ADLER
REAL ESTATE

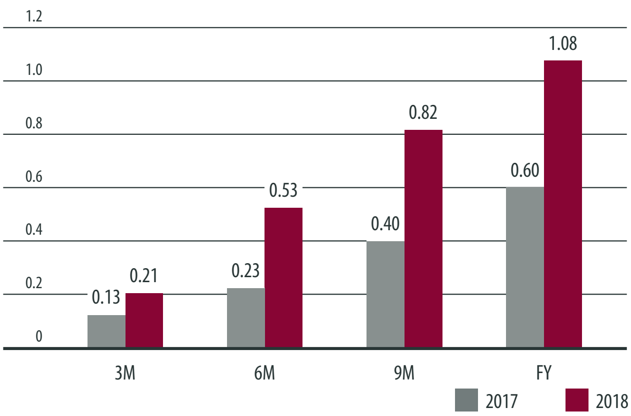
Annual Report /// 2018

/// KEY FINANCIAL FIGURES

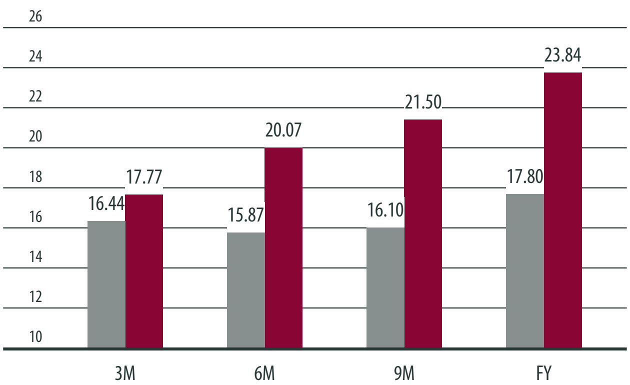
In EUR millions Consolidated Statement of Income	2018	2017
Net rental income	238.4	170.3
Earnings from property lettings	203.7	125.8
Earnings from the sale of properties	8.1	0.8
EBIT	582.8	311.8
Consolidated net profit from continuing operations	332.1	106.4
Consolidated net profit	332.4	142.6
FFO I	74.2	40.5
FFO I per share in EUR[1]	1.08	0.60
Consolidated Balance Sheet	**31.12.2018**	**31.12.2017**
Investment Properties	4,989.1	3,018.5
EPRA NAV	1,632.7	1,207.2
EPRA NAV per share in EUR[1]	23.84	17.80
LTV in %[2]	61.4	59.4
WACD	2.23	2.72
Cashflow	**2018**	**2017**
Net cash flow from operating activities	131.0	36.3
of which from continuing operations	130.7	66.2
Net cash flow from investing activities	-609.1	212.7
of which from continuing operations	-609.1	212.8
Net cash flow from financing activities	187.8	-4.7
of which from continuing operations	187.8	-17.3
Employees	**31.12.2018**	**31.12.2017**
Number of employees	828	555
FTEs (Full-time equivalents)	752	507

[1] Based on the number of shares outstanding as at balance sheet date, previous year plus shares from assumed conversion of mandatory bond which is considered as equity
[2] Excluding convertible bonds

FFO I/SHARE in EUR



EPRA NAV/SHARE in EUR

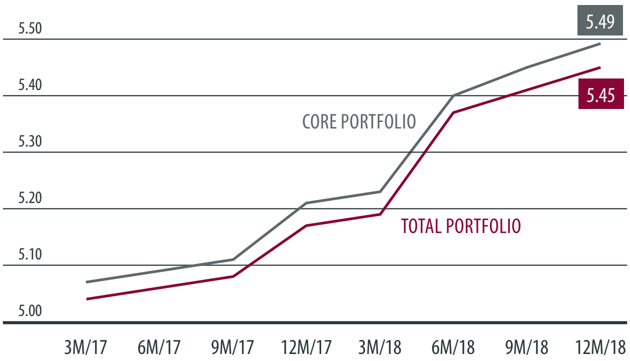


6M 17 after issue of bonus shares and conversion of 2013/2017 convertible

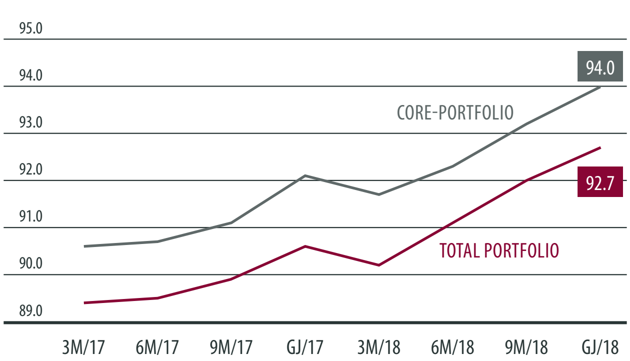
/// In 2018, ADLER Real Estate AG achieved its goal of becoming an integrated real estate group. Portfolio-, property- and facility management were fully internalised and are executed by group companies or divisions, thus improving the operating performance of the group. ADLER is focused on managing the residential portfolio, has grown through acquisition and optimised its portfolio by selling nearly all its non-core units. As market prices for existing properties and costs for new construction have converged, ADLER complemented its business model by starting to invest in the construction of apartments for future rental purposes.

/// PROPERTY FIGURES

AVERAGE RENT in EUR/sqm/month

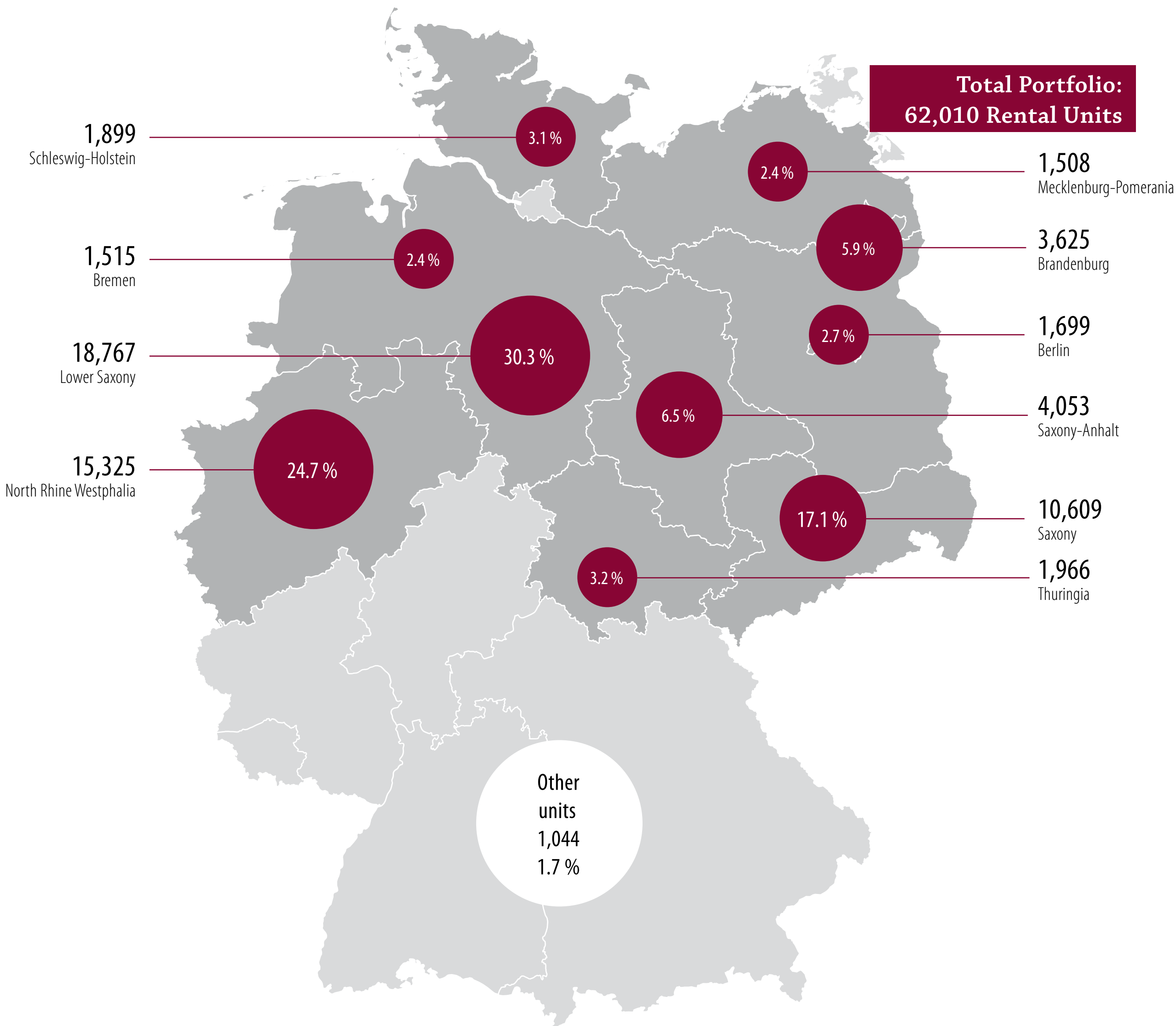


OCCUPANCY RATE in %



Rental units

as at 31.12.2018



/// CONTENT

/// THE GROUP MANAGEMENT

TOMAS DE VARGAS MACHUCA

Member of the Board (Co-CEO) and Chairman of the Executive Committee

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

MAXIMILIAN RIENECKER

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

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

SVEN-CHRISTIAN FRANK

Member of the Management Board (COO) and of the Executive Committee

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

CARSTEN WOLFF

Head of Accounting and Finance and Member of the Executive Committee

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

PEER HOFFMANN

Head of Financing and Member of the Executive Committee

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

FLORIAN SITTA

Head of Legal and Member of the Executive Committee

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

ANJA GOTTHARDT

Head of Portfolio Management

Anja Gotthardt, born 1978 in Herzberg (Elster) holds a diploma as an industrial engineer and real estate economist and is a certified real estate expert (HypZert (F)). Since January 2019 she has headed portfolio management at ADLER and is thus responsible for analysing, developing and optimising the portfolio, for aquisitions and divestments and for the valuation of properties. Before joining ADLER, Anja Gotthardt worked 12 years in real estate advisory for KPMG AG, focusing on strategic advice and valuation. Since 2014 she was in charge of strategic portfolio management at berlinove Immobilien GmbH.

TINA KLADNIK

Head of Investor Relations

Tina Kladnik, born in 1985 in Celje, Slovenia, assumed the role as Head of IR at ADLER Real Estate AG as at 1 December 2018. She holds a B.A. in Business and Economics from the University of Maribor, Slovenia, an M.A. in Finance and Investment from the Nottingham University Business School, England and an ACA Qualification from the Institute of Chartered Accountants in England and Wales (ICAEW). Before joining ADLER, Tina Kladnik worked for four and a half years at Berenberg in real estate equity research and thereafter at Investec Bank in the same field.

/// LETTER FROM THE MANAGEMENT BOARD

Ladies and Gentlemen,

In 2018, ADLER Real Estate became what the company had been striving to become for over two years: an integrated real estate group. Today, all tenant-related services are provided by the Group's own divisions or companies, from property management and facility management up to the supply of heat and energy. This transformation has already had a positive and significant effect on our operational performance data, as both occupancy rate and average rent increased strongly. These successes also brought with them a significant workforce, with our employees growing together and aiming towards a joint goal. As such, 2018 was also a year of change – a change in the Management Board, a significant and strategic acquisition which significantly boosted growth as well as the continued improvement to our Capital Structure.

The most important change was certainly the acquisition of Brack Capital Properties N.V. at the start of the second quarter, which represented a big step towards continued growth. A significant number of steps have been taken in order to achieve the intended synergies of €6 million. Changes to the management team have been successfully implemented and steps towards a closer integration are underway in areas such as asset, property and facility management, accounting, legal and compliance and more. The company is also refocussing its strategy to becoming a pure residential company.

The acquisition was possible thanks to a bridge facility offered to us by one of the world's leading investment banks, which was later refinanced together with a liability management exercise, which successfully replaced short terms debt, with long terms debt at significantly lower costs. As a result, the weighted average cost of debt ("WACD") decreased to just above 2 percent. By comparison, in 2014, the WACD stood at more than 4 percent. This was achievable as a result of a favourable environment within the debt capital markets, the company's ability to successfully execute complicated transactions and the support of a wide range tier one banks.

At the same time, we succeeded in internalising the property management of our entire real estate portfolio within just over two years. This has only been possible thanks to ADLER Wohnen Service gradually developing this expertise, replacing all external management, assuming and centralising the rental accounts and standardising the IT infrastructure. All in all, it has been a long and arduous journey, but a necessary one in order to exercise greater governance and control in this critical area of our business. We have also strengthened our senior management with the addition of a head of portfolio management.

In 2018, we also initiated new construction or expansion projects for the first time. Our expansion plans in Goettingen and Wolfsburg, which involve adding an additional floor to buildings, are now well underway and we expect to start construction work in summer 2019. For the implementation of these projects, it was particularly important to get tenants with low incomes on board as they feared that they would not be able to afford their apartments after the modernisation measures due to the associated rent increases. We have therefore joined the local "Alliance for Affordable Housing" in Goettingen, for example, in which various companies from the real estate industry and bodies including the Göttingen Tenants' Association, the City of Goettingen and Goettingen Student Services work in close cooperation. The alliance has formulated its aims in writing, which also include the stipulation that 30 percent of apartments in new buildings should be offered to low-income tenants at predetermined, affordable rents. Voluntary commitments like this have sustainably increased the acceptance of new construction measures and are hailed as an example.

Work on our Wasserstadt Mitte project in Berlin is also proceeding according to plan. The topping-out ceremony for this project with around 750 new apartments took place in September 2018 in the presence of the Governing Mayor of the City of Berlin. By mid-2019, the first apartments will be ready for tenants to move into and the entire complex is expected to be completed by the end of the year.

We regard new construction projects or expansion measures as a reasonable addition to our business model since the prices for the purchase of existing real estate and the costs of new construction have converged significantly. As such, ADLER is continuing with its investments in this field of business, albeit at a relatively low level. One example is the acquisition of a site near Schoenefeld Airport, whose expansion to create the new Berlin Brandenburg Airport is currently scheduled for opening in 2020. The site offers space for more than 500 apartments in an attractive location on the outskirts of Berlin.

Portfolio optimisation comes about not just by acquiring attractive apartments, such as those acquired through the BCP acquisition, or through projects such as those in Goettingen, Wolfsburg and in Wasserstadt Mitte in Berlin. Portfolio optimisation also means disposing of those properties which for a variety of reasons do not fit the company's strategy, or do not adhere to the desired geographical exposure. Towards the end of the year, we sold a total of around 3,700 rental units in two separate transactions, thus disposing of practically our total remaining non-core-portfolio. 2,300 rental units were transferred at a premium to book value into a joint venture in which we retain a 25 percent interest and retained, in exchange for market standard fee, the asset, property and facility management contracts. As a result of the joint venture structure, we can still participate in the profit if these properties are sold to third parties in the future. Since the rights and obligations in both transactions are only transferred in 2019, this sale will only then be reflected in the accounts.

The guidance for the group's KPI's were all met and in a few cases revised upwards during the course of the year with the exception of our loan to value. This crucial target of 55 percent would have been met, but we chose to acquire BCP in order to generate significant growth in the year and ensure future upside for investors in the coming years. Notwithstanding the increase in LTV as of H1 2018 which reached circa 68 percent, we were able to reduce the LTV by 7.5 percent within six months of the acquisition.

As a listed company we are committed to transparency, and as a member of the European Public Real Estate Association (EPRA) we also present our annual financial statements in accordance with the requirements of this association. This ensures maximum international comparability. In September 2018, EPRA confirmed that we succeeded excellently in doing this by awarding us with the "Gold Award", the highest award presented by the organisation for "compliance with EPRA best practice recommendations".

The company saw a reassuring simplification of its capital structure as both the 2013/2018 convertible bond and the mandatory 2015/2018 convertible bond converted at the end of the year. Thus, a total of 12.9 million new shares were created by conversion and the total number of shares increased to 71.1 million. This led to an increase in the liquidity of the company's stock and had a positive impact on market capitalisation, which increased to around EUR 900 million for the first time. An increased market capitalisation puts us in the focus of additional investors, which can certainly boost the price of the ADLER share in the future.

Yours sincerely,

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

UWE HINRICHS works as a caretaker at ADLER Gebäude Service GmbH. If tenants have something on their mind, they often turn to him first as the landlord's representative. However, his primary role is to ensure that bells, letter boxes and general lighting work in the buildings for which he is responsible, that the staircase and paths are clean, that the green spaces are maintained and all obligations to ensure public safety are complied with – so that it is clear from the exterior that the landlord looks after his tenants here.

/// Portfolio

/// The ADLER Share

/// Supervisory Board Report

/// PORTFOLIO

The business objective of ADLER Real Estate AG is the letting of permanently held properties which have been acquired as fully lettable units or are to be constructed as part of a project development. After acquiring almost 70 percent of the shares in BCP, this portfolio has grown significantly. The regional focus has changed to a certain degree, but the basic focus on the affordable housing segment of the market remains the same. BCP also holds a portfolio of exclusively commercial units with a total space of approximately 300,000 square metres. These do not fit into the business model, shall be disposed of and are thus not included in the following overview.

THE PROPERTY PORTFOLIO

Portfolio significantly expanded

As at the end of the 2018 financial year, ADLER Real Estate AG held a total of 62,010 rental units with a total space of 3.8 million square metres, which represented a 23.3 percent increase when compared to the start of the year and is primarily due to the acquisition of the majority of shares in BCP in April 2018. In addition, ADLER acquired a small portfolio in Emden in the second quarter with a total of 127 units. A total of 566 rental units were sold as part of the portfolio optimisation measures. A further around 3,700 rental units from the non-core-portfolio were sold at the end of the year. Rights and obligations relating to these units have been transferred in the course of 2019.

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

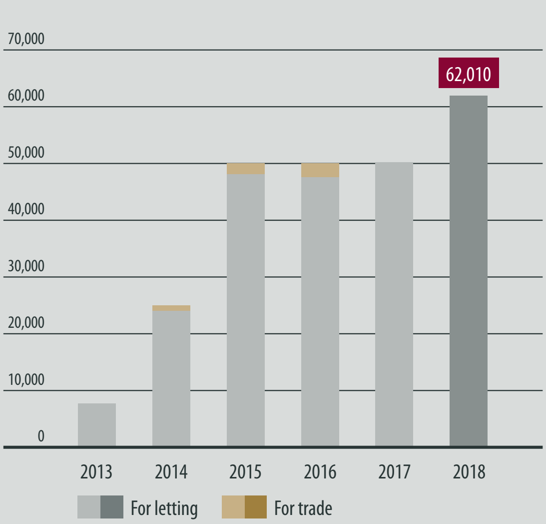
To a minor degree, properties held for residential purposes also include commercial units which consist entirely of shops and offices of the kind that can often be found in city-centre residential properties. As of the end of 2018, these units numbered 1,156 and accounted for 1.9 percent of the properties held for permanent letting. BCP contributed 141 units of this type of commercial property.

Portfolio realignment	31.12.2018			31.12.2017
		Divestments	Additions	
Rental portfolio (#)	62,010	566	12,271	50,305
of which residential units	60,854	480	12,078	49,256
of which commercial units	1,156	86	193	1,049

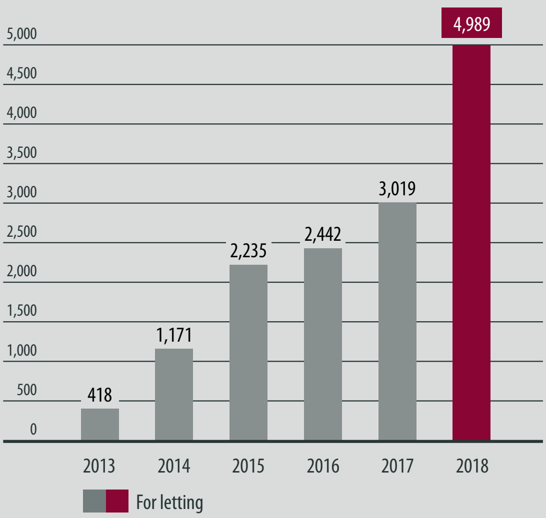
Non-core-portfolio sold

In the course of 2018, ADLER disinvested almost the totality of rental units which had been identified as "non-core", although the rights and obligations of this portfolio have only been transferred in the course of 2019. The following table shows an overview of the additions to and the divestments from the portfolio as they have been entered in the balance sheet. It also presents a comparison between the key performance data of the core and non-core-portfolios as well as their respective average market values.

PORTFOLIO in units



FAIR VALUE INVESTMENT PROPERTIES in EUR millions



STRENGTHENING OF THE CORE PORTFOLIO

31 December 2018	Total	Core	Non-core
Rental units (#)	62,010	58,113	3,897
Average rent/sqm/month in EUR	5.45	5.49	4.89
Occupancy rate in %	92.7	94.0	76.7
Market value/sqm in EUR	1,061	1,095	642
NRI-Multiple (x)	17.6	17.7	14.5

On average, the units held for sale in the non-core-portfolio have significantly lower occupancy rates, generate lower rental income and, accordingly, have lower market values per square metre. Receipts from the sale of non-core properties are first of all used for debt redemption, while remaining means are kept available for general business purposes. Non-core properties are typically sold at or around their book value. In case of the sale of nearly 2,400 units to the joint venture with Benson Elliot, a premium of nearly five percent over book value could be achieved.

For the core portfolio remaining after the sales of 2018, portfolio analyses and optimisations will be carried out on a regular basis by portfolio management. This includes both market and property data and qualities. On a property level, inherent qualities determine the volume of maintenance and renovation expenses required to ensure a quality consistent with market standards and likewise the potential for the occupancy level and the development of rental income on which the main focus lies. The most significant external factors are market – and location – related, such as socio-demographic trends, expected changes in demand, infrastructure measures of all kinds or political decisions. Depending on the outcome of the portfolio analysis, regular discussions are held with regional managers for the operational implementation of strategies, e.g. increased marketing activities when the property is of good quality but its location factors are less favourable, or by investing in the property when the location factors are good but the property itself is not.

Operating performance data – another substantial rise in average rent

In 2018, the Group once again improved its operating performance. At the end of the period under review, the average contractually agreed rent per square metre per month for the overall portfolio amounted to EUR 5.45, EUR 0.28 higher than the figure for the same period of the previous year (2017: EUR 5.17 without BCP). Not including BCP, ADLER would have reported an average rent of EUR 5.30 at the end of 2018. BCP alone achieved a slightly higher average rent than ADLER, amounting to EUR 6.12 at the end of the year.

In the core portfolio, which includes the BCP portfolio but not the non-core-portfolio which has now been sold, the average contractually agreed rent per square metre per month amounted to EUR 5.49 at the end of 2018, which was EUR 0.28 higher than one year ago (2017: EUR 5.21 without BCP).

The occupancy rate for the overall portfolio came to 92.7 percent at the end of 2018 against 90.6 percent one year earlier. The occupancy rate in the core portfolio reached 94.0 percent at the reporting date in 2018. This equates to an improvement of 1.9 percentage points compared with one year ago (92.1 percent). Here again, part of the increase is due to the acquisition of BCP. In its former structure, ADLER had an occupancy rate of 93.7 percent at the end of the year, while for BCP it was 94.9 percent. The improvement in the operating performance indicators also reflects the fact that ADLER has meanwhile incorporated all its property holdings in its former structure under the Group's own management. Further positive effects are expected to come from the creation of a separate letting division in September 2018.

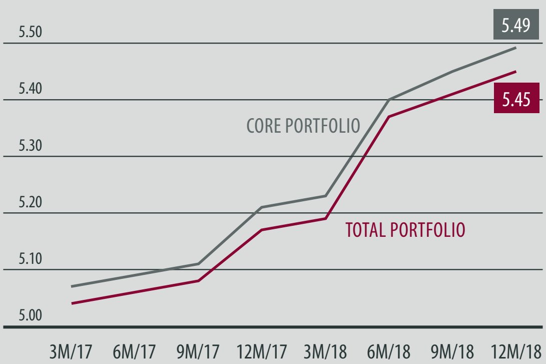
The following table presents the changes to the core portfolio on a like-for-like basis, i.e. only for those properties that were in the portfolio both in the first nine months of 2017 and in the first nine months of 2018. As such, this comparison does not include any of BCP's properties.

Core portfolio Like-for-like (31.12.2018)	Units (#)	Average rent in EUR/sqm/month	Change in %	Occupancy rate in %	Change in %
Total	46,033	5.33	2.5	93.8	1.6
Residential	45,306	5.29	2.3	94.1	1.6
Commercial	727	6.64	1.7	83.3	-0.1

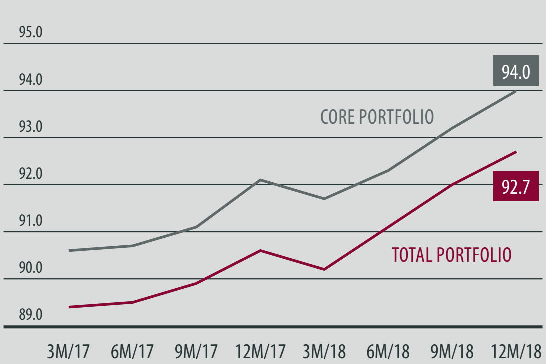
Sharp rise in fair value

The fair value of the portfolio calculated in accordance with IFRS amounted to EUR 4,989.1 million at the end of 2018, as compared to EUR 3,018.5 million at the end of the previous year. The increase is mainly due to the acquisition of BCP and to the fair value adjustments of ADLER's existing real estate portfolio. ADLER spent EUR 73.6 million on maintenance and modernisation measures in 2018 (2017: EUR 55.4 million). Of this total, EUR 22.8 million related to ongoing maintenance work and EUR 50.8 million to renovation and modernisation measures eligible for capitalisation. As some measures were delayed due to high capacity utilisation in the construction industry, not all plans originally laid out for 2018 could be met and were postponed to 2019 when expenses on maintenance and modernisation are expected to increase appropriately.

