# *We deliver!*

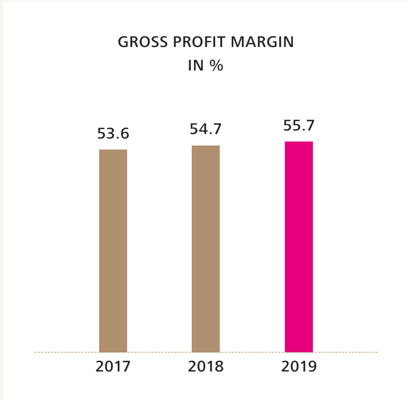
ANNUAL REPORT 2019

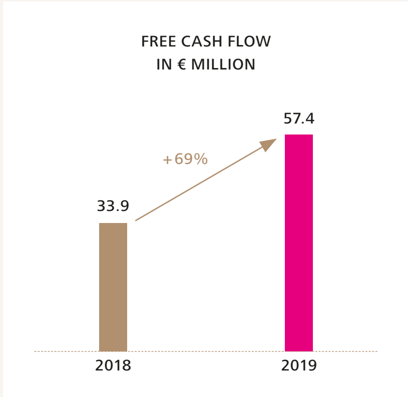
ADLER
ALLES PASST

# FINANCIAL HIGHLIGHTS 2019

| | | | | Change 2019 to 2018 | |
|---|---|---|---|---|---|
| | | 2018 | 2019 | absolut | relative |
| **Revenue** | **€ million** | **507.1** | **495.4** | **−11.7** | **−2.3%** |
| Gross profit | € million | 277.3 | 275.9 | −1.4 | −0.5% |
| Gross profit margin | | 54.7% | 55.7% | | +100 bp |
| **EBITDA** | **€ million** | **68.8*** | **70.3** | **1.5** | **2.2%** |
| **EBIT** | **€ million** | **21.0*** | **24.5** | **3.5** | **16.7%** |
| **Net income from operations** | **€ million** | **2.6*** | **7.9** | **5.3** | **>>100%** |
| **Consolidated profit for the year** | **€ million** | **0.4*** | **5.1** | **4.7** | **>>100%** |
| Earnings per share | € | 0.02* | 0.28 | 0.3 | >>100% |
| | | | | | |
| **Cash flows** | | | | | |
| Net cash flows from operating activities | € million | 39.9* | 61.7 | 21.8 | 54.6% |
| Free cash flow | € million | 33.9* | 57.4 | 23.5 | 69.3% |
| **Total assets** | **€ million** | **415.9*** | **409.4** | **−6.5** | **−1.6%** |
| Cash and cash equivalents | € million | 54.9 | 70.1 | 15.2 | 27.7% |
| **Equity** | **€ million** | **61.6*** | **66.1** | **4.5** | **7.3%** |
| Equity ratio | | 14.8%* | 16.1% | | +1.3 pp |
| | | | | | |
| **Number of employees as of December 31** | | **3,786** | **3,612** | **−174.0** | **−4.6%** |
| **Total number of stores** | | **178** | **172** | **−6** | |

**adjusted according to IFRS 16 regulations applicable from 2019*



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# *We deliver!*

THE FAR-REACHING MEASURES INTRODUCED UNDER ADLER'S "STRATEGY 2020" BORE FRUIT IN 2019:

- REVENUE STABILISED AT €495.4 MILLION
- EBITDA IMPROVES, REACHING €70.3 MILLION
- FREE CASH FLOW AT €57.4 MILLION (+69%)
- LIQUIDITY UP YEAR ON YEAR BY €15.2 MILLION TO €70.1 MILLION
- MEASURES TO SECURE SUSTAINABLE, PROFITABLE GROWTH ARE BEING SYSTEMATICALLY IMPLEMENTED

# *We deliver!*

## *ADLER'S "Strategy 2020" continues to bear fruit*

KARSTEN ODEMANN, CFO
*Since being appointed in 2011 to serve as CFO, Karsten Odemann has been responsible for Finance, Controlling, Internal Audit, Legal, Logistics, IT, Human Resources, Asset Management, Sustainability and Investor Relations.*

THOMAS FREUDE, CEO
*Thomas Freude has been the CEO of Adler Modemärkte AG since 11 September 2017. He is responsible for Strategy, Marketing, Purchasing, Mergers & Acquisitions, Expansion, Transformation, Executive Development and Public Relations.*

CARMINE PETRAGLIA, CCO
*Carmine Petraglia joined the Executive Board on 1 June 2018, and is responsible for Sales & Distribution*

In 2019, ADLER delivered in a variety of areas, including the development of its operating profit and the various measures implemented as part of the "Strategy 2020", which was launched in 2018. Their labours are beginning to bear more and more fruit. In order to achieve sustainably profitable growth in an industry environment that remains challenging, ADLER will have to raise its game. In our interview with the Executive Board, ADLER's top executives look back on financial year 2019 and look forward to 2020…

**Mr Freude, this year's financial report is entitled "We deliver!" Why so confident?**

FREUDE In 2019, ADLER has delivered in a whole host of ways. We're proud of that. For one thing, in terms of profitability, with our operating profit improving significantly despite the difficult environment. The same goes for our KPIs for liquidity and cash flow. For another, we made significant progress across the board implementing our ADLER "Strategy 2020".

**What does that mean exactly? What have you done better than others in the industry?**

FREUDE At ADLER, we appear to have done a lot of things right, if you go by the figures. Around two years ago, we announced our new strategy, which entailed greater customer service, more digitalisation and increased efficiency. Since then, we have modified and optimised our entire value chain. Now we see that our efforts are bearing fruit. For instance, in 2019 we increased our gross margin by 100 basis points to 55.7%. EBITDA including one-off expenses was €70.3 million, which was up significantly year on year and in excess of the target corridor of €64–69 million.

**But your labours have yet to bear fruit as far as revenue is concerned?**

PETRAGLIA That's not quite right. We are still somewhat at the mercy of a consistently difficult industry environment – as we have always said. However, we are still substantially outperforming the industry, which was down 2% in 2019. For us, the like-for-like decline was significantly less pronounced at just under one percent. Nevertheless, we still have room to grow: Some measures will only take full effect from 2020. Our improved marketing mix and our ability to seize on our customers' individual needs are increasingly starting to stand out. In order to increase customer footfall even more, in the future we plan to use more efficiently the data that our roughly 3.1 million active ADLER customer loyalty card users give us. Roughly 92% of our current revenue comes from these customers.

**Speaking of room to grow: Where do you think you can reap further improvements?**

FREUDE Our marketing will become increasingly digital, more individualised and tailored to the customers. Where purchasing and products are concerned, there is further potential thanks to efficiently managed purchasing volumes and stock-keeping, as well as logistics costs. In the future, our value chain and our partners will be interwoven in a completely digital network. Our own brands make up for about 85% of revenue, and we intend to continue to implement the store optimisation programme, which we pursued over the past two years, in 2020 and beyond.

## CASH FLOW IMPROVED BY 69% TO €57.4 MIO

ODEMANN We will round this off by further developing our e-commerce activities, which have been modest thus far. In 2020, we will implement a new shop system, work more closely with established online partners and make better use of the ADLER app. We aim to increase online revenue to more than €30 million by 2023. As Thomas stated, this will only be possible if we up our investments in digitalisation. We plan to invest €3–4 million annually to expand our IT systems, primarily to improve product information management, allocate products efficiently and to roll out our TORY robots.

**More about TORY later, but let me ask: How is ADLER financing all this?**

ODEMANN We are lucky enough – unlike most of our competitors – to be highly conservative in our budgeting. Our guiding principle of making our way with high liquidity, solid free cash flow and no bank debts is definitely paying off. In 2019, we improved our free cash flow by 69% to €57.4 million, with our liquidity hitting a new all-time high of €70.1 million. One can assume that a lot of people would love to switch places with us. This means we can finance the necessary future investments and thus generate sustainably profitable growth on our own while still keeping further strategic reserves and, as they say, water under our keel.

**Let us take a more detailed look into the future, and talk about the strategic issues you mentioned. Let's start with marketing …**

FREUDE We are lucky to have such loyal customers, although the shopping behaviour of the typical ADLER customer has also changed in recent years. We are reacting to this development. The aim is to increase customer footfall in stores as well as the share of wallet. We want to increase the share of money spent on clothes at ADLER from around 15% to 16% at first, meaning an increase in revenue by approximately €30 million. We will achieve this because we know the needs of our customers like the backs of our hands thanks to the treasure trove of data harvested from the customer loyalty card. Based on that data, our marketing activities are becoming ever more individualised, accompanied by loyalty-based incentives. In order to better reach our customers, we want to significantly increase the number of ADLER app users and e-mail contacts. Marketing expenditures will be distributed differently in the future. Aside from digital advertising via social media in particular, we are focusing on radio advertising. In addition, we want to win over new customers by organising event-based shopping experiences at our stores.

**How should we understand the digital value chain exactly?**
**PETRAGLIA** The goal is for our customers to find their favourite article of clothing in the right size and at the right time. This may sounds banal but it's highly complicated to achieve with a global supply chain. Accordingly, the value chain must be coordinated perfectly. From collection planning, via our sourcing partner OTTO International in Hong Kong and our new logistics partner Meyer & Meyer through to sales in each and every store and the online shop. Digital networking also includes monitoring the most important KPIs to enable us to react immediately when something's not quite right.

**Speaking of sales, how is ADLER faring with its store optimisation programme?**
**PETRAGLIA** Here, too, we have delivered – even better than planned. In 2019, eight unprofitable stores were closed in a socially acceptable manner. The successful renegotiations with the landlords of two further stores resulted in both once again becoming and remaining profitable. At the same time, we are continuing to expand into attractive locations and in 2019 we opened two new stores in Austria, with more to follow in Germany in March and April 2020. However, we will be further reducing the net number of stores in 2020. By 2022 at the latest, we will again be in expansion mode.

## 85 TORY ROBOTS ARE EXPECTED TO BE INSTALLED BY THE END OF 2020

**And by then, TORY robots will be running in every store?**
**ODEMANN** This won't be economical in every store because certain requirements have to be taken into account. However, in 2019 we expanded our rollout to 45 stores and plan to acquire TORY inventory robots for another 40 in 2020. In this respect, ADLER is by far the technological pioneer in the industry. Its investments will pay off after only 1.5 years.

**No interview can skirt the issue of sustainability. How much emphasis does ADLER place on it?**
**ODEMANN** I'd like to address two issues in particular. ADLER is well aware of its social responsibility, and accordingly the topic of sustainability is high on the agenda of the Executive Board. We are working together with our partners to optimise every level of the value chain in keeping with strict, future-oriented sustainability criteria. Our customers are increasingly demanding it of us. The increased use of sustainable raw materials, species protection, the promotion of Fairtrade initiatives, compliance with strict labour law standards, continuous education and training of our employees are a matter of course for us. At ADLER, sustainability reigns even up to the use of unsaleable merchandise. We believe that we set an example in this regard, with only 0.2 to 0.3% in total mark-downs in clothing retail.

**What are your specific goals for 2020 and beyond?**
**FREUDE** We intend to roll out the core measures of our "Strategy 2020" initiative by the end of 2020, with their effects being fully felt by 2021. This financial year, we want to improve our like-for-like revenue and are aiming for a similar level of revenue in absolute terms in 2020 as in 2019 by doing so, as well as by opening new stores to compensate for the loss of revenue from stores that have been or are set to be closed. The positive effects from the efficiency enhancement measures will be offset in 2020 by increased marketing and sales expenses to sustainably secure revenue, such as through online trading. Including negative one-off expenses, particularly for store closures, totalling €5–6 million, the Executive Board forecasts EBITDA to be between €66 and 69 million. You can be sure that our focus in 2020 will again be firmly on maintaining our large liquidity reserve and generating a substantial positive free cash flow. Starting in 2021, we are confident that once we have completed our store optimisation programme, both consolidated revenue and net profit will improve. Then we will again take a serious look at paying dividends to our shareholders.

**Mr Freude, Mr Odemann, Mr Petraglia, thank you very much for speaking with us.**

# *We deliver …*

## *an optimised, profitable product range*


ADLER's mission is to offer fashion for people in their prime. In pursuit of that objective, we have established a number of own brands that are tailored to meet customer needs. Our 11 strong own brands (for women: Bexleys, Malva, Thea, My Own, Via Cortesa, Viventy by Bernd Berger and Steilmann; for men Bexleys, Senator, Eagle No.7, Big Fashion, Via Cortesa and Bernd Berger) stand out from the crowd because they fit perfectly at fair prices without sacrificing quality. This translates to a high degree of customer satisfaction and loyalty on the part of ADLER fans.

This makes for a classic win-win situation for customers and the Company alike: customers can trust that we will continue to carry their favourite products, while ADLER benefits from the fact that its own brands are more profitable than external brands.

*"We're strengthening our own brands because they're what keep our customers coming back."*

ADLER's product range is anchored around its never-out-of-stock (NOS) items, which are always available in every common size and colour. In its "Strategy 2020" initiative, ADLER's stated objective is to focus more strongly on high-profit own brands.

In 2019, we met that objective as the share of revenue attributable to strategic external brands fell to around 15%. At the same time, the number of external brands fell sharply from 40 to 22.

**11 STRONG OWN BRANDS**

The focus now lies on 10 strategic external brands, which we will use to help expand our product range. The advantage here is that ADLER is able to focus on developing and positioning these external brands. And not least, gross profit in the external brands segment will also be lifted in the long run because we will be able to negotiate better conditions with the strategic brands.

# *We deliver …*

*an optimised procurement structure*

Our strategic Asian procurement partnership with the Hong Kong-based OTTO International (OI) has enabled us to further improve product quality during the year under review. The sourcing agent has taken on key functions to help us better tailor our product range to our target group of men and women aged 55 and up while guaranteeing that ADLER's high quality standards are met. This begins with the selection of suppliers and continues through the materials processing and finishing stages.

ADLER sets a high bar in terms of quality of fit and colour, as well as for supplier dependability. The sourcing agent recommends manufacturers, conducts audits, assists with pricing negotiations and places orders. It also performs final quality control checks of all orders prior to shipping. Naturally, sustainability plays a fundamental role in supplier selection.

General sourcing agents can generate attractive commission advantages thanks to the high volume of business they deal in. Furthermore, the number of active suppliers fell year on year by around 25% over the course of the year. Less complexity also resulted in cost savings and improved gross profit on net goods received.

ottointernational

ADLER benefits form OTTO International's local expertise in the relevant procurement markets. Its local presence helps to break down communication barriers and offers an early warning system for potential adverse developments. Furthermore, lean processes make it possible to react quickly to current trends and tweak the product range accordingly.

**THE NUMBER OF SUPPLIERS FELL BY 25% IN 2019**

ADLER has commissioned Meyer & Meyer to oversee its goods logistics, thereby accelerating and adapting the process of digitalisation. For ADLER, the primary objective of a well-functioning logistics system is to make the right products available in stores at the right time in the right quantities, sizes and colours. A major factor in the success of such endeavours is how well the suppliers, OI, the central warehouse, the stores and the online shop work together. Automated processes increase goods throughput and speed of supply. This makes it possible to avoid inventory shortages and surpluses, which in turn reduces not only losses of revenue due to items being unavailable but also mark-downs on unsold and discounted items. Overall, there has been a significant decrease in unit costs for logistics services during the period under review.

The automatic sorting and conveying system in Peine went live in December 2019 and will be fully operational by the spring of 2020. The facility features an automated matrix sorting line which brings hanging goods to the warehouse stations where they are processed for shipping. Automated handling of flat-packed and hanging goods has streamlined the delivery of goods to ADLER stores. Pre-sorting merchandise makes it quicker and easier to stock the stores.

> *"The goal for 2023 is to more than triple e-commerce revenue. To achieve that, we intend to implement a new shop system by 2021 at the latest."*

# *We deliver …*

## *a new, fast-growing e-commerce business*

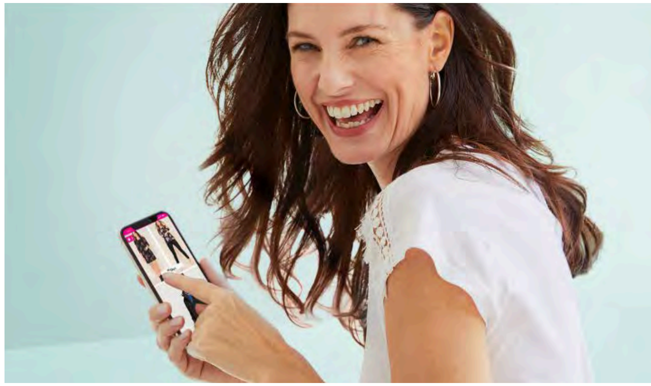
The rise in digitalisation of all areas of life has also affected ADLER. Customers are increasingly using digital communications channels. For ADLER, brick-and-mortar stores and the online shop complement and strengthen each other. The Company's primary objective is to serve its target group of men and women aged 55 and up – it aims to ensure that they identify with the ADLER brand and enjoy the products and services it offers. The point is to serve this customer group in the best way possible, regardless of whether it be in an ADLER store, via the online shop or through the app.

The Company's website and app are vital aspects of its multi-channel strategy of serving a growing online customer base, attracting new customers and increasing footfall in the stores. During the year under review, e-commerce revenue increased slightly. Our careful reallocation of marketing expenditures – for instance, towards radio advertising – has proven effective. The number of orders shipped rose to a new record of 342,600 in 2019, clearly outstripping the previous all-time high of 322,000 orders in 2017.

Visits to the online shop increased significantly. Our position in further sales channels and key online marketplaces, such as Otto.de and Amazon, also improved. The ADLER app also gained more friends and followers during the period under review, as evidenced by the increase in downloads. Perhaps unsurprisingly, the average age of visitors to the online shop, 57.1, was again below the average age of all ADLER customers, 63.

**~ € 10 MILLION INVESTED IN THE EXPANSION OF E-COMMERCE**

In order to achieve yet further efficiency gains with the aim of more than tripling e-commerce revenue by 2023, efforts will be launched in 2020 to swap out and modernise the underlying shop system. One key requirement for the new shop system is the seamless integration between stores, the online shop and the ADLER app so that customers can easily access every sales channel. The new platform will also be compatible with the ADLER loyalty card, rendering it possible to present customers with personalised offers. The requirements for a highly flexible campaign management system and internationalisation will also be satisfied. By 2021 at the latest, customers will be able to use the new shop system. In total, roughly € 10 million will be invested in expanding our e-commerce activities by 2023.



The already established Click & Collect service enables customers to pick up, pay for and return online orders in stores. This increases footfall and offers sales associates the opportunity to suggest additional items and accessories. Launched in the second half of 2019, the order hotline established another sales channel aimed primarily at customers who are unable to purchase online or in brick-and-mortar stores.

# *We deliver …*

## *a consistent digitalisation strategy*


45 INVENTORY ROBOTS WERE ALREADY IN USE BY THE END OF 2019


For ADLER, digitalisation and the digital transformation are a means to an end and not an end unto itself. Aside from the indisputable benefits they bring, they also raise concerns of a negative impact for employees. This is not how ADLER sees it. ADLER harnesses digitalisation in order to streamline processes and to use technology to assist with tasks which employees tend to find repetitive. This frees them up to assist customers directly and carry out store processes in a professional manner.

With TORY, ADLER broke into new territory early on, and the Company continues to be an absolute technology leader when it comes to the use of robots for stock-keeping. In the year under review, ADLER achieved its goal of transitioning TORY from its proof-of-concept phase to the store rollout phase. By the end of 2019, TORY robots operated in 45 stores. Thanks to adjustments made to the robots, scanning accuracy has now risen above the 99% mark – an excellent result indeed! With an expected average useful life of five to seven years, and thanks to the positive impacts including increased revenue stemming from improved availability of merchandise and sales associates, ADLER expects its investment to pay off in less than 1.5 years.

RFID technology plays a crucial role in how TORY works. All own brand items are sent from manufacturers with RFID-enabled tags. After the stores close for the night, TORY automatically scans all RFID-tagged merchandise in the store, which helps to identify items requiring replenishment, order those items or recommend transporting those items from the warehouse to the store. The never-out-of-stock items are replenished automatically based on the sales recorded by the individual store.

The use of RFID technology doesn't begin in the stores. RFID is used in goods receiving at the logistics centre operated by Meyer & Meyer to identify and accelerate receipt of orders, which makes the fully automatic commissioning and distribution of merchandise to the stores possible. In downstream processes, the deliveries from the central warehouse to the stores can be recorded directly without time-consuming counting, and brought to the sales floor since RFID allows for a great degree of transparency.

The degree of digitalisation at ADLER is also reflected in the selection of strategic partners. For instance the general sourcing agent, OTTO International, uses a digital showroom and 3D fitting for product presentation, whereby the products are adapted to fit an avatar, which was created based on customer requirements. This makes it possible to save resources, time and money in the product development phase, since the physical transportation of items between suppliers, the sourcing agent and ADLER is often unnecessary.

# *We deliver …*

## *a tailored marketing*

Advertising is always a battle for attention. In order for ADLER's message to stand out from the many other mailshots, ads, spots and banners and to become relevant to customers, ADLER modifies them to fit exactly the needs and interests of its customers.

This is done on the basis of CRM data collected as part of ADLER's loyalty card programme. The ADLER loyalty card programme was first launched in 1974 and is one of the oldest and most successful loyalty card programmes in Germany. In its more than 45-year history, several generations of customers have used the ADLER loyalty card when shopping. It goes without saying that ADLER has implemented robust data protection and information security standards and meets the requirements set out in the EU General Data Protection Regulation (GDPR).



ADLER generates more than 90% of the Company's total revenue through the ADLER loyalty card. Thus, ADLER is very well acquainted with its customers. Therefore, the Company can register the customers' preferences from their purchase histories. ADLER can use that insight to steer customers towards complementary products, exclusive regional events and store sales on a targeted, individual basis.

*"ADLER customers trust the Company. We appreciate that and we protect their data."*

This familiarity with its customers, enabled ADLER to send out 26.2 million completely individualised print mailshots in the year under review, which were tailored precisely to individual customers' interests and purchasing habits, thus containing information and offers that they find relevant. In addition to this, more than 123.8 million newsletters were sent out in 2019. Aside from marketing content being highly relevant to recipients, digital marketing also increased marketing efficiency. The response rate for personalised, individual communications is significantly higher than for standardised mailshots in which all customers receive the same offers.

# *We deliver …*

## *a marketing mix geared towards the target group*

ADLER has a loyal customer base and has taken a position in a growth segment by focusing on the 55 + target group. This is because the population cohort of people aged 55 and up will continue to grow sharply in the coming years, and ADLER is the only clothing retailer that specifically caters to this target group.

ADLER has continued its collaboration with brand ambassador Birgit Schrowange, who is widely popular not only with ADLER customers but with the target group in particular.

One major advantage for ADLER is that its own brands have deep roots with its customer base, with the product range also being supplemented with NOS items. That's why ADLER places special emphasis on marketing to customers who have already shopped at ADLER and who have a customer loyalty card. The more than 3 million active customer loyalty cards with regular annual revenue offer a strong sign of ADLER customers' brand loyalty. In the generally fierce competitive environment of clothing retail, ADLER believes that there is potential to increase revenue by mobilising existing customers.

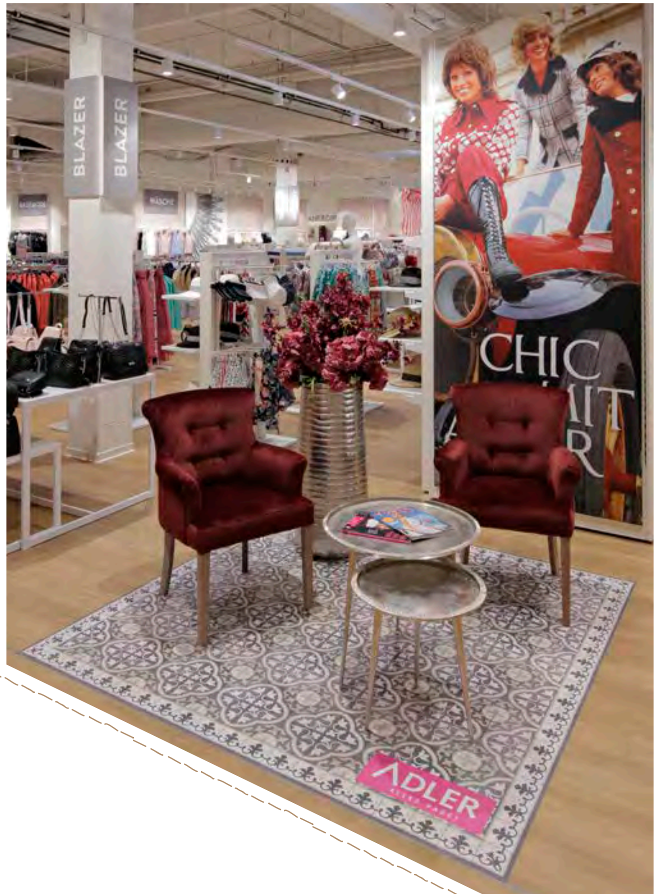

Moreover, ADLER uses advertising inserts to reach existing and new customers. In addition, a special "offer of the month" is advertised in consumer publications, which will stand out from the usual product range and will aim to generate additional interest among buyers. These special offers for new and existing customers are given pride of place in the stores and are often to be found near the entrance. Particularly in the interest of winning over new customers, but also to appeal to existing ones, ADLER successfully increased its radio advertising during the year under review.

Naturally, ADLER also communicated with its target group via digital channels. For instance, ADLER customers receive regular information via newsletters and push messages. ADLER also relies on personalised and automated digital messages. In particular, it uses personal product recommendations matched with favourite items and garments bought.

In addition, ADLER is also active on Facebook, one of the preferred social media channels for the target group of people aged 55 and up. It is also posting more and more content to Instagram, YouTube and Pinterest. ADLER does not view social media as a one-way street to provide information but as a means to actively engage with customers. Influencers are also a fixed component of the Company's digital marketing strategy.

# *We deliver…*

## *a more efficient structure of stores and a new look and feel*




As part of ADLER's "Strategy 2020" the entire network of stores was subject to a detailed analysis and optimisation measures were identified. This includes focusing on attractive locations which have a long track record of positive contributions to earnings, as well as the decision to close up to 17 unprofitable stores. The restructuring of the store network played a significant role in the Company achieving the necessary efficiency enhancements aimed at sustainably reducing the cost base and making ADLER competitive in the long run.

**+100-BASIS POINT IMPROVEMENT IN GROSS PROFIT MARGIN (THANKS TO STORE OPTIMISATION AND OTHER EFFORTS)**

Following five store closures in 2018, seven stores in Germany and one in Austria were closed in 2019. At other locations, lease terms were renegotiated in order to improve cost structures. The one-off restructuring costs in relation to store closures were approximately €6 million. In addition, selected growth opportunities were pursued and four stores with high revenue potential in lucrative locations were either newly opened or reopened.

*"We are working together to offer our customers the best sales experience possible in order to increase enthusiasm for ADLER – from employees and customers alike!"*

Furthermore, a new store design was developed in order to give the stores an attractive modern look and feel. Own brands, such as My Own, Thea and Via Cortesa are given more prominent, attractive positions. Merchandise is now displayed in a clear and uniform manner which reinforces customers' feeling of familiarity with the stores. Clothes are presented with just the right bags, jewellery, scarves and decorative items such as picture frames and vases which mirror the styles and colours of the displays. In this way, ADLER offers its customers subtle suggestions for a new outfit which can be combined with accessories to provide a fresh new look.

The new store design also includes carpeted quiet zones, with ADLER's logo emblazoned on the carpet. The aim is to increase the overall duration of store visits and generate additional sales.

# *We deliver …*

## *our customers a shopping experience*

ADLER is more than just a fashion retailer. People who enjoy shopping with their friends and acquaintances know that it's not just about the clothes you buy but also the overall experience and that great feeling you get when you've treated yourself to something new. On the other hand, people who don't enjoy shopping find it easier to refresh their wardrobe when they get good advice. Customers experience this positive feeling when they go shopping at ADLER. They know they are well cared for and that their needs are understood, and the shopping experience is about more than just the clothes.

**270 EVENTS FANDEN 2019 AN ADLER-STANDORTEN STATT**

ADLER stores are mainly located outside city centres. For that reason, the stores on "greenfield sites" usually have excellent transport connections for cars, offering ample parking and the ability to combine complementary shopping facilities and services such as drugstores and hairdressers. In addition, other incentives are created for customers to visit stores. These include attractive, exclusive events such as readings, colour and style consultations, concerts and shows. Finally, ADLER customers, who are on average 63 years old, generally have more time and are open for interesting activities.

During the year under review, hundreds of events were organised which resulted in substantial additional revenue and a large number of new customers. The popular ADLER bus tours offered


by select stores present an attractive day trip programme with breakfast and fashion shows, great prizes and sales. The exclusive autograph signings with the longstanding brand ambassador Birgit Schrowange have proven exceptionally popular.

If a product is no longer available in a store, but can be ordered online or in another store, the digital in-store assistant makes it possible to order the item right then and there and have it shipped to the customer's address. The overall ADLER experience also includes the ADLER magazine, which is available in stores and online. The magazine features articles on products as well as other extras such as fashion tips, cooking and travel sections, horoscopes and puzzles.

# *We deliver …*

*an excellent qualification of our employees*

The outstanding level of service offered by ADLER employees plays a significant role in ensuring customer satisfaction, which in turn inspires them to shop at ADLER stores. Such a high level of quality in customer service does not come automatically, but rather is based on sales staff's outstanding commitment and dedication. They are the face and voice of ADLER, and that's why they are offered constant opportunities to further their training.

To that end, ADLER has founded the Skills Workshop, where employees are taught how to train their colleagues on a variety of topics, such as how to deal with difficult customer situations.

**AVERAGE DURATION OF EMPLOYMENT WITH THE COMPANY IS MORE THAN 11 YEARS**

Ideal customer service relies on HR planning that takes into account footfall rates, so that there are enough colleagues on hand to offer customers their full attention and personalised service at peak times. That's why ADLER has examined working processes at the stores in order to identify and eliminate those tasks which consume inordinate amounts of employee time. In general, ADLER seeks to find the right balance between experienced sales staff and new faces. The large number of employees who have been with the Company for 30 or 40 years underscores how tightly woven the ADLER family is. The average ADLER employee has been with the Company for more than 11 years.

And employee commitment pays off. As an employer, ADLER offers a standardised system of remuneration, holiday and Christmas bonuses, generous employee discounts, a Company-sponsored pension scheme, birthday gift certificates, fruit baskets in every store and a company suggestion system with respective incentives.

And not least, a holistic healthcare management system is essential. Many activities are offered, such as lectures on health, vaccinations at the Company, workshops on issues such as work/life balance, as well as the participation in the JP Morgan run in Frankfurt.

*"We establish modern work models."*

# *We deliver …*

*a succession planning and management programme that recruits from within*

Well-trained and perceptive management is another crucial factor to success. This is why existing executives and managers are offered continuous, structured training, starting from the top down. Top managers are provided 360° feedback once a year. This method will be expanded in 2020 to include the subsequent management level. In addition, in 2019 an executive assessment was initiated for all executives and managers. That assessment examines the potential of every executive and manager, as well as identifying where there is room for improvement. To that end, management workshops will be carried out in 2020, which every ADLER executive and manager will participate in.

Going forward, ADLER will continue to promote from within. At the end of August 2019, a new management promotion programme was launched for sales to prepare selected employees to take on a management role at ADLER. In addition, a high potential programme was initiated for HQ functions.

All training modules comprise a mix of seminars and practical experience. Participants will work for one to two weeks at a different store. This helps them to expand their knowledge of the region, and they must prove that they have the flexibility and social skills needed to get acquainted with a different working environment and new colleagues. In addition to receiving training in labour law, KPI analysis and management, programme participants also spend three days working at all HQ units for networking purposes.

## TRAINEES WERE PUT IN CHARGE OF A STORE GRAND OPENING IN 2019

Naturally, their progress in completing the training sessions is documented and certified. In order to earn a certificate, they must also prepare and present an independent project at the end of their course of study, which they must present to the top management.

One outstanding example of the Company's commitment to young people was the call for trainees to make themselves available to ADLER as models. A brand can hardly find more authentic ambassadors than its own staff, who are proud to wear its products. ADLER also takes the promotion of new talent seriously, as evidenced by the fact that in 2019 trainees were responsible for planning and steering the grand opening of a new store. The trainees' commitment and motivation is also on full display on ADLER's Instagram account, which they brought to life.

Above all at HQ, ADLER is confronted with the challenges which every modern employer must face. This is why the Company is gradually introducing new concepts to modern work models, such as flexitime and home office. However, we are also trying out new concepts in the stores. For instance, two part-time store managers have shared the responsibility of running a store in Austria since the beginning of 2020. Doubling up on leadership roles is certainly still something that is rarely seen. In that regard, ADLER is an innovative pioneer in this field.

Thanks to our annual employee survey, we have insight into current employee satisfaction and areas for improvement.

### WE ARE ADLER

#### OUR PRINCIPLES FOR MANAGEMENT AND WORKING TOGETHER


| | | | | |
|---|---|---|---|---|
| SHARING THE PATH TO SUCCESS! | ACHIEVING OBJECTIVES AND RECOGNISING PERFOR-MANCE! | EXEMPLIFYING RESPECT AND APPRE-CIATION! | RESOLUTELY DECIDING AND IMPLEMEN-TING! | PROMOTING AND EN-COURAGING CONTINUED DEVELOPMENT! |

# We deliver…

*a value chain that takes into account sustainability criteria*

Concerns about climate change are leading many people to take to the streets, and the German government has presented its 2030 climate protection initiative – only two clear signs that there is a need to take action and that the issue of sustainability has finally seized the public's attention. As a Company that understands its responsibilities to its employees, to society and the environment, ADLER is playing its part, and has established an integrated sustainability management system. For ADLER, this means implementing and maintaining a corporate culture in which every single employee puts sustainable business principles into practice. To accomplish this, training measures are offered and personal sustainability targets are defined for heads of departments and divisions.

ADLER's sustainability activities focus on areas arising from public discourse with stakeholders and relating to its unique responsibilities as a textile retailer. Based on the three pillars for sustainability (social, environmental and economic), ADLER takes into account the concerns of employees in particular as well as those of suppliers, takes care to use energy and resources as sparingly as possible in production and aims to achieve sustainable profits that will generate solid returns over the long run and save jobs.

As a responsible employer, ADLER promotes employees by offering them continuing training and educational opportunities. ADLER is working closely with the sourcing agent OTTO International to ensure that internationally recognised social and labour standards are complied with by production companies in the markets where the Company sources its merchandise. Suppliers are audited by independent organisations in accordance with the Social Audit Standards of the Business Social Compliance Initiative (BSCI) or similar standards.


In addition, ADLER is continuously working to increase the share of certified sustainable cotton from small farming operations which use little to no pesticides and which limit their use of water. ADLER has combined the various seals of sustainability such as Fairtrade Cotton and the Better Cotton Initiative (BCI) into its own "Feel Good" label which helps customers to buy sustainable products. As a matter principle, for the sake of species conservation ADLER does not sell angora wool products or furs.

*"Our Sustainability Report enables us to seek transparency and dialogue with the public."*

ADLER takes a sustainable approach to every step along the value chain and the underlying processes. The Company's aim is to cut transport and store emissions, reduce the amount of packaging used in transport and to make a digital customer loyalty card available. So many way to spare resources and save the climate. The overarching objective of integrated sustainability management is to offer customers ecologically and socially sound products and at the same time, act in the best interests – socially and economically – of employees, suppliers and other stakeholders.

“ADLER is committed to sustainability.”

# We deliver …

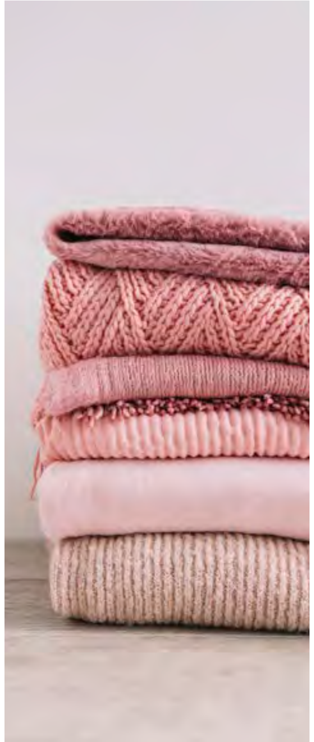
## *resource planning with minimal waste*

ADLER is not one of those fast fashion companies, but instead prides itself on the longevity of its product range. In addition, ADLER takes great care to avoid surplus merchandise and seeks to order finished textiles in line with the actual demand of its customers. With that in mind, it established a corresponding life cycle concept in 2018.

ADLER's product range consists in large part of never-out-of-stock items which are carried for longer periods and which customers can find even in following seasons. This results in only a small share of unsaleable products. The share of total mark-downs on merchandise which truly cannot be sold is low at ADLER: 0.2% to 0.3%. During the year under review, ADLER successfully sold off clothing from previous collections through price markdowns. This helped to reduce inventories, which in turn had a positive influence on cash flow.

**TOTAL MARK-DOWNS AMOUNTED ONLY TO 0.2% TO 0.3%**

ADLER donated a considerable portion of the remainder to charitable organisations and only a very small amount of clothing was disposed of, with the highest share of that clothing destined to be recycled. ADLER's aim is to steer its production quantities so efficiently that as good as no remainders are held in the warehouse, and its work to achieve this objective was highly successful in 2019.



# COMPANY

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MASSIMILIANO MONTI
Chairman

# REPORT OF THE SUPERVISORY BOARD

**Dear Shareholders,**
Financial year 2019 was a year of challenges, marked mainly by persistent sales difficulties in the textiles retail industry. The constructive collaboration between the Supervisory Board and the Executive Board was instrumental in driving forward efficiency-enhancement measures initiated in prior years and successfully lifting the Company's profitability in the year under review.

