.	47,702,374	46,103,237
Conversion of convertible bonds	5,072,231	1,599,137
Non-cash capital increase through company acquisition	4,773,135	0
As at 31.12.	**57,547,740**	**47,702,374**

Authorisation to acquire treasury stock

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

The company has acquired 1,391,902 treasury shares through three share buyback programmes up to the reporting date. This equates to a stake of 2.42 percent in the capital stock as at the reporting date.

Authorised Capital 2015/I

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

Authorised Capital 2017/I

Pursuant to § 4 (2) of the Articles of Association, the Management Board is authorised until 9 May 2022, subject to the approval of the Supervisory Board, to increase the company's capital stock on one or several occasions by a total of up to EUR 12,500,000 by issuing up to 12,500,000 new no-par bearer shares in return for cash contributions or contributions in kind (authorised capital 2017/I). The Management Board is authorised, subject to the approval of the Supervisory Board, to exclude shareholders' subscription rights in the cases listed in § 4 (2) of the Articles of Association.

Contingent Capital 2012/I

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

The contingent capital increase exclusively serves to issue shares to the bearers of warrant or convertible bonds issued until 27 June 2017 on the basis of the authorisation granted by the Annual General Meeting on 28 June 2012 in the version as amended by resolution of the Annual General Meeting on 15 October 2013.

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

Following the exercising of conversion rights in connection with the 2013/2017 convertible bond issued on 14 June 2013 (ISIN DE000A1TNEE3), which matures on 27 June 2017, and the exercising of conversion rights in connection with the 2013/2018 convertible bond issued on 17 December 2013 (ISIN DE000A1Y-CMH2), Contingent Capital 2012/I still amounted to EUR 1,522,740 at the balance sheet date.

Contingent Capital 2015/I

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

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

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

Following the exercising of conversion rights in connection with the 2016/2021 convertible bond issued on 19 July 2016 (ISIN A161XW6), Contingent Capital 2015/I still amounted to EUR 5,334,944 at the balance sheet date.

Contingent Capital 2015/II

Pursuant to § 4 (6) of the Articles of Association, the company's share capital is contingently increased by up to EUR 11,666,666 by issuing up to 11,666,666 new no-par bearer shares.

The contingent capital increase exclusively serves to issue shares to the bearers of the EUR 175 million mandatory convertible bonds that were issued to part finance the acquisition of MountainPeak Trading Limited on 28 December 2015. The contingent capital increase is executed only to the extent that the bearers of the EUR 175 million mandatory convertible bonds exercise their conversion rights or the mandatory convertible bonds are converted as required at the end of the term. The new shares enjoy dividend entitlement from the beginning of the financial year in which they are issued.

8.13 Capital reserve

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

An amount of EUR 4,240k of the increase in the capital reserve resulted from the exercising of conversion rights in connection with convertible bonds.

The issue of bonus shares in June 2017 led to a reduction in the capital reserve by EUR 4,773k. Following the sale of the majority of its shareholding in ACCENTRO, ADLER acquired additional shares in Magnus-Relda Holding Vier GmbH – an increase in shareholding without a change of status. As a result, the capital reserve has been reduced by EUR 1,369k, which is the amount by which the purchase price exceeds the carrying amount of the non-controlling interests.

8.14 Retained earnings

Retained earnings include adjustments in the opening balance sheet due to the conversion of accounting from the German Commercial Code (HGB) to International Financial Reporting Standards (IFRS) implemented in 2005 (first-time adoption), items resulting from changes to accounting policies pursuant to IAS 8 and current items resulting from the remeasurement of pension provisions. In addition, changes in the fair value of available-for-sale financial assets and shares in other comprehensive income and companies accounted for using the equity method are recognised. In the financial year, profits and losses from the remeasurement of pension provisions amounting to EUR 577k (previous year: EUR -563k) and changes in value of available-for-sale financial assets amounting to EUR -966k after netting with the related taxes were transferred to retained earnings. Reserves amounting to EUR 1,589k recognised directly in equity for the shares in conwert were reversed in the course of the disposal of the shares.

8.15 Currency translation reserve

The currency translation reserve includes the accumulated exchange rate difference between the initial consolidation in the consolidated balance sheet and the subsequent consolidations using the respective reporting date rates of Adler McKinney LLC. This amount is directly recognised in equity in the currency translation reserve. The change in the currency translation reserve by EUR -4k was attributable to the subsequent consolidation of Adler McKinney LLC.

8.16 Minority interests

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

Non-controlling interests developed as follows in the 2017 financial year:

In EUR ´000	2017	2016
Subsidiary WESTGRUND	39,723	31,745
Subsidiary ACCENTRO	0	17,276
Subsidiary JADE	9,445	8,016
WBR Wohnungsbau Rheinhausen GmbH	8,764	7,606
Other	18,992	6,405
Carrying amounts 31.12.	**76,924**	**71,048**

The development in non-controlling interests is presented separately in the statement of changes in equity. The change in the shares of the non-controlling shareholders in the WESTGRUND subgroup is, in addition to the allocation of the profit share, determined by the fact that ADLER increased its stake in WESTGRUND further in the first quarter without any change of status. This led to a reduction in non-controlling interests in the WESTGRUND subgroup by EUR 488k.

The shares amounting to EUR 18,816k of the non-controlling interests in the ACCENTRO subgroup were disposed of due to the loss of controlling influence over ACCENTRO with effect from 30 November 2017 (see Note 4.4.).

In the course of the acquisition of property and project development companies, the shares of non-controlling interests increased by a total of EUR 8,258k. Further details can be found in the Consolidated Statement of Changes in Equity.

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

Combined balance sheets	**Subsidiary WESTGRUND**	
Headquarters **Minority interest %**	**Berlin** **3.23**	**Berlin** **3.32**
In EUR ´000	**2017**	**2016**
Current assets[1]	89,500	95,757
Current liabiliets[1]	62,669	63,631
Net current assets	**26,831**	**32,126**
Investment properties	1,111,000	1,001,090
Non-current assets	477	333
Non-current liabilities	533,514	533,990
Net fixed assets	**577,963**	**467,433**
Equity	**604,794**	**499,559**

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

Combined statement of comprehensive income	**Subsidiary WESTGRUND**	
In EUR ´000	**2017**	**2016**
Revenue	98,313	90,110
Annual result	**103,894**	**107,568**
Other comprehensive income	1,340	-161
Net result	**105,234**	**107,407**
Profit or loss attributable to non-controlling interests	5,185	173

Combined cash flow statement	**Subsidiary WESTGRUND**	
In EUR ´000	**2017**	**2016**
Cash flow from operating activities	23,706	24,000
Cash flow from investing activities	-6,900	-3,813
Cash flow from financing activities	231	-11,172
Change in cash and cash equivalents	**17,037**	**9,015**

8.17 Pension provisions

The projected unit credit method was used for the recognition and measurement of pension provisions as at 31 December 2017. This accounts for both the pensions and known pension entitlements at the balance sheet date and any increases in pension and salaries expected in future.

The calculation was based on the following material actuarial assumptions:

In EUR ´000	31.12.2017	31.12.2016
Discount rate	1.80%	1.00%
Future salary increases	0.00% to 2.50%	0.00% to 2.50%
Future pension increases	1.5% to 1.75%	1.5% to 1.75%
Best-estimate actuarial assumptions	Mortality tables 2005 G by Dr. Klaus Heubeck	Mortality tables 2005 G by Dr. Klaus Heubeck

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

Pension provisions developed as follows:

In EUR ´000	2017	2016
Pension provisions at 01.01.	**4,954**	**4,268**
Actuarial gains/losses	-821	824
Acquisitions	0	0
Acquisition of plan assets	0	0
Interest expense	59	105
Pension payments	-255	-250
Addition	2	35
Change in plan assets at 31.12.	50	-28
Pension provisions at 31.12.	**3,989**	**4,954**

Plan assets developed as follows:

In EUR ´000	2017	2016
Plan assets at 01.01.	**1,143**	**1,115**
Acquisitions	0	0
Interest income from plan assets	11	22
Income from plan assets (excl. interest income)	103	1
Contributions to plan assets	0	31
Pension payments from plan assets	-105	-26
Actuarial gains/losses	-59	0
Plan assets at 31.12.	**1,093**	**1,143**

Actuarial gains of EUR 821k (excluding deferred taxes) were recognised in other comprehensive income in 2017 (previous year: loss of EUR 824k).

Sensitivity analysis: if all other assumptions remain unchanged, an increase or decrease in material actuarial assumptions would have had the following impact on the DBO as of 31 December 2017:

In EUR ´000		2017	2016
Acturial interest	Increase of 0.5 PP	-305	-404
	Decrease of 0.5 PP	339	450
Pension increase	Increase of 0.25 PP	64	65
	Decrease of 0.25 PP	-62	-63
Income trend	Increase of 0.25 PP	1	1
	Decrease of 0.25 PP	-1	-1

Of pension provisions, an amount of EUR 255k is due to mature within one year (previous year: EUR 250k). This amount has been uniformly reported together with the other pension obligations under non-current liabilities.

As the commitments mainly relate to employees who have left the company and no new commitments are being made, an annual disbursement of around EUR 255k is expected in future years as well.

8.18 Other provisions

Other provisions developed as follows in the 2017 and 2016 financial years:

In EUR '000	As at 01.01.2017	Disposal ACCENTRO	Utilisation	Reversal	Addition	As at 31.12.2017	Non-current
Provisions for personnel obligations	1,695	-145	-210	-82	177	1,435	1,435
Provisions for warranties	1,802	-1,140	-139	-522	122	123	111
Miscellaneous other provisions	2,050	-531	-1,038	-329	0	152	118
Total	**5,547**	**-1,816**	**-1,387**	**-933**	**299**	**1,709**	**1,664**

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

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

Non-current provisions for personnel obligations include amounts of EUR 110k for early retirement commitments (previous year: EUR 230k), EUR 1,279k (previous year: EUR 1,208k) for the SAR programme and EUR 46k for anniversary provisions (previous year: EUR 41k).

