ADLER REAL ESTATE

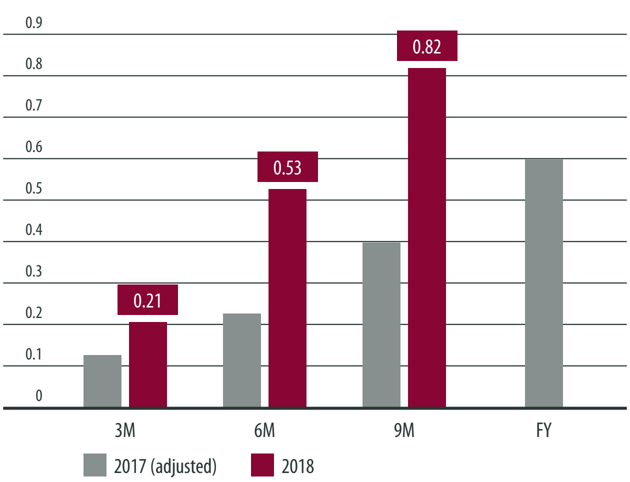
# Q3 /// Interim Report for the first nine months of 2018

# /// KEY FINANCIAL AND PROPERTY FIGURES

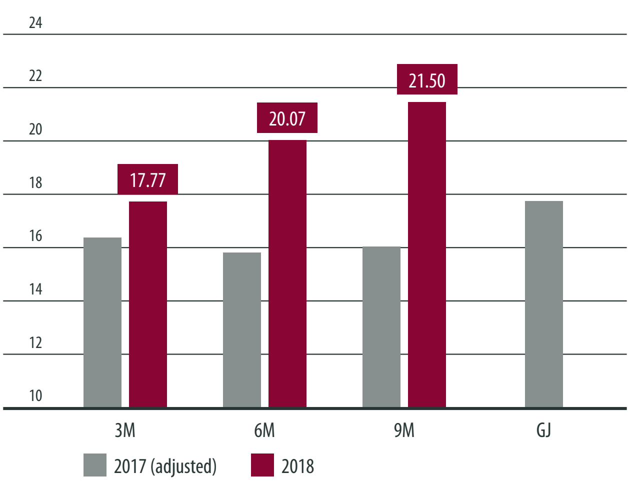
| In EUR millions<br>Consolidated Statement of Income | 9M 2018 | 9M 2017 |
|---|---|---|
| Net rental income | 173.3 | 124.8[3] |
| Earnings from property lettings | 151.9 | 91.0[3] |
| Earnings from the sale of properties | 4.3 | 0,6[3] |
| EBIT | 352.8 | 98.0[3] |
| Consolidated net profit from continuing operations | 164.3 | 11.4[3] |
| Consolidated net profit | 164.7 | 24.0 |
| FFO I | 54.9 | 27.1 |
| FFO I per share in EUR [1] | 0.82 | 0.40 |
| **Consolidated Balance Sheet** | **30.09.2018** | **31.12.2017** |
| Investment Properties | 4,996.3 | 3,018.5 |
| EPRA NAV | 1,446.6 | 1,207.2 |
| EPRA NAV per share in EUR [1] | 21.50 | 17.80 |
| LTV II in % [2] | 66.3 | 59.4 |
| **Cashflow** | **9M 2018** | **9M 2017** |
| Net cash flow from operating activities | 94.8 | 0.9 |
| – of which from continuing operations | 94.5 | 41.2 |
| Net cash flow from investing activities | -591.6 | 321.0 |
| – of which from continuing operations | -591.6 | 321.0 |
| Net cash flow from financing activities | 205.2 | -329.2 |
| – of which from continuing operations | 205.2 | -341.2 |
| **Employees** | **30.09.2018** | **31.12.2017** |
| Number of employees | 815 | 555 |

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

**FFO I/SHARE** in EUR

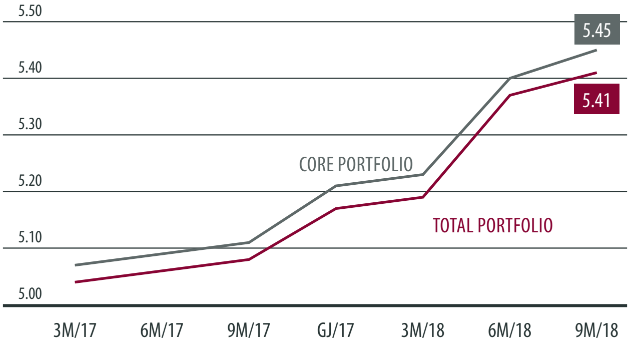



**EPRA NAV/SHARE**[1] in EUR

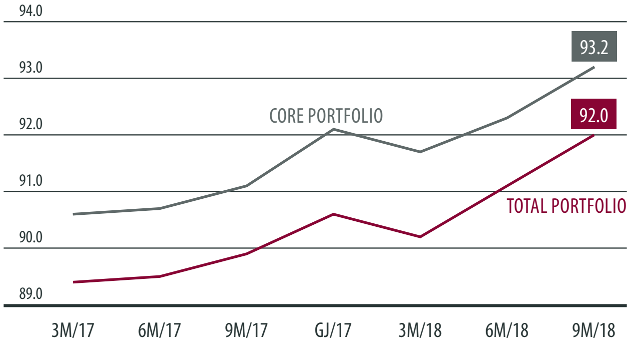



[1] 6M 17 after issue of bonus shares and conversion of 2013/2017 convertible

**AVERAGE RENT** in EUR/sqm/month

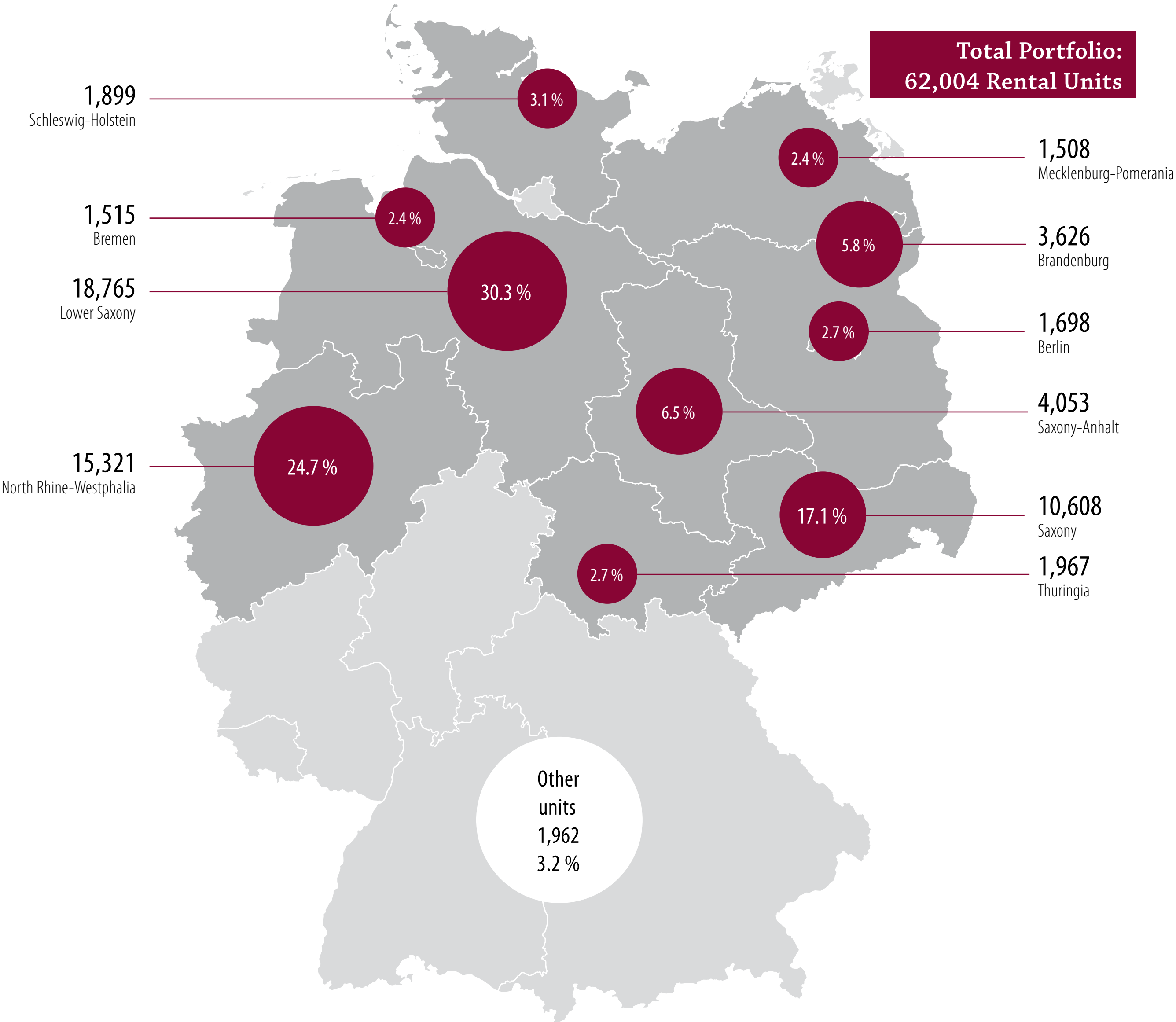



**OCCUPANCY RATE** in %




**Rental units**

as at 30 September, 2018



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# /// LETTER FROM THE MANAGEMENT BOARD

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

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

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

**Dear Ladies and Gentlemen,**

The third quarter of the current financial year was largely characterised by the many steps, decisions and measures a company must take in order to improve its structures, streamline its processes and advance its projects. This has already become visible in the operational KPI´s in the first nine months of the current business year.

In our day-to-day activities, we focussed to increase the occupancy rate, leverage the potential for rent increases, improve communication with tenants, create a pleasant living environment and thus also reduce tenant fluctuation. Among other things, this is supported by the central service number that is now available throughout the company, as well as the creation of a dedicated website for ADLER Wohnen Service GmbH, which in the future will allow vacant apartments to be marketed directly. We are also working on on a digitally based operations centre with the help of which we expect to be able to handle all tenant needs faster, better and more targeted via all the different communication channels including our tenant-app.

Our expansion plans in Göttingen and Wolfsburg, which involve adding another floor to buildings, are progressing well. In order to reassure in particular low-income tenants that they will still be able to afford their rents after modernisation we have joined the local “Alliance for Affordable Housing” in Göttingen, in which various companies from the real estate industry and bodies including the Göttingen Tenants’ Association, the City of Göttingen and Göttingen Student Services work in close cooperation. The alliance has formulated its aims in writing, which include the stipulation that 30 percent of apartments in new buildings should be offered to low-income tenants at predetermined, affordable rents. We expect voluntary commitments like this to sustainably increase the acceptance of new construction measures in Göttingen.

Work on our Wasserstadt Mitte project in Berlin is proceeding according to plan. The topping-out ceremony for this project with around 750 new apartments took place in September in the presence of the Governing Mayor of the City of Berlin. ADLER is continuing to selectively invest in this area. One example is the acquisition of a site in the vicinity of Schönefeld Airport, the expansion of which, aimed at creating the new Berlin Brandenburg Airport, is currently scheduled for completion in 2020. The site offers space for more than 500 apartments in an attractive location at the edge of Berlin.

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

**FLORIAN SITTA**
*Head of Legal and Member of the Executive Committee*

**PEER HOFFMANN**
*Head of Financing and Member of the Executive Committee*

We had already announced before that we intend to market our non-core properties through a partnership. The details of the terms and structures have meanwhile been set out in a preliminary agreement and binding funding commitments have been obtained from banks. This means that all the main conditions for the formal establishment of the planned joint venture during the fourth quarter of 2018 are now in place.

At the end of the third quarter, we can state rather reliably that ADLER will not only meet the economic targets it set itself for 2018, but partly even exceed them. We have therefore stepped up our guidance for the full business year in two aspects: Net rental income is expected to increase by more than 25 percent to around EUR 230 million, which would be at least EUR 10 million more than originally guided for. FFO I for the full year are expected to reach between EUR 73 to 75 million and thus exceed the target corridor which had already been revised earlier in the year to EUR 68 million to EUR 73 million. Percentagewise, this would be equivalent to an increase against the previous year of more than 80 percent.

The weighted average cost of debt (WACD) is already below the original target of 2.4 percent. In regards to LTV, it has improved in the third quarter and we are still committed to reach our target of c. 55 percent on or around year end as a result of our ongoing disposal plans.

As a shareholder of ADLER Real Estate AG, you have seen relatively high volatility in 2018 to date. Nevertheless, our share price rose by around 15 percent in the first nine months of the year, thereby significantly outperforming other real estate stocks. Meanwhile, the debate on interest rate hikes has triggered a degree of uncertainty in the capital markets that has affected share prices in general and real estate stocks in particular. It is therefore all the more important to us that we can look back on a very succsessful performance of our company in the first nine months and that we follow a clear and predictable course. This makes us confident that our company, ADLER Real Estate AG, will continue to improve both operationally and financially and that the share price will also profit from it.

Best regards,

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

# /// Portfolio

# /// ADLER on the capital markets

**MICHAELA LANGE**

**As a project manager for ADLER Wohnen Service GmbH, Michaela Lange works in the Chemnitz branch, where she handles all the concerns of the tenants under her watch. She is available in person during consultation hours, follows up their complaints or requests and deals with small repairs. In her job, she always works in close cooperation with other segments such as Asset Management, ADLER Gebäude Service or ADLER Energie Service.**

# /// PORTFOLIO

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

## THE PROPERTY PORTFOLIO

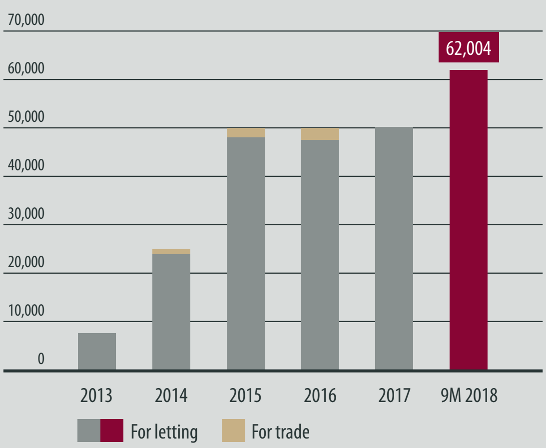
### Portfolio significantly expanded

As at the end of the third quarter 2018, ADLER Real Estate AG held a total of 62,004 rental units with a total space of 3.8 million square metres, which represented a 23.3 percent increase when compared to the start of the year and is primarily due to the acquisition of the majority of shares in BCP. In addition, ADLER acquired a small portfolio in Emden in the second quarter with a total of 127 units. In the first nine months of the current financial year, 473 rental units were sold from the existing portfolio as part of measures to streamline it.