In 2019, the Supervisory Board performed the duties incumbent upon it by operation of law, the Articles of Association and its rules of procedure. The Supervisory Board regularly advised the Executive Board in managing the Company and assisted it in coordinating the Company's strategic objectives. The Executive Board fulfilled its duties with regard to the provision of information, notifying the Supervisory Board regularly, promptly and in detail, both in writing and orally, on the events and measures relevant for the Company. Based on these reports and during joint discussions with the members of the Executive Board, the Supervisory Board carefully and continually monitored the management. The full Supervisory Board voted on matters as required by operation of law or pursuant to the Articles of Association. In justified cases, resolutions were adopted outside of meetings. The Supervisory Board granted its consent to individual transactions to the extent this was required by law, the Articles of Association or the rules of procedure for the Executive Board. Above and beyond Supervisory Board meetings, the Chairman of the Supervisory Board and the Chairman of the Audit Committee maintained regular contact with the Executive Board and kept apprised of the current development of the business situation.

In preparation for the meetings of the full Supervisory Board, the shareholder and employee representatives addressed the agenda items in separate preliminary meetings. Overall, four regular meetings and one extraordinary meeting were held, with an average attendance rate in excess of 86%. The committees convened with an average attendance rate of 75%.

## EFFECTIVE WORK IN THE COMMITTEES

In order to effectively perform its duties, the Supervisory Board formed four committees. The committees prepare issues and resolutions to be addressed by the full Supervisory Board. In appropriate individual cases, the full Supervisory Board may, to the extent permitted by law, assign powers to adopt resolutions to committees; the Supervisory Board exercised this right in 2019. The committee chairmen provided each subsequent Supervisory Board meeting with a detailed report of the matters discussed and resolved at the individual committee meetings. With the exception of the Audit Committee, the Chairman of the Supervisory Board chairs all committees. The composition of the committees can be found in the section entitled "Company, Supervisory Board".

The *Personnel Committee* did not meet in the year under review.

The *Audit Committee* held four meetings in the year under review. In the presence of the auditor, the Chairman of the Executive Board, and the CFO, it discussed the annual and consolidated financial statements and management reports for Adler Modemärkte AG and the Group It also issued its recommendation to the full Supervisory Board regarding the Supervisory Board's nomination for the election of the auditor for financial year 2019 by the Annual General Meeting. The interim reports were each discussed in detail prior to their publication. The auditor reported on all events material to the duties of the Supervisory Board that had arisen during the conduct of the audit and the auditor's review of the semi-annual financial report. The independence and qualifications of the auditor and additional services rendered by it were the subject of extensive discussions. On the basis of these discussions and the statement of independence by the auditor, it engaged it as auditor for financial year 2019 and specified the focal points of the audit, taking into account the recommendations of the full Supervisory Board. The Committee also addressed the requirements under Regulation (EU) 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities as well as the German Audit Reform Act (*Abschlussprüfungsreformgesetz*, "AReG"). In this connection, the Committee passed a resolution in October 2019 on the approval of non-audit services by the auditor for financial year 2020. Moreover, the Audit Committee addressed the implementation of IFRS 16, which was introduced in 2019, the Company's accounting process and risk management system, as well as the effectiveness of internal audits and the internal control system. In line with its supervisory duties, the Audit Committee obtained reports from the Risk Management Officer and the head of the Internal Audit department regarding the focal points and findings of the audits conducted and the organisation and audit requirements. In addition, the Compliance Officer reported on the Company's compliance regime.

The *Nomination Committee* did not need to meet in the year under review.

The *Conciliation Committee* to be formed as required by law (§ 27 (3) of the German Co-determination Act (*Mitbestimmungsgesetz*, "MitbestG")) did not have to convene in the year under review.

## MEETINGS AND RESOLUTIONS OF THE FULL SUPERVISORY BOARD

The regular discussions in the full Supervisory Board focused on issues such as the revenue development, earnings situation and employment trends of Adler Modemärkte AG and the Group, the financial position, the procurement of goods and the status of efficiency-enhancement measures. The Supervisory Board received regular reports on corporate planning, strategic and business developments, and the current position of the Group.

An extraordinary meeting was held on 19 February 2019. In addition to the discussions surrounding the Company's current business development, the agenda included the audit and approval of the budget prepared by the Executive Board for financial year 2019 and the presentation of a multi-year budget by the Executive Board.

The meeting on 11 March 2019 to discuss the annual accounts was centred around the annual and consolidated financial statements as at 31 December 2018, the management report, the Group management report and the dependent company report. In addition, the Supervisory Board discussed the agenda for the 2019 Annual General Meeting, including resolution proposals, the report of the Supervisory Board and the 2018 Annual Report, as well as the corporate governance report contained therein. The Supervisory Board discussed the Company's investments in the current financial year, as well as the current financial indicators.

By resolution passed outside of a meeting, the Supervisory Board decided on a review of the Sustainability Report. Thus, to follow up on its annual and consolidated financial statements, the Company prepared a separate non-financial report in accordance with § 289b (3) of the German Commercial Code (*Handelsgesetzbuch*, "HGB") and § 315b (3) HGB for financial year 2018 that is not contained in the management report. This report was drawn up by the Executive Board in the form of a separate Sustainability Report, which was reviewed by the Supervisory Board and approved without objections.

The meeting of the Supervisory Board on 7 May 2019 focused mainly on the Company's current financial indicators and of the ADLER online shop and subsidiaries, as well as the status of the store optimisation programme announced in financial year 2019. In that connection, the Supervisory Board also passed resolutions concerning planned transactions requiring its approval. The Supervisory Board also discussed the review of the implementation of the recommendations of the German Corporate Governance Code and resolved to issue a new Declaration of Conformity by the Executive Board and the Supervisory Board in accordance with § 161 of the German Stock Corporation Act (*Aktiengesetz*, "AktG").

Another meeting of the Supervisory Board was held on 31 July 2019. In addition to the report by the Chairman of the Audit Committee on the semi-annual financial report and the audit review findings in this regard, the full Supervisory Board addressed the development of the Company's online business. The Supervisory Board also discussed the current status of the measures included in the store optimisation programme, including new designs and new shop openings in Austria.

The meeting held on 11 December 2019 dealt mainly with the Company's current business development and the audit and approval of the budget prepared by the Executive Board for financial year 2020, as well as the presentation of a multi-year budget by the Executive Board. In this connection and following an in-depth discussion, the Supervisory Board granted the Executive Board its consent for various measures and transactions. Furthermore, the Supervisory Board examined the report by the Chairman of the Audit Committee on the quarterly financial report and the findings and results of the Committee's audit of the effectiveness of the internal control system and internal audits. The Supervisory Board also analysed the findings from its annual efficiency review, and discussed the reporting and advice on issues relating to the areas of purchasing, supply chain management, marketing, and the online shop. The Supervisory Board also discussed the impacts from the upcoming changes resulting from the Act on the Implementation of the Second Shareholders' Rights Directive (*Gesetz zur Umsetzung der zweiten Aktionärsrechterichtlinie*, "ARUG II") and a revised German Corporate Governance Code. With regard to the remuneration of the Executive Board and the related reporting obligations, the Supervisory Board came to the conclusion that it will only be able to conduct a conclusive analysis of the regulatory changes and, above all, the need for action with regard to the existing Executive Board remuneration system in the course of the 2020 financial year after ARUG II has come into force on 1 January 2020 and the new German Corporate Governance Code has taken effect. In addition, the Supervisory Board resolved to issue a new Declaration of Conformity by the Executive Board and the Supervisory Board in accordance with § 161 AktG.

## CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

The Supervisory Board discussed in detail the contents of the German Corporate Governance Code. After the Executive Board and the Supervisory Board had issued a Declaration of Conformity on 8 May 2018, the Executive Board and the Supervisory Board resolved on 7 May 2019 and 11 December 2019, respectively, to issue an updated Declaration of Conformity pursuant to § 161 AktG. This was made permanently available on the Company's website. According to that declaration, the Company has been in conformity with the Code's recommendations since 11 December 2019, with four exceptions, and will continue to be in future.

As previously reported, the work of the Supervisory Board during the year under review stood out by virtue of its high attendance rate of more than 83% for Committee meetings and the meetings of the full Supervisory Board. With the exception of Cosimo Carbonelli D'Angelo and Giorgio Mercogliano, no member of the Supervisory Board attended only half or fewer of the meetings of the Supervisory Board or the meetings of the committees on which they served. Apart from their role as board members and the transactions and legal relationships with related parties referred to in the notes to the annual and consolidated financial statements, the Supervisory Board members have no other legal relationships with the Company. Supervisory Board member Paola Viscardi-Giazzi has contractual and professional ties to companies that are affiliates of S&E Kapital GmbH, Munich. The same applies to Kirsten Fox, who is a partner at Kantenwein Zimmermann Fox Kröck & Partner Rechtsanwälte Steuerberater Wirtschaftsprüfer, which renders services to S&E Kapital GmbH. Therefore, these two Supervisory Board members also have obligations towards the interests of these companies. The interests of these companies might not be identical to the interests of Adler Modemärkte AG, meaning that there is potential for conflicts to arise in individual cases. Apart from this, there was no basis for conflicts of interest on the part of Supervisory Board and Executive Board members in terms of their obligations towards Adler Modemärkte AG.

Apart from this report, the corporate governance of the company is also presented in the Annual Report under the section entitled "Company, Corporate Governance Report". That report was submitted jointly by the Executive Board and Supervisory Board and also contains the full text of the Declaration of Conformity dated 11 December 2019, including the notes on the four deviations from the recommendations of the German Corporate Governance Code.

## AUDIT OF ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, audited the annual financial statements and the consolidated financial statements of Adler Modemärkte AG as at 31 December 2019 prepared by the Executive Board in accordance with German commercial law provisions and the Group management report combined with the management report and issued them all an unqualified auditors' report. The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the supplemental commercial law provisions pursuant to § 315e (1) HGB.

The dependent company report submitted by the Executive Board for financial year 2019, concerning relationships with affiliated companies, was also audited by the auditor. The dependent company report of the Executive Board was issued the following unqualified auditors' report: "After our due audit and assessment, we confirm that 1. the factual statements of the report are correct, 2. the consideration paid by the Company was not unreasonably high for the legal transactions set forth in the report."

The aforementioned documents and the Executive Board's recommendation for the appropriation of net retained profits have been provided to the Supervisory Board in good time. At its meeting on 3 March 2020 the Audit Committee first addressed the aforementioned documents in detail. At the meeting on 11 March 2020, the full Supervisory Board then discussed in detail and audited the aforementioned submissions by the Executive Board after the Committee Chairman had reported on the meeting of the Audit Committee. Both meetings were attended by representatives of the auditor, who reported on the key findings of the audit. It was also found that there are no material weaknesses in the internal control system and the risk early warning system related to the accounting process. In addition, the representatives of the auditor answered questions by the members of the Supervisory Board and confirmed that the risk early warning system established by the Executive Board is suitable for detecting at an early stage developments that may jeopardise the Company as a going concern. The auditor also examined the scope, costs and the focal points of the audit stipulated by the Audit Committee. There are no objections to be raised after audit and discussion of the annual financial statements, the consolidated financial statements, the management report, the Group management report as well as the Executive Board's dependent company report in the Audit Committee and our own audit in the Supervisory Board. The Supervisory Board has approved the findings of the audit by the auditor and unanimously approved the annual financial statements and consolidated financial statements. The annual financial statements are therefore adopted. In the context of adopting the annual financial statements the Supervisory Board thus agreed with the Executive Board's proposal not to pay a dividend.

The Supervisory Board would like to thank the current members of the Executive Board, all employees and the employee representatives of Adler Modemärkte AG for their hard work over the past year in the face of a once again very challenging market environment.

Haibach, 11 March 2020
For the Supervisory Board

Massimiliano Monti
Chairman

# SUPERVISORY BOARD

**Massimiliano Monti** [1*, 2, 3*, 4*] *Milan, Italy,*
Chairman of the Supervisory Board, Partner Equinox S.A.

**Majed Abu-Zarur** [1, 2, 4] *Viernheim, Germany,*
Deputy Chairman of the Supervisory Board,
Chairman of the Joint Works Council at Adler Modemärkte AG

**Wolfgang Burgard** [1, 2*, 3] *Dortmund, Germany,*
Managing Director of Bund Getränkeverpackungen
der Zukunft GbR

**Cosimo Carbonelli D'Angelo** [1] *Naples, Italy,*
Chairman of the Managing Board of G.&C. Holding S.p.A.

**Kirsten Fox**, *Munich, Germany,*
Tax Consultant and Partner at Kantenwein Zimmermann Fox
Kröck & Partner Rechtsanwälte Steuerberater Wirtschaftsprüfer

**Jochen Gröning** [1, 2, 4] *Aschaffenburg, Germany,*
IT Organiser and Chairman of the Works Council Haibach
of Adler Modemärkte AG

**Corinna Groß**, *Neuss, Germany,*
Secretary of the ver.di union, North-Rhine Westphalia District

**Peter König**, *Rottendorf, Germany,*
Secretary of the ver.di union

**Giorgio Mercogliano** [3, 4] *Montagnola – Lugano, Schweiz,*
Partner at Equinox S.A.

**Paola Viscardi-Giazzi** [2] *Dortmund, Germany,*
Executive Board member of Steilmann Holding AG i.I.

**Jürgen Vogt** [2] *Essen, Germany,*
Head of Sales, Adler Modemärkte AG

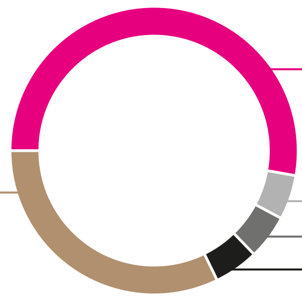
**Beate Wimmer** [1] *Mönchengladbach, Germany,*
Specialist Consultant Information Desk, Cash Desk and Sales
at Adler Modemärkte AG

*Memberships in (as at 31 Dec. 2019): [1] Personnel Committee, [2] Audit Committee, [3] Nomination Committee, [4] Conciliation Committee, * Chairman of the Committee*

# ADLER SHARES

ADLER shares have been traded on the regulated market of the Frankfurt Stock Exchange since 22 June 2011. The share capital of Adler Modemärkte AG is divided into 18,510,000 no-par value bearer shares, each representing a notional interest in the share capital of € 1.00. ADLER shares are admitted to trading on the regulated market (regulierter Markt) and the regulated market sub-segment with additional post-admission listing obligations (Prime Standard) of the Frankfurt Stock Exchange. The shares are included in several Deutsche Börse AG indices, including the CDAX, the Classic All Share, the DAXsector Consumer and the DAX Subsector Clothing & Footwear. ADLER's exchange ticker symbol is ADD; its Reuters instrument code is ADDG.DE.

**SHAREHOLDER STRUCTURE***




** reportable shareholdings, as at 31 December 2019*

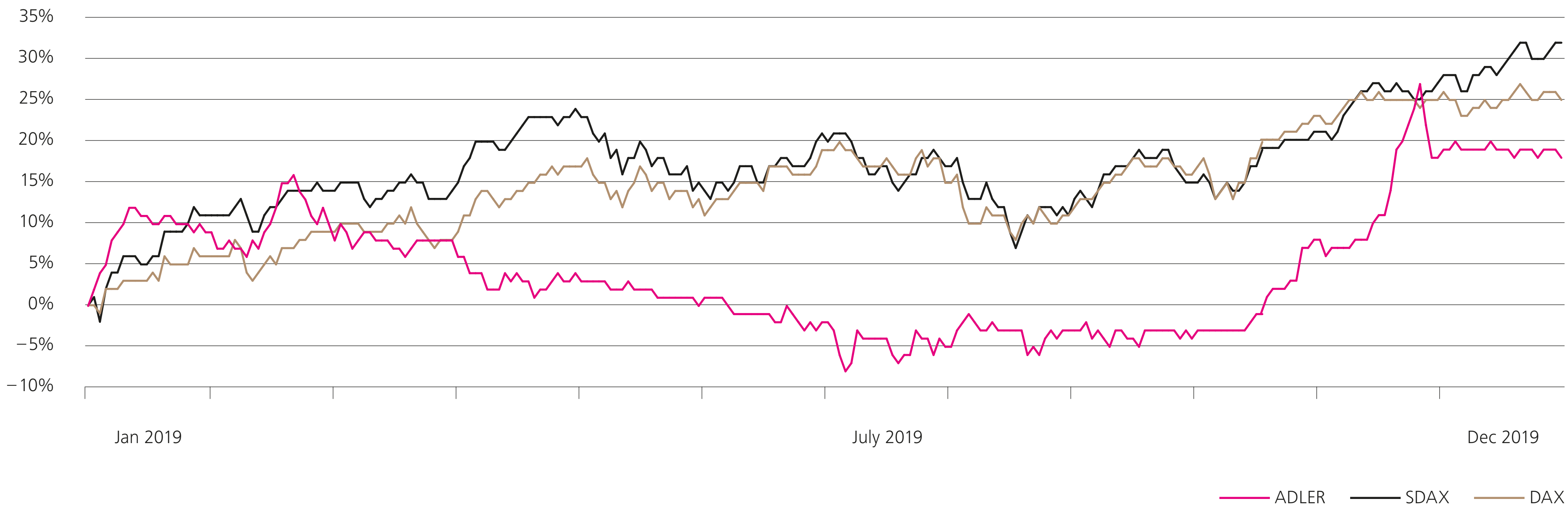
## ADLER'S SHARE PRICE PERFORMANCE

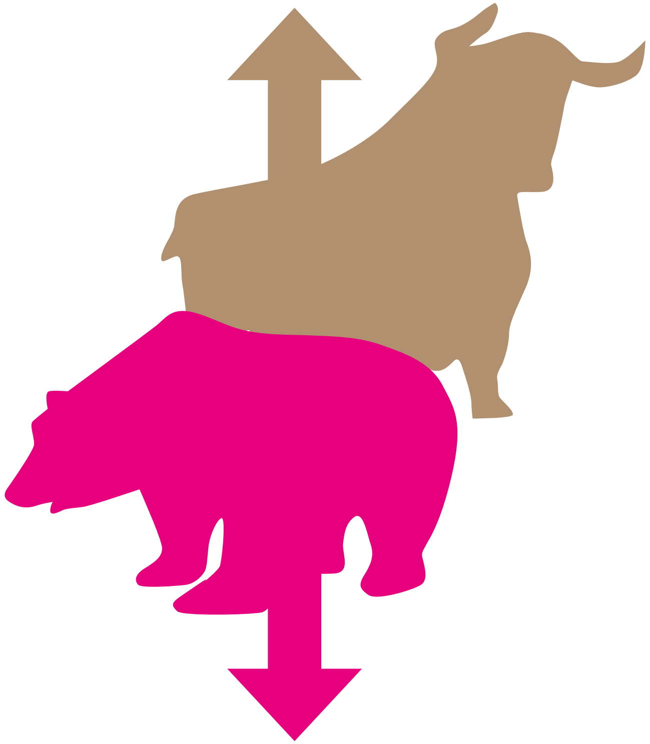
ADLER's share price increased by 18.2% in 2019. The ongoing trade dispute between the United States and China, the delays surrounding Brexit, a weakening economy and heightened fears of a recession in particular led to volatility on the stock markets in 2019. Nevertheless, stock prices rose significantly overall in 2019. Equity markets were boosted as central banks maintained their expansionary monetary policies and businesses posted positive results. ADLER's share price increased significantly during the year in what remained a difficult market environment for textile retailers, with brick-and-mortar textile retailers recording a decline in revenue of 2% in 2019, according to TW-Testclub, a regular survey carried out by German industry magazine TextilWirtschaft. The share price climbed from € 3.18 at the end of 2018 to € 3.76 on 30 December 2019. Following the downward trajectory in 2018, the shares made up ground at the beginning of the year, briefly even outperforming the DAX. ADLER's share price declined slightly through to the end of June, reaching its low point for 2019 of € 2.94 on 5 July 2019. The share price stabilised following the publication of the half-yearly results at the end of July. ADLER's shares then trended sideways before beginning to steadily gain momentum in mid-October and peaking at € 4.04 on 21 November 2019. After dipping slightly, the share price stabilised at a higher level than at the beginning of the year and ended the year up 18.2%.

## ADLER SHARE PRICE VERSUS DAX AND SDAX

The German equities market performed excellently in 2019 despite a fundamentally difficult environment made all the more challenging by the uncertainties resulting from the trade dispute between the United States and China as well as the lack of clarity on Brexit, a weakening global economy and fears of a recession in Germany. Following a massive correction at the end of 2018, the German equities market began 2019 (DAX: 10,580 points; SDAX: 9,569 points) only slightly above the level at the end of 2018. The facts that both indices started at a lower level into the year and that central banks maintained their expansionary monetary policies as well as positive company earnings contributed directly to the exceedingly strong growth of the German stock indices in 2019. The DAX closed out the year on 30 December 2019 at 13,249 points, posting gains of 25.5% during the course of 2019. While the SDAX grew by 31.6% and closed out the year at 12,512 points, ADLER's share price improved by 18.2% during the same period and ended the year at €3.76. Having initially outperformed the DAX in the first quarter, the shares were overtaken during the course of the year before recovering and tracking the DAX and SDAX towards the end of the year.

### ADLER SHARE VERSUS DAX AND SDAX (INDEX AT 30 DECEMBER 2018 = 100)





## DIVIDEND DISTRIBUTION

The Executive Board and Supervisory Board of Adler Modemärkte AG aim to let the shareholders of Adler Modemärkte AG participate commensurately in the Company's profits. However, in light of the net loss reported for financial year 2018, in the previous year ADLER proposed that no dividend be paid; this was also necessary in order to ensure that the Company could continue to finance its future growth on its own. Accordingly, the shareholders did not receive a dividend in 2019 for financial year 2018.

## INVESTOR RELATIONS

Adler Modemärkte AG's Executive Board continued its proactive and candid dialogue with investors, analysts and business media in the period under review. The objective of the extensive investor relations work carried out by the Executive Board and the IR department is to further increase public awareness of ADLER and to inform the various target groups about business performance, business policies and the management's strategies and objectives. The Executive Board aims to help achieve an appropriate valuation for the shares and to ensure sufficient market liquidity by providing this level of transparency. The keynote event was the Capital Markets Day, which the Company held at its Haibach headquarters in early May 2019. The management of Adler Modemärkte AG used the event to present the progress made with ADLER's "2020 Strategy", to give a tour of the renovated ADLER store in Haibach and to answer questions. As in previous years, the Company once again attended the Oddo BHF Forum in Lyon, the Baader Investment Conference in Munich and the German Equity Forum in Frankfurt. In addition, a large number of one-on-one meetings were again held with analysts and investors in 2019.

## DESIGNATED SPONSORS

In financial year 2019, Baader Bank and M.M. Warburg & CO were the designated sponsors of ADLER's shares. A total of five investment firms monitored and prepared analyses on Adler Modemärkte AG and reported on the Company's performance: Baader Bank, Kepler Cheuvreux, Warburg Research, Pareto Securities and Sphene Capital.

# CORPORATE GOVERNANCE REPORT

Effective corporate governance that reflects ADLER's high values and standards goes without saying. Corporate governance stands for responsible and transparent management aimed at adding value sustainably and steering and monitoring the Company. However, since the initial public offering in June 2011, it also stands for efficient collaboration between the Executive Board and the Supervisory Board, attention to shareholder and employee interests and respect for the Company's fundamental values and objectives. Openness and transparency in corporate communication are also aspects of good corporate governance and apply to all parts of the Company. In pursuing and refining these principles, ADLER wishes to continually reinforce the trust of employees, shareholders, investors and the public in the Company. Together, the Executive Board and the Supervisory Board provide the following information on governance measures and implementation in financial year 2019 in accordance with Section 3.10 of the German Corporate Governance Code in the version dated 7 February 2017.

## IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

As a German stock corporation listed on the Prime Standard sub-segment of the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange, ADLER mainly bases its corporate governance on the laws applicable in Germany and the recommendations and suggestions of the German Corporate Governance Code (the "Code"). In financial year 2019, the Executive Board and the Supervisory Board once again discussed in detail the stipulations of the Code (which was not amended in 2019) in the version adopted on 7 February 2017 and published on 24 April 2017. In 2019, the Supervisory Board discussed, among other things, the recommendations concerning Executive Board remuneration, the composition of the Supervisory Board, taking the ownership structure of the Company into account, as well as diversity at the Company at its meetings. The Executive Board remuneration and the related reporting obligations are subject to regulatory amendments, such as the Act on the Implementation of the Second Shareholders' Rights Directive (*Gesetz zur Umsetzung der zweiten Aktionärsrichtlinie*, "ARUG II") and the new version of the Code adopted by the German Corporate Governance Code Government Committee. After conducting a review of the amendments, the Supervisory Board concluded that it will not be able to carry out the final analysis of the regulatory amendments and, above all, determine the need to take action with regard to the existing Executive Board remuneration system until sometime during the course of financial year 2020 after ARUG II has entered into force on 1 January 2020 and the new Code has entered into effect.

After the Executive Board and the Supervisory Board issued a declaration of conformity on 8 May 2018, the declaration of conformity was updated on 7 May 2019 and on 11 December 2019; it is published on ADLER's website and included at the end of this report. Since 11 December 2019, Adler Modemärkte AG complies with all but four recommendations of the Code (see Declaration of Conformity).

### EXECUTIVE BOARD AND SUPERVISORY BOARD

The Executive Board and the Supervisory Board of ADLER work closely together for the benefit of the Company and are in regular contact. An intensive dialogue between the two boards forms the basis for efficient corporate governance. The Executive Board regularly and promptly provides the Supervisory Board with detailed information on any and all issues relevant to the Company. This includes business development, budgeting, the risk situation, risk management, adherence to compliance guidelines and any variances between the business development and the original budget. The Supervisory Board has specified reporting duties of the Executive Board that go above and beyond the statutory obligations. Moreover, there is a regular exchange of information between the CEO and the Chairman of the Supervisory Board.

The German Corporate Governance Code recommends that attention be paid to diversity and reasonable inclusion of women in the Supervisory Board and the Executive Board and when filling management positions.

The *Executive Board* of Adler Modemärkte AG currently has three members, all of whom are male. In its decisions to date, the Supervisory Board has always taken into account the recommendations of the German Corporate Governance Code. Taking into account the Company's best interests and circumstances as well as the target and deadline for meeting it set for the second time pursuant to § 111 (5) of the German Stock Corporation Act (*Aktiengesetz*, "AktG") and laid out in the corporate governance statement pursuant to § 289f (2) no. 4 of the German Commercial Code (*Handelsgesetzbuch*, "HGB"), old version, the Supervisory Board will also continue to pay attention to the greatest possible diversity and reasonable inclusion of women in the work of the Personnel Committee.

When filling *management positions* in the Company, it has always been the ADLER Executive Board's fundamental approach to not only factor in professional qualifications but also to strive for the greatest possible level of diversity and reasonable inclusion of women. Personnel decisions in financial year 2019 were also made on the basis of this fundamental approach. Because diversity translates into opportunity, the ADLER Executive Board will take this principle into account going forward as well in the context of the targets and deadlines set again pursuant to § 76 (4) AktG and laid out in the corporate governance statement pursuant to § 289f (2) no. 4 HGB, old version.

The *Supervisory Board* has a total of twelve members and, pursuant to the German Co-determination Act, has an equal number of shareholder and employee representatives. According to its own estimation, the Supervisory Board has a reasonable number of independent members. Its members should have complementary professional experience and skills in order to duly perform their duties. The members as a whole are also familiar with the sector in which the Company operates. However, the Supervisory Board continues to not specify any targets in terms of its constitution since this would too greatly limit its flexibility in searching for candidates with the necessary expertise and experience. For the same reason, the Company does not stipulate an age or term limit for members of the Supervisory Board either. However, on 8 May 2018 the Supervisory Board adopted a profile of qualifications applicable to the entire board, which will be taken into consideration when people are nominated for election to the Supervisory Board in the future. The Supervisory Board in its current composition meets the requirements of the law and the Articles of Association. The share of female Supervisory Board members is one-third, thus complying with the requirements set out in § 96 (2) AktG.

Information about the board members' areas of responsibility and their CVs are available online on the Company's website under the heading Investor Relations / The Company / Management. For information on the remuneration of members of the Executive Board and Supervisory Board, see the "Remuneration report", which constitutes a component of the management report.

## AVOIDANCE OF CONFLICTS OF INTEREST

In performing their board work, members of both the Executive Board and the Supervisory Board have an obligation towards ADLER's corporate interest. On this basis, personal interests may not be pursued nor may benefits be granted to third parties when decisions are taken. In financial year 2019 there were no conflicts of interest requiring disclosure to the Supervisory Board without undue delay. Transactions involving the Company, its executive bodies and related parties must always be executed at arm's length and approved by the Supervisory Board if they exceed the materiality threshold. No member of the Supervisory Board performed special consultancy or other services for the Company in financial year 2019.

We refer to the notes to the consolidated financial statements for information on the memberships held by Executive Board and Supervisory Board members in statutory supervisory boards and comparable domestic and foreign boards of commercial enterprises. On this basis, one Executive Board member presently holds a supervisory board position in listed non-Group companies or on the supervisory bodies of non-Group companies. The notes to the consolidated financial statements include related party disclosures.

## D&O INSURANCE DEDUCTIBLE

In accordance with the statutory requirements under § 93 (2) sentence 3 of the German Stock Corporation Act (*Aktiengesetz*, "AktG") the Company has taken out financial losses and liability insurance ("D&O insurance") for its executive bodies. The reasonable deductible provided for therein has been agreed for members of the Executive Board as well as for members of the Supervisory Board.

## REPORTABLE SECURITIES TRANSACTIONS AND SHAREHOLDINGS

Persons discharging managerial responsibilities and persons closely associated with them within the meaning of the Market Abuse Regulation (MAR), which specifically includes members of the Executive Board and the Supervisory Board, are required under article 19 MAR to disclose reportable transactions relating to the shares or debt instruments of Adler Modemärkte AG or to derivatives or other financial instruments linked thereto if the total value of the transactions reaches or exceeds €5,000 (from 1 January 2020: €20,000) in a calendar year. No such transactions were reported to the Company in financial year 2019. Detailed information in this regard is published on the ADLER website.

Apart from the share-based remuneration components of Executive Board compensation reported in detail in the remuneration report, the Company currently does not provide any other securities-based incentive systems.

## SHAREHOLDERS AND ANNUAL GENERAL MEETING

The shareholders of Adler Modemärkte AG exercise their rights at the Company's Annual General Meeting, at which each ADLER share is granted one vote. The Annual General Meeting is held once annually for purposes of providing the shareholders with detailed information. The shareholders may exercise their voting right at the Annual General Meeting either themselves or through a proxy of their choice or a Company proxy subject to instruction. In addition, at the 2019 Annual General Meeting, the shareholders were able to vote in writing through a postal ballot without appointing a proxy. Moreover, all key information and documents relating to the Annual General Meeting shall be made available on ADLER's website in good time.

## CONTROL AND RISK MANAGEMENT

At ADLER, professional corporate management based on sound corporate governance also includes the continual and systematic management of corporate opportunities and risks. Risk management and risk controlling to be effected by the Executive Board make a material contribution to the detection and evaluation of risks early on. This makes it possible to effectively reduce and manage risk exposures. The Audit Committee set up by the Supervisory Board not only supervises the accounting, the accounting process and auditing, but also regularly monitors the effectiveness of the internal control, risk management and internal auditing systems as well as compliance. The systems are continually updated and modified in line with changing framework conditions. Interested shareholders will find details in the risk report.

## CORPORATE COMPLIANCE AS A MANAGEMENT DUTY OF THE EXECUTIVE BOARD

ADLER considers corporate compliance – a measure aimed at ensuring adherence to statutory and official provisions, as well as to internal company guidelines – to be a management and supervisory duty. In 2016, the Company published its first sustainability report, underscoring its commitment to social and ecological sustainability. Corporate compliance also includes compliance with capital market, anti-corruption and antitrust law. ADLER has consolidated the understanding of corporate compliance in its code of conduct. This code of conduct, which has been implemented Group-wide, can be accessed on the ADLER website. However, these principles for avoiding violations of anti-corruption, competition and antitrust law also address how to deal with employees, clients, suppliers and company property properly and respectfully. Using the existing principles as a foundation, the objective is to continue to promote the understanding of corporate compliance within the Company through regular employee training. Audits, risk analyses and the lasting implementation of solutions to address issues identified during the course thereof will further improve corporate compliance. The programme will be supported by a whistleblower system that will encourage employees to openly address any concerns they have and report circumstances that may indicate a violation of law or internal guidelines.

## ACCOUNTING AND AUDITING

ADLER's consolidated financial statements and quarterly reports are prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union. The mandatory separate financial statements of Adler Modemärkte AG are prepared in accordance with the provisions of the German Commercial Code (HGB), using the transitional provisions of the Act on the Implementation of the Second Shareholders' Rights Directive (ARUG II) where applicable. For the year under review, the Supervisory Board arranged with the auditor, Pricewaterhouse-Coopers GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, that the Chairman of the Audit Committee be advised immediately of any potential grounds for disqualification or partiality arising during the audit if these cannot be rectified without undue delay.

The auditor shall report without undue delay on any and all key findings and events relevant to the duties of the Supervisory Board that it becomes aware of during performance of the audit. Moreover, the auditor shall inform the Supervisory Board or note in the audit report if it discovers facts in performing the audit that reveal an inaccuracy in the declaration of conformity issued by the Executive Board and the Supervisory Board in accordance with § 161 AktG. Furthermore, the Supervisory Board has obtained a declaration of auditor independence in accordance with Section 7.2.1 of the German Corporate Governance Code. The statutory requirements and rotation obligations under §§ 319 and 319a HGB are met.

### TRANSPARENT CORPORATE GOVERNANCE

ADLER remains committed to ensuring the greatest possible transparency by providing prompt, detailed and regular information on the Company's position and key business changes. Only in this way can the trust investors, capital providers, the media, and the interested public have thus far placed in ADLER be ensured long-term. With the objective of being even closer to the capital market, ADLER pushed forward with its efforts to continue developing its investor relations work in 2019. Moreover, there is an in-depth dialogue at analyst and investor conferences and during teleconferences and roadshows. These are presented regularly to discuss the annual financial statements, the publication of interim reports and current affairs. In addition, the Company publishes the accompanying presentations on ADLER's website.

Information on current developments for the ADLER Group and all publications are available to the shareholders and potential investors online at *www.adlermode-unternehmen.com*. All press releases and ad hoc disclosures by Adler Modemärkte AG are published in German and English under the heading "Investor Relations", under "News & Releases". Apart from ad hoc disclosures pursuant to article 17 MAR, ADLER has a policy of providing transparent and prompt information through press releases, notices on voting rights changes and reportable proprietary trades by senior executives. The Company's Articles of Association and information on implementation of the recommendations of the German Corporate Governance Code may be found in the "Corporate Governance" section, and the consolidated financial statements, interim financial reports and presentations may be found under "Reports & Publications".

In addition, the ADLER website offers extensive, up-to-date information on recurring dates, the date of the Annual General Meeting, publication dates for the financial reports and Company appearances at capital market forums under the heading "Financial Calendar".

## DECLARATION OF CONFORMITY

The Executive Board and the Supervisory Board of Adler Modemärkte AG have issued the following declaration:

**"Declaration of the Executive Board and Supervisory Board of Adler Modemärkte Aktiengesellschaft relating to the recommendations of the "German Corporate Governance Code Government Committee" as per Section 161 of the German Stock Corporation Act (*Aktiengesetz*, "AktG"):**

The Executive Board and Supervisory Board of Adler Modemärkte AG declare that the recommendations of the German Corporate Governance Code ("Code") as amended on February 7, 2017, published by the Federal Ministry of Justice on April 24, 2017 in the official section of the Federal Gazette, were complied with during the time period since the last Declaration of Conformity from May 7, 2019 and will be complied with in the future with the following exceptions:

**Disclosure of Executive Board remuneration (Section 4.2.5 para. 3 of the Code)**
The Company's Annual General Meeting on May 30, 2011, and May 4, 2016 passed a resolution that there would be no individualized disclosure of Executive Board remuneration. Therefore, the Company does also not implement the recommendations in Section 4.2.5 para. 3 of the Code which relate to the disclosure of the remuneration of each member of the Executive Board and the use of according model tables.

**Re-appointment of Members of the Executive Board (Section 5.1.2 para. 2 sent. 2 of the Code)**
In its decision dated July 17, 2012 (Az. II ZR 55/11), the Federal Court of Justice (Bundesgerichtshof, "BGH") generally permitted the early re-appointment after the consensual resignation of a member of the Executive Board prior to one year before the end of the original appointment period. In the opinion of the BGH, this generally also applies if there are no special circumstances for this course of action. Based on this decision and the requirement of a resolution by the Supervisory Board, which must act in the interest of the company, we do not consider necessary additional preconditions ("special circumstances") and we declare, as a precautionary measure, a deviation from the recommendation in Section 5.1.2 para. 2 sent. 2 of the Code.

**Composition of Supervisory Board (Section 5.4.1 para. 2 and 4 of the Code)**
The Company's Supervisory Board has not named any specific targets relating to the composition of the Board; for that reason, there is also no publication of the target and status of implementation as well as the numbers and names of the independent members of the shareholder representatives according to the assessment of the Supervisory Board in the Corporate Governance report. It is true that the Supervisory Board aims to have members with different and complementary professional experience and skills. Nevertheless, the Supervisory Board believes that the stipulation of specific targets would restrict the flexibility of the Supervisory Board too greatly in its search for candidates with the necessary ability and experience. For the same reason, the Company does not stipulate neither an age limit for members of the Supervisory Board nor a control limit for the term of membership in the Supervisory Board. However, the Supervisory Board compiled a competence profile for the plenum on 8 May 2018 which will be taken into consideration with regard to nominations of the Supervisory Board in the future.

**Consideration of ownership structure (Section 5.4.2 sent. 1 sub-clause 2 of the Code)**
The Supervisory Board of the company is to co-determination on a parity. Therefore the Supervisory Board consists of in each case six shareholder and employee representatives. In the assessment of the Supervisory Board the Supervisory Board has a sufficient number of independent members and therefore considers its composition as appropriate and serving all interests. In the present circumstances the Supervisory Board sees no necessity to further consider the ownership structure in its composition.

Haibach, December 11, 2019

**Adler Modemärkte Aktiengesellschaft**

The Executive Board The Supervisory Board"

## CORPORATE GOVERNANCE STATEMENT

Further information on the Company's Corporate Governance, particularly the working method of the Executive Board and the Supervisory Board, the targets set pursuant to § 76 (4) and § 111 (5) AktG and on key corporate governance practices is contained in the Corporate Governance Statement under § 289f HGB, old version, and § 315d HGB in conjunction with §289f HGB, old version, which is published on ADLER's website (*www.adlermode-unternehmen.com*) under the heading Investor Relations/Corporate Governance.