8.19 Liabilities from convertible bonds

In EUR ´000	2017	2016
Convertible bond 2013/2017	0	9,009
Convertible bond 2013/2018	3,990	4,036
Mandatory convertible bond 2015/2018	777	1,594
Convertible bond 2016/2021	121,469	116,897
ACCENTRO convertible bond 2014/2019	0	13,888
Total	**126,236**	**145,424**
– of which non-current	119,731	143,870
– of which current	6,505	1,554

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

Description	Nominal value per unit	Old strike price	New strike price	Old conversion rate	New conversion rate
Convertible bond 2013/2017	2.00	2.00	1.8182	1.0000	1.0999
Convertible bond 2013/2018	3.75	3.75	3.4091	1.0000	1.0999
Mandatory convertible bond 2015/2018	100,000.00	16.50	15.0000	6,060.6061	6,666.6666
Convertible bond 2016/2021	13.79	13.79	12.5364	1.000	1.0999

At the end of the subscription period on 15 July 2016, ADLER placed ten million convertible bonds 2016/2021 with a term of five years and an interest rate of 2.5 percent p.a. The net issue proceeds were being used to refinance existing loans and bonds with comparatively high interest rates, to finance property acquisitions and to modernise the proprietary property portfolio.

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

In June 2013, ADLER issued its 2013/2017 convertible bond with a total number of 5,000,000 bonds with a nominal value of EUR 2.00 per bond. The convertible bond totals EUR 10,000k, has an interest rate of 6 percent and matures on 30 June 2017. The outstanding convertible bonds have nearly completely been converted into ADLER shares.

In December 2013, ADLER issued its 2013/2018 convertible bond with a total number of 3,000,000 bonds and a nominal value of EUR 3.75 per bond. The convertible bond totals EUR 11,250k, has an interest rate of 6 percent and matures on 27 December 2018.

Most of the convertible bonds 2014/2019 issued by ACCENTRO were acquired by ADLER in the first quarter of 2017 and sold together with the shares in ACCENTRO effective 30 November 2017.

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.

8.20 Liabilities from bonds

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

In EUR '000	2017	2016
Bond 2013/2018	36,349	35,884
Bond 2014/2019	0	129,761
Bond 2015/2020	499,992	341,747
ACCENTRO Bond 2013/2018	0	10,443
Bond 2017/2021	490,370	0
Bond 2017/2024	293,608	0
Total	**1,320,319**	**517,735**
– of which non-current	1,277,640	509,454
– of which current	42,679	8,281

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

In April 2014, ADLER issued a bearer bond (2014/2019) with a total amount of EUR 100,000k at an interest rate of 6.00 percent. In January 2015, this was increased by EUR 30,000k to EUR 130,000k. The bond was terminated and prematurely repaid on 10 May 2017.

In April 2015, ADLER issued a bearer bond of EUR 300,000k with an interest rate of 4.75 percent that was increased by a further EUR 50,000k in October 2015. A further increase of EUR 150.00m was made in April 2017. This bond has a five-year term and matures on 8 April 2020.

In the first quarter, ACCENTRO decided to prematurely repay its 2013/2018 bond. This bond, which had a total nominal volume of EUR 10m and a coupon of 9.25 percent, was fully repaid on 26 June 2017 at a price of 101.5 percent plus interest accumulated on the nominal amount as at the repayment date.

On 6 December 2017, ADLER issued a corporate bond of EUR 800k in two tranches. The first tranche (2017/2021) with a coupon of 1.500 percent and a volume of EUR 500 million runs until December 2021 and was 99.520percent issued. The second tranche (2017/2024) with a coupon of 2.125percent and a volume of EUR 300 million expires in February 2024 and was 99.283percent issued. On average, the interest on the bond is 1.734percent.

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.

8.21 Financial liabilities

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

Non-current financial liabilities to banks amounted to EUR 749,188k as at the balance sheet date (previous year: EUR 1,312,502k). The repayment compared with the previous year is due to the repurchase/special repayments of higher-interest promissory note loans in the amount of EUR 390,447k (nominal) in the first, second and fourth quarters of 2017. In addition, borrower's note loans amounting to EUR 225,625k (nominal) – which were bought back in January and February 2018 – were reclassified from non-current to current financial liabilities.

In the course of the acquisition of ADP, AFP II and AFP III, non-current financial liabilities in the amount of EUR 68,865k were assumed. A long-term loan of EUR 22,000k was arranged to replace the intra-group financing for the property portfolio in Osterholz-Scharmbeck and Schwanewede acquired in the first quarter of 2017. In the course of the acquisition of the project development companies RIV Harbor West MI 1 GmbH, RIV Harbor East WA 1 GmbH, RIV Total MI 2 GmbH, RIV Central WA 2 GmbH, RIV Square West MI 3 GmbH, RIV Square East WA 3 GmbH, RIV Channel MI 4 GmbH and RIV Kornspeicher GmbH, non-current financial liabilities in the amount of EUR 43,859k were assumed.

Current financial liabilities to banks amounted to EUR 278,676k as at the balance sheet date (previous year: EUR 320,328k). EUR 199,707k (including interest) of the reduction compared with the end of the previous year was due to repayment of the loan to finance the acquisition of conwert shares. In addition to promissory note loans repurchased in January and February 2018, current financial liabilities include short-term interest payable and repayments due within one year.

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

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

Financial liabilities are secured by assets as follows:

In EUR '000	2017	2016
Investment properties	1,018,151	1,309,993
Investments in associated companies	0	199,243
Properties in inventories	0	99,259
Deposits with banks	303,017	66,000
Rent receivables	10,003	8,099

Until the sale at the beginning of January, the shares held in the associate conwert, which were reported under non-current assets held for sale, were assigned to the bank by MountainPeak Trading Limited as security for its financial liabilities.

8.22 Other non-current liabilities

Other non-current liabilities mainly include the non-current purchase price liabilities from the acquisition of the "Wasserstadt Mitte" property project development at EUR 16,807k, non-current lease liabilities at EUR 11,876k (previous year: EUR 5,286k), the negative fair values of long-term interest hedges at EUR 5,701k (previous year: EUR 7,170k) – further information about these can be found in Note 10.3, "Derivative financial instruments and hedge accounting" – and the liability to the Federal and State Government Employees Retirement Fund (VBL) at EUR 7,492k (previous year: EUR 8,745k). The obligation to the VBL results from the acquisition of JADE and was measured at fair value as at the balance sheet date. Distribution claims on the part of non-controlling interests have been recognised at EUR 3,922k (previous year: EUR 3,922k).

Current and non-current lease liabilities result in the amount of EUR 5,299k (previous year: EUR 5,300k) from the acquisition of WESTGRUND. Leasehold contracts generally provide for preferential rights of renewal in the event of a renewed leasehold following the expiry of the contract or for the first right of refusal in the event of the land being sold. The ground rent is mainly index-based. The carrying amounts are determined by discounting future cash flows with property-specific rates of 4.0 percent to 7.8 percent. Lease obligations in the amount of EUR 6,591k are based on leasehold agreements taken over as part of the acquisition of ADP, AFP II and AFP III. The carrying amounts are determined by discounting future cash flows with property-specific discount rates of 5.5 to 6.1 percent.

The carrying amounts and minimum lease payments are structured by maturity as follows:

In EUR '000	Carrying amount 2017	Minimum lease payments 2017	Carrying amount 2016	Minimum lease payments 2016
Up to one year	15	742	14	353
1 to 5 years	69	2,966	61	1,413
More than 5 years	11,806	112,167	5,225	43,177
	11,890	115,875	5,300	44,943
Excl. future interest costs	-	-103,985	-	-39,643
Total	**11,890**	**11,890**	**5,300**	**5,300**

8.23 Trade payables, income tax liabilities and other current liabilities

All of the trade payables of EUR 29,125k (previous year: EUR 22,492k) are current and owed to third parties. These items mainly relate to letting liabilities but also include unbilled maintenance measures and advisory services.

The income tax liabilities of EUR 2,516k (previous year: EUR 13,969k) involve corporate income and trade tax obligations for the current and previous financial years. EUR 9,269k of the decrease is attributable to AC-CENTRO.

Other current liabilities comprise the following items:

In EUR '000	2017	2016
Purchase price liabilities	6,250	0
Advance payments received for inventory properties	3,074	9,299
Deferred rental income	4,775	3,705
Prepayment compensations	0	2,600
Security deposits received	86	598
Personnel obligations	823	1,061
Other current liabilites	2,956	9,668
Total	**17,964**	**26,931**

The short-term purchase price liabilities amounting to EUR 5,000k relate to the acquisition of the property project development “Wasserstadt Mitte”, and EUR 1,250k to the acquisition of ADP, AFP II and AFP III.

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

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

9. NOTES TO THE STATEMENT OF INCOME AND ACCUMULATED EARNINGS

9.1 Gross rental income

Gross rental income is structured as follows:

In EUR '000	2017	2016
Net income	170,282	160,934
Income from charged operating costs	91,628	81,245
Other income from property management	2,478	3,623
Total	**264,388**	**245,802**

9.2 Expenses from property lettings

Expenses from property lettings are broken down as follows:

In EUR '000	2017	2016
Apportionable and non-apportionable operating costs	115,562	108,697
Maintenance	21,903	27,069
Other property management expenses	1,124	1,005
Total	**138,589**	**136,771**

9.3 Income from the sale of properties

Income from the sale of properties is structured as follows:

In EUR '000	2017	2016
Income from the disposal of inventory properties	1,392	925
Income from the disposal of investment properties	33,462	40,980
Brokerage revenue	0	0
Total	**34,854**	**41,905**

9.4 Expenses from the sale of properties

Expenses from the sale of properties are structured as follows:

In EUR '000	2017	2016
Carrying amount of disposed inventory properties	554	780
Carrying amount of disposed investment properties	32,761	40,468
Costs of disposal	750	1,160
Purchased services for brokerage revenue	0	0
Total	**34,065**	**42,408**

9.5 Personnel expenses

Personnel expenses include the following items:

In EUR '000	2017	2016
Wages, salaries and other benefits	18,098	14,177
Social security contributions	3,136	2,143
Old-age pension expenses	-933	374
Total	**20,302**	**16,694**

In the year under review, old-age pension expenses include a reversal of other non-current liabilities for obligations to the Federal and State Government Employees Retirement Fund (VBL) amounting to EUR 1,186k.