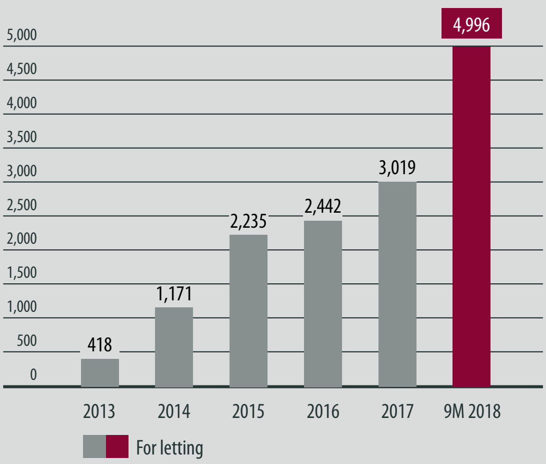
In the balance sheet, the properties let out permanently are recognised at fair value under "investment properties". Properties that are up for sale are reported in the item "assets held for sale".

The properties held for residential purposes also include commercial units which consist entirely of shops and offices of the kind that can often be found in city-centre residential properties. As of the end of the third quarter, these units numbered 1,148 and accounted for 1.9 percent of the properties held for permanent letting. BCP contributed 141 units of this type of commercial property. Accordingly, their share in the total number of rental units has changed only slightly over the course of the year.

**PORTFOLIO** in units




**FAIR VALUE INVESTMENT PROPERTIES** in EUR millions



| Portfolio realignment | 30.09.2018 | Divestments | Additions | 31.12.2017 |
|---|---|---|---|---|
| Rental portfolio | 62,004 | 473 | 12,172 | 50,305 |
| – of which residential units | 60,856 | 393 | 11,993 | 49,256 |
| – of which commercial units | 1,148 | 80 | 179 | 1,049 |

## "Non-core" portfolio to be disposed of

ADLER Real Estate AG intends to dispose of holdings that are economically weak or no longer fit its business model. As of the reporting date, the company had specific intentions to sell a total of 3,896 rental units, corresponding to 6.4 percent of the total portfolio. These consist entirely of properties that ADLER already owned before the acquisition of BCP. The following table presents the key performance data of this portfolio, which is designated as non-core, compared with those of the core portfolio.

| "Core" and "non-core" portfolio | Total | Core | Non core for sale |
|---|---|---|---|
| Rental units | 62,004 | 58,108 | 3,896 |
| Rent/sqm/month in EUR | 5.41 | 5.45 | 4.83 |
| Occupancy rate in % | 92.0 | 93.2 | 76.8 |

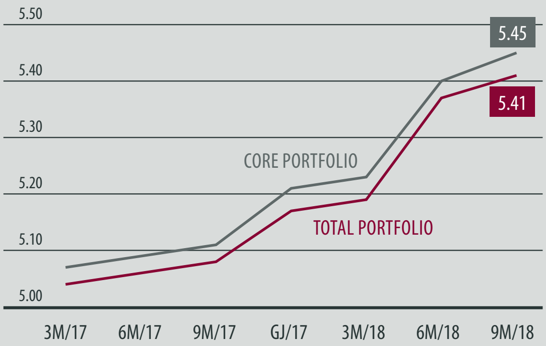
In April 2018, ADLER agreed to set up a joint venture with Benson Elliot Capital Management LLP geared solely towards the sale of ADLER's non-core assets. Once it has been set up, which is expected to be the case in the fourth quarter 2018, ADLER will contribute rental units with a value of approx. EUR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

## Further improvement in operating performance data

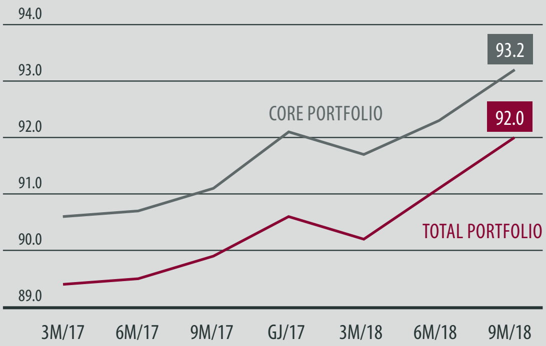
In the first nine months of the current business year, the Group, once again improved its operating performance. At the end of the period under review, the average contractually agreed rent per square metre per month for the overall portfolio amounted to EUR 5.41, EUR 0.33 higher than the figure for the same point in time of the previous year of EUR 5.08, which did not yet include BCP. On a standalone basis, ADLER would have reported an average rent of EUR 5.25 at the end of the third quarter. BCP alone achieved a higher average rent of EUR 6.09 at the end of the first nine months of the year. In the core portfolio, which includes BCP and results from the overall portfolio, less the properties that are to be sold as part of the ongoing portfolio reviews, the average contractually agreed rent per square metre per month amounted to EUR 5.45 at the end of the third quarter of 2018. This was EUR 0.34 higher than one year ago (9M 2017: EUR 5.11, not including BCP).

The occupancy rate for the overall portfolio including BCP came to 92.0 percent at the end of the third quarter of 2018 against 89.9 percent one year earlier. The occupancy rate in the core portfolio reached 93.2 percent at the reporting date in 2018. This equates to an improvement of 2.1 percentage points compared with one year ago (91 percent). Part of the increase is also due to the acquisition of BCP. In its former structure, ADLER's occupancy rate came to 91.4 percent and BCP's was 94.6 percent at the reporting date.

**AVERAGE RENT** in EUR/sqm/month




**OCCUPANCY RATE** in %




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

| Rental portfolio (core) Like-for-like (9M 2018 to 9M 2017) | Residential and commercial units | Change | Residential | Change | Commercial | Change |
|---|---|---|---|---|---|---|
| Units | 42,362 | | 41,697 | | 665 | |
| Rent/sqm/month in EUR | 5.29 | 0.18 | 5.24 | 0.19 | 6.79 | -0.02 |
| Occupancy rate (%) | 92.3 | 0.56 | 92.6 | 0.58 PP | 83.2 | -0.13 |

## Fair value improved in first nine months of the year

The fair value of the portfolio calculated in accordance with IFRS amounted to EUR 4,996.3 million at the end of the third quarter of 2018. This was EUR 1,977.8 million more than at the end of the previous year (EUR 3,018.5 million). EUR 1,616.6 million of this increase was attributable to the first-time consolidation of BCP, EUR 261.7 million to the fair value adjustments of ADLER's existing real estate in its former structure and EUR 24.2 million to newly aquired properties and land.

## Key focuses in Lower Saxony and North Rhine-Westphalia

ADLER focusses its business activities in Germany and holds most of its properties in the northern and western parts of the country. This remained essentially unchanged after the acquisition of BCP. However, there have been some shifts in the state-specific focus areas. Following the consolidation of BCP, 30.3 percent of ADLER's properties are located in Lower Saxony and 24.7 percent in North Rhine-Westphalia. Around 40 percent of ADLER's portfolio is located in the eastern part of the country, with key focuses here in Saxony (17.1 percent), Brandenburg (6.5 percent) and Saxony-Anhalt (5.8 percent).

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

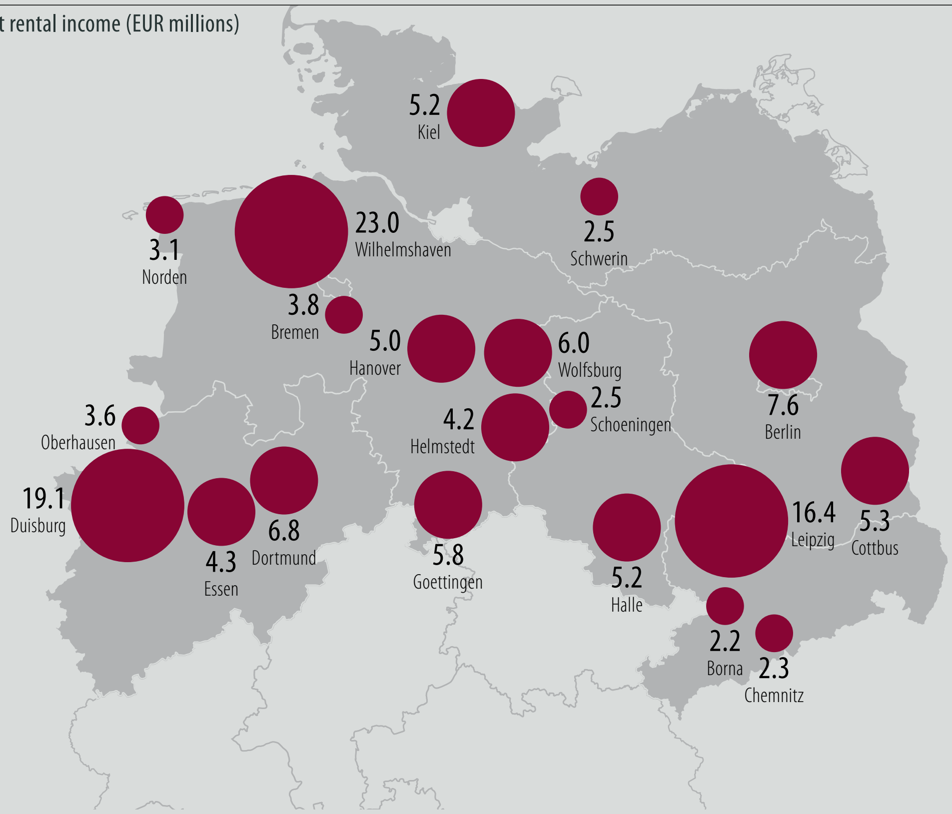
Property holdings on the edges of conurbations are typically characterised by higher vacancy rates, but also generate higher rent yields than properties in central or "A" locations. Peripheral locations benefit to a particularly marked extent from tight rental markets in city centres, due to price sensitive demand automatically shifting to the surrounding areas when rent rises in desirable locations translate into a lower availability of affordable apartments.

## Top 20 locations generate around 60 percent of rental income

The focus on metropolitan regions as outlined above also means that the properties in ADLER's 20 most important towns and cities account for almost 60 percent of the company's total rental income. Following the acquisition of BCP, there have been a number of changes in the list of the most important locations, as BCP contributed relatively large property holdings in cities such as Leipzig, Dortmund and Hanover. Wilhelmshaven remains the most important location for the Group, with 6,898 rental units and a net rental income of EUR 23.0 million per annum. Measured in terms of rental units, it is followed by Duisburg, with 4,925 units and a net rental income of EUR 19.1 million per annum, and Leipzig, with 4,742 units and a net rental income of EUR 16.4 million per annum. Cottbus, Halle and Dortmund rank next. ADLER does not play a significant role in the local housing markets in any of its top 20 locations apart from Wilhelmshaven, where almost one-fifth of local housing belongs to the Group.

**Top 20 locations**

Annual net rental income (EUR millions)



| Location | Units | of which ADLER | of which BCP | Area (sqm) | NRI (EUR m) | Average rent EUR/sqm/ month | Occupancy rate (%) |
|---|---|---|---|---|---|---|---|
| Wilhelmshaven | 6,898 | 6,898 | 0 | 406,929 | 23.0 | 5.05 | 93.4 |
| Duisburg | 4,925 | 4,281 | 644 | 305,003 | 19.1 | 5.40 | 96.6 |
| Leipzig | 4,742 | 1,166 | 3,576 | 254,174 | 16.4 | 5.66 | 94.7 |
| Cottbus | 1,868 | 1,868 | 0 | 110,045 | 5.3 | 4.68 | 85.6 |
| Halle (Saale) | 1,857 | 1,719 | 139 | 105,895 | 5.2 | 4.79 | 85.4 |
| Dortmund | 1,770 | 776 | 994 | 102,251 | 6.8 | 5.65 | 97.6 |
| Berlin | 1,698 | 1,698 | 0 | 111,576 | 7.6 | 5.82 | 97.0 |
| Goettingen | 1,377 | 1,139 | 238 | 85,239 | 5.8 | 5.90 | 95.6 |
| Wolfsburg | 1,300 | 1,300 | 0 | 87,539 | 6.0 | 6.09 | 93.9 |
| Helmstedt | 1,219 | 1,219 | 0 | 70,703 | 4.2 | 5.19 | 95.9 |
| Hanover | 1,119 | 281 | 838 | 63,146 | 5.0 | 6.91 | 95.0 |
| Essen | 1,036 | 409 | 627 | 65,650 | 4.3 | 5.65 | 97.4 |
| Kiel | 967 | 56 | 911 | 66,588 | 5.2 | 6.59 | 98.1 |
| Borna | 900 | 900 | 0 | 50,189 | 2.2 | 4.61 | 79.2 |
| Bremen | 873 | 128 | 745 | 53,645 | 3.8 | 6.13 | 95.9 |
| Chemnitz | 850 | 850 | 0 | 52,983 | 2.3 | 4.71 | 80.3 |
| Schoeningen | 846 | 846 | 0 | 50,192 | 2.5 | 5.07 | 80.3 |
| Oberhausen | 819 | 341 | 478 | 62,642 | 3.6 | 4.94 | 97.4 |
| Schwerin | 816 | 816 | 0 | 48,021 | 2.5 | 4.74 | 91.1 |
| Norden | 794 | 794 | 0 | 50,230 | 3.1 | 5.28 | 98.9 |
| **Top 20[1)]** | **36,674** | **27,484** | **9,190** | **2,202,640** | **133.7** | **5.42** | **93.3** |
| **Total** | **62,004** | **50,064** | **11,940** | **3,832,274** | **228.1** | **5.41** | **92.0** |

[1)] Core portfolio only

## Focus on small to medium-sized residential units

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

| Size of apartment | Units | % of total units | Rent/sqm/ month in EUR |
|---|---|---|---|
| < 45 sqm | 9,323 | 15.4 | 6.31 |
| ≥ 45 and < 60 sqm | 20,770 | 34.2 | 5.33 |
| ≥ 60 and < 75 sqm | 20,809 | 34.2 | 5.32 |
| ≥ 75 and < 90 sqm | 7,794 | 12.8 | 5.25 |
| ≥ 90 sqm | 2,160 | 3.5 | 5.08 |
| **Total** | **60,856** | **100.0** | **5.39** |

## Customer orientation with in-house property and facility management

ADLER has set itself the target of offering its tenants a complete range of residential services on an in-house basis, rather than via third-party service providers as in the past. To establish maximum direct contact with its tenants, in 2016 ADLER pooled its in-house property management activities into the newly founded company ADLER Wohnen Service GmbH. This company has now taken on the management of all group properties. Following the acquisition of BCP, however, the existing structures in the two hitherto independent companies need to be coordinated and adjusted.