# GROUP MANAGEMENT REPORT

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# GROUP MANAGEMENT REPORT

## SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

In August 2019, Adler Modemärkte AG announced an update on its strategy for expanding the online business. The strategy calls for the implementation of a new online shop system, which will be available for use by customers by no later than 2021. The goal in the medium to long term is to position ADLER as a network platform for its target groups. Cooperating with established online players is also part of this. For example, the sales channels established in 2019 for ADLER products on Otto.de and Amazon are showing positive results.

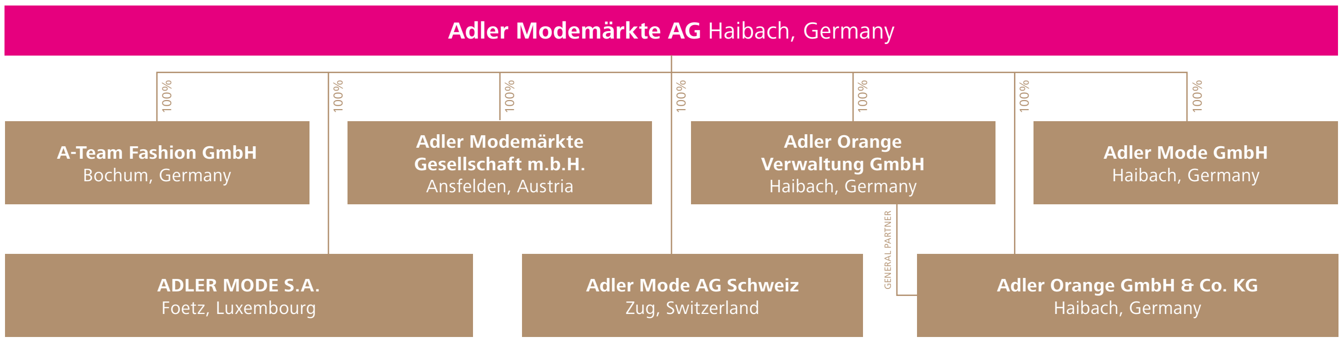
In September 2019, Adler Modemärkte AG successfully implemented its plans, communicated in March 2019, to fully roll out the "TORY" service robot. In the period from April 2019 to August 2019, the automated inventory-keeping robot was rolled out at 40 additional Adler stores, meaning that there are now a total of 45 robots in service. "TORY" continually tracks the complete inventory of all RFID-tagged products in order to ensure that stores are fully stocked.

## BUSINESS & GENERAL CONDITIONS

### GROUP STRUCTURE AND CORPORATE ORGANISATION

Adler Modemärkte AG, having its registered office in Haibach near Aschaffenburg, is the strategic and operating holding company of the ADLER Group. In Germany, ADLER operates stores itself and via its wholly owned subsidiaries Adler Mode GmbH, Haibach, and Adler Orange GmbH & Co. KG, Haibach. In Luxembourg, Austria and Switzerland, ADLER operates its stores via the wholly owned subsidiaries ADLER MODE S.A., Foetz, Luxembourg, Adler Modemärkte Gesellschaft m.b.H., Ansfelden, Austria, and Adler Mode AG Schweiz, Zug, Switzerland, respectively. A-Team Fashion GmbH, Bochum, is primarily responsible for vertical product refinement, in particular the design of and production processing of the Steilmann product range. GBS Grundstücksverwaltungsgesellschaft m.b.H., Vienna, Austria, became a member of the ADLER Group on 3 May 2017 and was merged with Adler Modemärkte Ges.m.b.H, Ansfelden, Austria, with retroactive effect to 31 December 2018. In its function as the Group parent, Adler Modemärkte AG oversees the areas of responsibility affecting all companies within the Group. These include procurement and marketing, IT infrastructure management, finance and accounting, internal audit and controlling, and legal issues.

As at the end of the reporting period the structure of the ADLER Group was as follows:



## GENERAL DESCRIPTION OF BUSINESS ACTIVITIES

Adler Modemärkte AG is a major German clothing retailer which in 2018 was ranked 22nd among the top 100 retailers by the industry magazine TextilWirtschaft (2017: 23rd place). At the end of 2019, the Group operated a total of 172 stores (2018: 178), 143 (2018: 150) of which in Germany, 24 (2018: 23) in Austria, three in Luxembourg and two in Switzerland. The Company also operates an online shop at *www.adlermode.com*.

In terms of fit, fashionability, functionality and quality, ADLER's product range is primarily tailored to the age group of over 55-year-olds, whose share of the population is set to grow by around 10% to around 33 million over the next decade. ADLER offers this target group high-quality products that represent attractive value for money in the lower mid-range price segment. The product range includes a broad selection of womenswear, menswear and underwear. With a supplementary range consisting of accessories, footwear, kidswear and babywear, traditional dress and durable goods, ADLER offers a well-rounded product portfolio, thus harnessing the cross-selling potential in its stores.

The Group's own brands are ADLER's main revenue drivers. At the end of the 2019 financial year, these included Bexleys, Malva, Thea, My Own, Via Cortesa, Viventy by Bernd Berger and Steilmann for women, as well as Bexleys, Senator, Eagle No.7, Big Fashion, Via Cortesa and Bernd Berger for men. These represent approximately 85% of the Group's revenue and the majority of its earnings. ADLER also offers nationally and internationally recognised external brands for womenswear, menswear and kidswear at many of its stores.

As part of its strategic alignment, ADLER will in future focus more strongly on its high-margin own brands and gradually reduce its external product range. This will allow ADLER to ensure that the products offered meet the needs of its target group and prevent the cannibalisation of its own brands.

## CORPORATE GOVERNANCE

The ADLER Group is managed by the Executive Board, which in particular sets the Group's strategic course. Group strategy is implemented on an operational level in close co-operation with the sales managers and the heads of central Group departments. The organisational and managerial structure clearly assigns internal authorities and responsibilities within the Company and defines reporting lines. The structure aligns all Company resources with the goal of sustainably increasing enterprise value.

## REVENUE AND EBITDA AS KEY PERFORMANCE INDICATORS

As a growth-oriented company, ADLER attaches particular importance to profitably increasing revenue. All activities undertaken to boost revenue are measured against their potential to sustainably increase EBITDA and the EBITDA margin. EBITDA was selected because it provides the best information on the profitability of the actual operating activities while excluding any non-recurring factors. The gross profit margin is the primary EBITDA driver. The most important measures in this context are improvements in procurement as well as the optimisation of merchandise management and the rebates policy. Moreover, other operating expenses are strictly monitored.

## CORE ELEMENTS OF THE INTERNAL CONTROL SYSTEM

The Group's planning, controlling and monitoring activities are geared towards optimising the aforementioned key performance indicators. The Group financial planning, the Group-wide computerised reporting system and investment financial control make up the core elements of the Company's internal control system.

The Executive Board and the Financial Control and Purchasing departments are responsible for managing inventories and trade payables. Since merchandise is sold directly to end consumers against cash, EC card or credit card payments, trade receivables are of marginal importance to ADLER.

The Group's investing activities focus on the expansion and modernisation of its retail sales activities. The investment financial control process first estimates the investment volume and then calculates the return on investment (ROI) as part of a profitability analysis. On this basis, cross-divisional investment meetings are held regularly to decide which investments to make.

## REGULAR UPDATES OF GROUP FINANCIAL PLANNING AND PROJECTIONS

The Group financial planning is developed for a three-year period and uses regular projections for the current financial year. The three-year budget is prepared annually as part of the Group-wide budget process and takes the current business situation into account. During the planning process, the Executive Board sets planning and business objectives for the operating units on the basis of Group targets. The units prepare an earnings forecast and determine the necessary investment levels on the basis of these objectives.

In order to extrapolate the expected consolidated profit or loss for the current year, the annual budget is revised at regular intervals taking into account actual business performance and the existing opportunities and risks. The Financial Control department also prepares weekly projections regarding liquidity developments on the basis of the Group's expected performance. This allows financial risks to be identified early on and appropriate measures to be taken to address financing requirements.

Details regarding the management of financial risks can be found in the risk report.

## GENERAL ECONOMIC ENVIRONMENT

2019 was marked by a number of economic and geopolitical uncertainties. Brexit and the trade conflict between the United States and China dominated the news over the course of the year, and hampered growth in many regions. Weakening economic outlooks triggered fears of a recession in Germany in particular, which is especially affected by the global economy due to the country's significant reliance on exports. In January 2020, the International Monetary Fund (IMF) revised downwards its forecast for global economic growth for 2019 to 2.9%. In 2018, global economic growth had been 3.6%. 2019 is thus expected to have seen the weakest global economic growth in a decade. For the eurozone, the IMF expects growth in 2019 to be 1.2%, significantly lower than the 1.9% recorded for 2018. Since the autumn of 2019, indications of easing in the trade conflict between the United States and China have raised hopes of an economic rebound. In Germany as well, the ADLER Group's most significant market, this was evidenced by the Ifo Business Climate Index rising to 96.3 points in December 2019, the highest level in six months. According to the German Federal Statistical Office, in 2019, Germany experienced GDP growth for the tenth consecutive year. However, the pace of growth slowed significantly from 1.5% in the previous year to 0.6%. In Austria, where ADLER operated 24 stores, economic growth continued to lose steam in 2019, according to the Austrian Institute of Economic Research (*Österreichisches Institut für Wirtschaftsforschung*, "WIFO"). According to the WIFO, adverse external forces restrained Austrian exports. However, persistently favourable financing terms, fiscal incentives and robust consumer demand led Austrian GDP to grow by 1.7% (previous year: 2.4%).

The OECD is forecasting a 1.0% GDP increase for Switzerland and a 2.3% rise for Luxembourg. However, these countries are thus far of minor importance for ADLER, as the Group only has three stores in Luxembourg and two in Switzerland.

### CONSUMER SENTIMENT IN GERMANY WITH SLIGHTLY NEGATIVE TREND

The market research institute GfK found a slightly negative trend for the consumer climate in 2019. The consumer climate index at the end of the year was down to 9.7 points, one point below the level of the previous year. According to the GfK, it is thanks to the ECB's low interest rate policy and the resultant decrease in the propensity to save that consumers did not let incipient fears of a recession spoil their spending mood. The institute forecasts a 1.5% jump in private consumption for the overall year. The consumer climate indicated by GfK thereby explicitly referred to private consumer spending as a whole. Depending on what definition is used, retail makes up roughly 30% of private consumer spending. The rest is comprised of services, travel, rent, healthcare services and the entire wellness industry, which has an indirect impact on retail. In 2019, revenue in the German retail sector again rose, for the tenth consecutive year.

The German Federal Statistical Office expects real revenue to increase price-related year on year in 2019 by 2.86% to 3.01% price adjusted. According to the German Federal Statistical Office, revenue from online and mail order business posted above-average growth of 7.4% between January and November 2019. Thus, the share of e-commerce in total revenue will once again increase during the year under review. The Bundesverband E-Commerce und Versandhandel e. V. (bevh), Germany's association for e-commerce and mail order business, expects e-commerce revenue to reach roughly €70 billion.

According to estimates by Statistik Austria and the WIFO, private consumer spending in Austria rose 1.5% year on year in 2019.

### BRICK-AND-MORTAR FASHION RETAILERS

Brick-and-mortar fashion retailers continued to shrink in 2019. For 2019 as a whole, the TW-Testclub, a regular survey carried out by German industry magazine TextilWirtschaft, expects a drop of 2%. This corresponds to a decrease of this magnitude for the fourth year in a row. For the overall year, in seven out of twelve months, earnings were down year on year. Although brick-and-mortar fashion retail started 2019 down by 3% in January, it managed to maintain its revenue in Q1 2019 at the same level as in the previous year. However, the first half of the year was weak overall, with revenue falling by 1% year on year on average. According to a majority of retailers participating in the TW-Testclub survey, this development was caused by a lack of customer footfall, poor weather and a faltering consumer sentiment. By contrast, according to those surveyed, revenue improved in the first half of the year. Following slight overall growth in revenue in the third quarter of 2019, fashion retailers saw revenue decline once again in the following months according to the TW-Testclub. The significance of December to brick-and-mortar fashion retailers also diminished this year. Revenue fell by 6% in this month.

## DEVELOPMENT AND ANALYSIS OF REVENUE

### DEVELOPMENT OF REVENUE

In financial year 2019, consolidated revenue decreased by 2.3% to €495.4 million (2018: €507.1 million). ADLER was unable to buck the trend of a weak industry environment which saw declining sales across the board in the clothing retail industry. In the first half of the year, poor weather and a muted consumer sentiment weighed down earnings. Moreover, the Christmas business diminished in importance.

On a like-for-like basis, revenue for the past financial year remained down year on year by 1.0%.

### SEASONAL, QUARTERLY PERFORMANCE

Over the course of a financial year, the ADLER Group's net revenue and EBITDA fluctuate from quarter to quarter in line with the nature of the industry. In the second and fourth quarters, it is generally possible to sell merchandise at the calculated sale price. This is true in particular for the first weeks of those quarters, and has a positive influence on revenue and earnings. The fourth quarter is ADLER's highest-margin quarter by far due to higher-priced winter merchandise and the stimulating effect of the holiday business. By contrast, the first and third quarters of the calendar year are each marked by clearance sales of seasonal merchandise. This impacts not only the Group's revenue potential, but also its earnings.

### DEVELOPMENT OF REVENUE BY QUARTER

A quarterly analysis reveals the following: In 2019, ADLER was unable to buck the negative trend in the textile retail industry. In the traditionally weak first quarter, revenue fell by 3.3% to €99.3 million (Q1 2018: €102.7 million). In the second quarter, revenue decreased by 2.6% to €136.7 million (Q2 2018: €140.4 million). In the third quarter, revenue rose by 0.3% to €117.6 million (Q3 2018: €117.3 million). In the fourth quarter of 2019, revenue fell by 3.4% to €141.7 million (Q4 2018: €146.7 million).

On a like-for-like basis, revenue decreased in three quarters, namely by 2.8% in the first, 1.0% in the second, and 1.9% in the fourth quarter. In the third quarter, the Company managed to show a growth of 1.9%.

### ANALYSIS OF REVENUE BY COUNTRY

In financial year 2019, ADLER generated €406.6 million (82.1%) of its consolidated revenue in its traditional core market, Germany (2018: €417.8 million). In Austria, the Company generated revenue of €67.8 million (2018: €68.2 million), corresponding to 13.7% of ADLER's total revenue. Revenue in Luxembourg declined to €17.1 million (2018: €17.8 million). The share of total revenue amounted to 3.5%. In 2019, ADLER's two stores in Switzerland increased revenue, generating €3.8 million as compared to €3.4 million in 2018.

# FINANCIAL PERFORMANCE

## GROSS PROFIT MARGIN RISES

Due to a more efficient purchasing policy, an established product lifecycle management system and a lower level of inventory discrepancies, the 4.5% decline to € 219.5 million (2018: € 229.8 million) in the ADLER Group's cost of materials was more pronounced than the decrease in revenue. In financial year 2019, gross profit (revenue less cost of materials) decreased in absolute terms to € 275.9 million year on year (2018: € 277.3 million). However, the gross profit margin increased from 54.7% to 55.7%.

ADLER will continue its policy of avoiding excessive price markdowns. The Company will work to further optimise its inventory management system and continuously increase the share of merchandise in its product range that is directly sourced.

Other operating income primarily included rental income, reversals of provisions, construction subsidies, income from special projects and income from the hanger recycling project. The figure was € 5.7 million compared with € 6.1 million in financial year 2018.

## PERSONNEL EXPENSES

In 2019, personnel expenses rose by 2.1% to € 99.5 million (2018: € 97.5 million) due to voluntary wage and salary increases under the collective bargaining agreement and expenses for the transformation. This figure included expenses for staff redundancies and transfers stemming from the closure of unprofitable stores and the transformation of the administrative functions resulting from the restructuring and strategic realignment introduced as part of "Strategy 2020" amounting to € 3.2 million (previous year: € 2.4 million). In addition, expenses for provisions for bonuses increased by € 2.4 million.

## OTHER OPERATING EXPENSES

In 2019, other operating expenses decreased to € 111.9 million (adjusted: € 111.3 million) as compared with € 117.1 million in 2018 (adjusted: € 114.1 million), corresponding to 22.6% of consolidated revenue (2018: 23.1%). This item includes in particular building management expenditures, marketing and advertising outlays, freight and transport expenses, and costs for technical facilities. Transformation costs amounting to € 0.6 million were adjusted. In the previous year, consulting fees relating to the strategic realignment and closure costs and one-off expenditures in connection with the switch of the logistics provider were adjusted by approximately € 3.1 million.

## EARNINGS

In total, EBITDA of € 70.3 million (adjusted: € 74.1 million) was generated in financial year 2019 (2018: € 68.8 million/adjusted: € 74.3 million). The EBITDA adjustment in financial year 2019 included non-recurring expenses related to the strategic realignment, primarily in relation to the transformation taking place at Group HQ and in the store network amounting to € 3.8 million (2018: € 5.5 million in transformation costs and consulting fees).

In financial year 2019, depreciation, amortisation and write-downs amounted to € 45.8 million, thereby falling below the prior-year figure (€ 47.7 million) by € 1.9 million. This decrease was attributable to the termination of several finance leases and a reduction in property, plant and equipment. Non-recurring expenses relating to depreciation and amortisation amounting to € 0.5 million (2018: € 0.8 million) resulted from impairments of property, plant and equipment.

EBIT increased from 21.0 million (adjusted: € 27.0 million) to € 24.5 million (adjusted: € 28.8 million). The EBIT margin thus amounted to 5.0% (adjusted: 5.8%) compared to 4.2% in the previous year (adjusted: 5.3%).

Net finance costs amounted to € 16.7 million (previous year: € 18.5 million). EBT amounted to € 7.9 million during the year under review (adjusted: € 12.1 million) compared with € 2.6 million in the previous year (adjusted: € 8.6 million).

In financial year 2019, income taxes increased year on year, amounting to € 2.7 million (adjusted: € 4.0 million) as compared with € 2.2 million in 2018. The consolidated net profit for the year rose from € 0.4 million in 2018 to € 5.1 million in 2019 (adjusted: € 8.2 million).

## EARNINGS PER SHARE

The net earnings per share amounted to € 0.28 or € 0.44 on an adjusted basis (based on 18,510,000 no-par value shares). Earnings per share had amounted to € 0.02 in the previous year or € 0.25 on an adjusted basis (based on 18,510,000 no-par value shares).

# FINANCIAL POSITION AND CASH FLOWS

## FINANCIAL POSITION

The ADLER Group's total assets as at 31 December 2019 decreased year on year to € 409.4 million (2018: € 415.9 million). Property, plant and equipment and right-of-use assets decreased to € 231.0 million (2018: € 244.4 million). This included expenditures for the modernisation of existing stores, including the associated procurement of other office equipment for store construction, as well as finance leases. The right-of-use assets primarily relate to leased store buildings, whereby the Group is deemed the beneficial owner for the purpose of the underlying lease agreements.

Inventories at the end of the reporting period decreased by € 5.3 million to € 73.4 million (2018: € 78.7 million) as a result of the decline in revenue.

The ADLER Group's cash and cash equivalents increased from € 54.9 million to € 70.1 million.

Group equity rose to € 66.1 million (2018: € 61.6 million). The equity ratio, at 16.1%, exceeded the prior-year figure (2018: 14.8%). For 2018 as a whole, no dividend was paid to the shareholders of Adler Modemärkte AG, after a € 0.9 million dividend had been paid out in the previous year.

## DEBT/EQUITY RATIO

As at 31 December 2019, ADLER's liabilities decreased by € 11.1 million to € 343.3 million (2018: € 354.4 million). As at the end of the reporting period, ADLER had no liabilities to banks. Liabilities comprised in particular lease liabilities (€ 264.7 million; 2018: € 275.6 million), liabilities from the customer loyalty card programme (€ 11.7 million; 2018: € 9.8 million), and current and non-current financial liabilities (€ 1.9 million; 2018: € 2.3 million).

The provisions for pensions and similar obligations increased by € 0.4 million to € 5.6 million (2018: € 5.2 million), and income tax liabilities amounted to € 0.3 million (2018: € 0.3 million). The debt/equity ratio of 5.19 was down on the previous year's ratio (2018: 5.75).

## WORKING CAPITAL

Working capital (inventories plus trade receivables, less trade payables) decreased by € 6.1 million to € 47.5 million as at the end of the reporting period (2018: € 53.6 million). The working capital ratio (working capital in relation to revenue) declined to 9.6% (2018: 10.6%).

## CASH FLOW MANAGEMENT

Cash flows from operating activities (net cash flow) are one key indicator of ADLER's operating earnings power. Net cash flow increased during the year under review from € 39.9 million to € 61.7 million. Cash flows used in investing activities amounted to € 4.2 million (2018: € 5.9 million).

Free cash flow increased in 2019 by € 23.5 million to € 57.4 million (2018: € 33.9 million).

Cash flows used in financing activities totalled € 42.3 million, on par with the prior-year's figure.

As at the end of the reporting period, the ADLER Group's cash and cash equivalents amounted to € 70.1 million, representing an increase of € 15.2 million from € 54.9 million as at 31 December 2018.

## INVESTMENT

The ADLER Group's investments (excl. finance leases) during financial year 2019 totalled € 4.7 million (2018: € 6.2 million). Of that amount, € 3.7 million (2018: € 4.4 million) was invested in property, plant and equipment (land, buildings, and operating and office equipment). Investments in intangible assets amounted to € 1.0 million (2018: € 1.8 million). This figure mainly related to IT investments. Capital expenditure commitments included investments that had already been authorised as at the reporting date. Investments during the year under review included new store openings as well as the modernisation of existing stores.

Intangible assets decreased as the result of the trend towards entering into Software-as-a-Service agreements.

# PROCUREMENT

The ADLER Group does not currently operate its own production facilities. Instead, product ranges are imported directly from Asia, India, Turkey, Greece, northern Africa and eastern Europe at cost-effective prices, as well as indirectly through importers and brand manufactures. The focus of procurement and logistics is to purchase high-quality products at low prices, secure the reliable delivery of the merchandise and optimally showcase it to customers at the Company's own stores.

ADLER has many years of experience in procuring textiles in Asia. These are produced mainly with a core group of suppliers, which represented 68.2% of the purchasing volume in financial year 2019.

ADLER markets products under its own brand name or under external brand names (brand-name items). Since the second quarter of 2018, own-brand products have been directly procured in Asia in cooperation with the procurement agents OI (OTTO International). The agent bundles the procurement activities of the Otto Group as well as other well-known textile retailers in Germany and elsewhere in Europe.

ADLER's purchasing departments also work directly with producers in Turkey, eastern Europe and Greece. Since the acquisition of the Steilmann brand and team in 2016, ADLER has also gained extensive know-how about manufacturing in eastern Europe as well as vertical direct supply.

In financial year 2019, ADLER purchased merchandise valued at a total of € 199 million. 20.3% of this amount was attributable to the purchase of merchandise within the portfolio of strategic external brands. ADLER therefore in financial year 2019 fulfilled the strategic goal to further consolidate the external brands. Of the own brands, merchandise valued at €98.7 million was purchased from sourcing agents in Asia and merchandise valued at € 10.6 million was purchased directly from producers.

One of the Company's strategic objectives is to increase its gross profit. To this end, it is steadily expanding the share of direct supply in Asia and Europe, whereas procurement via importers is gradually being scaled back. In financial year 2019, the share purchased from EU-based importers was only 18.2%, or € 36.2 million. The objectives of the recent policy shift in favour of direct procurement were therefore also achieved.

ADLER made further enhancements to its purchasing process in 2019 and introduced its own supplier evaluation. Strategic partnerships were strengthened through the consolidation of suppliers and the Company was able to significantly increase its relevance in the individual procurement markets.

In order to diversify risk and to avoid becoming dependent on particular procurement markets, ADLER distributes its purchase volumes evenly across a worldwide network of suppliers.

Furthermore, an optimised mixture of Asian and European producer countries assists in ensuring that goods are delivered as needed and also allows the Company to react quickly to changes in demand and always have NOS (never-out-of-stock) goods on hand.

## DISTRIBUTION, SALES & MARKETING

In 2019, ADLER continued to develop its strategic direction along the value chain. All strategic measures revolve around tailoring the full range of products and services even more closely to the target group. ADLER focuses on women and men aged 55 and above who want high-quality clothing at attractive prices. The Company already enjoys a leading market position with this demographic group in the DACH region (Germany, Austria, Switzerland and Luxembourg), which it wishes to further strengthen and expand. The aim is to create a brick-and-mortar and digital platform for "best agers" and to become the number one choice to meet their fashion needs with regard to style, fit, quality and service.

ADLER's target group of women and men aged 55 and over will make up at least one third of Germany's population in the next few years (source: German Federal Statistical Office). ADLER's strategy, which focuses on profitable growth, aims to achieve even better penetration of this growth market in future. With this in mind, ADLER's primary objective is to create greater loyalty to the ADLER brand among existing customers in order to increase its share of wallet (proportion of a customer's total spending on a specific product group) without losing its focus on acquiring new customers.

ADLER pursues a multi-channel strategy here, whereby customers consistently have a positive brand experience both in brick-and-mortar stores and the online store. An example of this is the in-store assistant (ISA) introduced in 2019. With the help of ISA customers can order items online that are currently not available in stores. This establishes a direct connection between both sales channels. The already established Click & Collect service, which allows customers to order online and pick up or return the merchandise at a store, also steers customers towards brick-and-mortar stores. Launched in the second half of 2019, the order hotline established another sales channel aimed primarily at customers who are unable to purchase online or in brick-and-mortar stores.

### BRICK-AND-MORTAR SALES STRATEGY

For its brick-and-mortar business, ADLER focuses on large-space retail concepts: the space occupied by the stores it operates is usually between 1,500 m² and 4,000 m². Large sales floors with wide aisles, spacious fitting rooms and rest areas exemplify the Company's customer-oriented approach. At the end of 2019, the Company had an extensive brick-and-mortar sales network spanning 172 stores, with 143 in Germany, 24 in Austria, 3 in Luxembourg and 2 in Switzerland.

In addition to economic factors and the size of the catchment area, the key criteria for selecting a store location are easy accessibility for customers and free parking. Most ADLER stores are therefore located in retail parks and on greenfield land. The stores in shopping centres and in city locations are also an important mainstay for ADLER.

Under the optimisation programme, seven stores in Germany and one store in Austria were closed in 2019 (Herne, Neumünster, Worms, Peine, Neustadt, Munich. Heilbronn and Wörgl), and lease agreements were renegotiated in order to improve cost structures. At the same time, four stores were opened/reopened in attractive locations, offering great revenue potential. They included the reopening of two stores after renovations in Freiburg and Leipzig-Seehausen, and the opening of two new stores in Fohnsdorf and Zell am See in Austria.

ADLER believes that the greatest potential for short- and medium-term revenue growth lies in directly addressing existing customers (increasing the share of wallet), as well as winning back selected former customers and acquiring new customers.

Customer surveys have shown that ADLER customers highly value service and personal advice. For this reason, well-trained, motivated and approachable sales staff play a key role in ADLER's brick-and-mortar stores. ADLER fulfils these customer needs by aligning staff planning with peak times to an optimal extent, and continually enhancing the sales skills of its staff.

The use of innovative technologies helps to generate cost benefits and to optimise internal processes. For example, the Company-wide implementation of RFID (radio frequency identification) in 2014 provided the foundation for the service robot, "TORY", which was rolled out in 2019 and is now used in 45 ADLER stores. "TORY" continually tracks the complete inventory of all RFID-tagged products in order to ensure that stores are fully stocked and to free up ADLER store employees to assist customers. ADLER is constantly reviewing how the RFID technology might be able to be used for other enhancements. Every idea considered is subject to the requirement of an appropriate cost-benefit ratio.

## ONLINE SALES STRATEGY

As part of the multi-channel strategy, ADLER operates an online shop in Germany, Austria and Luxembourg at *www.adlermode.com*. Items can also be shipped to the Netherlands and Belgium.

In financial year 2019, ADLER's online shop had 11.7 million visitors, about 11% more than in the previous year. Revenue generated through the online shop grew 3.1% in 2019 to € 9.9 million, which represents about 2% of the Group's total revenue (2018: 1.9%). The marketplace business and the order hotline were expanded in 2019.

The online shop serves as ADLER's display window and mainly shows rapidly changing ranges in traditional women's fashions for blouses, jackets and dresses. It also offers men's fashion brands and niche products such as plus sizes and traditional dress. In the year under review, the average online customer was 57.1 years old, thus younger than the average in-store customer who was 63.1 years of age. The online shop is therefore fulfilling an important function of reaching and maintaining younger customers.

There is also differentiation between the methods of digital ordering within the online environment. For example, approximately 54% of customers accessed ADLER's online shop from mobile devices in 2019, thus exceeding the previous year's level. The ADLER app, launched in the spring of 2017, is of growing significance in this context. As part of the strategic realignment in 2019, the app's functions were considerably expanded to offer users additional benefits and to further enhance brand loyalty. Continual improvement of the app is a priority.

Alongside its own online shop, ADLER also makes greater use of third-party digital selling platforms to offer selected own-brand products. In addition to being available on Amazon, ADLER's products have been available on Otto.de since March 2019. This move should also improve brand recognition and increase revenue.

## MARKETING

As an operator of large-space retail stores, mainly in peripheral locations, ADLER uses extensive brand and product advertisements to draw the attention of customers to the range of products available in stores and to encourage them to visit a store. In financial year 2019, advertising expenditure amounted to € 42.5 million, down 2.1% against the prior-year figure, among other things due to the renunciation of TV advertising.

## THE ADLER LOYALTY CARD

The ADLER loyalty card is a key marketing tool. The system dates back to 1974, has a long tradition has been well established for 45 years. It is one of the oldest and most successful customer loyalty programmes in Germany. The ADLER loyalty card works on the basis of the following principle: ADLER loyalty cardholders receive three points in their respective shopping basket for every euro spent. These points can be redeemed on the customer's next purchase (one point = one cent). In financial year 2019, the loyalty card programme had some 3.1 million members and registered a total of approximately 92% of the Company's revenue.

### ADVERTISING

As part of its strategic realignment, ADLER has modified its communications strategy and is now primarily focussing on advertising targeted at existing customers, without neglecting efforts to acquire new customers. Against this background, the formats used to date to reach customers have undergone a further, detailed cost-benefit analysis. ADLER placed greater emphasis on radio advertising in 2019 in order to broaden its reach. ADLER manages and allocates the marketing budget to the respective marketing channels based on performance.

During the year under review, ADLER used mailshots, inserts, radio advertising and advertising in magazines. In 2019, ADLER sent a total of 56 million advertising mailshots to customers. During the same period the total number of all newspaper and magazine inserts was approximately 106 million.

The partnership with brand ambassador Birgit Schrowange, which started in 2009, was extended by a further two years in 2019.

### DIGITAL MARKETING

Online advertising in the form of banners, search engine optimisation and partner/affiliate advertising was enhanced, and the Company's social media presence was expanded. ADLER is now also using selected influencers for the first time. The e-commerce strategy is flanked by an appropriate online marketing budget, which is specifically used to digitally interact with ADLER's existing customer base, without losing new customers out of sight. The online marketing measures include a mix of performance-oriented marketing instruments, including broad e-mail and mobile marketing campaigns.

### PERSONALISED CUSTOMER COMMUNICATIONS AND CAMPAIGN MANAGEMENT

The data collected in relation to the customer loyalty card is used in order to address customers intelligently and at a personal level, in strict accordance with the provisions of the GDPR. State-of-the-art data mining software and campaign management render it possible to address customers in a targeted manner with advertisements tailored to their tastes and needs. In print communications, too, the advantages of digitalisation are also being leveraged with respect to a high degree of personalisation of ads, as well as campaign efficiency as far as print runs are concerned. Marketing communications which activate customers are already a fixed component of a positive customer experience all around.

### ELECTRONIC TERMINALS FOR CUSTOMER SATISFACTION SURVEYS

ADLER gleans additional information and insights into customers' needs from targeted, in-store customer surveys, and then uses this data to improve the quality of its services and products. The Company installed electronic terminals in all stores in order to better collect customer feedback. The surveys allow customers to anonymously rate their shopping experience and add further comments in open-ended comment fields.

### "GERMANY'S CUSTOMER CHAMPIONS" AWARD

For the twelfth consecutive year, in 2019 ADLER was a recipient of the "Germany's Customer Champions" prize awarded by the market research institute 2HMforum, the German Society for Quality (*Deutsche Gesellschaft für Qualität e.V.*, DGQ) as well as the F.A.Z.-Institut. Recipients of the title are companies that are particularly successful in appealing to consumers on a service and an emotional level, thus gaining them as loyal customers and turning them into fans. The key factor driving customer loyalty at ADLER is how the Company dovetails customised marketing efforts, attractive product ranges and one-on-one customer services at its stores.

## EMPLOYEES

As at the end of the 2019 financial year, ADLER had a total of 3,612 employees (31 December 2018: 3,786). In addition to the efficient completion of tasks at Company headquarters, a close relationship between customers and sales staff is of extreme importance to ADLER. Having a keen eye for the wishes, needs and preferences of the target group is especially important. An important objective of staff development is therefore to provide employees with training in order to continually and repeatedly heighten their sensitivity to the needs of individual customers. At the same time, the objective is also to strengthen and steadily foster the employees' self-motivation and customer service skills as well as the team spirit at ADLER. To this end, the Company regularly provides local training seminars with internal and external instructors.

## CORPORATE CULTURE

ADLER is a company with a tradition dating back more than 70 years and a solidly established corporate culture, the central pillars of which are an excellent service focus, team spirit, creativity, openness and transparency. Great importance is placed on fostering a work environment that enables each employee to optimally contribute with their unique set of skills. For ADLER, this type of work environment is the starting point for customer focus and service quality, which should be continually improved in order to be able to take up and drive the latest trends.

ADLER repeated a Group-wide employee survey in 2019, in which employees were encouraged to express their ideas, desires and criticisms anonymously. Based on the survey findings, extensive measures will be developed in 2020 to improve the quality of work at the stores and the Company's headquarters, as well as to leverage additional potential.

ADLER also revived the employee suggestion scheme in order to access and benefit from employees' ideas and experiences to an even greater extent.

## INTERNAL COMMUNICATIONS

The successful implementation of the ADLER "Strategy 2020" will require a comprehensive transformation process throughout the entire Group. Internal communications were enhanced and the new strategy was explained plainly and clearly in order to encourage employees to become part of the process. The new strategy is based on a change in culture and values which rewards courage, customer focus, eliminates silo structures and promotes cross-divisional collaboration. In order to reach store employees to the greatest extent possible, apart from the ordinary intranet, the "Weekly News" was also launched in 2019, a comprehensive weekly report covering all key topics and latest developments. An ADLER blog, which any employee can add content to, was also introduced. The staff newspaper "US" was also revived. It is a "genuine" newspaper with articles submitted by employees and which is sent to the stores three times a year.

## EXPERIENCED LOCAL MANAGEMENT TEAMS

ADLER's management structures the store organisation and HR planning accordingly, so that each individual store is managed by locally based, experienced employees. These employees are present on the sales floors and are given appropriate scope to make decisions based on their duties. It is particularly important that the store managers are familiar with local conditions and characteristic features of the region. ADLER has hitherto always been able to attract highly qualified and experienced employees from within the Company as well as from its competitors for the purpose of store expansion and the recruitment of local managers. A talent management programme was launched at the end of 2019 in order to encourage an on-going development of in-house employees. Under the programme, employees undertake a 1 to 1.5-year management programme specifically geared towards developing them into managers or senior retail sales associates (deputy managers). The aim of the programme is to gradually establish an internal talent pool.

The focus of managerial staff development was also changed in 2019. An annual manager assessment was established in order to continually improve management skills, social skills, the willing- and openness to change and professional skills among ADLER managers. In addition to the development programmes provided based on the individual manager assessments, the management team submitted to a 360-degree feedback process. This integrated feedback tool is to be expanded to include other levels of management in future.

## EMPLOYEE TURNOVER

The turnover rate was approximately 14.1% in the reporting year (previous year: 11.6%) and therefore remained on a moderate level. A large number of employees have been with the ADLER Group for a very long time and for many years. The average ADLER employee has been with the Company for more than 11 years. As they have worked for the Company for many years, many employees have built up personal relationships with customers, which is reflected in the high proportion of regular customers.

## DIVERSITY AT ADLER

ADLER is an employer that does not take nationality, gender, background, religion, age, disabilities or sexual preferences into account when considering and evaluating employees and applicants. Given current demographic changes, ADLER wants to fully utilise the entire range of applicants. Professional qualifications, personal integrity and commitment are the sole criteria applied by the Company during the selection process. ADLER considers a diverse staff a competitive advantage, as this allows employees with skills and talents that complement one another to successfully work together in the Company. At the end of 2019, ADLER employed people from 45 different countries.

Women have made up an extremely high share of ADLER's workforce since the Company's founding. More than half of the positions at the executive levels are held by women. One-third of the Supervisory Board seats are currently held by women. Overall, about 90% of ADLER's workforce are women. ADLER continually works to improve working conditions to make it easier for parents to juggle work with family life on a day-to-day basis. ADLER is also committed to affording people with severe disabilities the opportunity to participate in the workforce with the same rights as other employees.

**ADLER GROUP EMPLOYEES AS AT THE END OF THE FINANCIAL YEAR (31 DECEMBER 2019):**

| | 31 Dec. 2019 | 31 Dec. 2018 |
|---|---|---|
| **Total employees** | **3,612** | **3,786** |
| of which managers | 206 | 198 |
| of which non-managerial full-time employees | 618 | 682 |
| of which non-managerial part-time employees | 2,535 | 2,629 |
| of which trainees/interns | 253 | 277 |
| Average age in years | 47.0 | 46.7 |
| Men | 10.1% | 10.0% |
| Women | 89.9% | 90.0% |

Personnel expenses at the ADLER Group amounted to €99.5 million in 2019, an increase of €2.0 million compared to the previous year.