Stock appreciation right programme

ADLER introduced a stock appreciation right (SAR) programme in the 2015 financial year. This aims to retain the beneficiaries at the company and to enable them to participate in the company's value growth. Based on a resolution adopted by the Supervisory Board, the rules of the scheme provide for a total volume of 559,178 stock appreciation rights. These rights entitle their beneficiaries to compensation whose amount is dependent on ADLER's share price performance. Rights are in all cases granted by concluding individual agreements between the company and the beneficiary or a framework decision of the Supervisory Board. These agreements provide for cash settlement.

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

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

Valuation as at 31.12.2017	**Total**	**Of which Board**
Number of fully earned SAR	210,849	36,671
Proportional recorded number of SAR in expenses	338,937	72,578
Fair value per SAR in EUR	3,77	2,01
Expenses in the reporting period in EUR´000	71	46
Provision for due date in EUR´000	**1,279**	**146**
of which intrinsic value for the earned SAR in EUR´000	830	50

Valuation as at 31.12.2016	**Total**	**Of which Board**
Number of fully earned SAR	66,667	6,667
Proportional recorded number of SAR in expenses	244,947	76,080
Fair value per SAR in EUR	4,80	3,29
Expenses in the reporting period in EUR´000	1,142	247
Provision for due date in EUR´000	**1,208**	**247**
of which intrinsic value for the earned SAR in EUR´000	428	5

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

Structure/valuation parameter 2017	Total	Of which Board
Maximum amount of granted SARs	**559,178**	**253,000**
Balance/Payment	**in cash**	**in cash**
Structure	**in EUR/SAR**	**in EUR/SAR**
SARs granted at the beginning of reporting period		
Total number	407,000	143,000
Weighted basis price	10.20	12.29
SARs granted in the reporting period		
Total number	143,000	110,000
Weighted basis price	13.27	13.38
SARs contractually vested in the reporting period		
Total number	137,513	29,337
Weighted basis price	10.42	11.81
SARs forfeited in the reporting period		
Total number	147,000	147,000
Weighted basis price	12.84	12.84
SARs exercised in the reporting period		
Total number	0	0
Weighted basis price	-	-
Weighted average share price upon excercise	-	-
Exercise date	-	-
SARs outstanding at the end of reporting period		
Total number	403,000	106,000
Weighted basis prices	10.33	12.66
Min basis price	6.76	11.58
Max basis price	13.93	13.93
Weighted average remaining term in years	1.26	1.72
SARs exercisable		
Total number	-	-
Weighted basis price	-	-
Value determination		
Weighted average fair value of the option	3.60	2.07
Applied pricing model	Binomial model	Binomial model
Weighted average share price	13.29	13.29
Weighted average basis price	10.33	12.66
Anticipated yearly volatility	26.3%	26.3%
Anticipated dividend	0.00	0.00
Risk-free yearly interest rate	-0.64%	-0.64%

Expected volatility has been estimated in reference to the historic volatility of daily equity return logarithms over periods of one year, one and a half years, two years and two and a half years, depending on the remaining period of stock appreciation rights.

Structure/valuation parameter 2016	**Total**	**Of which Board**
Maximum amount of granted SARs	**500,000**	**130,000**
Balance/Payment	**in cash**	**in cash**
Structure	**in EUR/SAR**	**in EUR/SAR**
SARs granted at the beginning of reporting period		
Total number	220,000	60,000
Weighted basis price	8.01	9.54
SARs granted in the reporting period		
Total number	210,000	110,000
Weighted basis price	13.50	13.48
SARs contractually vested in the reporting period		
Total number	66,667	6,667
Weighted basis price	8.07	13.75
SARs forfeited in the reporting period		
Total number	51,666	40,000
Weighted basis price	7.44	7.44
SARs exercised in the reporting period		
Total number	8,334	0
Weighted basis price	7.44	-
Weighted average share price upon excercise	14.18	-
Exercise date	30.09.2016	-
SARs outstanding at the end of reporting period		
Total number	370,000	130,000
Weighted basis prices	11.22	13.52
Min basis price	7.44	12.74
Max basis price	13.90	13.90
Weighted average remaining term in years	2.03	2.13
SARs exercisable		
Total number	-	-
Weighted basis price	-	-
Value determination		
Weighted average fair value of the option	4.80	3.29
Applied pricing model	Binomial model	Binomial model
Weighted average share price	14.49	14.49
Weighted average basis price	11.22	13.52
Anticipated yearly volatility	37.17%	37.17%
Anticipated dividend	0.00	0.00
Risk-free yearly interest rate	-0.80%	-0.80%

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

9.6 Other operating income

Other operating income is structured as follows:

In EUR '000	2017	2016
Reversal of provisions and of provision-like liabilities	1,738	1,225
Insurance claims	1,588	1,945
Other	6,182	4,757
Total	**9,508**	**7,927**

9.7 Other operating expenses

Other operating expenses are structured as follows:

In EUR '000	2017	2016
Legal and consulting expenses	9,696	7,823
Impairment and write-downs of receivables	9,678	6,286
General and administrative expenses	1,801	3,684
Purchased services	1,001	2,415
Office and IT expenses	4,945	2,152
Cost of premises	1,514	1,396
Public relations	737	595
Miscellaneous other expenses	9,163	6,039
Total	**38,535**	**30,390**

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

Impairment and write-downs of receivables mainly result from impairment of due rent receivables from existing rental contracts (40percent impairment) and terminated rental contracts (90percent impairment).

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

9.8 Income from fair value adjustments of investment properties

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

9.9 Depreciation and amortisation

This item includes the amortisation of intangible assets and depreciation of property, plant and equipment at an amount of EUR 826k (previous year: EUR 560k).

9.10 Financial income

Financial income is structured as follows:

In EUR ´000	2017	2016
Loan interest, associated companies	182	159
Loan interest, third parties	2,802	425
Income from current deposits	143	1,309
Other	2,265	616
Total	**5,392**	**2,509**

In the year under review, other financial income of EUR 2,035k includes income from fair value adjustments to interest swaps.

9.11 Financial costs

Financial costs are structured as follows:

In EUR '000	2017	2016
Interest on bank loans	50,391	57,065
Bond interest	33,043	31,751
Convertible bond interest	8,902	4,951
Adjustment of shares conwert	1,589	16,101
Other	64,850	13,008
Total	**158,775**	**122,876**

ADLER changed the presentation of financial costs in the year under review and adjusted the figures for the previous year accordingly. In the 2016 financial year, financing costs including prepayment penalties were shown in the respective expenses for bank loans, bonds and convertible bonds. Starting in the 2017 financial year, these expenses will be reported under other expenses so that interest expenses for bank loans, bonds and convertible bonds will be presented without these influences.

The interest expenses for bonds include transaction costs of EUR 1,920k that required immediate recognition as expenses due to the premature repayment of the 2014/2019 bond.

Reserves (OCI) amounting to EUR 1,589k recognised directly in equity for the shares in conwert – which were written down to the selling price less transaction costs in the previous year – were reversed in the course of the disposal of the shares. Reference is made in this respect to the comments in Note 8.11, "Non-current assets held for sale".

Other financial costs include an amount of EUR 62,670k for prepayment penalties for early repayments of financial liabilities with higher interest rates (previous year: EUR 11,188k). In the previous year, other financial costs also mainly related to interest swap expenses.

9.12 Net income from at-equity valued investment associates

In the previous year, the result was largely attributable to the prorated income amounting to EUR 10,653k of conwert Immobilien Invest SE. Following the sale of shares in ACCENTRO, there are no longer any significant investments in associated companies accounted for using the equity method. Further details can be found in Note 8.5.

9.13 Income taxes

Taxes on income are structured as follows:

In EUR '000	2017	2016
Current income tax expense	1,074	253
Income tax expense (income) from other accounting periods	123	1,230
Actual income tax expense	**1,197**	**1,483**
Deffered tax expense (income), loss carry-forwards	-16,237	-12,768
Deferred tax expense (income), temporary differences	67,106	57,321
Deferred taxes	**50,869**	**44,553**
Total	**52,066**	**46,036**

Current tax expenses are determined on the basis of taxable income for the financial year under report. For the 2017 financial year, the tax rate for domestic companies, which combines corporate income tax and the solidarity surcharge, amounts to 15.8 percent (previous year: 15.8 percent). Including the trade tax rate of around 14.4 percent (previous year: 14.4 percent), the group tax rate therefore amounts to 30.2 percent (previous year: 30.2 percent). The expected implications of the extended trade tax reduction for the domestic trade tax charges are accounted for when measuring deferred taxes.

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

In EUR '000	2017	2016
Earnings before taxes	158,437	158,772
Expected income tax 30.175% (previous year: 30.175%)	47,808	47,909
Reconciliation due to tax effects:		
Income taxes, previous years	123	1,532
Derecognition of deferred tax assets, previous years	2,157	153
Sales proceeds exempt from taxes	-569	-909
Different tax rates	-19,228	-16,788
Utilisation of loss carry forwards not capitalised as deferred taxes	-4,963	-8,647
Non-deductible expenses	9,396	11,637
Unrecognised deferred tax assets on losses	18,611	7,570
Deferred taxes on loss carry forwards acquired	-2,297	-78
Trade tax effects	4,495	4,306
Change of tax rate	0	-3,028
Deferred taxes, previous years	-166	3,397
Other	-3,301	-1,018
Total	**52,066**	**46,036**

9.14 Earnings after taxes from discontinued operations

In EUR ´000	2017	2016
Income from property lettings	7,170	6,597
Expenses from property lettings	-2,068	-2,032
Earnings from property lettings	**5,102**	**4,565**
Income from the sale of properties	94,360	118,508
Expenses from the sale of properties	-69,732	-81,610
Earnings from the sale of properties	**24,628**	**36,898**
Personnel expenses	-2,876	-2,954
Other operating income	24,449	767
Other operating expenses	-3,690	-5,314
Income from fair value adjustments of investment properties	0	0
Depreciation and amortisation	-347	-614
Earnings before interest and taxes (EBIT)	**47,266**	**33,348**
Financial income	324	294
Financial expenses	-6,357	-5,502
Income from at-equity valued investment associates	225	532
Earnings before taxes (EBT)	**41,458**	**28,672**
Income taxes	-5,198	-7,632
Earnings after tax from discontinued operations	**36,260**	**21,040**

Other operating income included the earnings from the sale of ACCENTRO of EUR 22,556k (see Note 4.4, “Disposal of ACCENTRO”).