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

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

ADLER expects this evolution into an integrated real estate group to boost tenant satisfaction and reduce turnover rates, further strengthened by an improvement in communication with tenants, through instruments such as the ADLER tenant app, the recently implemented central phone number, the opening of additional tenants’ offices and the introduction of a neighbourhood concierge, as was introduced in Wilhelmshaven.

## Second programme to reduce vacancies nearly fully implemented

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

# /// ADLER ON THE CAPITAL MARKET

## ADLER share outperformed market

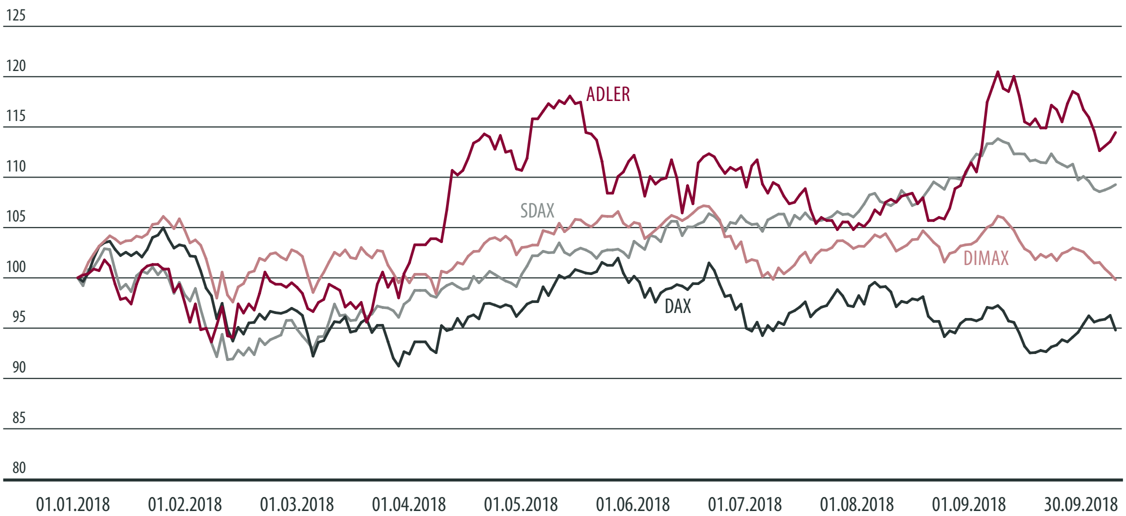
The German stock market fell slightly in the first nine months of 2018. At the end of the reporting period, the DAX was approx. 5 percent lower than at the start of the year. The SDAX moved back to its starting point after a slightly positive performance over the course of the year. Property stocks, however, performed better thanks to a strong third quarter. The Solactive DIMAX, the index comprising Germany's main listed real estate companies, was up by nearly 10 percent at the end of the third quarter compared to the beginning of the year.

In this environment, ADLER's shares were among the winners in the first six months. Having opened the year at EUR 13.22, they climbed to EUR 16 in August and stood at EUR 15.20 at the end of September. This corresponds to an increase of nearly 15 percent compared with the start of the year.

## Number of shares slightly increased by conversion of existing convertible bonds

The slight increase in the number of shares outstanding in the first six months of 2018 is attributable to the conversion of existing convertible bonds. The number of shares outstanding amounted to 57,547,740 at the end of 2017. By the end of the reporting period, i.e. at the end of June 2018, this total had risen by 622,508 shares to 58,170,248 shares.

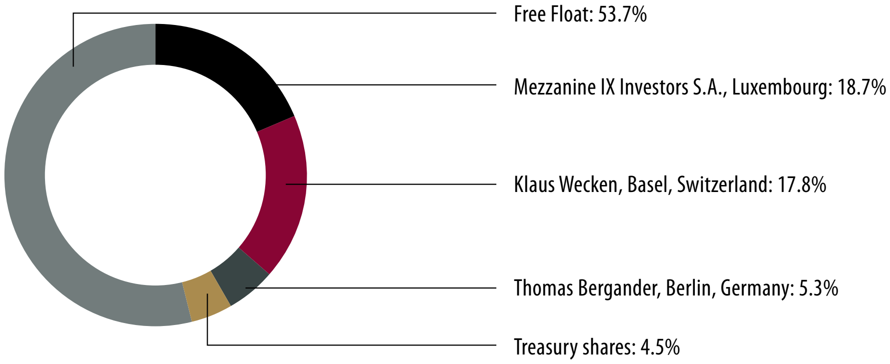
**DEVELOPMENT OF THE DAX, SDAX, DIMAX AND THE ADLER SHARE 2018, JANUARY 2018 = 100**



In the context of a multi-stage share buyback programme launched in June 2017, the last tranche of which was executed in March 2018, ADLER acquired a total of 2,583,232 shares, equivalent to 4.4 percent of the shares outstanding at the end of the reporting period, for a total price of EUR 34.1 million. ADLER initiated the programmes due to the shares trading well below their intrinsic value (NAV per share), and this difference offers good potential for appreciation. Voting rights relating to the acquired shares cannot be exercised.

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

**SHAREHOLDER STRUCTURE AS AT 30 SEPTEMBER 2018**



Michaela Lange is also responsible for handing over apartments to new tenants, which is a standardized process. Primarily, the state of the rented property is checked to ensure that it is contractually compliant, and the details are recorded in a log. Recording meter readings accurately and handing over all keys are important parts of this procedure.

# /// Fundamentals of ADLER Real Estate AG Group

# /// FUNDAMENTALS OF ADLER REAL ESTATE AG GROUP

## BUSINESS MODEL

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

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

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

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

With the acquisition of BCP, ADLER has also acquired a substantial portfolio of pure commercial units. As ADLER sees itself as a provider of residential properties, it intends to find alternative uses for this commercial portfolio in the near future.

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

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

The apartments in ADLER's portfolio have an average size of around 60 square metres and on average have two or three main rooms – averages which have been practically unaffected by the acquisition of BCP. The average monthly rent across the entire portfolio (core and non-core) amounted to EUR 5.42 per square metre as at the end of the reporting period. ADLER thus operates in a market segment focused predominantly on tenants with medium to low incomes. ADLER offers this target group decent living quality at appropriate market rents. Demand for affordable living space continues to grow as the average age of the population rises in conjunction with an increasing number of single-person households. Furthermore, migration to Germany from various parts of the EU has boosted the demand for such housing as individuals see better employment prospects in Germany. Others come from faraway countries to seek asylum. Despite the renewed increase in overall construction activity, the supply of new housing in this segment remains low. This is because new construction is in most cases only viable in the higher-priced rental segment as construction costs remain significantly higher than the open market value of affordable residential units. This is true to an even greater degree in “B” locations.

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

## Targets and strategies

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

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

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

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

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

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

### Financing strategy

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

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

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

### Acquisition strategy

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

## MANAGEMENT SYSTEM

### Financial performance indicators

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

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

### Non-financial performance indicators

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

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

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

## EMPLOYEES

As the group holding company, ADLER Real Estate AG has three Management Board members but no employees. Operational tasks relating to commercial asset management and central administration for the Group are mostly performed via the wholly owned subsidiary ADLER Real Estate Service GmbH. Employees at this company are deployed to perform various tasks at the respective group companies on a flexible basis and in line with their individual specialisms. Due to the strategic objective of internalising functions previously outsourced in the field of property and facility management, the number of employees at the ADLER Group grew further in the first nine months of 2018, rising from 555 at the beginning of the year to 671 full-time and part-time employees (not including BCP) as at the end of the reporting period. The majority of employees worked at the property management (252 employees) and facility management (333 employees) divisions. The newly acquired BCP had 144 employees at the end of September 2018.

## RESEARCH AND DEVELOPMENT

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

If tenants visit the branch in person, they usually really need to talk to somebody. They may have queries about operating costs, complaints about neighbours, be in need of certificates, want to solve ambiguities related to demand notes and much more. Michaela Lange is patient, friendly and knowledgeable on all issues.

/// Interim Group Management Report

/// Economic report

/// Report on risks and opportunities

/// Outlook

/// Report on events after the balance sheet date

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

# /// ECONOMIC REPORT

## MACROECONOMIC AND SECTOR-SPECIFIC SETTINGS

The economy at large and the conditions specific to the property industry remained stable and positive in the first nine months of the current financial year. Inflation remains moderate at 2.3 percent in September, although it has increased further due to the continuing rise in prices for crude oil products and food. The number of people in employment in Germany is still at a very high level of more than 45 million, while interest rates are mired at historically low levels. However, the prospects for the economy as a whole are a little less bright since the middle of the year. Key sentiment indicators, for example, are generally in decline, while the growth outlook for the German economy is no longer as good as was anticipated at the beginning of the year. Most economic research institutes have scaled back their growth estimates to just below 2 percent and it appears that forecasts are being negatively affected by political uncertainty within the EU, trade conflict with the US, geopolitical unknowns and an at least partial disruption of the established world economic order.

Above all, the development of the housing rental market is of great importance to a company such as ADLER Real Estate AG. This sector again proved stable in the first nine months of 2018. According to the cost of living index, German rents were 1.5 percent higher nationwide in September 2018 than in the previous year. Rents thus rose at a lower rate than the overall cost of living. However, the average figure conceals variations between individual regions, urban and rural locations, new and existing housing and different apartment sizes. With its properties, ADLER Real Estate AG chiefly operates in “B” locations and on the periphery of conurbations. Such locations typically benefit from sharp rent increases in town centres or “A” locations, as is the case in most towns in Germany. After all, tenants no longer able or willing to pay higher rents look for alternatives and are often prepared to accept living further from the centre of their city. Moreover, the average does not take into account the fact that the development of rents under new and existing leases usually differs significantly.

### Legal framework

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

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

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

In September 2018, the German Federal Government launched more stringent rules for landlords and resolved draft legislation concerning amendments to tenancy law. This includes a provision under which landlords in regions with housing shortages will only be permitted to bill tenants for 8 percent of modernisation costs over the next five years as opposed to the previous 11 percent. The draft legislation also introduces a Germany-wide cap on the amount by which a landlord is permitted to increase the monthly rent following modernisation of EUR 3 per square metre in the course of the next six years.

It also contains new obligations for landlords, such as informing new tenants of the rent paid by the previous tenant.

By granting a special depreciation allowance of 5 percent p.a. over a period of four years, the German Federal Government is seeking to incentivise private investors to create new rental apartments with low rents. The stated aim is to construct an additional 1.5 million apartments and owner-occupied homes over the coming years in order to relieve the strained situation for tenants. The allowance will only be available for apartments with purchase and construction costs of less than EUR 3,000 per square metre of residential space.

## ECONOMIC DEVELOPMENT OF THE GROUP

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

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

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

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

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

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

In mid-April 2018, ADLER announced the establishment of a joint venture with Benson Elliot Capital Management LLP, geared solely towards the sale of ADLER's non-core assets, on the basis of a joint declaration of intent. ADLER aims to contribute available-for-sale rental units with a value of approx. EUR 115 million to the joint venture. The intention is for Benson Elliot to purchase a majority stake of around 75 percent in the joint venture and ADLER to hold a substantial minority stake of around 25 percent. ADLER will remain responsible for asset, property and facility management until the properties are eventually sold and will share in any profit on the eventual sale. However, the plan was not enacted in the first nine months as some details of the contract for the joint venture still had to be clarified.
In the second half of April 2018, ADLER successfully placed a EUR 800 million BB+ senior unsecured bond to institutional investors across Europe. The notes were issued in two tranches. The first tranche, with a volume of EUR 500 million, matures in April 2023, while the second tranche, with a volume of EUR 300 million, matures in April 2026. The average coupon for the total issue amounts to 2.30 percent. The net proceeds were predominantly used to refinance the bridge facility that had been provided for the acquisition of BCP. Moreover, ADLER has repurchased EUR 200 million of its outstanding 2015/2020 4.75 coupon bond for which the tender offer had been successfully closed on 27 April 2018. Remaining parts of the proceeds are to be used for general corporate purposes.

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

In September 2018, ADLER acquired an undeveloped 40,000 square metre site in Schönefeld/Brandenburg for EUR 15.6 million (including ancillary costs). The site is close to Schönefeld Airport, the expansion of which, aimed at creating Berlin Brandenburg Airport, the future single commercial airport serving the German capital, is scheduled for completion in 2020. ADLER is planning to construct more than 500 apartments on the site over the coming years in order to extend its existing portfolio in Berlin at an attractive infrastructural location on the edge of the city. This will supplement ADLER's existing projects, such as Wasserstadt Mitte in Berlin or the projects in Aachen and Düsseldorf that were acquired along with a majority interest in BCP in April 2018.

# /// REPORT ON RISKS AND OPPORTUNITIES

ADLER Real Estate AG reported in detail on the opportunities and risks involved in its business activities in its 2017 Annual Report. It was further supplemented in the half-year report relating to risks and opportunities arising from the acquisition of BCP and the foundation of a joint venture aimed at selling non-core assets. Since then no major change has occurred in the assessment of opportunities or risks.

# /// REPORT ON EXPECTED DEVELOPMENTS

In a stable macroeconomic framework for companies in the property sector ADLER expects to be able to reach nearly all its financial targets for the business year 2018. Due to the positive performance in the first nine months, management has revised the guidance for net rental income and FFO I for the full business year. At the end of the year, the occupancy rate is expected to be around 2 percentage points higher than at its beginning, average rents around 4 percent higher and net rental income is expected to increase by more than 25 percent to around EUR 230 million, which would be at least EUR 10 million more than originally guided for.

Due to the strong operational performance of the first nine months, with the additional contribution of BCP and the effects resulting from the refinancing of EUR 200 million of the corporate bond 2015/2020, FFO I for the full year are expected to reach between EUR 73 to 75 million and thus exceed the target corridor of EUR 68 million to EUR 73 million which had already been revised in the course of the year. Percentagewise, this would be equivalent to an increase against the previous year of more than 80 percent.

The company's financial indicators will also improve, in some cases significantly, during the course of 2018. The forecast for weighted average cost of debt which was 2.4 percent for the full year had already been outperformed at the half year stage due to the effects resulting from the refinancing of EUR 200 million of the corporate bond 2015/2020 and the acquisition of BCP. In regards to LTV, it has improved in the third quarter and we are still committed to reach our target of c. 55 percent on or around year end as a result of our ongoing disposal plans.