AVERAGE RENT in EUR/sqm/month

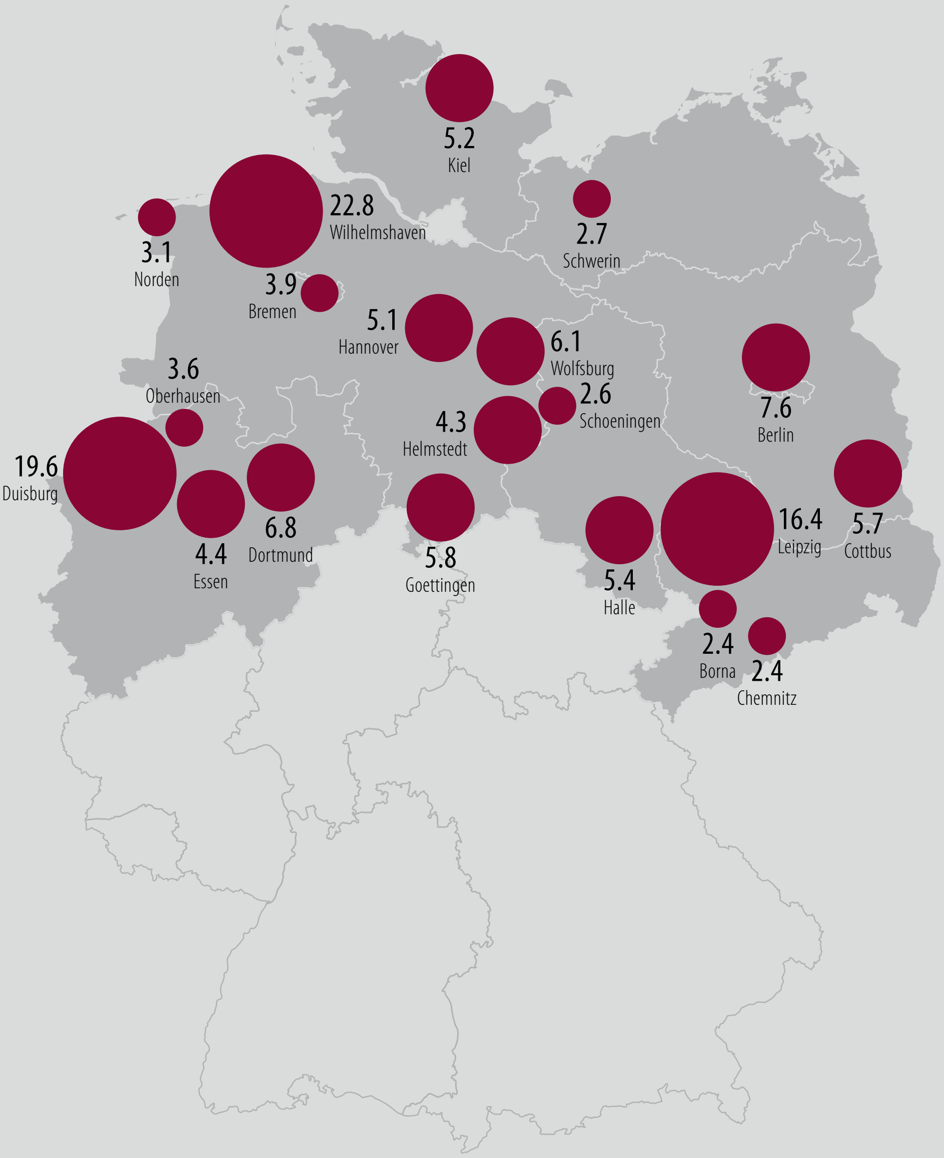


OCCUPANCY RATE* in %



ANNUAL NET RENTAL INCOME – TOP 20 LOCATIONS

In EUR millions



TOP 20 LOCATIONS

Location	Units	NRI (EUR m)	Area (Thou sqm)	Ø rent EUR/sqm/ month. 31.12.2018	Change against 31.12.2017 (%)	Occupancy rate (%) 31.12.2018	Change against 31.12.2017 (PP)
Wilhelmshaven	6,897	22.8	406.8	5.05	1.5	92.6	0.1
Duisburg	4,925	19.6	305.0	5.50	3.4	97.2	-0.1
Leipzig	4,742	16.4	254.2	5.71	25.5	94.8	-0.6
Cottbus	1,868	5.7	110.0	4.72	2.2	91.1	5.5
Halle (Saale)	1,858	5.4	105.9	4.81	2.4	89.1	2.3
Dortmund	1,770	6.8	102.3	5.71	16.9	98.0	0.6
Berlin	1,699	7.6	111.7	5.86	1.5	96.9	-1.1
Goettingen	1,377	5.8	85.2	5.94	8.8	95.7	-1.2
Wolfsburg	1,301	6.1	87.6	6.13	2.4	94.0	-1.1
Helmstedt	1,219	4.3	70.7	5.20	1.6	97.1	1.5
Hanover	1,120	5.1	63.5	6.99	22.6	96.6	2.3
Essen	1,040	4.4	66.0	5.70	16.9	97.5	2.0
Kiel	967	5.2	66.6	6.58	4.5	99.5	4.2
Borna	900	2.4	50.2	4.64	1.2	86.3	0.9
Bremen	873	3.9	53.6	6.20	27.8	97.6	0.5
Chemnitz	851	2.4	53.1	4.79	1.6	85.8	4.9
Schoeningen	846	2.6	50.2	5.08	0.3	83.4	2.9
Oberhausen	819	3.6	62.6	5.04	-2.9	96.2	-2.6
Schwerin	816	2.7	48.0	4.81	2.7	96.0	5.3
Norden	795	3.1	50.2	5.31	5.0	98.1	2.8
Top 20[1)]	**36,683**	**136.0**	**2,203.6**	**5.46**	**7.0**	**94.4**	**1.5**
Total Core	**58,113**	**218.9**	**3,547.3**	**5.49**	**5.4**	**94.0**	**1.7**

[1)] Core portfolio only

Key focuses in Lower Saxony and North Rhine-Westphalia

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

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

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

Top 20 locations generate around 60 percent of rental income

The focus on metropolitan regions outlined above also infers that the properties in ADLER's 20 most important towns and cities account for more than 60 percent of the company's total rental income. Following the acquisition of BCP, there have been a number of changes in the list of the most important locations, as BCP contributed relatively large property holdings in cities such as Leipzig, Dortmund and Hanover. Wilhelmshaven remains the most important location for the Group, with 6,897 rental units and a net rental income of EUR 22.8 million per annum. Measured in terms of rental units, it is followed by Duisburg, with 4,925 units and a net rental income of EUR 19.6 million per annum, and Leipzig, with 4,742 units and a net rental income of EUR 16.4 million per annum. Cottbus, Halle and Dortmund rank next. ADLER does not play a significant role in the local housing markets in any of its top 20 locations apart from Wilhelmshaven, where almost one-fifth of local housing belongs to the Group.

Size of apartment	Number of residential units	In % of total units	Ø Rent/ sqm/month in EUR
< 45 sqm	9,335	15.3	6.36
≥ 45 and < 60 sqm	20,783	34.2	5.38
≥ 60 and < 75 sqm	20,821	34.2	5.36
≥ 75 and < 90 sqm	7,798	12.8	5.29
≥ 90 sqm	2,117	3.5	5.13
Total	**60,854**	**100.0**	**5.43**

Focus on small to medium-sized residential units

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

Customer orientation with in-house property and facility management

ADLER has set itself the target of offering its tenants a complete range of residential services on an in-house basis, rather than via third-party service providers as in the past. To establish maximum direct contact with its tenants, in 2016 ADLER pooled its in-house property management activities into the newly founded company ADLER Wohnen Service GmbH. This company has now taken on the management of all group properties. Moreover, a letting division was set up in 2018 with the sole purpose of reletting apartments which are or have become vacant. Following the acquisition of BCP, however, the existing structures in the two hitherto independent companies need to be coordinated and aligned.

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

At the beginning of 2018, ADLER Energie Service GmbH also commenced operations. This company is responsible for all energy management in the ADLER Group. This includes procurement of heat and energy as well as responsibility for all heating systems within the Group. In facility and energy management, too, the structures of the two hitherto independent companies ADLER and BCP have to be rebalanced in 2019.

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

Second programme to reduce vacancies terminated

In 2017, ADLER first launched its programme to reduce vacancies and thus proceeded to renovate a total of 1,300 apartments. In 2018, this was followed by a second tranche for which investment funds of EUR 12 million were made available and served the renovation of approximately 1,000 apartments. As at the reporting date, this programme has been fully implemented. ADLER intends to continue to invest in the quality of its portfolio in 2019, but will discontinue reporting on it in terms of a specific programme.

/// THE ADLER SHARE

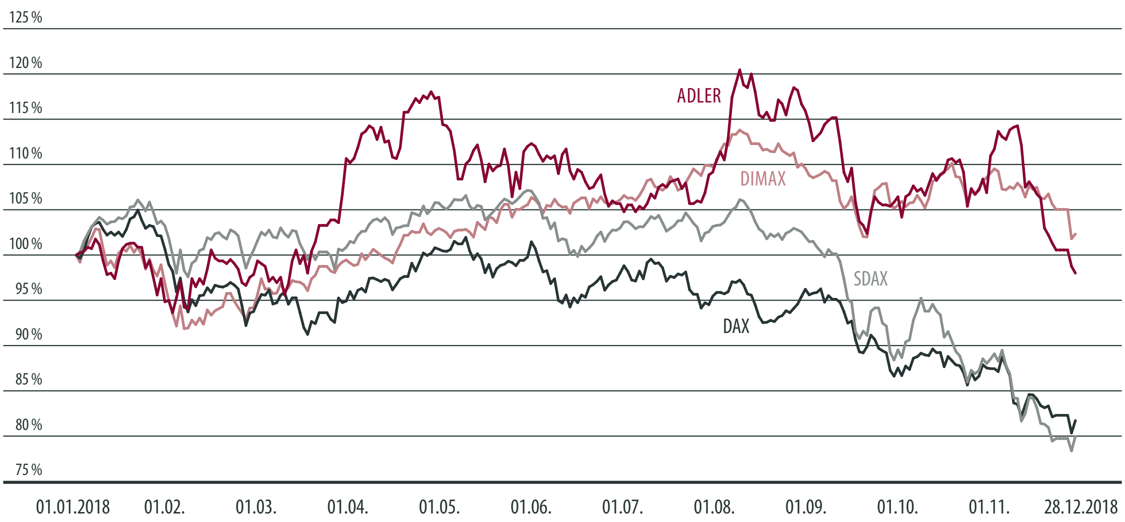
/// THE ADLER SHARE

The German stock market fell significantly in 2018. The DAX declined by around 18 percent in the period under report, reaching almost 10,560 points at the end of the year. The SDAX even lost as much as 20 percent during the course of the year, closing the year at just over 9,500 points. This made 2018 one of the worst years on the German stock market ever. Many market participants perceive this decline to reflect the tense geopolitical situation born from an unresolved trade dispute between the US and China and the ongoing uncertainty in Europe regarding the impending Brexit and Italy's budget problems. There is also an expectation that the global economy will cool down significantly and thus reduce companies' prospective earnings. With interest rates outside Europe rising and interest rate hikes expected in Europe from mid-2019, investment decisions were increasingly made at the expense of shares and in favour of other asset classes.

In this environment, property stocks performed comparatively well. The Solactive DIMAX, the index comprising Germany's major listed property holding companies, resisted the downward trend and was a good 2 percent higher at the end of the year than at the beginning. Property stocks thus performed significantly better than those listed on the SDAX or the DAX.

The ADLER share started the year at EUR 13.22, then fluctuated between EUR 12.40 and EUR 16.00 over the course of the year and ended it at EUR 13.02, just below its starting value. It is key to note that the 2013/2018 convertible bond and the mandatory 2015/2018 convertible bond were due at the end of the year. This resulted in a total of 12.9 million new shares being created, of which 9.6 million shares are held by a new, long-term major shareholder.

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

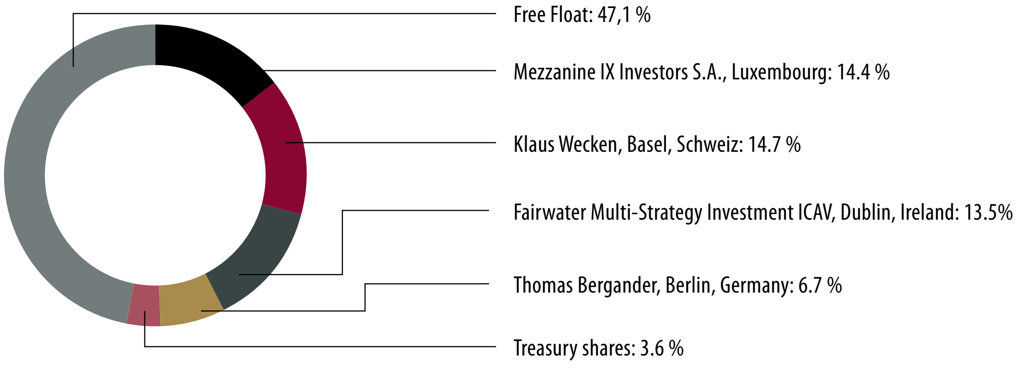


The total number of voting rights has resulted in an increase in market capitalisation to around EUR 900 million towards the end of the year. Thus, ADLER is likely to have become more interesting for some capital market participants who had previously not focused on the share because of the comparatively small size of its market.

In the context of a multi-stage share buyback programme launched in June 2017, the last tranche of which was executed in March 2018, ADLER acquired a total of 2.6 million own shares, equivalent to 3.6 percent of the shares outstanding at the end of the reporting period, for a total price of EUR 34.1 million. ADLER initiated the programmes because the shares were trading well below their intrinsic value (NAV per share), and this difference offers good potential for appreciation. Voting rights relating to the acquired shares cannot be exercised.

Due to the extensive conversions, the shareholder structure significantly changed as at the end of 2018. A new major shareholder has come up to become the third largest shareholder with 9.6 million shares. The two largest individual shareholders are still Klaus Wecken from Basel, Switzerland and Mezzanine IX Investors S.A. from Luxembourg. Based on the relevant notifications ADLER has received from its shareholders, the shareholder structure was as follows as at 31 December 2018:

SHAREHOLDER STRUCTURE AS ON 31 DECEMBER, 2018



Financial reporting awarded by EPRA

In 2018, the European Public Real Estate Association (EPRA) certified that ADLER had achieved "Gold level", the highest possible level in compliance with its best-practice recommendations. Companies receive this award if they follow these recommendations by more than 85 percent. In the previous year, ADLER had achieved the "Silver Level", which is awarded when companies follow the best-practice recommendations by 70 to 85 percent.

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

/// SUPERVISORY BOARD REPORT

Dear Shareholders,
Ladies and Gentlemen,

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

Changes in composition

The Supervisory Board of ADLER Real Estate AG witnessed the following changes in its composition in the past 2018 financial year.

Mr Thomas Katzuba von Urbisch resigned from the Supervisory Board with effect from the end of the Annual General Meeting on 30 May 2018. The Supervisory Board would like to thank Mr Katzuba von Urbisch for his trustworthy and constructive cooperation.

Mr Claus Jorgensen was newly appointed to the Supervisory Board with effect from 30 May 2018.

In accordance with § 107 of the German Stock Corporation Act regarding the internal organisation of the Supervisory Board, the Board then elected the Chairman and Deputy Chairman from among its members as follows:
Supervisory Board Chairman: Dr. Dirk Hoffmann
Vice Chairman of the Supervisory Board: Thilo Schmid

The Management Board of ADLER Real Estate AG did not witness any changes in its composition in the past 2018 financial year.

Supervisory Board meetings

The Management Board reports to the Supervisory Board at regular joint meetings. These are based on written reports submitted by the Management Board. With these reports, the Supervisory Board was kept informed both about the overall situation of the company and its subsidiaries and about individual matters of greater importance. The course of business, the company's situation, profitability and liquidity and its intended business policy and other fundamental matters of corporate management formed the key focuses of discussions, as did the situation of the Group's subsidiaries.
The Supervisory Board held a total of four scheduled in-person meetings during the 2018 financial year. These took place on 22 March, 17 May, 6 September and 11 December. All members of the Supervisory Board attended the meetings in person. Board resolutions were further taken in three extraordinary Supervisory Board meetings, in three telephone conferences and by way of 20 circular procedures. These also were attended by all Supervisory Board members. Further meetings of the Supervisory Board served the exchange of information without resolutions being taken.

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

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

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

Key focuses of activities

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

The focus of Supervisory Board activities initially related to supporting the ongoing restructuring of ADLER Real Estate AG and its subsidiaries into an integrated real estate group which offers all tenant-related services from one source. In the past financial year, the focus was therefore on improving operating performance indicators. To this end, the rental segment was also significantly expanded using the Group's own resources. The acquisition of around 70 percent of shares in Brack Capital Properties N. V. (BCP) and the associated expansion of the portfolio by approximately 12,000 residential units also strengthened key performance and financial data. This objective was also served by the sale of the non-core-portfolio, which comprises a total of around 3,700 units, of which a tranche of around 2,300 units was contributed to a joint venture founded with Benson Elliot in 2018. A further tranche of around 1,400 units was sold to an investor. A BB+ rated corporate bond with a volume of EUR 800 million was successfully placed to refinance the acquisition of the BCP bridge loan. The buy back of EUR 200 million of 2015/2020 corporate bonds was also successful. Finally, EUR 12.9 million of new shares were created as a result of the maturity of the 2013/2018 convertible bond and the mandatory 2015/2018 convertible bond. Thus, ADLER Real Estate AG's market capitalisation at the end of the reporting period reached around EUR 900 million. With the acquisition of an undeveloped 40,000 sqm property in Schönefeld/Brandenburg, the company also expanded its project development activities, which began in 2017 with the Wasserstadt Mitte project in Berlin.

German Corporate Governance Code (DCGK)

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

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

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

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

There were no indications of any conflicts of interest on the part of either the Supervisory Board or the Management Board in the 2018 financial year.

2018 annual and consolidated financial statements

The annual financial statements of ADLER Real Estate AG prepared by the Management Board and the consolidated financial statements, including the combined management report, for the 2018 financial year have been audited and provided with unqualified audit opinions by Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, the audit company elected by the Annual General Meeting on 30 May 2018.

The annual financial statements (HGB) and the consolidated financial statements (IFRS), including the combined management report, were submitted to the Supervisory Board for review, as were the auditor's reports on its audit of the annual and consolidated financial statements. At the meeting held to adopt the financial statements on 25 March 2019, the Supervisory Board discussed the documents relating to the annual financial statements and reports with the Management Board. Its focus lay particularly on matters pertaining to the valuation of current and non-current assets and in-depth discussions on this point were held. At this meeting, the auditor reported on the key findings of its audits and was on hand to provide the Supervisory Board with additional information. Based on its own review of the annual financial statements, consolidated financial statements and the combined management report, the Supervisory Board endorsed the auditor's findings and raised no objections following the final results of its review. By resolution dated 22 March 2019, the Supervisory Board approved the annual financial statements, which were thereby adopted pursuant to § 172 of the German Stock Corporation Act, and the consolidated financial statements.

Members of the Supervisory Board

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

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

Berlin, March 2019

Dr Dirk Hoffmann
Supervisory Board Chairman

/// Consolidated Financial Statements and Combined Management Report 2018

/// COMBINED MANAGEMENT REPORT

1. GROUP FUNDAMENTALS OF ADLER REAL ESTATE AG

BUSINESS MODEL

ADLER is one of Germany's leading residential property companies with focus on affordable housing. Its portfolio is primarily located in – or on the outskirts of – large and growing conurbations in Northern, Eastern and Western Germany and has considerable upside potential in terms of revaluation gains, vacancy reduction and rent uplifts. All the Group's properties and business operations are located in Germany and benefit from the growth of the German economy in general and also favourable real estate market dynamics in German B-cities.

ADLER's core business model is the long term letting of flats and generation of sustainable cashflows with selective exposure to project developments with a "build and hold" in "A" cities strategy such as Wasserstadt Mitte in Berlin. To maximise long term profitability, ADLER's residential real estate management business is complemented with opportunistic acquisitions and disposals. The newly acquired assets initially have higher vacancy which is following the acquisition reduced through active asset management. All main functions relating to property management are carried out internally, with ADLER's own staff. This includes activities of property and facility management which ADLER maintains through its subsidiaries ADLER Wohnen Service GmbH and ADLER Gebäude Service GmbH. Following the acquisition of BCP, ADLER is in the process of integrating the existing structures in the two independent companies – BCP and ADLER Group. The BCP portfolio is currently still managed by RT Facility Management GmbH.

Recent M&A activities

Until the end of the fourth quarter 2017, ADLER Real Estate AG's business model comprised two fields of activity – rental/letting (investment properties) and trading (inventory properties). Therefore, segment reporting in the quarterly reports was structured accordingly. At the end of November 2017, ADLER sold most of its shares in the company involved in the trading business, ACCENTRO Real Estate AG, thus ceasing its trading activities. Going forward, ADLER has been focusing on the letting sector and simplifying its business model accordingly.

As of the end of 2017, ADLER's business model has been focused on the management of investment properties which predominately consists of residential units. The Group's residential portfolio has been built up over the past five years by acquiring individual portfolios or shares in property holding companies – the latest being the acquisition of BCP.

On 2nd of April 2018, ADLER acquired approximately 70 percent stake in BCP, a public limited liability company incorporated under the laws of the Netherlands, the shares of which are admitted to trading on the Tel Aviv Stock Exchange. BCP owns a substantial real estate portfolio in Germany of which two thirds are high quality residential assets in 'A' locations, including attractive residential development projects in the city centres of Dusseldorf and Aachen. The remaining assets in BCP relate to approximately 330,000 sqm of commercial assets. ADLER's core business continues to be a buy and hold strategy in the sector of German residential real estate, therefore it intends to find alternative use for this commercial portfolio in the near future.

Residential real estate portfolio

As of 31 December 2018, ADLER held a total of 62,010 rental units with a total space of 3.8 million square metres, a fair value of EUR 4,989.1 million and an annualized net rent (including parking spaces and other areas) of approximately EUR 231.5 million. The regional focus is on Lower Saxony (18,767 units), North Rhine-Westphalia (15,325 units) and Saxony (10,609 units).

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

ADLER actively manages its portfolio; hence the specific classifications of "core" and "non-core" properties are regularly updated. As part of continuous portfolio optimisation, the underlying features of assets and market data are assessed to determine amount of capital distributed in terms of capital expenditure, maintenance and renovation expenses. This is to ensure quality of the flats is consistent with market standards and also to optimise the level of occupancy and rental growth. The most significant external factors determining the positioning of the assets and capital allocation are: socio-demographic trends, expected changes in demand, various infrastructure measures and political decisions. Depending on the outcome of the portfolio analysis, regular discussions are held with regional managers to ensure operational strategy is implemented – e.g. increasing marketing activities for properties which are of good quality but are located in less favourable areas. Properties of lower quality as well as properties located in less attractive macro-environments are classified as "non-core" and are thus earmarked for sale.

At the end of 2018, ADLER disposed of around 3,700 residential rental units which had been identified as "non-core", however rights and obligations of this portfolio have only been transferred in 2019.

Acquisition strategy

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

ADLER believes acquisitions only make sense when the properties promise to generate positive cash flows from the time of the acquisition onwards. As it has become increasingly challenging to acquire portfolios on the market at attractive yields and purchasing prices have come closer to construction costs, ADLER will also explore the possibility of expanding its portfolio by way of investing in project developments, portfolio densification or loft conversions of existing portfolios to complement its existing approach. The number of development projects has particularly increased with the acquisition of BCP. However, the exposure to these value-added activities will remain at such a percentage of ADLER's balance sheet that it will not hinder rating improvements going forward nor jeopardise securing an investment grade rating as early as possible.

Financing strategy

Due to economic efficiency and risk considerations, ADLER believes that the appropriate ratio of equity to debt for financing its group activities is one that produces a loan-to-value (LTV) consistent with an investment grade rating. In terms of its debt financing, ADLER aims for a maturity structure that corresponds to the long-term nature of the financed assets. By repaying existing liabilities or refinancing existing facilities on more favourable terms, ADLER is also aiming to further reduce its average cost of debt – an aim which was met with success also in 2018.

ADLER has good access to both the market for secured bank debt and the market for unsecured financing. Access to these two markets significantly reduces refinancing risk, which is one of the major risks associated with the industry. Since the end of 2016, investors, capital-market participants and lending banks have been able to benefit from ADLER's credit rating from the world-renowned rating agency Standard and Poor's when assessing the creditworthiness of the company. At the end of the reporting period the corporate rating was BB/stable outlook.

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

MANAGEMENT SYSTEM

Financial performance indicators

The main financial performance indicators used by ADLER are: EPRA net asset value (EPRA NAV), funds from operations I (FFO I) to indicate cash flow-based operating earnings and loan-to-value (LTV) to indicate financial stability calculated as Net Debt/Gross Asset Value.

Non-financial performance indicators

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

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

ADLER publishes further non-financial performance indicators in its separate non-financial report. These are not used for actively managing the company. The report is available on the website of ADLER Real Estate AG under https://adler-ag.com/en/investor-relations/publications/nonfinancial_reports/.

EMPLOYEES

As the group holding company, ADLER Real Estate AG has three Management Board members but no employees. Operational tasks relating to central administration and portfolio management are mostly performed via the wholly owned subsidiary ADLER Real Estate Service GmbH. Tasks relating to asset management are performed via ADLER Wohnen Service GmbH and facility management via ADLER Gebaude Service. Due to the strategic objective of internalising functions previously outsourced in the field of property and facility manage ment, the number of employees at the ADLER Group significantly in 2018, from 555 at the beginning of the year to 828 full-time and part-time employees (excluding BCP) as at the end of the reporting period. The majority of employees worked at the property management (258 employees) and facility management (339 employees) divisions. The newly acquired BCP had 145 employees at the end of 2018.

RESEARCH AND DEVELOPMENT

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

2. ECONOMIC REPORT

MACROECONOMIC AND SECTOR-SPECIFIC SETTINGS

In 2018, the economy at large and the conditions specific to the property industry remained stable and positive. Inflation remained moderate for the year at 1.9 percent, although it has increased slightly when compared to the previous year due to the continued higher prices for crude oil products and food. The number of people in employment in Germany is still at a very high level of around 45 million, while interest rates stay mired at historically low levels.