9.15 Earnings per share

Earnings per share reflects the amount of earnings generated in a given period that are attributable to each share. This involves dividing consolidated net income by the weighted number of shares outstanding. This key figure is diluted by what are known as "potential shares" (e.g. from convertible bonds). Pursuant to IAS 33.23, all potential shares that may result from the conversion of a convertible bond must be treated as shares already issued and should be included in the calculation of basic earnings per share. This increases the number of outstanding shares by the potential shares that would result from the actual conversion of the mandatory convertible bonds. Overall, the existing mandatory convertible bonds entitle their holders to subscribe 11,666,666 shares.

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

The income per share is structured as follows:

	2017 Continuing operations	2017 Discontinued operations	2017 Total
Consolidated net earnings (in EUR ´000)	106,371	36,260	140,631
Consolidated net earnings without non-controlling interests	92,112	34,642	126,754
Expenses incl. deferred taxes on convertibles	3,420	0	3,420
Consolidated net earnings without non-controlling interests (diluted)	95,532	34,642	130,174
Number of shares (in thousands)			
Weighted number of subscribed shares	66,444	66,444	66,444
Effect of conversion of convertibles	6,801	6,801	6,801
Weighted number of shares (diluted)	73,245	73,245	73,245
Earnings per share (in EUR)			
Basic earnings per share	1.39	0.52	1.91
Diluted earnings per share	1.30	0.47	1.78

	2016 Continuing operations	2016 Discontinued operations	2016 Total
Consolidated net earnings (in EUR ´000)	112,736	21,040	133,776
Consolidated net earnings without non-controlling interests	102,812	18,136	120,948
Expenses incl. deferred taxes on convertibles	1,076	0	1,076
Consolidated net earnings without non-controlling interests (diluted)	103,888	18,136	122,024
Number of shares (in thousands)			
Weighted number of subscribed shares[1)]	63,098	63,098	63,098
Effect of conversion of convertibles[1)]	6,314	6,314	6,314
Weighted number of shares (diluted)[1)]	69,412	69,412	69,412
Earnings per share (in EUR)			
Basic earnings per share	1.63	0.29	1.92
Diluted earnings per share	1.50	0.26	1.76

[1)] Adjusted

10. DISCLOSURES ON FINANCIAL INSTRUMENTS AND FAIR VALUES

10.1 Additional disclosures on financial instruments

(A) Classification

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

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

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

Total carrying amount	Carrying amount of financial instruments	Amortised cost	Fair value directly to equity	Fair value through profit or loss	Fair value for comparative purposes
28	28	0	28	0	28
205	205	205	0	0	205
10,717	10,717	10,717	0	0	10,717
243,508	241,276	223,171	18,105	0	241,276
368,233	368,233	368,233	0	0	368,233
2,475,248	2,475,248	2,475,248	0	0	2,544,592
29,125	29,125	29,125	0	0	29,125
64,308	57,999	44,648	0	13,351	57,999
-	602,326	602,326	0	0	602,326
-	18,133	0	18,133	0	18,133
-	13,351	0	0	13,351	13,351
-	2,549,021	2,549,021	0	0	2,618,365

31.12.2016 In EUR ´000	Category according to IAS 39
Assets	
Other financial investments	Afs
Other non-current assets	Lar
Trade receivables	Lar
Other current assets	Lar
Cash and cash equivalents	Lar
Liabilities	
Financial liabilities to banks and (convertible) bonds	FLAC
Trade payables	FLAC
Other liabilities	FLAC, Lafv
of which aggregated by IAS 39 categories	
Loans and receivables	Lar
Available-for-sale financial assets	Afs
Financial liabilities at fair value through profit or loss	Lafv
Financial liabilities carried at cost	FLAC

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

Total carrying amount	Carrying amount of financial instruments	Amortised cost	Fair value directly to equity	Fair value through profit or loss	Fair value for comparative purposes
69	69	0	69	0	69
48	48	48	0	0	48
11,749	11,749	11,749	0	0	11,749
54,086	52,025	52,025	0	0	52,025
123,911	123,911	123,911	0	0	123,911
2,303,542	2,303,542	2,303,542	0	0	2,575,006
22,492	22,492	22,492	0	0	22,492
52,608	47,226	31,105	0	16,121	47,226
-	187,733	187,733	0	0	187,733
-	69	0	69	0	69
-	16,121	0	0	16,121	16,121
-	2,357,139	2,357,139	0	0	2,628,603

In the financial year under report, liabilities from advance operating cost payments amounting to EUR 72,689k (previous year: EUR 51,118k) were netted against an amount of EUR 70,502k (previous year: EUR 47,378k) for receivables from unbilled services, with the net amount being recognised under liabilities.

(B) Fair value disclosures

Financial assets and liabilities measured at fair value can be classified and assigned to levels according to the significance of the factors and information used in their measurement. Assets and liabilities are classified based on the significance of the input factors for their overall measurement. This in turn is based on those input factors in the lowest level relevant or significant for overall measurement. The measurement levels are hierarchically structured in line with their input factors:

- Level 1: prices listed for identical assets or liabilities on active markets (adopted unchanged)

- Level 2: input factors that are not prices considered in Level 1, but that can be observed directly or indirectly for the asset or liability (e.g. in deriving prices)

- Level 3: factors not based on observable market data for the measurement of the asset or liability (non-observable input factors)

	Overview of the calculation methods used to determine fair values			
31.12.2017 In EUR ´000	**Total Carrying amount**	**of which Level 1**	**of which Level 2**	**of which Level 3**
Assets				
Investment properties	3,018,518	0	0	3,018,518
Other financial investments classified as AfS	28	0	0	28
Other current assets classified as AfS	18,105	18,105	0	0
Non-current assets held for sale IFRS 5	23,582	23,582	0	0
Equity and liabilitiess				
Derivative financial liabilities measured at fair value through profit or loss	5,859	0	5,859	0
Other non-current liabilities	7,492	0	0	7,492
Liabilities held for sale IFRS 5	829	0	0	829

31.12.2016 In EUR ´000	Total carrying amount	Overview of the calculation methods used to determine fair values of which level 1	of which level 2	of which level 3
Assets				
Investment properties	2,441,988	0	0	2,441,988
Other financial investments classified as AfS	69	0	0	69
Non-current assets held for sale IFRS 5	434,688	422,720	0	11,968
Equity and liabilities				
Derivative financial liabilities measured at fair value through profit or loss	7,376	0	7,376	0
Other non-current liabilities	8,745	0	0	8,745
Liabilities held for sale IFRS 5	7,553	0	0	7,553

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

The fair value of non-current liabilities to banks and of other non-current liabilities is determined by discounting future cash flows. Discounting is based on a market interest rate that is congruent in respect of its term and risk. The fair values of bond and convertible bond liabilities are determined by reference to their market prices as of 31 December 2017.

(C) Net result from financial instruments

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

In EUR ´000	Category according to IAS 39	Net result 2017			Net result 2016[1)]		
		Interest	Profit/Loss	Total	Interest	Profit/Loss	Total
Loans and receivables	Lar	3,142	-9,643	-6,501	2,680	-7,147	-4,467
Available for sale financial assets	Afs	405	-966	-561	0	162	162
Financial liabilities at fair value through profit or loss	Lafv	2,035	1,186	3,221	-940	-375	-1,315
Financial liabilities at fair value through other comprehensive income	LafvOCI	0	0	0	0	-399	-399
Financial liabilities measured at amortised cost	FLAC	-157,158	1,711	-155,447	-106,521	819	-105,702
Total		**-151,576**	**-7,712**	**-159,288**	**-104,781**	**-6,940**	**-111,721**

[1)] Adjusted statement due to sale of trading, see comments in the notes for the group financial statements (2.1 Basis of preparation)

Interest income and interest expenses are presented in the corresponding line items in the consolidated income statement. Any gains and losses relating to financial assets measured at fair value are recorded in other comprehensive income. All other income and expenses are recognised as appropriate in personnel expenses, other operating income or expenses.

10.2 Financial risk management and IFRS 7 disclosures

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

(A) Interest rate risk

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

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

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

Interest rate risk sensitivity analysis	31.12.2017		31.12.2016	
Change in interest rate	+ 50 bp	-50 bp	+ 50 bp	-50 bp
Effect on interest expense in EUR ´000	259	-259	785	-785

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

To reduce its interest rate risk further, ADLER deploys interest rate hedging instruments in the form of swaps (please see Note 10.3 "Derivative financial instruments and hedge accounting"). Had the interest rate level as of 31 December 2017 been 100 base points higher/lower, then the fair values of derivatives (EUR -5,859k; previous year: EUR -7,376k) would have changed by EUR +5,448k (previous year: EUR +4,887k) or EUR -5,583k (previous year: EUR -5,287k).

(B) Credit risk

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

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

(C) Liquidity risk

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

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

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

The ADLER Group had cash and cash equivalents of EUR 368,233k at the balance sheet date (previous year: EUR 123,911k). In addition, earmarked cash and cash equivalents of EUR 38,984k are subject to restrictions on disposal and have been recognised under other assets (previous year: EUR 14,785k).