EPRA NAV has already improved strongly in the first nine months of the year. reflecting the expansion of the portfolio as well as changes in the market, baut increasingly also the operational improvements which ADLER has achieved after the internalisation of its property and facility management. This optimization process wil go on. A further improvement of the EPRA NAV is therefore expected at the end of the fourth quarter, the extent of which depends on the independent valuations.

# /// REPORT ON EVENTS AFTER THE BALANCE SHEET DATE

In late October, ADLER and Benson Elliot thoroughly defined the terms and structures of their planned joint venture in detail in a preliminary agreement. Binding funding commitments have also been obtained from banks. This means that all of the main conditions for the formal establishment of the joint venture during the fourth quarter of 2018 are now in place.

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

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

## RESULTS FROM OPERATIONS, NET ASSETS AND FINANCIAL POSITION

### PRELIMINARY REMARK

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

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

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

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

## RESULT FROM OPERATIONS

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

| In EUR millions | 9M 2018 | 9M 2017 adjusted[1)] | 9M 2017 reported |
|---|---|---|---|
| Gross rental income | 258.5 | 190.4 | 196.1 |
| – of which net rental income | 173.3 | 124.8 | 130.5 |
| Expenses from property lettings | -106.6 | -99.4 | -101.0 |
| **Earnings from property lettings** | **151.9** | **91.0** | **95,1** |
| Income from the sale of properties | 42.0 | 30.2 | 113.4 |
| Expenses from the sale of properties | -37.7 | -29.6 | -90.8 |
| **Earnings from the sale of properties** | **4.3** | **0.6** | **22.6** |
| Personnel expenses | -23.1 | -14.5 | -16.7 |
| Other operating income | 6.4 | 5.2 | 6.7 |
| Other operating expenses | -47.5 | -20.9 | -24.0 |
| Income from fair value adjustments of investment properties | 261.7 | 37.0 | 37.0 |
| Depreciation and amortisation | -0.9 | -0.4 | -0.8 |
| **Earnings before interest and taxes (EBIT)** | **352.8** | **98.0** | **120.0** |
| Financial result | -108.9 | -65.3 | -69.8 |
| Net income from at-equity valued investment associates | 0.0 | 0.0 | 0.2 |
| **Earnings before taxes (EBT)** | **243.9** | **32.7** | **50.4** |
| Income taxes | -79.6 | -21.2 | -26.4 |
| **Net consolidated result from continuing operations** | **164.3** | **11.5** | **24.0** |
| Earnings after tax from discontinued operations[2)] | 0.3 | 12.5 | - |
| **Net consolidated result** | **164.6** | **24.0** | **24.0** |

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

### Rent increases and portfolio growth strengthen earnings from property lettings

In the first nine months of 2018, gross rental income amounted to EUR 258.5 million. This figure was 35.8 percent higher than in the same period of the previous year as shown in the adjusted statement (not including the sale of ACCENTRO at the end of 2017) (EUR 190.4 million). EUR 205.3 million of gross rental income is attributable to the former structure of ADLER Real Estate AG, while BCP contributed EUR 53.2 million during the consolidation period, which includes the second and third quarters.

Net rental income amounted to EUR 173.3 million in the first nine months of 2018, up 38.9 percent on the previous year's comparative figure in the adjusted statement (EUR 124.8 million), which excludes the rental income stemming from ACCENTRO. In turn, EUR 133.8 million is attributable to ADLER in its previous structure and EUR 39.5 million to BCP, which was acquired in April 2018. Net rental income increased not only due to the expansion of the portfolio, but also due to the improved performance in asset and portfolio management. At the end of the period under review, the average contractually agreed rent per square metre per month for the overall portfolio amounted to EUR 5.41, EUR 0.33 higher than the figure for the same period of the previous year (9M 2017: EUR 5.08 without BCP). Not including BCP, ADLER would have reported an average rent of EUR 5.25 at the end of the third quarter. Compared to ADLER, BCP alone achieved a higher average rent of EUR 6.09 at the end of the first nine months. In the core portfolio, which includes the BCP portfolio and results from the overall portfolio minus the properties that are to be sold as part of the ongoing portfolio reviews, the average contractually agreed rent per square metre per month amounted to EUR 5.45 at the end of the first half of 2018, which was EUR 0.34 higher than one year ago (9M 2017: EUR 5.11 without BCP).

The occupancy rate for the overall portfolio came to 92 percent at the end of the third quarter of 2018 against 89.9 percent one year earlier. The occupancy rate in the core portfolio reached 93.2 percent at the reporting date in 2018. This equates to an improvement of 2.1 percentage points compared with one year ago (91.1 percent). Part of the increase is also due to the acquisition of BCP. In its former structure, ADLER had an occupancy rate of 91.4 percent at the end of the third quarter, BCP of 94.6 percent. The improvement in the operating performance indicators also reflects the fact that ADLER has meanwhile incorporated all its property holdings in its former structure under the Group's own management.

Expenses from property lettings comprise recoverable and non-recoverable operating expenses and maintenance expenses. Compared with the adjusted figures for the previous year (EUR 99.4 million), these expenses increased by 7.2 percent to EUR 106.6 million in the first nine months. Not including BCP, ADLER would have reported a decline to EUR 89.0 million, which is a reflection of the aforementioned internalisation of the property management. In 2017, ADLER successively terminated the remaining contracts with external property management companies and internalised these services, thereby saving costs. However, this automatically meant a rise in employee headcount, with personnel expenses also rising accordingly. The fact that maintenance expenses amounting to a figure in the low single-digit million-euro range originally planned for the first nine months were deferred provided only temporary relief.

Net of expenses from property lettings, earnings from property lettings amounted to EUR 151.9 million in the first nine months of 2018, 66.9 percent more than in the same period of the previous year (EUR 91.0 million). EUR 35.6 million of this amount is attributable to BCP.

## Earnings contribution from the sale of properties remain low

ADLER continues to generate low earnings contributions from the sale of properties after selling the majority of its shares in ACCENTRO at the end of 2017. In the second and third quarters, BCP made an earnings contribution of EUR 3.9 million from the project development business. Project development properties that have not yet been sold will be added to the BCP portfolio after completion.

In the first nine months of 2018, sales of a total of 473 non-core units (ADLER only) resulted in an earnings contribution of EUR 0.4 million. From the beginning of 2015, ADLER's strategic objective has been to dispose of such properties in order to increase the efficiency of the overall portfolio. At the end of the reporting period, the company had specific intentions to sell a total of 3,896 rental units, corresponding to 6.3 percent of its overall portfolio. In mid-April 2018, ADLER announced its intention to incorporate most of these non-core properties at a premium into a joint venture with Benson Elliot Management LLP, in which ADLER intends to hold a minority interest. The details of the terms and structures have meanwhile been set out in a preliminary agreement, and binding funding commitments have been obtained from banks. This means that all the main conditions for the formal establishment of the joint venture during the fourth quarter of 2018 are now in place.

## Good contribution from fair value adjustments

At EUR 261.7 million, the contribution from fair value adjustments of investment properties was much higher in the first nine months of 2018 than in the corresponding period of the previous year (EUR 37.0 million). Although not all investment properties were revalued at the reporting date, the share was considerably higher than one year ago. The contribution amounting to EUR 220.8 million is attributable to the market valuation of the properties that ADLER already held before the acquisition of BCP. This valuation improved due to the rise in average rents and the implementation of measures to maintain and modernise the properties, which accounted for a total of EUR 35.4 million in the first nine months of 2018 and EUR 33.8 million at ADLER in its former structure (9M 2017: EUR 35.6 million). The property valuations are performed exclusively by independent specialist external service providers with long-standing experience in this area. Income from fair value adjustments of investment properties is not cash-effective and is not included in the calculation of funds from operations.

## Internalised property and facility management leading to greater personnel expenses

Personnel expenses totalled EUR 23.1 million in the first nine months of 2018 and were thus above the adjusted previous year's level of EUR 14.5 million. This increase in personnel expenses was attributable to two factors. The first-time consolidation of BCP increased expenses by EUR 3.7 million, while the remaining increase is due to the withdrawal of tasks from external service providers in the context of ADLER's realignment towards becoming an integrated real estate group. These functions have been taken over by internal group departments that have either been newly founded or had their personnel resources increased. As a result, ADLER had a total of 671 employees in its previous structure as at 30 September 2018, 176 more than one year earlier if the employees of ACCENTRO from the previous year's figure are excluded. 144 BCP employees were added to the total number of employees in the ADLER Group. In total, 815 employees were working at ADLER as at the end of the third quarter of the year.

Other operating expenses amounted to EUR 47.5 million in the first nine months of 2018 (previous year: EUR 20.9 million). This line item includes general administration expenses, office premise rents, IT expenses, legal and advisory expenses, impairments of receivables and public relations expenses. EUR 4.6 million was attributable to BCP, and EUR 42.9 million to ADLER in its former structure. This is partly attributable to one-off costs for legal and advisory costs which were primarily related to the acquisition of BCP and the issuing of EUR 800 million in corporate bonds in spring.

Other operating income amounted to EUR 6.4 million in the first nine months of the current financial year, which are fully attributable to ADLER in its former structure. In the same period of the previous year, other operating income was EUR 5.2 million.

## Significant increase in EBIT

After the deduction of all non-financial expenses, earnings before interest and taxes (EBIT) amounted to EUR 352.8 million for the first nine months of 2018. Compared with the EBIT figure for the first nine months of the previous year (EUR 98.0 million), which had been adjusted for the contribution of ACCENTRO, this corresponded to an increase of 260 percent, to which BCP's EBIT contributed EUR 72.1 million. A substantial contribution came from the increased, largely cash-effective earnings from property lettings, while a larger one still came from the non-cash-effective income from fair value adjustments of investment properties.

## Financial result comprises high one-off expenses

At minus EUR 108.9 million, the financial result for the first nine months of 2018 was significantly lower than the equivalent figure for the previous year (minus EUR 65.3 million). BCP contributed a negative amount of EUR 0.3 million. This contribution was significantly impacted by a positive revaluation of a participation in a leading German real estate developing company acquired in July 2018 (EUR 4.9 million). It nearly fully compensated the interst expenses of BCP. The contribution of ADLER in its previous structure amounting to minus EUR 108.6 million was significantly impacted by one-off expenses (prepayment penalties, loan commitment fees and transaction costs). EUR 56.0 million of these expenses relate to the refinancing of outstanding promissory note loans totalling approximately EUR 615 million, which was initiated in 2017 but not concluded until the first quarter of 2018, and the early refinancing of the 2015/2020 corporate bond in the amount of EUR 200 million and the bridging loan for the acquisition of the majority of shares in BCP that was redeemed at the end of April. In the first nine months of the previous year, financial costs included one-off expenses of EUR 7.5 million.

After taking into account the net of the financial result, earnings before taxes (EBT) amounted to EUR 243.9 million in the first nine months of 2018. Of this total, BCP contributed EUR 71.8 million, while EUR 172.1 million was contributed by ADLER in its former structure (9M 2017: EUR 32.7 million not including ACCENTRO).

Income tax expenses came to EUR 79.6 million in the first nine months of 2018 (previous year: EUR 21.2 million). From the total tax expenses, EUR 77.7 million were current tax expenses and EUR 1.9 million related to deferred, non-cash-effective taxes.

The consolidated net result for the first nine months of 2018 amounting to EUR 164.6 million (9M 2017: EUR 24.0 million) is comprised of two components: the consolidated net result from continuing operations of EUR 164.3 million and the result from discontinued operations totalling EUR 0.3 million. Of the consolidated net result, EUR 131.5 million is attributable to shareholders in the parent company (9M 2017: EUR 18.6 million).

## Segment reporting

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

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

A separate segment has now been created for BCP. BCP owns a property portfolio of 11,940 residential units with a focus on larger cities in Germany. BCP also contributes around 300,000 square metres of commercial space and project development in the centres of Düsseldorf and Aachen for around 2,000 new residential units which are expected to be added to the portfolio after completion if they have not yet been sold to non-group companies up to the date of preparing the financial statements.

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

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

| **ADLER Group** | **Rental** | | **BCP** | | **Other** | | **Group** | |
|---|---|---|---|---|---|---|---|---|
| **In EUR millions** | **9M 2018** | **9M 2017** | **9M 2018** | **9M 2017** | **9M 2018** | **9M 2017** | **9M 2018** | **9M 2017**[1)] |
| Gross rental income and income from the sale of properties | 223.9 | 219.8 | 76.4 | - | 0.1 | 0.8 | 300,4 | 220.6 |
| – of which gross rental income | 205.1 | 190.3 | 53.2 | - | 0.1 | 0.1 | 258,5 | 190.4 |
| – of which income from disposals | 18.8 | 29.5 | 23.2 | - | 0 | 0.7 | 42,0 | 30.2 |
| – of which income from brokerage | 0 | 0 | 0 | - | 0 | 0 | 0 | 0 |
| Change in the value of investment properties | 220.8 | 37.0 | 40.9 | - | 0 | 0 | 261,7 | 37.0 |
| **Earnings before interest and taxes (EBIT)** | **280.8** | **98.1** | **72.1** | **-** | **-0.1** | **-0.2** | **352,8** | **98.0** |
| Income from investments accounted for using the at-equity method | 0 | 0 | 0 | - | 0 | 0 | 0 | 0 |
| **Financial result** | **-108.6** | **-65.3** | **-0.3** | **-** | **0** | **0** | **-108,9** | **-65.3** |
| **Earnings before taxes (EBT)** | **172.2** | **32.8** | **71.8** | **-** | **-0.1** | **-0.2** | **243,9** | **32.7** |

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

## Funds from operations (FFO I) more than doubled

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

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

| **In EUR millions** | | **9M 2018** | **9M 2017** |
|---|---|---|---|
| **Consolidated net profit** | | **164.6** | **24.0** |
| of which from continuing operations | | **164.3** | **11.5** |
| + | Financial result | 108.9 | 69.8 |
| | of which from continuing operations | 108.9 | 65.3 |
| + | Income taxes | 79.6 | 26.4 |
| | of which from continuing operations | 79.6 | 21.2 |
| + | Depreciation and amortisation | 0.9 | 0.8 |
| | of which from continuing operations | 0.9 | 0.4 |
| – | Income from measurement of investment properties | 261.7 | 37.0 |
| | of which from continuing operations | 261.7 | 37.0 |
| – | Income from investments accounted for using the at-equity method | 0.3 | 0.2 |
| | of which from continuing operations | 0.0 | 0.0 |
| **EBITDA IFRS (continuing and discontinued operations)** | | **92.0** | **83.8** |
| +/– | Non-recurring and extraordinary items | 27.2 | 11.9 |
| **Adjusted EBITDA** | | **119.2** | **95.7** |
| – | Interest expense FFO | 51.7 | 53.3 |
| – | Current income taxes | 1.8 | 0.9 |
| + | Capitalisable maintenance measures | 0.0 | 6.7 |
| – | Earnings before interest and taxes from the sale of properties, discontinued operations and minority interests | 10.8 | 21.1 |
| **FFO I** | | **54.9** | **27.1** |
| Number of shares (basic)[1] | | 67,284,095 | 68,429,148 |
| FFO I per share (basic) | | 0.82 | 0.40 |
| Number of shares (diluted)[2] | | 78,909,694 | 80,644,473 |
| FFO I per share (diluted) | | 0.70 | 0.34 |

[1] 55,587,016 shares as at balance sheet date (previous year: 56,762,482) plus 11,697,079 shares from assumed conversion of mandatory convertible bonds (previous year: 11,666,666) which are considered as equity.
[2] Plus 11,625,599 shares from assumed conversion of all other convertible bonds with entitlement to conversion (previous year: 12,215,325).