However, the prospects for the economy have become less bright since the middle of the year. Key sentiment indicators, for example, are generally declining, while the growth outlook for the German economy is no longer as good as was anticipated at the beginning of the year. According to still preliminary calculations of the German Statistical Office, the German economy achieved a growth rate of 1.5 percent in 2018, less than in the last four years and less than originally expected. For 2019, most economic research institutes have scaled back their growth estimates too, with their expectations ranging between 1 and 1.5 percent. It appears that forecasts are being negatively affected by sustained political uncertainty within the EU, trade conflicts between the US with the EU and China, geopolitical unknowns and an at least partial disruption of the established world economic order.

Above all, the development of the housing rental market is of great importance to a company such as ADLER Real Estate AG, and this sector again proved stable in 2018. According to the cost of living index, German rents were 1.6 percent higher nationwide in 2018 than during the previous year. Rents thus rose at a lower rate than the overall cost of living. The average figure, however, conceals variations between individual regions, urban and rural locations, new and existing housing and different apartment sizes. With its properties, ADLER Real Estate AG chiefly operates in "B" locations and on the periphery of conurbations. Such locations typically benefit from sharp rent increases in town centres or "A" locations, as is the case in most towns in Germany. After all, tenants no longer able or willing to pay higher rents look for alternatives and are often prepared to accept living further from the centre of their city. Moreover, the average does not take into account the fact that the development of rents under new and existing leases usually differs significantly.

Legal framework

In mid-March 2018, in accordance with the coalition agreement for the current legislative period, the governing parties in the grand coalition also set out the principles for housing policy. These principles contain a commitment to a "three-pronged housing policy of boosting investment, reviving construction of social housing and striking a balance between tenancy law and socio-political measures." This is not necessarily good news for private-sector affordable housing providers, as rents are subsidised and therefore kept artificially low in the social housing sector. In turn, tenancy law and socio-political measures translate into more restricted opportunities to increase rents in "tight" markets. This may reduce the profitability of the letting business and thus impair the value of the properties concerned. In addition, tighter regulation reduces propensities to invest.

On 10 April 2018, the German Federal Constitutional Court deemed the existing basis for calculating property tax to be unconstitutional, while setting a deadline of the end of 2019 for it to be revised. In strictly legal terms, the ruling only applies to the former West German states, but the situation is similar in the former East German states. The basic points for a revision have been set in the beginning of February 2019. In future, property tax will be calculated on the basis of the standards of ground value, the age of the property and the regional average rent level. Political actors emphasise that total revenue of the property tax shall stay unchanged. This does not exclude though that the distribution may change, i.e. some properties may be taxed higher, and others lower than is currently the case. Changes may in any case impact tenants, as the owners of taxable properties can pass the burden of the property tax onto them.

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

In September 2018, the German Federal Government launched more stringent rules for landlords and resolved draft legislation concerning amendments to tenancy law. This includes a provision under which landlords in regions with housing shortages will only be permitted to bill tenants for 8 percent of modernisation costs over the next five years, as opposed to the previous 11 percent. The draft legislation also introduces a Germany-wide cap of EUR 3 per square metre over the course of the next six years on the amount by which a landlord is permitted to increase the monthly rent following modernisation. If average rent is below EUR 7 per square metre, increases are capped at EUR 2 per square metre. It also contains new obligations for landlords, such as informing new tenants of the rent paid by the previous tenant.

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

ECONOMIC DEVELOPMENT OF THE GROUP

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

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

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

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

With this acquisition, ADLER expanded its portfolio by approx. 12,000 residential units (approx. 24 percent). Furthermore, key performance and financial data will be significantly improved by the addition of BCP, which has already played its part in ensuring that ADLER could set ambitious targets for 2018.

The purchase was partly financed from ADLER's own resources, with a bridging loan, then refinanced through a corporate bond in April 2018 that was also set up for this purpose.

In March 2018 the last tranche of a multi-stage share buyback programme, which was launched in June 2017, was executed and resulted in ADLER acquiring a total of 2.6 million shares, equivalent to 3.6 percent of the shares outstanding at the end of the reporting period, for a total price of EUR 34.1 million. ADLER initiated the programmes as the share was trading well below its intrinsic value (NAV per share) and this difference offered good potential for appreciation. Voting rights relating to the acquired shares cannot be exercised.

In mid-April 2018, ADLER announced the establishment of a joint venture with Benson Elliot Capital Management LLP geared towards the sale of ADLER's non-core assets on the basis of a joint declaration of intent. The Joint Venture was realised at the end of the year, although rights and obligations of the non-core assets will only be transferred in the course of the 2019 financial year.

In the second half of April 2018, ADLER successfully placed a EUR 800 million BB+ senior unsecured bond to institutional investors across Europe. The notes were issued in two tranches. The first tranche, with a volume of EUR 500 million, matures in April 2023, while the second tranche, with a volume of EUR 300 million, matures in April 2026. The average coupon for the total issue amounts to 2.30 percent. The net proceeds were predominantly used to refinance the bridge facility that had been provided for the acquisition of BCP.

Moreover, ADLER repurchased EUR 200 million of its outstanding 2015/2020 4.75 coupon bond for which the tender offer had been successfully closed on 27 April 2018. Remaining parts of the proceeds are to be used for general corporate purposes.

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

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

In December 2018, ADLER disposed of a total of around 3,700 rental units practically representing its total non-core-portfolio. Around 2,300 units were sold to the previously announced joint venture with Benson Elliot, of which ADLER continues to hold a participation of 25 percent allowing it to participate in future gains from disposals to third parties. ADLER will remain responsible for asset, property and facility management until the properties are eventually sold. Assets were transferred into the joint venture at EUR 117.7 million, corresponding to a premium on book value of c. 5 percent. A further c. 1,400 rental units were sold at EUR 61.5 million to an investor who specialises in selling them in detail. Rights and obligations will not be transferred before 2019. Receivables from these transactions have partly been settled in 2018, partly in the first quarter of 2019 and are also partly maintained as interest bearing receivables until the final sale of the properties to third parties.

In December 2018 the convertible 2013/2018 and the mandatory convertible 2015/2018 bonds reached their due date. This led to the creation of 12.9 million new shares. In total the number of voting rights rose to 71.1 million at the end of the business year and market capitalisation increased to around EUR 900 million. 9.6 million of the new shares are being held by a new, long-term-oriented shareholder.

3. RESULT FROM OPERATIONS, NET ASSETS AND FINANCIAL POSITION

PRELIMINARY REMARK

At the beginning of the second quarter of 2018, ADLER acquired nearly 70 percent of the shares in BCP and consolidated the company and its subsidiaries for the first time. A separate segment showing the financial development of this subsidiary has been created for BCP as the company is managed and controlled as an independent unit.

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

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

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

Shortly before the end of the business year 2018 ADLER, in two separate transactions, disposed of a total of around 3,700 rental units, which constituted practically its complete non-core-portfolio. Rights and obligations of these units have only been transferred in the course of the 2019 business year which results in these rental units being shown in the 2018 annual report under non-current assets held for sale.

RESULT FROM OPERATIONS

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

In EUR millions	2018	2017
Gross rental income	349.6	264.4
of which net rental income	238.4	170.3
Expenses from property lettings	-145.9	-138.6
Earnings from property lettings	**203.7**	**125.8**
Income from the sale of properties	75.1	34.9
Expenses from the sale of properties	-67.0	-34.1
Earnings from the sale of properties	**8.1**	**0.8**
Personnel expenses	-35.1	-20.3
Other operating income	8.9	9.5
Other operating expenses	-66.3	-38.5
Income from fair value adjustments of investment properties	465.1	235.4
Depreciation and amortisation	-1.6	-0.8
Earnings before interest and taxes (EBIT)	**582.8**	**311.8**
Financial result	-131.2	-153.4
Net income from at-equity valued investment associates	3.2	0
Earnings before taxes (EBT)	**454.7**	**158.4**
Income taxes	-122.6	-52.0
Net consolidated result from continuing operation	**332.1**	**106.4**
Earnings after tax from discontinued operation[1]	0.3	36.2
Net consolidated result	**332.4**	**142.6**

[1] Net result of the discontiniuet trading secment, see notes 9.14 earnings after tax from discontiued operation

Rent increases and portfolio growth strengthen earnings from property lettings

In the business year 2018, gross rental income amounted to EUR 349.6 million. This figure was 32.2 percent higher than in the previous year (EUR 264.4 million) as shown in the adjusted statement (not including the sale of ACCENTRO at the end of 2017). EUR 269.8 million of gross rental income is attributable to the former structure of ADLER Real Estate AG, while BCP contributed EUR 79.8 million during the consolidation period, which includes the second, third and fourth quarters.

Net rental income amounted to EUR 238.4 million in 2018, up 40.0 percent on the previous year's comparative figure in the adjusted statement (EUR 170.3 million), which excludes the rental income stemming from ACCENTRO. In turn, EUR 179.0 million is attributable to ADLER in its previous structure and EUR 59.4 million to BCP, which was acquired in April 2018.

Net rental income increased not only due to the expansion of the portfolio, but also due to the improved performance in asset and portfolio management. At the end of the period under review, the average contractually agreed rent per square metre per month for the overall portfolio amounted to EUR 5.45, EUR 0.28 higher than the figure for the same period of the previous year (2017: EUR 5.17 without BCP). Not including BCP, ADLER would have reported an average rent of EUR 5.30 at the end of 2018. BCP alone achieved a slightly higher average rent than ADLER, amounting to EUR 6.12 at the end of the year.

In the core portfolio, which includes the BCP portfolio but not the non-core-portfolio which has in the meantime been sold, the average contractually agreed rent per square metre per month amounted to EUR 5.49 at the end of 2018, which was EUR 0.28 higher than one year ago (2017: EUR 5.21 without BCP).

The occupancy rate for the overall portfolio came to 92.7 percent at the end of 2018 against 90.6 percent one year earlier. The occupancy rate in the core portfolio reached 94.0 percent at the reporting date in 2018. This equates to an improvement of 1.9 percentage points compared with one year ago (92.1 percent). Here again, part of the increase is due to the acquisition of BCP. In its former structure, ADLER had an occupancy rate of 93.7 percent at the end of the year, while for BCP it was 94.9 percent. The improvement in the operating performance indicators also reflects the fact that ADLER has meanwhile incorporated all its property holdings in its former structure under the Group's own management.

Expenses from property lettings comprise recoverable and non-recoverable operating expenses and maintenance expenses. Compared with the adjusted figures for the previous year (EUR 138.6 million), these expenses increased by 5.3 percent to EUR 145.9 million in 2018. Not including BCP, ADLER would have reported a decline of 14.4 percent to EUR 118.7 million, which is a reflection of the aforementioned internalisation of the property management. In 2017, ADLER successively terminated the remaining contracts with external property management companies and internalised these services, thereby saving costs. However, this automatically meant a rise in employee headcount, with personnel expenses also rising accordingly.

Net of expenses from property lettings, earnings from property lettings amounted to EUR 203.7 million in 2018, 61.9 percent more than in the same period of the previous year (EUR 125.8 million). EUR 52.6 million of this amount is attributable to BCP.

Earnings contribution from the sales of properties stay low

The earnings contributions from the sale of properties has been fading to a low level in 2018 after ADLER had sold the majority of its shares in ACCENTRO at the end of 2017. In 2018, sales of a total of 566 non-core units (ADLER only) resulted in an earnings contribution of EUR 0.4 million. This figure does not include the sale of around 3,700 rental units from the non-core-portfolio which was contractually agreed at the end of 2018 as rights and obligations will only be transferred in the course of 2019 and they had already been valued at their sales price at the balance sheet date.

A higher contribution stems from BCP which, since its first-time consolidation in April 2018, has made an earnings contribution of EUR 7.7 million from the project development business, i.e. selling units which had been constructed as part of the development projects. Project development properties that have not yet been sold will be added to the BCP portfolio after completion.

Valuation of investment properties in line with changing market circumstances

At EUR 465.1 million in 2018, income from fair value adjustments of investment properties was significantly higher than the previous year's comparative figure (EUR 235.4 million). This valuation gain was partly driven by the rise in average rents and measures to maintain and modernise the properties, which accounted for a total of EUR 73.6 million (previous year: EUR 55.1 million) in 2018. The initial market valuation of the newly acquired portfolios also made a contribution. Income from fair value adjustments also resulted from the fact that ADLER adjusted the valuations of individual portfolios from the existing portfolio to the change in market circumstances, which were characterised by persistent yield compression in 2018. The property valuations are exclusively performed by independent external experts with longstanding experience in this area. Income from fair value adjustments of investment properties is not cash-effective and is therefore not included in the calculation of funds from operations.

Internalisation of tasks leads to higher personnel expenses

Personnel expenses in 2018 totalled EUR 35.1 million and were thus above the previous year's level of EUR 20.3 million. The increase in personnel expenses relates to BCP by an amount of EUR 6.2 million and by EUR 8.6 million to the withdrawal of tasks from independent external service providers in the context of the Group's realignment toward becoming an integrated real estate group. These tasks have been taken over by internal group departments that have either been newly founded or had their personnel resources increased. The company had a total of 828 employees at the end of 2018, 273 more than a year earlier. The increase in personnel expenses not only reflects the increase in the number of employees, but also the salary increases granted to employees in line with industry-standard levels.

Other operating expenses amounted to EUR 66.3 million (previous year: EUR 38.5 million). This line item includes general administration expenses, office premise rents, IT expenses, legal and advisory expenses, impairments of receivables and public relations expenses. EUR 8.2 million of other operating expenses relate to BCP, while EUR 58.1 million relate to ADLER in its former structure. The increase is partly attributable to higher legal and advisory costs, which in turn were related to the acquisition of BCP and refinancing measures during the financial year.

Other operating income amounted to EUR 8.9 million in the 2017 financial year, EUR 0.6 million less than in the previous year (EUR 9.5 million). They were fully attributable to ADLER in its former structure.

EBIT increases strongly

After the deduction of all non-financial expenses, earnings before interest and taxes (EBIT) for the 2018 financial year amounted to EUR 582.8 million. Compared to the previous year the increase amounted to EUR 270.9 million, or 86.9 percent. BCP contributed EUR 137.4 million to EBIT.

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

At minus EUR 131.2 million, the financial result for 2018 was better than in the previous year (minus EUR 153.4 million). BCP contributed a negative amount of EUR 2.8 million. This contribution was significantly impacted by a positive revaluation of a participation in a leading German real estate developing company acquired in July 2018 (EUR 2.0 million) and currency gains stemming from bonds and derivatives (EUR 5.6 million). It largely compensated the interest expenses of BCP. The contribution of ADLER in its previous structure amounted to minus EUR 128.5 million. The strong improvement as compared to the previous year reflects the lower average cost of debt. In addition, one-off expenses (prepayment penalties, loan commitment fees and transaction costs) totalling EUR 54.3 million in 2018 were considerably lower than one year ago (EUR 64.6 million). These related to the refinancing of outstanding promissory note loans totalling approximately EUR 615 million, which was initiated in 2017 but not concluded until the first quarter of 2018, and the early refinancing of the 2015/2020 corporate bond in the amount of EUR 200 million and the bridging loan for the acquisition of the majority of shares in BCP that was redeemed at the end of April 2018.

After accounting for the financial result, earnings before taxes (EBT) amounted to EUR 454.7 million in 2018. Of this total, BCP contributed EUR 137.6 million, while EUR 317.1 million was contributed by ADLER in its former structure (2017: EUR 158.4 million).

Income tax expenses came to EUR 122.6 million in 2018 (previous year: EUR 52.0 million). From the total tax expenses, EUR 12.4 million were current tax expenses and EUR 110.2 million related to deferred, non-cash-effective taxes.

The consolidated net result for 2018 amounting to EUR 332.4 million (2017: EUR 142.6 million) is comprised of two components: the consolidated net result from continuing operations of EUR 332.1 million and the result from discontinued operations totalling EUR 0.3 million. Of the consolidated net result, EUR 265.6 million are attributable to shareholders in the parent company (2017: EUR 126.8 million).

Segment reporting

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

The rental segment includes all ADLER's portfolios in its earlier structure before the acquisition of BCP, through the letting of which ADLER Real Estate AG aims to generate long-term gross rental income. Gross rental income and the expenses associated with the letting business reflect the activities of the Group's Asset and Property Management , which manages residential units held in the portfolio in technical and commercial terms. This segment also includes the expenses for craftsmen and caretaker services which are provided by the group internal Facility Management.

A separate segment has now been created for BCP. At the reporting date, BCP owns a property portfolio of 11,944 residential units with a focus on larger cities in Germany. BCP also contributes around 300,000 square metres of commercial space and project development in the centres of Düsseldorf and Aachen for around 2,000 new residential units, which are expected to be added to the portfolio after completion if they have not yet been sold to non-group companies up to the date of preparing the financial statements.

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

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

ADLER Group	Letting		BCP		Other		Group	
In EUR millions	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Gross rental income and income from the sale of properties	288.3	297.5	136.1	-	0.2	1.7	424.7	299.2
of which gross rental income	269.6	264.1	79.8	-	0.2	0.3	349.6	264.4
of which income from disposals	18.8	33.5	56.3	-	0.0	1.4	75.1	34.9
Change in the value of investment properties	373.5	235.4	91.6	-	0.0	0.0	465.1	235.4
Earnings before interest and taxes (EBIT)	**445.3**	**311.8**	**137.4**	**-**	**0.1**	**0.0**	**582.8**	**311.8**
Income from investments accounted for using the at-equity method	0.2	0	3.0	-	0.0	0.0	3.2	0.0
Financial result	**-128.5**	**-153.4**	**-2.8**	**-**	**0.1**	**0.0**	**-131.2**	**-153.4**
Earnings before taxes (EBT)	**317.0**	**158.4**	**137.6**	**-**	**0.1**	**0.0**	**454.7**	**158.4**

Sharp rise in funds from operations (FFO)

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

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

In EUR millions		2018	2017
Consolidated net profit		**332.4**	**142.6**
of which from continuing operations		**332.1**	**106.4**
+	Financial result	131.2	159.4
	of which from continuing operations	131.2	153.4
+	Income taxes	122.6	57.3
	of which from continuing operations	122.6	52.1
+	Depreciation and amortisation	1.6	1.2
	of which from continuing operations	1.6	0.8
–	Income from measurement of investment properties	465.1	235.4
	of which from continuing operations	465.1	235.4
–	Income from investments accounted for using the at-equity method	3.5	0.2
	of which from continuing operations	3.2	0.0
EBITDA IFRS (continuing and discontinued operation)		**119.3**	**124.9**
+/–	Non-recurring and extraordinary items	46.1	3.5
Adjusted EBITDA		**165.4**	**128.4**
–	Interest expense FFO	71.1	71.0
–	Current income taxes	2.2	1.0
+	Capitalisable maintenance measures	0.0	7.2
–	Earnings before interest and taxes from the sale of properties	18.0	23.2
FFO I		**74.2**	**40.5**
Number of shares (basic)[1]		68,480,390	67,822,504
FFO I per share (basic)		1.08	0.60
Number of shares (diluted)[2]		78,899,195	80,035,551
FFO I per share (diluted)		0.94	0.51

[1] 68,480,390 shares as at balance sheet date (previous year: 56,155,838 plus 11,666,666 shares from assumed conversion of mandatory convertible bonds which are considered as equity)
[2] Plus 10.418.805 shares from assumed conversion of all other convertible bonds with entitlement to conversion (previous year: 12,213,047)

Non-recurring and extraordinary items are structured as follows:

Non-recurring and extraordinary items In EUR millions	2018	2017
Non-cash income/expenses and one-off payments	19.3	-12.1
Costs of acquisition/integration	15.2	1.5
Optimisation of business model, structuring	11.6	14.1
Total of non-recurring and extraordinary items	**46.1**	**3.5**

In the previous year, non-recurring income from the deconsolidation of ACCENTRO of EUR 22.6 million significantly increased non-cash income and consequently significantly reduced the adjustment for non-recurring and extraordinary items. In the reporting year, acquisition costs associated with the acquisition of BCP, which came to approximately EUR 13.7 million, increased the adjustment for non-recurring and extraordinary items.

The FFO interest charge is derived as follows:

Interest expense FFO In EUR millions	2018	2017
Interest income	16.7	5.7
Interest expenses	-147.9	-165.1
Total interest income (continued and discontinued operations)	**-131.2**	**-159.4**
Adjustments		
Interest expenses from the sale of properties	0.0	4.5
Prepayment compensation and provision costs	42.9	63.7
Effects of measurement of primary financial instruments	16.2	17.7
Other adjustments	1.0	2.5
Interest expenses FFO	**-71.1**	**-71.0**

Calculated this way, FFO I for 2018 amounted to EUR 74.2 million. ADLER in its previous structure contributed EUR 51.6 million and BCP contributed EUR 22.6 million. Compared to the same period of the previous year (EUR 40.5 million), FFO I have nearly doubled.

Calculated on an undiluted basis (shares issued less treasury shares), FFO I per share amounted to EUR 1.08 as at 31 December 2018. On a diluted basis (shares issued less treasury shares plus shares from the assumed conversion of the outstanding convertible bonds to the extent that they are already convertible), FFO I per share came to EUR 0.94.

NET ASSETS

In EUR millions	31.12.2018	as percentage of total assets	31.12.2017	as percentage of total assets
Non-current assets	**5,220.8**	**89.1**	**3,125.5**	**82.7**
of which investments properties	4,989.1	85.2	3,018.5	79.9
Current assets	**437.6**	**7.5**	**629.9**	**16.7**
of which inventories	88.1	1.5	3.0	0.1
of which cash and cash equivalents investments	77.7	1.3	368.2	9.7
Non-current assets held for sale	**198.2**	**3.4**	**23.6**	**0.6**
Assets	**5,856.6**	**100.0**	**3,779.0**	**100.0**
Equity	**1,579.6**	**27.0**	**1,037.5**	**27.5**
of which capital stock	68.5	1.2	56.1	1.5
of which capital reserve	309.2	5.3	350.2	9.3
of which net retained profit	842.9	14.4	555.4	14.7
of which non-controlling interests	362.2	6.2	76.9	2.0
Non-current liabilities	**3,972.0**	**67.8**	**2,363.2**	**62.5**
of which liabilities from convertible bonds	117.5	2.0	119.7	3.2
of which liabilities from bonds	1,961.1	33.5	1,277.6	33.8
of which financial liabilities to banks	1,476.2	25.2	749.2	19.8
Current liabilities	**304.5**	**5.2**	**377.5**	**10.0**
of which financial liabilities to banks	142.4	2.4	278.7	7.4
Liabilities held for sale	**0.5**	**0.0**	**0.8**	**0.0**
Equity and liabilities	**5,856.6**	**100.0**	**3,779.0**	**100.0**

Overall, over the course of the 2018 financial year, ADLER's balance sheet and structure has changed significantly. This is partly due to BCP having been included in the consolidated financial statements since its acquisition in April 2018. However, it is also due to the fact that the refinancing of outstanding promissory note loans completed in the first quarter of 2018, the new issuing of the 2018/23/26 corporate bonds and the associated replacement of the short-term bridge loan arranged for the acquisition of BCP have left their mark. Moreover, additional real estate has been acquired to a minor degree. As at 31 December 2018, ADLER reported assets of EUR 5,856.6 million, 55.0 percent more than at the end of the previous year (EUR 3,779.0 million).

Non-current assets strengthened

The increase in the consolidated balance sheet is largely attributable to the increase in the value of non-current assets and in particular in investment properties, which were recognised at EUR 4,989.1 million at the end of 2018. This was EUR 1,970.6 million more than at the end of the previous year (EUR 3,018.5 million). EUR 1,605.6 million of this increase was attributable to the first-time consolidation of BCP, EUR 465.1 million to the fair value adjustments of ADLER's real estate and EUR 24.2 million to newly acquired properties and land. Investment properties of the non-core-portfolio amounting to EUR 192.8 million have been transferred to non-current assets held for sale. Investment properties still under construction amounting to EUR 72.4 million have been transferred to inventories as ADLER intends to sell them after completion.

Although goodwill accounted only for a small amount of non-current assets, it significantly increased as a result of the acquisition of BCP. As at the end of the 2018 financial year, it accounted for EUR 170.8 million (2017: EUR 101.2 million).

Current assets were recognised at EUR 437.6 million at the end of 2018, 30.5 percent less than at the end of the previous year (EUR 629.9 million). The decline resulted mainly from the fact that cash and cash equivalents were used for the planned purpose of debt redemption. Current assets of ADLER in its former structure included a large volume of cash and cash equivalents intended for the repayment of promissory note loans as at the end of 2017, which were used accordingly over the course of the 2018 financial year. As a result, cash and cash equivalents declined from EUR 368.2 million at the beginning of the year to EUR 77.7 million at the reporting date.

To an amount of EUR 87.2 million, inventories comprise those properties from BCP project developments which are expected to be sold to non-group companies. As far as properties from BCP project developments are expected to be held, they are shown under investment properties at market value.

In addition, non-current assets include as yet unsettled receivables relating to the sale of the shares in ACCENTRO amounting to EUR 149.9 million. At the end of 2017, this position had amounted to EUR 161.7 million. The remaining receivables are due to be settled in the course of the 2019 financial year, but no later than 30 June following a supplemental agreement with the acquirer.

Assets held for sale totalled EUR 198.2 million at the end of the 2018 financial year, considerably more than one year ago when they had stood at EUR 23.6 million. The increase reflects the fact that ADLER had sold around 3,700 rental units representing practically its complete non-core-portfolio at the end of the year, the rights and obligations of which will only be transferred in the course of the 2019 financial year.

The positions “investment properties”, “inventories” and “non-current assets held for sales” make up the total of ADLER Real Estate AG´s properties and account for 90.1 percent of total assets.

Further increase in shareholders’ equity

Shareholders’ equity amounted to EUR 1,579.6 million at the end of 2018. This was 52.3 percent higher than at the end of the previous year (EUR 1,037.5 million) with contributions mainly from the positive net retained profit and the non-controlling interests which increased by EUR 362.2 million due to the consolidation of BCP. As the convertible 2013/2018 and the mandatory convertible 2015/2018 both reached their due dates at the end of 2018, the capital stock increased significantly while the share buyback programme which ended in March 2018 had a negative effect on the capital stock. The equity ratio reached 27.0 percent as at the end of the 2018 financial year.