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

31.12.2017	Cash outflows					
In EUR ´000	**2018**	**2019**	**2020**	**2021**	**2022**	**> 2022**
Liabilities to banks	296,473	47,880	88,824	302,777	82,159	295,655
Liabilities from bonds	69,787	37,625	525,750	513,875	6,375	312,750
Liabilities from convertible bonds	7,825	3,447	3,447	141,347	0	0
Trade payables	29,125	0	0	0	0	0
Other liabilities	11,863	17,187	380	380	380	10,060
Total	**415,073**	**106,139**	**618,402**	**958,379**	**88,914**	**618,465**

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

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

(D) Financing risk

In making further acquisitions, the Group depends on the granting of loans or capital increases. Expiring loans also have to be extended or refinanced. In all cases, the Group faces the risk that such facilities cannot be extended, or only on different terms. Furthermore, within the scope of consolidation there are loan agreements with a total carrying amount of around EUR 863 million on which the banks have imposed requirements in the form of financial covenants (previous year: EUR 1,469 million). Depending on the property to which such agreements apply, the Group must achieve a debt service coverage ratio (DSCR) of between 103 percent and 127 percent (previous year: between 103 percent and 111 per cent), an interest coverage ratio (ICR) of 1.16 to 2.30 (previous year: 1.16 to 2.30), a loan-to-value (LTV) ratio of between 74 percent and

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

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

10.3 Derivative financial instruments and hedge accounting

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

The fair values of the interest hedge contracts amounted to EUR -5,859k as of the balance sheet date (previous year: EUR -7,376k). The fair values and nominal values of the interest hedge contracts broken down by maturity are presented below:

	Fair Values		Nominal	
In EUR ´000	**2017**	**2016**	**2017**	**2016**
Up to 1 year	-158	-206	1,411	1,411
Due between 1 and 5 years	-3,430	-4,745	91,534	36,219
Due between 5 and 10 years	-2,271	-2,425	50,030	51,202
Total	**-5,859**	**-7,376**	**142,975**	**88,832**

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

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

Balance sheet item In EUR ´000	**Hedging relationship under IAS 39**	**31.12.2017**	**31.12.2016**
Other current liabilites (measured at fair value through profit or loss)	no	-158	-206
Other non-current liabilities (measured at fair value through profit or loss)	no	-5,701	-7,170
Total		**-5,859**	**-7,376**

The method used to recognise gains and losses depends on whether the derivative interest hedge is included in a cash flow hedge as defined in IAS 39. Fluctuations in the fair values of derivatives not included in IAS 39 hedges are recognised through profit or loss in the interest result. In the financial year under report, a financial income of EUR 2,035k was recognised for derivatives not included in hedge relationships (previous year: EUR -896k).

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

Within the framework of the sale of the overwhelming majority of its shares in ACCENTRO, ADLER has been granted the option to sell the remaining shares at a hedged price per share to the partnership advised by Vestigo Capital Advisors LLP. An option premium was not payable by ADLER. The option serves to hedge the expected sale of the interest retained in ACCENTRO (cash flows from a highly probable underlying transaction). There is a 1:1 relationship (critical terms match), so a highly effective hedge exists. As of the balance sheet date, the price of ACCENTRO shares is above the sighted selling price, therefore the value of the hedging instrument came to EUR 0k. Since the put option resulted in no obligation for ADLER, the fair value of the option cannot be negative.

11. CAPITAL RISK MANAGEMENT

The Group manages its capital with the objective of maximising the earnings of shareholders by optimising the ratio of equity to debt. This ensures that all group companies can continue to operate as going concerns. Consolidated equity as posted in the balance sheet is referred to as an important key figure for capital management.

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

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

The year-end equity ratio was determined as follows:

In EUR ´000	31.12.2017	31.12.2016
Equity (incl. non-controlling interest)	1,037,500	914,222
Total assets	3,778,967	3,430,477
Equity ratio in %	**27.5**	**26.6**

Excluding convertible bonds, the ratio of net financial liabilities to assets net of cash (LTV) amounted to 58.1 percent (previous year: 61.3 percent). Further details can be found in the disclosures on the asset position in the Group Management Report.

12. OTHER DISCLOSURES

12.1 Minimum lease payments from operating leases

Disclosures on operating leases pursuant to IAS 17.56 in EUR ´000	Comparative period 2016	Reporting period 2017	2018	2019 to 2022	from 2023
			up to1 year	1–5 years	more than 5 years
Total future minimum lease payments based on operating leases that cannot be cancelled as the lessor	160,533	170,069	44,626	747	71

The claims to minimum lease payments from long-term operating leases generally result from leasing commercial properties. In the residential property segment, lease contracts are generally subject to the three-month statutory term of notice. There are no more far-reaching claims to minimum lease payments. Minimum lease payments include rental income, excluding allocable operating costs.

12.2 Other financial obligations and contingent liabilities

(A) Other financial obligations

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

In EUR ´000	2017	2016
Rental and lease obligations		
Due within one year	5,734	5,745
Due between 1 and 5 years	9,605	10,046
Due in more than 5 years	1,899	4,268
	17,238	20,059
Management contracts, support agreements		
Due within one year	3,649	13,222
Due between 1 and 5 years	13,348	4,748
Due in more than 5 years	0	2,960
	16,997	20,930
Obligations from acquisitions/project developments		
Acquisition of properties/property companies	0	58,040
Acquisition of companies	0	0
Unpaid construction expenses	155,707	0
	155,707	58,040
Total	**189,942**	**99,029**

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

Outstanding construction costs are due to property development projects that have already been started. The outstanding construction costs are taken from the residual value appraisals for these projects (see Note 8.3) and thus represent an estimate of the costs incurred until the completion of the respective project.

(B) Contingent liabilities
In connection with the divested stake in conwert Immobilien Invest SE, the Austrian Takeover Board has determined in review proceedings pursuant to § 33 Übernahmegesetz (ÜbG – Takeover Act) which are now legally binding that the company achieved a controlling stake in conwert by mutual agreement with other persons within the meaning of § 1 clause 6 ÜbG and then failed to make a mandatory bid as required pursuant to § 33 (1) clause 2 ÜbG. The company could therefore be confronted in future with restitution proceedings and administrative penalties. As far as can be seen, proceedings of this nature have not been conducted in Austria in the past. From a current perspective, neither the number nor the specific structure of such cases can be determined. ADLER AG continues to reject the determinations of the Takeover Commission as ascertained in its review as inaccurate and erroneous, due to being verifiable by any second instance.

12.3 Related-party disclosures

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

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

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

Loan provider in the ADLER Group In EUR ´000	2017	Of which interest 2017	2016	Of which interest 2016
ADLER Real Estate AG	503	27	476	29
Magnus Zweite Immobilienbesitz und Verwaltungs GmbH	3,849	196	3,653	196
Magnus Dritte Immobilienbesitz und Verwaltungs GmbH	33	2	31	2
Münchner Baugesellschaft mbH	57	3	54	3
Magnus Fünfte Immobilienbesitz und Verwaltungs GmbH	5,099	273	4,826	273
Total	**9.541**	**501**	**9.040**	**503**

The loans have indefinite terms and may be terminated by ADLER at any time with a notice period of one month to the end of the quarter. No write-downs were recognised on the loan receivables in the financial year under report. In addition to the loan receivables, the Group reports a liability of EUR 121k due to KvU.

In the previous year, the company sold 5.1 percent of the shares held in WESTGRUND Immobilien GmbH, WESTGRUND Immobilien II. GmbH, WESTGRUND Immobilien Beteiligung III. GmbH, WESTGRUND Immobilien IV. GmbH, WESTGRUND Immobilien VI. GmbH, WESTGRUND VII. GmbH, WESTGRUND VIII. GmbH, WESTGRUND Wolfsburg GmbH, WESTGRUND Brandenburg GmbH, WESTGRUND Niedersachsen Nord GmbH and WESTGRUND Niedersachen Süd GmbH as well as all of the shares held in Liaen Lorentzen Partners AG, Zug/Switzerland to Manoir des Aiglons S.à r.l., Luxembourg, at a total price of EUR 4,000k. No receivables are outstanding in this respect. Furthermore, in connection with the shares thereby transferred the company undertook to provide the buyer with a minimum profit distribution of EUR 380k in total (before taxes) per year for a ten-year period. These dividend claims have been recognised under non-current other liabilities. In the year under review, ADLER also granted a loan of EUR 277k to Manoir des Aiglons S.à r.l., which, including accrued interest claims, was valued at EUR 278k as at the balance sheet date. The loan has a term until 31 March 2018. The company in question is a related party as one member of ADLER's Supervisory Board is the Managing Director and a shareholder in Manoir des Aiglons S.à r.l.

In the year under review, ADLER received services from Consortium Finance Limited of EUR 317k for public capital market consulting services. In this regard, a bonus of EUR 450k and expenses of EUR 358k were also paid to Consortium Finance Limited. No liabilities are outstanding in this respect. ADLER also granted the Consortium Finance Limited an interest-bearing loan (interest rate 1 percent) of EUR 400k, which was due for repayment on 1 January 2018. The company in question is a related party as a member of ADLER's Management Board is the Managing Director and a shareholder in Consortium Finance Limited.

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

In EUR ´000	2017	2016
MRT (Mountleigh Roland Ernst B.V.)	2,616	2,560
Stovago B.V.	987	861
SIAG Sechzehnte Wohnen GmbH & Co. KG	0	17
Total nominal value	**3,603**	**3,438**
Accumulated value adjustment	-3,603	-3,421
Carrying amounts as of 31.12.2017	**0**	**17**

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

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

In EUR ´000	2017	2016
Supervisory Board remuneration	225	180
Management Board remuneration	1,001	872

In addition to their regular compensation, in the financial year under review the members of the Management Board received a total of 110,00 SARs within the programme introduced in 2015. These had an average fair value of EUR 2.07 per SAR. Detailed disclosures on these rights can be found in Note 9.5, "Personnel expenses".

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

12.4 Auditor's fee

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

In EUR ´000	2017	2016
Audit of financial statements	661	715
Other assurance service	142	61
Other services	29	30
Total	**832**	**806**

Of financial statement audit fees, an amount of EUR 57k relates to the previous year (previous year: EUR -48k). Other assurance services include services provided in the context of capital market transactions (issuing of comfort letters and examination of profit forecasts). Other services include support for selected accounting issues. In addition, the audit firm only carried out audits of financial statements of controlled companies.