Non-recurring and extraordinary items are structured as follows:

| Non-recurring and extraordinary items<br>In EUR millions | 9M 2018 | 9M 2017 |
|---|---|---|
| Non-cash income/expenses and one-off payments | 4.9 | 1.8 |
| Costs of acquisition/integration | 13.6 | 1.2 |
| Optimisation of business model, structuring | 8.7 | 8.9 |
| **Total non-recurring and extraordinary items** | **27.2** | **11.9** |

The FFO interest charge is derived as follows:

| Interest expense FFO<br>In EUR millions | 9M 2018 | 9M 2017 |
|---|---|---|
| Interest income | 12.6 | 2.2 |
| Interest expenses | -121.5 | -72.0 |
| **Total interest income (continuing and discontinued operations)** | **-108.9** | **-69.8** |
| **Adjustments** | | |
| Interest expenses from the sale of properties | 0.0 | 3.7 |
| Prepayment compensation and provision costs | 42.8 | 4.4 |
| Effects of measurement of primary financial instruments | 16.5 | 6.5 |
| Other adjustments | -2.1 | 1.9 |
| **Interest expenses FFO** | **51.7** | **53.3** |

Calculated this way, FFO I for the first nine months of 2018 amounted to EUR 54.9 million. ADLER in its previous structure contributed EUR 39.8 million and BCP contributed EUR 15.1 million. Compared to the same period of the previous year (EUR 27.1 million), FFO I has more than doubled.

Calculated on an undiluted basis (shares issued less treasury shares plus shares arising from conversion of the mandatory convertible bond allocated to share capital), FFO I per share amounted to EUR 0.82 as at 30 September 2018. On a diluted basis (shares issued less treasury shares plus shares arising from conversion of the mandatory convertible bond allocated to share capital, plus shares from the assumed conversion of the other convertible bonds to the extent that they are already convertible), FFO I per share came to EUR 0.70.

## NET ASSETS

| In EUR millions | 30.09.2018 | as percentage of total assets | 31.12.2017 | as percentage of total assets |
|---|---|---|---|---|
| **Non-current assets** | **5,281.1** | **92.9** | **3,125.5** | **82.7** |
| – of which investments properties | 4,996.3 | 89.0 | 3,018.5 | 79.9 |
| **Current assets** | **380.4** | **6.8** | **629.9** | **16.7** |
| – of which inventories | 32.8 | 0.6 | 3.0 | 0.1 |
| – of which cash and cash equivalent investments | 76.5 | 1.4 | 368.2 | 9.7 |
| **Non-current assets held for sale** | **15.7** | **0.3** | **23.6** | **0.6** |
| **Assets** | **5,614.2** | **100.0** | **3,779.0** | **100.0** |
| **Equity** | **1,409.6** | **25.2** | **1,037.5** | **27.5** |
| – of which capital stock | 55.6 | 1.0 | 56.1 | 1.5 |
| – of which capital reserve | 356.6 | 6.4 | 350.2 | 9.3 |
| – of which net retained profit | 670.3 | 12.0 | 555.4 | 14.7 |
| – of which non-controlling interests | 329.7 | 5.9 | 76.9 | 2.0 |
| **Non-current liabilities** | **3,950.0** | **70.3** | **2,363.2** | **62.5** |
| – of which liabilities from convertible bonds | 116.4 | 2.1 | 119.7 | 3.2 |
| – of which liabilities from bonds | 1,962.1 | 34.8 | 1,277.6 | 33.8 |
| – of which financial liabilities to banks | 1,473.9 | 26.3 | 749.2 | 19.8 |
| **Current liabilities** | **254.6** | **4.5** | **377.5** | **10.0** |
| – of which financial liabilities to banks | 132.5 | 2.4 | 278.7 | 7.4 |
| **Liabilities held for sale** | **0.0** | **0.0** | **0.8** | **0.0** |
| **Equity and liabilities** | **5,614.2** | **100.0** | **3,779.0** | **100.0** |

Overall, over the course of the first nine months of 2018, ADLER's balance sheet and structure has changed significantly. This is partly due to the fact that BCP has been included in the consolidated financial statements since its acquisition in April. However, it was also due to the fact that the refinancing of outstanding promissory note loans completed in the first quarter of 2018, the new issuing of the 2018/23/26 corporate bonds and the associated replacement of the short-term bridge loan arranged for the acquisition of BCP have left their mark. Moreover, additional real estate has been acquired to a minor degree. As at 30 September 2018, ADLER reported assets of EUR 5,614.2 million, 48.6 percent more than at the end of the previous year (EUR 3,779.0 million).

### Improvement in non-current assets

The increase in the consolidated balance sheet is largely attributable to the increase in the value of non-current assets and in particular in investment properties, which were recognised at EUR 4,996.3 million at the end of the third quarter of the year. This was EUR 1,977.8 million more than at the end of the previous year (EUR 3,018.5 million). EUR 1,616.6 million of this increase was attributable to the first-time consolidation of BCP, EUR 261.7 million to the fair value adjustments of ADLER's existing real estate in its former structure and EUR 24.2 million to newly acquired properties and land.

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

Current assets were recognised at EUR 380.4 million at the end of the third quarter of the year, EUR 249.5 million less than at the end of the previous year (EUR 629.9 million). The decline resulted mainly from the fact that cash and cash equivalents were used for the planned purpose of debt redemption. Current assets of ADLER in its former structure included a large volume of cash and cash equivalents intended for the repayment of promissory note loans as at the end of 2017, which were used accordingly over the course of the 2018 financial year. As a result, cash and cash equivalents declined from EUR 368.2 million at the beginning of the year to EUR 76.5 million at the reporting date.

Inventories primarily comprise properties from BCP project developments to the extent that they are expected to be sold to non-group companies. As far as properties from BCP project developments are expected to be held, they are shown under investment properties at market value.

## Increase in shareholders' equity

Shareholders' equity amounted to EUR 1,409.6 million at the end of the third quarter of 2018. This was 35.9 percent higher than at the end of the previous year (EUR 1,037.5 million) with contributions from the positive net retained profit and the non-controlling interests which increased by EUR 241.0 million due to the first-time consolidation of BCP. As a result of the end of the share buyback programme in March 2018, capital stock – offset against the number of conversions – was EUR 0.5 million lower than at the end of the previous year. The shareholders' equity ratio reached 25.2 percent as at the end of the first nine months of the year.

## Non-current liabilities increased, current liabilities decreased

Non-current liabilities amounted to EUR 3,950.0 million as at 30 September 2018, a significant increase compared to the figure at the end of 2017 (EUR 2,363.2 million). This was partly due to the fact that BCP's non-current liabilities, which accounted for EUR 902.0 in total at the balance sheet date, were included in the consolidated financial statements. ADLER's non-current liabilities in its former structure have also increased. Borrowings of EUR 800.0 million in connection with the 2018/2023 and 2018/2026 corporate bonds, respectively, were offset by the repayment of the 2013/2018 corporate bond in the amount of EUR 35.0 million and the pro rata redemption of the 2015/2020 corporate bond in the amount of EUR 200.0 million.

Current liabilities significantly decreased in the first nine months of 2018. At the end of the third quarter of 2018, they were recognised at EUR 254.6 million, EUR 122.9 million less than at the end of the previous year (EUR 377.5 million). BCP's current liabilities accounted for EUR 150.1 million at the balance sheet date. ADLER's current liabilities in its previous structure decreased by EUR 273.0 million, primarily because promissory note loans which were reclassified to current liabilities at the end of 2017 have since been repaid.

Net financial liabilities amounted to EUR 3,658.4 million at the end of the third quarter of 2018, up EUR 1,552.2 million from the figure at the end of the previous year (EUR 2,106.2 million). This can be attributed primarily to the financing requirements for the acquisition of BCP, the prepayment penalties paid for the early repayment of the different financial instruments and the consolidation of BCP.

## Temporary increase in loan to value (LTV)

From the first quarter of 2018, ADLER has been calculating LTV as the ratio of financial liabilities (adjusted for cash and cash equivalents, non-current assets held for sale, purchase price receivables and liabilities held for sale) to ADLER's total property assets, as is customary in the industry. LTV, according to this calculation, was 66.3 percent at the end of the third quarter of the year, 6.9 percentage points higher than at the end of 2017, assuming that the convertible bonds outstanding at the reporting date were converted into shares. The acquisition of BCP had a significant influence on the change. LTV would also have improved if ADLER had remained in its previous structure.

A temporary negative effect also came from the share buy-back programme. If LTV was adjusted for the effects of the share buy-back programme based on the acquisition values that have been recorded in the balance sheet, it would have stood at 65.6 percent (excluding convertibles) at the end of the third quarter of 2018.

| | **In EUR millions** | **30.09.2018** | **31.12.2017** |
|---|---|---|---|
| Convertible bonds | | 121.5 | 126.2 |
| + | Bonds | 2,007.1 | 1,320.3 |
| + | Financial liabilities to banks | 1,606.4 | 1,027.9 |
| – | Cash and cash equivalents | 76.5 | 368.2 |
| **=** | **Net financial liabilities** | **3,658.4** | **2,106.2** |
| – | Non-current assets held for sale, purchase price receivables and advance payments minus liabilities associated with assets held for sale | 204.1 | 184.5 |
| **=** | **Adjusted net financial liabilities** | **3,454.3** | **1,921.7** |
| Investment properties | | 4,996.3 | 3,018.5 |
| + | Inventories | 32.8 | 3.0 |
| + | Investments in real estate companies | 0.1 | 0.0 |
| **=** | **Gross asset value** | **5,029.2** | **3,021.5** |
| LTV II including convertible bonds in % | | 68.7 | 63.6 |
| LTV II excluding convertible bonds in % | | 66.3 | 59.4 |

The weighted average cost of debt (WACD) for all of the ADLER Group's liabilities amounted to 2.24 percent as at the end of the third quarter of the year, as compared to 2.72 percent at the end of the previous year. A positive effect resulted from the extensive repayment of promissory note loans with higher interest rates, the prompt repayment of the 2013/2018 corporate bond and the early repayment of EUR 200.0 million of the 2015/20 corporate bond. An additional positive effect resulted from the fact that BCP's liabilities have, on average, a slightly lower interest rate than ADLER's liabilities in its earlier structure.

## Further increase in net asset value (EPRA NAV)

Net asset value (EPRA NAV), which is calculated in accordance with the guidelines issued by the European Public Real Estate Association (EPRA), reached EUR 1,446.6 million at the end of the third quarter of 2018. It is therefore EUR 239.4 million above the figure at the end of 2017 (EUR 1,207.2 million). This corresponds to an increase of 19.8 percent, and is attributable to the increase in shareholders' equity and the increase in deferred tax liabilities on investment properties.

Based on the total number of existing shares in circulation at the balance sheet date less treasury shares plus the shares resulting from the assumed conversion of the mandatory convertible bond counted as shareholders' equity, undiluted EPRA NAV per share amounted to EUR 21.50 as at 30 September 2018 (end of 2017: EUR 17.80).

Diluted EPRA NAV per share amounted to EUR 19.86 at the end of the third quarter of 2018 (end of 2017: EUR 16.64).

| **In EUR millions** | **30.09.2018** | **31.12.2017** |
|---|---|---|
| **Equity** | **1,409.6** | **1,037.5** |
| Non-controlling interests | -329.6 | -76.9 |
| **Equity attributable to ADLER shareholders** | **1,080.0** | **960.6** |
| Deferred tax liabilities on investment properties | 413.2 | 235.5 |
| Goodwill from deferred taxes on investment properties | -58.0 | 0.0 |
| Difference between fair values and carrying amounts of inventory properties | 7.0 | 7.0 |
| Fair value of derivative financial instruments | 6.4 | 5.9 |
| Deferred taxes for derivative financial instruments | -1.9 | -1.8 |
| **EPRA NAV** | **1,446.6** | **1,207.2** |
| Goodwill from synergies | -111,2 | -101.2 |
| **Adjusted EPRA NAV** | **1,335.4** | **1,105.0** |
| **Diluted EPRA NAV** | **1,567.2** | **1,331.7** |
| **Adjusted diluted EPRA NAV** | **1,456.0** | **1,230.5** |
| Number of shares, basic[1)] | 67,284,095 | 67,822,504 |
| **EPRA NAV per share (basic) in EUR** | **21.50** | **17.80** |
| Number of shares, diluted[2)] | 78,909,694 | 80,035,551 |
| **EPRA NAV per share (diluted) in EUR** | **19.86** | **16.64** |
| **Adjusted EPRA NAV per share (diluted) in EUR** | **18.45** | **15.37** |

[1)] 55,587,016 shares as at balance sheet date (previous year: 56,155,838) plus 11,697,079 shares from assumed conversion of mandatory convertible bonds (previous year: 11,666,666), which are considered as equity
[2)] Plus 11,625,599 shares from assumed conversion of all other convertible bonds with entitlement to conversion (previous year: 12,213,047)

## FINANCIAL POSITION

| In EUR millions | 9M 2018 | 9M 2017 |
|---|---|---|
| Cash flow from operating activities | 94.8 | 0.9 |
| – of which from continuing operations | 94.5 | 41.2 |
| Cash flow from investing activities | -591.6 | 321.0 |
| – of which from continuing operations | -591.6 | 321.0 |
| Cash flow from financing activities | 205.2 | -329.2 |
| – of which from continuing operations | 205.2 | -341.2 |
| Cash-effective change in cash and cash equivalents | -291.6 | -7.3 |
| Non-cash-effective change in cash and cash equivalents | -0.1 | 0.0 |
| Cash and cash equivalents at beginning of period | 368.2 | 123.9 |
| Cash and cash equivalents at end of period | 76.5 | 116.6 |

Cash flow from operating activities from continuing operations came to EUR 94.5 million in the first nine months of 2018. In the same period of the previous year, cash flow from continuing operations amounted to EUR 41.2 million. This increase reflects the qualitative improvement in the operating business, which is partly due to the internalisation of property management activities, as well as the consolidation of BCP. From the date of its first-time consolidation, BCP achieved a positive cash flow from operating activities of EUR 32.7 million.