Non-current liabilities increased, current liabilities decreased

Non-current liabilities amounted to EUR 3,972.0 million as at 31 December 2018, a significant increase compared to the figure at the end of 2017 (EUR 2,363.2 million). This was partly due to the fact that BCP's non-current liabilities, which accounted for EUR 889.9 in total at the balance sheet date, were included in the consolidated financial statements. ADLER's non-current liabilities in its former structure have also increased. Borrowings of EUR 800.0 million in connection with the 2018/2023 and 2018/2026 corporate bonds, respectively, were offset by the repayment of the 2013/2018 corporate bond in the amount of EUR 35.0 million and the pro rata redemption of the 2015/2020 corporate bond in the amount of EUR 200.0 million.

Current liabilities significantly decreased in the course of 2018. At the end of the year, they were recognised at EUR 304.5 million, 19.3 percent less than at the end of the previous year (EUR 377.5 million). BCP's current liabilities accounted for EUR 149.5 million at the balance sheet date. ADLER's current liabilities in its previous structure decreased by EUR 222.5 million, primarily because promissory note loans which were reclassified to current liabilities at the end of 2017 have since been repaid.

Net financial liabilities amounted to EUR 3,661.6 million at the end of 2018, up EUR 1,555.4 million from the figure at the end of the previous year (EUR 2,106.2 million). This can be attributed primarily to the financing requirements for the acquisition of BCP, the prepayment penalties paid for the early repayment of the different financial instruments and the consolidation of BCP.

Temporary increase in loan to value (LTV)

From the first quarter of 2018, ADLER has been calculating LTV as the ratio of adjusted net financial liabilities (financial liabilities adjusted for cash and cash equivalents, non-current assets held for sale, selected financial instruments, purchase price receivables and down payments less liabilities held for sale) to ADLER's total property assets, as is customary in the industry. LTV, according to this calculation, was 61.4 percent at the end of the third quarter of the year, 2.0 percentage points higher than at the end of 2017, assuming that the convertible bonds outstanding at the reporting date were converted into shares. The acquisition of BCP had a significant influence on the change. LTV would also have improved if ADLER had remained in its former structure.

A temporary negative effect came from the share buy-back programme. If LTV was adjusted for the effects of the share buy-back programme based on the acquisition values that have been recorded in the balance sheet, it would have stood at 60.7 percent (excluding convertibles) at the end of 2018.

	In EUR millions	31.12.2018	31.12.2017
Convertible bonds		119.3	126.2
+	Bonds	2,001.4	1,320.3
+	Financial liabilities to banks	1,618.6	1,027.9
–	Cash and cash equivalents	77.7	368.2
=	**Net financial liabilities**	**3,661.6**	**2,106.2**
–	Non-current assets held for sale and purchase price receivables, financial instruments minus liabilities associated with assets held for sale[1)]	424.1	184.5
=	**Adjusted net financial liabilities**	**3,237.5**	**1,921.7**
Investment properties		4,989.1	3,018.5
+	Inventories	88.1	3.0
+	Property, plant and equipment for property management	2.5	0.0
+	Shares in real estate companies	3.0	0.0
=	**Gross asset value**	**5,082.7**	**3,021.5**
LTV including convertible bonds in %		63.7	63.6
LTV excluding convertible bonds in %		61.4	59.4

[1)] Purchase price receivables including interest from the sale of ACCENTRO amounting to EUR 149.9 million (previous year: EUR 161.7 million); non-current assets held for sale amounting to EUR 198.2 million (previous year: EUR 23.6 million); equity instruments measured at fair value amounting to EUR 37.0 million and debt instruments amounting to EUR 14.6 million; loans to property holding companies amounting to EUR 24.9 million and liabilities held for sale amounting to EUR 0.5 million (previous year: EUR 0.8 million)

The weighted average cost of debt (WACD) for all of the ADLER Group's liabilities amounted to 2.23 percent as at the end of the year, as compared to 2.72 percent at the end of the previous year. A positive effect resulted from the extensive repayment of promissory note loans with higher interest rates, the prompt repayment of the 2013/2018 corporate bond and the early repayment of EUR 200.0 million of the 2015/2020 corporate bond. An additional positive impact came from the fact that BCP's liabilities have, on average, a slightly lower interest rate than ADLER's liabilities in its earlier structure.

Further increase in net asset value (EPRA NAV)

Net asset value (EPRA NAV), which is calculated in accordance with the guidelines issued by the European Public Real Estate Association (EPRA), reached EUR 1,632.7 million at the end of 2018. It is therefore EUR 425.5 million above the figure at the end of 2017 (EUR 1,207.2 million), corresponding to an increase of 35.2 percent and attributable to the increase in shareholders' equity and the increase in deferred tax liabilities on investment properties.

Based on the total number of shares outstanding at the balance sheet date less treasury shares, undiluted EPRA NAV per share amounted to EUR 23.84 as at 31 December 2018 (end of 2017: EUR 17.80).

Diluted EPRA NAV per share amounted to EUR 22.18 at the end of 2018 (end of 2017: EUR 16.64).

In EUR millions	31.12.2018	31.12.2017
Equity	**1,579.6**	**1,037.5**
Non-controlling interests	-362.2	-76.9
Equity attributable to ADLER shareholders	**1,217.4**	**960.6**
Deferred tax liabilities on investment properties	465.1	235.5
Goodwill from deferred taxes on investment properties[1]	-59.6	0.0
Diff. between fair values and carrying amounts of inventory properties	5.3	7.0
Fair value of derivative financial instruments	6.3	5.9
Deferred taxes for derivative financial instruments	-1.9	-1.8
EPRA NAV	**1,632.7**	**1,207.2**
Goodwill resulting from synergies[1]	-111.2	-101.2
Adjusted EPRA NAV	**1,521.5**	**1,106.0**
Diluted EPRA NAV	**1,750.2**	**1,331.7**
Adjusted diluted EPRA NAV	**1,639.0**	**1,230.5**
Number of shares, basic[2]	68,480,390	67,822,504
EPRA NAV per share (basic) in EUR	**23.84**	**17.80**
Number of shares, diluted[3]	78,899,195	80,035,551
EPRA NAV per share (diluted) in EUR	**22.18**	**16.64**
Adjusted EPRA NAV per share (diluted) in EUR	**20.77**	**15.37**

[1] Purchasing price allocation BCP not completed yet
[2] 68,480,390 shares as at balance sheet date (previous year: 56,155,838 plus 11,666,666 shares from assumed conversion of mandatory convertible bonds which are considered as equity)
[3] Plus 10,418,805 shares from assumed conversion of all other convertible bonds with entitlement to conversion (previous year: 12,213,047),

FINANCIAL POSITION

In EUR millions	2018	2017
Cash flow from operating activities	131.0	36.3
of which from continuing operations	130.7	66.2
Cash flow from investing activities	-609.1	212.7
of which from continuing operations	-609.1	212.8
Cash flow from financing activities	187.8	-4.7
of which from continuing operations	187.8	-17.3
Cash-effective change in cash and cash equivalents	-290.3	244.3
Non-cash effective change in cash and cash equivalents	-0.3	0
Cash and cash equivalents at beginning of period	368.2	123.9
Cash and cash equivalents at end of period	77.7	368.2

Cash flow from operating activities from continuing operations came to EUR 130.7 million in the 2018 financial year. 2017, cash flow from continuing operations amounted to EUR 66.2 million. This increase reflects the qualitative improvement in the operating business, which is partly due to the internalisation of property management activities, as well as the consolidation of BCP. From the date of its first-time consolidation, BCP achieved a positive cash flow from operating activities of EUR 50.7 million.

There was an outflow of funds from investing activities of EUR 609.1 million in 2018 relating primarily to the acquisition of BCP. The cash inflow of EUR 212.8 million in the corresponding period of the previous year was attributable mainly to the sale of the shares held in conwert Immobilien Invest SE.

Financing activities resulted in an inflow of funds amounting to EUR 187.8 million in 2018. This figure resulted primarily from the balance of the inflow of EUR 800.0 million from the issuance of the 2018/2023 and 2018/2026 corporate bonds and the cash outflow to repay the outstanding promissory note loans, the different corporate bonds and and scheduled repayments of financial loans.

As at 31 December 2018, the ADLER Group had financial funds (cash and cash equivalents) of EUR 77.7 million (previous year: EUR 368.2 million). EUR 27.1 million of this is attributable to BCP. Of the total, EUR 44.3 million (previous year: EUR 276.2 million) are restricted.

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

OVERALL SUMMARY OF BUSINESS PERFORMANCE AND POSITION OF GROUP

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

4. EVENTS AFTER THE BALANCE SHEET DATE

At the beginning of 2019 rights and obligations pertaning to around 3,700 non-core properties, which had been sold at the end of 2018, have been transferred. The transactions have thus been successfully completed.

In the first quarter of 2019, BCP started negotiations on the acquisition of non-controlling interests in several subsidiaries. The consideration for the transaction is expected to amount to EUR 91.0 million.

The third supplementary agreement dated 19 March 2019 to the share transfer agreement for the majority holding in ACCENTRO extended the term of payment of the remaining outstanding purchase price receivable of EUR 149.9 million as at 31 December 2018 by binding agreement until 30 June 2019 at the latest.

End of March 2019 the first part of BCP´s retail portfolio was sold. EUR 181 million of gross asset value were disposed of reprensenting c. 37 percent of the total retail portfolio. The proceeds will be used to repay c. EUR 107m of bank debt to further strengthen the balance sheet with LTV being positively impacted by c.80 bps.

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

5. REPORT ON EXPECTED DEVELOPMENTS

The statements made concerning the expected development in key financials for the 2019 financial year are based on current planning at ADLER Real Estate AG. This planning includes all group companies, including BCP, which was acquired in 2018. Such adjustments are made when they are deemed appropriate to account for developments in the intervening period.

Stable macroeconomic framework

ADLER Real Estate AG expects the macroeconomic framework for companies in the property sector to remain overall favourable in 2019 as well. Developments in the first months of 2019 have confirmed this expectation. Although the economic outlook has deteriorated slightly, most economic research institutes are still predicting economic growth of 1 to 1.5 percent and comparable growth in private consumer spending for 2019. At the same time, the interest rates relevant to Germany are expected to remain at the current low level until at least mid-2019. Should they subsequently rise, the increase can be expected to remain within manageable limits. This gives reason to expect that German real estate will continue to be a valuable investment category for private and professional investors.

Housing is expected to remain in short supply during 2019 as well. Demand will continue to increase due to the well-known socio-demographic changes, such as an increase in single-person households, thus equalling an increase of square metres' living space per person, and also because of ongoing, albeit diminished, immigration. The housing supply, by contrast, will increase only to the extent of already approved new construction projects. These will hardly suffice to cover all additional requirements. The German government has created incentives for additional new constructions, especially in the price-sensitive segment of the market. However, according to the latest available figures, this has not yet led to significant growth in construction permits – probably because relatively long lead times are required for planning.

It therefore appears reasonable to expect an increase in the utilisation of existing capacities in the rental accommodation market for 2019, leading to higher occupancy rates. This environment may also allow rent increases to a certain degree. Overall, conditions are favourable for companies in the property sector to operate as successfully in 2019 as in previous years.

Exploiting the advantages of the integrated real estate group

ADLER Real Estate AG created the structures for an integrated property group in 2017 and then successfully built on them in 2018. In 2019, the company is bound to benefit from the advantages of these changes. To his end, among other measures, a letting/marketing team is being set up, which will rapidly market properties as they become vacant and boost occupancy rates accordingly. The aim is also to take better advantage of the opportunities for collaboration with BCP and exploit possible economies of scale. Above all, the service provided to tenants is to be further improved through central service numbers, better availability, call and contact centres and the tenant app.

All these measures are geared towards increasing tenant satisfaction, reducing tenant fluctuation rates and making use of any possible potential for rent increases. This purpose is also served by investment in renovation, which, to a similar extent as in previous years, will be targeted at improving the quality and attractiveness of apartments in 2019. The aim of these measures is unchanged and namely to make vacant apartments marketable again, reduce vacancy rates and achieve higher rental income.

In 2019, ADLER intends to grow further and acquire additional holdings that fit the business model and exploratory work is under way. At the reporting date, however, no specific plans were made. Growth will not only be achieved through the acquisition of new portfolios though, but also through projects like Wasserstadt Mitte in Berlin, Gerresheim and Grafental in Düsseldorf or measures of densification or roof constructions in the existing portfolio, as have already been initiated in Goettingen and Wolfsburg. ADLER intends to bundle all project development activities under BCP in the future, as there is sufficient competence and expertise for this type of assignment there.

Another point contained in the Action Plan for 2019 is a further improvement in funding terms, which could result from the existing corporate bond 2015/2020, which accounts for EUR 300 million and carries a nominal interest rate of 4.75 percent, being replaced by more favourable funding. In any event, during 2019 ADLER will continue to focus on improving the financial indicators that are of particular importance to the capital market in valuing the company. Besides operating KPIs like average rent and occupancy rate, these mainly consist of FFO I as an indicator of earnings strength, EPRA NAV as a measure of the company‘s intrinsic value, LTV as a measure of financial stability and WACD as an indicator of risk premium, in addition to operating figures such as occupancy rate and average rent.

Increase in FFO I, reduction in the LTV expected

There is a degree of difficulty in forecasting some of the financial KPIs for 2019. This is due to the fact that in December 2018, ADLER successfully disposed of its residential non-core-portfolio. The non-core-portfolio comprising around 3,700 rental units represented circa 6 percent of Adler’s residential portfolio for the financial year 2018 and contributed net rental income of EUR 12.2 million and FFO I of EUR 1.9 million. Consequently, rental income and contributions to FFO I associated with this portfolio will therefore be excluded from the income statement of 2019 as well as the pro rata contributions from the retail portfolio which the subsidiary BCP sold at the end of March 2019.

On the other hand, BCP will contribute to net rental income and FFO I for the full financial year for the first time. Moreover, ADLER expects to be able to further increase average rent as well as its occupancy rate in 2019. It can therefore be expected that net rental income on a like-for-like basis will increase in 2019 and more or less remain the same in absolute terms compared to the previous year.

In 2019, FFO I will again increase as a result of a reduction in vacancy costs, debt reduction connected to the disposals and from planned refinancing activities. ADLER expects to generate FFO I between EUR 80 to 85 million at the end of 2019, which would be equivalent to a year-on-year increase in a range of 8 to 14 percent.

For 2019, ADLER expects a moderate increase in the company value as well as in EPRA NAV per share. Financial indicators like LTV and WACD are also expected to improve in 2019 to which the intended disposal of BCP´s retail portfolio will make a contribution. More than one third of this portfolio has already been sold at the end of March 2019 impacting LTV positively by c. 80 bps.

	Results 2018	Targets 2019	Δ Targets to results
Net rental income (EUR m)	238.4	235 to 240	-1 to +1%
Occupancy rate (%)	94.0	95.0	+1 PP
Ø rent/sqm/month (EUR)	5.49	5.60 to 5.65	+ 2 to +3%
FFO I (EUR m)	74.2	80 - 85	8 to 14%
EPRA NAV (EUR m)	1,632.7	suspended	
LTV (%)	61.4	c. 55	-6 to -7 PP
WACD (%)	2.23	2.0 to 2.1	-10 to -20 bps

Previous year's forecasts largely met

ADLER has largely achieved the targets it set itself for 2018 and, in some cases, exceeded them. At the end of 2018, the occupancy rate in the core portfolio was 94.0 percent, which is 1.9 percentage points higher than at the beginning of the year and reached precisely the figure forecast. The average rent in the core portfolio has risen by 5.4 percent to EUR 5.49 per sqm/month, against a forecast increase of approximately 4 percent. Net rental income increased by 40.0 percent to EUR 238.4 million and therefore significantly exceeded the target of EUR 230 million which had last been raised from EUR 210 to 220 million on publication of the report on the third quarter.

On the basis of the positive operating performance in the financial year, helped by the additional contribution of BCP and the effects resulting from the refinancing of EUR 200 million of the corporate bond 2015/2020, FFO I reached EUR 74.2 million in 2018 and was therefore precisely in the middle of the forecast corridor of EUR 73 to 75 million, which had been revised upwards twice during the year. This corresponds to an increase of 83.2 percent compared with the previous year.

The company's financial indicators have also improved, in some cases significantly during the course of 2018. The forecast for weighted average cost of debt which was originally 2.5 percent for the end of 2018 had already been outperformed halfway through the year due to the effects resulting from the refinancing of EUR 200 million of the corporate bond 2015/2020 and the acquisition of BCP. At the end of the year, WACD amounted to 2.23 percent. The LTV reached 61.4 percent at the end of the year. The original target of approximately 55 percent had to be postponed to 2019, because it will only be achieved when BCP's pure commercial units have been sold, which is expected to take place in 2019.

EPRA NAV has risen sharply to EUR 1,632.7 million. This increase in value reflects the expansion of the portfolio and changes in the market, but also increasingly, the operational improvements, which ADLER has already achieved by internalising the Property Management and Facility Management departments.

All in all, the forecasts for 2018 provided a very accurate picture of the economic development of ADLER Real Estate AG, even though achievement of targets had to be postponed in the case of the LTV because the events that would have had a significant impact on it did not occur on time.

6. ADDITIONAL STATUTORY DISCLOSURES

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

Composition of subscribed capital

The fully paid-up share capital of ADLER Real Estate AG amounted to EUR 71,063,622 as of 31 December 2018 (previous year: EUR 57,547,740) and was divided into 71,063,622 no-par bearer shares (previous year: 57,547,740). All shares confer the same rights. Each share grants one vote and determines the bearer's interest in the company's net profit.

Restrictions on voting rights and transfers of shares

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

Direct or indirect voting rights exceeding 10 percent

The company is aware of the following direct or indirect equity interests accounting for more than 10 percent of voting rights at the end of 2018:

An equity interest held by Mezzanine IX Investors S.A., Luxembourg, Grand Duchy of Luxembourg, consisting of 10,262,887 voting rights in total. Amounting to a total of at least 10,112,887 voting rights thereby attributable, this constituted a 14.44 percent share of capital stock at the balance sheet date. The voting rights held by Fortitudo Capital SPC, Cayman Islands, and Pruß GmbH, Germany, which in turn hold a 14.23 percent share of voting rights, are attributable to Mezzanine IX Investors S.A.

An equity interest held by Mr Klaus Wecken, Basle, Switzerland, and comprising 10,418,956 voting rights in total. Amounting to a total of 4,478,956 voting rights thereby attributable, this constituted a 14.66 percent share of the capital stock at the balance sheet date. The voting rights held by Wecken & Cie, Basle, Switzerland, which in turn holds a 6.30 percent share of voting rights, are attributable to Mr Klaus Wecken.

An equity interest held by Mirabella Malta Limited, Sliema, Malta, and comprising 9,625,025 voting rights. Amounting to a total of 9,625,025 voting rights thereby attributable, this constituted a 14.16 percent share of the capital stock at the balance sheet date. The voting rights held by Fairwater Multi-Strategy Investment ICAV, Dublin, Ire land, which in turn holds a 14.16 percent share of voting rights, are attributable to Mirabella Malta Limited.

Shares with special rights granting powers of control

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

Type of voting right control for employee shareholdings

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

Statutory provisions and provisions of the Articles of Association regarding the appointment and dismissal of members of the Management Board and amendments to the Articles of Association

The appointment and dismissal of Management Board members is based on § 76 et seq. AktG. Accordingly, Management Board members are appointed by the Supervisory Board for a maximum term of five years. Repeated terms in office, or extensions in terms in office, in each case by five years, are permitted. In addition, Article 7 of the Articles of Association stipulates that the number of Management Board members is determined by the Supervisory Board and that the Management Board consists of one or more persons.

In accordance with § 179 (2) AktG in connection with Article 22 of the Articles of Association of the company, amendments to the Articles of Association that do not concern the change in the purpose of the company require a resolution of the General Meeting, which requires a simple majority of the share capital represented in the vote.

Powers of the Management Board to issue and buy back shares

Authorisation to acquire treasury stock

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

The company has acquired 2,583,232 treasury shares through three share buyback programmes up to the reporting date. This equates to a stake of 3.64 percent in the capital stock on the reporting date.

Authorised Capital 2015/I

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

Authorised Capital 2017/I

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

Contingent Capital 2012/I

Pursuant to § 4 (4) of the Articles of Association, the company's share capital is contingently increased by up to EUR 1,500,000 by issuing up to 1,500,000 new no-par bearer shares.

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

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

Following the exercising of conversion rights in connection with the 2013/2018 convertible bond issued on 17 December 2013 (ISIN DE000A1TNEE3), contingent Capital 2012/I still amounted to EUR 292,888 at the balance sheet date.

Contingent Capital 2015/I

Pursuant to § 4 (5) of the Articles of Association, the company's share capital is contingently increased by up to EUR 12,000,000 by issuing up to 12,000,000 new no-par bearer shares.

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

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

Following the exercising of conversion rights in connection with the 2016/2021 convertible bond issued on 19 July 2016 (ISIN DE000A161XW6), Contingent Capital 2015/I still amounted to EUR 11,388,295 at the balance sheet date.

Contingent Capital 2015/II

Pursuant to § 4 (6) of the Articles of Association, the company's share capital is contingently increased by up to EUR 13,000,000 by issuing up to 13,000,000 new no-par bearer shares.

The contingent capital increase exclusively serves to issue shares to the bearers of the EUR 175 million mandatory convertible bonds that were issued to part finance the acquisition of MountainPeak Trading Limited on 28 December 2015. The contingent capital increase is executed only to the extent that the bearers of the

EUR 175 million mandatory convertible bonds exercise their conversion rights, or the mandatory convertible bonds are converted as required at the end of the term. The new shares enjoy dividend entitlement from the beginning of the financial year in which they are issued.

Following the exercise of conversion rights in connection with the 2015/2018 convertible bond issued on 15 October 2015 (ISIN DE000A161ZA7), Contingent Capital 2015/2 still amounted to EUR 1,302,935 at the balance sheet date.

Authorisation to issue warrant and or convertible bonds

2015 Authorisation

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

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

Significant arrangements subject to a change of control following a takeover bid and their repercussions

Bond conditions of the corporate bonds and convertible bonds issued by ADLER Real Estate AG provide for the fact that the respective bond creditors are entitled to demand premature redemption on the conditions set out in the terms of the respective bonds in the event of any potential change of control as a result of a takeover bid. The convertible bonds may also be converted at an adjusted conversion price set out in the terms of the bonds.

Agreements subject to a change of control also exist with members of the Management Board and certain employees.

Compensation agreements with the members of the Management Board or with employees in the event of a takeover bid

Each Management Board member has special termination rights, Sshould a change of control event occur.The respective Management Board member is entitled to receive a settlement payment corresponding to the capitalised basic compensation for the originally agreed remaining term of their employment contract, limited to a maximum of two years, should these special termination rights be exercised.

Likewise, in the case of a change of control event occurring, the beneficiaries of the stock appreciation right programme (SAR programme) introduced by the company are entitled to claim the share of profit participation attributable to the stock appreciation rights granted to them and already vested upon the event occurring.

Basic features of compensation system

Management Board compensation

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

In addition to their annual compensation, members of the Management Board receive variable compensation, which is based on 60% of the achievement of previously set targets for the respective financial year and 40% of the achievement of previously set goals based on a period stretching over several years to achieve sustainable development at ADLER Real Estate AG. Variable remuneration is limited in its amount and designed so that both positive and negative developments can be taken into account. Within reasonable limits the Supervisory Board has a margin of discretion in determining the degree of target achievement. In individual cases, such as exceptional performance and the achievement of exceptional results, the Supervisory Board may grant an additional bonus that exceeds the contractually agreed total.

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

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

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

Supervisory Board compensation

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

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

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

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

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

7. REPORT ON RISKS AND OPPORTUNITIES

RISK REPORT

Risk management system

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

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

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

Following the strategic realignment of the ADLER Group as an integrated real estate company, which covers all stages of the value-added process from purchasing property through administering property portfolios, letting property and managing property to selling non-core properties, numerous new internal processes were created and documented. As part of this realignment, an update of the processes and individual risks in risk management and risk compliance was produced. In the 2018 financial year, the integration project of a residential property management company to an integrated property company was largely completed. ADLER Gebäude Service GmbH and ADLER Energie Service GmbH were also developed alongside the further development of ADLER Wohnen Service GmbH. In April, ADLER announced that it had acquired up to 70 percent of the shares in the Dutch company Brack Capital Properties N.V. (BCP). BCP was integrated in the ADLER risk management system in an appropriate manner during the financial year. These changes have resulted in new, further requirements for the risk management system. A partial adjustment of risk categorisation and a partial change of focus on risks also took place. The requirements for the establishment of new internal controls in the area of compliance and internal audit were also fulfilled.

The risk management system comprises all organisational requirements and activities necessary for the systematic, regular and company-wide implementation of the processes needed for risk management. Each risk is assigned to a designated employee. Risk management coordination is incumbent on the Governance-Risk-Compliance department, which keeps the Management Board regularly informed about the Group's overall risk situation. Within the quarterly Supervisory Board meeting framework, the Management Board in turn then reports the findings to the Supervisory Board. One of the ways the Supervisory Board complies with its duty of control towards the Management Board is by asking questions on aspects of risk reporting and providing suggestions for improving risk management.

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

An extensive risk catalogue, which was partly updated in the financial year, documents all material risks, including the compliance-related risks to which ADLER is exposed. In the financial year, this catalogue was reviewed and adjusted to the changes in the ADLER Group's internal structure and the acquisition of BCP in the previous year. Furthermore, external service providers were called in to help with compliance-related issues and routine compliance audits in the financial year. The increased demands on data protection as part of the EU Data Protection Regulation (EU GDPR), which has been effective since 25 May 2018, played an important role here. In the 2017 financial year, ADLER began working with a team of internal employees and professional external service providers, including ADLER's external data protection officers, to develop measures and document the processes which have already been applied in many cases to meet the requirements of the supervisory authorities.

The risk management system is itself described in a risk policy, which was amended in the 2018 financial year and will be updated each future year and whenever a specific need arises.

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

The German Corporate Governance Code was updated in February 2017. The current public discussions regarding the new GCGC have been ongoing since October 2018. The more stringent target requirements in the Code were also taken into consideration in Compliance Management. The partial non-application of the Code is reflected in the declaration pursuant to § 289a HGB and §317d HGB resoectively and is published in accordance with § 161 of the Stock Corporation Act.