12.5 Employees

The average number of employees was as follows:

Number	2017	2016
Board members	3	2
Full-time employees	497	317
Total	**500**	**319**

12.6 Notes to the consolidated cash flow statement

Financial funds correspond to cash and cash equivalents. Overall, cash and cash equivalents increased by EUR 244,322k (previous year: EUR 74,409k). The Group was at all times able to meet its payment obligations.

Furthermore, earmarked liquid funds of EUR 38,984k with restrictions on disposability were recognised under other assets (previous year: EUR 14,785k).

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

Net of non-cash income and expenses and including changes in working capital and investments in inventory properties (trading portfolio), the ADLER Group generated a net inflow of funds of EUR 36,348k from operating activities (previous year: EUR 100,550k). Of this amount, EUR 66,221k (previous year: EUR 80,239k) is attributable to continuing operations and EUR -29,873k (previous year: EUR 20,311) to the discontinued Trading segment.

Net cash flow from investing activities came to EUR 212,676k (previous year: EUR -79,499k). Continuing operations accounted for EUR 212,766k (previous year: EUR -80,738k) of this amount and the discontinued Trading segment accounted for EUR -90k (previous year: EUR 1,239k). The net cash flow of EUR 416,260k mainly resulted from the sale of shares in conwert Immobilien Invest SE and EUR 20.0 million from the sale of shares to ACCENTRO Real Estate AG. This item was countered by an outflow of funds for the acquisition of subsidiaries, net of cash and cash equivalents acquired, of EUR 154,061k and investments in existing holdings (investment properties) of EUR 79,081k.

Net cash flows from financing activities came to EUR -4,702k (previous year: EUR 53,358k). Of this amount, EUR -17,284k (previous year: EUR 56,230k) was attributable to continuing operations and EUR 12,582k (previous year: EUR -2,872k) to the discontinued Trading segment. This was the extent by which more funds were required for interest payments and repayments of existing financing facilities than were received by the funds from taking up new liabilities. Repayments particularly included current liabilities of EUR 199,707k, which had served to finance the acquisition of the conwert shares and liabilities from bonds of EUR 142,100k. Furthermore, non-current promissory note bond liabilities of EUR 390,447k (nominal) were prematurely redeemed. In addition, comparatively high prepayment penalties and loan commitment fees negatively impacted cash flow from financing activities. These items were countered by the inflow of EUR 150 million due to tapping the existing 2015/2020 corporate bond and the issue of 2017/2021 and 2017/2024 corporate bonds amounting to EUR 800,000k.

Due to the amendments to IAS 7, ADLER is making additional disclosures on its liabilities arising from financing activities for the first time in the year under review. Changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, changes due to accrued interest, changes due to the effective interest method, changes from exercising conversion rights and changes due to reclassifications in a reconciliation statement between the opening and closing balances in the statement were presented. There were no material implications from changes in foreign exchange rates.

		cash effective	not cash effective					
In EUR ´000	31.12. 2016		Acqui-sitions/ sale	Interest liabilities	Amorti-sation effective interest method	Conversi-ons	Regrou-pings	31.12. 2017
Non-current liabilities								
Liabilities from convertibles	143,870	-35,178	22,883	0	2,666	-9,743	-4,767	119,731
Liabilities from bonds	509,454	797,029	0	0	5,199	0	-34,042	1,277,640
Liabilites to banks	1,312,502	-393,529	26,164	123	11,685	0	-207,757	749,188
Current liabilities								
Liabilities from convertibles	1,554	-4,712	0	4,896	0	0	4,767	6,505
Liabilities from bonds	8,281	-28,954	0	29,310	0	0	34,042	42,679
Liabilites to banks	320,328	-236,314	-51,891	37,592	1,203	0	207,757	278,676
Total liabilities from financing	**2,295,989**	**98,342**	**-2,844**	**71,921**	**20,753**	**-9,743**	**0**	**2,474,419**

12.7 Management Board and Supervisory Board

The Management Board of ADLER Real Estate Aktiengesellschaft, Berlin, comprises the members Tomas de Vargas Machuca, Master of Science in Economics; Maximilian Rienecker, Master of Science in Management; and Sven-Christian Frank, lawyer. Frank has been COO of the Management Board since 9 June 2016, while Vargas Machuca and Rienecker were appointed as co-CEOs on 22 December 2017. The former Chief Executive Officer, Arndt Krienen, lawyer, was on leave on 22 December 2017 and was dismissed as a member of the Management Board with effect from 27 December 2017.

The Supervisory Board of ADLER Real Estate AG consists of the following members:
Dr Dirk Hoffmann, Rum/Austria, lawyer and banker, Chairman
Thomas Katzuba von Urbisch, Monte Carlo/Monaco, lawyer and businessman, Deputy Chairman
Thilo Schmid, Blotzheim/France, project controller

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

Dr Dirk Hoffmann
WESTGRUND AG, Berlin (Supervisory Board Chairman since 2 January 2018, Advisory Board Member since 21 December 2017)
Squadra Immobilien GmbH & Co. KGaA, Frankfurt am Main (Supervisory Board Chairman)
ACCENTRO Real Estate G, Berlin (Deputy Supervisory Board Chairman)

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

Thomas Katzuba von Urbisch and the members of the Management Board do not hold any positions on other supervisory boards as defined in § 125 (1) Sentence 5 of the German Stock Corporation Act (AktG).

12.8 Events after the balance sheet date

At the beginning of December 2017, ADLER received a total of EUR 800 million (excluding transaction costs incurred) from the issue of two bonds. These funds are to be used to repay higher-interest promissory note loans from subsidiaries with a volume of EUR 675 million. This was already implemented in the 2017 financial year at a level of EUR 400 million. Further repurchases are planned for early 2018 or have already been made. The repurchased promissory note loans are to be passed on to the subsidiaries at the beginning of 2018 and replaced by corresponding inter-company financing. This is intended to improve the Group's balance sheet structure and reduce the current interest charge.

On 17 February 2018, ADLER Real Estate AG announced its intention to acquire up to 70 percent of Brack Capital Properties N.V. (BCP), a company incorporated under Dutch law whose shares are traded on the Tel Aviv Stock Exchange, Israel, and which has a balance sheet total of approximately EUR 1.6 billion.

As a result, ADLER signed an agreement with Redzone Empire Holding Limited to acquire 41.04 percent of the shares in BCP. In addition, members of the Senior Management of BCP have irrevocably undertaken to tender their shares to ADLER (which make up a total of 5.62 percent of BCP) as part of a public purchase offer that ADLER published on 19 February 2018 upon the acquisition of up to 25.8 percent additional shares (special tender offer).

BCP owns a property portfolio of more than 11,000 residential units in Germany which focuses on larger cities in Germany, including Leipzig (30 percent), Bremen (10 percent) Dortmund, Hanover and Kiel (9 percent each). The existing ADLER portfolio will be positively complemented by the BCP portfolio. BCP also brings project developments in the centre of Düsseldorf and in Aachen for around 2,000 new residential units, which ADLER intends to continue.

The acquisition of the shares will be financed in the amount of approximately EUR 350 million through existing cash, the proceeds from the sale of shares in ACCENTRO Real Estate AG and the sale of existing non-core assets. A bridging loan is also available.

On March 22, ADLER Real Estate AG had successfully completed the Special Tender Offer to the shareholders of Brack Capital Properties N.V., in the following of which ADLER AG is now to acquire 70 percent of the shares in the company. As the closing of the transaction is expected to take place not before early April, a detailed description of the impact of the acquisition on ADLER´s key operational and financial metrics will be published in the forthcoming quarterly financial reports.

At the time of the closing of this report the additional acceptance period had not ended yet.

No further events with the potential to significantly influence the earnings, asset and financial position of ADLER Real Estate AG occurred between the end of the period under report and the editorial deadline for this report. The company's business performance up to the reporting date confirms the statements made in its report on expected developments.

12.9 Declaration of Conformity with the German Corporate Governance Code

The Declaration of Conformity of ADLER AG was most recently submitted by the Management Board in February 2018. It is permanently available to shareholders at:

http://adler-ag.com/investor-relations/corporate-governance/entsprechenserklaerung

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

http://www.westgrund.de/investor-relations/corporate-governance/entsprechenserklaerung

Berlin, 22 March 2018

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

/// AFFIRMATION BY THE LEGAL REPRESENTATIVES

"We hereby affirm to the best of our knowledge, pursuant to the applicable accounting principles for interim financial reporting, with due regard for the requirements of § 37w of the Securities Trading Act, that the interim consolidated financial statements convey a true and fair view of the Group's financial, earnings and liquidity position, that the course of business, including the results of operations and the position of the Group, is represented in the combined 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, 22 March 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's views of ADLER Real Estate AG regarding future events. Every statement in this report that reflects intentions, assumptions, expectations or predictions, as well as the assumptions on which they are based, constitutes such a future-oriented statement. These statements are based on plans, estimates and forecasts currently available to the management of ADLER Real Estate AG. Therefore, they only apply to the day on which they are made. By their nature, future-oriented statements are subject to risks and uncertainty factors, and the actual developments can deviate considerably from the future-oriented statements or the events implicity expressed in them. ADLER Real Estate AG is not obligated, nor does it intend, to update such statements in view of new information or future events.

/// AUDITOR'S REPORT

This is a convenience translation of the german original. Solely the original text in german language is authoritative.

To the ADLER Real Estate Aktiengesellschaft, Berlin

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of ADLER Real Estate Aktiengesellschaft, Berlin, and its subsidiaries (the Group), which comprise of the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In addition, we have audited the combined management report of ADLER Real Estate Aktiengesellschaft, Berlin, for the financial year from 1 January to 31 December 2017. The Group declaration on corporate governance pursuant to § 315d HGB (German Commercial Code) published on the Group website, which is referred to in the combined management report in section 6, was not examined in terms of content in accordance with German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017 and of its financial performance for the financial year from 1 January to 31 December 2017, and

- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material aspects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of the corporate governance statement published on the Group's website in accordance with § 315d HGB to which section 6 of the combined management report refers.