There was an outflow of funds from investing activities of EUR 591.6 million in the first nine months of 2018 relating primarily to the acquisition of BCP. The cash inflow of EUR 321.0 million in the corresponding period of the previous year was attributable mainly to the sale of the shares held in conwert Immobilien Invest SE.

Financing activities resulted in an inflow of funds amounting to EUR 205.2 million in the first nine months of 2018. This figure resulted primarily from the balance of the inflow of EUR 800.0 million from the issuance of the 2018/2023 and 2018/2026 corporate bonds and the cash outflow to repay the outstanding promissory note loans, the different corporate bonds and the short-term bridging loan which was taken out for the acquisition of BCP.

As at 30 September 2018, the ADLER Group had financial funds (cash and cash equivalents) of EUR 76.5 million (previous year: EUR 116.6 million). EUR 32.7 million of this is attributable to BCP (thereof restricted: EUR 6.6 million).

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

## OVERALL SUMMARY OF BUSINESS PERFORMANCE AND POSITION OF GROUP

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

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

In internal meetings with the regional manager and colleagues from the branch all relevant activities are discussed and coordinated: Measures for promoting rentals, standardising processes or how to handle new tools or requirements of the Group-wide standardised IT system.

# /// CONSOLIDATED BALANCE SHEET

(IFRS) as at 30 September 2018

| In EUR '000 | 30.09.2018 | 31.12.2017 |
|---|---|---|
| **Assets** | **5,614,164** | **3,778,967** |
| **Non-current assets** | **5,218,118** | **3,125,490** |
| Goodwill | 169,164 | 101,198 |
| Intangible assets | 648 | 567 |
| Property, plant and equipment | 6,383 | 4,948 |
| Investment properties | 4,996,345 | 3,018,518 |
| Loans to associated companies | 0 | 0 |
| Investments in associated companies | 108 | 25 |
| Other financial investments | 39,969 | 28 |
| Other non-current assets | 4,633 | 205 |
| Deferred tax assets | 868 | 0 |
| **Current assets** | **380,383** | **629,895** |
| Inventories | 32,813 | 2,978 |
| Trade receivables | 29,664 | 10,717 |
| Income tax receivables | 5,138 | 4,459 |
| Other current assets | 236,243 | 243,508 |
| Cash and cash equivalents | 76,525 | 368,233 |
| **Non-current assets held for sale** | **15,663** | **23,582** |

| In EUR '000 | 30.09.2018 | 31.12.2017 |
|---|---|---|
| **Equity and liabilities** | **5,614,164** | **3,778,967** |
| **Shareholders' equity** | **1,409,641** | **1,037,500** |
| Capital stock | 58,170 | 57,548 |
| Treasury shares | -2,583 | -1,392 |
| | 55,587 | 56,156 |
| Capital reserve | 356,557 | 350,203 |
| Retained earnings | -2,574 | -1,310 |
| Currency translation reserve | 88 | 86 |
| Net retained profit | 670,329 | 555,442 |
| Equity attributable to owners of the parent company | 1,079,987 | 960,576 |
| Non-controlling interests | 329,654 | 76,924 |
| **Non-current liabilities** | **3,949,895** | **2,363,126** |
| Pension provisions | 3,739 | 3,989 |
| Deferred tax liabilities | 340,269 | 164,571 |
| Other provisions | 5,357 | 1,664 |
| Liabilities from convertible bonds | 116,371 | 119,731 |
| Liabilities from bonds | 1,962,076 | 1,277,640 |
| Financial liabilities to banks | 1,473,859 | 749,188 |
| Other non-current liabilities | 48,224 | 46,344 |
| **Current liabilities** | **254,616** | **377,512** |
| Other provisions | 58 | 46 |
| Income tax liabilities | 13,393 | 2,516 |
| Liabilities from convertible bonds | 5,080 | 6,505 |
| Liabilities from bonds | 44,987 | 42,679 |
| Financial liabilities to banks | 132,547 | 278,676 |
| Trade payables | 31,256 | 29,125 |
| Other current liabilities | 27,295 | 17,964 |
| **Liabilities held for sale** | **12** | **829** |

# /// CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

| **In EUR '000** | **9M 2018** | **9M 2017[1)]** | **Q3 2018** | **Q3 2017[1)]** |
|---|---|---|---|---|
| Gross rental income | 258,453 | 190,409 | 91,741 | 63,130 |
| Expenses from property lettings | -106,573 | -99,414 | -36,409 | -31,831 |
| **Earnings from property lettings** | **151,880** | **90,995** | **55,332** | **31,299** |
| Income from the sale of properties | 41,953 | 30,169 | 17,571 | 16,213 |
| Expenses from the sale of properties | -37,657 | -29,553 | -16,394 | -15,930 |
| **Earnings from the sale of properties** | **4,296** | **616** | **1,177** | **283** |
| Personnel expenses | -23,072 | -14,501 | -9,223 | -5,291 |
| Other operating income | 6,370 | 5,263 | 2,099 | 392 |
| Other operating expenses | -47,454 | -20,940 | -12,852 | -6,836 |
| Income from fair value adjustments of investment properties | 261,699 | 36,957 | 115,088 | 1,549 |
| Depreciation and amortisation | -883 | -434 | -362 | -167 |
| **Earnings before interest and taxes (EBIT)** | **352,836** | **97,955** | **151,259** | **21,228** |
| Financial income | 12,193 | 2,022 | 7,601 | 391 |
| Financial costs | -121,067 | -67,360 | -24,596 | -20,112 |
| Net income from at-equity valued investment associates | 0 | 0 | 0 | 0 |
| **Earnings before taxes (EBT)** | **243,962** | **32,616** | **134,264** | **1,506** |
| Income taxes | -79,569 | -21,196 | -35,131 | -5,759 |
| **Consolidated net profit from continuing operations** | **164,393** | **11,420** | **99,133** | **-4,253** |
| Earnings after taxes of discontinued operations | 263 | 12,548 | 0 | 6,550 |
| **Consolidated net profit** | **164,656** | **23,968** | **99,133** | **2,297** |
| Actuarial gains/losses before taxes | 0 | 0 | 0 | 0 |
| Deferred taxes on actuarial gains/losses | 0 | 0 | 0 | 0 |
| **OCI gains/losses not reclassifiable into profit or loss** | **0** | **0** | **0** | **0** |
| Gains/losses from currency translation | 2 | -3 | 0 | -2 |
| Change in value of interests in companies accounted for under at-equity | 0 | 1,589 | 0 | 0 |
| Capital stock OCI | -32 | 0 | 0 | 0 |
| Deferred taxes OCI | 10 | 0 | 0 | 0 |
| Change in value of financial assets at fair value | -161 | 0 | 65 | 0 |
| **OCI gains/losses reclassifiable into profit or loss** | **-181** | **1,586** | **65** | **-2** |
| **Total comprehensive income** | **164,475** | **25,554** | **99,198** | **2,295** |

| In EUR '000 | 9M 2018 | 9M 2017[1)] | Q3 2018 | Q3 2017[1)] |
|---|---|---|---|---|
| **Carry-over total comprehensive income** | **164,475** | **25,554** | **99,198** | **2,295** |
| **Net profit from continuing operations:** | | | | |
| Owners of the parent company | 131,226 | 7,648 | 77,927 | -4,805 |
| Non-controlling interests | 33,167 | 3,772 | 21,206 | 552 |
| **Consolidated net profit attributable to:** | | | | |
| Owners of the parent company | 131,489 | 18,642 | 77,927 | 1,035 |
| Non-controlling interests | 33,167 | 5,326 | 21,206 | 1,262 |
| **Total comprehensive income attributable to:** | | | | |
| Owners of the parent company | 131,308 | 20,228 | 77,992 | 1,033 |
| Non-controlling interests | 33,167 | 5,326 | 21,206 | 1,262 |
| Earnings per share, basic in EUR (consolidated net profit from continuing operations) | 1.96 | 0.12 | 1.17 | -0.08 |
| Earnings per share, diluted in EUR (consolidated net profit from continuing operations) | 1.73 | 0.14 | 1.01 | -0.06 |
| Earnings per share, basic in EUR (consolidated net profit) | 1.97 | 0.28 | 1.17 | 0.01 |
| Earnings per share, diluted in EUR (consolidated net profit) | 1.73 | 0.29 | 1.01 | 0.02 |

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

# /// CONSOLIDATED STATEMENT OF CASH FLOWS

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

| In EUR '000 | | 9M 2018 | 9M 2017 |
|---|---|---|---|
| Earnings before interest and taxes (EBIT) – continuing and discontinued operations | | 352,836 | 119,960 |
| + | Depreciation and amortisation | 883 | 761 |
| –/+ | Net income from fair value adjustments of investment properties | -261,699 | -36,957 |
| –/+ | Non-cash income/expenses | 7,373 | 1,996 |
| –/+ | Changes in provisions and accrued liabilities | 1 | -1,539 |
| –/+ | Increase/decrease in inventories, trade receivables and other assets not attributable to investment or financing activities | -946 | -15,341 |
| –/+ | Decrease/increase in trade payables and other liabilities not attributable to investment or financing activities | -3,345 | -12,940 |
| + | Interest received | 1,048 | 2,415 |
| + | Dividends received | 263 | 223 |
| +/– | Tax payments | -2,376 | -4,329 |
| = | **Operating cash flow before de-/reinvestment into inventories (previous year: in the trading portfolio)** | **95,930** | **54,249** |
| –/+ | Increase/decrease in inventories (previous year: commercial properties) | -1,142 | -53,338 |
| = | **Net cash flow from operating activities** | **94,788** | **911** |
| | thereof continuing operations | 94,525 | 41,151 |
| | thereof discontinued operations | 263 | -40,240 |
| – | Acquisition of subsidiaries, net of cash acquired | -472,278 | -59,897 |
| + | Disposal of subsidiaries, net of cash disposed | 17,107 | 0 |
| – | Purchase of investment properties | -117,245 | -57,937 |
| + | Disposal of investment properties, net of cash disposed | 29,419 | 29,264 |
| – | Purchase of property, plant and equipment and intangible assets | -2,856 | -1,507 |
| + | Disposal of property, plant and equipment and intangible assets | 0 | 56 |
| + | Proceeds from deinvestments of financial assets less costs to sell | 14 | 416,260 |
| – | Investments in financial assets | -35,000 | -144 |
| + | Payments from short-term deposits | 2,313 | 19,500 |
| – | Payments into short-term deposits | -13,088 | -24,584 |
| = | **Net cash flows from investing activities** | **-591,614** | **321,011** |
| | thereof continuing operations | -591,614 | 321,005 |
| | thereof discontinued operations | 0 | 6 |
| – | Payments for acquisition of treasury shares including acquisition costs | -15,604 | -10,643 |
| – | Transactions with non-controlling interests | -6,055 | -511 |
| – | Dividends paid to owners of the Company | -2,204 | 0 |
| + | Proceeds from issue of bonds | 791,151 | 156,545 |
| – | Repayment of bonds | -249,165 | -142,100 |
| – | Payments for acquisition and repayment of convertible bonds | 0 | -35,178 |
| – | Repayment from issuing debt | -20,783 | -2,154 |
| – | Interest payments | -89,334 | -61,823 |
| + | Proceeds from bank loans | 686,057 | 114,459 |
| – | Repayment of bank loans | -888,823 | -347,819 |
| = | **Net cash flows from financing activities** | **205,240** | **-329,224** |
| | of which from continuing operations | 205,240 | -341,218 |
| | of which from discontinued operations | 0 | 11,994 |

| In EUR '000 | | 9M 2018 | 9M 2017 |
|---|---|---|---|
| | Reconciliation to Consolidated Balance Sheet | | |
| | **Cash and cash equivalents at beginning of periods** | **368,233** | **123,911** |
| | Non-cash changes in cash and cash equivalents | -122 | 0 |
| | Net cash flow from operating activities | 94,788 | 911 |
| | Net cash flow from investing activities | -591,614 | 321,011 |
| | Net cash flow from financing activities | 205,240 | -329,224 |
| = | **Cash and cash equivalents at end of periods** | **76,525** | **116,609** |

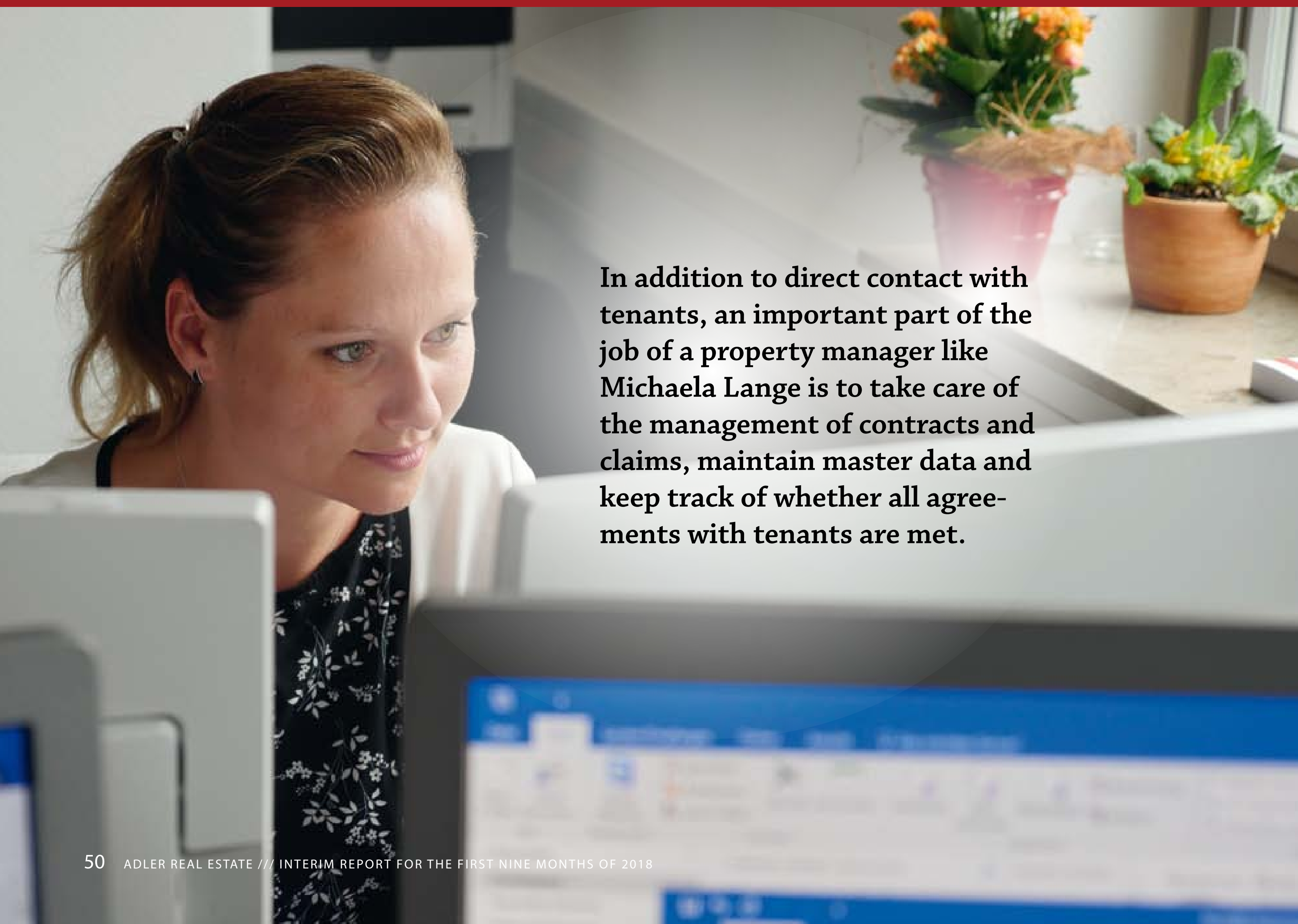
# /// CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