Risk classification

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

At the beginning of the 2018 financial year, the 5-point scale used in the previous year was increased to a 6-point scale. This was due to the analysis of past valuations showing an inclination towards the middle of the scale. The so-called inclination towards the middle, or "error of central tendency", a well-known phenomenon of empirical social research, was therefore countered by using an even number of scale values in the group-wide risk management system. Accordingly, in their risk assessment, the risk officers are forced to take a position deviating from the middle. The increase of the scale also enables a more differentiated mapping of risks in the risk management system.

Risk classification

The risk classification is based on the following classifications:

Classification	Value	Description
Low	1	No significant impact
Medium	2	Slight impact on one or more business processes
Significant	3	Noticeable impact on one or more business processes
Drastic	4	Significantly noticeable impact on one or more business processess
Severe	5	Considerable impact on one or more business processes
Dangerous to company/portfolio	6	Impact threatening the existence of the entire company or total/sub-portfolio

Probability of occurrence

The probability of occurrence is based on the following classifications:

Classification	Value	Description
Improbable	1	Risk has not yet occurred, even with comparable companies. Risk cannot be ruled out.
Remote	2	Occurrence is expected within five years, or repeated occurrence in the past seven years.
Infrequent	3	Occurrence is expected within three years, or repeated occurrence in the past five years.
Conceivable	4	Occurrence is expected within two years, or repeated occurrence in the past three years.
Possible	5	Occurrence is expected within one year, or repeated occurrence in the past two years.
Probable	6	Occurrence is expected within the next three months, or repeated occurrence in the past year.

ADLER measures its risks using a scoring model (1–6, previous year: 1–5) that facilitates the operationalisation, evaluation and weighting of all individual risks at the ADLER Group. The scorings are derived from the average of the figure given as a value in the table above. For each risk, the possible amount of damage and probability of occurrence are determined before the respective (counter) measures (gross method). Material risks are governed by threshold values which, if reached, automatically trigger specific measures, such as a notification duty or the direct implementation of appropriate measures. In this respect, ADLER has set up targeted mitigation measures to reduce or eliminate risks. The risk classification system was adjusted to the new structures and requirements in the financial year 2018.

Internal control system in respect of the financial reporting process

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

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

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

Accounting processes are recorded using accounting systems customary to the market. Sub-ledger accounting for the properties is executed on a centralised basis in the Group's shared service centre in Hamburg and Munster using a certified housing management software system. The consolidated financial statements are prepared centrally using a leading IT system which is customary to the market and certified by external specialists.

When preparing the ADLER Group's consolidated financial statements, subsidiaries supplement their separate financial statements with the required reporting packages. All figures and data are checked and evaluated by the Controlling or Accounting departments at ADLER. The single-entity financial statements provided by the Group companies also undergo the control mechanisms and plausibility checks which are specifically provided for this purpose in the EDP system for consolidation. All consolidation entries are then made and documented there.

Audit

In the 2018 financial year, the ADLER Group carried out audits, both when the situation demanded it and, when this was not the case, with the aim of stepping up the controls and recognising potential for improvement. The reviews also partly comprise compliance audits, which also aim to check the effectiveness of the internal control system, the risk management and the compliance management system.

Audits were carried out in accordance with the principles of internal audits under the direction of the Management Board and the Governance-Risk-Compliance department with the support of external auditors. Among others, the purchase of a property portfolio in the previous year, the personnel management at the Hamburg site and the Group's own property management were audited during the financial year. The aim of auditing is not only to detect and eliminate possible violations, but also to recognise potential for improvement and adjust processes through specific recommendations. In addition to audits both when the situation demanded it and when this was not the case, audits were also implemented during the financial year to support the development of new systems (for example, GDPR Compliance and Treasury Management) of ADLER to pursue a preventive approach parallel to the implementation of the project.

Presentation of the most significant individual risks

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

Due to the strategic realignment of the ADLER Group in the previous year and the partial change of processes, the most significant individual risks for the 2018 financial year are as follows:

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

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

(1) Deterioration in the external corporate rating

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

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

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

ADLER counters this risk by means of a consistent risk strategy and risk measures in the form of Group-wide risk management to improve financial covenants. In addition, key strategic decisions, such as the purchase of approximately 70% of the shares in Brack Capital Properties N.V., Amsterdam, are reviewed with the responsible business valuers on an ongoing basis to address any potential negative impact on decision making.

(2) Valuation risk

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

The ADLER Group reacts to the valuation risk by commissioning renowned valuation institutes and by cautiously determining the valuation parameters. The likelihood of occurrence is currently estimated as 'remote' by risk officers.

(3) Refinancing risk

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

Following 2017, ADLER also succeeded in placing another corporate bond in the amount of EUR 800 million with a coupon of approximately 2.3 percent on average on the 2018 financial year. The weighted average cost of debt (WACD) was thus lowered to a value of 2.23 percent. When structuring the bond, the refinancing risk was countered in a preventive manner by an issue in two tranches of EUR 500 million and EUR 300 million with different terms. The refinancing risk also had a positive impact on the early repayment of EUR 200 million of the 2015/2020 corporate bond, which bears interest at 4.75 percent. In the current climate and against the backdrop of the issued corporate bond as well as the record low interest rates, the risk of obtaining follow-up financing only at higher interest rates upon the expiry of existing facilities is extremely low.

As part of the acquisition of BCP, ADLER incurred a currency risk that may result from the three bonds issued in New Israeli Shekels (ILS) totalling approximately EUR 140 million. A decision on how and to what extent this exposure shall be hedged is still pending.

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

(4) Risk of non-compliance with financial covenants

Any infringement of obligations under convertible bonds, bonds and loan agreements (financial covenants and bond conditions) by the companies in the ADLER Group may result in the loans becoming prematurely due for repayment, the bonds being prematurely terminated or infringements of contractual conditions being identified. Compliance with financial covenants is therefore monitored and managed by the Financing Facilities department on an ongoing basis. It is also monitored within the risk management system at regular intervals or when the situation demands it. There were no infringements during the 2018 financial year.

(5) Negative change in interest rates

The ADLER Group only has debts denominated in its functional currency – with the exception of those bonds of BCP which are denominated in New Israeli Shekels – and is therefore only exposed to interest rate risks denominated in euros.

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

The impact of rising interest rates on the IFRS value of investment properties alone is very substantial given the size of the ADLER Group's property assets. If, for instance, the discount rate increases by 0.5 percentage points, this may have a negative impact of approx. 5 percent on the value of investment properties and goodwill. ADLER considers the potential negative interest rate change alone to be a significant risk. As a measure of a negative change in interest rates, property financing of part of the overall portfolio was replaced by capital market financing of ADLER AG. The probability of occurrence and the potential increase in interest rates, on the other hand, are still considered to be remote.

(6) Reduction in the market rent

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

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

(7) Increase in the vacancy rate

Another risk of considerable importance and possible impact on the value of the property portfolio and the ADLER Group's earning strength is – in its own right – the increase in the vacancy rate of rental units. When viewed in isolation, ADLER sees this risk as considerable in principle. Since above average vacancy rates are being recorded in sub-portfolios, countermeasures were required to stop further increases. ADLER is pursuing a policy of targeted investment in its own residential lettings portfolio with the aim of bringing units that were not previously let to the market once more. However, it has also been shown that the utilisation of construction companies, technical service providers and also internal technical capacities in the financial year was an important factor for vacancy management. With the second renovation project undertaken in the financial year a large number of previously non-marketable apartments were renovated and made marketable again.

Towards the end of the financial year, ADLER sold around 3,700 units from its core portfolios. In the past, these properties had a partly higher vacancy rate which was to some extent structural. The portfolio optimisation measures reduced Group-wide vacancy rates.

ADLER is lowering its vacancy risk by implementing ongoing maintenance measures and programmes. In addition, a new head of the rental segment was recruited in the fourth quarter of 2018. This should also contribute to reducing the vacancy rate by means of a quick (re-)rental. The probability of occurrence of increasing vacancy rates in sub-portfolios is rated as "probable".

(8) Profitability risk

A company can be profitable (positive) but not generate a sufficient return. The risk of lack of profitability is considered a significant risk. ADLER counters the risk with decisions on the basis of stated returns before any investment decisions. Subsequent investments are followed by a post calculation to further counter the profitability risk. Following the acquisition of a portfolio, it continues to be investigated as part of portfolio management to identify which units are to be sold or which holdings can developed to make them more profitable. As already mentioned, the sale of two non-core-portfolios was realised during the financial year as part of portfolio management. These sales are expected to contribute to the overall profitability of the ADLER Group.

(9) Reputational risk – damage to our public image

Damage to the public image of the ADLER Group (reputational risk) is a considerable risk. The ADLER Group has established a good image on the capital and property market by now, being expressed for example by the fact that it has received the „Gold Level" award by EPRA. To maintain this and to avoid any loss of reputation, ADLER´s efforts are always aimed at fostering an open communication policy with its tenants, business associates and financial partners as well as with its shareholders. This communication takes different shapes to suit the relevant situation. For example, tenants were informed in a newsletter on the application and implementation of the EU GDPR in the financial year 2018. ADLER currently views the reputational risk on the capital market to be "significant", with a "conceivable" probability of occurrence.

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

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

In the case of regulatory and political measures in the area of property, potential changes must be investigated at short notice and, if necessary, countermeasures developed. ADLER is closely observing the developments regarding the rent brake, property tax and land transfer tax and the discussion about expropriations in Berlin.

The fact that ADLER has a diversified portfolio in terms of the regions covered throughout the Group can also be viewed as a risk distribution measure. The ADLER Group is represented by its portfolios in 14 federal states (not including BCP). The majority are in the federal states of Lower Saxony, North Rhine-Westphalia and Saxony, while the other federal states each make up less than 10 percent of ADLER's total property portfolio. In addition, the overall Group portfolio is continually being improved. The reporting of non-core holdings that are earmarked for sale serves to identify unviable properties, the aim being to sell these and thus offset the associated market risk.

Additional risks

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

In the 2017 financial year, ADLER sold its investment in ACCENTRO Real Estate AG. The remaining purchase price was due for payment on 30 November 2018. ADLER has granted the buyer an extended term of payment. Moreover, ADLER considers the receivable to be well collateralised and has a right to retransfer the shares, which have since risen in value. However, at the time these consolidated financial statements were prepared, no use had been made of the right to retransfer the shares and this had been bindingly assured until June 30, 2019 at the latest by way of an unconditional declaration to the buyer.

ADLER has aquired c. 70 percent of shares in BCP in April 2018. BCP is a company based in the Netherlands and quoted on the Tel Aviv Stock Exchange, Israel. Total assets amount to c. EUR 1.6 billion. The acquisition and any further purchase of shares in BCP entails financing risks and also integration risks, if it was going to be fully integrated into the ADLER group in future.

On the one hand, the capitalised earnings value risk of the investment itself is recorded and assessed; on the other, the operational risks of BCP's property portfolios and project developments are also recorded.

Since mid-2018, ADLER has exerted an indirect influence on the operational risks and opportunities of BCP by appointing one of the members of ADLER's Management Board as CEO of BCP.

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

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

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

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

The ADLER Group grew again in personnel terms in the 2018 financial year as a result of the ongoing internalisation of the Property Management and Facility Management departments and the full consolidation of BCP. The Group particularly counters personnel risks through a defined selection process and through various measures taken when employees join the Group (welcome folder and instruction). However, the shortage of skilled workers is also becoming increasingly more evident in the property sector. The strong growth of ADLER, particularly in the areas of property and facility management, meant that a high number of employees was required. Meeting staffing requirements promptly by qualified staff has become more difficult in the financial year 2018 and it has taken longer to fill vacant positions, especially in technical sectors.

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

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

Summary of the ADLER Group's risk situation

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

REPORT ON OPPORTUNITIES

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

Presentation of the most significant individual opportunities

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

(1) Improvement in the external corporate rating

ADLER was awarded a corporate rating by a well-known international rating agency for the first time in December 2016. After improving the initial rating (BB- to BB, at times with a positive outlook) in the previous financial year and confirming the rating in February 2018, ADLER is seeking further improvement. A further improvement in the rating and, in particular, obtaining an investment grade rating offer ADLER opportunities with respect to further (re-)financing on the capital market. These opportunities are of great importance. These increased in importance for ADLER with the issue of the corporate bond in the second quarter of 2018. An investment grade rating also often constitutes a basic requirement for institutional investors to even consider a possible investment.

As in the previous year, the current low or negative interest rate policy of the European Central Bank and the Federal Reserve is leading to a high degree of investment pressure on the part of (institutional) investors. This was also reflected in the financial year by the two-fold oversubscription of ADLER's bond of EUR 800 million placed in April 2018. ADLER can benefit from this investment pressure since an improvement in the rating could further reduce the weighted average cost of debt (WACD).

The importance of the external corporate rating is considered essential by the Management Board.

(2) Operating opportunities of an integrated real estate company

ADLER sees the programmes launched in 2016 to renovate vacant residential units, which were completed in the 2018 financial year, as a particularly significant opportunity to improve its occupancy rates and rental income. Experience shows that, following renovation, the apartments become marketable once again and can be let at appropriate prices. The investment funds, which have been earmarked for the project in the 2018 financial year, should pay off in the medium term. ADLER also saves on existing vacancy costs by letting apartments that were previously vacant.

In the future, ADLER intends to extend the value chain beyond the mere renting of apartments. The Group's own energy company, ADLER Energie Service GmbH, was founded in the previous year for this purpose. The company started operating at the beginning of 2018. During its first year of operations, ADLER Energie did not fully realise its initially expected savings potential.

Almost all housing portfolios have been managed in-house in the 2018 financial year. The organisation of the integration of rental housing management and billing as well as extensive management by means of its own facility management has been implemented with the realignment of ADLER Wohnen Service GmbH and ADLER Gebäude Service GmbH. Cost savings and further economies of scale are achieved and will continue to be expected gradually in the future due to ADLER Real Estate AG's own administration and support of property portfolios within the main process of property management. Further savings in the form of synergies are expected in connection with the acquisition of BCP.

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

(3) Refinancing opportunity

The current interest rate level, the good rating and any expiring fixed interest rates continue to provide the ADLER Group with opportunities for further good refinancing on the capital market and with commercial banks. Thus, the weighted average cost of debt financing was reduced further.

(4) Positive change in interest rates

The possibility of using lower interest rates also offers ADLER financial opportunities. The lower interest rates that were seen in previous years resulted in lower discount rates when measuring property values. In turn, this results in higher IFRS values (fair value). Sensitivity analyses in the reduction of the discount rate by 0.5 percentage points have led to an increase in IFRS values by about 5 percent for ADLER. However, the parameters of market rents and vacancies should also be considered in this context as they could exacerbate this development or have an opposite effect. This opportunity is essentially rated as significant and important. The probability of occurrence of a (further) decreasing interest rate is regarded as low.

(5) Increase in the market rent

Rising market prices are currently observed everywhere. ADLER also recorded an increase in its average rent price in the 2018 financial year. This is partly attributable to the full consolidation of BCP from the second quarter of 2018, the average higher rent price, which had a positive impact on ADLER's average rent price overall, and also partly to the increase in rental prices in ADLER (again in the structure not including BCP). In this respect, ADLER also believes that there is an opportunity in future for further growth in market prices to have a positive impact on the IFRS values of investment properties. The continuing high demand for housing, with dwindling supply due to low construction permits and full utilisation of the construction companies, is leading to rising market rents and thus to higher fair values of the properties. However, in future, the likelihood of a further increase in the IFRS property values is generally estimated to be lower than in the past. The opportunity of further market rent is considered essential as more factors currently speak in favour of an increase than against it.

(6) Reduction in the vacancy rate

ADLER was able to achieve substantial earnings and a reduction in the vacancy rate in the financial years from 2016 to 2018 through intensive programmes to modernise previously vacant residential units. In the 2018 financial year, ADLER completed the second modernisation programme, which had started in the previous year, to further reinforce and intensify this trend. The financial opportunities were reflected in the higher profitability of property portfolio and in the savings in vacancy costs as a result of the leasing. In addition, residential estates are becoming more attractive due to higher occupancy rates and investments in the district, and staff turnover is falling, leading to further savings (rental commissions, lettings renovations, temporary vacancies).

(7) Digitalisation in the ADLER Group

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

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

In the 2018 financial year, ADLER initiated two software projects. First, software for the implementation of a centralised treasury management system will be launched. Second, personnel management software is expected to be purchased in 2019. These measures form the basis for further digitalisation in the ADLER Group. Although the previously used solutions were functional, they often required the responsible employees to have significant detailed knowledge. On the one hand, external reviews showed that large manual administrative expenses were a potential for error and key individual risk, and on the other that the processes did not correspond in part to the usual best practice of a company of ADLER's size. Due to digitalisation in this segment, the company sees further potential to automate manual and error-prone work. Qualified employees who work and are responsible for these areas can be assigned jobs that cannot be automated.

ADLER has also commissioned a project for the technical survey of high-rise blocks in the entire property portfolio in the financial year. The data will be transferred into a software developed by the Fraunhofer Institute and provides an integrated overview through objective information. ADLER hopes to optimise the allocation of the budget and to identify weaknesses or structural need for action before they occur. First results are expected in the 2019 financial year.

The pilot project for the use of mobile devices in property management, which was initiated at the end of the previous financial year, was continued during the financial year. Improving communication with the tenant is also still the top priority here which makes it conceivable that apartment handovers will take place with the support of electronic means.

(8) Opportunities in purchasing and selling properties

The supply of properties is becoming increasingly scarce. Nevertheless, there are good opportunities for buying and selling property if market participants want to withdraw for strategic reasons or if they have a financial emergency. In the advancing cycle of the real estate industry, it has become more difficult to identify lucrative investment properties. Due to the many years of experience of the management and its good networks, ADLER still has an adequate portfolio of possible investments which are continuously evaluated and, if necessary, reviewed in more detail as part of due diligence. In the financial year, as a result of the acquisition of approximately 70 percent of the shares in BCP, such an opportunity was used for investment. There is also the opportunity for properties to be sold individually or as part of portfolios within the commercial portfolio of BCP properties and thus to generate for rdebt redemption and further improvement of LTV. Regardless of ADLER's strategy, to the best of its knowledge and belief, the local management decides on the possible sale of BCP's commercial portfolio for the benefit of the company and its shareholders. Due to its market position and market power, ADLER has great opportunities when purchasing property or even in the sale of non-core properties without time pressure to generate profit opportunities. The profit opportunities in sales have increased in a few years, especially in times of significant increases in the market value of properties.

(9) Opportunities in project development

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

In the financial year 2018, greater importance was attached to the area of project development than in previous years. In addition to the measures mentioned above that were announced and started in the financial year at the Göttingen and Wolfsburg locations, a compromise was reached with the government offices on a property in Dresden that had been owned for a long time by ADLER. From the sub-group BCP, which has been fully consolidated since the second quarter of 2018, four further project developments in various conditions and project volumes are now attributable to the ADLER Group. Since most of the project developments are still in an early development stage, the consideration of risks and opportunities is still rated as modest.

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

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

The ADLER Group again improved its financial stability in the 2018 financial year, the optimisation of the processes created in an integrated property group was a significant part of cooperation within the Group. As a result, ADLER is firmly established within the group of significant German listed property players.

ADLER distinguishes itself from key competitors by focusing its property investments primarily in "B" locations and/or on the outskirts of conurbations. These kinds of property holdings are typically characterised by higher vacancy rates but also by higher rent yields than properties in central or "A" locations. Peripheral locations benefit to a particularly marked extent from tight rental markets in city centres. Once no apartments are available in desirable locations, demand automatically shifts to the surrounding areas. In the 2018 financial year, essentially nothing has changed in this development. This represents one of ADLER's most significant business opportunities. The consideration of opportunities and risks are inseparable. For this reason, ADLER pursues a risk-oriented opportunity policy.

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

Furthermore, despite growing demand in the "affordable" housing segment in which ADLER operates, there is hardly any new supply. Although apartments were built and approved again in 2018, the price of newly built apartments is far higher than that of existing apartments. The differences in rental prices are correspondingly high. For price-sensitive tenants, living in apartments such as those offered by ADLER generally represents the most appealing option.

Summary of the ADLER Group's opportunity situation

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

The further improvement of the financial covenants such as IFRS property values as a result of price increases, loan to value, and lower weighted average cost of debt (WACD) are just some of the parameters. The current low interest rate level is a determining factor in realising our opportunities. The trend-setting realignment of the ADLER Group into an integrated property group is also a positive aspect. The future-increased concentration on the capital market and investments in "A" and "B" locations also offer further opportunities for a positive development of the ADLER Group.

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

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

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

8.1 BUSINESS FUNDAMENTALS AND ECONOMIC REPORT

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

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

8.2 RESULTS FROM OPERATIONS, NET ASSETS AND FINANCIAL POSITION

Result of operations

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

In EUR m	**2018**	**2017**
Turnover	5.3	5.7
Other operating income	1.4	75.4
Personnel expenses	-2.3	-1.2
Other operating expenses	-42.4	-33.2
Income from participations	0.3	0.1
Income from securities and lending of financial assets	43.7	16.2
Other financial and similar income	24.9	13.3
Depreciation on financial assets and on securities from currents assets	-1.5	-2.3
Other financial and similar expenses	-65.9	-42.3
Income taxes	-0.1	0.1
Earnings after taxes	**-36.6**	**31.8**
Other taxes	0.0	0.0
Net result	**-36.6**	**31.8**
Profit carried forward from previous year	14.7	0.0
Dividend to shareholders	-2.2	0.0
Transfer from capital reserves	38.5	0.0
Purchase of treasury shares	-14.4	-17.1
Net retained profit	**0.0**	**14.7**

In the 2018 financial year, ADLER AG generated revenue amounting to EUR 5.3 million (previous year: EUR 5.7 million) from services to Group companies.

Other operating income decreased from EUR 74.0 million in the previous year to EUR 1.4 million. In the previous year, extraordinary income of EUR 73.4 million was recognised from the sale of the majority of its stake (80.0 percent) in ACCENTRO Real Estate AG.

Personnel expenses amounted to EUR 2.3 million, while they came to EUR 1.2 million in the previous year. The increase is attributable to changes in the Management Board.

Other operating expenses rose by EUR 9.2 million year-on-year to EUR 42.4 million. At EUR 9.3 million, the increase compared with the previous year is attributable to costs associated with taking up a bridging loan to bridge the acquisition of a majority stake in BCP. Expenses for issuing bonds totalled EUR 12.6 million (previous year: EUR 16.4 million). Legal and advisory costs amounted to EUR 9.6 million (previous year: EUR 6.2 million).

The Company generated income of EUR 68.6 million (previous year: EUR 29.5 million) from loans to Group companies and current financial and security investments. In particular, the year-on-year increase is due to the increase in loans to Münchener Baugesellschaft mbH (EUR 16.3 million), the promissory note loans (EUR 10.7 million) acquired in 2017 and 2018 and the interest charged on the purchase price receivable from the sale of shares in ACCENTRO Real Estate AG in the previous year (EUR 5.0 million).

These incomes are offset by interest expenses of EUR 65.9 million (previous year: EUR 42.3 million), which mainly result from issued bonds and convertibles which have risen in total volume. Expenses of EUR 3.8 million have been recognized for the early repayment of EUR 200 million of the 2015/2020 bond.

Write-downs of long-term financial assets and investments classified as current assets amounted to EUR 1.5 million in the 2018 financial year and thus declined compared to the previous year (previous year: EUR 2.3 million). In particular, this includes write-downs on other securities classified as current assets amounting to EUR 1.3 million (previous year: EUR 1.0 million).

ADLER AG reports a net loss of EUR 36.6 million for the 2018 financial year (previous year: net profit of EUR 31.8 million). The previous year was significantly influenced by the extraordinary income from the sale of shares in ACCENTRO Real Estate AG (EUR 73.4 million).

In the 2018 financial year, transfers from capital reserves of EUR 38.5 million were made. The Management Board and the Supervisory Board did not propose an appropriation of the net retained profit for the 2018 financial year, as a net retained profit of EUR 0.0 million was recognised. From the net retained profit of the previous year, the shareholders were paid a dividend of EUR 2.2 million in the year under review.

On 16 June 2017, ADLER AG began a share buyback program, which has been supplemented twice. The share buyback programme expired in March 2018. In total, 2,583,232 no-par bearer shares were acquired up to the reporting date (previous year: 1,391,902 no-par bearer shares). The nominal amount of EUR 2.6 million (previous year: EUR 1.4 million) of the treasury shares acquired will be deducted from the subscribed capital and the additional acquisition costs of EUR 14.4 million (previous year: EUR 17.1 million) will reduce the net retained profit.

Financial position and net assets

In EUR m	31.12.2018	31.12.2017
Non-current assets	**1,848.2**	**751.8**
Financial assets	1,846.3	750.1
Property, plant and equipment	1.9	1.7
Current assets	**519.3**	**1,062.3**
Receivables agains associatd companies	72.3	324.6
Other assets	165.9	177.1
Other securities	277.3	533.4
Deposits	3.8	27.2
Deferred income	**20.3**	**21.9**
Assets	**2,387.8**	**1,836.0**
Equity	**231.0**	**98.6**
Capital stock (minus treasury stock)	68.5	56.2
Capital reserve	162.5	27.8
Retained profit	0.0	14.7
Provisions	**3.7**	**4.0**
Liabilities	**2,153.1**	**1,728.4**
Liabilities from convertibles and bonds	2,055.1	1,662.4
Trade payables	1.5	1.9
Liabilities against associated companies	95.6	63.4
Other liabilities	0.9	0.7
Deferred expenses	**0.0**	**5.0**
Equity and liabilites	**2,387.8**	**1,836.0**

ADLER AG's balance sheet total increased by EUR 551.8 million year-on-year. The change is attributable to several partly countering effects.

In the first quarter of 2018, further existing promissory note loans of the subsidiaries were acquired by the existing creditors in the name and for the account of ADLER AG. The funds have already been deposited with the respective subsidiaries as at 31 December 2017. The promissory note loans acquired were partly sold to the respective subsidiaries to cause their obligations to cease as a result of confusion of rights. Transfers to the subsidiaries were made at the respective acquisition cost of the promissory note loans of ADLER AG. Correspondingly, there was an increase in loans from affiliated companies recognised within financial investments and a decrease in receivables from affiliated companies and securities held as current assets.

At the beginning of the second quarter of 2018, ADLER AG acquired almost 70 percent of the shares in BCP at acquisition costs including ancillary costs of EUR 567.3 million and issued a bond in the amount of EUR 800 million in this context. The funds raised also included the pro rata repurchase of the 2015/2020 corporate bond in the amount of EUR 200 million (nominal) and the early repayment of the 2013/2018 corporate bond in the amount of EUR 35 million.