Pursuant to § 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and the combined management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and the combined management report' section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, we do not provide a separate audit opinion on these matters.

In the following, we present what we consider to be the key audit matters:
1. Recoverability of goodwill
2. Fair value adjustments of investment properties
3. Sale of the majority of shares in ACCENTRO Real Estate AG, Berlin

ref 1) Recoverability of goodwill

a) Financial Statement Risk
As of the balance sheet date, the consolidated balance sheet recognises goodwill with a carrying amount of EUR 101.2 million.

The information provided for the Group on goodwill is contained in sections 5.3, 6 and 8.1 of the notes to the consolidated financial statements.

In accordance with IAS 36.90, cash-generating units to which goodwill has been allocated are subject to an impairment test at least once a year.

The carrying amount for each group of cash-generating units is compared with the recoverable amount. The recoverable amount is the higher of value in use calculated using the discounted cash flow method and fair value less costs to sell. As the value in use was higher than the carrying amount for the groups of cash-generating units as at 31 December 2017, it was not necessary to additionally determine fair value less costs to sell. However, the result is largely dependent on expectations about the future development of the respective operating business, the resulting cash flows and the discount rate used. Yield compression (the different dynamics of property purchase price and rental price trends), which is still observable, also had an impact in the 2017 financial year. This is because the greater rate of increase in the carrying amounts of investment properties compared with expected cash flows reduces the difference between the value in use and the carrying amount for the group of cash-generating units. The result of the impairment test is therefore largely subject to the influence of estimated values. In our view, these matters were of particular importance for our audit because even small changes to the assumptions for expected cash flows or the discount rate can have a material impact on the recoverable amount. IAS 36 also requires extensive disclosures.

b) Audit Approach and Conclusions
As part of our audit, in addition to checking the appropriateness of the calculation model, we conducted a plausibility check of the underlying planning assumptions on which the impairment test of significant goodwill is based using historic trends and industry-specific market developments. As a significant part of the value in use is derived from cash flow forecasts for the period after the detailed planning period (phase of perpetuity figures), we carefully scrutinised the sustained increase in target rents recognised during the phase in which perpetuity figures were applied. In doing so, we also examined this for potentially biased exercise of judgement. In addition to a plausibility check of the underlying planning, we assessed the adherence to the planning by means of a comparison with the previous year's planning for the realized actual figures. Regarding the discount rate used, we assessed the appropriateness of the discount rate provided by an external expert with respect to the individual parameters used and in the sense of an overall critical assessment. The impairment test carried out on the balance sheet date showed that the recoverable amount was higher than

the carrying amount for the cash-generating units under review. We validated the calculation results of the client on the basis of supplementary analyses, which also include sensitivity analyses. We also checked the completeness and appropriateness of the disclosures in the notes to the consolidated financial statements required by IAS 36.

We have no evidence or findings to suggest that the judgement of the legal representatives was not appropriate and reasonable with respect to the measurement parameters and assumptions used. The disclosures in the notes to the consolidated financial statements in accordance with IAS 36, including those regarding sensitivity, are complete and appropriate.

ref 2) Fair value adjustments of investment properties

a) Financial Statement Risk

As of the balance sheet date, the consolidated balance sheet for investment properties reports a carrying amount of EUR 3,018.5 million. ADLER Real Estate Aktiengesellschaft, Berlin measures investment properties at fair value in accordance with IAS 40 in conjunction with IFRS 13. In the past financial year, increases in the fair value amounting to EUR 235.4 million were recognised in the consolidated income statement.

The information provided by the Company on investment properties is contained in sections 5.2, 6 and 8.3 of the notes to the consolidated financial statements. In addition, further information on opportunities and risks is provided in Chapter 7 of the combined management report.

The fair values of investment properties are determined by reference to surveys compiled by external experts on the basis of current market data and using internationally recognised valuation methods. Discounted cash flow methods are used for discounting future expected cash surpluses of an asset using a market-based, property-specific discount and capitalisation rate as at the balance sheet date of 31 December 2017.

From our point of view, the fair value of investment properties was of particular importance, since the recognition and valuation of this significant item is based to a large extent on estimates and assumptions. Small changes to the parameters relevant to the valuation could lead to material changes in the resulting relative fair values. The significant parameters in the past financial year were the discount and capitalisations rates and future rental income. Their development reflects the different dynamics of property purchase price and rental price trends (yield compression), which is the main driver for the increase in fair values compared to the previous year as of 31 December 2017.

In addition, IAS 40 and IFRS 13 require a variety of note disclosures whose completeness and adequacy is to be ensured.

b) Audit Approach and Conclusions

In particular, our audit actions included the assessment of the valuation process for compliance with IAS 40 in conjunction with IFRS 13, the correctness and adequacy of the data used for the property holdings and the adequacy of the valuation-relevant parameters such as the discount and capitalisation rates, sustainable rental income, property management expenses and vacancy rates. We are also satisfied with the qualification and objectivity of external surveyors commissioned by ADLER Real Estate Aktiengesellschaft, Berlin. With the knowledge that relatively small changes to the valuation-relevant parameters could have material implications on the amount of investment properties, we have also audited the sensitivity analyses performed by ADLER Real Estate Aktiengesellschaft, Berlin and mathematically reconstructed the effects of possible fluctuations in these parameters. We also assessed the adequacy of the accompanying notes to the consolidated financial statements.

ADLER Real Estate Aktiengesellschaft, Berlin has implemented an appropriate set of rules suitable for determining fair values in accordance with IAS 40 and IFRS 13. In our view, the assessments underlying the accounting made by the legal representatives are adequately documented and substantiated, and allow for appropriate presentation of the information in the consolidated financial statements. The disclosures in the notes to the consolidated financial statements in accordance with IAS 40 and IFRS 13 are complete and appropriate.

ref 3) Sale of the majority of shares in ACCENTRO Real Estate AG, Berlin

a) Financial Statement Risk

On 20 October 2017, ADLER Real Estate Aktiengesellschaft, Berlin reached an agreement on the sale of 19,915,333 shares (representing around 80% of the ownership share) in the commercial property company ACCENTRO Real Estate AG as well as the sale of all convertible bonds of this company. This equates to a total stake of around 82 percent on a fully diluted basis. The remaining 1,549,896 shares in ACCENTRO Real Estate AG (representing around 6% of the ownership share) will continue to be held with the same acquirer granting a sale option to ADLER Real Estate AG, Berlin. For this reason, the subgroup ACCENTRO was classified as a disposal group (IFRS 5) during the year and classified as a discontinued operation with effect from 30. November 2017 when all conditions of the sale agreement and loss of control became effective. Overall, there was a gain on disposal at Group level of EUR 22.6 million. The remaining shares in ACCENTRO Real Estate AG have since been recognised in non-current assets held for sale, the subsequent measurement of which is generally at the lower end of carrying amount and fair value less costs to sell.

The information provided by the Company regarding the deconsolidation of the ACCENTRO subgroup is contained in section 4.4 of the notes to the consolidated financial statements.

In our view, these matters were of particular importance due to the complexity of the underlying contractual arrangements and the material impact on the Group.

b) Audit approach and conclusions

In order to audit the appropriate accounting treatment of the sale of the shares in ACCENTRO Real Estate AG, Berlin and the earnings on disposal recognised under discontinued operations, we examined the provisions of the underlying sales agreement in the course of our audit. We closely examined the criterion of loss of control and the time at which the requirements for deconsolidation were met. Moreover, we reconfirmed the amount of consideration received on the basis of payment confirmations and assessed the recoverability of the deferred purchase price claim based on the verification of security interests in the sales agreement. We also reviewed the measurement of the retained investment at fair value based on the quoted market price of the shares at the time of loss of control. In this context, we have also examined the requirements for the classification as a disposal group (IFRS 5), and reviewed the resulting effects on the measurement of assets and liabilities and the classification as a discontinued operation.

Taking into consideration the information available to us, in our view the measurement assumptions used by the legal representatives are suitable overall for the sale of ACCENTRO Real Estate AG, Berlin, shares to be presented suitably, the related measurement of the retained shares to be reported correctly and the total gain on disposal to be calculated appropriately. We have no evidence or findings to suggest that the judgement exercised by the legal representatives regarding the year-to-date classification of ACCENTRO Real Estate AG, Berlin, as a disposal group and its classification and measurement as a discontinued operation was not appropriate.

Other information

The executive directors are responsible for the other information. This other information includes:
- the Group's corporate governance declaration pursuant to § 315d HGB published on the Group's website, which is referred to in the combined management report in section 6,
- the confirmation pursuant to § 297 (2) sentence 4 HGB regarding the consolidated financial statements and the confirmation pursuant to § 289 (1) sentence 5 HGB in conjunction with § 315 (1) sentence 5 HGB,
- the other parts of the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor's report,
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code.

Our audit opinions on the consolidated financial statements and the combined management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information
- is materially inconsistent with the consolidated financial statements, the combined management report or to our knowledge obtained in the audit, or
- otherwise appears be materially misstated.