| In EUR '000 | Capital stock | Treasury shares | Capital reserves |
|---|---|---|---|
| **As at 1 January 2017** | **47,702** | **0** | **352,105** |
| Consolidated net profit | 0 | 0 | 0 |
| Other comprehensive income (OCI) – reclassifiable | 0 | 0 | 0 |
| Dividend payment to shareholders | 0 | 0 | 0 |
| Change in scope of consolidation | 0 | 0 | 0 |
| Increase/decrease in shareholding with no change in status | 0 | 0 | 0 |
| Capital increase from company funds | 4,773 | 0 | -4,773 |
| Acquisition of company shares | 0 | -783 | 0 |
| Convertible bond acquisition | 0 | 0 | -22,883 |
| Conversion of convertible bonds | 5,070 | 0 | 4,235 |
| **As at 30 September 2017** | **57,545** | **-783** | **328,684** |
| | | | |
| **As at 1 January 2018** | **57,548** | **-1,392** | **350,203** |
| Consolidated net profit | 0 | -1 | 0 |
| Other comprehensive income (OCI) – reclassifiable | 0 | 0 | 0 |
| Other comprehensive income (OCI) – non-reclassifiable | 0 | 0 | 0 |
| IFRS 9 conversion | 0 | 0 | 0 |
| Increase/decrease in shareholding with no change in status | 0 | 0 | 0 |
| Change in scope of consolidation | 0 | 0 | 0 |
| Dividend payment to shareholders | 0 | 0 | 0 |
| Acquisition of treasury shares | 0 | -1,190 | 0 |
| Conversion of convertible bonds | 622 | 0 | 6,354 |
| **As at 30 September 2018** | **58,170** | **-2,583** | **356.557** |

| Retained earnings | Currency translation reserve | Net retained profit | Equity attributable to the owners of the parent company | Non-controlling interests | Total equity |
|---:|---:|---:|---:|---:|---:|
| **-2,510** | **90** | **445,786** | **843,173** | **71,048** | **914,222** |
| 0 | 0 | 18,640 | 18,640 | 5,327 | 23,967 |
| 1,589 | -3 | 0 | 1,586 | 0 | 1,586 |
| 0 | 0 | 0 | 0 | -511 | -511 |
| 0 | 0 | 0 | 0 | 3,665 | 3,665 |
| 0 | 0 | 0 | 0 | -488 | -488 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| 0 | 0 | -9,850 | -10,633 | 0 | -10,633 |
| 0 | 0 | 0 | -22,883 | 0 | -22,883 |
| 0 | 0 | 0 | 9,305 | 442 | 9,747 |
| **-921** | **87** | **454,576** | **839,188** | **79,483** | **918,671** |
| **-1,310** | **86** | **555,442** | **960,576** | **76,924** | **1,037,500** |
| 0 | 0 | 131,489 | 131,488 | 33,167 | 164,655 |
| -183 | 2 | 0 | -181 | 0 | -181 |
| 0 | 0 | 0 | 0 | 0 | 0 |
| -1,081 | 0 | 0 | -1,081 | -38 | -1,119 |
| 0 | 0 | 0 | 0 | -329 | -329 |
| 0 | 0 | 0 | 0 | 225,657 | 225,657 |
| 0 | 0 | -2,204 | -2,204 | -5,727 | -7,930 |
| 0 | 0 | -14,399 | -15.589 | 0 | -15,589 |
| 0 | 0 | 0 | 6,976 | 0 | 6,976 |
| **-2,574** | **88** | **670.329** | **1,079,987** | **329,654** | **1,409,641** |

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



In addition to direct contact with tenants, an important part of the job of a property manager like Michaela Lange is to take care of the management of contracts and claims, maintain master data and keep track of whether all agreements with tenants are met.

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

## GENERAL INFORMATION

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

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

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

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

## BASIS OF ACCOUNTING

### Basis of preparation

The interim consolidated financial statements as at 30 September 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS), which are mandatory in the European Union. The consolidated financial statements, comprising the consolidated balance sheet, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement and selected note disclosures, also take particular account of the requirements of IAS 34 “Interim Financial Reporting”.

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

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

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

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

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

The Group applied the following new and revised IFRS standards and interpretations in the 2018 financial year:

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

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

### IFRS 9 – Financial Instruments

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

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

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

**IFRS 15 – Revenue from Contracts with Customers**

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

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

In regards to revenue generated from the sale of properties, IFRS 15 did prompt any changes, as the respective contracts only provide for this single performance obligation and the date of revenue recognition is therefore specified. Through Brack Capital Properties N.V. (BCP), the company acquired in the period under report, ADLER also generated income from sales of new-builds as part of project developments; revenue recognitions continue to be based on the period in line with project progress. IFRS 15 also resulted in no changes to revenue from other property management; revenue recognition continues to be based on the period.

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

## BASIS OF CONSOLIDATION

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

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

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

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

## SCOPE OF CONSOLIDATION AND BUSINESS COMBINATIONS

Including the parent company, the scope of consolidation includes a total of 226 companies (31 December 2017: 111) that are fully consolidated and five companies that are recognised at equity (31 December 2017: 2).

In the first quarter, the additions result from three newly founded companies that are expected to act as intermediate holding companies in the Rental segment. Furthermore, in the second quarter ADLER also acquired shares (94.9 percent) in a property company (TGA Immobilien Erwerb 10 GmbH). The company does not operate as a business operation as defined in IFRS 3. Thus, this acquired company has been presented as a direct real estate acquisition. The costs of acquiring the property company have been allocated to the individual identifiable assets and liabilities based on their fair values. Investment properties of EUR 8,604k were acquired via this property company. These measures did not have any material implications for the Group’s net assets, financial position or results of operations.

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

In the third quarter, two companies were founded that are expected to serve as intermediate holding companies in the Rental segment. An inactive company (Magnus Inkasso GmbH) was merged into another service company in the scope of consolidation. These measures did not have any material implications for the Group's net assets, financial position or results of operations.

## Acquisition of Brack Capital Properties N.V.

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

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

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

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

The net outflow of cash, net of cash acquired, amounted to EUR 472,278k.

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

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

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

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

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

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

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

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

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

The costs associated with the business combination in the amount of EUR 12,525k were recognised through profit or loss under other operating expenses.

## SEGMENT REPORTING

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

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

BCP owns a property portfolio of 11,940 residential units in Germany with a focus on larger cities in Germany. BCP also contributes around 300,000 square metres of commercial space and project developments in the centre of Düsseldorf and Aachen for around 2,000 new residential units, which are expected to be added to the BCP portfolio after completion if they have not yet been sold to non-group companies up to the date of preparing the financial statements.

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

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

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

| ADLER Group | Rental | | BCP | | Other | | Group | |
|---|---|---|---|---|---|---|---|---|
| In EUR '000 – 9 months/9M | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017[1] |
| Gross rental income and income from the sale of properties | 223,890 | 219,775 | 76,376 | - | 140 | 802 | 300,406 | 220,577 |
| – of which gross rental income | 205,123 | 190,269 | 53,190 | - | 140 | 140 | 258,453 | 190,409 |
| – of which income from sales | 18,767 | 29,506 | 23,186 | - | 0 | 662 | 41,953 | 30,168 |
| – of which income from brokerage | 0 | 0 | 0 | - | 0 | 0 | 0 | 0 |
| Change in the value of investment property | 220,782 | 36,957 | 40,917 | - | 0 | 0 | 261,699 | 36,957 |
| **EBIT** | **280,901** | **98,126** | **72,053** | **-** | **-118** | **-171** | **352,836** | **97,955** |
| Income from investments accounted for using the equity method | 0 | 0 | 0 | - | 0 | 0 | 0 | 0 |
| **Financial result** | **-108,682** | **-65,357** | **-227** | **-** | **36** | **18** | **-108,874** | **-65,339** |
| **Earnings before taxes (EBT)** | **172,220** | **32,768** | **71,826** | **-** | **-83** | **-153** | **243,962** | **32,615** |

[1] Adjusted statement due to sale of Trading segment

Revenues in the Rental segment amounted to EUR 223,890k (EUR 219,775k). Gross rental income increased from EUR 190,269k to EUR 205,123k. Changes in the value of investment property amounted to EUR 220,782k (EUR 36,957k) in the first nine months of the year. Nine-month EBIT in the Rental segment amounted to EUR 280,901k (EUR 98,126k), while earnings before taxes came to EUR 172,220k (EUR 32,768k).

Revenues in the BCP segment amounted to EUR 76,376k, gross rental income to EUR 53,190k. Changes in the value of investment property amounted to EUR 40,917k. EBIT in the BCP segment amounted to EUR 72,053k, while earnings before taxes came to EUR 71,826k.

The EBIT and earnings before taxes were negatively affected in the first nine months by one-off items. Legal and advisory costs increased by EUR 12,525k due to the acquisition of shares in BCP. In addition, one-off expenses amounted to EUR 37,436k (EUR 2,140k) for the early repayment of promissory note loans with higher interest rates and for the early repayment of bonds in the amount of EUR 8,770k (EUR 3,880k). The bridging loan to finance the acquisition of the shares in BCP that was added in the first quarter resulted in transaction costs in the amount of EUR 9,313k that required immediate recognition as expenses due to early repayment. A prepayment penalty of EUR 536k was incurred for the early repayment.

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

| ADLER Group<br>In EUR '000 – 3 month/Q3 | Rental | | BCP | | Other | | Group | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017[1] |
| Gross rental income and income from the sale of properties | 70,302 | 78,633 | 38,963 | | 47 | 709 | 109,312 | 79,342 |
| – of which gross rental income | 65,041 | 63,083 | 26,653 | - | 47 | 47 | 91,741 | 63,130 |
| – of which income from sales | 5,261 | 15,550 | 12,310 | - | 0 | 662 | 17,571 | 16,212 |
| – of which income from brokerage | 0 | 0 | 0 | - | 0 | 0 | 0 | 0 |
| Change in the value of investment property | 75,279 | 1,549 | 39,809 | - | 0 | 0 | 115,088 | 1,549 |
| **EBIT** | **96,390** | **21,108** | **54,889** | **-** | **-20** | **120** | **151,259** | **21,228** |
| Income from investments accounted for using the equity method | 0 | 0 | 0 | - | 0 | 0 | 0 | 0 |
| **Financial result** | **-18,435** | **-19,729** | **1,428** | **-** | **13** | **7** | **-16,995** | **-19,722** |
| **Earnings before taxes (EBT)** | **77,956** | **1,377** | **56,317** | **-** | **-8** | **127** | **134,264** | **1,505** |

[1] Adjusted statement due to sale of Trading segment

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

| ADLER Group<br>In EUR '000<br>as at 30 September 2018 | Rental | BCP | Other | Consoli-<br>dation | Group |
|---|---|---|---|---|---|
| Segment assets | 3,718,762 | 1,882,920 | 6,785 | -7,050 | 5,601,417 |
| Investments accounted for using the equity method | 25 | 83 | 0 | 0 | 108 |
| **Total segment assets** | **3,718,787** | **1,883,003** | **6,785** | **-7,050** | **5,601,525** |
| Non-current assets held for sale | 0 | 0 | 0 | 0 | 12,639 |
| **Segment liabilities** | **3,152,241** | **1,052,150** | **7,182** | **-7,050** | **4,204,524** |
| **Segment investments** | **96,146** | **13,829** | **0** | **0** | **109,975** |

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

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

## SELECTED NOTES ON THE CONSOLIDATED BALANCE SHEET

### Investment properties

The carrying amount of investment properties amounted to EUR 4,996,345k as at the balance sheet date (31 December 2017: EUR 3,018,518k). This increase was chiefly due to EUR 1,616,552k for the acquisition of BCP, EUR 51,986k for investments in project development properties under construction, EUR 15,566k for the acquisition of an undeveloped site for project development, EUR 8,604k for the acquisition of the property company TGA Immobilien Erwerb 10 GmbH and measurement results of EUR 259,028k. These items were countered by disposals, including IFRS 5 reclassified items, amounting to EUR 7,727k.

### Cash and cash equivalents

Cash and cash equivalents amounted to EUR 76,525k at the balance sheet date, as against EUR 368,233k at the end of the previous year. EUR 11,245k is subject to restraints on disposal (EUR 276,077k). ADLER can dispose of these resources, but they are intended for a special use. As at the end of the 2017 financial year, the amount primarily results from the funds deposited for the repurchase of promissory note loans.

## Non-current assets held for sale

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

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

The other non-current assets held for sale include properties recognised at a value of EUR 3,024k (31 December 2017: EUR 10,943k), for which notarial purchase contracts were available at the balance sheet date. Liabilities relating to the properties sold have accordingly been reported as liabilities held for sale. The disposal of the non-current assets held for sale in the previous year did not have any material impact on earnings, as the assets were already measured at fair value. This corresponded to the sale price for the properties less related expenses.

## Shareholders' equity

The capital stock of ADLER AG amounted to EUR 58,170k as at 30 September 2018 (31 December 2017: EUR 57,548k) and is divided into 58,170,248 no-par ordinary shares (31 December 2017: 57,547,740) with one voting right per share.