At the end of 2018, the mandatory convertible bond with a total nominal value of EUR 175.0 million was converted into 11,697,065 new no-par bearer shares in ADLER. The outstanding 2013/2018 convertible bond was due and almost completely converted into ADLER shares.

Because ADLER AG is a Group parent company, its assets consist primarily of financial assets. As at the balance sheet date, these amounted to a carrying amount of EUR 1,846.3 million (previous year: EUR 750.1 million). Other material assets include EUR 72.3 million in receivables from affiliated companies (previous year: EUR 324.6 million), EUR 165.9 million in other assets (previous year: EUR 177.1 million), EUR 277.3 million in securities classified as current assets (EUR 533.4 million), EUR 3.8 million in deposits with banks (previous year: EUR 27.2 million) and EUR 20.3 million in prepaid expenses (previous year: EUR 21.9 million).

Excluded from the financial assets are:

- EUR 939.4 million (previous year: EUR 411.2 million) to Münchener Baugesellschaft GmbH, of which EUR 7.7 million (previous year: EUR 7.7 million) for shareholding and EUR 931.7 million (previous year: EUR 403.5 million) on loans to this company.

- EUR 567.3 million for BCP shareholding. The secured purchase price for the acquisition of 69.81 percent of the shares in BCP's capital stock totalled EUR 554,788 million and was paid in cash. The costs directly associated with the acquisition in the amount of EUR 12.5 million were capitalised as incidental acquisition costs.

- EUR 265.7 million (previous year: EUR 265.7 million) for WESTGRUND AG shareholding.

- EUR 58.7 million (previous year: EUR 58.7 million) on the investment in MountainPeak Trading Limited, through which the shares in the Austrian company conwert Immobilien Invest SE were held until the sale in January 2017. Of this, EUR 58.3 million (previous year: EUR 58.3 million) is attributable to the shareholding and EUR 0.4 million (previous year: EUR 0.4 million) to loans to MountainPeak Trading Limited. By contrast, as at the balance sheet date ADLER AG recognised liabilities to MountainPeak Trading Limited in the amount of EUR 59.5 million (previous year: EUR 58.8 million).

Receivables from affiliated companies decreased by EUR 252.3 million to EUR 72.3 million. This is mainly attributable to the acquisition of further promissory note loans from the funds already deposited with the respective subsidiaries.

At EUR 149.9 million (previous year: EUR 161.7 million), other assets include in particular the purchase price receivable including interest claims from the sale of the shares in ACCENTRO Real Estate AG in 2017. EUR 17.3 million was repaid on the purchase price receivable in the 2018 financial year. By contrast, interest income on the receivable of EUR 5.5 million was recognised. In accordance with a supplementary agreement with the buyer, the remaining purchase price receivable is to be paid over the course of the 2019 financial year, at the latest by 30 June 2019.

Other securities classified as current assets amounting to EUR 277.3 million (previous year: EUR 533.4 million) include interest-bearing promissory note loans of EUR 257.3 million (previous year: EUR 509.1 million), a short-term fixed-interest bond with a fair value of EUR 14.3 million (previous year: EUR 17.8 million) and, as in the previous year, the remaining shares in ACCENTRO (6.2 percent) were unchanged year-on-year at EUR 5.7 million.

As at the balance sheet date, deposits with banks amounted to EUR 3.8 million (previous year: EUR 27.2 million).

Prepaid expenses of EUR 20.3 million (previous year: EUR 21.9 million) essentially comprised of the premium resulting from the issuance of convertibles and bonds.

Equity increased by EUR 132.4 million to EUR 231.0 million (previous year: EUR 98.6 million). Due to the mandatory conversion and the exercising of conversion rights, subscribed capital increased by EUR 12.3 million and the capital reserve increased by EUR 173.2 million. The net loss of EUR 36.6 million (previous year: net profit of EUR 31.8 million), the dividend of EUR 2.2 million paid and the acquisition of own shares amounting to EUR 15.6 million (previous year: EUR 18.5 million). As a result of the transfer from capital reserves in the amount of EUR 38.5 million, ADLER AG reported a net retained profit of EUR 0.0 million as at the balance sheet date (previous year: net retained profit of EUR 14.7 million). The equity ratio amounts to 9.7 percent (previous year: 5.4 percent) as at the balance sheet date.

Liabilities increased overall by EUR 424.7 million to EUR 2,153.1 million (previous year: EUR 1,728.4 million). At EUR 392.7 million, this increase is mainly attributable to liabilities from convertibles and bonds. In April 2018, the EUR 500.0 million 2018/2023 bond and the EUR 300.0 million 2018/2026 bond were issued. The 2015/2020 bond was repurchased in the amount of EUR 200.0 million and the EUR 35.0 million 2013/2018 bond was repaid in due time. The outstanding 2013/2018 convertible bond was due at the end of 2018 but was almost completely converted into ADLER AG shares. At the end of the term, the EUR 175.0 million 2015/2017 mandatory convertible bond was completely converted into ADLER shares. Receivables from affiliated companies rose by EUR 32.2 million to EUR 95.6 million (previous year: EUR 63.4 million). This is mainly attributable to liabilities from WESTGRUND AG.

Deferred income (previous year: EUR 5.0 million) mostly comprised of the difference between the issue price (104.4 percent) and the nominal value from tapping the 2015/2020 bond and was reversed through profit or loss in the course of the buyback in 2018.

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

Overall summary of business performance and position of the Company

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

8.3 REPORT ON EVENTS AFTER THE BALANCE SHEET DATE

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

8.4 REPORT ON EXPECTED DEVELOPMENTS

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

ADLER AG continues to expect a significantly negative result in the separate financial statements for the 2019 financial year at the level of the reporting year since the success of business activity is only evident in its subsidiaries, but expenses are mainly incurred within the framework of the holding structure.

8.5 REPORT ON RISKS AND OPPORTUNITIES

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

Berlin, den 25. March 2019

Tomas de Vargas Machuca
Vorstand

Maximilian Rienecker
Vorstand

Sven-Christian Frank
Vorstand

PETRA KUNDA is responsible for tenant and social services in Wilhelmshaven. She looks after any tenants who need help in any way. She has organised acclimatisation sessions for new tenants from foreign countries to familiarise them with life in Germany. She also helps elderly tenants if they need to have their bathrooms adapted to take account of increasing disability or need to organise care services. And if a summer party has to be organised for tenants, she will, of course, be right there leading the festivities.

/// Consolidated Balance Sheet

/// Consolidated Statement of Income and Accumulated Earnings

/// Consolidated Cash Flow Statement

/// Consolidated Statement of Changes in Equity

/// CONSOLIDATED BALANCE SHEET

(IFRS) as at 31 December 2018

In EUR '000	Note	31.12.2018	31.12.2017
Assets		**5,856,631**	**3,778,967**
Non-current assets		**5,220,772**	**3,125,490**
Goodwill	8.1	170,758	101,198
Intangible assets	8.1	612	567
Property, plant and equipment	8.2	7,578	4,948
Investment properties	8.3	4,989,054	3,018,518
Loans to associated companies	8.4	7,667	0
Investments in associated companies	8.5	3,070	25
Other financial investments	8.6	37,019	28
Other non-current assets	8.6	2,480	205
Deferred tax assets	8.7	2,535	0
Current assets		**437,677**	**629,895**
Inventories	8.8	88,096	2,978
Trade receivables	8.9	25,898	10,717
Income tax receivables	8.9	5,549	4,459
Other current assets	8.9	240,480	243,508
Cash and cash equivalents	8.10	77,655	368,233
Non-current assets held for sale	**8.11**	**198,182**	**23,582**

In EUR '000	Note	31.12.2018	31.12.2017
Equity and liabilities		**5,856,631**	**3,778,967**
Shareholders' equity		**1,579,631**	**1,037,500**
Capital stock	8.12	71,064	57,548
Treasury shares	8.12	-2,583	-1,392
		68,480	56,156
Capital reserve	8.13	309,233	350,203
Retained earnings	8.14	-3,264	-1,310
Currency translation reserve	8.15	88	86
Net retained profit		842,888	555,442
Equity attributable to owners of the parent company		1,217,426	960,576
Non-controlling interests	8.16	362,205	76,924
Non-current liabilities		**3,971,980**	**2,363,126**
Pension provisions	8.17	3,714	3,989
Deferred tax liabilities	8.7	380,794	164,571
Other provisions	8.18	3,900	1,664
Liabilities from convertible bonds	8.19	117,516	119,731
Liabilities from bonds	8.20	1,961,112	1,277,640
Financial liabilities to banks	8.21	1,476,187	749,188
Other non-current liabilities	8.22	28,756	46,344
Current liabilities		**304,526**	**377,512**
Other provisions	8.18	25	46
Income tax liabilities	8.23	12,921	2,516
Liabilities from convertible bonds	8.19	1,756	6,505
Liabilities from bonds	8.20	40,259	42,679
Financial liabilities to banks	8.21	142,408	278,676
Trade payables	8.23	47,440	29,125
Other current liabilities	8.23	59,717	17,964
Liabilities held for sale	8.11	**495**	**829**

/// CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(IFRS) for the period from 1 January to 31 December 2018

In EUR '000	Note	2018	2017
Gross rental income	9.1	349,595	264,388
Expenses from property lettings	9.2	-145,908	-138,589
Earnings from property lettings		**203,687**	**125,799**
Income from the sale of properties	9.3	75,068	38,854
Expenses from the sale of properties	9.4	-66,963	34,065
Earnings from the sale of properties		**8,105**	**789**
Personnel expenses	9.5	-35,138	-20,302
Other operating income	9.6	8,914	9,508
Other operating expenses	9.7	-66,268	-38,535
Income from fair value adjustments of investment properties	9.8	465,129	235,386
Depreciation and amortisation	9.9	-1,601	-826
Earnings before interest and tax (EBIT)		**582,828**	**311,820**
Financial income	9.10	16,295	5,392
Financial costs	9.11	-147,523	-158,775
Net income from at-equity valued investment associates	9.12	3,162	0
Earnings before tax (EBT)		**454,762**	**158,437**
Income taxes	9.13	-122,576	-52,066
Consolidated net profit from continuing operations		**332,186**	**106,371**
Earnings after taxes of discontinued operations	9.14	263	36,260
Consolidated net profit		**332,449**	**142,631**
Actuarial gains/losses before taxes	8.17	-68	821
Deferred taxes on actuarial gains/losses	8.17	21	-244
OCI gains/losses not reclassifiable into profit or loss		**-48**	**577**
Deferred taxes OCI – reclassifiable	11.3	10	0
OCI own bonds – reclassifiable		-32	0
Gains/losses from currency translation	8.15	2	-4
Change in value of interests in companies accounted for under at-equity	8.5	0	1,589
Change in value of financial assets measured at fair value	11.1	-802	-966
OCI gains/losses reclassifiable into profit or loss		**-822**	**619**
Total comprehensive income		**331,578**	**143,827**

In EUR '000	Note	2018	2017
Carry-over total comprehensive income		**331,578**	**143,827**
Net profit from continuing operations			
Owners of the parent company		265,293	92,112
Non-controlling interests		66,893	14,259
Consolidated net profit attributable to:			
Owners of the parent company		265,556	126,754
Non-controlling interests		66,893	15,877
Total comprehensive income attributable to:			
Owners of the parent company		264,685	127,950
Non-controlling interests		66,893	15,877
Earnings per share, basic in EUR (consolidated net profit from continuing operations)	9.15	3.96	1.39
Earnings per share, diluted in EUR (consolidated net profit from continuing operations)	9.15	3.50	1.30
Earnings per share, basic in EUR (consolidated net profit)	9.15	3.96	1.91
Earnings per share, diluted in EUR (consolidated net profit)	9.15	3.50	1.78

/// CONSOLIDATED STATEMENT OF CASH FLOWS

(IFRS) for the period from 1 January to 31 December 2018

In EUR '000		2018	2017
Earnings before interest and taxes (EBIT) – continuing and discontinued operations		582,828	359,086
+	Depreciation and amortisation	1,601	1,173
–/+	Net income from fair value adjustments of investment properties	-465,129	-235,386
–/+	Non-cash income/expenses	14,399	-12,582
–/+	Changes in provisions and accrued liabilities	-1,514	-2,673
–/+	Increase/decrease in inventories, trade receivables and other assets not attributable to investment or financing activities	-49,493	-11,245
–/+	Increase/decrease in trade payables and other liabilities not attributable to investment or financing activities	35,976	6,036
+	Interest received	1,521	3,048
+	Dividends received	463	223
+/–	Tax payments	-6,658	-8,479
=	**Operating cash flow before de-/reinvestment into the trading portfolio**	**113,994**	**99,201**
–/+	Increase/decrease in inventories (commercial properties)	17,005	-62,853
=	**Net cash flow from operating activities**	**130,999**	**36,348**
	thereof continuing operations	130,736	66,221
	thereof discontinued operations	263	-29,873
–	Acquisition of subsidiaries, net of cash acquired	-477,278	-154,061
+	Disposal of subsidiaries, net of cash disposed	17,107	7,133
–	Purchase of investment properties	-151,500	-79,081
+	Disposal of investment properties, net of cash disposed	49,827	32,618
–	Purchase of property, plant and equipment and intangible assets	-4,577	-2,827
+	Disposal of property, plant and equipment and intangible assets	109	56
–	Payments into short-term deposits	-13,100	-28,244
+	Payments from short-term deposits	5,321	20,822
+	Proceeds from deinvestments of financial assets	14	416,260
–	Investments in financial assets	-35,000	0
=	**Net cash flows from investing activities**	**-609,077**	**212,676**
	thereof continuing operations	-609,077	212,766
	thereof discontinued operations	0	-90
–	Payments for acquisition of treasury shares including acquisition costs	-15,604	-18,507
–	Transactions with non-controlling interests	-447	-4,811
–	Dividends paid to non-controlling interests	-6.854	0
–	Dividends paid to owners of the company	-2,204	0
–	Payments for acquisition and repayment of convertible bonds	-34	-35,178
+	Proceeds from issue of bonds	791,151	956,545
–	Repayment of bonds	-251,513	-142,100
–	Payments from issuing debt	-20,783	-19,366
–	Interest payments	-112,212	-147,112
+	Proceeds from bank loans	745,194	170,182
–	Repayment of bank loans	-936,834	-764,355
–	Decrease in financial liabilities	-2,035	0
=	**Net cash flows from financing activities**	**187,825**	**-4,702**
	of which from continuing operations	187,825	-17,284
	of which from discontinued operations	0	12,582

	In EUR '000	2018	2017
	Reconciliation to Consolidated Balance Sheet		
	Cash and cash equivalents at beginning of periods	**368,233**	**123,911**
	Non-cash changes in cash and cash equivalents	-325	0
	Net cash flow from operating activities	130,999	36,348
	Net cash flow from investing activities	-609,077	212,676
	Net cash flow from financing activities	187,825	-4,702
=	**Cash and cash equivalents at end of periods**	**77,655**	**368,233**

/// CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(IFRS) for the period from 1 January to 31 December 2018

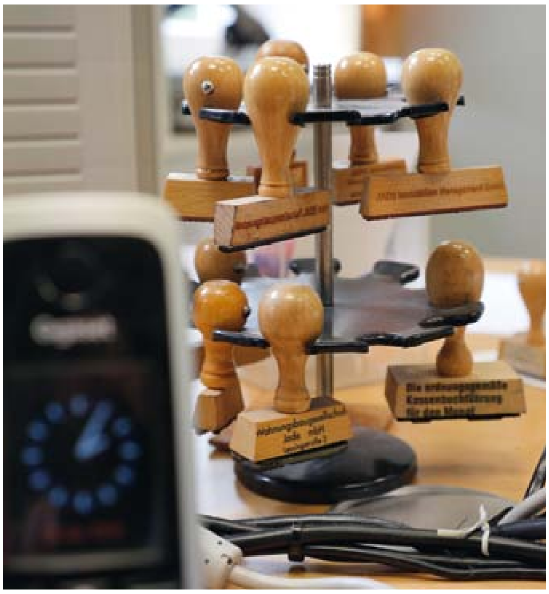
In EUR '000	Capital stock	Treasury shares	Capital reserves
As at 1 January 2017	**47,702**	**0**	**352,105**
Consolidated net profit	0	0	0
Other comprehensive income (OCI) – reclassifiable	0	0	0
Other comprehensive income (OCI) – non-reclassifiable	0	0	0
Dividend payments to shareholders	0	0	0
Change in scope of consolidation	0	0	0
Increase/decrease in shareholding with no change in status	0	0	-1,369
Capital increase from company fund	4,773	0	-4,773
Acquisition of treasury shares	0	-1,392	0
Convertible bond issue	0	0	0
Conversion of convertible bonds	5,073	0	4,240
As at 31 December 2017	**57,548**	**-1,392**	**350,203**

In EUR '000	Capital stock	Treasury shares	Capital reserves
As at 1 January 2018	**57,548**	**-1,392**	**350,203**
Consolidated net profit	0	-1	0
Withdrawals from reserves	0	0	-38,493
Other comprehensive income (OCI) – reclassifiable	0	0	0
Other comprehensive income (OCI) – non-reclassifiable	0	0	0
Conversion IFRS 9	0	0	0
Increase/decrease in shareholding with no change in status	0	0	-11
Change in scope of consolidation	0	0	0
Dividend	0	0	0
Acquisition of treasury shares	0	-1,190	0
Conversion of convertible bonds	13,516	0	-2,466
As at 31 December 2018	**71,064**	**-2,583**	**309,233**

[1)] Dividend per share in the amount of EUR 0.04 based on the resulution of the Extraordinary General Meeting of 28 August 2018

Retained earnings	Currency translation reserve	Net retained profit	Equity attributable to the owners of the parent company	Non-controlling interests	Total equity
-2,510	**90**	**445,786**	**843,173**	**71,048**	**914,222**
0	0	126,753	126,753	15,878	142,631
632	-4	0	619	0	619
577	0	0	577	0	577
0	0	0	0	-511	-511
0	0	0	0	-2,973	-2,973
0	0	0	-1,369	-6,960	-8,329
0	0	0	0	0	0
0	0	-17,097	-18,489	0	-18,489
0	0	0	0	0	0
0	0	0	9,313	442	9,755
-1,310	**86**	**555,442**	**960,576**	**76,924**	**1,037,500**
-1,310	**86**	**555,442**	**960,576**	**76,924**	**1,037,500**
0	0	265,556	265,555	66,893	332,448
0	0	38,4930	0	0	0
-825	2	0	-823	0	-823
-48	0	0	-48	0	-48
-1,081	0	0	-1,081	-38	-1,119
0	0	0	-11	-446	-457
0	0	0	0	225,726	225,726
0	0	-2,204[1)]	-2,204	-6,854	-9,058
0	0	-14,399	-15,589	0	-15,589
0	0	0	11,050	0	11,050
-3,264	**88**	**842,888**	**1,217,426**	**362,205**	**1,579,631**

TOBIAS HABENICHT has successfully completed his training as a property manager with ADLER. In the course of his dual training, he spent time in the office dealing with the practical demands of his future profession, while acquiring the theoretical knowledge required at a vocational college. The training of junior staff has become increasingly important since ADLER became an integrated property group. In future, one to two training places are to be offered at each location to attract young talents to the company as early as possible.



/// Notes to the Consolidated Financial Statements 2018

/// NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

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

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

The consolidated financial statements and the group management report were approved for publication by the Management Board, subject to approval by the Supervisory Board, on 25 March 2019.

2. BASIS OF ACCOUNTING

2.1 Basis for the preparation of financial statements

ADLER's consolidated financial statements as at 31 December 2018 have been prepared in accordance with the International Financial Reporting Standards (IFRS) requiring mandatory application in the European Union. Supplementary application has been made of the requirements of § 315e (1) of the German Commercial Code (HGB). The requirements of the standards applied have been met and the financial statements represent a true and fair view of the company's asset, financial and earnings position.

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

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

With economic effect as of 30 November 2017, ADLER lost its controlling influence over ACCENTRO and its subsidiaries by selling the majority of the shares in that company. With the sale of the majority stake in ACCENTRO, ADLER discontinued its Trading segment and reported the remaining investment in ACCENTRO under non-current assets held for sale. In the financial year 2017, the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Cash Flows were adjusted in accordance with IFRS 5, including the previous year's comparative figures. The Consolidated Statement of Comprehensive Income shows only continuing operations in the respective items, while the discontinued operations Trading segment is aggregated in a total (earnings after tax from discontinued operations, see Note 9.14). With regard to the Consolidated Statement of Cash Flows, cash flows from operating, investing and financing activities are shown in relation to continuing and discontinued operations.

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

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

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

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

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

IFRS 9 – Financial Instruments

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

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

With regard to the reconciliation of the original measurement categories in accordance with IAS 39 to the new measurement categories in accordance with IFRS 9, as well as the reconciliation of the closing balance of the impairments in accordance with IAS 39 and the opening balance of loan loss provisions in accordance with IFRS 9, please refer to the disclosures in section 11 "Disclosures on financial instruments and fair values".

Impairment losses of financial assets in accordance with IFRS 9 are not disclosed in a separate item in the Consolidated Statement of Comprehensive Income for reasons of materiality, but as previously under other operating expenses (trade receivables) and financial costs (other debt instruments). Impairment losses of financial assets are recognised separately in the notes to the consolidated financial statements.

The Group has also applied the amendments to IFRS 7 Financial instruments: Disclosures for the notes to the financial statements for the 2018 financial year. However, these were generally not applied to the comparative information.

IFRS 15 – Revenue from Contracts with Customers

This new standard replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts" and the related interpretations. IFRS 15 sets out a comprehensive framework for the determination of whether, in which amount and when revenue is to be recognised. The core principle underpinning IFRS 15 is that an entity should recognise revenue when goods have been supplied or a service rendered (transfer of control). This core principle is delivered in a five-step model context. To this end, it is first necessary to identify the relevant contracts with the customer and the performance obligations included therein. Once the transaction price has been determined, this must then be allocated to the separate performance obligations. Revenue recognition is then based on the amount of consideration expected for each separate performance obligation either at a given date or over a given period. IFRS 15 also includes detailed application guidance on a large number of topics (e.g. contract modifications, sales with a right of return, contract costs, extension options, licensing revenues, principal-agent relationships, bill-and-hold arrangements, consortium agreements etc.). The extent of the notes disclosures will also be expanded.

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

With regard to revenue generated from the sale of investment properties, IFRS 15 did not result in any changes, as the respective contracts only provide for this single performance obligation and the date of revenue recognition is therefore specified. As before, payments received for sales of investment properties (contract liabilities) are reported under other liabilities and presented separately in the notes to the consolidated financial statements.

Via Brack Capital Properties N.V., Amsterdam/ Netherlands (BCP), the company acquired in the period under report, ADLER also generated income from sales of newly built apartments as part of project developments. Revenue recognition is based on project progress over a given period, as BCP has a payment entitlement. As a result, revenue for these sales under project developments are recognised under IFRS 15 earlier than under IAS 18. Receivables from the services which have not yet been invoiced are recognised under trade receivables as "contract assets project development". Payments received for sales of project development properties (contract liabilities) are recognised under other liabilities. The effects of this change on other items in the consolidated financial statements relate in particular to a decline in inventories and payments received for property sales and an increase in deferred tax liabilities.

IFRS 15 also resulted in no changes to income from other property management; revenue recognition continues to be based on the period.

When transitioning to IFRS 15, the Group applied the modified retrospective method according to which the cumulative adjustment amounts as at 1 January 2018, are recognised in retained earnings. As a result, the comparative information for 2017 has not been restated, i.e. they have been presented as before in accordance with IAS 18, IAS 11 and the corresponding interpretations. In addition, the disclosures in accordance with IFRS 15 were not generally applied to comparative information.

Adjustments from the transition to IFRS 15 only resulted from the sale of newly built apartments as part of project developments at BCP. However, BCP was acquired only at the beginning of the second quarter of 2018, thus the adjustment effects as at 1 January 2018 were eliminated in shareholders' equity as part of the first-time consolidation.

The table below summarises the impact of the application of IFRS 15 on the relevant items of the consolidated balance sheet as at 31 December 2018 and the consolidated statement of comprehensive income for the 2018 financial year. There were no other material implications on the Consolidated Statement of Cash Flows for the 2018 financial year.

Effects on the consolidated balance sheet:

Impact on Consolidated Balance Sheet in EUR ´000	without application of IFRS 15	Adaptations	with application of IFRS 15
31 December 2018			
Assets			
Goodwill	174,815	-4,057	170,758
Inventories	116,156	-28,060	88,096
Trade receivables	21,424	4,474	25,898
Other assets	5,571,879	0	5,571,879
Total assets	**5,884,274**	**-27,643**	**5,856,631**
Equity and liabilities			
Equity attributable to owners of the parent company	1,216,409	1,017	1,217,426
Non-controlling interests	361,231	974	362,205
Total equity	1,577,640	1,991	380,794
Deferred tax liabilities	378,047	2,747	380,794
Other current liabilites	92,098	-32,381	59,717
Other liabilities	3,836,489	0	3,836,489
Total liabilities	**4,306,634**	**-29,634**	**4,277,000**
Total assets	**5,884,274**	**-27,643**	**5,856,631**

The impact on goodwill shown is due to the cumulative adjustment effects of IFRS 15, which relate solely to the BCP and incurred prior to the acquisition of BCP and thus relate to the transition as at 1 January 2018 and the first quarter of 2018. The resulting increase in the carrying amount of the net assets resulted in lower goodwill overall following an acquisition than without application of IFRS 15.

Effects on the Consolidated Statement of Comprehensive Income:

Impact on consoidated statement of comprehensive income in EUR ´000	without application of IFRS 15	Adaptations	with application of IFRS 15
1 January to 31 December 2018			
Income from the sale of properties	60,408	14,660	75,068
Expenses from the sale of properties	55,198	11,765	66,963
Earnings from the sale of properties	5,210	2,895	8,105
EBIT	579,933	2,895	582,828
EBT	451,867	2,895	454,762
Income taxes	121,672	904	122,576
Consolidated net earnings	**330,458**	**1,991**	**332,449**

Amendment IAS 40 – Transfers of Investment Property

In particular, the amendments clarify that an entity shall transfer a property, including a property under construction or development, from or to the investment property portfolio only if there is evidence of a change in use. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. Since the current approach is consistent with the published clarifications, this had no effects on ADLER's consolidated financial statements.