**VOCATIONAL AND FURTHER TRAINING**

ADLER will continue to rely on qualified and service-oriented employees going forward. The Company therefore specifically promotes young talent from within its own ranks. In principle, ADLER offers vocational training positions based on which positions it needs to fill. Currently, ADLER offers vocational training for the following positions: office management assistant in retail sales, office management assistant, wholesale and export merchants, software engineer, office management assistant in marketing communications, office management assistant in e-commerce and visual marketing designer. As at 31 December 2019, ADLER employed 253 trainees and interns. Of this number, 166 were trainees from its own ranks, 59 were trainees from joint vocational programmes, 3 were trainees with entry-level qualifications, and 25 were interns. At ADLER, trainees quickly gain the opportunity to take on responsibility. For example, trainees managed the opening of a new store as a project. A photo shoot was also organised. The trainees have become the face of ADLER in recruitment posters etc.

ADLER uses a targeted recruiting strategy to win over external experts and executives. Social media such as Facebook and Instagram are also increasingly used for recruitment purposes. ADLER is also always seeking to enhance its appeal as an employer. A multi-faceted programme has been launched for this purpose. Workshops were conducted with all store managers. Each new employee undergoes an onboarding process that is tailored to their individual position in order to make their starting phase as agreeable and pleasant as possible and to help them to quickly identify with ADLER. Part of this process is a "headquarters tour", during which all new employees at the Company's headquarters and in management positions complete a tour covering all departments over a period of two or three days in order to get a deep dive into the Company's structures and processes.

Another objective of HR development is to evaluate each employee's specific need for future advanced training and continuing education so that they can grow in line with their abilities and skills. The "High Potential Programme of Company Headquarters" was established as part of this approach, which prepares employees for leadership and specialist positions. This helps to ensure succession planning. This programme is to be expanded in 2020 to include all of the Company's headquarters. As a further key milestone in human resources development, the qualifications of sales staff were a focus in 2019. This primarily took the form of "skills workshops", in which internal course coordinators from the Company's own ranks conducted trainings for sales staff. There are plans to continue the workshops in 2020.

As far as ADLER is concerned, it is vital to have an open and transparent feedback culture. For this purpose, feedback boxes were installed in all stores to encourage a culture of providing feedback.

## SUSTAINABILITY AND THE ENVIRONMENT (UNAUDITED)

The procurement and sale of textile clothing are at the heart of ADLER's business. Corporate social responsibility, sustainability and environmental awareness form the basis of ADLER's long-term commercial success. Sustainability issues are taken into account when making any strategic or operating decisions and also when working together with business partners.

## INTEGRATED SUSTAINABILITY MANAGEMENT

The objective of ADLER's sustainability management function is to offer customers ecologically and socially sound products and at the same time, act in the best interests – socially and economically – of employees, suppliers and other stakeholders.

ADLER follows an integrated sustainability management approach. The underlying aim is to create and maintain a corporate culture in which every employee puts sustainable business principles into practice. To facilitate this, ADLER develops and implements certification measures for employees and devises management processes with appropriate operational-level tools for the respective departments.

## COMPLIANCE WITH BSCI STANDARDS AT SUPPLIERS AND PRODUCERS

ADLER sells products from its own-brand range and external brands (brand-name items). ADLER is directly responsible for its own-brand products. It is essential to know and document not only which raw materials are used to make the products, but also the social and ecological conditions under which they are made. ADLER's procurement policy forbids the sourcing of products made under conditions which are exploitative, harmful to health or which otherwise violate human dignity, such as child or forced labour.

ADLER requires all suppliers who manufacture products in a high-risk country as defined by the Business Social Compliance Initiative ("BSCI") to submit a valid audit in accordance with the BSCI criteria. These audits must be conducted at the level of the production facilities. This applies both to European suppliers as well as to procurement agencies in Asia. ADLER has been working in that region with OTTO International (OI) since the second quarter of 2018. Through the partnership with OI, all producers were again explicitly urged to comply with the BSCI Code of Conduct. In the third quarter of 2019, ADLER launched an environmental management programme with the key suppliers in the main countries it sources its products from. (For more detailed information on this, please refer to the non-financial report (Sustainability Report).)

In 2015, ADLER introduced the Vendor Compliance System OSCA for monitoring purposes. This software allows data and documents relating to production facilities and audits to be managed and maintained by suppliers and agents and also by ADLER. This system ensures that when an audit expires, timely measures can be taken to inspect the production facilities and renew the audit.

In addition to BSCI audits, ADLER also accepts certifications of compliance with standards such as SA 8000, WRAP and GOTS, which are also based on the relevant standards set by the United Nations and the International Labour Organisation (ILO).

## COTTON

Cotton is currently sourced from certified organic producers (Global Organic Textile Standard (GOTS) or Organic Cotton Standard (OCS)), the Better Cotton Initiative (BCI) and from Fairtrade. These standards emphasise low water use, low energy consumption, sufficient nutrient levels in the soil and only moderate use or no use at all of toxic and persistant pesticides. In addition, Fairtrade cotton farmers are paid a fair wage in excess of the average in the region, as well as a Fairtrade premium to be used for improvements in local infrastructure.

ADLER works together with these various initiatives so that suppliers are always able to offer buyers products made of sustainable cotton. This enables buyers to increase the share of sustainable items in the product range and thus meet their sustainability targets.

## RECYCLING OF USED CLOTHING

ADLER continues to regard textile recycling as an important sustainable management tool insofar as returned items of clothing are recycled and made into high-quality rather than lower grade materials such as insulation material or cleaning cloths. In the latter case, the cost (transport and energy used in the recycling process) does not reasonably justify the benefit (no new resources needed) from a sustainability standpoint. Unfortunately, it is currently not possible to guarantee a sufficient percentage of recycling for higher quality textile products.

Therefore, ADLER did not renew the I:CO return programme for used clothing and shoes, which was launched in 2009, and recommends customers to donate clothing they no longer wear to local charities. This firstly avoids the need for $CO_2$-intensive transport, and it secondly allows clothing to be used in its originally intended form, with other people benefiting directly without incurring any notable expense. From a sustainability perspective, ADLER believes this is the better solution.

## PARTNERSHIP FOR SUSTAINABLE TEXTILES

The Partnership for Sustainable Textiles launched in 2014 as an initiative of the Federal Ministry for Economic Cooperation and Development includes companies, non-profit organisations and trade unions. The aim is to bundle the strength and expertise of its members in order to bring about social, ecological and economic improvements along the textile supply chain. The Partnership for Sustainable Textiles sees itself as a platform where participants jointly review the implementation of the partnership's objectives, share experiences and best practices and learn from each other in order to improve conditions in the producer countries of the textile industry.

ADLER participated in the Partnership from the very beginning and has helped shape this broad-based initiative. ADLER joined the Partnership for Sustainable Textiles in June 2015 together with leading trade and producer associations and other companies. In doing so, ADLER also signed a voluntary agreement to no longer offer plastic carrier bags free of charge, and since July 2016 now charges 10 or 20 cents for carrier bags at all of its stores in Germany. These bags bear the "blue angel" (*Blauer Engel*) environmental label. In future, ADLER will only use carrier bags made of recycled plastic, which will also bear the "blue angel" environmental label.

In 2017, the Partnership for Sustainable Textiles introduced its roadmap. This contains annual targets which arise from the requirements set out by the Partnership for Sustainable Textiles. As a member of the Partnership, ADLER also set corresponding objectives and implemented them in 2019. For more detailed information on this, please refer to the non-financial report (Sustainability Report).

# OPPORTUNITIES AND RISK REPORT

## REPORT ON OPPORTUNITIES

### General economic opportunities

As one of the largest retailers in the fashion industry, the ADLER Group is consistently focused on the fashion needs of the growing group of customers aged 55 and up. ADLER's market position is thus not only clearly established, the Company is also reaping the benefits of demographic changes in Germany and Europe: the target group – and with it, revenue potential – will continue to grow going forward. This solid foundation will be further bolstered through the judicious expansion of the product range. ADLER will leverage its product range to appeal to potential new customers, who will flow into the primary target group, thus lending additional momentum to the business.

### Sector-specific opportunities

Given the dynamic environment and the structural changes in the textile retail industry, ADLER slowed the pace of its short-term organic and inorganic growth. In addition to increasing profitability by lowering costs and improving efficiency, ADLER's management is focusing on realigning the Company and reviewing its corporate strategy. In the course of this realignment, the target customer group and their market potential have been examined, and the product strategy, channel strategy and communication strategy have been redefined. These and other measures are important steps that were taken to create a stable and sustainable basis on which the planned growth course can continue to be pursued in the medium term.

### Corporate strategy opportunities

As part of the channel strategy, the online shop will in future be an increasingly vital component of ADLER's multi-channel approach. ADLER successfully launched its online shop in 2010 in response to the increasing importance of online retail and the changing buying patterns of its customers. The online shop is continuously being expanded and optimised to meet the rising expectations of consumers and to further improve their shopping experience. By coupling its in-store and online retail activities, ADLER is leveraging cross-selling effects on the one hand by using the Click & Collect system, which allows customers to order online and pick up or return the merchandise at an ADLER store, and on the other via ROPO effects. An analysis of the behaviour of the 10-million-plus online visitors demonstrated that products are selected online and then purchased in stores. In both cases customers are encouraged to purchase additional products by visiting a store, thus creating the potential for additional revenue.

By taking advantage of its long-standing experience, a large network of manufacturers in Asia, India, Turkey, northern Africa and eastern Europe, and increasing globalisation, ADLER can leverage procurement-related opportunities and continuously improve its procurement structures and purchasing conditions.

To improve efficiency, the Supply Chain Management division was established in 2017 to optimise processes, merchandise allocation and markdown management. In connection with this, the existing contract with the former logistics service provider BLG was terminated at the end of 2017 and a new contract was entered into with Meyer & Meyer. ADLER expects this change in logistics partner to make the delivery and distribution of goods easier to plan and more cost effective.

## RISK AND OPPORTUNITY MANAGEMENT SYSTEM

ADLER is exposed to a large number of risks and opportunities in the course of its business activities. There is always a risk that targets will not be met or will be only partly met due to unforeseen events or negative market developments. Conversely, unexpected opportunities may lead to these targets being exceeded.

Opportunity and risk management is a management tool used by ADLER to identify, classify and manage opportunities and risks at an early stage in order to ensure that the Company's short-, medium- and long-term targets are met, thus securing its continued existence and profitability, as well as increasing its enterprise value.

The risk management system (RMS) is generally valid for all of the Company's divisions and subsidiaries. Strategic and operational factors, events and actions having a significant impact on the existence and economic position of the Company are considered risks. External factors, such as the competitive environment, demographic changes, etc., that might prevent the Company from achieving its objectives, are also taken into account and evaluated. The risk management system covers strategic decisions made by the Executive Board as well as day-to-day business operations.

The executive bodies of the Group have laid down basic rules for risk assumption. These include that ADLER may assume specific corporate risks, provided that opportunities associated with those risks are likely to increase the value of the Company.

ADLER's Executive Board holds overall responsibility for ensuring the efficient management of opportunities and risks within the ADLER Group. The risk management officer coordinates and defines responsibilities and processes, and draws up binding guidelines and formal rules. The risk management officer reports directly to the Executive Board, as well as to the Audit Committee of the Supervisory Board once per year. Risks are generally managed where they arise. Each department head is therefore also a risk owner since their management responsibilities in their day-to-day function require them to weigh risks and opportunities when taking decisions and undertaking actions, and to decide on an appropriate course of action.

The primary medium for the RMS is the risk manual, which lays out the core issues of the Company's risk management regime. It defines risk areas, how risks are assessed and the organisational approach to risk. Defining the process chain for handling risks ensures that risk areas are identified rapidly and that systematic countermeasures can be implemented at any time.

In terms of day-to-day business operations, risk management means weighing the identified opportunities and the efforts involved in managing the associated risks, as well as continuously monitoring the risks entered into and the measures introduced for their management. A coordinated set of measures to mitigate risks requires clearly delineated responsibilities and a suitable framework. In this respect, risk management is among the most important management duties and is regularly reviewed.

## RISK RECOGNITION AND ANALYSIS

The legal requirement of a functioning risk management system is that it must record as fully as possible all material risks, namely all strategic and operational factors that could impact the Company's financial position, cash flows and financial performance. In order to meet this requirement, there are two key tools for recognising and assessing risk.

The purpose of the risk inventory is to record all of the risks within the departments as fully as possible. In the initial risk inventory, a questionnaire is used to inquire about potential and already identified risks. Together with the department heads, these risks added to as necessary and analysed, before responsibilities are defined. In addition to comprehensively identifying the potential risks, the aim of the initial inventory is to raise the management's risk awareness, clearly define responsibilities and provide guidance on how to eliminate or manage risks, e.g. through the implementation of risk monitoring tools. Any measures taken to manage risk are documented in an appropriate form during the process and their effectiveness is monitored by the risk management officer.

Following the initial risk inventory, an inventory is carried out on a regular basis in each department, documented using the questionnaire provided by the risk management officer, and recorded centrally in the risk inventory document.

The risk inventory document is a centralised document which contains the Company's entire risk portfolio resulting from the risk inventory. The risk inventory document is therefore also used for the purpose of reporting to the Executive Board and the parent company. Since the risk situation must be able to be quickly, clearly and comprehensively determined based on the document, a brief description of the risks is provided, ensuring that they can be allocated to a risk field and risk owner in a clear format.

The risk analysis assesses the significance of the identified risks with regard to influencing factors and quantitative impact. The assessment system must be simple and practical. The aim of the risk inventory is not to accurately estimate the potential monetary cost of the risk, but to clarify the relevance of the risk in question.

Accordingly, the precise quantification of risks is only required if it can be carried out using recognised and reliable methods, if it is economically viable, and if the quantitative data provides information that is relevant for decision-making processes. In particular, it is difficult to quantify non-material damages or potential financial damages for the loss of future profits, as well as events that seldom occur for which there are no historical values.

## RISK REPORTING

Risk reporting serves to monitor risks on an ongoing basis. It ensures that existing risks are identified, analysed and evaluated and that risk-related information is systematically forwarded on to the responsible decision-makers. Risks are monitored with the aid of indicators and management is notified of any pertinent developments if thresholds are exceeded. The risk reports summarise the findings of the risk inventories and are prepared individually for each operating company and for the Group as a whole.

As part of the monthly reporting under the German Commercial Code (*Handelsgesetzbuch*, "HGB") and IFRSs, any deviations from the budget are reviewed and their impact on target achievement are forecast. The key indicators here are revenue, expense items and, as a result, EBITDA. Further KPIs, including customer footfall, sales closing ratio, average shopping basket, liquidity development, and the change in inventories and their valuation are used to assess the Company's position.

## MACROECONOMIC AND POLITICAL RISKS

The economic situation can deteriorate at any time. Both in theory and in practice there are numerous causes and triggers that would lead consumers to spend less or to maintain lower spending levels. A significant deterioration of the global economic climate would also negatively impact the European Union and the situation in ADLER's sales markets. The occurrence of the aforementioned risks could have an adverse effect on the ADLER Group's financial position, cash flows and financial performance.

## MARKET RISKS

The ADLER Group's business performance and growth depend on general demand trends in the retail clothing industry and ADLER's target customer group in particular. Demand trends are of key significance in the ADLER Group's home market of Germany, where the Group generates the predominant share of its revenue. However, the remaining sales markets – Austria, Luxembourg and Switzerland – are also of economic consequence for ADLER. Demand depends significantly on the economic climate and consumer behaviour.

Any phase of weak economic performance in the ADLER Group's sales markets or decline in disposable income for clothing in ADLER's target customer group increases the risk of a negative sales trend. On the one hand, this could result in greater pricing pressure on the merchandise sold by ADLER and thus in lower margins. On the other hand, shifts in income levels for entire demographic groups could mean that consumers who in the past purchased high-end merchandise might turn to ADLER for their clothing needs in the future.

Changes in buyer behaviour, for example away from brick-and-mortar and towards online retail, increase the risk of a negative sales trend and shrinking margins.

Fluctuations in supply and demand among suppliers or on commodities markets may lead to supply shortages, quality defects or higher logistics and manufacturing costs. It may not be (entirely) possible to offset these costs with higher prices. ADLER counters such risks by following a rather broadly diversified procurement policy while at the same time focussing on reliable partners. The simultaneous expansion of its retail business ensures higher margin flexibility and allows for the possibility of offsetting price fluctuations on supplier markets.

Country risks are primarily attributable to international purchasing activities. For ADLER, these include potential macroeconomic, political and other entrepreneurial risks abroad. The Company counters these risks through the aforementioned diversification of its supplier structure. Country risks are offset on the sales side by selling ADLER products primarily in neighbouring, German-speaking countries with stable economic and political environments. As is the case for all companies, there is the risk that potential acts of terrorism or environmental disasters could jeopardise the financial position, cash flows and financial performance of the Company.

ADLER's economic success depends in large part on the brand image of the ADLER umbrella brand and its long-term strong positioning among the customer segment aged 55 and up. Therefore, the utmost priority is placed on protecting and maintaining ADLER's brand image. By the same token, this theoretically gives rise to the risk that ADLER could damage the umbrella brand through poor decisions or incorrect actions. Such decisions or actions may adversely affect the Company's growth prospects.

ADLER identifies current trends in its target customer group early on and adapts its design, procurement, distribution and sales processes to reflect them. The Group's competitive position, growth prospects and profitability may be adversely affected in the event ADLER fails to identify important trends or cater to the tastes of its customers. This also applies to the Company's pricing and product development.

**FINANCIAL AND LIQUIDITY RISKS**

ADLER's long-term corporate financing is secured through the availability of the Company's own cash and cash equivalents and sufficient invoice terms for accounts payable. At the same time, the Company has access to sufficient lines of credit to rule out liquidity squeezes. Corporate financial planning, together with weekly rolling liquidity planning, ensures that liquidity reserves are always available. As a result of the available cash and cash equivalents and the expected positive business development, ADLER avoids exposure to any risk of insufficient financing.

The Company is primarily financed through equity, which is why ADLER is only partly affected by interest rate changes. No interest hedges have been concluded.

**CURRENCY RISKS**

ADLER is only marginally exposed to currency risks since it realises revenue and procures merchandise primarily in euros. However, the procurement markets for the textiles industry, which are primarily located in Asia, generally deal in US dollars. There are indirect currency risks insofar as importers might pass on the currency fluctuations resulting from the current weakness of the euro via the price at which they sell goods to ADLER. This results in a margin risk which affects ADLER as well as any other textiles company with a high share of imported goods. However, ADLER normally purchases the delivered merchandise at fixed prices that are agreed upon in advance on which it can base its sales price calculation.

**RISKS ASSOCIATED WITH THE PROCUREMENT OF MERCHANDISE**

ADLER procures merchandise from Europe as well as the Far East. The procurement sources in Europe include more than 80 suppliers for various fashion segments. ADLER is not dependent on any single supplier to the extent that its revenue trend can be noticeably affected. If problems with a given supplier arise, alternative procurement sources are available. The procurement of products from the Far East is overseen mainly by ADLER's sourcing agent, OI. OI in turn works with a large number of manufacturers. There are no dependencies or major risks in the event of problems with individual OI suppliers.

Aside from general geographical and political risks, rising wages in emerging regions and increasing prices for raw materials mean that there is always a risk of increasing production costs and hence lower margins. The ADLER Group counteracts this risk through margin-based collection planning in order to ensure an early response to rising production costs. Negative effects on the gross profit margin are reduced through the expansion and continued professionalisation of the operating business, Group-wide efficiency enhancement measures, improved material use and the consistent implementation of pricing policy.

It cannot yet be predicted what financial implications the coronavirus will have on the current financial year 2020. ADLER sources the majority of its products from the east and south-east Asia region, meaning that in principle, procurement might be hit by an escalation of the situation as the year progresses. However, ADLER currently has sufficient stocks of new merchandise for the spring and summer collections. It also has opportunities to counter the situation where necessary by procuring merchandise from suppliers in other parts of the world.

#### ASSESSMENT OF RISKS BY THE EXECUTIVE BOARD

Based on the information currently available, no individual or aggregated risks have been identified which might jeopardise the Company as a going concern.

#### INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

**Internal control and risk management system (ICS) relates to the (Group) accounting process (report in accordance with §§ 289 (4), 315 (2) no. 5 of the german commercial code (*Handelsgesetzbuch*, "HGB"))**
The internal control and risk management system features suitable structures and defined processes that are integrated within the organisation. It is designed in such a way to ensure the timely, consistent and correct recording of all business processes and transactions. To consolidate the companies included in the consolidated financial statements, ADLER's ICS ensures compliance with mandatory statutory norms, accounting requirements and internal accounting instructions. Changes are continually analysed with regard to their relevancy and impact on the consolidated financial statements and, where necessary, are integrated into the intra-Group guidelines and systems.

ADLER's Group Finance department is responsible not only for actively supporting all business divisions and Group companies but also for developing and updating standard guidelines and work instructions for accounting-related processes. Aside from established control mechanisms, the principles of the ICS consist of technical system-based and manual reconciliation processes, the separation of management and control functions and the adherence to guidelines and work instructions.

The financial statements of the Group companies outside of Germany are drawn up by Group Accounting. The Group companies are responsible for adhering to Group-wide guidelines and procedures and the proper and timely operation of their accounting-related processes and systems. Local companies are supported by points of contact at the Group level throughout the entire accounting process. Appropriate measures are implemented as part of the accounting process to ensure that the consolidated financial statements are in compliance with the regulations. The measures serve in particular to identify and evaluate risks and to mitigate and monitor known risks.

In principle, it should be taken into account that an internal control system, regardless of its design, cannot provide absolute certainty that material accounting misstatements will not be made or discovered. However, it can be used with sufficient certainty to prevent business risks from having a material impact.

## REMUNERATION REPORT

The remuneration report describes the principles applied in setting the Executive Board members' total remuneration, explains the structure and specifies the amount of the remuneration paid to Executive Board members. The report also provides a summary of the principles underlying the Supervisory Board members' remuneration and the amount thereof. The report contains the disclosures required under the German Commercial Code (*Handelsgesetzbuch*, "HGB") and the German Stock Corporation Act (*Aktiengesetz*, "AktG"), in each case using the transition provisions of the Act on the Implementation of the Second Shareholders' Rights Directive (*Gesetz zur Umsetzung der zweiten Aktionärsrechterichtlinie*, "ARUG II"), International Financial Reporting Standards (IFRS), and the declaration of conformity in accordance with the recommendations of the German Corporate Governance Code in the version dated 7 February 2017.

#### PERFORMANCE-BASED REMUNERATION SCHEME FOR THE EXECUTIVE BOARD

Since ADLER's founding, Executive Board remuneration has been based on a scheme aimed at creating an appropriate incentive for successful and forward-thinking corporate management. Executive Board remuneration, which is in line with that of comparable organisations, is based on the Company's size and financial situation and aims to appropriately reward exceptional performance as well as to tangibly reflect failures to meet performance targets. Executive Board members are expected to demonstrate their long-term commitment to ADLER. This expectation, which is part and parcel of the shareholders' interest in an attractive investment, is met by making the remuneration contingent on the long-term and thus sustainable increase in the Company's value as reflected in ADLER's share price.

Based on applicable law, specifically the German Act on the Appropriateness of Executive Board Remuneration (*Gesetz zur Angemessenheit der Vorstandsvergütung*, "VorstAG"; § 87 (1) AktG, old version, as well as a corresponding provision in the rules of procedure for the Supervisory Board, the full Supervisory Board is responsible, following preparation by the Personnel Committee, for setting and periodically reviewing the remuneration of the individual Executive Board members. The remuneration scheme for the Executive Board – the underlying principles of which remained unchanged in 2019 – was approved most recently by the Annual General Meeting held on 9 May 2018 in accordance with § 120 (4) AktG, old version.

The Executive Board members' remuneration consists of a base salary plus performance-based components. The performance-based components are the "short-term incentive" (STI) bonus and the "long-term incentive" (LTI) bonus, the calculation of which takes several years into account.

### BASE REMUNERATION

The base remuneration for Executive Board members consists of an annual fixed amount paid out in 12 equal instalments as a monthly salary. Executive Board members also receive ancillary benefits in the form of non-cash benefits consisting primarily of the use of a company car, telephone and insurance premiums. The Company reimburses the Executive Board members 50% of their documented expenses for health and long-term care insurance, albeit not more than the total of the Company's share of the health and long-term care insurance premiums owed in the event an employment relationship is deemed to exist under social security insurance law.

### SHORT-TERM INCENTIVE BONUS (STI)

The STI is the first remuneration component, and continues to be based on the Company's performance for the past financial year. For financial year 2019, the STI for current members of the Executive Board will be calculated based on earnings before interest, tax, depreciation and amortisation (EBITDA) as reported in the audited IFRS consolidated financial statements for the financial year ended and based on targets and further financial ratios to be defined at the beginning of the year which operate to either increase or decrease the STI depending on the degree to which such targets and ratios are met. Each member's STI is capped at €750 thousand annually.

The Supervisory Board may reasonably reduce the STI if it is based on circumstances which are not adequately attributable to the performance of Executive Board members; or are attributable to extraordinary developments. The STI for the past financial year is due and payable two weeks after the conclusion of the Annual General Meeting. If a member's appointment to the Company's Executive Board was only for part of the financial year, the STI will be paid on a pro rata temporis basis.

### LONG-TERM INCENTIVE BONUS (LTI)

The LTI bonus, the calculation of which takes several years into account, is intended as monetary recognition of the Executive Board member's contribution toward increasing the Company's value. The LTI bonus is based on EBITDA as reported in the audited and approved IFRS consolidated financial statements for the financial year ended. The amount of the bonus depends on the performance of ADLER shares (weighted average share price for the Company during the financial year for which the LTI bonus is calculated as compared to the prior-year weighted average share price). The LTI bonus, the calculation of which takes several years into account, is currently limited to a total amount of €1,500 thousand and is not paid out if ADLER shares do not perform accordingly. The LTI bonus for each financial year ended is due and payable two weeks after the conclusion of the Annual General Meeting. If a member's appointment to the Company's Executive Board was only for part of the financial year, the LTI bonus will be paid on a pro rata temporis basis.

### CAP ON OVERALL AMOUNT OF REMUNERATION

In addition to the cap on the amount of remuneration for the variable remuneration components of STI and LTI, a cap on the overall amount of remuneration has also been agreed upon.

### COMMITMENTS IN CONNECTION WITH THE TERMINATION OF EXECUTIVE BOARD MEMBERSHIP

In the event an Executive Board membership or service agreement is terminated early without good cause, the current service agreements provide for the payment of severance benefits. The payments, including ancillary benefits, may not exceed the equivalent of two annual salaries ("Severance Cap") and may not amount to more than the remaining term of the service agreement. The Severance Cap is determined based on either an individual amount or on the total remuneration for the past financial year and the expected total remuneration for the current financial year. No commitments have been made to pay benefits to members of the Executive Board for early termination of the Executive Board membership as a result of a change of control.

### PENSIONS

There are no contractual pension claims in existence for active members of the Executive Board.

### TOTAL REMUNERATION FOR FINANCIAL YEAR 2019

In accordance with § 286 (5) HGB, old version, the Company's Annual General Meeting on 4 May 2016 resolved that, for a period of five years, individual Executive Board members' remuneration would not be disclosed separately. For financial year 2019, remuneration for the Executive Board totalled € 2,322 thousand (previous year: € 1,471 thousand). The breakdown of the remuneration is as follows:

| €'000 | 2019 | 2018 |
|---|---|---|
| Fixed remuneration | 1,162 | 1,081 |
| Non-cash benefits | 34 | 29 |
| Bonuses | 1,126 | 50 |
| **Short-term employee benefits payable to Executive Board members** | **2,322** | **1,160** |
| Long-term incentive bonus (LTI) | 0 | 0 |
| **Benefits payable to Executive Board members from long-term bonus (LTI)** | **0** | **0** |
| Severance payments | 0 | 311 |
| **Benefits due to termination of the Executive Board position** | **0** | **311** |
| **Total** | **2,322** | **1,471** |

### FUTURE REGULATORY AMENDMENTS

The Executive Board remuneration and the related reporting obligations are subject to regulatory amendments, such as the Act on the Implementation of the Second Shareholders' Rights Directive (ARUG II) and the new version of the German Corporate Governance Code (the "Code") adopted by the German Corporate Governance Code Government Committee. After conducting a review of the amendments, the Supervisory Board concluded that it will not be able to carry out the final analysis of the regulatory amendments and, above all, determine the need to take action with regard to the existing Executive Board remuneration system until sometime during the course of financial year 2020 after ARUG II has entered into force on 1 January 2020 and the new Code has entered into effect.

### SUPERVISORY BOARD REMUNERATION

The remuneration system for the Supervisory Board has recently been modified by resolution of the Annual General Meeting on 13 June 2013. The remuneration system is set forth under article 14 of Adler Modemärkte AG's Articles of Association. At ADLER, the remuneration of the Supervisory Board is structured in the form of fixed remuneration only. As with the remuneration for the Executive Board, the remuneration for the Supervisory Board is contingent on the size of the organisation and should reflect the level of activity and responsibility assumed.

Accordingly, the members of the Supervisory Board receive annual remuneration in the amount of € 20 thousand for their activities, payable following the conclusion of a given financial year. The chairman of the Supervisory Board receives double this amount and the deputy chairman receives 1.5 times this amount. For each Supervisory Board committee of which they are a member, members receive an additional 10% to the amount set out above, provided that the respective committee has met at least twice in the respective financial year. Excepted from this provision is the membership in the Conciliation Committee pursuant to § 27 (3) MitbestG. Supervisory Board members who have not been a member or chairman of the Supervisory Board or a committee for an entire financial year shall be remunerated on a pro rata temporis basis. Remuneration is due and payable at the end of the Annual General Meeting resolving on the ratification of the acts of the Supervisory Board. Supervisory Board members also receive € 300 for each Supervisory Board meeting attended. The chairman receives double this amount and the deputy chairman receives 1.5 times this amount. Members of the Supervisory Board are also reimbursed for all expenses as well as VAT payable on their remuneration and out-of-pocket expenses. The Annual General Meeting shall decide by resolution on other methods of remuneration for the members of the Supervisory Board and benefits of a remunerative nature.

In financial year 2019, the total remuneration for members of the Supervisory Board was €302 thousand (previous year: €325 thousand). The breakdown of the remuneration is as follows:

| € '000 | 2019 Fixed remuneration | 2019 Committee membership | 2019 Meeting attendance | 2019 Total remuneration | 2018 Fixed remuneration | 2018 Committee membership | 2018 Meeting attendance | 2018 Total remuneration |
|---|---|---|---|---|---|---|---|---|
| **Supervisory Board members in office as at 31 December 2019** | | | | | | | | |
| Massimiliano Monti, Chairman [1] | 40.0 | 4.0 | 2.4 | 46.6 | 40.0 | 8.0 | 4.2 | 52.2 |
| Majed Abu-Zarur [1], Deputy Chairman | 30.0 | 3.0 | 2.3 | 35.3 | 30.0 | 6.0 | 3.2 | 39.2 |
| Wolfgang Burgard [1] | 20.0 | 2.0 | 1.2 | 23.2 | 20.0 | 4.0 | 1.8 | 25.8 |
| Cosimo Carbonelli D'Angelo [1] | 20.0 | – | 0.3 | 20.3 | 20.0 | 2.0 | 0.6 | 22.6 |
| Kirsten Fox (since 9 May 2018) | 20.0 | – | 1.5 | 21.5 | 13.0 | – | 0.6 | 13.6 |
| Jochen Gröning [1] (since 9 May 2018) | 20.0 | 2.0 | 1.5 | 23.5 | 13.0 | 2.6 | 0.9 | 16.5 |
| Corinna Groß | 20.0 | – | 1.5 | 21.5 | 20.0 | – | 1.2 | 21.2 |
| Peter König [1] | 20.0 | – | 1.5 | 21.5 | 20.0 | 1.4 | 2.1 | 23.5 |
| Giorgio Mercogliano | 20.0 | – | 0.6 | 20.6 | 20.0 | – | 1.5 | 21.5 |
| Paola Viscardi-Giazzi [1] | 20.0 | 2.0 | 1.2 | 23.2 | 20.0 | 2.0 | 2.1 | 24.1 |
| Jürgen Vogt [1] (since 9 May 2018) | 20.0 | 2.0 | 1.5 | 23.5 | 13.0 | 1.3 | 0.9 | 15.2 |
| Beate Wimmer [1] | 20.0 | – | 1.5 | 21.5 | 20.0 | 1.3 | 2.1 | 23.4 |
| **Former members of the Supervisory Board** | | | | | | | | |
| Frank König (until 9 May 2018) | – | – | – | – | 7.1 | – | 1.2 | 8.3 |
| Georg Linder [1] (until 9 May 2018) | – | – | – | – | 7.1 | 1.4 | 1.2 | 9.7 |
| Dott. Michele Puller (until 9 May 2018) | – | – | – | – | 7.1 | – | 1.2 | 8.3 |
| **Total** | **270.0** | **15.0** | **17.0** | **302.0** | **270.2** | **30.0** | **24.8** | **324.9** |

*[1] The Chairman and the Deputy Chairman of the Supervisory Board receive a higher fixed remuneration and a higher remuneration for attending meetings. In accordance with the Articles of Association of Adler Modemärkte AG, Supervisory Board members receive an additional 10% for each Supervisory Board committee of which they are a member; this remuneration is reported separately from the remuneration for committee activities.*

### MISCELLANEOUS

The Company has taken out D&O liability insurance, in particular for the members of its governing bodies. The insurance includes a deductible for members of the Executive Board and the Supervisory Board in compliance with § 93 (2) sentence 3 AktG and the German Corporate Governance Code.

## LEGAL DISCLOSURES

The following section primarily contains disclosures and explanations pursuant to § 289a (old version), § 289b, § 289f (old version), § 315a (old version), § 315b and § 315d of the German Commercial Code (*Handelsgesetzbuch*, "HGB"), using the transitional provisions of the Act Implementing the Second Shareholder Rights Directive (ARUG II) where applicable. These disclosures concern corporate legal structures and other legal relationships and serve to provide a better overview of the Company and any obstacles that may exist with respect to an acquisition.

### CORPORATE GOVERNANCE STATEMENT

The corporate governance statement under § 289f (old version) and § 315d of the German Commercial Code (*Handelsgesetzbuch*, "HGB") constitutes a component of the management report. Pursuant to § 317 (2) sentence 6 HGB, the audit of the disclosures provided under § 289f (old version) and § 315d HGB is limited to whether the relevant disclosures have been made. The statement published on the ADLER website at *www.adlermode-unternehmen.com* under the heading Investor Relations/Corporate Governance pursuant to § 289f (2) sentence 2 (old version) and § 315d sentence

2 in conjunction with § 289f (2) sentence 2 (old version) HGB contains the declaration of conformity, information on corporate governance practices, a description of the procedures applied by the Executive Board and the Supervisory Board and information on targets set pursuant to § 76 (4) and § 111 (5) AktG.

## SEPARATE NON-FINANCIAL REPORT IN ACCORDANCE WITH § 289B (3) HGB AND § 315B (3) HGB

Adler Modemärkte AG prepared a separate non-financial report in accordance with § 289b (3) HGB and § 315b (3) HGB for financial year 2019 that is not contained in the management report. This will be published by 30 April 2020 in the form of a separate sustainability report on the Company's website, where it will remain available for at least ten years. You can read and download the report at the Company's website (*www.adlermode-unternehmen.com*) under "Sustainability".

## REPORT ON RELATIONSHIPS WITH AFFILIATES

S & E Kapital GmbH, Munich, held a majority interest in the Company throughout the year under review. No control or profit and loss transfer agreement exists between Adler Modemärkte AG and S&E Kapital GmbH.

Therefore, the Executive Board of Adler Modemärkte AG prepared a dependent companies report on relationships with affiliates pursuant to § 312 of the German Stock Corporation Act (*Aktiengesetz*, "AktG"). At the conclusion of that report, the Executive Board declared "[…] that Adler Modemärkte AG and its subsidiaries, based on the circumstances which were known to the Executive Board at the time and under which the legal transactions were effected received reasonable consideration for each such legal transaction. No measures were taken or omitted in the interest or at the behest of the controlling entity or any entities affiliated with it".

## DISCLOSURES UNDER TAKEOVER LAW PURSUANT TO § 289A (OLD VERSION) AND § 315A (OLD VERSION) HGB AS AT 31 DECEMBER 2019 AND EXPLANATORY REPORT

### Composition of subscribed capital

Adler Modemärkte AG's share capital is currently still € 18,510,000 and is divided into 18,510,000 no-par value ordinary bearer shares, each representing a notional interest in the share capital of € 1.00. All shares carry the same rights and each share carries one vote at the Annual General Meeting.

### Restrictions on voting rights or the transferability of shares, even if these could arise from agreements between shareholders, to the extent these are known to the Executive Board of the parent company

There were no restrictions on voting rights or the transferability of shares.

### Equity interests in excess of 10% of the voting rights

As at 31 December 2019, to the best of ADLER's knowledge, direct and indirect equity interests held in the Company in excess of 10% of the voting rights as disclosed pursuant to the German Securities Trading Act (*Wertpapierhandelsgesetz*, "WpHG") existed as follows:

- Direct equity interest held by S & E Kapital GmbH, Munich, representing 52.81% of the voting interest in the Company.
- Indirect equity interests by virtue of the attribution of the 52.81% voting interest in the Company held by S & E Kapital GmbH, Munich, under the WpHG: STB Fashion Holding GmbH i.l., Herne; Steilmann SE i.l., Bergkamen; Miro Radici Hometextile GmbH i.l., Bergkamen; Steilmann Holding AG i.l., Bergkamen; Excalibur I S.A., Luxembourg; Equinox Two S.C.A., Luxembourg and Equinox S.A., Luxembourg.

Changes may have arisen after the reporting date that were not required to be disclosed to the Company. The complete notifications are contained in the notes ("Voting rights notifications"). In addition, all notifications received by the Company pertaining to voting rights may be viewed on ADLER's website (*www.adler-mode-unternehmen.com*) under the heading Investor Relations/ News & Releases/Voting Rights Announcements.

### Shares with special rights granting control powers

No shares with special rights granting control powers exist.

### Type of voting rights control where employees hold equity interests and do not directly exercise their control rights

The Company has not currently issued any shares to employees under any employee stock option plan.