Responsibility of the Executive Directors and the Supervisory Board for the consolidated financial statements and the combined management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and the combined management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the Annual General Meeting on 7 June 2017. We were engaged by the Supervisory Board on 30 October 2017. We have been been the group auditor the of ADLER Real Estate Aktiengesellschaft, Berlin without interruption since the financial year 2010.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

Auditor responsible

The German Public Auditor responsible for the engagement is Mr. Julian Breidthardt.
Hamburg, 22 March 2018

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Götze	Breidthardt
Auditor	Auditor

/// REPORT ACCORDING TO EPRA RECOMMENDATIONS

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

In EUR millions	2017	2016 adjusted[1)]	2016 as reported[2)]	Change in %
EPRA NAV	1,207.2	1,058.5	1,069.9	14.0
Adjusted EPRA NAV	1,106.0	957.3	939.4	15.5
EPRA NNNAV	1,158.7	903.6	880.5	28.2
EPRA earnings	-40.8	-29.7	-29.6	37.4
Adjusted EPRA earnings	35.2	26.1	32.4	34.9
EPRA net initial yield (NIY) in %	4.2	4.3	4.0	-2.3
EPRA "topped-up" NIY in %	4.2	4.3	4.0	-2.3
EPRA vacancy rate in %	8.6	9.6	9.6	-10.4
EPRA cost ratio (incl. direct vacancy costs) in %	40.5	41.6	41.7	-2.6
EPRA cost ratio (excl. direct vacancy costs) in %	39.4	40.0	39.9	-1.5

1) Adjusted statement due to sale of trading, see comments in the notes for the group financial statements
2) Adjusted disclosure because of change in cost structure

NAV/NNNAV

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

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

In EUR millions	31.12.17	31.12.2016 adjusted[2)]	31.12.2016 as reported	Change in %
Equity attributable to shareholders in ADLER	960.6	880.8	843.2	9.1
Deferred taxes on investment properties/ properties held for sale	235.5	169.5	169.5	38.9
Differences between fair values and carrying amounts of inventory properties	7.0	3.0	52.1	133.3
Fair value of derivative financial instruments	5.9	7.4	7.4	-20.3
Deferred taxes on derivative financial instruments	-1.8	-2.2	-2.2	-18.2
EPRA NAV	**1,207.2**	**1,058.5**	**1,069.9**	**14.0**
Goodwill	-101.2	-101.2	-130.6	0.0
Adjusted EPRA NAV	**1,106.0**	**957.3**	**939.4**	**15.5**
EPRA NAV per share in EUR[1)]	17.8	16.5	16.7	7.9
Adjusted EPRA NAV per share in EUR[1)]	16.3	14.9	14.7	9.4

[1)] 56,155,838 shares as at balance sheet date (previous year: 52,475,509) plus 11,666,666 shares from assumed conversion of mandatory convertible bonds (previous year: 11,666,666) which are considered as equity
[2)] Adjusted statement due to sale of trading, see comments in the notes for the group financial statements.

In EUR millions	31.12.17	31.12.2016 adjusted[2)]	31.12.2016 as reported	Change in %
EPRA NAV	1,207.2	1,058.5	1,069.9	14.0
Fair value financial liabilities	-69.4	-221.8	-271.3	-68.7
Deferred taxes on fair values of financial liabilities	20.9	66.9	81.9	-68.8
EPRA NNNAV	**1,158.7**	**903.6**	**880.5**	**28.2**
EPRA NNNAV per share in EUR[1)]	17.1	14.1	13.7	21.3

1) 56,155,838 shares as at balance sheet date (previous year: 52,475,509) plus 10,606,060 shares from assumed conversion of mandatory convertible bonds (previous year: 11,666,666) which are considered as equity
2) Adjusted statement due to sale of trading, see comments in the notes for the group financial statements

EPRA EARNINGS

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

In EUR millions	2017	2016 adjusted[2)]	2016 as reported	Change in %
Net income for the period (IFRS)	142.6	112.8	133.8	26.4
Revaluation of investment properties	-235.4	-199.7	-199.7	17.9
Income from the sale of properties	-19.2	1.7	-27.2	> -100
Taxes on profits or losses on disposals	6.2	0.2	8.2	> 100
Revaluation of financial instruments and associated transaction costs	-1.5	0.4	0.4	> -100
Negative goodwill	0.0	0.0	0.0	0.0
Deferred taxes in respect of EPRA adjustments	66.5	54.9	54.9	21.1
EPRA earnings	**-40.8**	**-29.7**	**-29.6**	**37.4**
EPRA earnings per share	-0.6	-0.5	-0.5	20.0
Adjustment for non-recurring and extraordinary items	3.5	19.5	21.0	-82.1
Adjustment for non-period/one-off interest expenses	88.5	46.5	51.6	90.3
Adjustment for other deferred/non-period taxes	-16.0	-10.2	-10.6	56.9
Adjusted EPRA earnings	**35.2**	**26.1**	**32.4**	**34.9**
Adjusted EPRA earnings per share in EUR[1)]	0.5	0.4	0.5	25.0

1) 56,155,838 shares as at balance sheet date (previous year: 52,475,509) plus 11,666,666 shares from assumed conversion of mandatory convertible bonds (previous year: 11,666,666) which are considered as equity
2) Adjusted statement due to sale of trading, see comments in the notes for the group financial statements.

EPRA NET INITIAL YIELD

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

In EUR millions	2017	2016 adjusted[1)]	2016 as reported[2)]	Change in %
Investment properties	3,018.5	2,442.0	2,442.0	23.6
Fair value of inventory properties	9.9	6.4	271.6	54.7
Assets held for sale	10.9	17.3	18.4	-37.0
Market value of property portfolio (net)	**3,039.3**	**2,465.7**	**2,732.0**	**23.3**
Ancillary acquisition costs	258.3	209.6	232.2	23.2
Market value of property portfolio (gross)	**3,297.6**	**2,675.3**	**2,964.3**	**23.3**
Annualised rental income	190.3	162.3	168.9	17.3
Non-allocable property costs	-51.1	-48.1	-49.1	6.2
Annualised net rental income	**139.2**	**114.2**	**119.8**	**21.9**
Adjustment for lease incentives	0.0	0.0	0.0	0.0
Topped-up annualised rental income	**139.2**	**114.2**	**119.8**	**21.9**
EPRA net initial yield in %	**4.2**	**4.3**	**4.0**	**-2.3**
Topped-up EPRA net initial yield in %	**4.2**	**4.3**	**4.0**	**-2.3**

1) Adjusted statement due to sale of trading, see comments in the notes for the group financial statements
2) Adjusted disclosure because of change in cost structure

EPRA VACANCY RATE

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

In EUR millions	31.12.17	31.12.2016 adjusted[1)]	31.12.2016 as reported	Change in %
Market rent of vacant units	1.5	1.5	1.5	0.0
Market rent of residential property portfolio	17.4	15.6	15.6	11.5
EPRA vacancy rate in %	**8.6**	**9.6**	**9.6**	**-10.4**

1) Adjusted statement due to sale of trading, see comments in the notes for the group financial statements.

EPRA COST RATIO

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

In EUR millions	2017	2016 adjusted[1)]	2016 as reported[2)]	Change in %
Adjusted EBITDA rental/portfolio	-105.2	-92.1	-92.1	14.2
Rental income	177.5	158.3	158.3	12.1
Maintenance expenses	-21.9	-27.1	-27.1	-19.2
Property management expenses	**50.4**	**39.1**	**39.2**	**28.9**
Maintenance expenses	21.9	27.1	27.1	-19.2
Ground rent	-0.6	-0.5	-0.5	20.0
EPRA costs (including direct vacancy costs)	**71.7**	**65.7**	**65.7**	**9.1**
Direct vacancy costs	-2.0	-2.6	-2.7	-23.1
EPRA costs (excluding direct vacancy costs)	**69.7**	**63.1**	**63.0**	**10.5**
Rental income	177.5	158.3	158.3	12.1
Ground rent	-0.6	-0.5	-0.5	20.0
Gross rental income	**176.9**	**157.8**	**157.8**	**12.1**
EPRA cost ratio (including direct vacancy costs) in %	**40.5**	**41.6**	**41.7**	**-2.6**
EPRA cost ratio (excluding direct vacancy costs) in %	**39.4**	**40.0**	**39.9**	**-1.5**
Maintenance adjustment	21.9	27.1	27.1	-19.2
Adjusted EPRA costs (including direct vacancy costs)	**49.8**	**38.6**	**38.7**	**29.0**
Adjusted EPRA costs (excluding direct vacancy costs)	**47.8**	**36.0**	**35.9**	**32.8**
Adjusted EPRA cost ratio (including direct vacancy costs) in %	**28.1**	**24.4**	**24.4**	**15.2**
Adjusted EPRA cost ratio (excluding direct vacancy costs) in %	**26.9**	**22.7**	**22.7**	**18.5**

1) Adjusted statement due to sale of trading, see comments in the notes for the group financial statements
2) Adjusted disclosure because of change in cost structure

/// 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.

FFO II

Funds from Operations II

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

EPRA

European Public Real Estate Association

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

EPRA – NAV

Net asset value based on EPRA

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

LTV II

Loan-to-value II

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

Swap

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

Dilution of shares

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

WACD

Weighted average cost of debt

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

/// AT A GLANCE

Supervisory Board	
Dr Dirk Hoffmann	Chairman of the Supervisory Board
Thomas Katzuba von Urbisch	Vice Chairman of the Supervisory Board
Thilo Schmid	Member of the Supervisory Board
Management Board	
Tomas de Vargas Machuca	Member of the Management Board (Co-CEO)
Maximilian Rienecker	Member of the Management Board (Co-CEO)
Sven-Christian Frank	Member of the Management Board
Company Facts	
Legal domicile	Berlin Charlottenburg, Berlin HRB 180360 B
Address	ADLER Real Estate Aktiengesellschaft Joachimsthaler Straße 34 10719 Berlin Phone: +49 30 398018 – 10 E-Mail: info@adler-ag.com
Website	www.adler-ag.com
Investor relations/public relations	ADLER Real Estate Aktiengesellschaft Dr Rolf-Dieter Grass Joachimsthaler Straße 34 10719 Berlin Phone: +49 30 2000914 – 29 E-Mail: r.grass@adler-ag.com
Capital stock	EUR 57,547,740[1)]
Classification	57,547,740[1)] no-par value shares
Arithmetical value	EUR 1 per share
Voting right	1 vote per share
Identification	WKN 500 800 ISIN DE0005008007 Ticker symbol ADL Reuters ADLG.DE
Designated sponsors	ODDO SEYDLER BANK AG HSBC Trinkaus & Burkhardt AG
Stock exchanges	Xetra, Frankfurt am Main
Indices	SDAX, CDAX, FTSE EPRA/NAREIT Global Real Estate Index, GPR General Index, DIMAX
Financial year	Calendar year

1) As at 31 December 2017

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