The aforementioned other amendments did not have any material implications.

2.3 Standards and interpretations not prematurely applied

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

Standard/Interpretation	Title	IASB Effective Date[1]	Initial application date in theEU[1]
EU-endorsement achieved:			
IFRS 16	Leasing	01.01.2019	01.01.2019
IFRIC 23	Uncertainty over income tax treatments	01.01.2019	01.01.2019
EU-Endorsement outstanding:			
Amend. IAS 1 and IAS 8	Definition of materiality	01.01.2020	expected 01.01.2020

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

IFRS 16 – Leases

The previous standard for leases IAS 17 and the related interpretations are replaced by IFRS 16. IFRS 16 revises how leases are recognised, measured, presented and disclosed. In accordance with IFRS 16, the previous distinction between operating leases and finance leases is no longer applicable to the lessee. For all its leases, a lessee will recognise a lease liability equal to the present value of the future lease payments plus directly attributable costs and capitalises a corresponding right to use an asset. The right of use will be amortised over the contractual term by application of the requirements governing intangible assets. Rights of use for investment properties that are measured at fair value in accordance with IAS 40 are also measured at fair value. The lease liabilities will be recognised and measured in accordance with the requirements applicable to financial instruments in accordance with IFRS 9. In the income statement, the items will be recognised separately as amortisation of assets and interest on the liability. Simplified requirements apply for the recognition of short-term leases and low-value asset leases. Here, the lease payments will be expensed over the term of the lease. Note disclosures will be extended and should enable users to assess the amount, timing and uncertainty involved in leases. For lessors, by contrast, the provisions of the new standard are similar to existing IAS 17 requirements. Leases will continue to be classified either as financing or operating leases.

ADLER intends to apply IFRS 16 for the first time as at 1 January 2019 using the modified retrospective method. For this reason, any cumulative effect from the application of IFRS 16 is recognised as an adjustment to the opening balance of retained earnings as at 1 January 2019. Comparative information will not be restated. ADLER intends to use the simplification approach to maintain the definition of a lease for the transition. This means that the Group will apply IFRS 16 to all contracts that have been concluded before 1 January 2019 and have been identified as leases in accordance with IAS 17 and IFRIC 4. ADLER will also use the simplified approach for short-term leases (less than 12 months) and leases for which the underlying asset is of low value and recognise the lease payments as an expense when incurred over lease term.

As ADLER mainly acts as a lessor in its property letting activities, IFRS 16 is not expected to have any material implications for the consolidated financial statements. As part of the analysis of the leases, the following types of contract were identified in which ALDER assumed obligations as lessee and obtained the right-to-use asset:

- Leasehold contracts for land (leaseholds)
- Rental agreements for office spaces, garages and storage spaces
- Rental agreements for cars and commercial vehicles
- Rental contracts for hardware

No material effects are expected on the Group's existing finance leases (in particular leaseholds). The obligations previously entered into as lessee for operating leases with terms of more than one year or not low value are of subordinate significance. Based on an evaluation of existing leases, ADLER expects that additional lease liabilities and rights of use assets of EUR10 million to EUR 12 million will be recognised as at 1 January 2019. As a result of the increase in balance sheet total, shareholders' equity will slightly decrease. In the Consolidated Statement of Comprehensive Income, the expenses for the liabilities which have so far been recognised as operating leases are based on interest expenses for the leasing liabilities and, depending on the asset underlying the respective right of use, either through depreciation expenses for exploitation rights or through the income effect from fair value adjustments of investment properties (for leaseholds). This will result in a slight improvement of EBITDA and thus FFO I. In the future, cash payments for the reduction of the outstanding lease liability and cash payments for the interest portion of the lease liabilities will be allocated to the cash flow from financing activities. Until now the cash payments for operating leases have been recognised under cash flow from operating activities. This results in a slight improvement in cash flow from operating activities and a slight deterioration in net cash flow from financing activities.

For ADLER as lessor, IFRS 16 will have no material implications in terms of recognition and measurement. The Group's revenue from letting items of real estate (net rental income) is attributable to leases and is therefore included in the scope of IFRS 16 as at 1 January 2019. A distinction must be made between those non-lease components of the continuing obligation in which the tenant does not receive a separate service, but has to replace ADLER in the context of accounting for operating costs (subject to IFRS 16), and those in which ADLER has a commitment to provide a service (subject to IFRS 15). Thus, revenue from the charge of property tax and building insurance expenses are included in the scope of IFRS 16 in addition to net rental income.

Overall, this will lead to additional disclosures in the notes to the consolidated financial statements for ADLER.

IFRIC 23 – Uncertainty over Income Tax Treatments

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

Amendment IAS 1 and IAS 8 – Definition of Materiality

Materiality is defined as following: 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. It is clarified that information that could influence users' decisions is not necessarily required if it is very unlikely. It is added that the materiality of the information is not determined by its influence on decisions of all possible users but only the primary users. ADLER will apply these changes as soon as they come into effect. ADLER does not expect any material implications on its consolidated financial statements.

3.BASIS OF CONSOLIDATION

3.1 Subsidiaries

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

Subsidiaries are fully consolidated from the date on which control passes to the parent company. They are deconsolidated if control ceases.

All material subsidiaries are included in the consolidated financial statements (see Note 4.1 Investments in subsidiaries).

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

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

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

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

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

3.2 Joint arrangements

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

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

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

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

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

3.3 Associated companies

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

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

4. SCOPE OF CONSOLIDATION, BUSINESS COMBINATIONS AND PROPERTY COMPANIES

4.1 Investments in subsidiaries

Including the parent company, the scope of consolidation includes a total of 229 companies (previous year: 111) that are fully consolidated. The Group does not own any properties outside Germany.

The scope of consolidation developed as follows:

Quantity	2018	2017
As of 01.01.	111	127
Additions	121	20
Disposals	2	32
Mergers/accruals	1	4
As of 31.12.	**229**	**111**

121 companies were newly included in the scope of consolidation in the period under report and two companies were deconsolidated. One company was merged with another company within the scope of consolidation.

In the third quarter, three companies were founded that are expected to serve as intermediate holding companies in the Rental segment. Furthermore, in the second quarter ADLER also acquired shares (94.9 percent) in a property company (TGA Immobilien Erwerb 10 GmbH). These measures did not have any material implications for the Group's net assets, financial position or results of operations.

At the beginning of the second quarter, ADLER acquired nearly 70 percent of the shares in BCP and consolidated the company and its 114 subsidiaries for the first time. An inactive company (Weaved Immo Finance B.V.) was liquidised.

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

In the fourth quarter, 75 percent of the interests in an inactive company (Magnus Vierzehnte Immobilienbesitz- und Verwaltungs GmbH) were sold at the carrying amount. These measures did not have any material implications for the Group's net assets, financial position or results of operations.

ADLER's shareholdings, also corresponding to its share of voting rights, as at 31 December 2018 are shown in an appendix to the notes to the consolidated financial statements from page 190.

4.2 Business combinations

At the beginning of the second quarter, ADLER acquired nearly 70 percent of the shares in BCP and consolidated the company and its 114 subsidiaries for the first time.

Acquisition of Brack Capital Properties N.V.

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

The acquisition date on which ADLER gained control of BCP was 2 April 2018. On this day, the last closing condition to the takeover bid was fulfilled. The transaction was dealt with as a company acquisition in accordance with IFRS 3 and included in the interim consolidated financial statements as at 30 June 2018 for the first time. Due to the acquisition of BCP, in total 115 companies will be included in the scope of consolidation.

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

The currency risk arising from the acquisition of a majority stake in BCP by paying the purchase price in New Israeli Shekels (NIS) was almost completely covered by hedging transactions. In accordance with IFRS 9, hedging transactions (deal contingent forward and deal contingent option) were classified as cash flow hedges. The effective portion of the changes in the fair value of the hedging instruments and the cost of the hedging were directly included in the acquisition costs of the interests when they are recognised. The secured purchase price for the acquisition of 69.81 percent of the shares in BCP's capital stock totals EUR 554,788k and was paid in cash. This was also used for the purposes of determining the effects of the initial consolidation. The unsecured purchase price would have totalled EUR 548,452k.

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

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

EUR ´000	
Goodwill	69,560
Investment Properties	1,605,551
Other non-current assets	8,735
Current assets	71,078
Cash and cash equivalents	82,510
Acquired assets	**1,837,434**
Non-current liabiities	862,747
Current liabilities	194,364
Acquired liabilities	**1,057,110**
Net assets at 100 %	**780,324**
Non-controlling interests	225,536
Acquisition costs	**554,788**

The provisional purchase price allocation results in goodwill of EUR 69,560k which cannot be deducted for tax purposes, is attributable to the workforce, expected operating and financial synergies, the high profitability of the acquired business and deferred taxes. The first-time allocation of goodwill has not been concluded yet.

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

Other non-current assets include EUR 7,667k in loans to associated companies, deferred tax assets of EUR 526k, property, plant and equipment of EUR 270k, shares in associates of EUR 167k, and other non-current assets at fair value with an amount of EUR 105k.

The current assets acquired includes EUR 24,466k in properties from project developments that are sold to non-group companies. At the time of acquisition, the fair values of these properties were calculated on the basis of reports of external experts based on discounted cash flow methods. In the amount of EUR 11,900k, non-current assets held for sale are acquired. In addition, EUR 1,306k of services that have not yet been invoiced from the transferable management costs and trade receivables (EUR 17,674k) and other receivables (EUR 15,732k) are included. Payments received from the tenants' payments of ancillary expenses were reported net with the services that had not yet been invoiced from the transferable management costs. The carrying amounts of the receivables acquired have already taken necessary impairment losses into account and correspond to their fair values as at the time of acquisition. The gross value of the trade receivables due amounts to EUR 22,663k, of which EUR 4,989k is not expected to be collected.

Non-current liabilities include at their fair values financial liabilities to banks in the amount of EUR 629,681k, liabilities for bonds in the amount of EUR 116,995k, deferred tax liabilities in the amount of EUR 104.170k and other liabilities in the amount of EUR 8,447k. A contingent liability of EUR 3,454k was recognised on the acquisition of BCP for a pending lawsuit in which the entity is a defendant. The claim has arisen from a general contractor demanding payment for services performed for a development project. The potential undiscounted amount of all future payments that the Group could be required to make if there was an adverse decision related to the lawsuit is estimated to be approximately EUR 13,817k.

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

When determining deferred taxes, deferred tax assets for carryforwards of EUR 6,222k were offset against deferred tax liabilities for temporary differences from the measurement of investment properties. Despite the acquisition of the shares, the loss carryforwards are still deductible in accordance with the applicable rules established by the taxation authorities, as there are still sufficient hidden reserves in the acquired companies.

The option of IFRS 3.19 was used to value the non-controlling interests at fair value when calculating the non-controlling interests based on the stock market price at the time of acquisition. When determining the non-controlling interests, indirect non-controlling interests were added.

Following the first-time consolidation, BCP has contributed gross rental income BCP has contributed gross rental income in the amount of EUR 79,812k, income from the sale of properties in the amount of EUR 56,302k and earnings before taxes in the amount of EUR 137,581k in the Group's total comprehensive income for the year. If BCP had already been fully consolidated as at 1 January 2018, the company would have contributed to gross rental income in the amount of EUR 106,148k, the income from the sale of properties in the amount of EUR 74,731k and earnings before taxes in the amount of EUR 157,377k.

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

4.3 Acquisition of property companies and project development companies

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

5. SPECIFIC ACCOUNTING POLICIES

5.1 Intangible assets and property, plant and equipment

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

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

Property, plant and equipment is recognised at cost, less accumulated depreciation and accumulated impairments. Cost includes expenses directly attributable to the acquisition. Subsequent acquisition or production costs are only capitalised if it is likely that future economic benefits will accrue to the company. Repair and maintenance costs are recognised as an expense in the financial year in which they are incurred.

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

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

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

5.2 Investment properties

Investment properties include all properties that are held on a long-term basis to generate gross rental income and value growth. In contrast to investment properties, inventories constitute assets which are held for sale in the ordinary course of business, which are in the process of production for such sale or which are used in the production process or in the rendering of services. Consequently, properties held for sale in the normal course of business or are constructed or developed with the intention of being sold are outside the scope of IAS 40. These are recognised under inventories and are within the scope of IAS 2.

At the time of acquisition, investment properties are measured at their acquisition and production costs, including the ancillary costs of the acquisition. In subsequent periods, investment properties are measured at their fair values. Ongoing maintenance costs are recognised as an expense in the Statement of Comprehensive Income. Modernisation measures, if they extend beyond the ongoing maintenance, are capitalised if it is likely that the company will derive an economic benefit from them in the future. Measurement results are presented in the Consolidated Statement of Comprehensive Income under the item “Income from fair value adjustments of investment properties”.

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

Fair value can be determined using the market-based approach, the cost-based approach or the income-based approach. It will maximise the use of relevant observable market-based input factors and minimise the use of non-observable inputs.

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

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability.

Investment properties are not traded in active markets, but are measured using input factors based on unobservable market data (Level 3).

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

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

Properties initially acquired for trading purposes and correspondingly allocated to inventories are reclassified to investment properties when it becomes apparent that their use has changed.

5.3 Impairment of intangible assets and property, plant and equipment

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

A cash-generating unit is the smallest group of assets that includes assets and generates cash flows that are largely independent of the cash flows generated by other assets or groups of assets. Goodwill acquired as part of a business combination is allocated to the cash-generating unit or group of cash-generating units that is expected to benefit from the synergies of the business combination.

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

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

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

5.4 Financial assets

Trade receivables are recognised from the date on which they incurred. All other financial assets are recognised for the first time on the trade date if the company becomes a party in accordance with the terms of the instrument.

Financial assets (except for trade receivables with no material financing component) are recognised for the first time at fair value. An item that is not measured at fair value through profit or loss will incur transaction costs that are directly attributable to its acquisition or issuance. Upon initial recognition, trade receivables with no material financing component are measured at transaction price.

Upon initial recognition, a financial asset is classified and measured as follows:

- Financial assets at fair value through profit or loss – aafv
- Financial assets at fair value through other comprehensive income – aafvoci
- Financial assets measured at amortised cost – aac

Financial assets measured at fair value through other comprehensive income currently exist only in the form of debt instruments.

Financial assets are not reclassified after initial recognition unless the Group changes its business model to manage its financial assets. In this case, all relevant financial assets are reclassified on the first day of the period under report following the change to the business model.

A financial asset is measured at amortised cost if both of the following conditions are met and it has not been classified as "at fair value through profit or loss":

- It is held as part of a business model whose aim is to hold financial assets for collection of the contractual cash flows.
- The contractual terms and conditions governing a financial asset give rise to cash flows at fixed dates that are only payments of principal and interest on the principal amount outstanding.

A debt instrument is classified "at fair value through other comprehensive income" if the two conditions below are met and it has not been classified as "at fair value through profit or loss":

- It is held as part of a business model in which the aim is both to hold financial assets for the collection of contractual cash flows and to sell financial assets.
- Its terms result in payment flows at fixed dates which are only payments of principal and interest on the principal amount outstanding.

Upon initial recognition of an equity instrument that is not held for trading, the Group may irrevocably choose to show consequential changes in the fair value of the instrument in other comprehensive income. This choice is made on a case-by-case basis for each equity instrument.

All financial assets that are not measured at amortised cost or at fair value through other comprehensive income are measured at fair value through profit or loss. This includes all derivative financial assets. Upon initial recognition, the Group may irrevocably choose to designate financial assets that would otherwise qualify for measurement at amortised cost or fair value through other comprehensive income as "at fair value through profit or loss" if that results in eliminating or significantly reducing accounting mismatches. This so-called fair value option was not exercised on the existing financial assets of the ADLER Group.

ADLER makes an assessment of the goals of the business model in which the financial asset is held at a portfolio level, as this best reflects the way the business is managed and information is provided to management.

Financial assets held or managed for trading and whose performance is measured at fair value are measured at fair value through profit or loss.

For purposes of assessing whether the contractual cash flows are solely principal and interest payments, the “principal amount” is defined as the fair value of the financial asset upon initial recognition. “Interest” is defined as the consideration of the time value of money and the default risk associated with the principal amount over a period of time and other basic credit risks, costs and a profit margin. In assessing whether the contractual cash flows are exclusively interest and principal payments on the principal amount, the Group takes the contractual arrangements of the instrument into account. This includes an assessment of whether the financial asset includes a contractual arrangement that could change the timing or amount of the contractual cash flows so that they no longer meet these conditions.

ADLER derecognises a financial asset when the contractual rights to cash flows from the financial asset expire or when it transfers the rights to receive the cash flows in a transaction, in which all material risks and rewards associated with the ownership of the financial asset will also be transferred. Derecognition also occurs if the Group neither transfers nor retains all material risks and rewards of ownership and does not retain control over the transferred asset.

Financial assets at fair value through profit or loss

Equity instruments and derivatives are always subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss in the Consolidated Statement of Comprehensive Income.

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

Financial assets measured at fair value through other comprehensive income

The correspondingly classified debt instruments are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairments are recognised in profit or loss. Other net gains or losses are recognised in other comprehensive income. Upon derecognition, the accumulated other comprehensive income is reclassified to profit or loss.

These assets are classified as current assets unless their maturity or realisation exceeds twelve months after the balance sheet date. They are otherwise recognised as non-current assets.

Financial assets measured at amortised cost

These financial assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss. Gains or losses from the derecognition are recognised in profit or loss in the Consolidated Statement of Comprehensive Income.

They are classified as current assets unless their maturity exceeds twelve months after the balance sheet date. They are otherwise recognised as non-current assets. The effective interest method is applied only if the asset has a maturity of more than twelve months.

Impairments

ADLER recognises impairment losses on expected credit losses for:

- Financial assets measured at amortised cost
- At fair value with changes in other comprehensive income

ADLER measures the impairments in the amount of credit losses expected over the term, except for the following impairments, which are measured at the expected 12-month credit loss:

- Bonds with a low default risk at the balance sheet date.
- Other debt instruments, including bank deposits, for which the default has not significantly increased since first-time recognition.

Impairment losses on trade receivables (rental receivables, receivables from the disposal of properties and contract assets) are always measured in the amount of the expected credit loss over the term.

In determining whether the default risk of a financial asset has increased significantly since initial recognition and in estimating expected credit losses, ADLER considers reasonable and reliable information that is relevant and available without disproportionate time and expense. This comprises both quantitative and qualitative information and analyses that are based on past experience and well-founded assessments, including forward-looking information.

From the point of view of ADLER, a bond has a low default risk if its credit risk rating meets the global definition of “investment grade”. ADLER continues to assume that the default risk of a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to have defaulted if it is unlikely that the borrower will be able to fully pay its credit commitment to the Group without the Group having to resort to measures such as the realisation of collateral (if any is available).

Credit losses expected over the term are those that result from all possible default events during the expected life of the financial instrument. 12-month credit losses are the portion of expected credit losses resulting from default events that are possible within twelve months of the end of the reporting period (or a shorter period if the expected life of the instrument is less than twelve months). The maximum period to be considered when estimating expected credit losses is the maximum contract period in which the Group is exposed to credit risk.

Expected credit losses are the probability-weighted estimates of credit losses. Credit losses are measured as the present value of the defaults (i.e. the difference between the payments owed to a company in accordance with the contract and the payments the company is expected to make). Expected credit losses are discounted at the effective interest rate of the financial asset. When assessing expected credit losses, existing collateral is taken into account.

At each balance sheet date, ADLER estimates whether financial assets at amortised cost or bonds at fair value through other comprehensive income with regard to credit rating are impaired. A financial asset is impaired if one or more events have an adverse effect on the expected future cash flows of the financial asset. Indicators that a financial asset is impaired in credit quality include the following observable data:

- Significant financial difficulties of the issuer or the borrower
- A breach of contract, such as a default or more than 90 days overdue
- Restructuring a loan by the Group that it would otherwise not consider
- It is likely that the borrower will enter bankruptcy or other financial reorganisation
- The disappearance of an active market for a security due to financial difficulties

Impairment losses of financial assets in accordance with IFRS 9 are not disclosed in a separate item in the Consolidated Statement of Comprehensive Income for reasons of materiality, but as previously under other operating expenses (trade receivables) and financial costs (other debt instruments). Impairment losses of financial assets are recognised separately in the notes to the consolidated financial statements.

Impairment losses on financial assets that are measured at amortised cost are deducted from the gross carrying amount of the assets. For bonds that are measured at fair value through other comprehensive income, the impairment is reclassified from other comprehensive income to profit or loss.

The gross carrying amount of a financial asset is amortised if the Group does not reasonably believe that the financial asset is fully or partly feasible. Subsequent payments received on previously derecognised amounts are recognised in profit or loss as other operating income.

5.5 Derivative financial instruments

In particular, the Group uses interest rate hedges intended to hedge changes in interest rates. If included in hedge accounting, it is a cash flow hedge. However, interest rate hedges are currently not classified as hedges.

Under certain conditions, embedded derivatives are separated from the underlying contract and accounted for separately.

Upon initial recognition and subsequent measurement, derivatives are measured at fair value. Relevant changes are always recognised through profit or loss in the Consolidated Statement of Comprehensive Income. The fair values of derivatives are determined using standard market valuation methods and take account of the market data available on the valuation date.

5.6 Inventories

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

These items are initially measured at acquisition or production cost. Acquisition costs include the purchase price of the property plus directly attributable ancillary costs, such as brokerage fees, land transfer tax, notarial fees and land register costs. Renovation costs that result in a significant improvement to the properties are capitalised. These inventories are subsequently measured at the lower of cost from acquisition or production costs or at their net realisable value. Net realisable value corresponds to the estimated selling price less estimated costs through to completion and the estimated required disposal costs.

5.7 Cash and cash equivalents

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

5.8 Non-current assets and liabilities held for sale

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

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

5.9 Shareholders’ equity

Debt and equity instruments are classified as financial liabilities or equity on the basis of the economic substance of the contractual arrangements. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of the associated liabilities. Equity instruments are recognised in the amount of the issue proceeds, less directly attributable issuance costs. Issuance costs are costs that would not have been incurred if the equity instrument had not been issued. Such costs of an equity transaction, less all associated income tax benefits, are deducted from equity and directly offset against the capital reserves.

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

5.10 Pension provisions

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

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

5.11 Other provisions

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

ADLER recognises provisions for non-profitable contracts when the benefit expected from the contractual claim is lower than the unavoidable costs of fulfilling the contractual obligations.

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

5.12 Financial liabilities

Financial liabilities are recognised for the first time on the trade date if the company becomes a party in accordance with the terms of the instrument. Liabilities are classified as current liabilities when the Group does not have the unconditional right to defer the redemption of the liability to a time later than at least twelve months after the balance sheet date or if settlement is expected within twelve months of the balance sheet date.

Financial liabilities are classified and measured as financial liabilities measured at amortised cost – flac or financial liabilities at fair value through profit or loss – lafv. A financial liability is classified as at fair value through profit or loss if it is classified as held for trading, is a derivative or is classified as such at initial recognition. The so-called fair value option was not exercised on the existing financial liabilities of the ADLER Group.

Net gains or losses, including interest expenses related to financial liabilities at fair value through profit or loss, are recognised through profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expenses and currency translation differences are recognised through profit or loss. Gains or losses from derecognition are also recognised through profit or loss.

When determining the fair value, the expected future cash flows are discounted using market interest rates with matching maturities. Individual characteristics of the financial instruments being measured are accounted for by way of standard credit rating and liquidity spreads.
The fair value of the financial liabilities is determined on the basis of the input factors in Levels 1, 2 and 3.

The Group derecognises a financial liability when the obligations stipulated in the contract have been settled, rescinded or have expired. The Group also derecognises a financial liability when the obligations stipulated in the contract are changed and the cash flows of the adjusted liability are significantly different. In this case, a new financial liability is recognised based on the adjusted requirements for fair value. When a financial liability is derecognised, the difference between the carrying amount of the amortised liability and the consideration paid (including any transferred non-cash assets or liabilities assumed) is recognised in profit or loss.

5.13 Taxes

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

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

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

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

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

5.14 Leases

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

The Group is both a lessor and a lessee in the property letting business.

5.15 Revenue recognition

The Group's income from letting items of real estate (net rental income) is attributable to leases and is recognised based on the period in accordance with the terms of the underlying contracts. Rent and income are recognised if they are stipulated by contract and it is probable that the economic benefits will accrue to the Group. Since net rents are usually paid monthly in advance, rent is due immediately.

Income from charged operating costs is recognised based on the period corresponding to the underlying rendering of services, i.e. when control of the service has been transferred to the tenants. It is required that there are contractual arrangements with the tenants and that it is likely that the specified consideration will be received. Revenue recognition in accordance with IFRS 15 has therefore not changed as compared to the approach of IAS 18. Operating costs and their additional charges are recognised using the principal method. This is due in particular to ADLER's business model, which provides for a high share of in-house services relevant to operating costs. ADLER is regarded by the tenant as being primarily responsible for the provision of services and also has an inventory risk for all services that are not provided in-house. The reporting of expenses related to operating costs and the corresponding income from additional charges to the tenant was therefore not offset in the Consolidated Statement of Comprehensive Income. Liabilities from the payments of ancillary expenses are reported net with the receivables for the services that have not yet been invoiced and the net amount is recognised under trade payables as "contract assets operating costs" or "liabilities from advance payments of operating costs". The tenants' advance payments of operating costs and the net rent are due monthly and are payable immediately.

Income from the sale of investment properties is recognised when the control has been transferred to the buyer, this is usually the case when transferring ownership rights, benefits and obligations arising from properties. When disposing of property companies, this date regularly coincides with the completion of the transfer of the respective shares. It is required that there are contractual arrangements with enforceable rights and obligations and that it is likely that the consideration specified will be received. The recognition of revenue in accordance with IFRS 15 has not changed as compared to the approach of IAS 18, as the contracts in question only provide for these a defined benefit obligation with a clearly defined consideration and the date of revenue recognition is specified in concrete terms. The purchase prices are usually deposited on notary accounts and paid to ADLER when the control has been transferred. Payments received for sales of investment properties (contract liabilities) are recognised under other liabilities if control has not yet been transferred.