Due to the exercising of conversion rights, capital stock increased by EUR 622k and the capital reserve increased by EUR 6,354k.

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

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

Due to the resolution of the Extraordinary General Meeting held on 28 August 2018, a dividend of EUR 2,204k was paid out to ADLER's shareholders.

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

## Liabilities for convertible bonds

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

| In EUR '000 | 30.09.2018 | 31.12.2017 |
|---|---|---|
| 2013/2018 convertible bond | 4,068 | 3,990 |
| 2015/2018 mandatory convertible bond | 125 | 777 |
| 2016/2021 convertible bond | 117,258 | 121,469 |
| **Total** | **121,451** | **126,236** |
| – of which non-current | 116,371 | 119,731 |
| – of which current | 5,080 | 6,505 |

Due to the distribution of a dividend to ADLER's shareholders, the conversion prices and conversion ratios of outstanding convertible bonds have changed as follows:

| Description | Nominal value per unit | Old conversion price | New conversion price | Old conversion ratio | New conversion ratio |
|---|---|---|---|---|---|
| 2013/2018 convertible bond | 3.75 | 3.4091 | 3.4003 | 1.0999 | 1.1028 |
| 2015/2018 mandatory convertible bond | 100,000.00 | 15.0000 | 14.9610 | 6,666.6666 | 6,684.0452 |
| 2016/2021 convertible bond | 13.79 | 12.5364 | 12.5039 | 1.0999 | 1.1028 |

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

## Liabilities for bonds

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

| In EUR´000 | 30.09.2018 | 31.12.2017 |
|---|---|---|
| Bond 2013/2018 | 0 | 36,349 |
| Bond 2015/2020 | 301,779 | 499,992 |
| Bond 2017/2021 | 497,204 | 490,370 |
| Bond 2017/2024 | 298,739 | 293,608 |
| Bond 2018/2023 | 492,344 | 0 |
| Bond 2018/2026 | 295,432 | 0 |
| Bond BCP 2011/2020 (A) | 30,067 | 0 |
| Bond BCP 2013/2024 (B) | 52,216 | 0 |
| Bond BCP 2014/2026 (C) | 39,283 | 0 |
| **Total** | **2,007,064** | **1,320,319** |
| – of which non-current | 1,962,077 | 1,277,640 |
| – of which current | 44,987 | 42,679 |

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

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

As part of the acquisition of BCP, ADLER has acquired liabilities for bonds in three tranches with a total volume of EUR 123.4 million. Tranche A has a term up to 2020 and has a 4.8 percent interest rate. Tranche B has a term up to 2024 and has a 3.29 percent interest rate. Tranche C has a term up to 2026 and has a 3.3 percent interest rate. The interest rate and the amortisation of the three tranches is also linked to the development of the Israeli Consumer Price Index.

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

### Financial liabilities to banks

Non-current financial liabilities to banks amounted to EUR 1,473,859k as at the balance sheet date (31 December 2017: EUR 749,188k). The increase is attributable to an amount of EUR 678,582k for the acquisition of BCP.

Current financial liabilities to banks amounted to EUR 132,547k as at the balance sheet date (31 December 2017: EUR 278,676k). The change compared to the end of the previous year is primarily due to two counter effects. As planned, promissory note loans amounting to EUR 225,550k (nominal) – which were bought back in January and February 2018 – were therefore reclassified from non-current to current financial liabilities as at 31 December 2017. Current financial liabilities increased by EUR 100,462k as a result of the acquisition of BCP.

## SELECTED NOTES ON THE STATEMENT OF COMPREHENSIVE INCOME

### Gross rental income

Gross rental income is structured as follows:

| In EUR '000 | 9M 2018 | 9M 2017 |
|---|---|---|
| Net rental income | 173,361 | 124,796 |
| Income from recoverable expenses | 83,394 | 64,210 |
| Other income from property management | 1,699 | 1,403 |
| **Total** | **258,454** | **190,409** |

At EUR 39,505k, net rental income is attributable to an amount of EUR 13,685k from the income from recoverable expenses and EUR 0k from the business of BCP.

## Expenses from property lettings

Expenses from property lettings are broken down as follows:

| In EUR '000 | 9M 2018 | 9M 2017 |
|---|---|---|
| Apportionable and non-apportionable operating costs | 90,497 | 82,023 |
| Maintenance | 15,593 | 16,488 |
| Other property management expenses | 483 | 903 |
| **Total** | **106,573** | **99,414** |

The operating costs amounting to EUR 16,073k resulted from EUR 1,551k from maintenance expenses, of which EUR 0k from the business of BCP.

## Income from the sale of properties

Income from the sale of properties is structured as follows:

| In EUR´000 | 9M 2018 | 9M 2017 |
|---|---|---|
| Income from the disposal of inventory properties | 23,041 | 662 |
| Income from the sale of investment properties | 18,913 | 29,507 |
| Brokerage revenue | 0 | 0 |
| **Total** | **41,954** | **30,169** |

The income from the sale of inventory properties is attributable to the project development of BCP in the period under report.

## Expenses from the sale of properties

Expenses from the sale of properties are structured as follows:

| In EUR´000 | 9M 2018 | 9M 2017 |
|---|---|---|
| Carrying amount of disposed inventory properties | 19,270 | 479 |
| Carrying amount of disposed investment properties | 18,046 | 28,773 |
| Cost of disposal | 341 | 297 |
| Purchased services for brokerage revenue | 0 | 4 |
| **Total** | **37,657** | **29,553** |

The retirements of inventory properties are attributable to the project development of BCP in the period under report.

## Income from fair value adjustments of investment properties

Income from fair value adjustments of investment properties amounted to EUR 261,699k (previous year: EUR 36,957k) and comprises income of EUR 265,476k from fair value adjustments (previous year: EUR 52,298k) and expenses of EUR 3,778k for fair value adjustments (previous year: EUR 15,342k).

## Financial Income

Financial income is structured as follows:

| In EUR '000 | 9M 2018 | 9M 2017 |
|---|---|---|
| Loan interest, associated companies | 140 | 136 |
| Loan interest, third parties | 4,800 | 1,604 |
| Income from current deposits | 5,618 | 42 |
| Other | 1,635 | 240 |
| **Total** | **12,193** | **2,022** |

In the period under report, other financial income includes income from the measurement of interest rate swaps of EUR 1,451k.

## Financial costs

Financial costs are structured as follows:

| In EUR '000 | 9M 2018 | 9M 2017 |
|---|---|---|
| Interest expenses for bank loans | 34,938 | 30,293 |
| Interest expenses for bonds | 36,833 | 24,402 |
| Interest expenses for convertible bonds | 6,304 | 6,741 |
| Adjustment of conwert-shares (OCI) | 0 | 1,589 |
| Other | 42,992 | 4,335 |
| **Total** | **121,067** | **67,360** |

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

Other financial costs include prepayment penalties of EUR 32,717k (previous year: EUR 2,140k) for early repayments of promissory note loans with higher interest rates, for early repayments of bonds amounting to EUR 8,770k (previous year: EUR 1,960k) and for the early repayment of the bridging loan amounting to EUR 536k.

## Earnings after taxes from discontinued operations

| In EUR ´000 | 9M 2018 | 9M 2017 |
|---|---|---|
| Income from property lettings | 0 | 5,726 |
| Expenses from property lettings | 0 | -1,571 |
| **Earnings from property lettings** | **0** | **4,155** |
| Income from the sale of properties | 0 | 83,246 |
| Expenses from the sale of properties | 0 | -61,218 |
| **Earnings from the sale of properties** | **0** | **22,028** |
| Personnel expenses | 0 | -2,223 |
| Other operating income | 0 | 1,430 |
| Other operating expenses | 0 | -3,059 |
| Income from fair value adjustments of investment properties | 0 | 0 |
| Depreciation and amortisation | 0 | -327 |
| **Earnings before interest and taxes (EBIT)** | **0** | **22,005** |
| Financial income | 395 | 222 |
| Financial expenses | -395 | -4,657 |
| Income from at-equity valued investment associates | 263 | 197 |
| **Earnings before taxes (EBT)** | **263** | **17,768** |
| Income taxes | 0 | -5,220 |
| **Earnings after tax from discontinued operations** | **263** | **12,548** |

## Earnings per share

Earnings per share are structured as follows:

| | 9M 2018 Continuing operations | 9M 2018 Discontinued operations | 9M 2018 Total |
|---|---|---|---|
| **Consolidated net earnings (in EUR ´000)** | 164,393 | 263 | 164,656 |
| Consolidated net earnings without non-controlling interests | 131,226 | 263 | 131,489 |
| Expenses including deferred taxes on convertibles | 4,424 | 0 | 4,424 |
| Consolidated net earnings without non-controlling interests (diluted) | 135,650 | 263 | 135,913 |
| **Number of shares (in thousands)** | | | |
| Weighted number of subscribed shares | 66,875 | 66,875 | 66,875 |
| Effect of conversion of convertibles | 11,626 | 11,626 | 11,626 |
| Weighted number of shares (diluted) | 78,501 | 78,501 | 78,501 |
| **Earnings per share (in EUR)** | | | |
| Basic earnings per share | 1.96 | 0.01 | 1.97 |
| Diluted earnings per share | 1.73 | 0.00 | 1.73 |

| | 9M 2017 Continuing operations | 9M 2017 Discontinued operations | 9M 2017 Total |
|---|---|---|---|
| **Consolidated net earnings (in EUR ´000)** | 11,420 | 12,548 | 23,968 |
| Consolidated net earnings without non-controlling interests | 7,648 | 10,994 | 18,642 |
| Expenses including deferred taxes on convertibles | 1,981 | 0 | 1,981 |
| Consolidated net earnings without non-controlling interests (diluted) | 9,629 | 10,994 | 20,623 |
| **Number of shares (in thousands)** | | | |
| Weighted number of subscribed shares | 66,012 | 66,012 | 66,012 |
| Effect of conversion of convertibles | 5,074 | 5,074 | 5,074 |
| Weighted number of shares (diluted) | 71,086 | 71,086 | 71,086 |
| **Earnings per share (in EUR)** | | | |
| Basic earnings per share | 0.12 | 0.16 | 0.28 |
| Diluted earnings per share | 0.14 | 0.15 | 0.29 |

## DISCLOSURES ON FINANCIAL INSTRUMENTS AND FAIR VALUE DISCLOSURES

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

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

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

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

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

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

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

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

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

## OTHER DISCLOSURES

### Related party disclosures

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

### Financial risk management

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

In the course of the acquisition of BCP, ADLER took over three bonds (series A, B and C) issued in New Israeli Shekel (NIS) and linked to the Consumer Price Index (CPI) for Israel. The carrying amount of these instruments as per 30.09.2018 amounts to EUR 121,566k. As there are no matching assets with such characteristics in the ADLER Group, ADLER is exposed to the foreign exchange risk for the currency pair EUR/NIS as well as to a fluctuation in the CPI. The changes in these factors can lead to an increase in interest payments and principal repayments of the bonds.

### Events after the balance sheet date

In mid-April 2018, ADLER announced the establishment of a joint venture with Benson Elliot Capital Management LLP, geared solely towards the sale of ADLER's non-core assets, on the basis of a joint declaration of intent. ADLER aims to contribute available-for-sale rental units with a value of approx. EUR 115 million to the joint venture. The intention is for Benson Elliot to purchase a majority stake of around 75 percent in the joint venture and ADLER to hold a substantial minority stake of around 25 percent. ADLER will remain responsible for asset, property and facility management until the properties are eventually sold. ADLER will profit from the potential upside of the final sale.

In late October, ADLER and Benson Elliot defined the terms and structures of their planned joint venture in a detailed preliminary agreement. Binding funding commitments have also been obtained from banks which means that all of the main conditions for the formal establishment of the joint venture during the fourth quarter of 2018 are now in place.

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

# /// AFFIRMATION BY THE LEGAL REPRESENTATIVES

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

Berlin, 28 November 2018

Tomas de Vargas Machuca
Member of the
Management Board (Co-CEO)

Maximilian Rienecker
Member of the
Management Board (Co-CEO)

Sven-Christian Frank
Member of the
Management Board (COO)

# /// LEGAL REMARK

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

# /// GLOSSARY

## EBIT

**Earnings before Interest and Tax**

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

## EBITDA

**Earnings before Interest, Tax, Depreciation and Amortisation**

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

## Adjusted EBITDA

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

## FFO I

**Funds from Operations I**

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

## EPRA

European Public Real Estate Association

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

## EPRA – NAV

**Net asset value based on EPRA**

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

## LTV

**Loan-to-value**

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

## Swap

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

## Dilution of shares

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

## WACD

**Weighted average cost of debt**

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

# /// AT A GLANCE

| | |
|---|---|
| **Supervisory Board** | |
| **Dr Dirk Hoffmann** | Chairman of the Supervisory Board |
| **Thilo Schmid** | Vice Chairman of the Supervisory Board |
| **Claus Jorgensen** | Member of the Supervisory Board |
| **Management Board** | |
| **Tomas de Vargas Machuca** | Member of the Management Board (Co-CEO) |
| **Maximilian Rienecker** | Member of the Management Board (Co-CEO) |
| **Sven-Christian Frank** | Member of the Management Board (COO) |
| **Company Facts** | |
| **Legal domicile** | Berlin Charlottenburg, Berlin HRB 180360 B |
| **Address** | ADLER Real Estate Aktiengesellschaft<br>Joachimsthaler Straße 34<br>10719 Berlin<br>Phone: +49 30 39 80 18 – 10<br>E-Mail: info@adler-ag.com |
| **Website** | www.adler-ag.com |
| **Investor relations/public relations** | ADLER Real Estate Aktiengesellschaft<br>Dr Rolf-Dieter Grass<br>Joachimsthaler Straße 34<br>10719 Berlin<br>Phone: +49 30 2000 914 – 29<br>E-Mail: r.grass@adler-ag.com |
| **Capital stock** | EUR 58,170,248[1)] |
| **Classification** | 58,170,248[1)] no-par value shares |
| **Arithmetical value** | EUR 1 per share |
| **Voting right** | 1 vote per share |
| **Identification** | WKN 500 800<br>ISIN DE0005008007<br>Ticker symbol ADL<br>Reuters ADLG.DE |
| **Designated sponsors** | ODDO SEYDLER BANK AG<br>HSBC Trinkaus & Burkhardt AG |
| **Stock exchanges** | Xetra, Frankfurt am Main |
| **Indices** | SDAX, CDAX, FTSE EPRA/NAREIT Global Real Estate Index, GPR General Index, DIMAX |
| **Financial year** | Calendar year |

1) As at 30 September 2018

ADLER REAL ESTATE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Berlin-Charlottenburg

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