### Appointment and dismissal of members of the Executive Board, amendments to the Articles of Association

The appointment and dismissal of members of the Executive Board of Adler Modemärkte AG is governed by § 84 and § 85 AktG and by § 31 of the German Co-determination Act (*Mitbestimmungsgesetz*, "MitbestG") in conjunction with article 6 of the Articles of Association. According to the provisions thereunder, members of the Executive Board are appointed by the Supervisory Board for a maximum term of five years. Re-appointment or an extension of the term of office for up to an additional five years is permissible. Under § 31 (2) MitbestG, a majority of at least two thirds of the members of the Supervisory Board is required to appoint members of the Executive Board. If this does not result in an appointment being made, the Conciliation Committee of the Supervisory Board must propose a candidate for appointment within one month of voting. The Supervisory Board will then appoint the members of the Executive Board by majority vote of its members. If this does not result in an appointment being made either, a new vote will be held in which the chairman of the Supervisory Board's vote counts twice. Pursuant to article 6 (1) of the Articles of Association, the Executive Board is composed of at least two members; the Supervisory Board stipulates the number of members on the Executive Board. Pursuant to § 84 AktG and article 6 (1) of the Articles of Association, the Supervisory Board may appoint a chairman of the Executive Board (CEO) as well as a deputy chairman. If the Executive Board is lacking a required member, the member will be judicially appointed in urgent cases by application of one of the parties pursuant to § 85 AktG. Pursuant to § 84 (3) AktG, the Supervisory Board may revoke the appointment as a member of the Executive Board and the appointment as CEO for good cause.

Amendments to the Articles of Association are passed with a majority of at least three quarters of the share capital represented at the adoption of the resolution; §§ 179 et seq. AktG apply. Pursuant to article 16 of the Articles of Association, the Supervisory Board is authorised to pass editorial amendments to the Articles of Association. The Supervisory Board is further authorised to update the language of article 4 of the Articles of Association (Share capital amount and division) to reflect the utilisation of authorised and/or contingent capital in each case.

**Executive Board's authority to issue or to buy back shares**
The Executive Board has no authority to issue or to buy back shares.

**Material agreements of the parent company which are contingent upon a change of control as a result of a takeover offer**
Adler Modemärkte AG has three credit facility agreements for a total of € 15 million and three guarantee facilities for a total of € 7 million, four of which provide for a right of termination for good cause in the event of a change of control. The agreements essentially give the lender a right of termination in those cases where the lender has reason to believe that its legitimate concerns will be impaired by the acquisition of direct or indirect control over the Company by one or several legal entities or that such an acquisition would have a negative impact on the performance of Adler Modemärkte AG. The lender may also terminate where a change of control occurs and the parties are unable to agree on continuing the agreement on new terms where applicable, e.g. with respect to the interest rate, collateral or other arrangements, within an appropriate period or in due time before the change of control occurs.

**Compensation agreements entered into by the Company with members of the Executive Board or employees in the event of a takeover offer**
No commitments have been made to pay benefits to members of the Executive Board or employees for premature termination of the Executive Board position as a result of a change of control.

## REPORT ON EXPECTED DEVELOPMENTS

### MODERATE GLOBAL ECONOMIC GROWTH

According estimates by the International Monetary Fund (IMF), the global economy will stabilise and experience moderate growth in 2020. However, the IMF does not presently expect high growth rates of prior years to return so soon. This is also because the experts were forced to correct their forecasts for individual countries and regions slightly downwards as compared to their last predictions in October 2019. Global gross domestic product is expected to grow by 3.3% in 2020 compared to 2.9% in 2019. In October 2019, experts at the IMF had still anticipated growth for 2020 to be slightly greater at 3.4%. According to the experts, the continuing loose monetary policy of the leading central banks, an initial partial agreement in the trade conflict between the United States and China and the prospect of an orderly Brexit are having a positive effect on the global economy in the current year. On the other hand, the IMF sees risks in the possibility of a renewed trade conflict between the United States and China and the EU, further geopolitical conflicts such as between the United States and Iran, climate-related natural disasters and social tensions. The IMF also anticipates a slight year-on-year economic increase in the eurozone. Here it expects to see 1.3% growth after 1.2% in 2019. The experts had also anticipated 0.1 percentage points more in this economic region in October. For Germany, the IMF again reduced its growth forecast slightly (by 0.1 percent) since October 2019 to 1.1%. Growth of 1.7% is expected for Austria in 2020. The IMF forecasts 6.0% growth for China's economy in 2020. The IMF is forecasting that the US economy will slow down further. Growth there will fall further in 2020 by 0.3 percent from 2.3% in the previous year to 2.0%.

### SPENDING SUBDUED

According to a study conducted by GfK, a market research institute based in Nuremberg, nominal disposable net income in Germany is set to rise by 2.9% to €23,766 per capita in 2020. However, how much of the nominal growth in purchasing power remains in real terms depends on how consumer prices develop in 2020. The GfK forecasts real growth in private consumer spending for 2020 overall by only 1% in Germany.

### ONGOING PESSIMISM AMONG BRICK-AND-MORTAR FASHION RETAILERS

The retailers surveyed by the industry magazine TextilWirtschaft have started off the new decade sceptical overall. For 2020, 68% of those surveyed expect the consumer climate for textiles and clothing to worsen in the course of the year. However, this represents a slightly positive trend as compared to 70% recorded in the previous year. 76% of those surveyed anticipate a worsening of the general political situation, while 67% believe the overall economic situation will deteriorate. Specifically, 35% of those surveyed also expect to see their revenue decline in 2020. This is also attributable to a further decline in customer footfall in brick-and-mortar stores.

### FORECAST AND OVERALL ASSERTION

For financial year 2019, the ADLER Executive Board had forecasted consolidated revenue of just below €500 million and EBITDA (after non-recurring effects) to range between €64 and 69 million due to the difficult industry environment in the textiles retail sector and the store optimisation measures. With revenue amounting to €495.4 million, this target was not quite achieved due to even weaker-than-expected Christmas business, whereas EBITDA was above forecast at €70.3 million.

ADLER's Executive Board does not expect the difficult situation facing the textile retail industry to improve during the 2020 financial year. As in previous years, the management is using a variety of tools to stabilise the operational trend in reaction to this. These tools include cost-efficiency measures with respect to procurement and personnel. The store optimisation programme launched in 2018 is still being implemented according to plan. The closure of eight stores in 2019 and the planned closure of further stores in 2020 will have a negative effect on revenue expectations. The grand opening of two stores in 2019 and the planned launch of sales at additional stores in financial year 2020 will not be sufficient to compensate for this. The aim is to improve consolidated revenue slightly on a like-for-like basis (2019: −1%) and in absolute terms to be at the same level as in the previous year, about €495 million. The expected positive effects from the efficiency enhancement measures which have been introduced or implemented in full will be offset in 2020 by expected increases in marketing and sales expenses to sustainably secure revenue, such as through online trading. Including potential negative one-off expenses, particularly for store closures, totalling €5–6 million, the Executive Board forecasts EBITDA to be between €66 and 69 million. In 2020, the management will continue to focus squarely on maintaining the large liquidity reserve and generating a substantial positive free cash flow.

The forecast already includes the expected increase in personnel expenses due to the collective bargaining agreement and the restructuring expenses. ADLER expects only minor changes as it pertains to the EUR/USD exchange rate. The same applies to the development of key commodity prices.

It cannot yet be predicted what financial implications the coronavirus will have on the current financial year 2020. ADLER sources the majority of its products from the east and south-east Asia region, meaning that in principle, procurement might be hit by an escalation of the situation as the year progresses. However, ADLER currently has sufficient stocks of new merchandise for the spring and summer collections. It also has opportunities to counter the situation where necessary by procuring merchandise from suppliers in other parts of the world.

After completion of the store optimisation programme and as a consequence of increased marketing activities, ADLER believes that – provided general conditions do not worsen significantly – it has realistic chances of returning to continuous revenue growth beginning in financial year 2021. This and the realisation of the aforementioned cost savings are then expected to result in a gradual improvement in terms of profitability.

ADLER will continue to implement the established conservative accounting and financing strategies going forward. Accordingly, the focus will remain on generating sustained positive free cash flows and reporting soundly positive net liquidity. This will be used to finance the Group's future growth as well as the timely return to a dividend distribution.

## FORWARD-LOOKING STATEMENTS

This management report contains forward-looking statements regarding Adler Modemärkte AG, its subsidiaries and affiliates, and the economic environment. These statements are based on assumptions that the management made on the basis of the knowledge and information available to it at the time this report was prepared. If these assumptions do not or only partially hold true, or if additional risks arise, actual business performance may deviate from the expected business performance. Therefore, no specific responsibility is taken for any forward-looking statements made in this management report.

# CONSOLIDATED FINANCIAL STATEMENTS



# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENT FOR THE FINANCIAL YEAR
### FROM 1 JANUARY TO 31 DECEMBER 2019

| € '000 | Note | 2019 | 2018 adjusted |
|---|---|---|---|
| **Revenue** | 1 | **495,363** | **507,093** |
| Other operating income | 2 | 5,732 | 6,127 |
| Cost of materials | 3 | −219,454 | −229,777 |
| Personnel expenses | 4 | −99,448 | −97,532 |
| Other operating expenses | 5 | −111,851 | −117,137 |
| **EBITDA** | | **70,342** | **68,775** |
| Depreciation, amortisation and write-downs | 6 | −45,834 | −47,728 |
| **EBIT** | | **24,508** | **21,047** |
| Other interest and similar income | 7 | 41 | 13 |
| Interest and similar expenses | 7 | −16,694 | −18,475 |
| **Net finance costs** | 7 | **−16,653** | **−18,462** |
| **Consolidated net profit for the year before tax** | | **7,856** | **2,585** |
| Income taxes | 8 | −2,722 | −2,217 |
| **Consolidated net profit for the year** | | **5,134** | **369** |
| of which attributable to shareholders of Adler Modemärkte AG | | 5,134 | 369 |
| Basic in € | 33 | 0.28 | 0.02 |
| Diluted in € | 33 | 0.28 | 0.02 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2019

| € '000 | Note | 2019 | 2018 adjusted |
|---|---|---|---|
| **Consolidated net profit for the year** | | **5,134** | **369** |
| Currency translation gains from foreign subsidiaries | | –144 | –130 |
| Remeasurement of defined benefit pension entitlements and similar obligations | 18 | –700 | 15 |
| Deferred taxes | | 197 | –6 |
| **Items that will not be recycled to the income statement going forward** | | **–647** | **–120** |
| Change in fair value of financial instruments in equity instruments measured at fair value | | 18 | –23 |
| **Items subsequently recycled to the income statement** | | **18** | **–23** |
| **Other comprehensive income** | | **–629** | **–143** |
| **Consolidated total comprehensive income** | | **4,505** | **225** |
| of which attributable to shareholders of Adler Modemärkte AG | | 4,505 | 225 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2019

| ASSETS (€ '000) | Note | 31 Dec. 2019 | 31 Dec. 2018 adjusted |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 9 | 4,104 | 4,797 |
| Property, plant and equipment | 10 | 23,824 | 27,050 |
| Right-of-use assets | 10 | 207,173 | 217,370 |
| Investment property | 11 | 0 | 413 |
| Other non-current receivables and assets | 14 | 381 | 146 |
| Deferred tax assets | 16 | 22,855 | 22,819 |
| **Total non-current assets** | | **258,337** | **272,595** |
| **Current assets** | | | |
| Inventories | 12 | 73,358 | 78,706 |
| Trade receivables | 13 | 102 | 2 |
| Other current receivables and assets | 14 | 7,210 | 9,450 |
| Financial assets measured at fair value through other comprehensive income | 14 | 281 | 263 |
| Cash and cash equivalents | 15 | 70,089 | 54,933 |
| **Total current assets** | | **151,041** | **143,353** |
| **TOTAL ASSETS** | | **409,378** | **415,948** |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**AS AT 31 DECEMBER 2019**

| EQUITY AND LIABILITIES (€ '000) | Note | 31 Dec. 2019 | 31 Dec. 2018 adjusted |
|---|---|---|---|
| **Capital and reserves** | | | |
| Subscribed capital | 17 | 18,510 | 18,510 |
| Capital reserves | 17 | 127,408 | 127,408 |
| Accumulated other comprehensive income | 17 | −2,858 | −2,229 |
| Negative retained earnings | 17 | −76,971 | −82,105 |
| **Total equity** | 17 | **66,089** | **61,584** |
| LIABILITIES | | | |
| **Non-current liabilities** | | | |
| Provisions for pensions and similar obligations | 18 | 5,585 | 5,202 |
| Other non-current provisions | 19 | 1,282 | 1,378 |
| Non-current financial liabilities | 20 | 1,627 | 1,949 |
| Non-current lease liabilities | 24 | 223,287 | 237,965 |
| Other non-current liabilities | 23 | 3,245 | 3,867 |
| Deferred tax liabilities | 16 | 33 | 34 |
| **Total non-current liabilities** | | **235,058** | **250,394** |
| **Current liabilities** | | | |
| Other current provisions | 18 | 5,160 | 5,560 |
| Liabilities from the customer loyalty card programme | 21 | 11,664 | 9,776 |
| Current financial liabilities | 20 | 322 | 319 |
| Current lease liabilities | 24 | 41,456 | 41,330 |
| Trade payables | 22 | 25,966 | 25,094 |
| Other current liabilities | 23 | 23,319 | 21,622 |
| Current income tax liabilities | 25 | 343 | 269 |
| **Total current liabilities** | | **108,230** | **103,970** |
| **Total liabilities** | | **343,288** | **354,364** |
| **TOTAL EQUITY and LIABILITIES** | | **409,378** | **415,948** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**FROM 1 JANUARY 2018 TO 31 DECEMBER 2019**

| | Subscribed capital | Capital reserves | Accumulated other comprehensive income | | | Negative retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| € '000 | | | Securities | Currency translation | Other changes[2] | | |
| **As at 1 Jan. 2018 before IFRS 16** | **18,510** | **127,408** | **22** | **72** | **−2,180** | **−43,886** | **99,947** |
| Restatement in accordance with IFRS 16 | 0 | 0 | 0 | 0 | 0 | −37,661 | −37,661 |
| **As at 1 Jan. 2018** | **18,510** | **127,408** | **22** | **72** | **−2,180** | **−81,547** | **62,286** |
| Dividend payment[1] | 0 | 0 | 0 | 0 | 0 | −926 | −926 |
| **Transactions with shareholders** | **0** | **0** | **0** | **0** | **0** | **−926** | **−926** |
| Consolidated net profit for the year | 0 | 0 | 0 | 0 | 0 | 369 | 369 |
| Other comprehensive income | 0 | 0 | −23 | −130 | 9 | 0 | −143 |
| Consolidated total comprehensive income | 0 | 0 | −23 | −130 | 9 | 369 | 225 |
| **As at 31 Dec. 2018** | **18,510** | **127,408** | **−1** | **−58** | **−2,171** | **−82,105** | **61,584** |
| **As at 1 Jan. 2019** | **18,510** | **127,408** | **−1** | **−58** | **−2,171** | **−82,105** | **61,584** |
| Dividend payment[1] | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Transactions with shareholders** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| Consolidated net profit for the year | 0 | 0 | 0 | 0 | 0 | 5,134 | 5,134 |
| Other comprehensive income | 0 | 0 | 18 | −144 | −503 | 0 | −629 |
| Consolidated total comprehensive income | 0 | 0 | 18 | −144 | −503 | 5,134 | 4,505 |
| **As at 31 Dec. 2019** | **18,510** | **127,408** | **17** | **−202** | **−2,674** | **−76,971** | **66,089** |

*[1] A dividend of €0.00 per share was distributed in the financial year (previous year: €0.05 per share).*
*[2] Other changes relate to actuarial gains and losses less deferred taxes.*

# CONSOLIDATED STATEMENT OF CASH FLOWS

**FROM 1 JANUARY 2019 TO 31 DECEMBER 2019**

| € '000 | Note | 2019 | 2018 adjusted |
|---|---|---|---|
| **Consolidated net profit for the period before tax** | | **7,856** | **2,585** |
| (+) Depreciation of property, plant and equipment and amortisation of intangible assets | | 45,363 | 46,937 |
| (+) Impairment | | 471 | 791 |
| Increase (+)/decrease (–) in pension provisions | | –316 | –277 |
| Gains (–)/losses (+) from the sale of non-current assets | | –12 | –114 |
| Gains (–)/losses (+) from currency translation | | –134 | –136 |
| Other non-cash expenses (+)/income (–) | | 340 | 993 |
| Net interest income | | 16,653 | 18,462 |
| Interest income | | 7 | 7 |
| Interest expense | | –16,599 | –18,380 |
| Income taxes paid | | –20 | –4,443 |
| Increase (–)/decrease (+) in inventories | | 5,531 | –5,817 |
| Increase (–)/decrease (+) of trade receivables and other receivables | | –1,565 | 4,624 |
| Increase (+)/decrease (–) of trade payables, other liabilities and other provisions | | 4,111 | –5,363 |
| Increase (+)/decrease (–) in other items of the statement of financial position | | –3 | 0 |
| **Cash from (+)/used (–) in operating activities (net cash flow)** | 25 | **61,681** | **39,867** |
| Proceeds from disposals of non-current assets | | 492 | 309 |
| Payments for investments in non-current assets | | –4,724 | –6,254 |
| **Cash from (+)/used (–) in investing activities** | 25 | **–4,232** | **–5,945** |
| **Free cash flow** | 25 | **57,449** | **33,921** |
| Payments in connection with the repayment of loan liabilities | | –319 | –316 |
| Dividend distribution | | 0 | –926 |
| Payments in connection with lease liabilities | | –41,974 | –41,088 |
| **Cash from (+)/used (–) in financing activities** | 25 | **–42,293** | **–42,330** |
| **Net decrease (–)/increase (+) in cash and cash equivalents** | 25 | **15,156** | **–8,409** |
| Cash and cash equivalents at beginning of period | | 54,933 | 63,342 |
| Cash and cash equivalents at end of period | | 70,089 | 54,933 |
| **Net decrease (–)/increase (+) in cash** | 25 | **15,156** | **–8,409** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

## I. PRELIMINARY REMARKS

Adler Modemärkte AG is a corporation (*Kapitalgesellschaft*) in accordance with German law and its registered office is at Industriestraße Ost 1 – 7, Haibach, Germany. The relevant registration court is located in Aschaffenburg (registered under Number HRB 11581).

Its financial year is the calendar year. The financial years of all the companies included in the consolidated financial statements also end on 31 December of the calendar year.

The consolidated financial statements were prepared by the Executive Board on 3 March 2020.

The ADLER Group (Adler Modemärkte AG and its subsidiaries) is engaged in apparel retailing and operates specialist clothing stores in Germany, Luxembourg, Austria and Switzerland. Under the trade name "ADLER", the Group operates specialist clothing stores either on a stand-alone basis or as part of specialist store or shopping centres. It also operates specialist clothing stores together with other retailers at locations operated jointly. The range of goods offered by the ADLER stores includes womenswear, menswear and kidswear.

The euro (EUR) is both the reporting currency and the functional currency of the ADLER Group. The figures in the notes to the consolidated financial statements are quoted in thousands of euros (€ '000).

S&E Kapital GmbH, Munich, as the parent company, prepares the consolidated financial statements for the largest and smallest circle of group companies. These financial statements can be obtained at the Company's registered office in Munich. Adler Modemärkte AG, Haibach, also prepares consolidated financial statements. These financial statements can be obtained at the Company's registered office in Haibach.

## II. NOTES ON THE BASES AND METHODS EMPLOYED IN THE CONSOLIDATED FINANCIAL STATEMENTS

### ACCOUNTING POLICIES

The consolidated financial statements of Adler Modemärkte AG were prepared in accordance with the requirements of the International Accounting Standards Board (IASB), London, and in conformity with International Financial Reporting Standards (IFRSs), as adopted by the EU. The interpretations issued by the IFRS Interpretations Committee (the International Financial Reporting Interpretations Committee and the Standing Interpretations Committee) were also applied. The consolidated financial statements conform to the directives relating to consolidated accounts issued by the European Union (Directive 83/349/EEC). In order to ensure equivalence with consolidated financial statements prepared in accordance with the German Commercial Code (*Handelsgesetzbuch*, "HGB"), all of the disclosures and explanations required by § 315e HGB over and above the requirements of the IASB have also been provided. The consolidated financial statements in the form in which they are presented here comply with the provisions of § 315e HGB; those provisions constitute the legal basis for the preparation of consolidated accounts in accordance with international accounting standards in Germany in conjunction with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

Those International Financial Reporting Standards (IFRSs) were applied that had become mandatory by the end of the reporting period on 31 December 2019. There was no early adoption of standards whose application had not yet become mandatory as at 31 December 2019.

## STANDARDS AND INTERPRETATIONS APPLICABLE FOR THE FIRST TIME

The application of the following standards and interpretations revised or newly issued by the IASB was mandatory for the first time from the start of financial year 2019:

| Standards and Interpretations | |
|---|---|
| IFRS 16 | Leases |
| Amendment to IFRS 9 | Prepayment Features with Negative Compensation |
| IFRIC 23 | Uncertainty over Income Tax Treatments |
| Annual Improvements to IFRS Standards | Annual Improvements to IFRS Standards (2015–2017) |
| Amendments to IAS 19 | Employee Benefits (Plan Amendment, Curtailment or Settlement) |
| Amendments to IAS 28 | Long-term Interests in Associates and Joint Ventures |

**IFRS 16 Leases**

The new IFRS 16 replaces IAS 17 "Leases" and IFRIC 4 "Determining whether an Arrangement contains a Lease". The standard applies to all leases of right-of-use assets, lease agreements, subleases and sale and leaseback transactions. This standard may be applied to certain types of intangible assets. This option was not exercised because there were no intangible right-of-use assets. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 "Leases" requires that lessees recognise all leases as lease liabilities in the statement of financial position. Lessee must recognise the right to use an underlying asset by recognising the present value of future lease payments plus directly attributable costs. A distinction will no longer be drawn between operating and finance leases.

The transition primarily affected the accounting of lease agreements and motor vehicle and IT leases. All agreements were remeasured taking into account IFRS 16. Adler Modemärkte AG exercised its option to not apply the right-of-use approach to leases for which the underlying asset is of low value and short-term leases (terms of less than one year). It did not apply the option to separate lease and non-lease components in a contract. For leases entered into before the date of initial application, the Company makes use of the practical expedient to retain the previous assessment made under IAS 17 and IFRIC 4 as to whether a contract is, or contains, a lease, and not make a reassessment.

The ADLER has elected to apply the full retrospective transition method in accordance with IFRS 16.C5(a). Pursuant to IAS 8, this method must be applied retrospectively, the figures for the comparative period(s) must be restated and a third statement of financial position as at 1 January 2018 must be prepared. All existing leases as at 1 January 2018 were taken into account. The discount rate applied was the interest rate at the date the agreements were entered into. Differences between the carrying amounts of the right-of-use assets and lease liabilities are reported in equity as at 1 January 2018.

The change did not have any effect on Adler Modemärkte AG's cash flows. Items were reclassified; payments for the capital element of lease liabilities are reported under cash flows from financing activities. In accordance with IAS 7, payments for the interest element of lease liabilities are reported as interest paid.

The effects of the transition to IFRS 16 on the consolidated financial statements of Adler Modemärkte AG are presented in Note 28.

**Amendments to IFRS 9 prepayment features with negative compensation**

The amendments to IFRS 9 enable entities to measure at amortised cost some prepayable financial assets with negative compensation. These assets, which include certain loan and debt instruments, would otherwise have been measured at fair value through profit or loss. To qualify for measurement at amortised cost, the negative compensation must be reasonable compensation for early termination of the contract and the financial asset must be assigned to the "held to collect" business model. The amendments do not have any effect on Adler Modemärkte AG's accounting.

**IFRIC 23 uncertainty over income tax treatments**

IFRIC 23 clarifies the accounting for uncertainties in income taxes. IFRIC 23 is to be applied to the determination of taxable profit and losses, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. There is nothing to indicate that this may have any effect on Adler Modemärkte AG's accounting.

**Annual improvements to IFRS standards (2015–2017 cycle)**

- IFRS 3: If an entity obtains control as defined in IFRS 10 of a business that is a joint operation, the transaction is a business combination achieved in stages. The previously held interest in the joint operation must therefore be remeasured.
- IFRS 11: If an entity obtains joint control of a business that is a joint operation, the previously held interest is not remeasured.
- IAS 12: The amendments clarify that the income tax consequences of dividends on financial instruments classified as equity must be treated in the same manner as the transactions underlying the tax effect.
- IAS 23: The amendments clarify that if any borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

These improvements do not have any effect on Adler Modemärkte AG's accounting.

**Amendments to IAS 19**

The amendments to IAS 19 include guidance on how to account for plan amendments, curtailments and settlements. The amendments require an entity:

- to use current actuarial assumptions and the net defined benefit liability (asset) to determine the current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement.
- to recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any change in a surplus, even if that surplus was not previously recognised due to the asset ceiling.
- to recognise the effects of changes to the asset ceiling in other comprehensive income.

The amendments do not have any effect on Adler Modemärkte AG's accounting.

**Amendments to IAS 28**

The amendments to IAS 28 clarify that entities must apply IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendments do not have any effect on Adler Modemärkte AG's accounting.

## STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET MANDATORY

The following standards are not yet mandatory. These will be applied by the ADLER Group from the prescribed date and the Group has estimated the expected effects of the individual standards, amendments to standards and interpretations on its financial position, cash flows and financial performance, to the extent that it was possible to make such an estimate at this stage.

| Mandated by IASB from/expected to be mandatory for financial years beginning on or after* | Standards and Interpretations | Description | Adopted by EU Commission |
|---|---|---|---|
| 2020 | Amendments to IFRS 3 | Definition of a Business | No |
| | Amendments to IAS 1 and IAS 8 | Definition of Material | No |
| | Amendments to IFRS 9, IAS 39 and IFRS 7 | Interest Rate Benchmark Reform | No |
| | Revisions to Conceptual Framework | Amendments to References to the Conceptual Framework in IFRS Standards | No |
| | Annual Improvements to IFRS Standards (2018–2020 Cycle) | Amendments to IFRS 1, IFRS 9, IAS 41 and IFRS 16 | No |
| 2021 | IFRS 17 | Insurance Contracts | No |
| 2022 | Amendments to IAS 1 | Classification of Liabilities as Current or Non-current | No |
| TBD | Amendments to IFRS 10 and IAS 28 | Sale of contributions assets between an investor and its associate or joint venture | No |

** Date of first-time mandatory application stipulated by the IASB. Where the standard, interpretation or amendment has already been adopted by the EU Commission, the date is the date for mandatory application stipulated by the EU.*

**Amendments to IFRS 3**

The amendments to IFRS 3 revise the definition of a business and clarify the guidance on differentiating a business from a group of assets. The accounting treatment for goodwill, acquisition costs and deferred taxes is different for the acquisition of a business and a group of assets. The amendments do not have any effect on Adler Modemärkte AG's accounting.

**IAS 1 and IAS 8 definition of material**

The amendments to IAS 1 and IAS 8 clarify the definition of "material", aligning the definitions used in the Conceptual Framework and the standards themselves. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

**Amendments to IFRS 9, IAS 39 and IFRS 7**

The amendments aim to ensure that hedging relationships (hedge accounting) will continue to apply and that hedges can continue to be designated despite the expected phasing out of various interest-rate benchmarks. This is intended to provide relief from the effects of the IBOR reform on financial reporting. The amendments do not have any effect on Adler Modemärkte AG's accounting.

**Revisions to conceptual framework**

It includes revised definitions of assets and liabilities and contains guidance on measurement, derecognition, recognition and disclosures. The Conceptual Framework is not a new IFRS standard nor does it replace any standard. However, the revised Conceptual Framework will be used to develop new standards and interpretations going forward. It includes revised definitions of assets and liabilities and contains guidance on measurement, derecognition, recognition and disclosures. The amendments do not have any effect on Adler Modemärkte AG's accounting.

**Annual improvements to IFRS standards (2018–2020 cycle)**

IFRS 1 First-time Adoption of International Financial Reporting Standards

The proposed amendment would simplify the application of the rules governing the measurement of cumulative translation differences of subsidiaries that become first-time adopters of IFRS Standards after their parent company has already adopted them.

IFRS 9 Financial Instruments

Clarifies which fees an entity includes when it applies the "10 percent" test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability

IAS 41 Agriculture

The proposed amendment would remove the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. The proposed amendment would ensure consistency with the requirements in IFRS 13.

IFRS 16 Leases

Proposed amendment to Illustrative Example 13 accompanying IFRS 16 would remove from the example the illustration of the reimbursement of leasehold improvements by the lessor. The proposed amendment would resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

**IFRS 17 insurance contracts**

IFRS 17 establishes uniform principles for the presentation and measurement of insurance contracts and requires insurance liabilities to be measured at the current settlement amount. IFRS 17 replaces IFRS 4 “Insurance Contracts”. The amendments do not have any effect on Adler Modemärkte AG’s accounting.

**Amendments to IAS 1**

The amendments relate to the classification of liabilities as current or non-current. A liability must be classified as non-current if the entity has the right at the end of the reporting period to defer settlement of the liability by at least 12 months after the end of the reporting period. The mere existence of a right suffices; classification is unaffected by expectations about whether an entity will exercise its right. In the case of rights that are dependent on the existence of certain conditions, the focus is on whether the conditions are met at the end of the reporting period. The effect on Adler Modemärkte AG’s accounting is being reviewed.

**Amendments to IFRS 10 and IAS 28**

The amendments to IFRS 10 and IAS 28 clarify that the gain or loss from the transfer of assets to an associate or joint venture must be recognised in full when a transaction involves a business as defined in IFRS 3. By contrast, a partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The amendments must be applied prospectively. In December 2015, the mandatory initial application date of the amendments was deferred indefinitely until the research project on the equity method has been concluded.

## GROUP OF CONSOLIDATED COMPANIES/SHAREHOLDINGS

The consolidated financial statements include Adler Modemärkte AG as well as four German and three foreign subsidiaries. These subsidiaries are listed in the table below.

| Name, registered office | Shareholding in % | Currency | Subscribed capital/ limited partnership capital in local currency (in thousands) |
|---|---|---|---|
| Adler Modemärkte Gesellschaft m.b.H., Ansfelden, Austria | 100 | € | 1,500 |
| ADLER Mode S.A., Foetz, Luxembourg | 100 | € | 31 |
| Adler Mode GmbH, Haibach | 100 | € | 25 |
| Adler Mode AG Schweiz, Zug, Switzerland | 100 | CHF | 100 |
| Adler Orange GmbH & Co. KG, Haibach | 100 | € | 4,000 |
| Adler Orange Verwaltung GmbH, Haibach | 100 | € | 1,040 |
| A-Team Fashion GmbH, Bochum | 100 | € | 25 |

Due to the fact that the Group holds 100% of shares in the subsidiaries, there are no minority (non-controlling) interests.

ALASKA GmbH & Co. KG, Pullach im Isartal, in which the Group holds no interest, has also been included in the consolidated financial statements as a structured entity in accordance with IFRS 10 on the basis of a rental agreement with Adler Modemärkte AG, Haibach (relating to an administration building).

GBS Grundstücksverwaltungsgesellschaft m.b.H., Vienna, Austria, was merged with Adler Modemärkte Gesellschaft m.b.H., Ansfelden, Austria, with retrospective effect as at 31 December 2018 by virtue of the merger agreement dated 25 September 2019. The merger was entered into the commercial register on 10 October 2019.

### CONSOLIDATION PRINCIPLES

Subsidiaries are all companies (including structured entities) in which the Group has the power to govern the financial and operating policies and generally holds more than 50% of the voting rights. Subsidiaries are included in the consolidated financial statements from the date on which control is obtained by the Group (full consolidation). They are no longer consolidated from the date on which control is lost.

The financial statements of the German and foreign subsidiaries included in the consolidated financial statements are prepared using uniform accounting policies in accordance with IFRS 10.

Intra-Group profits and losses, revenue and income and expenses are eliminated, together with receivables and liabilities existing between subsidiaries consolidated. Receivables and liabilities to the same third-party company are offset where the relevant conditions are met. Intercompany profits are eliminated. Deferred tax assets and liabilities are recognised in respect of temporary differences arising from consolidation adjustments in accordance with IAS 12 “Income Taxes”.

In addition to Adler Modemärkte AG, the consolidated financial statements include all material German and foreign subsidiaries, including structured entities, over which Adler Modemärkte AG has direct or indirect control. This is the case if Adler Modemärkte AG has direct or indirect power over the potential subsidiary on account of voting rights or other rights, is exposed to positive or negative variable returns from its involvement in the potential subsidiary and can affect these returns. There were no significant restrictions.

### CONSOLIDATION OF SUBSIDIARIES

Subsidiaries acquired are accounted for using the acquisition method. The cost of the acquisition is the fair value of the assets given, the equity instruments issued and the liabilities incurred or assumed at the date of the transaction. The acquiree’s identifiable assets, liabilities and contingent liabilities in a business combination are measured on initial consolidation at their fair values at the date of the transaction, irrespective of the extent of any non-controlling interests.

Any excess of the cost of acquisition over the Group’s share of the net assets measured at fair value is recognised as goodwill; if the cost of the acquisition is lower than the net assets of the subsidiary acquired measured at fair value, the difference is recognised immediately in profit or loss.

### COMPANY ACQUISITIONS

The ADLER Group uses the purchase method for the purpose of accounting for business combinations. The consideration paid is equal to the fair value at the date of the acquisition of the assets given, the liabilities assumed and the equity instruments issued. Incidental costs of the acquisition are expensed. The acquiree’s identifiable assets, liabilities and contingent liabilities in a business combination are measured on initial consolidation at their fair values at the date of the transaction. The excess of the consideration paid, the amount of all non-controlling interests and the fair value of the share of the acquiree’s equity held prior to the acquisition over the fair value of the net assets at the date of acquisition is recognised as goodwill. If the consideration paid is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss as income, once the identification and measurement of the net assets and the measurement of the cost of the acquisition have been reassessed.

## CURRENCY TRANSLATION

Business transactions in foreign currencies in the separate financial statements of subsidiaries prepared in euros are measured at the rate of exchange at the date of the transaction. Exchange rate gains and losses arising up to the end of the reporting period from the translation of receivables and liabilities are reflected in the financial statements. Gains and losses resulting from movements in exchange rates are reported in profit or loss. The annual financial statements of the foreign Group company are translated into the ADLER Group's reporting currency. The functional currency is the local currency. The functional currency and the reporting currency of the parent, and hence of the consolidated financial statements, is the euro.

ADLER translates the assets and liabilities of foreign Group companies for which the euro is not the functional currency using the spot rate at the end of the period. By contrast, expenses, income and results are translated using average exchange rates. Any resulting translation differences are recognised separately in equity.

The exchange rates used in currency translation were as follows:

| Currency | Spot rates per € | | Average rates per € | |
|---|---|---|---|---|
| | 31 Dec. 2019 | 31 Dec. 2018 | 2019 | 2018 |
| Swiss franc (CHF) | 1.085 | 1.1269 | 1.113 | 1.1549 |

## ACCOUNTING POLICIES

The accounting policies set out below were applied for the purpose of preparing the consolidated financial statements.

The accounting policies are applied in principle on a consistent basis.

## NON-CURRENT ASSETS AND DEPRECIATION AND AMORTISATION

### Goodwill

Goodwill arising on consolidation represents the excess of the cost of a company acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary. In accordance with IFRS 3 "Business Combinations", goodwill is not amortised. Instead, in accordance with IAS 36 "Impairment of Assets", it is tested for impairment annually and whenever there are indications of possible impairment and, where necessary, written down to the recoverable amount. The impairment charge is recognised immediately in profit or loss. Impairment losses recognised in respect of goodwill may not be reversed in subsequent periods. For the purpose of impairment testing, goodwill is allocated to cash-generating units. The allocation is made to those cash-generating units or groups of cash-generating units which are expected to benefit from the synergies of the underlying business combination.

Goodwill at the level of the cash-generating unit (CGU) is regularly tested for impairment at the end of the year, or when there are indications of impairment, by determining the value in use using the discounted cash flow calculation based on the weighted average cost of capital (WACC) after taxes, derived from the multi-year plan. The cost of capital is calculated on the basis of the interest rate for risk-free assets, the market risk premium and ADLER's interest rate on debt. Furthermore, specific peer group information for beta factors and debt/equity ratios are also taken into account.

### Other intangible assets

Purchased and internally generated intangible assets are recognised at cost. All purchased intangible assets with finite useful lives are amortised on a straight-line basis. Amortisation is based on the following economic useful lives applied consistently across the Group:

| Asset class | Depreciation period |
|---|---|
| Concessions, rights, licences | 3 to 7 years or the shorter contractual term where relevant |
| Software | 3 to 5 years |

Internally generated intangible assets mostly comprise software. Costs associated with the operation or maintenance of software are expensed when incurred. Costs incurred directly in connection with the production of identifiable individual software products over which the Group has control are recognised as an intangible asset if it is regarded as probable that the intangible asset will generate future economic benefits, is technically feasible and if the costs can be reliably determined. The directly attributable costs include personnel costs for the employees involved in development and other costs directly attributable to the development of software. Capitalised development costs for computer software with a finite useful life are amortised on a straight-line basis over the period of its expected use but subject to a maximum of five years.

Intangible assets which are not yet available for use are tested for impairment at least once annually. Intangible assets with indefinite useful lives are tested for impairment at least once annually. Assets in use and other intangible assets with finite useful lives are tested for impairment only if there are specific indications that the assets may be impaired. The higher of the value in use and the fair value less costs of disposal of the relevant cash-generating unit is generally used to test intangible assets with indefinite useful lives for impairment. The value in use is measured on the basis of the management's current planning. This planning is based on expectations with regard to future macroeconomic developments and the resulting assumptions about the textile retail markets, market shares and profitability of the products. This takes into consideration appropriate assumptions regarding macroeconomic trends (currency, interest rate and commodity price developments) as well as historical developments. Please refer to the report on expected developments in the management report for information regarding assumptions in the detailed planning period. Plausible assumptions regarding future developments are made for subsequent years. The planning assumptions are adjusted in each case to the information currently available.

There were no other intangible assets or right-of-use assets with indefinite useful lives during the period under review.

**Property, plant and equipment**
Individual items of property, plant and equipment whose cost is less than €250 (previous year: €250) are generally expensed directly. To the extent that non-current assets (e.g., mannequins and store fixtures and fittings) acquired during the year under review are material to the ADLER Group's operations and are used for a period exceeding one year, they are recognised and reported under property, plant and equipment regardless of their cost, and in particular regardless of the aforementioned cost threshold, and are depreciated over their economic useful lives. Significant components of an item of property, plant and equipment are recognised and depreciated separately. Subsequent costs are recognised as a component of the cost of the asset only if it is probable that future economic benefits will flow to the Group as a result and if the costs can be reliably determined. All other repair and maintenance expenses are recognised as expenses in the income statement in the financial year in which they are incurred. Depreciation is not charged on land. For all other assets depreciation is charged on a straight-line basis over the following expected useful lives of the assets:

| Asset class | Depreciation period |
|---|---|
| Buildings | 33 years |
| Operating facilities | 3 to 10 years |
| Operating and office equipment | 3 to 10 years |
| Vehicles | 4 to 6 years |
| Leasehold improvements | 10 years |

The carrying amounts and useful economic lives are reviewed at a minimum at the end of each reporting period and adjusted where necessary. If the carrying amount of an asset is higher than its estimated recoverable amount, it is immediately written down to the latter. Gains and losses from disposals of items of property, plant and equipment are calculated as the difference between the proceeds of sale and the carrying amount, and are recorded in profit or loss.

### RIGHT-OF-USE ASSETS

Under IFRS 16, a right-of-use asset is deemed to exist if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lessees must recognise the right to use an underlying asset by recognising the present value of future lease payments plus directly attributable costs. The directly attributable costs of the right-of-use assets comprise any lease payments made at or before the date the lease payments are made, less any lease incentives received and any initial direct costs incurred by the lessee.

The asset is depreciated over its economic useful life or the term of the lease. The cost model is applied for subsequent measurement of right-of-use assets.

In determining the lease term, the Executive Board considers all relevant facts and circumstances that create an economic incentive to exercise the option to extend the lease, or not to exercise the option to terminate the lease. Changes in the lease term resulting from options to extend or terminate a lease are only included in the determination of the lease term if the Company is reasonably certain that it will exercise an extension option or not exercise a termination option. If existing leases are extended or modified, the change in the lease liability resulting from the contractual adjustment increases or decreases the potential value in use of the leased asset.

ADLER is exposed to possible future increases in variable lease payments that may result from a change in an index. These potential changes in lease payments are not reflected in the lease liability until they become effective. As soon as changes in an index affect the lease payments, the lease liability is adjusted against the right-of-use asset.

| Asset class | Depreciation period |
|---|---|
| Right-of-use assets – buildings | Economic useful life or lease term, generally 1 to 15 years |
| Right-of-use assets – other operating and office equipment | Economic useful life or lease term, 2 to 4 years |

As the lessee, ADLER recognises all leases as lease liabilities in the statement of financial position. The corresponding liability to the lessor is reported in the statement of financial position as a lease obligation under lease liabilities. The lease payments are apportioned between the finance charge and the reduction of the lease obligation so as to produce a constant periodic rate of interest on the remaining balance of the liability.

The lease and non-lease components in a contract are not separated.

ADLER exercised its option to not apply the right-of-use approach to leases for which the underlying asset is of low value and short-term leases (terms of less than one year).

In accordance with IFRS 16, a lease is not classified as a finance lease if it does not transfer substantially all the risks and rewards incidental to ownership to ADLER. Payments associated with these contracts are recognised as an expense on a straight line basis.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to ADLER are not classified as leases under IFRS 16. Payments under these contracts are recognized as expenses on a straight-line basis over the term of the contract.

To a small extent, Adler sublets portions of its stores. For these subleases, a check is performed in accordance with IFRS 16.63 to determine whether these are finance leases or operating leases. The portions of stores subleased by ADLER are exclusively operating leases.

### INVENTORIES

Merchandise accounted for as inventories is generally carried at the lower of cost and net realisable value. Net realisable value is the amount of the estimated sale proceeds achievable in the normal course of business less the necessary variable costs of sale. The cost of production includes all directly attributable costs and appropriate portions of necessary overheads and depreciation in addition to direct materials and production costs. Cost is determined using the weighted average method.

## INVESTMENT PROPERTY

Investment property comprises land and buildings held in order to generate rental income and/or for the purposes of capital appreciation and that are not used in the ordinary course of business. It is measured at fair value. The fair value is determined by a property expert.

## FINANCIAL ASSETS

Since 1 January 2018, ADLER has classified its financial assets into the following measurement categories depending whether the assets are equity or debt instruments:

- Financial assets measured at fair value through other comprehensive income, and
- Financial assets measured at amortised cost

The classification of debt instruments depends on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

The carrying amounts and fair values of the financial assets are presented for each measurement category in accordance with IFRS 9. The fair value of a financial instrument is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

| Financial assets measured at amortised cost | | |
|---|---|---|
| | Note | |
| Trade receivables | 13 | ADLER measures its trade receivables at amortised cost because the following conditions have been met:<br>• the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and<br>• the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.<br>Trade receivables are recorded initially at fair value and measured in subsequent periods at amortised cost less any impairment losses. |
| Other financial assets | 14 | ADLER measures the financial assets reported under other receivables and other assets at amortised cost because the following conditions, as described above, have been met.<br>The financial assets reported under other receivables and other assets are recorded initially at fair value and measured in subsequent periods at amortised cost using the effective interest method – in the case of non-current receivables. Appropriate valuation allowances are recognised in respect of any risks existing.<br>Any loss allowances must be taken into account upon the initial recognition of the financial asset. These must be recognised at an amount equal to the 12-month expected credit losses. The loss allowances shall equal the amount of the lifetime expected credit losses if the credit risk of a financial asset has increased significantly since initial recognition. Once the item is no longer expected to generate cash flows, it is derecognised. |
| Cash and cash equivalents | 15 | Cash and cash equivalents include cash, demand deposits and other short-term highly liquid financial assets with an original term of no more than three months. Overdrafts utilised are reported as liabilities to banks under current financial liabilities. Cash and cash equivalents are subject to the requirements of IFRS 9 on loss allowances. No loss allowances were identified. |
| **Financial assets measured at fair value through other comprehensive income** | | |
| Securities | 14 | Equity instruments (securities) that are held as long-term, strategic investments and not held for trading and that are not expected to be disposed of in the near- to medium term. Accordingly, ADLER measures these equity instruments at fair value (level 1). The fair value is based on quoted market prices at the end of the reporting period. The gains or losses on the derecognition of these instruments are not subsequently reclassified to profit or loss. The dividends on these instruments continue to be recognised as a gain or loss under other income since the right to receive payment of the dividend is established. Upon disposal of the equity instruments, all balances reported under reserve for "Financial assets measured at fair value through other comprehensive income" are reclassified to retained earnings. No securities measured at fair value through other comprehensive income were disposed of in the year under review. Thereafter Adler values these equity instruments at fair value. |

## GOVERNMENT GRANTS

Government grants are recorded at their fair value if it is reasonably certain that the grant will be made and that the Group will comply with the conditions necessary for receipt of the grant. Government grants in respect of costs are recorded over the period during which the related costs, for which the grant is intended to compensate, are incurred.

## BUILDING COST SUBSIDIES

Building cost subsidies are either paid to the lessor by the Group company for the purpose of upgrading the property or granted by the lessor for independent building work for the construction of the store. Building cost subsidies paid are accounted for as other assets and are expensed over the remaining minimum term of the contract. Building cost subsidies received are reported as other liabilities and reversed to income over the minimum term of the contract or pursuant to the contractual arrangements. See Note "Other operating income".

## CURRENT INCOME TAXES

Current income taxes for the period under review and for prior periods are measured in the amount expected to be paid to or reimbursed by the tax authorities. They are calculated on the basis of the company-specific tax rates applicable as at the end of the reporting period. Uncertain tax assets and liabilities are recognised as soon as ADLER's management believes their probability of occurrence exceeds 50%. Uncertain income tax positions are recognised at their most probable amount.

## DEFERRED TAXES

In accordance with IAS 12, deferred taxes are recognised for all temporary differences between the tax bases of the assets and liabilities and their carrying amounts in the IFRS consolidated financial statements (liability method). Deferred taxes are measured on the basis of the tax rates and tax laws in force or substantively enacted at the end of the reporting period and which are expected to apply at the date of realisation of the deferred tax asset or settlement of the deferred tax liability. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the temporary difference can be utilised. If it is sufficiently certain that it will be possible to utilise the future tax benefit resulting from loss carryforwards in future periods (five years), a deferred tax asset is recognised.

IAS 12.39 provides that deferred taxes on temporary differences in connection with investments in subsidiaries ("outside basis differences") should be recognised in the consolidated financial statements only when the following criteria are not met:

- the parent company, shareholder or joint venture partner is in a position to control the timing of the reversal of the temporary difference; and
- it is probable that the temporary difference will not reverse in the foreseeable future.

This is not the case for the ADLER Group. The temporary difference generally reverses only when the company is sold. At the present time the ADLER Group is not planning to dispose of any subsidiaries but, on the other hand, it would be in a position to control the timing of any disposal. No deferred taxes are recognised in the consolidated financial statements of the ADLER Group in respect of temporary differences relating to investments in subsidiaries.

Deferred tax assets and liabilities are netted if there is a legally enforceable right to offset current tax assets against current tax liabilities and if the deferred taxes relate to the same tax authority.

## EQUITY

Equity consists of subscribed capital, capital reserves, accumulated other comprehensive income and negative retained earnings. Subscribed capital represents the nominal capital of the parent, reduced, if necessary, by the share of own shares repurchased. The nominal value of the shares amounts to € 18,510,000. Capital reserves comprise all capital amounts contributed to the Company from external sources that are not subscribed capital.

Accumulated other comprehensive income includes minor exchange rate effects arising from the consolidation of subsidiaries with functional currencies other than the Group's reporting currency, as well as changes in the value of equity instruments measured at fair value through other comprehensive income and actuarial gains and losses from pension obligations as well as the associated deferred taxes.

## PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the provision can be reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow of resources will be required is determined by considering that class of obligations as a whole. Provisions are stated at the expected settlement amount after taking into account all identifiable associated risks and are not offset against rights of recourse.

Where the effect of the time value of money is material, non-current provisions are carried at the settlement amount discounted to the end of the reporting period. The discount rate used for this purpose is a pre-tax rate of interest reflecting the current market assessment of the economic situation and the risks specific to the obligation.

## EMPLOYEE BENEFITS

### Pension obligations

The ADLER Group has a number of different pension plans. They include both defined benefit and defined contribution plans. Defined contribution plans are post-employment plans under which an enterprise pays fixed contributions into a separate entity (such as a fund or insurance arrangement) and has no legal or constructive obligation to pay further contributions, even if the fund or the entitlements from the insurance agreement entered into do not have sufficient assets to pay all employee benefits relating to employee service in the current reporting period and prior periods. A defined benefit plan is a post-employment plan other than a defined contribution plan.

The agreements underlying the defined benefit plans provide for different benefits within the Group depending on the particular subsidiary. The latter mainly comprise

- pension entitlements once the relevant pensionable age is reached,
- one-off payments on cessation of employment.

The provision relating to defined benefit plans carried in the consolidated statement of financial position is calculated as the present value of the pension obligation at the end of the reporting period less the fair value of any plan assets available and any past service cost not yet recognised.

The actuarial calculation of the pension provisions for the Company's old-age pension benefits is based on the projected unit credit method prescribed by IAS 19 "Employee Benefits". An actuarial valuation is carried out by independent actuarial experts for this purpose at the end of each reporting period. The projected unit credit method takes account of the known pensions and vested benefits at the end of the reporting period and includes increases in salaries and pensions expected in the future. The valuations are based on the legal, economic and tax environment of the individual country, as well as that country's specific demographic trends.

The obligations, which exist solely in the European Economic Area, were measured using an actuarial rate of interest of 0.8% (previous year: 1.6%), projected annual wage and salary increases of 2.5% (previous year: 2.5%) and projected annual pension increases of 1.75% (previous year: 1.75%). Employee turnover is determined for each specific company and taken into account on the basis of age and length of service. The actuarial valuations are mostly based on specific mortality tables for each country. The provision is made up of the present value of the expected benefits less the fair value of the plan assets plus or minus any actuarial gains and losses.

The accumulated actuarial gains and losses were attributable to the differences arising over the years between the projected pension obligations and plan assets and the actual amounts at the year-end. Actuarial gains and losses are recognised directly in other comprehensive income. Furthermore, the return on plan assets is recognised in the amount of the discount rate.

In accordance with IAS 19.173, disclosures pursuant to IAS 19.145 on the financing strategy and risks of the pension plans and a sensitivity analysis required in the case of changes in material valuation assumptions are presented under Note 18.

The interest component of the addition to provisions (interest cost for pension obligations and expected income from plan assets) is reported as interest expense within net finance costs.

Payments out of a defined contribution benefits plan are included in profit or loss and reported within personnel expenses.

### Obligations for severance payments

Employees who began their service in Austria on or after 1 January 2003 participate in a defined contribution benefits plan. Obligations arising from severance payments for employees whose service began prior to 1 January 2003 are covered by defined benefit plans. When service is ended by the company or pensionable age is reached, or in the case of invalidity or death, participating employees receive a severance payment which amounts to a multiple of their basic monthly salary – depending on their length of service – subject to a maximum of twelve months' salary. A maximum of three months' salary is paid immediately on cessation of service, while the payment of any further amounts is distributed over a period of several months. In the event of death, the heirs of participating employees are entitled to 50% of the severance payment.

### Termination benefits

Termination benefits are paid when an employee is dismissed prior to the normal retirement date or when an employee leaves employment voluntarily in return for a termination payment. The Group recognises termination benefits immediately when it is demonstrably and irrevocably committed to terminating the employment of current employees on the basis of a detailed formal plan which cannot be withdrawn, or when it is demonstrably required to pay termination benefits on the voluntary termination of employment by employees. Payments falling due more than twelve months after the end of the reporting period are discounted to their present value. The entitlements to termination benefits are reported under provisions for personnel expenses.

## LIABILITIES

**Financial liabilities measured at amortised cost**

| | Note | |
|---|---|---|
| Financial liabilities | 20 | Financial liabilities are recorded at fair value on initial recognition and measured at amortised cost in subsequent periods. Differences between the historical cost and the repayment amount of non-current liabilities are reflected in the financial statements using the effective interest method. Financial liabilities measured at amortised cost are recognised initially at fair value, taking into account transaction costs.<br>Loan liabilities are classified as current if repayment is due within the following twelve months. |
| Liabilities from the customer loyalty card programme | 21 | Discount entitlements not yet utilised by customers are reported separately as liabilities from the customer loyalty card programme. Customers are awarded discount entitlements whenever they make a purchase using the ADLER customer loyalty card. Within a specifically defined period of less than one year, customers can offset these discount entitlements against a subsequent purchase or have the amount paid out in cash. The amount included in liabilities represents customers' discount entitlements not yet utilised at the end of the reporting period. The amount not yet utilised at the end of the reporting period is reported in full as a liability in accordance with IFRS 9. |
| Trade payables | 22 | On initial recognition, trade payables are carried at fair value; subsequently, they are carried at amortised cost. |
| Other financial liabilities | 23 | On initial recognition, Other liabilities are carried at fair value; subsequently, they are carried at amortised cost. |
| Lease liabilities | 24 | Lease liabilities are recognised if ADLER has the right to obtain substantially all of the economic benefits from use of the identified asset and has the right to direct the use of the identified asset. On initial recognition of the lease liabilities, the present value of the following lease payments is recognised: fixed payments less any lease incentives, variable lease payments that depend on an index, and payments of penalties for terminating a lease if the lease term reflects ADLER exercising the respective option to terminate the lease.<br>For this purpose, the finance charge is apportioned over the term of the lease in such a way that a constant periodic rate of interest over time is produced on the outstanding balance of the lease liability. ADLER uses the incremental borrowing rate as a discount rate. |

### CONTINGENT LIABILITIES

Contingent liabilities are possible or present obligations resulting from past events but for which an outflow of resources is estimated to be not probable. Under IAS 37, obligations of this nature are not recorded in the statement of financial position but are disclosed in the notes to the financial statements. Please refer to the information presented in the section entitled “Other financial obligations” under Note 29.

### RECOGNITION OF INCOME AND EXPENSES

Revenue represents the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of business. Revenue is reported net of VAT and after deducting rebates and discounts. Customers’ entitlements to refunds relating to goods delivered are recorded in the income statement once the relevant invoices have been examined.

Where customers acquire an entitlement to a particular discount by making purchases with the ADLER customer loyalty card or acquiring extra points from customer loyalty card programmes, the discount is recorded as a reduction in revenue. The liability is reported under liabilities from the customer loyalty card programme. The liability is reversed when the discount is utilised.

Revenue and other operating income are generally recognised only when the services have been performed or the goods or products have been delivered and the risks of ownership have been transferred to the customer. In-store retail sales are settled in cash or using an EC or credit card. Purchases in the online shop are settled via invoice, credit card or online payment services. The card company’s charges are recorded in other operating expenses. The Group’s business policy is that the end user acquires its products with a statutory right of return.

Expenses are recognised when the goods or services are utilised or when the expense is incurred. This also applies to the recognition of advertising expenses. The latter are recorded when the service – in this case the provision of advertising services – has been performed for the ADLER Group and not at the later date when the ADLER Group is conducting the relevant advertising campaigns.

Unless classified as lease payments in accordance with IFRS 16, rental income and expenses are recorded as revenue or expenditure on an accruals basis in the period to which they relate.

### NET FINANCE COSTS

Interest income and interest expenses are recorded on an accruals basis in the period to which they relate using the effective interest method, based on the outstanding balance of the loan and the applicable interest rate. The applicable interest rate is the rate of interest that discounts the estimated future cash flows over the term of the financial asset to its net carrying amount.

In the case of a right-of-use asset or lease agreement, payments received are apportioned between the finance charge and the reduction of the outstanding liability using mathematical methods.

Interest income from the expected return on plan assets is also recorded in net finance costs, as are interest expenses from the compounding of interest on pension obligations. The interest rates which serve as a basis for this are discussed in the note relating to the accounting for pension obligations.

Borrowing costs are reported in the income statement in the period in which they are incurred, except for borrowing costs required to be capitalised in respect of qualifying assets.

### OTHER COMPREHENSIVE INCOME

The items of other comprehensive income were adjusted accordingly pursuant to the amendments to IAS 1 “Presentation of Financial Statements”. Depending on whether they are to be recorded in the income statement going forward, the items of other comprehensive income are presented separately.

### SEGMENT REPORTING

Under the provisions of IFRS 8, operating segments are identified on the basis of the internal organisation and reporting structure. An operating segment is defined as a component of an entity which generates revenues and incurs expenses from its business activities, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. The chief operating decision maker is the Executive Board of Adler Modemärkte AG.

Segments are structured for the purpose of segment reporting according to the entity's principal activities. As in the previous year, there was only one reportable segment in financial year 2019: "Stores (Modemärkte)".

## EARNINGS PER SHARE

Earnings per share is determined in accordance with IAS 33 "Earnings Per Share" by dividing consolidated profit or loss by the weighted average number of shares outstanding during the financial year. Earnings per share is diluted if the share capital consists of not only ordinary and preference shares, but also equity instruments which may lead to a future increase in the number of shares. However, there is no dilutive effect in these consolidated financial statements.

## LITIGATION AND CLAIMS FOR DAMAGES

The companies in the ADLER Group are involved in a range of legal and administrative proceedings in the course of their general business operations or similar proceedings could be initiated or claims asserted in the future. Although the outcome of individual proceedings cannot be predicted with certainty given the imponderable factors involved in legal disputes, it is currently estimated that they will have no material adverse effect on the results of operations of the Group over and above the risks reflected in the financial statements in the form of liabilities or provisions.

## USE OF ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements has involved the making of assumptions and use of estimates that have affected the reporting and the amount of the assets, liabilities, income and expenses recognised and of the contingent liabilities. These estimates and assumptions relate principally to the establishment of uniform economic useful lives used across the Group, the assessment of whether impairment charges are required for inventories, the measurement of provisions, pensions and risks specific to individual locations, together with the recoverability of future tax benefits, in particular those arising from loss carryforwards. The actual amounts may differ in particular cases from the estimates and assumptions made. Revised amounts are reflected at the date when improved knowledge becomes available.

Estimates are based on historical amounts and other assumptions considered to be accurate in the particular circumstances. The actual amounts may differ from the estimates made. The estimates and assumptions are reviewed on an ongoing basis. The "true and fair view" principle is also applied to the use of estimates.

### Useful lives of non-current assets

The determination and standardisation of economic useful lives applied across the Group is based on historical data relating to the actual expected useful lives of non-current assets. It is assumed that the assets are subjected to normal use.

### Valuation allowances on inventories

Valuation allowances on inventories are determined in the light of conditions in the sales market and are based to some extent on historical amounts.

### Income taxes

The Group has a liability to pay income taxes in various countries in accordance with different particular bases of assessment. The global provision for taxes is recognised on the basis of the profit determined in accordance with local tax regulations and the applicable local rates of tax.

The amount of the tax provisions and liabilities is based on estimates of whether and in what amount income taxes will become payable. Risks arising from the possibility of a different treatment for tax purposes are reflected, where necessary, in provisions for the appropriate amount.

In addition, it is necessary to make estimates in order to assess the recoverability of deferred tax assets. The key factor in assessing the recoverability of deferred tax assets is the estimation of the likelihood that future profits for tax purposes (taxable income) will be available. Uncertainties relating to the interpretation of complex tax regulations and the amount and timing of future taxable income must also be taken into account. Especially in view of the international structure of the Group, differences between actual events and assumptions, or future changes in those assumptions, may result in revised amounts for the tax charge or benefit in future periods.

The companies of the ADLER Group are subject to income tax in several countries. When assessing income tax assets and liabilities, interpretations of tax regulations in particular can be subject to uncertainty. Differences in opinions on the part of the respective financial authorities with regard to the correct interpretation of tax regulations (for example, due to a change in case law) are taken into consideration when accounting for uncertain tax assets and/or liabilities for the corresponding financial year.

**Provisions**
Assumptions about the likelihood of an outflow of resources occurring have to be made for the purpose of determining whether to recognise provisions. These assumptions represent the best possible assessment of the circumstances underlying the particular provision but are subject to an element of uncertainty given the inevitable use of assumptions. Assumptions also have to be made about the amount of any outflow of resources for the purpose of measuring the provisions. A change in the assumptions can therefore result in a revised amount for the provision. Accordingly, the use of assumptions can also give rise here to an element of uncertainty.

The determination of the present value of pension obligations depends primarily on the choice of the discount rate of interest and the other actuarial assumptions which must be formulated afresh at the end of each financial year. For this purpose, the underlying discount rate is the rate of interest on corporate bonds with high credit ratings, denominated in the currency in which the payments are made and with the same maturity structure as the pension obligations. Changes in these interest rates may result in material revisions to the amount of the pension obligations.

**Impairment**
Goodwill is tested annually for impairment in accordance with IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets". If events or changes in circumstances give rise to indications of possible impairment, impairment testing must also be carried out more frequently. The amortisation of goodwill is not permitted. For the purpose of testing goodwill for impairment, the carrying amount of the individual cash-generating unit to which the goodwill has been allocated is compared with the respective recoverable amount, i.e. the higher of the net selling price and the value in use. In those cases where the carrying amount of the cash-generating unit is higher than its recoverable amount, the difference represents an impairment loss. Impairment losses calculated in this manner are deducted initially from the carrying amount of the goodwill allocated to the strategic business unit in question. Any remaining amount is allocated to the other assets in the respective strategic business unit pro rata on the basis of their carrying amounts, to the extent that IAS 36 applies. The calculation of the recoverable amount is based on the future cash flows expected to be derived from the continuing use of the cash-generating unit. The cash flow projections were based on the Company's current business plans. The cost of capital is calculated as the weighted average of the cost of equity and the cost of debt, taking into account the proportions of total capital represented by equity and debt respectively. The cost of equity represents the expected return from the cash-generating unit and is derived from a suitable peer group. The cost of debt is based on the average cost of debt derived from bonds with an average remaining maturity of 30 years.

For the purpose of reflecting risks specific to individual locations in the financial statements (mainly the estimation of anticipated losses from lease agreements and the impairment of lease agreements), an adjusted EBIT for a particular planning horizon is estimated for locations with ongoing losses. This is then compared with objectively determined rents in order to calculate the extent of any failure to cover future rents and/or to adjust the carrying amounts to a recoverable amount determined under the assumption either that the location will continue in its present use or that it will be used for a different purpose.

The fair value of land and buildings being tested for impairment is normally based on a valuation by an independent expert. Expert opinions on the market values of property, plant and equipment are subject to an element of uncertainty as a result of the unavoidable use of assumptions.

All identifiable risks at the date of preparation of the consolidated financial statements were included in the context of the underlying estimates and assumptions.

# III. NOTES TO THE INCOME STATEMENT

## 1. REVENUE

Revenue (net) is generated almost entirely from sales of goods and is distributed geographically as follows:

| € '000 | 2019 | 2018 |
|---|---|---|
| Germany | 406,604 | 417,652 |
| Austria | 67,831 | 68,234 |
| Luxembourg | 17,108 | 17,758 |
| Switzerland | 3,819 | 3,449 |
| | **495,363** | **507,093** |

## 2. OTHER OPERATING INCOME

| € '000 | 2019 | 2018 |
|---|---|---|
| Passthrough expenses/reimbursement of expenses | 1,823 | 1,915 |
| Rent | 1,032 | 1,022 |
| Income from the reversal of other liabilities and provisions | 948 | 1,205 |
| Personnel-related government grants | 398 | 435 |
| Subsidies for advertising expenses | 322 | 0 |
| Income from damages claims | 234 | 361 |
| Income from foreign exchange gains | 139 | 47 |
| Royalties | 137 | 182 |
| Income from the derecognition of expired liabilities | 136 | 224 |
| Income from recoveries on receivables written off | 64 | 72 |
| Restaurant | 39 | 48 |
| Commissions | 36 | 46 |
| Credits from suppliers | 27 | 23 |
| Income from the hanger recycling project | 18 | 207 |
| Income from the disposal of non-current assets | 3 | 7 |
| Other | 376 | 333 |
| | **5,732** | **6,127** |

Passthrough expenses and reimbursements primarily include income from construction subsidies. Income from the reversal of other liabilities and provisions related primarily to provisions for personnel expenses, bonuses and rent and incidental rental expenses. The rental income was generated from subletting to store concessionaires. Rental income from investment property amounted to € 25 thousand (previous year: € 27 thousand). Income from damages claims was attributable primarily to insurance claims for damage to vehicles and stores. Income from the derecognition of expired liabilities includes primarily the derecognition of expired discounts.

## 3. COST OF MATERIALS

The cost of materials amounting to € 219,454 thousand (previous year: € 229,777 thousand) consists entirely of purchased merchandise. The decline in cost of materials is attributable primarily to volume but also improved purchasing and logistics processes.

## 4. PERSONNEL EXPENSES

| € '000 | 2019 | 2018 |
|---|---|---|
| Wages and salaries (including bonuses and severance payments) | 82,525 | 80,699 |
| Other social security contributions | 9,035 | 8,715 |
| Employer's contribution towards the statutory pension scheme | 7,345 | 7,533 |
| Expenditures for old-age pensions | 393 | 471 |
| Expenditures for death benefits/anniversaries | 150 | 114 |
| | **99,448** | **97,532** |

Despite the lower headcount, personnel expenses increased primarily as a result of higher performance-based bonuses and increases in wages, salaries and benefits.

The average number of people employed by the Group during the reporting period was:

| Employees | 2019 | 2018 |
|---|---|---|
| Managers | 195 | 205 |
| Full-time employees | 643 | 672 |
| Part-time employees | 2,553 | 2,656 |
| Trainees | 240 | 247 |
| | **3,631** | **3,780** |

## 5. OTHER OPERATING EXPENSES

| € '000 | 2019 | 2018 adjusted |
|---|---|---|
| Advertising expenses | 42,507 | 43,434 |
| Building expenditures | 20,770 | 21,292 |
| Freight and transport costs | 16,619 | 17,626 |
| Technical equipment | 11,764 | 11,793 |
| External cleaning fees | 4,518 | 4,665 |
| Administrative expenses | 3,816 | 4,214 |
| Consultancy fees | 2,843 | 5,148 |
| Consumables | 2,314 | 2,856 |
| Office expenses | 1,557 | 1,608 |
| Incidental costs of monetary transactions | 1,288 | 1,323 |
| Low-value assets | 328 | 386 |
| Losses from disposals of assets | 67 | 67 |
| Other | 3,459 | 2,725 |
| | **111,851** | **117,137** |

The decrease in advertising expenses is due mainly to lower costs for strategic marketing projects and TV advertising.

Building expenditures primarily include expenses for unrecognised ancillary services € 12,378 thousand (previous year: € 12,538 thousand). and the contingent rental payments under lease agreements amounted to € – 146 thousand (previous year: € – 206 thousand).

The decrease in freight and transport costs was due primarily to improvements in logistics.

The decrease in expenses for technical facilities was attributable primarily to fewer modernisation measures; this was offset by income from construction subsidies amounting to € 352 thousand (previous year: € 700 thousand).

The decrease in consulting fees is due mainly to the advice the Company received in the previous year in relation to implementing its strategic realignment.

Other operating expenses include € 47 thousand (previous year: € 63 thousand) in expenses connected with short-term leases, and € 147 thousand (previous year: € 185 thousand) in expenses connected with leases of low-value assets.

## 6. DEPRECIATION, AMORTISATION AND IMPAIRMENT

The amounts of depreciation and amortisation are presented in the consolidated statement of changes in non-current assets. During the financial year, impairment charges of € 471 thousand (previous year: € 791 thousand) were recognised in respect of non-current assets.

## 7. NET FINANCE COSTS

Net finance costs comprise the items below analysed by the items giving rise to them:

| € '000 | 2019 | 2018 adjusted |
|---|---|---|
| **Interest income** | | |
| Receivables from banks | 1 | 1 |
| Other | 40 | 12 |
| | **41** | **13** |
| **Interest expense** | | |
| Leasing | 16,279 | 18,148 |
| Interest effect on pension obligations and provisions for anniversaries | 96 | 94 |
| Liabilities to banks | 20 | 26 |
| Other | 299 | 207 |
| | **16,694** | **18,475** |
| **Net finance costs** | **16,653** | **18,462** |

Interest income from banks relates to current account balances. The related items were allocated to the "Measured at amortised cost" category. Interest income decreased due to the negative interest rate policies of the banks. Other includes interest income from prior-year tax credits. All interest income and interest expenses arising from financial assets and financial liabilities were calculated using the effective interest method. During the financial year they included negative interest charged by banks for deposits. The interest expense from leasing includes interest for right-to-use assets pursuant to IFRS 16.

The interest included in net finance costs represents the total amount of interest income and expenses calculated using the effective interest method.

## 8. INCOME TAXES

The income tax expense was made up as follows:

| € '000 | 2019 | 2018 adjusted |
|---|---|---|
| Actual tax expense (–)/income (+) | −2,560 | −2,517 |
| Deferred tax expense (–)/income (+) | −162 | 300 |
| | **−2,722** | **−2,217** |

Income taxes paid and payable in the individual countries together with deferred tax expenses and benefits are reported under income taxes.

The income tax rate of 29.571% (previous year: 29.571%) applied for the German company is made up of corporation tax amounting to 15.825% (previous year: 15.825%) (including the solidarity surcharge of 5.500%) and the trade tax rate of 13.746% (previous year: 13.746%). Foreign income taxes are calculated on the basis of the laws and regulations in force in the particular countries. The overall income tax rate applicable for the ADLER Group amounts to 29.570% (previous year: 29.570%).

The calculation of deferred taxes is based on the tax rates expected to apply in the individual countries when the deferred tax asset is realised or the liability is settled; these generally reflect the tax laws in force or enacted at the end of the reporting period.

The differences between the income tax expense actually recorded and the expected income tax expense are shown in the following reconciliation. The expected income tax expense is calculated from the profit or loss before taxes multiplied by the applicable income tax rate.

| € ’000 | 2019 | 2018 adjusted |
|---|---|---|
| Consolidated net profit before income taxes | 7,856 | 2,585 |
| Applicable income tax rate | 29,57% | 29,57% |
| Expected income tax expense | 2,323 | 764 |
| Effects of different foreign tax rates | −114 | −71 |
| Effects of different domestic tax rates | −4 | −4 |
| **Tax effects** | | |
| Addition/reduction of trade tax | 872 | 882 |
| Non-recognition of current tax losses | 140 | 214 |
| Non-deductible expenses for tax purposes | 60 | 852 |
| Initial recognition of deferred tax assets on loss carried forward | −487 | −284 |
| Prior-period tax income (–)/expense (+) | 747 | 0 |
| Tax-exempt income | −28 | −33 |
| Effects from the tax audit | −794 | 0 |
| Other deviations | 8 | −104 |
| Total tax effects | 518 | 1,527 |
| **Actual tax expense (+)/income (–)** | **2,722** | **2,217** |
| Actual tax rate | 34.64% | 85.76% |

Securities measured at fair value through other comprehensive income are measured at fair value in accordance with both local tax law and IFRSs; accordingly, no temporary differences arise in other comprehensive income.

# IV. NOTES TO THE STATEMENT OF FINANCIAL POSITION

## 9. INTANGIBLE ASSETS

The intangible assets comprise purchased software, rights and licences and goodwill. The internally generated intangible assets represent capitalised development costs for logistics software.

| €'000 | Software, rights, licences | Goodwill | Internally-generated assets | Construction in progress | Total |
|---|---|---|---|---|---|
| Cost as at 1 Jan. 2019 | 40,279 | 900 | 2,258 | 375 | 43,811 |
| Additions | 922 | 0 | 0 | 84 | 1,006 |
| Disposals | −1 | 0 | 0 | −278 | −279 |
| Reclassifications | 50 | 0 | 0 | −50 | 0 |
| **As at 31 Dec. 2019** | **41,250** | **900** | **2,258** | **131** | **44,539** |
| Depreciation, amortisation and write downs as at 1 Jan. 2019 | −36,309 | 0 | −892 | 0 | −37,200 |
| Additions | −1,421 | 0 | 0 | 0 | −1,421 |
| Disposals | 1 | 0 | 0 | 0 | 1 |
| **As at 31 Dec. 2019** | **−37,729** | **0** | **−892** | **0** | **−38,621** |
| Impairments as at 1 Jan. 2019 | −448 | 0 | −1,366 | 0 | −1,814 |
| **As at 31 Dec. 2019** | **−448** | **0** | **−1,366** | **0** | **−1,814** |
| Net carrying amount as at 1 Jan. 2019 | 3,522 | 900 | 0 | 375 | 4,797 |
| **Net carrying amount as at 31 Dec. 2019** | **3,073** | **900** | **0** | **131** | **4,104** |

Additions to software, rights and licences relate primarily to software for improved merchandise allocation, document management, RFID and POS systems. Software, rights and licences include the line item licences, leases – which relates to trademark rights.

The development of intangible assets in financial year 2018 was as follows:

| €'000 | Software, rights, licences | Goodwill | Internally-generated assets | Construction in progress | Total |
|---|---|---|---|---|---|
| Cost as at 1 Jan. 2018 | 38,845 | 900 | 2,258 | 39 | 42,042 |
| Additions | 1,399 | 0 | 0 | 375 | 1,774 |
| Disposals | −5 | 0 | 0 | 0 | −5 |
| Reclassifications | 39 | 0 | 0 | −39 | 0 |
| **As at 31 Dec. 2018** | **40,279** | **900** | **2,258** | **375** | **43,811** |
| Depreciation, amortisation and write downs as at 1 Jan. 2018 | −33,755 | 0 | −892 | 0 | −34,647 |
| Additions | −2,558 | 0 | 0 | 0 | −2,558 |
| Disposals | 5 | 0 | 0 | 0 | 5 |
| **As at 31 Dec. 2018** | **−36,309** | **0** | **−892** | **0** | **−37,200** |
| Impairments as at 1 Jan. 2018 | −448 | 0 | −1,367 | 0 | −1,815 |
| **As at 31 Dec. 2018** | **−448** | **0** | **−1,367** | **0** | **−1,815** |
| Net carrying amount as at 1 Jan. 2018 | 4,641 | 900 | 0 | 39 | 5,581 |
| **Net carrying amount as at 31 Dec. 2018** | **3,522** | **900** | **0** | **375** | **4,797** |

For reasons of materiality, the Company did not disclose the information required by IAS 36.134. During the year under review, the impairment tests of goodwill did not give rise to any impairments.

## 10. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

The development of property, plant and equipment in financial year 2019 was as follows:

| € '000 | Land and equivalent rights | Buildings (incl. buildings on land owned by third parties) | Other operating and office equipment | Prepayments/ construction in progress | Total property, plant and equipment | Right-of-use assets – buildings | Right-of-use assets – other operating and office equipment | Total right-of-use assets |
|---|---|---|---|---|---|---|---|---|
| Cost as at 1 Jan. 2019 | 690 | 72,765 | 64,955 | 337 | 138,746 | 351,341 | 4,352 | 355,693 |
| Additions | 0 | 842 | 2,618 | 258 | 3,718 | 26,617 | 680 | 27,297 |
| Disposals | 0 | −736 | −1,894 | −308 | −2,939 | −19,061 | 0 | −19,061 |
| Reclassifications | 79 | 540 | 240 | −256 | 603 | 0 | 0 | 0 |
| Foreign exchange differences | 0 | 31 | 18 | 0 | 49 | 128 | 0 | 128 |
| **As at 31 Dec. 2019** | **769** | **73,442** | **65,936** | **31** | **140,177** | **359,025** | **5,032** | **364,057** |
| Depreciation, amortisation and write downs as at 1 Jan. 2019 | 0 | −53,431 | −56,144 | 0 | −109,576 | −137,215 | −1,107 | −138,322 |
| Additions | 0 | −2,955 | −3,397 | 0 | −6,352 | −36,309 | −1,281 | −37,590 |
| Disposals | 0 | 598 | 1,785 | 0 | 2,383 | 19,061 | 0 | 19,061 |
| Reclassifications | 0 | −227 | 0 | 0 | −227 | 0 | 0 | 0 |
| Foreign exchange differences | 0 | −14 | −12 | 0 | −27 | −32 | 0 | −32 |
| **As at 31 Dec. 2019** | **0** | **−56,030** | **−57,768** | **0** | **−113,798** | **−154,495** | **−2,389** | **−156,884** |
| Impairments as at 1 Jan. 2019 | −296 | −1,497 | −328 | 0 | −2,121 | 0 | 0 | 0 |
| Additions | 0 | −345 | −120 | −6 | −471 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Foreign exchange differences | −34 | 71 | 0 | 0 | 37 | 0 | 0 | 0 |
| **As at 31 Dec. 2019** | **−330** | **−1,770** | **−448** | **−6** | **−2,555** | **0** | **0** | **0** |
| **Net carrying amount as at 31 Dec. 2018** | **393** | **17,836** | **8,483** | **337** | **27,050** | **214,126** | **3,245** | **217,370** |
| **Net carrying amount as at 31 Dec. 2019** | **438** | **15,641** | **7,719** | **25** | **23,824** | **204,530** | **2,643** | **207,173** |

The development of property, plant and equipment in financial year 2018 (adjusted) was as follows:

| € '000 | Land and equivalent rights | Buildings (incl. buildings on land owned by third parties) | Other operating and office equipment | Prepayments/ construction in progress | Total property, plant and equipment | Right-of-use assets – buildings | Right-of-use assets – other operating and office equipment | Total right-of-use assets |
|---|---|---|---|---|---|---|---|---|
| Cost as at 1 Jan. 2018 | 690 | 72,557 | 64,426 | 99 | 137,772 | 145,332 | 0 | 145,332 |
| Restatement in accordance with IFRS 16* | 0 | 0 | 0 | 0 | 0 | 201,844 | 597 | 202,441 |
| Additions | 0 | 1,634 | 2,439 | 337 | 4,410 | 4,098 | 3,755 | 7,853 |
| Disposals | 0 | –1,525 | –1,930 | –29 | –3,483 | 0 | 0 | 0 |
| Reclassifications | 0 | 68 | 2 | –71 | 0 | 0 | 0 | 0 |
| Foreign exchange differences | 0 | 30 | 17 | 0 | 47 | 67 | 0 | 67 |
| **As at 31 Dec. 2018** | **690** | **72,765** | **64,955** | **337** | **138,746** | **351,341** | **4,352** | **355,693** |
| Depreciation, amortisation and write downs as at 1 Jan. 2018 | 0 | –51,599 | –53,965 | 0 | –105,564 | –101,108 | 0 | –101,108 |
| Additions | 0 | –3,209 | –3,968 | 0 | –7,177 | –36,095 | –1,107 | –37,202 |
| Disposals | 0 | 1,387 | 1,798 | 0 | 3,185 | 0 | 0 | 0 |
| Foreign exchange differences | 0 | –11 | –10 | 0 | –20 | –12 | 0 | –12 |
| **As at 31 Dec. 2018** | **0** | **–53,431** | **–56,144** | **0** | **–109,576** | **–137,215** | **–1,107** | **–138,322** |
| Impairments as at 1 Jan. 2018 | –296 | –944 | –217 | 0 | –1,457 | 0 | 0 | 0 |
| Additions | 0 | –658 | –133 | 0 | –791 | 0 | 0 | 0 |
| Disposals | 0 | 104 | 22 | 0 | 127 | 0 | 0 | 0 |
| **As at 31 Dec. 2018** | **–296** | **–1,497** | **–328** | **0** | **–2,121** | **0** | **0** | **0** |
| **Net carrying amount as at 31 Dec. 2017** | **393** | **20,015** | **10,244** | **99** | **30,752** | **44,224** | **0** | **44,224** |
| **Restatement in accordance with IFRS 16** | **0** | **0** | **0** | **0** | **0** | **201,844** | **597** | **202,441** |
| **Net carrying amount as at 1 Jan. 2018** | **393** | **20,015** | **10,244** | **99** | **30,752** | **246,068** | **597** | **246,665** |
| **Net carrying amount as at 31 Dec. 2018** | **393** | **17,836** | **8,483** | **337** | **27,050** | **214,126** | **3,245** | **217,370** |

**For reasons of simplicity, the initial carrying amounts of right-of-use assets were presented as a net figure (less depreciation and impairment losses).*

Non-current assets include leased land and buildings as well as vehicles classified as right-of-use assets attributable to the Group as economic owner as a result of the structure of the underlying lease agreements. In order to ensure that right-of-use assets (previously: finance leases) are measured at the appropriate amount, they were reviewed in accordance with IAS 36 with the aim of identifying any impairment write-downs that might be necessary due to a lack of earnings prospects. There are indications of impairment if internal reporting provides substantive evidence that a store is less profitable or will be less profitable than expected. The audit of individual stores with leases found no substantive evidence that a store is less profitable or will be less profitable than expected. Therefore, as in the previous year, no impairment losses were recognised in respect of right-of-use assets in financial year 2019.

Other property, plant and equipment whose cost is less than € 250 (previous year: € 250) are capitalised. The total costs of the relevant assets in the financial year amounted to € 328 thousand (previous year: € 386 thousand).

In financial year 2019, impairment losses of € 471 thousand (previous year: € 791 thousand) were recognised in respect of assets of stores slated to be closed or unprofitable stores.

Property, plant and equipment amounting to € 3,152 thousand (previous year: € 2,869 thousand) serves as collateral for financial liabilities.

## 11. INVESTMENT PROPERTY

The investment property reported in the financial statements consists of land and a building held by the structured entity ALASKA GmbH & Co. KG included in the consolidation. Some portions of the building were sublet as it was not used in its entirety by the ADLER Group until November 2019. The sub-let portion was classified as an investment property and reported as such. The investment property was carried at fair value, which was determined by an expert valuer on the basis of market data. In financial year 2019, € 25 thousand in rental income was generated (previous year: € 27 thousand). The property was used in its entirety by ADLER as at the end of the reporting period and therefore reported under property, plant and equipment and depreciated from that date. The change in classification and the corresponding effect on property, plant and equipment was reported under reclassifications in the statement of changes in non-current assets.

| € '000 | 2019 | 2018 |
|---|---|---|
| **Carrying amount as at 1 Jan.** | 413 | 413 |
| **Carrying amount as at 31 Dec.** | 0 | 413 |

The full amount of investment property served as collateral for financial liabilities until November 2019. Expenses for maintenance and repairs amounting to € 29 thousand (previous year: € 11 thousand) were incurred during financial year 2019.

## 12. INVENTORIES

| € '000 | 31 Dec. 2019 | 31 Dec. 2018 |
|---|---|---|
| Domestic | 62,864 | 68,390 |
| International | 10,494 | 10,316 |
| | **73,358** | **78,706** |

Inventories are measured respectively at the lower of cost and the net realisable selling price as at the end of the reporting period. In accordance with IAS 2.34, impairment allowances were recognised in financial year 2019 for the purpose of reducing risks.

In 2019, impairment allowances on inventories were € 9,596 thousand, € 181 thousand lower compared with the previous year (€ 9,775 thousand). Impairment allowances were recognised primarily for merchandise from prior seasons and for slow-selling articles. The carrying amount of the inventories measured at the net selling price amounts to € 66,027 thousand (previous year: € 71,392 thousand).

Inventories consist primarily of merchandise.

**Receivables and assets**

Receivables and assets as at 31 December 2019 were as follows:

| | | Financial assets | | | | | | Other non-financial assets | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Financial assets measured at amortised cost | | | Financial assets measured at fair value through other comprehensive income | | | | | | | | |
| | | Current | Non-current | Total | Current | Non-current | Total | Current | Non-current | Total | Current | Non-current | Total |
| € '000 | Note | 31 Dec. 2019 | 31 Dec. 2019 | 31 Dec. 2019 | 31 Dec. 2019 | 31 Dec. 2019 | 31 Dec. 2019 | 31 Dec. 2019 | 31 Dec. 2019 | 31 Dec. 2019 | 31 Dec. 2019 | 31 Dec. 2019 | 31 Dec. 2019 |
| **Trade receivables** | **13** | **102** | | **102** | | | | | | | **102** | | **102** |
| Receivables from credit card companies | 14 | 1,433 | | **1,433** | | | | | | | 1,433 | | **1,433** |
| Creditors with debit balances | 14 | 1,114 | | **1,114** | | | | | | | 1,114 | | **1,114** |
| Other receivables | 14 | 1,605 | | **1,605** | | | | 119 | | **119** | 1,723 | | **1,723** |
| Rent receivables | 14 | 791 | | **791** | | | | | | | 791 | | **791** |
| Security deposits | 14 | 10 | 256 | **266** | | | | | | | 10 | 256 | **266** |
| Receivables from staff | 14 | | | | | | | 123 | | **123** | 123 | | **123** |
| Other taxes | 14 | | | | | | | 314 | | **314** | 314 | | **314** |
| Income tax assets | 14 | | | | | | | 376 | | **376** | 376 | | **376** |
| Prepaid expenses | 14 | | | | | | | 1,327 | 125 | **1,452** | 1,327 | 125 | **1,452** |
| **Other receivables and other assets** | **14** | **4,953** | **256** | **5,209** | | | | **2,258** | **125** | **2,383** | **7,210** | **381** | **7,592** |
| **Securities** | **14** | | | | **281** | | **281** | | | | **281** | | **281** |
| **Cash and cash equivalents** | **15** | **70,089** | | **70,089** | | | | | | | **70,089** | | **70,089** |
| **Deferred tax assets** | **16** | | | | | | | | **22,855** | **22,855** | | **22,855** | **22,855** |

Receivables and assets as at 31 December 2018 (adjusted) were as follows:

| | | Financial assets | | | | | | Other non-financial assets | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Financial assets measured at amortised cost | | | Financial assets measured at fair value through other comprehensive income | | | | | | | | |
| | | Current | Non-current | Total | Current | Non-current | Total | Current | Non-current | Total | Current | Non-current | Total |
| € '000 | Anhang Nr. | 31 Dec. 2018 | 31 Dec. 2018 | 31 Dec. 2018 | 31 Dec. 2018 | 31 Dec. 2018 | 31 Dec. 2018 | 31 Dec. 2018 | 31 Dec. 2018 | 31 Dec. 2018 | 31 Dec. 2018 | 31 Dec. 2018 | 31 Dec. 2018 |
| **Trade receivables** | **13** | **2** | | **2** | | | | | | | **2** | | **2** |
| Receivables from credit card companies | 14 | 1,295 | | **1,295** | | | | | | | 1,295 | | **1,295** |
| Creditors with debit balances | 14 | 1,066 | | **1,066** | | | | | | | 1,066 | | **1,066** |
| Other receivables | 14 | 1,950 | | **1,950** | | | | 99 | | **99** | 2,049 | | **2,049** |
| Rent receivables | 14 | 903 | | **903** | | | | | | | 903 | | **903** |
| Security deposits | 14 | 37 | 146 | **183** | | | | | | | 37 | 146 | **183** |
| Receivables from staff | 14 | | | | | | | 110 | | **110** | 110 | | **110** |
| Other taxes | 14 | | | | | | | 279 | | **279** | 279 | | **279** |
| Income tax assets | 14 | | | | | | | 3,615 | | **3,615** | 3,615 | | **3,615** |
| Prepaid expenses | 14 | | | | | | | 96 | | **96** | 96 | | **96** |
| **Other receivables and other assets** | **14** | **5,251** | **146** | **5,397** | | | | **4,199** | | **4,147** | **9,450** | **146** | **9,596** |
| **Securities** | **14** | | | | **263** | | **263** | | | | **263** | | **263** |
| **Cash and cash equivalents** | **15** | **54,933** | | **54,933** | | | | | | | **54,933** | | **54,933** |
| **Deferred tax assets** | **16** | | | | | | | | **22,819** | **22,819** | | **22,819** | **22,819** |

The fair values of securities are determined at the market price available in an active market. In accordance with IFRS 7, the fair value is to be allocated to hierarchy level 1 (Level 1) for the determination of fair values.

Due to the short-term maturities of trade receivables, other current financial assets and cash and cash equivalents, it is assumed that the fair values approximate the carrying amounts.

## 13. TRADE RECEIVABLES

All trade receivables have a remaining maturity of up to one year. The ADLER Group did not receive any collateral or other credit enhancements as security for trade receivables or as security for outstanding invoices in the current or the previous financial year.

Trade receivables past due are reviewed and tested for impairment regularly. The impairment loss amounted to € 184 thousand (previous year: € 222 thousand). Nearly all of the receivables are denominated in euros. For those receivables that were not impaired, there were no indications at the end of the reporting period that the associated payments will not be made when they fall due. Please refer to the supplementary information in Note 29.

## 14. OTHER FINANCIAL RECEIVABLES AND OTHER ASSETS

**Other financial assets measured at amortised cost**
Other receivables includes mainly creditors with debit balances amounting to € 1,114 thousand (previous year: € 1,066 thousand).

**Financial assets measured at fair value through other comprehensive income**
Equity instruments measured at fair value amounted to € 281 thousand (previous year: € 263 thousand) and included securities. The item consists entirely of fund units.

**Financial assets measured at fair value through profit or loss**
None recognised in the reporting period.

**Other non-financial assets**
Tax assets are mainly related to income tax prepayments for domestic and foreign subsidiaries. The prepaid expenses relate primarily to advance payments of rent and deferred rent payments in connection with maintenance contracts.

## 15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents were made up as follows:

| € ’000 | 31 Dec. 2019 | 31 Dec. 2018 |
|---|---|---|
| Balances with banks | 65,519 | 51,367 |
| Cash-in-hand | 4,570 | 3,566 |
| | **70,089** | **54,933** |

As in the previous year, at the end of the reporting period, there were no bank balances pledged for trade credit insurance policies or other cash subject to restrictions on disposal. As in the previous year, balances with banks were fully covered by the relevant deposit protection scheme of the individual financial institution. There were no indications of impairment in the year under review.

## 16. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are netted if there is a legally enforceable right to offset current tax assets against current tax liabilities and if the deferred taxes relate to the same tax authority.

The deferred tax liabilities and deferred tax assets relate to the following items:

| € '000 | 31 Dec. 2019 | 31 Dec. 2018 adjusted |
|---|---|---|
| **Deferred tax assets** | | |
| Intangible assets | 242 | 264 |
| Investment property | 0 | 70 |
| Property, plant and equipment | 166 | 161 |
| Investments | 2 | 0 |
| Inventories | 983 | 489 |
| Receivables and other current assets | 97 | 116 |
| Prepaid expenses | 23 | 2 |
| Provisions | 1,436 | 1,311 |
| Other liabilities | 77,348 | 80,863 |
| Tax loss carryforwards | 1,588 | 1,236 |
| **Total deferred tax assets** | **81,885** | **84,511** |
| of which current | 4,363 | 3,539 |
| of which non-current | 77,523 | 80,972 |
| **Deferred tax liabilities** | | |
| Intangible assets | 227 | 217 |
| Investment property | 0 | 70 |
| Property, plant and equipment | 14 | 11 |
| Right-of-use assets | 58,643 | 61,332 |
| Inventories | 96 | 91 |
| Receivables and other current assets | 6 | 6 |
| Provisions | 78 | 0 |
| **Total deferred tax liabilities** | **59,063** | **61,726** |
| of which current | 1,604 | 1,526 |
| of which non-current | 57,459 | 60,200 |
| Offsetting of deferred tax assets and deferred tax liabilities | −59,030 | −61,691 |
| **Carrying amount of deferred tax assets** | **22,855** | **22,819** |
| **Carrying amount of deferred tax liabilities** | **33** | **34** |

The change in deferred taxes was attributable to the remeasurement directly in equity of pension entitlements in the amount of € 197 thousand (previous year: € −6 thousand) and was therefore recognised in other comprehensive income. Other changes in other deferred taxes as compared to the previous year were recognised in profit or loss.

The loss carryforwards for corporation tax and trade tax purposes shown here relate to Group companies. No deferred tax assets were recognised in respect of additional existing corporation tax and trade tax loss carryforwards relating primarily to Adler Orange GmbH & Co. KG, Haibach, Adler Mode AG Schweiz, Zug, Switzerland, and Adler Mode GmbH, and amounting to € 14,797 thousand (previous year: € 15,586 thousand).

The calculation of deferred taxes resulted in a surplus of deferred tax assets. Where there was doubt about the recoverability of the deferred tax assets due to insufficient projected earnings in the local tax budgets, the deferred tax assets in such cases were recognised only up to the amount of the deferred tax liabilities.

No deferred tax liabilities were recognised in respect of temporary differences in connection with investments in subsidiaries amounting to € 1,408 thousand (previous year: € 2,224 thousand).

Please refer also to the information under accounting policies and the details provided in Note 8.

## 17. EQUITY

### Subscribed capital

As at the end of the reporting period, subscribed capital remained unchanged at € 18,510 thousand. It is divided into 18,510,000 no-par value shares, each with a nominal value of € 1.

The shares of the shareholders are fully paid in.

### Accumulated other comprehensive income

For details relating to the changes in net retained profits/net accumulated losses, please refer to the information presented in the consolidated statement of changes in equity.

### Dividend restrictions

The Articles of Association of Adler Modemärkte AG contain no provisions for dividend restrictions over and above the statutory minimum.

### Capital management

The ADLER Group's objectives with respect to capital management are firstly to ensure that the business is able to continue operations on a long-term basis and to generate adequate returns for the shareholders, and secondly to maintain an optimal capital structure in order to reduce the cost of capital.

The capital structure is managed in such a way as to take account of changes in the general economic environment and the risks attaching to the underlying assets. As a result of its healthy operating cash flow, the Company is in a position to deploy its own financial resources in the best possible way. For example, investments are regularly reviewed to see whether the Company's own available financial resources can be replaced by external (lease) financing in order to take advantage of improved purchasing prices for goods (e.g. discounts) or to exploit advantageous opportunities for sales arising at short notice. In this context, the raising of new debt is managed on the basis of a target debt structure. The choice of financial instruments is mainly influenced by the objective of matching the maturities of assets and liabilities which is achieved by managing the maturities of the instruments issued.

Capital is monitored on the basis of the indebtedness ratio, calculated as the relationship of debt to equity.

| € '000 | 31 Dec. 2019 | 31 Dec. 2018 adjusted |
|---|---|---|
| Equity | 66,089 | 61,584 |
| Debt (including deferred income) | 343,288 | 354,364 |
| **Debt/equity ratio** | **5.19** | **5.75** |

The debt/equity ratio prior to the application of IFRS 16 as of 31 Dec. 2019 would have been 1.30 (previous year: 1.36).

## 18. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The provisions for pensions comprise firstly capital commitments to employees who began their employment with Adler Modemärkte AG prior to 1980 and also individual commitments to the founders of the firm and certain former members of management. The amount of the provision recognised in the statement of financial position is made up as follows:

| € '000 | 31 Dec. 2019 | 31 Dec. 2018 |
|---|---|---|
| Defined benefit obligations (unfunded) | 5,232 | 4,923 |
| Defined benefit obligations (wholly or partially funded) | 1,994 | 1,938 |
| **Subtotal** | **7,225** | **6,862** |
| Less fair value of plan assets | − 1,640 | − 1,659 |
| **Provision for old-age pension benefits as at 31 Dec.** | **5,585** | **5,202** |

The development of the pension obligations (DBO) representing the present value of commitments granted under defined benefit plans in the ADLER Group companies was as follows:

| € '000 | 2019 | 2018 |
|---|---|---|
| **As at 1 Jan.** | **6,861** | **7,247** |
| Current service cost | 89 | 96 |
| Interest expense | 106 | 105 |
| Pensions paid | − 533 | − 555 |
| Actuarial gains (–)/losses (+) | | |
| from changes to demographic assumptions | 0 | − 71 |
| from changes to financial assumptions | 548 | − 68 |
| from experience adjustments | 154 | 108 |
| **As at 31 Dec.** | **7,225** | **6,862** |

The associated plan assets developed as follows:

| € '000 | 2019 | 2018 |
|---|---|---|
| **As at 1 Jan.** | **1,660** | **1,754** |
| Contributions (employer) | 128 | 128 |
| Expected interest income | 27 | 27 |
| Pension payments (severance payments) | −173 | −229 |
| Administrative expenses for insurance | −4 | −4 |
| Experience adjustments (gains (+)/losses (–)) | 2 | −17 |
| **Fair value of plan assets as at 31 Dec.** | **1,640** | **1,659** |

The plan assets consist of a direct insurance policy taken out to cover the obligations arising from severance payments. In accordance with IAS 19, the resulting claim against the insurance company is offset as plan assets against the provision for severance payments required to be recognised. The premiums are paid in the respective calendar year.

The expected return is calculated on the basis of the actuarial rate of interest in accordance with IAS (rev. 2011). The actual gain on plan assets in the financial year amounted to € 29 thousand (previous year: € 10 thousand gain).

| Future cash flows (€ '000) | 31 Dec. 2019 | 31 Dec. 2018 |
|---|---|---|
| Expected pension and severance payments in subsequent year | 512 | 422 |
| Total expected payments in subsequent years 2 to 5 | 2,021 | 2,177 |
| Total expected payments in subsequent years 6 to 10 | 1,972 | 2,015 |
| Expected contributions to plan assets in subsequent year | −128 | −128 |

The weighted average maturity of the obligations is 10.3 years (previous year: 10.1 years).

Sensitivity analysis regarding the defined benefit obligation for pensions and severance payments:

Provided all other factors remain unchanged, an adjustment in each case of just one measurement parameter has the following effects: The sensitivity analysis takes into account the changes in an assumption, while the other assumptions remain unchanged. This means that potential correlation effects between the individual assumptions are not taken into account.

| Measurement parameters | Starting value | Sensitivity | Effect on DBO (€ '000) |
|---|---|---|---|
| Actuarial interest rate | 0.8% | +1.00 percentage point | −674 |
| Actuarial interest rate | 0.8% | −1.00 percentage point | 804 |
| Projected annual pension increase/decrease | 1.75% | +0.25 percentage points | 114 |
| Projected annual pension increase/decrease | 1.75% | −0.25 percentage points | −109 |
| Projected annual wage and salary increase/decrease | 2.50% | +0.50 percentage points | 85 |
| Projected annual wage and salary increase/decrease | 2.50% | −0.50 percentage points | −79 |

The current employers' contributions to the statutory pension scheme are included as an expense in the operating profit or loss for the relevant year and amounted to € 7,347 thousand for the Group as a whole in financial year 2019 (previous year: € 7,533 thousand).

## 19. OTHER PROVISIONS (NON-CURRENT AND CURRENT)

| € '000 | Transformation/ severance payments | Rent and incidental rental expenses | Other provisions for personnel expenses | Other provisions | Total |
|---|---|---|---|---|---|
| **As at 1 Jan. 2018** | **2,097** | **1,647** | **1,031** | **900** | **5,675** |
| Utilisations | −1,860 | −562 | −168 | −396 | −2,987 |
| Additions | 2,151 | 1,294 | 195 | 1,608 | 5,249 |
| Reversals | −237 | −418 | 0 | −75 | −730 |
| Reclassifications | 0 | 0 | 0 | −278 | −278 |
| Accrued interest | 0 | 0 | 9 | 0 | 9 |
| **As at 31 Dec. 2018** | **2,151** | **1,961** | **1,067** | **1,759** | **6,938** |
| Non-current | 161 | 0 | 1,067 | 150 | 1,378 |
| Current | 1,990 | 1,961 | 0 | 1,609 | 5,560 |
| **As at 1 Jan. 2019** | **2,151** | **1,961** | **1,067** | **1,759** | **6,938** |
| Utilisations | −2,143 | −780 | −76 | −756 | −3,756 |
| Additions | 2,314 | 1,136 | 132 | 884 | 4,466 |
| Reversals | −267 | −244 | 0 | −53 | −565 |
| Reclassifications | | 118 | 0 | −769 | −651 |
| Accrued interest | 0 | 0 | 9 | 0 | 9 |
| **As at 31 Dec. 2019** | **2,055** | **2,192** | **1,132** | **1,064** | **6,442** |
| Non-current | 0 | 0 | 1,132 | 150 | 1,282 |
| Current | 2,055 | 2,192 | 0 | 914 | 5,160 |

The obligations from the transformation comprise expenses associated with the closing of stores in addition to provisions for termination costs. The provision for rent and incidental rental expenses relates to additional rent payable due to rent indexation provisions and possible additional payments arising from operating income and expenses statements. The other provisions for personnel expenses relate to anniversaries and death benefits, based on actuarial assumptions and discounted to reflect the expected maturities.

Other provisions include provisions for the costs of retaining documents with a non-current portion amounting to € 150 thousand (previous year: € 150 thousand).

In the first quarter of 2019, a former business partner brought legal action against Adler Modemärkte AG to inspect certain documents and for damages in an as yet unspecified amount and in the third quarter of 2019 amended its complaint to include Adler Modemärkte Gesellschaft m.b.H., Austria. After consulting external experts, ADLER believes it is highly likely that it will be able to have most of the claims for the as yet unspecified damages dismissed. A provision, shown under other provisions, in an appropriate amount was recognised for the legal costs associated with the suit.

**Liabilities**

Liabilities as at 31 December 2019 were as follows:

| | Financial liabilities | | | Other non-financial liabilities | | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Current < 1 year | Non-current > 1 year | Gesamt | Current < 1 year | Non-current > 1 year | Total | | |
| € '000 | 31 Dec. 2019 | 31 Dec. 2019 | 31 Dec. 2019 | 31 Dec. 2019 | 31 Dec. 2019 | 31 Dec. 2019 | 31 Dec. 2019 | 31 Dec. 2018 |
| Financial liabilities – liabilities to METRO Finance B.V. | 322 | 1.627 | **1.949** | | | | **1.949** | **2.268** |
| Liabilities from the ADLER customer loyalty card programme | 11.664 | | **11.664** | | | | **11.664** | **9.776** |
| Lease liabilities | 41.456 | 223.287 | **264.743** | | | | **264.743** | **279.294** |
| Trade payables | 23.736 | | **23.736** | | | | **23.736** | **23.588** |
| Liabilities for outstanding invoices – goods and services | 2.230 | | **2.230** | | | | **2.230** | **1.506** |
| Other liabilities excluding deferred income | 5.986 | | **5.986** | 16.249 | | **16.249** | **22.235** | **20.558** |
| Income tax liabilities | | | | 343 | | **343** | **343** | **269** |
| Deferred tax | | | | 1.085 | 3.245 | **4.330** | **4.330** | **4.930** |
| Deferred tax liabilities | | | | | 33 | **33** | **33** | **34** |

Liabilities as at 31 December 2018 (adjusted) were as follows:

| | Financial liabilities | | | Other non-financial liabilities | | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Current < 1 year | Non-current > 1 year | Gesamt | Current < 1 year | Non-current > 1 year | Total | | |
| € '000 | 31 Dec. 2018 | 31 Dec. 2018 | 31 Dec. 2018 | 31 Dec. 2018 | 31 Dec. 2018 | 31 Dec. 2018 | 31 Dec. 2018 | 31 Dec. 2017 |
| Financial liabilities – liabilities to METRO Finance B.V. | 319 | 1.949 | **2.268** | | | | **2.268** | **2.583** |
| Liabilities from the ADLER customer loyalty card programme | 9.776 | | **9.776** | | | | **9.776** | **10.380** |
| Lease liabilities | 41.330 | 237.965 | **279.294** | | | | **279.294** | **312.454** |
| Trade payables | 23.588 | | **23.588** | | | | **23.588** | **26.082** |
| Liabilities for outstanding invoices – goods and services | 1.506 | | **1.506** | | | | **1.506** | **1.526** |
| Other liabilities excluding deferred income | 6.573 | | **6.573** | 13.986 | | **13.986** | **20.558** | **22.913** |
| Income tax liabilities | 1 | | **1** | 269 | | **269** | **269** | **3.180** |
| Deferred income | | | | 1.063 | 3.867 | **4.930** | **4.930** | **6.696** |
| Deferred tax liabilities | | | | | 34 | **34** | **34** | **29** |

The balance sheet items "Trade payables", "Liabilities from customer card loyalty programme" and other liabilities without deferred income generally include liabilities with regularly short remaining terms, so that the fair values are assumed to approximate the carrying amounts shown.

#### FINANCIAL LIABILITIES MEASURED AT AMORTISED COST

### 20. FINANCIAL LIABILITIES

The following table shows the maturity structure of the contractual, non-discounted cash flows from financial liabilities. The undiscounted cash outflows are subject to the condition that the repayment of liabilities is based on the earliest maturity date.

Maturities of financial liabilities – liabilities to METRO Finance B.V:

| € '000 | 2019 | 2018 |
|---|---|---|
| Maturity time bands: | | |
| Less than 30 days | 0 | 0 |
| 30–90 days | 85 | 85 |
| 90–180 days | 85 | 85 |
| 180 days–1 year | 169 | 169 |
| > 1 year | 1,662 | 2,000 |
| **Total** | **2,000** | **2,338** |

The liability to METRO Finance B.V. comprises a loan at a current fixed rate of interest since 1 April 2019 of 0.900% p.a. (until 31 March 2019: 0.900% p.a.). The interest rate is fixed from 1 April 2019 to 31 March 2021. The loan has a maturity date of 31 July 2024 and is repaid in quarterly instalments.

As at 31 December 2019, the financial liabilities were secured by items of property, plant and equipment with a carrying amount of € 3,152 thousand (previous year: € 2,869 thousand) and by investment property with a carrying amount of € 0 thousand (previous year: € 413 thousand).

Financial liabilities are repayable in euros. Fair value is at € 3,850 thousand (previous year: € 3,970 thousand)

### 21. LIABILITIES FROM THE CUSTOMER LOYALTY CARD PROGRAMME

The liabilities from the ADLER customer loyalty card represent discount entitlements not yet utilised due to customers who have settled their purchases using the ADLER customer loyalty card. The customers can offset the discount entitlement obtained from making a purchase against a subsequent purchase or can have the amount paid in cash. Since the entitlements expire at the latest on 31 December of the following year, the item is classified as current. The amounts credited to customers do not bear interest. The amount not yet utilised at the end of the reporting period is reported in full as a liability in accordance with the requirements of IFRS 9. The liability is measured at amortised cost.

The liabilities from the customer loyalty card programme fall due immediately since the customers are entitled to redeem their credit at any time within twelve months. In accordance with IFRS 7, liabilities of this nature that are payable at any time are allocated to the earliest time band.

| € '000 | | 31 Dec. 2019 | 31 Dec. 2018 |
|---|---|---|---|
| Liabilities from the ADLER customer loyalty card programme | < 1 Jahr | 11,664 | 9,776 |

With the exception of liabilities amounting to CHF 116 thousand from the customer loyalty card programme of Adler Mode AG Schweiz, liabilities are repayable in euros.

### 22. TRADE PAYABLES

Trade payables at the end of the reporting period are due in their entirety, as in the previous year, to third parties unrelated to the Group. Also as in the previous year, all trade payables are due within one year. Trade payables are primarily due in euros, as in previous years.

No collateral has been provided by the ADLER Group for the trade payables reported. Goods are delivered by suppliers subject to the retention of title provisions applying in the specific country.

Based on the normal payment agreements with suppliers and other business partners, the maturities of the current trade payables and therefore the associated cash outflows are as follows:

| € '000 | 31 Dec. 2019 | 31 Dec. 2018 |
|---|---|---|
| **Carrying amount** | **25,966** | **25,094** |
| Thereof falling due within the following time bands: | | |
| Less than 30 days | 18,239 | 17,159 |
| 30–90 days | 7,245 | 7,516 |
| 90–180 days | 128 | 98 |
| 180 days–1 year | 354 | 321 |

## 23. OTHER LIABILITIES

Other current liabilities include financial liabilities amounting to €5,986 thousand (previous year: €6,573 thousand).

Other current liabilities include an amount of €26 thousand (previous year: €26 thousand) in respect of the compensation entitlement of the limited partners in ALASKA GmbH & Co. KG which is limited to this amount.

The undiscounted cash outflows are subject to the condition that the liabilities are repaid on the earliest due date. Other financial liabilities include primarily liabilities to customers for gift vouchers sold.

## 24. LEASE LIABILITIES

The ADLER Group's right-of-use assets include land and buildings as well as vehicles that are attributable to the Group as economic owner as a result of the structure of the underlying lease agreements.

The lease agreements relate primarily to leased buildings for stores. The lease agreements generally include renewal clauses as well as price adjustment clauses based on changes in the rental price index. In addition, variable components of rent are contingent depending on the sales achieved in the individual stores. In financial year 2019, the contingent rental payments under lease agreements amounted to €146 thousand (previous year: €206 thousand).

The decrease in leases is attributable primarily to the termination of leases and lease amendments. The terms of the leases generally amount to between 5 and 20 years with renewal options. All of the liabilities from leases are repayable in euros.

The maturities and thus the cash outflow of the leasing liabilities "up to 1 year" are as follows:

| €'000 | 31 Dec. 2019 | 31 Dec. 2019 adjusted |
|---|---|---|
| **Carrying amount** | **57,277** | **58,847** |
| Thereof falling due within the following time bands: | | |
| Less than 30 days | 4,786 | 4,914 |
| 30–90 days | 9,571 | 9,829 |
| 90–180 days | 14,307 | 14,701 |
| 180 days–1 year | 28,613 | 29,403 |

## 25. INCOME TAX LIABILITIES

Income tax liabilities of €343 thousand (previous year: €269 thousand) relate to corporation tax and trade tax liabilities.

## 26. STATEMENT OF CASH FLOWS

The statement of cash flows shows the development of the ADLER Group's cash and cash equivalents in the year under review and the prior year. Cash and cash equivalents are defined for this purpose as holdings of cash and cash equivalents less cash subject to restrictions on disposal.

In accordance with IAS 7, the cash flows are classified as cash from/used in operating activities, investing activities and financing activities.

| €'000 | 2019 | 2018 adjusted |
|---|---|---|
| Cash from (+)/used (–) in operating activities (net cash flow) | 61,681 | 39,867 |
| Cash from (+)/used (–) in investing activities | –4,232 | –5,946 |
| **Free cash flow** | **57,449** | **33,921** |
| Cash from (+)/used (–) in financing activities | –42,293 | –42,330 |
| **Net increase (+)/decrease (–) in cash and cash equivalents** | **15,156** | **–8,409** |

Cash and cash equivalents as at 31 December 2019 amounted to €70,089 thousand (previous year: €54,933 thousand) and include demand deposits with banks, current time deposits with terms of less than three months, cheques and cash-in-hand. As in the previous year, there was no cash subject to restrictions on disposal during the reporting period.

The following material non-cash transactions took place in financial year 2019: Other non-cash income and expenses amounting to € 340 thousand (previous year: € 993 thousand) include in particular the change in inventories and trade receivables.

Non-current assets and liabilities from leases both rose by € 27,297 thousand (previous year: € 7,853 thousand) with no effect on cash as a result of the addition of new leases or the renewal of existing leases.

Repayments of loan liabilities include the repayment of the loan for the Alaska property.

The breakdown of interest paid in the financial years under review was as follows:

| € ’000 | 2019 | 2018 adjusted |
|---|---|---|
| Interest paid from leases | 16,278 | 18,148 |
| Interest paid from operating activities | 321 | 232 |
| **Total** | **16,599** | **18,380** |

Lease liabilities comprised the following:

| € ’000 | |
|---|---|
| Lease liabilities as at 31 Dec. 2018 | 279,294 |
| Cash change | −41,974 |
| Non-cash change | 27,423 |
| **Lease liabilities as at 31 Dec. 2019** | **264,743** |

Lease liabilities in 2018 (adjusted) changed as follows:

| € ’000 | |
|---|---|
| Lease liabilities as at 1 Jan. 2018 | 55,951 |
| Restatement in accordance with IFRS 16 1. Jan 2018 | 256,502 |
| Lease liabilities as at 1 Jan. 2018 | 312,454 |
| Cash change | −41,088 |
| Non-cash change | 7,928 |
| **Lease liabilities as at 31 Dec. 2018** | **279,294** |

The change in financial liabilities is based exclusively on cash income.

## 27. SEGMENT REPORTING

| 2019 (€ '000) | Stores segment | Reconciliation with IFRS | ADLER Group |
|---|---|---|---|
| Total revenue (net) | 492,829 | 2,534 | 495,363 |
| Other operating income | 8,517 | −2,784 | 5,732 |
| Cost of materials | −240,399 | 20,945 | −219,454 |
| Personnel expenses | −102,108 | 2,661 | −99,448 |
| Other operating expenses | −148,649 | 36,799 | −111,851 |
| **EBITDA** | **10,188** | **60,154** | **70,342** |
| Depreciation, amortisation and write-downs | −8,295 | −37,539 | −45,834 |
| **EBIT** | **1,894** | **22,615** | **24,508** |

| 2018 (€ '000) | Stores segment | Reconciliation with IFRS | ADLER Group adjusted |
|---|---|---|---|
| Total revenue (net) | 502,564 | 4,529 | 507,093 |
| Other operating income | 12,491 | −6,364 | 6,127 |
| Cost of materials | −251,840 | 22,063 | −229,777 |
| Personnel expenses | −100,275 | 2,743 | −97,532 |
| Other operating expenses | −153,336 | 36,200 | −117,137 |
| **EBITDA** | **9,604** | **59,171** | **68,775** |
| Depreciation, amortisation and write-downs | −10,032 | −37,696 | −47,728 |
| **EBIT** | **−428** | **21,475** | **21,047** |

The reconciliation contains differences from various account allocations for internal control purposes and differences arising between national accounting standards and IFRSs.

Where revenue and other operating income is concerned, these differences relate primarily to customer discounts and the accounting requirements of IFRS 15, while the differences relating to cost of materials stem from logistics services, inventory measurements and the accounting requirements of IFRS 15, and differences relating to personnel expenses and other operating expenses stem primarily from differences in account allocation and the accounting treatment for leases and pension provisions under HGB and IFRSs. Depreciation, amortisation and write-downs under IFRSs include depreciation, amortisation and write-downs on right-of-use assets in accordance with IFRS 16 and useful lives that in some cases deviate from the useful lives under HGB.

The segment report was prepared in accordance with IFRS 8 “Operating Segments”. The segments were defined in accordance with the ADLER Group’s internal management and reporting procedures. “Stores (Modemärkte)” was the only segment at the end of the reporting period. The Stores segment comprises the Company’s entire activities relating to the stores operated by the ADLER Group. Due to the mass market in the Stores segment, there is no concentration risk with regard to key or significant customers.

Since the internal reporting system is based on the accounting requirements of the HGB, the information contained in the segment report has been prepared on the basis of the HGB. In accordance with the provisions of IFRS 8.28, a reconciliation has been provided to the accounting principles applied in the consolidated financial statements and therefore to the amounts presented in the consolidated income statement.

The principal performance indicator used by the ADLER Group’s decision-makers for management purposes is the figure reported internally for EBITDA, which is defined as the profit or loss from operations before interest, taxes, depreciation and amortisation on property, plant and equipment and intangible assets, and impairment.

Non-current assets, defined as non-current assets other than financial instruments and deferred taxes pursuant to IFRS 8.33(b), break down by region as follows. They relate to intangible assets, property, plant and equipment and right-of-use assets. This item included investment property in the previous year:

| | 2019 | | | 2018 adjusted | | |
|---|---|---|---|---|---|---|
| € ’000 | Germany | International | Group | Germany | International | Group |
| Non-current assets | 193,974 | 41,126 | 235,101 | 206,193 | 43,436 | 249,629 |

## 28. RECONCILIATION DUE TO THE APPLICATION OF IFRS 16 LEASES

The first-time application of the new IFRS 16 using the full retrospective transition method in accordance with IFRS 16.C5(a) required that the standard be applied retrospectively and that the figures for comparative periods be restated pursuant to IAS 8. The restated prior-year figures and the effects from applying the new standard are presented below.

## INCOME STATEMENT

| €'000 | 31 Dec. 2019 | IFRS 16 | 31 Dec. 2019 as presented | 31 Dec. 2018 | IFRS 16 | 31 Dec. 2018 adjusted |
|---|---|---|---|---|---|---|
| Other operating expenses | –159,294 | 47,443 | –111,851 | –165,197 | 48,060 | –117,137 |
| **EBITDA** | **22,984** | **47,358** | **70,342** | **20,714** | **48,061** | **68,775** |
| Depreciation, amortisation and write-downs | –14,827 | –31,006 | –45,834 | –17,370 | –30,358 | –47,728 |
| **EBIT** | **8,157** | **16,352** | **24,508** | **3,344** | **17,702** | **21,047** |
| Interest and similar expenses | –4,571 | –12,124 | –16,694 | –4,957 | –13,518 | –18,475 |
| Net finance costs | –4,529 | –12,124 | –16,653 | –4,944 | –13,518 | –18,462 |
| **Consolidated net profit for the year before tax** | **3,628** | **4,228** | **7,856** | **–1,600** | **4,185** | **2,585** |
| Income taxes | –1,488 | –1,233 | –2,722 | –975 | –1,242 | –2,217 |
| **Consolidated net profit for the year** | **2,139** | **2,995** | **5,134** | **–2,575** | **2,943** | **369** |
| **Consolidated total comprehensive income** | **1,521** | **2,984** | **4,505** | **–2,712** | **2,938** | **225** |

## STATEMENT OF FINANCIAL POSITION – ASSETS

| €'000 | 31 Dec. 2019 | IFRS 16 | 31 Dec. 2019 as presented | 31 Dec. 2018 | IFRS 16 | 31 Dec. 2018 adjusted | 31 Dec. 2018 | IFRS 16 | 31 Dec. 2018 adjusted |
|---|---|---|---|---|---|---|---|---|---|
| Property, plant and equipment | 59,203 | –35,379 | 23,824 | 69,012 | –41,962 | 27,050 | 74,975 | –44,224 | 30,752 |
| Right-of-use assets | 0 | 207,173 | 207,173 | 0 | 217,370 | 217,370 | 0 | 246,665 | 246,665 |
| Other receivables and other assets | 449 | –68 | 381 | 242 | –96 | 146 | 277 | –131 | 146 |
| Deferred tax assets | 10,235 | 12,620 | 22,855 | 8,970 | 13,849 | 22,819 | 7,398 | 15,120 | 22,518 |
| **Total non-current assets** | **73,990** | **184,347** | **258,337** | **83,434** | **189,161** | **272,595** | **88,645** | **217,430** | **306,074** |
| Other receivables and other assets | 7,239 | –28 | 7,210 | 9,483 | –34 | 9,450 | 14,550 | –30 | 14,520 |
| **Total current assets** | **151,069** | **–28** | **151,041** | **143,387** | **–34** | **143,353** | **152,488** | **–30** | **152,458** |
| **Total ASSETS** | **225,059** | **184,318** | **409,378** | **226,821** | **189,127** | **415,948** | **241,133** | **217,400** | **458,533** |

STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

| €'000 | 31 Dec. 2019 | IFRS 16 | 31 Dec. 2019 as presented | 31 Dec. 2018 | IFRS 16 | 31 Dec. 2018 adjusted | 1 Jan. 2018 | IFRS 16 | 1 Jan. 2018 adjusted |
|---|---|---|---|---|---|---|---|---|---|
| Accumulated other comprehensive income | –2,842 | –16 | –2,858 | –2,223 | –7 | –2,230 | –2,085 | 0 | –2,085 |
| Negative capital reserves | –45,247 | –31,724 | –76,971 | –47,386 | –34,720 | –82,106 | –43,886 | –37,661 | –86,597 |
| **Total equity** | **97,829** | **–31,740** | **66,089** | **96,309** | **–34,724** | **61,584** | **99,947** | **–37,661** | **62,283** |
| Lease obligations | 41,106 | 182,180 | 223,287 | 47,321 | 190,643 | 237,965 | 50,233 | 225,722 | 275,955 |
| Other current liabilities | 3,952 | –707 | 3,245 | 4,861 | –994 | 3,867 | 5,359 | –1,104 | 4,255 |
| Deferred tax liabilities | 107 | –74 | 33 | 111 | –76 | 35 | 75 | –46 | 29 |
| **Total non-current liabilities** | **53,659** | **181,400** | **235,058** | **60,821** | **189,573** | **250,394** | **64,737** | **224,572** | **289,309** |
| Lease obligations | 6,215 | 35,241 | 41,456 | 6,729 | 34,601 | 41,330 | 5,718 | 30,780 | 36,498 |
| Other current liabilities | 23,637 | –318 | 23,319 | 21,944 | –322 | 21,622 | 24,250 | –289 | 23,961 |
| **Total current liabilities** | **73,571** | **34,659** | **108,230** | **69,691** | **34,279** | **103,970** | **76,449** | **30,491** | **106,940** |
| **Total liabilities** | **127,230** | **216,058** | **343,288** | **130,512** | **223,852** | **354,364** | **141,186** | **255,063** | **396,249** |
| **Total EQUITY and LIABILITIES** | **225,059** | **184,318** | **409,378** | **226,821** | **189,127** | **415,948** | **241,133** | **217,400** | **458,533** |

STATEMENT OF CASH FLOWS

| €'000 | 31 Dec. 2019 | IFRS 16 | 31 Dec. 2019 as presented | 31 Dec. 2018 | IFRS 16 | 31 Dec. 2018 adjusted |
|---|---|---|---|---|---|---|
| Cash from (+)/used (–) in operating activities (net cash flow) | 30,592 | 31,089 | 61,681 | 9,893 | 29,973 | 39,867 |
| Free cash flow | 26,360 | 31,089 | 57,449 | 3,948 | 29,973 | 33,921 |
| Cash from (+)/used (–) in financing activities | –11,203 | –31,090 | –42,293 | –12,356 | –29,973 | –42,330 |
| Net decrease (–)/increase (+) in cash and cash equivalents | 15,156 | 0 | 15,156 | –8,409 | 0 | –8,409 |

## 29. RISK MANAGEMENT

The finance department of Adler Modemärkte AG monitors and manages the financial risks of the entire ADLER Group. Specifically, those risks are

- Liquidity risks
- Market risks (interest rate and currency risks)
- Credit risks

The ADLER Group is exposed to a large number of financial risks as a result of its business activities. This is understood to mean unexpected events and possible developments that have a negative effect on achieving the objectives that have been set and the expectations. The risks that are relevant are those with a material effect on the Company's financial position, financial performance and cash flows. The Group's risk management system analyses a range of risks and attempts to minimise negative effects on the financial position of the Company. The risk management activities are carried out in the finance department on the basis of established guidelines.

For the purpose of measuring and managing material individual risks, the Group distinguishes between liquidity, credit and market risks.

### Liquidity risks

Liquidity risks are understood in the narrow sense to mean the risk of being able to meet present or future payment obligations either not at all or only on unfavourable terms. The Company mainly generates financial resources through its operating activities.

Adler Modemärkte AG functions as the financial coordinator for the companies in the ADLER Group in order to ensure that the financial requirements for the operating business and for investments are covered on the most favourable terms possible in terms of cost and in amounts that are always sufficient. The necessary information is provided via a Group financial planning process with additional 14-day liquidity projections on a rolling weekly basis and is analysed constantly.

The long-term corporate financing requirements of the ADLER Group are secured by the ongoing cash flows from operating activities and from leases entered into on a long-term basis.

The intra-Group cash management system enables short-term liquidity surpluses in individual Group companies to be used as internal financing to meet the cash requirements of other Group companies. This contributes to a reduction in the volume of external debt financing and to the best possible use of cash deposits and capital investments, and therefore has a positive effect on the net interest income and expenses of the Group.

At Group level, a consolidated and integrated liquidity plan is prepared using the latest business planning and financial projections together with additional special items that are identified at short notice.

The ADLER Group is mainly financed by its own liquid resources generated from its operating activities. The long-term leases of stores are reported as leases in accordance with IFRSs. The recognised long-term lease obligation amounted to €223,287 thousand at the end of the reporting period (previous year: €237,965 thousand). In addition, the Group has one loan outstanding, to a company within the METRO AG group, which was used for a property financing transaction. The outstanding amount of the loan amounted to €1,949 thousand at the end of the reporting period (previous year: €2,267 thousand). Current loan liabilities at the end of the reporting period amounted to €322 thousand (previous year: €319 thousand). The liabilities arising from the customer loyalty card programme at the end of the reporting period amounted to €11,664 thousand (previous year: €9,776 thousand).

For further information and maturity analyses of financial liabilities, please refer to the Notes 20–24 under the section entitled "Liabilities".

### Credit risks

Credit risks arise from the complete or partial default of a counterparty, for example through insolvency, and in connection with deposits. The maximum risk of default is equal to the carrying amounts of all the financial assets. Valuation allowances are recognised in respect of trade receivables and other receivables and assets and cover all identifiable credit risks.

As part of the risk management system, minimum requirements for the credit rating and also specific upper limits for the exposure are laid down for all business partners of the ADLER Group. The level of the upper credit limit reflects the creditworthiness of a contractual counterparty and the typical size of the volume of transactions with that party. This is based on a systematic procedure for approving limits set down in the Treasury guidelines, which relies firstly on the classifications awarded by international ratings agencies and on internal credit assessments, and secondly on historical values experienced by the Group with the respective contractual parties. The ADLER Group therefore has a very low exposure to credit risks. Valuation allowances in appropriate amounts are generally recognised in order to take account of identifiable risks of default in respect of receivables.

Of the total amount of trade receivables and miscellaneous other financial assets amounting in total to € 2,673 thousand (previous year: € 2,731 thousand) (total gross carrying amount), receivables amounting to € 2,650 thousand (previous year: € 2,509 thousand) are classified as low risk (risk class I) and receivables amounting to € 223 thousand (previous year: € 222 thousand) are classified as high risk (risk class II). The valuation allowance amounted to € 223 thousand (previous year: € 222 thousand).

The trade receivables and other financial assets reported in the consolidated financial statements amounting to € 2,509 thousand (previous year: € 2,509 thousand) are not secured.

The Company does not expect those receivables that were neither overdue nor impaired to be settled when they fall due. For trade receivables, IFRS 9 allows the use of a simplified impairment model under certain conditions. This means that, irrespective of the change in the default risk (not impaired by creditworthiness), impairment losses must always be recognised in the amount of the expected credit losses over the entire term of the receivable ("expected credit loss model"). For reasons of materiality, no additional impairments not impaired by creditworthiness were determined in addition to impairments impaired by creditworthiness.

**Market risks (interest rate and currency risks)**
Market risks are understood to mean the risk of loss that can arise due to a change in market parameters used for measurement (currency, interest rates, price).

Interest rate and currency risks are significantly reduced and limited by the principles laid down in the internal Treasury guidelines. These establish mandatory rules applied uniformly across the Group that all hedging transactions must be subject to predetermined limits and must never result in an increase in the risk position. At the same time, the ADLER Group is fully aware that the opportunities for increasing earnings by taking advantage of current or expected changes in interest rates or exchange rates are very limited.

The ADLER Group is essentially not exposed to currency risks since the consolidated revenue was generated almost exclusively in euros and all purchases of goods were also made in euros during the period under review. Receivables, loans and financial liabilities are primarily denominated in euros.

Risks due to changes in interest rates can arise mainly as a result of potential changes in the value of a financial instrument which is sensitive to interest rates, in response to changes in market rates of interest which lead to changes in the expected cash flows. In order to minimise the risk of changes in interest rates within the ADLER Group, where necessary, loans are taken out only on a long-term basis and leases are entered into at fixed rates of interest. With the exception of the liability to METRO Finance B.V. (see Note 24), the ADLER Group is not a party to any financial instruments bearing a variable rate of interest. If the level of interest rates had been 100 basis points higher at the date when the new rate of interest was determined for this liability in financial year 2019, the interest expense for financial year 2019 would have been € 0.8 thousand higher (previous year: € 4 thousand higher). If the level of interest rates had been 100 basis points lower at the date when the new rate of interest was determined for this liability in financial year 2019, the interest expense for financial year 2019 would have been € 8 thousand lower (previous year: € 11 thousand lower). Since the period for which the interest rate was fixed included the whole of financial year 2019, there was no sensitivity to interest rates in this period.

The ADLER Group is not exposed to any other material risks affecting the prices of financial instruments. At the end of the reporting period, the Group held no shares in quoted companies.

The sensitivity analysis of the financial assets measured at fair value through other comprehensive income resulted in the following potential changes as at 31 December 2019: In the event of an increase of 5% in the market price, equity would have risen by € 11 thousand (previous year: € 10 thousand). In the event of a decrease of 5% in the market price, equity would have fallen by € 11 thousand (previous year: € 10 thousand).

The carrying amounts and fair values of the financial assets and financial liabilities are presented in the overview of receivables and assets and the overview of liabilities on page 91 and page 98, respectively.

**Net gains and losses from financial instruments by measurement category**
The table below shows the net gains and losses from financial instruments reported in the income statement by measurement category. Interest income and expenses were the only relevant items for the determination of the net gains and losses.

| 2019 (€ '000) | Loans and receivables | Other liabilities | Total |
|---|---|---|---|
| From interest | 0 | −322 | −322 |
| **Total** | **0** | **−322** | **−322** |

| 2018 (€ '000) | Loans and receivables | Other liabilities | Total |
|---|---|---|---|
| From interest | 0 | −319 | −319 |
| **Total** | **0** | **−319** | **−319** |

No interest income was received from impaired trade receivables during the period under review.

For information relating to the net gain or loss from available-for-sale financial assets, please see Note 11.

**Other disclosures**

At the end of the reporting period as at 31 December 2019 there were no financial assets or financial liabilities designated as at fair value through profit or loss. The Group had no holdings of derivative financial instruments.

Furthermore, there were capital expenditure commitments of €956 thousand (previous year: €139 thousand) at the end of the reporting period on 31 December 2019. Capital expenditure commitments include investments planned for 2019 which had already been contractually agreed as at the end of the reporting period.

## 30. CONTINGENT LIABILITIES

The Group has a guarantee facility in an amount of €7,000 thousand (previous year: €7,000 thousand) with various banks. Furthermore, the existing lines of credit amounting to €15,000 thousand can also be utilised in the form of guarantee facilities. As at 31 December 2019, the guarantee facility was being utilised in an amount of €14,079 thousand (previous year: €4,650 thousand). This includes rental guarantees for €3,809 thousand (previous year: €3,880 thousand), deliveries of goods amounting to €8,770 thousand (previous year: €4,270 thousand) and a customs guarantee in an amount of €1,500 thousand (previous year: €1,500 thousand).

## 31. REMUNERATION

The Company's Annual General Meeting on 4 May 2016 resolved, for a period of five years, that individual Executive Board members' remuneration would not be disclosed separately. For financial year 2019, remuneration for the Executive Board totalled €2,322 thousand (previous year: €1,471 thousand). The breakdown of the remuneration is as follows:

| €'000 | 31 Dec. 2019 | 31 Dec. 2018 |
|---|---|---|
| Fixed remuneration | 1,162 | 1,081 |
| Non-cash benefits | 34 | 29 |
| Bonuses | 1,126 | 50 |
| **Total short-term benefits payable to Executive Board members** | **2,322** | **1,160** |
| Long-term incentive bonus (LTI) | 0 | 0 |
| **Total benefits payable to Executive Board members from long-term bonus (LTI)** | **0** | **0** |
| Severance payments | 0 | 311 |
| **Benefits due to termination of the Executive Board position** | **0** | **311** |
| **Total** | **2,322** | **1,471** |

The STI is the first remuneration component, and continues to be based on the Company's performance for the past financial year. For financial year 2019, the STI for current members of the Executive Board will be calculated based on earnings before interest, tax, depreciation and amortisation (EBITDA) as reported in the audited IFRS consolidated financial statements for the financial year ended and based on targets and further financial ratios to be defined at the beginning of the year which operate to either increase or decrease the STI depending on the degree to which such targets and ratios are met. Each member's STI is capped at €750 thousand annually.

The LTI bonus, the calculation of which takes several years into account, is intended as monetary recognition of the Executive Board member's contribution toward increasing the Company's value. The LTI bonus is based on EBITDA as reported in the audited and approved IFRS consolidated financial statements for the financial year ended. The amount of the bonus depends on the performance of ADLER shares (weighted average share price for the Company during the financial year for which the LTI bonus is calculated as compared to the prior-year weighted average share price). The LTI bonus, the calculation of which takes several years into account, is currently limited to a total amount of €1,500 thousand and is not paid out if ADLER shares do not perform accordingly.

The total payments to former members of the executive bodies and their surviving dependants amounted to €162 thousand (previous year: €469 thousand). This includes remuneration to former managing directors of €162 thousand (previous year: €158 thousand) and former members of the Executive Board of €0 thousand (previous year: €311 thousand). Pension provisions in the amount of €1,905 thousand (previous year: €1,845 thousand) have been recognised for former members of management and their surviving dependants.

The members of the Supervisory Board are also key management personnel of the ADLER Group in accordance with IAS 24. The total remuneration for members of the Supervisory Board during the financial year was €302 thousand (previous year: €325 thousand).

In financial year 2019 as well as in the previous year, no member of the Supervisory Board or an enterprise in which a Supervisory Board member holds a key position provided the Company with any consultancy services.

## 32. RELATED PARTY DISCLOSURES

Adler Modemärkte AG has been an associated company of S&E Kapital GmbH, Munich, and indirectly an associated company of Steilmann Holding AG i.I., Bergkamen, since 25 April 2013. Steilmann Holding AG i.I. and its subsidiaries are thus to be considered related parties.

Transactions with related parties are contractually agreed and carried out at arm's length prices.

The following transactions were entered into with related parties:

| €'000 | 2019 | 2018 |
|---|---|---|
| Services purchased from related parties: | | |
| **Steilmann Group** | 14,893 | 28,920 |
| Sale of goods, services and non-current assets to related parties | | |
| **Steilmann Group** | 0 | 4 |

The following balances with related parties were outstanding at the end of the reporting periods:

| €'000 | 31 Dec. 2019 | 31 Dec. 2018 |
|---|---|---|
| Trade receivables/services from related parties: | | |
| **Steilmann Group** | 0 | 0 |
| Trade payables/services to related parties: | | |
| **Steilmann Group** | 0 | 2,250 |

Family members of key management personnel did not provide any services to the ADLER Group (previous year: €0 thousand). In the period under review, no property, plant or equipment was sold to or acquired from family members in key positions of controlled companies.

Goods amounting to €0 thousand were procured from Elan PVT Limited, Hong Kong, in the year under review (previous year: €14 thousand). The company is associated with a member of the Supervisory Board and is therefore treated as a related party in accordance with IAS 24. There were no outstanding liabilities to Elan PVT Limited, Hong Kong, for deliveries of goods as at the reporting date.

Remuneration for members of the Supervisory Board in their function as employees amounted to €243 thousand (previous year: €268 thousand) during the year under review.

There are no obligations from leases with related parties.

## 33. EARNINGS PER SHARE

The earnings per share figure is calculated by dividing the consolidated net profit or loss, classified as continuing operations or discontinued operations, by the weighted average of the existing shares.

In the reporting period, outstanding shares are weighted on a pro-rata basis for the period in which they are in circulation. The change in outstanding shares was as follows:

| | | 2019 | 2018 |
|---|---|---|---|
| Outstanding shares | as at 1 Jan. | 18,510,000 | 18,510,000 |
| Shares sold during the year | | 0 | 0 |
| Outstanding shares | as at 31 Dec. | 18,510,000 | 18,510,000 |
| Consolidated net profit for the year (€'000) | | 5,134 | 369 |
| Weighted average of outstanding shares | as at 31 Dec. | 18,510,000 | 18,510,000 |
| Basic earnings per share | € | 0.28 | 0.02 |
| Diluted earnings per share | € | 0.28 | 0.02 |

Basic and diluted earnings per share before IFRS 16 amounted to €0.12 (previous year: €–0.14). There were no dilutive effects in the reporting periods shown.

## 34. APPROPRIATION OF NET RETAINED PROFITS – DIVIDEND

The dividend distribution is based on Adler Modemärkte AG's HGB annual financial statements. No dividend will be distributed for financial year 2019.

## 35. LITIGATION AND CLAIMS FOR DAMAGES

In the first quarter of 2019, a former business partner brought legal action against Adler Modemärkte AG to inspect certain documents and for damages in an as yet unspecified amount and in the third quarter of 2019 amended its complaint to include Adler Modemärkte Gesellschaft m.b.H., Austria. After consulting external experts, ADLER believes it is highly likely that it will be able to have most of the claims for the as yet unspecified damages dismissed. Furthermore, ADLER Group companies are not involved in any legal or arbitration proceedings that based, on ADLER's current assessments, would have a significant effect on the position of the Group.

## 36. AUDITORS' FEES

Fees amounting in total to €368 thousand (prior year €359 thousand) were incurred in financial year 2019 for services provided by the auditor within the meaning of §318 HGB:

| €'000 | 2019 | 2018 |
|---|---|---|
| Audit services (including half-yearly financial statements) | 320 | 273 |
| Other certification services | 7 | 25 |
| Tax advisory services | 41 | 61 |
| **Total** | **368** | **359** |

The audit services include primarily fees for the audit of the consolidated financial statements as well as the statutory audits of Adler Modemärkte AG and of the subsidiaries included in the consolidated financial statements. Also included are the fees for the review of the half-yearly financial statements. In the year under review, audit services included services for the review of the transition to IFRS 16; in the previous year, audit services included expenses for a FREP review. The fees for other certification services include fees for revenue certificates (*Umsatzbescheinigungen*) and voluntary audits of IT systems. The fees for tax advisory services include in particular fees for preparing tax returns and general tax advisory services.

## 37. EVENTS AFTER THE END OF THE REPORTING PERIOD

There were no further matters arising after the end of the financial year up to the date of preparation of the consolidated financial statements that have a material effect on the financial position, cash flows and financial performance of the Company for financial year 2019.

## 38. DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

On 11 December 2019, the Executive Board and the Supervisory Board of Adler Modemärkte AG jointly issued the Declaration of Conformity with the recommendations of the German Corporate Governance Code as amended on 7 February 2017 in accordance with §161 of the German Stock Corporation Act (*Aktiengesetz*, "AktG"). The form and content of the Declaration of Conformity is permanently available to shareholders on the Company's website at *https://www.adlermode-unternehmen.com/en/investor-relations/corporate-governance/declaration-of-conformity*.

## 39. EXECUTIVE BODIES OF THE COMPANY

The following persons exercised an executive board function in financial year 2019 and up to the date of preparation of the financial statements:

**Thomas Freude**, *Wiesbaden*, *Germany,* Chairman of the Executive Board, Executive Board member for Strategy, Marketing, Purchasing, Mergers & Acquisitions, Expansion, Transformation, Executive Development and Public Relations, other supervisory board positions and comparable memberships: LSG Lufthansa Service Holding AG.

**Karsten Odemann**, *Lenggries*, *Germany,* Executive Board and Labour Director, Executive Board member for Finance, Controlling, Audits, Legal, IT, Human Resources, Asset Management, Logistics, Sustainability and Investor Relations.

**Carmine Petraglia**, *Bad Honnef*, *Germany,* Executive Board, Executive Board member for Sales and Distribution and E-Commerce.

The members of the **Supervisory Board** of Adler Modemärkte AG in financial year 2019 were as follows:

**Massimiliano Monti** [1*, 2, 3*, 4*,] *Milan, Italy*, Chairman of the Supervisory Board, Partner at Equinox S.A., other supervisory board positions and comparable memberships: Advisory Board of S&E Kapital GmbH

**Majed Abu-Zarur** [1, 2, 4,] *Viernheim*, *Germany,* Deputy Chairman of the Supervisory Board, Chairman of the Joint Works Council at Adler Modemärkte AG

**Wolfgang Burgard** [1, 2*, 3,] *Dortmund*, *Germany,* Managing Director of Bund Getränkeverpackungen der Zukunft GbR

**Cosimo Carbonelli D'Angelo** [1,] *Naples, Italy*, Chairman of the Managing Board of G.&C. Holding S.p.A., other supervisory board positions and comparable memberships: Member of the Advisory Board of S&E Kapital GmbH

**Kirsten Fox**, *Munich*, *Germany,* Tax Consultant and Partner at Kantenwein Zimmermann Fox Kröck & Partner Rechtsanwälte Steuerberater Wirtschaftsprüfer

**Jochen Gröning** [1, 2, 4,] *Aschaffenburg*, *Germany,* IT Organiser and Chairman of the Works Council Haibach of Adler Modemärkte AG

**Corinna Groß**, *Neuss*, *Germany,* Secretary of the ver.di union, North-Rhine Westphalia District

**Peter König**, *Rottendorf*, *Germany,* Secretary of the ver.di union

**Giorgio Mercogliano** [3, 4,] *Montagnola – Lugano, Switzerland*, Partner at Equinox S.A., other supervisory board positions and comparable memberships: Advisory Board of S&E Kapital GmbH

**Paola Viscardi-Giazzi** [2,] *Dortmund*, *Germany,* Executive Board member of Steilmann Holding AG i.l., other supervisory board positions and comparable memberships: Advisory Board of S&E Kapital GmbH

**Jürgen Vogt** [2,] *Essen*, *Germany,* Head of Sales, Adler Modemärkte AG

**Beate Wimmer** [1,] *Mönchengladbach*, *Germany,* Specialist Consultant Information Desk, Cash Desk and Sales at Adler Modemärkte AG

*Memberships in (as at 31 December 2019): [1] Personnel Committee, [2] Audit Committee, [3] Nomination Committee, [4] Conciliation Committee, [*] Chairman of the Committee*

## 40. EXEMPTING EFFECT OF THESE IFRS CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2019

The following subsidiaries will exercise the option to apply the exemption provided under § 264 (3) and § 264b HGB with regard to the preparation of notes and the management report as well as the publication and audit of the annual financial statements under commercial law for the 2019 financial year:

- Adler Mode GmbH, Haibach
- Adler Orange GmbH & Co. KG, Haibach
- A-Team GmbH, Bochum

The notifications regarding the application of the exemptions are published in the electronic Federal Gazette.

Haibach, 3 March 2020

Thomas Freude
Chairman of the Executive Board

Karsten Odemann
Member of the Executive Board

Carmine Petraglia
Member of the Executive Board

# RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the material opportunities and risks associated with the expected development of the Company.

Haibach, 3 March 2020

| | | |
|---|---|---|
| Thomas Freude | Karsten Odemann | Carmine Petraglia |
| *Chairman of the Executive Board* | *Member of the Executive Board* | *Member of the Executive Board* |

# COPY OF THE AUDITOR'S REPORT

Based on the final results of our audit we issued the following unqualified auditor's report dated March 3, 2020:

## "INDEPENDENT AUDITOR'S REPORT

To Adler Modemärkte AG, Haibach

### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

**Audit Opinions**

We have audited the consolidated financial statements of Adler Modemärkte AG, Haibach, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, the consolidated statement of comprehensive income, consolidated statement of profit and loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Adler Modemärkte AG for the financial year from January 1 to December 31, 2019. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [*Handelsgesetzbuch*: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2019, and of its financial performance for the financial year from January 1 to December 31, 2019, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § [Article] 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB [*Handelsgesetzbuch*: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

**Basis for the Audit Opinions**

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the *Institut der Wirtschaftsprüfer* [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

**Key Audit Matters in the Audit of the Consolidated Financial Statements**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matter of most significance in our audit was as follows:

1 Impact of the initial adoption of IFRS 16 on lease accounting
2 Recoverability of deferred tax assets

Our presentation of these key audit matters has been structured in each case as follows:

1 Matter and issue
2 Audit approach and findings
3 Reference to further information

Hereinafter we present the key audit matter:

1 Impact of the initial adoption of IFRS 16 on lease accounting

1 In the Company's consolidated financial statements, an amount of €207.2 million relating to rights of use of buildings and factory & office equipment is reported under the heading of current assets (50.6% of the balance sheet total) and an amount of €264.7 million relating to lease liabilities is reported under non-current and current liabilities (64.7% of the balance sheet total). In the financial year, the first-time adoption of the new accounting standard IFRS 16 ("Leasing") had a significant impact on the figures in the opening balance sheet and their continued valuation in the financial year. The Company converted over to IFRS 16 using the fully retrospective method. The comparative figures from the prior-year period were adjusted accordingly. The new accounting standard IFRS 16 requires the Company's executive directors to make estimates and assessments in certain areas, the appropriateness of which we had to assess as part of our audit. This relates in particular to estimates regarding the exercising of options with an impact on the duration term of the lease. Given the fact that the impact of leases on the Group's net assets, financial position and results of operations is of a significant nature overall in terms of the figures involved and also given the complexity of the new requirements of IFRS 16, the matter of lease accounting was of particular significance in the context of our audit.

2 In the context of our audit, among other things, we appraised the appropriateness of the design and effectiveness of internal processes and controls for the recording of leases. Moreover, with the support of our internal specialists, we assessed the impact of the first-time adoption of IFRS 16. In doing so, on a sample basis, we inspected lease agreements, retraced the identification of lease components and appraised whether their recognition was complete and appropriate. In this context, we judged in particular the assessment for exercising options with an impact on the duration term of the leases, by questioning company employees and the executive directors and by inspecting relevant supporting documentation. Based on our audit procedures, we were able to satisfy ourselves that the process and controls in place are appropriate and that the estimates made and assumptions reached by the Company's executive directors are sufficiently documented and justified in order to guarantee the proper nature of accounting for leases under first-time adoption of IFRS 16.

3 The Company's disclosures regarding lease accounting and the impact of the initial adoption of IFRS 16 are contained in note 28 of the notes to the consolidated financial statements.

2 Recoverability of deferred tax assets

1 In the Company's consolidated financial statements, deferred tax assets amounting to €22.9 million are recognized after netting. Before netting with congruent deferred tax liabilities, there are deferred tax assets amounting to €81.9 million. The amount recognized in the accounts corresponds to the extent to which the Company's executive directors deem it likely that taxable earnings will be generated in the foreseeable future through which the deductible temporary differences and the unused tax losses can be used. For this purpose, unless there are sufficient deferred tax liabilities available, prognoses are made as to the future tax results which are derived from the approved forecast calculation. Overall, the amount of deductible temporary differences and tax losses not yet used upon which no deferred tax assets were stated was €14.8 million in total, based on the fact that it is unlikely that this can be utilized for tax purposes through netting with tax gains. In our opinion, the accounting for deferred taxes was a matter of key significance for our audit because it is highly dependent upon estimates and assumptions made by the Company's executive directors and is therefore subject to uncertainty.

**2** As part of our audit, among other things we assessed the internal processes and controls for recording tax issues and the methodical procedures for calculating, accounting for and evaluating deferred taxes. Furthermore, we assessed the recoverability of the deferred tax assets for deductible temporary differences and tax losses not yet used based on the Company's internal prognoses regarding its future earnings situation and appraised the appropriateness of the underlying estimates and assumptions. Based on our audit procedures, we were able to satisfy ourselves that the estimates made and assumptions reached by the Company's executive directors are justified and sufficiently documented.

**3** The Company's disclosures regarding deferred taxes are contained in note 16 of the notes to the consolidated financial statements.

**Other Information**

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB contained in section "Legal Disclosures" of the group management report
- the separate non-financial report pursuant to § 289b (3) HGB and § 315b (3) HGB
- the section "Sustainability and the Environment" of the group management report.

The other information comprises further the remaining parts of the annual report obtained by us prior to the date of our auditor's report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

**Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report**

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. [paragraph] 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the *Institut der Wirtschaftsprüfer* (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## OTHER LEGAL AND REGULATORY REQUIREMENTS

### Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on May 8, 2019. We were engaged by the chairman of the audit committee on July 15, 2019. We have been the group auditor of Adler Modemärkte AG, Haibach, without interruption since the financial year 2009.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

## GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Ms. Angelika Kraus."

# FURTHER INFORMATION

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### FINANCIAL CALENDAR

| | |
|---|---|
| 12 March 2020 | Annual Report 2019 |
| 5 May 2020 | Report on the first quarter of 2020 |
| 6 May 2020 | 2020 Annual General Meeting |
| 6 Aug 2020 | Report on the first half of 2020 |
| 5 Nov 2020 | Report on the first nine months of 2020 |

### CONTACT

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### EDITORIAL & PROJECT MANAGEMENT

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Frankfurt/Main, Germany

Adler Modemärkte AG
Industriestraße Ost 1–7, 63808 Haibach, Germany

### CONCEPTION & DESIGN

Ligaturas – Reportdesign, Hamburg, Germany

# MULTI-YEAR OVERVIEW

| | | 2015 | 2016 | 2017 | 2018 | 2019 | Change 2019 to 2018 absolute | Change 2019 to 2018 relative |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | **€ million** | **566.1** | **544.6** | **525.8** | **507.1** | **495.4** | **−11.7** | **−2.3%** |
| Material expenses | € million | −261.2 | −256.5 | −244.1 | −229.8 | −219.5 | 10.3 | −4.5% |
| Gross profit | € million | 304.9 | 288.1 | 281.8 | 277.3 | 275.9 | −1.4 | −0.5% |
| Gross profit margin | | 53.9% | 52.9% | 53.6% | 54.7% | 55.7% | | +100 bp |
| **EBITDA** | **€ million** | **33.3** | **23.3** | **32.0** | **68.8*** | **70.3** | **1.5** | **2.2%** |
| EBITDA margin | | 5.9% | 4.3% | 6.1% | 13.6%* | 14.2% | 0.6 | |
| Depreciation | € million | −16.3 | −16.7 | −16.5 | −47.7* | −45.8 | 1.9 | −4.0% |
| **EBIT** | **€ million** | **17.0** | **6.6** | **15.6** | **21.0*** | **24.5** | **3.5** | **16.7%** |
| EBIT margin | | 3.0% | 1.2% | 3.0% | 4.2%* | 5.0% | 0.8 | |
| **Net income from operations** | **€ million** | **12.1** | **1.7** | **10.7** | **2.6*** | **7.9** | **5.3** | **>>100%** |
| Income taxes | € million | −4.2 | −1.3 | −6.8 | −2.2* | −2.7 | −0.5 | 22.7% |
| **Consolidated profit for the year** | **€ million** | **7.9** | **0.4** | **3.9** | **0.4*** | **5.1** | **4.7** | **>>100%** |
| Earnings per share | € | 0.43 | 0.02 | 0.21 | 0.02* | 0.28 | 0.3 | >>100% |
| Cash flows | | | | | | | | |
| Net cash flows from operating activities | € million | 19.5 | 22.2 | 21.2 | 39.9* | 61.7 | 21.8 | 54.6% |
| Net cash flows from investing activities | € million | −16.6 | −10.8 | 14.8 | −5.9 | −4.2 | 1.7 | −28.8% |
| Free cash flow | € million | 2.9 | 11.4 | 36.0 | 33.9* | 57.4 | 23.5 | 69.3% |
| **Total assets** | **€ million** | **243.4** | **222.6** | **241.1** | **415.9*** | **409.4** | **−6.5** | **−1.6%** |
| Non-current assets | € million | 99.7 | 95.5 | 88.6 | 272.6* | 258.3 | −14.3 | −5.2% |
| Current assets | € million | 143.7 | 127.1 | 152.5 | 143.4 | 151.0 | 7.6 | 5.3% |
| Inventories | € million | 81.3 | 75.4 | 73.7 | 78.7 | 73.4 | −5.3 | −6.7% |
| Cash and cash equivalents | € million | 52.1 | 42.8 | 63.3 | 54.9 | 70.1 | 15.2 | 27.7% |
| **Equity** | **€ million** | **104.9** | **95.8** | **100** | **61.6*** | **66.1** | **4.5** | **7.3%** |
| Equity ratio | | 43.1% | 43.0% | 41.5% | 14.8%* | 16.1% | | +1.3 pp |
| Non-current liabilities | € million | 64.6 | 60.7 | 64.6 | 250.4* | 235.1 | −15.3 | −6.1% |
| Current liabilities | € million | 74.0 | 66.0 | 76.6 | 104.0* | 108.2 | 4.2 | 4.0% |
| Debt equity ratio | | 1.32 | 1.32 | 1.41 | 5.75* | 5.19 | −0.6 | −9.7% |
| Employees | | | | | | | | |
| Number of employees as of December 31 | | 4,203 | 3,984 | 3,866 | 3,786 | 3,612 | −174.0 | −4.6% |
| Personnel expenses | € million | −102.5 | −102.3 | −96.9 | −97.5 | −99.5 | −2.0 | 2.1% |
| **Total number of stores** | | **177** | **183** | **183** | **178** | **172** | **−6** | |
| of which in Germany | | 153 | 156 | 156 | 150 | 143 | −7 | |
| of which in Austria | | 21 | 22 | 22 | 23 | 24 | 1 | |
| of which in Luxembourg | | 2 | 3 | 3 | 3 | 3 | 0 | |
| of which in Switzerland | | 1 | 2 | 2 | 2 | 2 | 0 | |

**After adjustment*