Via BCP, the company acquired in the period under report, ADLER also generated income in Germany from sales of newly built apartments as part of project developments. As at 31 December 2017, the company realised the revenue from the sale only when the apartments were handed over to the buyers. In accordance with IFRS 15, revenue from these sales are recognised earlier than in accordance with IAS 18, as revenue recognition is based on project progress over a period of time. Contractual arrangements with enforceable rights and obligations and receipt of the consideration specified are required for the recognition of income. The transaction price is determined separately for each performance obligation. The company's performance obligation is to provide the buyer with the power of disposal of the respective apartment. Based on the existing contracts with the buyers and the legal situation in Germany, the apartments do not constitute assets with alternative use and the company has an enforceable right to demand compensation for the services provided up to that point in time. The power of disposal within the meaning of IFRS 15.35(c) thus passes to the buyer upon conclusion of the notarised purchase agreement and revenue is recognised from this date according to the stage of completion or performance progress. The company uses the input method to measure performance progress. Costs that do not reflect performance progress such as land and borrowing costs and duties are not taken into account. The company estimates the costs required to complete the project to determine the amount of revenue expected to be realised. These estimates include the direct costs associated with the fulfilment of the contract and are allocated based an appropriate allocation formula. Thus, a performance progress rate is determined according to which the revenue for each individual contract is recognised in accordance with the performance progress rate of the entire construction project. The company uses the practical expedient regarding the consideration of material financing components, according to which the consideration does not have to be adjusted if it is expected at the time of conclusion of the contract that the period between the receipt of the consideration and the time of realisation of the sale will not exceed one year. Receivables from the services which have not yet been invoiced are recognised under trade receivables as "contract assets project development". Payments received for sales of project development properties (contract liabilities) are recognised under other liabilities if it is not possible to offset again the contract assets.

Interest income is recognised in proportion to time in accordance with the provisions of the underlying contracts taking into account the residual claim and the effective interest rate over the remaining term.

5.16 Currency translation

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

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

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

5.17 Residual interests and dividend distributions

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

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

5.18 Cash flow statement

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

5.19 Share-based payments

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

6. SIGNIFICANT DISCRETIONARY DECISIONS AND ESTIMATES

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

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

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

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

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

- Estimates also characterise the determination of the impairment of financial assets. In this context, the default risks of financial assets must be assessed and the respective expected credit losses estimated.

- Based on its current planning, the Management Board decides to what extent future loss carryforwards can be utilised. The basis for decisions is thus the expected taxable profits of the respective company.

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

- When recognising revenue, it must be assessed whether the specified consideration is likely to be received. Revenue recognition for sales of newly built apartments as part of project developments is based on the period corresponding to the degree of completion or performance progress. In this context, the company estimates the costs required to complete the project to determine the amount of revenue expected to be realised.

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

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

- Upon the addition of property companies, a decision has to be made whether this constitutes the acquisition of a business operation. When the acquisition involves not only assets and liabilities, but also a business operation (integrated group of activities), the transaction constitutes a business combination. For example, the business processes of asset and property management, receivables management and accounting are deemed to represent an integrated group of activities. A further key indication that the takeover involves a business operation is the fact that personnel is also employed by the company thereby taken over. All these processes and indications could be negated in the case of the acquisitions of property companies in the 2018 financial year, as a result of which the acquisitions have not yet been presented as business combinations pursuant to IFRS 3 in 2018.

- In the context of business combinations pursuant to IFRS 3, in the assessment of non-controlling interests, a decision is to be made whether the option of IFRS 3.19 should be used to value the non-controlling interests at fair value. It should also be determined whether indirect non-controlling interests should be taken into account in an additive or multiplicative manner.

- Upon the initial recognition of financial instruments, a decision has to be made as to which of the measurement categories they should be allocated to.

7. SEGMENT REPORTING

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

This includes all ADLER's portfolios in its earlier structure before the acquisition of BCP through the letting of which ADLER Real Estate AG aims to generate long-term gross rental income. Gross rental income and the expenses associated with the letting business reflect the activities of the Group's asset and property management which manages residential units held in the portfolio in technical and commercial terms. This segment also includes expenses for tradesman and caretaker services, which are provided by intragroup facility management.

BCP owns a property portfolio of 11,944 residential units in Germany with a focus on larger cities in Germany. BCP also contributes around 300,000 square metres of commercial space and project developments in the centre of Düsseldorf and Aachen for around 2,000 new residential units, which are to be added to the BCP portfolio after completion unless it is not already agreed to sell them to non-group companies.

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

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

Income and EBIT are structured as follows:

ADLER Group **In EUR ´000**	**Rental** **2018**	**BCP** **2018**	**Other** **2018**	**Group** **2018**
Income from the management of properties and from the sale of properties	288,344	136,114	205	424,663
– of which letting	269,578	79,812	205	349,595
– of which disposals	18,766	56,302	0	75,068
Change in the fair value of investment properties	373,491	91,638	0	465,129
Earnings before interest and tax (EBIT)	**445,252**	**137,480**	**96**	**582,828**
Result of investments accounted for using the equity method	200	2,962	0	3,162
Financial result	**-128,478**	**-2,861**	**111**	**-131,228**
Result before taxes (EBT)	**317,051**	**137,581**	**130**	**454,762**

Revenues in the Rental segment amounted to EUR 288,344k (previous year: EUR 297,548k), of which EUR 269,578k (previous year: EUR 264,087k) was attributable to letting. Changes in the value of investment property amounted to EUR 373,491k (previous year: EUR 235,386k). At EUR 445,252k, EBIT in the Rental segment was significantly above the previous year's level (previous year: EUR 311,803k). Earnings before taxes in the Rental segment amounted to EUR 317,051k (previous year: EUR 158,445k).

Revenues in the BCP segment amounted to EUR 136,114k, gross rental income to EUR 79,812k. Changes in the value of investment property amounted to EUR 91,638k. EBIT in the BCP segment amounted to EUR 137,480k, while earnings before taxes came to EUR 137,581k.

The EBIT and earnings before taxes were negatively affected by one-off items. Legal and advisory costs increased by EUR 12,525k due to the acquisition of shares in BCP. In addition, one-off expenses amounted to EUR 37,487k (previous year: EUR 60,589k) for the early repayment of promissory note loans with higher interest rates and for the early repayment of bonds in the amount of EUR 7,003k (previous year: EUR 4,001k). The bridging loan to finance the acquisition of the shares in BCP that was taken up in the first quarter resulted in transaction costs in the amount of EUR 9,313k that required immediate recognition as expenses due to early repayment in the second quarter 2018. A prepayment penalty of EUR 536k was incurred for the early repayment.

Depreciation of property, plant and equipment and amortisation of intangible assets break down as follows:

ADLER Group In EUR ´000	**Rental 2018**	**BCP 2018**	**Other 2018**	**Group 2018**
Depreciation of property, plant and equipment	-1,339	-93	0	-1,432
Amortisation of intangible assets	-169	0	0	-169

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

ADLER Group In EUR ´000	**Rental 2017**	**Other 2017**	**Group 2017**
Income from the management of properties and from the sale of properties	297.548	1.694	299.242
– of which letting	264.087	301	264.388
– of which disposals	33.461	1.393	34.854
Change in the fair value of investment properties	235.386	0	235.386
Earnings before interest and tax (EBIT)	**311.803**	**17**	**311.820**
Result of investments accounted for using the equity method	0	0	0
Financial result	**-153.408**	**25**	**-153.383**
Result before taxes (EBT)	**158.445**	**-8**	**158.437**

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

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

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

ADLER Group In EUR ´000	Rental 2018	BCP 2018	Other 2018	Consoli- dation 2018	Group 2018
Assets per segment	3,918,035	1,923,157	4,691	-4,961	5,840,922
Result of investments accounted for using the equity method	39	3,031	0	0	3,070
Total segment assets	**3,918,074**	**1,926,188**	**4,691**	**-4,961**	**5,843,992**
Non-current assets held for sale	-	-	-	-	12,639
Segment liabilities	**3,237,643**	**1,039,322**	**4,997**	**-4,961**	**4,277,001**
Segment investments	**129,774**	**35,354**	**0**	**0**	**165,128**

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

ADLER Group In EUR ´000	Rental 2017	Other 2017	Consoli- dation 2017	Group 2017
Assets per segment	3,766,501	7,329	-7,527	3,766,303
Result of investments accounted for using the equity method	25	0	0	25
Total segment assets	**3,766,526**	**7,329**	**-7,527**	**3,766,328**
Zur Veräußerung bestimmte langfristige Vermögenswerte Handel	-	-	-	12,639
Segment liabilities	**2,741,336**	**7,658**	**-7,527**	**2,741,467**
Segment investments	**375,203**	**0**	**0**	**375,203**

Segment assets mainly comprise property, plant and equipment, investment properties and receivables due from third parties and the “Other” segment. Goodwill of EUR 101,198k (previous year: EUR 101,198k) in the Rental segment and EUR 69.560k (previous year: EUR 0k) are recognised in the BCP segment. Please refer to the comments under 8.1 Goodwill, intangible assets.

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

The intragroup balances between the reportable segment “Rental” and the “Other” column are eliminated in the “Consolidation” column.

Segment investments include additions to property, plant and equipment, intangible assets, investment properties, properties recognised under inventories (primarily at BCP) and investments in associated companies.

8. NOTES TO THE CONSOLIDATED BALANCE SHEET

8.1 Goodwill and intangible assets

In EUR ´000 2018	Goodwill	Customer relationships and similar assets	Other intangible assets	Total intangible assets
Carrying amounts 01.01.	**101,198**	**0**	**567**	**567**
Additions from acquisitions (+)	69,560	0	0	0
Additions (+)	0	0	214	214
Depreciation current year (–)	0	0	-169	-169
Carrying amounts 31.12.	**170,758**	**0**	**612**	**612**

In EUR ´000 2017	Goodwill	Customer relationships and similar assets	Other intangible assets	Total intangible assets
Carrying amounts 01.01.	**130,552**	**209**	**374**	**583**
Additions (+)	0	0	448	448
Depreciation current year (–)	0	-209	-231	-440
Disposals ACCENTRO (–)	-29,354	0	-24	-24
Carrying amounts 31.12.	**101,198**	**0**	**567**	**567**

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

Goodwill of EUR 69,560k resulted from the acquisition of BCP in April 2018. The allocation of goodwill resulting from the BCP acquisition to groups of cash-generating units for the purposes of the impairment test has not yet been completed due to the ongoing integration of BCP into the ADLER Group. The first annual impairment testing is expected to be performed in the fourth quarter of 2019. As at the balance sheet date, there are no known indications that the goodwill from the BCP acquisition may be impaired.

Mandatory annual impairment testing for goodwill of the Rental segment was performed in the fourth quarter of the year under report. To determine the recoverable amounts of the business divisions, the respective values in use were first calculated by comparison with the measurement of investment properties (see comments in Note 8.3) on the basis of company planning adopted by the Management Board with a planning horizon of ten years. Perpetuity figures were computed on the basis of the cash inflows in the final year covered by the planning. The planning was determined by reference to factors which can be influenced and those which cannot.

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

Further major parameters used to determine the recoverable amounts include weighted average costs of capital (WACC) before taxes and the sustainable growth assumed for perpetuity. The WACC are derived from market-based costs of equity and debt capital weighted to account for the company's capital structure. These were calculated using the capital asset pricing model (CAPM) as used in theory and practice. This involves accounting for a risk-free interest rate, a market-based risk premium (market risk premium and beta factor) and a risk premium from industrial bonds. The market risk premium used raised to 6.75 percent in the year under review. (previous year: 6.50 percent) The calculation was performed by reference to comparative peer group data. The sustainable growth rate presents the market development expected in the future. With regard to the regional business units, the figures have been based on developments in actual rents.

Cash Generating Units as of 31.12.2018	North	Central	West	East	Total
Goodwill in EUR ´000	21,333	14,801	27,428	37,636	101,198
WACC before tax in %	4.3	4.3	4.3	4.3	-
Sustainable growth rate in %	1.5	1.5	1.5	1.5	-

Cash Generating Units as of 31.12.2017	North	Central	West	East	Total
Goodwill in EUR ´000	21,333	14,801	27,428	37,636	101,198
WACC before tax in %	4.9	4.9	4.9	4,9	-
Sustainable growth rate in %	1.5	1.5	1.5	1,5	-

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

In the year under review, a 1.0 percentage point decrease in the target rent (in EUR/square metre rental space) for the business units would not lead to an impairment of the respective book value. An increase in the vacancy rate (as a percentage of the target rent) by 1.0 percentage point would not lead to an impairment of the book value for any of the divisions. A 0.5 percentage point increase in the weighted average cost of capital (WACC) or a 0.5 percentage point decrease in the sustainable growth rate would have no impact on the recoverability of the book values of the business units.

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

8.2 Property, plant and equipment

In EUR ´000	2018	2017
Carrying amounts 01.01.	**4,948**	**3,434**
Additions from acquisitions (+)	270	0
Additions (+)	3,815	2,413
Depreciation current year (–)	-1,431	-711
Disposals (–)	-24	0
Disposals ACCENTRO (–)	0	-188
Carrying amounts 31.12.	**7,578**	**4,948**

8.3 Investment properties

In EUR ´000	Let investment properties	Project development properties	Total 2018
Carrying amounts 01.01.	**2.825.518**	**193.000**	**3.018.518**
Additions through acquisitions IFRS 3 (+)	1,331,482	274,070	1,605,552
Additions through investment properties/ property companies (+)	8,604	15,566	24,171
Other additions (+)	56,200	84,757	140,957
Fair value increase (+)	371,782	112,206	483,998
Fair value decrease (-)	-17,874	-985	-18,859
Reclassifications (+/-)	-192,828	-72,444	-265,272
Carrying amounts 31.12.	**4,382,884**	**606,170**	**4,989,054**

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

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

The additions in the reporting year were chiefly due to EUR 1,605,552k for the acquisition of BCP, EUR 84,757k for investments in project development properties under construction, EUR 15,566k for the acquisition of an undeveloped site for project development and EUR 8,604k for the acquisition of the property company TGA Immobilien Erwerb 10 GmbH.

The disposals result from the sale of sub-portfolios and individual units. Valuation gains of EUR 483,988k (previous year: EUR 247,114k) and valuation losses of EUR 18,859k (previous year: EUR 11,728k) were recognised in the 2018 financial year. Due to these gains and losses, net income from fair value adjustments of investment properties came to EUR 465,129k (previous year: EUR 235,386k). The reclassifications amounting to EUR 192,828k relate to investment properties classified in accordance with IFRS 5 as non-current assets held for sale. EUR 72,444k of properties under construction from investment properties of BCP were reclassified to inventories because they are expected to be sold after their completion.

In December 2018, in two separate transactions ADLER disposed of 3,700 rental units, which corresponds to virtually the entire non-core-portfolio. On 17 December 2018, ADLER entered into a binding agreement with an investor, which plans to sell around 1,400 rental units to a joint venture in which ADLER holds a 25 percent interest. ADLER will continue to assume asset management for these portfolios. The properties have a carrying amount of approximately EUR 61,500k. Control over the rental units was transferred at the beginning of 2019. On 27 December 2018, ADLER also entered into a binding agreement with Benson Elliot Capital Management, which plants to sell around 2,300 rental units to a joint venture in which ADLER holds a 25 percent interest. ADLER remains responsible for asset, property and facility management until the properties are sold to third parties. ADLER will profit from the potential upside of the final sale by the joint venture. The properties are worth approximately EUR 117,700k. Control over the rental units was also transferred at the beginning of 2019. In light of these two agreements, investment properties of EUR 179,200k were recognised as non-current assets held for sale and reclassified accordingly.

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

In EUR ´000	2018	2017
Income from property management	349,595	264,087
Expenses from property management	-145,908	-137,969
Earnings from property management	**203,687**	**126,118**

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

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

Let investment Properties – DCF method

The DCF method involves discounting the cash flows expected to be generated by a property to the measurement date. To this end, the cash flows from the respective properties are determined for a detailed planning period (ten years). These involve the net balance of expected inflows and outflows of cash. While inflows generally relate to net rents, the (gross) outgoing payments particularly involve the operating costs borne by the owner. The net cash flows for each period are then discounted to the balance sheet date as at 31 December 2018 by application of a market-based, property-specific discount rate.

This results in the capitalised value of the net cash flows for the respective period. A potential discounted disposal value (terminal value) is forecast for the property at the end of the detailed planning period. This reflects the price most likely to be achievable at the end of the detailed planning period. This involves capitalising the discounted net cash flows as perpetuity figures by application of the capitalisation rate of the respective property (exit rate). The sum of the discounted cash flows and the discounted potential disposal value provides the gross value of the property to be assessed. Market-specific transaction costs incurred by any potential buyer and quantified at 4.5 percent to 11.0 percent are then deducted from this gross value (previous year: 5.5 percent to 10.5 percent), following which the properties are recognised at net value.

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

Valuation parameters	Unit	Average	Range
Discount rate	%	4.48	3.25-6.00
Capitalisation rate	%	5.09	3.50-6.50
Maintenance costs	EUR/sqm	8.02	5.80-11.70
Administrative expenses	EUR/per rental unit/ year	229.62	200.00-310.00
Stabilised vacancy rate	%	4.17	0.00-4.70
Valuation results			
Actual rent multiplier		18.09	10.95-30.14
Market value per sqm	EUR/sqm	1,190.15	660.00-2.460.00

In the financial year 2018, the stabilised vacancy rate comprises temporary vacancies that are not considered to be marketable as well as fluctuation-related vacancies. In the previous year, fluctuation-related vacancies were taken into account in the interest rates applied.

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

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

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

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

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

	Capitalisation rate		Market Rent		Vacancy rate	
	-0.5 PP	+0.5 PP	-10.0%	+10.0%	-1.0 PP	+1.0 PP
Change in value						
In EUR ´000	199,817	-187,909	-505,363	517,465	59,034	-58,322
in %	4.56	-4.29	-11.54	11.82	1.35	-1.33

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

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

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

	Total rental area in sqm	Discount rate in %	Capitalisation rate in %	Actual rent multiplier	Stabilised vacancy rate in %	Market value 2018 in EUR ´000
Lower Saxony	1,168,056	4.62	5.22	17.44	4.03	1,242,733
North Rhine Westphalia	969,570	4.70	5.06	16.51	3.45	1,065,067
Saxony	575,205	4.52	5.03	19.55	3.44	629,125
Saxony-Anhalt	221,871	4.77	5.37	17.04	5.14	187,863
Brandenburg	221,848	4.67	5.49	15.44	7.12	195,233
Other	728,964	4.25	4.90	20.25	4.79	1,062,863
Total	**3,885,514**	**4.48**	**5.09**	**18.09**	**4.17**	**4,382,884**

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

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

Project development properties – Residual value method

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

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

Valuation parameters	Unit	Average	Range
Capitalisation rate	%	2.87	2.65-4.10
Calculated construction costs of the net rentable area	in EUR/sqm	2,960.04	1,506.00-3,821.00
Risk deduction for risk and profit	%	14.46	3.91-35.04
Multiplier gross annual profit		16.00	6.67-27.04

In the previous year, the valuations were based on the following parameters:

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

In the previous year the residual value method was applied only for project development. For this reason there is no range for the valuation parameters.

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

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

	discount rate		Market Rent		Calculated building costs[1]	
	-0.5 PP	+0.5 PP	-10%	+10%	-10 %	+10 %
Change in value						
In EUR ´000	253,361	-180,023	-115,641	150,882	82,372	-82,257
in %	47.23	-33.56	-21.56	28.13	14.12	14.10

[1] Without consideration of potential project guarantees

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

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

[1] Without consideration of potential project guarantees

In the previous year, the capitalization rate was in line with the discount rate.

8.4 Loans to associated companies

Loans to associated companies are presented in Note 13.3 “Related party disclosures”. The Group’s default risks and impairment losses of financial assets are presented in Section 11 of the notes to the consolidated financial statements.

8.5 Investments in associates and joint ventures

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

In EUR´000	2018	2017
Carrying amounts 01.01.	**25**	**497**
Additions through acquisitions IFRS 3	166	0
Other additions	14	0
Share of gains and losses (at-equity-result)	3,162	225
Other results attributable to the Group	0	0
Dividends received	-297	-217
Disposals ACCENTRO (–)	0	-480
Carrying amounts 31.12.	**3,070**	**25**

The remaining 6.2 percent interest in ACCENTRO will continue to be recognised as an associate in the consolidated financial statements due to its ability to exercise significant influence through a member of the Supervisory Board. However, it is included in non-current assets held for sale due to the proposed disposal (see Note 8.11).

ACCENTRO is a listed public limited company that primarily manages (buying and selling) residential property and individual apartments as well as the brokerage business associated with residential privatisation.

The tables below contain the combined financial information of ACCENTRO based on the last published IFRS consolidated financial statements:

In EUR ´000	31.12.2018	31.12.2017
Assets		
Non-current assets	81,109	22,179
of which goodwill	17,776	17,776
Current assets	393,096	325,605
of which inventories	345,241	304,027
of which cash and cash equivalents	15,464	7,875
Equity and liabilities		
Equity	199,104	153,697
Non-current liabilites	176,431	43,426
of which financial liabilities to banks	76,773	42,439
of which liabilities from bonds	98,561	0
Current liabilities	98,669	150,662
of which financial liabilities to banks	54,357	86,882
of which liabilities from bonds	1,563	12,065

In EUR ´000	2018	2017
Earnings from sale of inventories	33,085	34,692
Earnings from property lettings	6,130	5,434
Earnings from services	2,282	947
EBIT	32,864	36,401
EBT	23,975	27,633
Consolidated net profit	18,301	20,120

In EUR ´000	2018	2017
Cashflow from operating activities	-48,432	-25,200
Cashflow from investing activities	-51,204	22,679
Cashflow from financing activities	111,410	-4,223
Change in cash and cash equivalents	11,774	-6,743

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

In EUR ´000	2018	2017
Carrying amount of shares on not-vital-at-equity consolidated companies	**3,070**	**25**
Group's share in the result of non-vital-at-equity companies:		
– Profit from continuing operations	3,162	0
– Other results	0	0
Total result	**3,162**	**0**

The prorated share of profit and loss at the companies included using the equity method has been recognised in full in 2018. There are no accumulated unrecognised losses.

8.6 Other financial investments and other non-current assets

In the financial year 2018, ADLER acquired 4.1 percent of the shares in a project development company for residential properties based in Germany through its subsidiary BCP. The shares were classified as financial assets at fair value through profit or loss and recognised under other financial assets. As at 31. December 2018, based on the stock market price, the fair value amounted to EUR 37,019k. The change in value since the aquisition of EUR 2,019k is recognised under financial income.

Other non-current assets mainly include advance payments made.

8.7 Deferred taxes

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

In EUR ´000	2018	2017
Tax loss carryforwards (deferred tax assets)	87,572	67,925
Valuation of other liabilities (deferred tax assets)	5,315	5,094
Valuation of pension provisions (deferred tax assets)	557	234
Valuation of (convertible) bonds (deferred tax assets)	2,183	0
Valuation of financial liabilities (deferred tax assets)	10,747	9,954
Valuation of investment properties/inventories (deferred tax liabilities)	-465,102	-235,525
Valuation of (convertible) bonds (deferred tax liabilities)	-9,505	-7,239
Accrual of financing costs (deferred tax liabilities)	-2,273	-5,145
Other	-7,709	130
Total deferred tax assets	98,621	83,337
Total deferred tax liabilities	-476,881	-247,909
Offsetting	-96,086 96,086	-83,337 83,337
Reported deferred tax assets	**2,535**	**0**
Reported deferred tax liabilities	**-380,794**	**-164,571**

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

No deferred tax assets were recognised for corporate tax loss carryforwards of around EUR 353.8 million (previous year: around EUR 183.9 million) and trade tax loss carryforwards of around EUR 250.8 million (previous year: around EUR 160.5 million) as their realisation is not sufficiently certain.

No deferred tax liabilities have been recognised on amounts totalling EUR 36,0 million (previous year: EUR 23.2 million) in connection with shareholdings in group companies. This is due to the Group’s ability to control their reversal, which is not expected to be the case in the foreseeable future.

8.8 Inventories

Inventories include an amount of EUR 88,071k for properties acquired for sale (previous year: EUR 2,941k) and an amount of EUR 25k for other inventories (previous year: EUR 37k). The portfolio of inventory properties or properties from project developments (newly built apartments) acquired for sale developed as follows:

In EUR ´000	2018	2017
Carrying amounts 01.01.	**2,941**	**219,523**
Additions through acquisition (+)	24,466	0
Additions (+)	24,805	129,371
Disposals (-)	-36,663	-66,993
Disposals ACCENTRO (–)	0	-278,960
Reclassifications (+/-)	72,522	0
Carrying amounts 31.12.	**88,071**	**2,941**

As part of the acquisition of BCP, properties from project developments with a carrying amount of EUR 24,446k were acquired.

The disposals are related to the sales of newly built apartments as part of project developments.

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

The carrying amount of inventories pledged as securities for liabilities amounts to EUR 87,234k (previous year: EUR 0k). Inventory properties with total carrying amounts of EUR 74,600k (previous year: EUR 0k) are only expected to be sold after more than twelve months.

8.9 Trade receivables, income tax claims and other current assets

Current trade receivables comprise the following items:

In EUR ´000	2018	2017
Rent receivables	13,542	10,326
Contractual assets from operating costs	155	0
Contractual assets from project developements	4,474	0
Receivables from sale of investment properties	171	305
Other	7,557	87
Total	**25,898**	**10.717**

The disclosures in accordance with IFRS 15 to the balances related to contracts with customers are presented in Section 10 of the notes to the consolidated financial statements.

Other trade receivables primarily include balances with suppliers and service providers associated with the letting business.

Other current assets break down as follows:

In EUR ´000	2018	2017
Purchase price receivable ACCENTRO including interest claims	149,878	161,729
Current securities	14,571	18,191
Earmarked financial assets	46,502	38,984
Short-term loans to third parties	17,648	17,392
Sales tax receivables	1,375	0
Advance payment of financing costs	1,723	772
Derivates current	139	0
Receivables reductions in purchase price	190	190
Other current assets	8,454	6,250
Total	**240.480**	**243.508**

The ACCENTRO purchase price receivable results from the sale of ACCENTRO in the fourth quarter of 2017. EUR 17,370k was repaid on the purchase price receivable in the 2018 financial year. By contrast, interest income on the receivable of EUR 5,520k was recognised. In accordance with a supplementary agreement with the buyer, the remaining purchase price receivable is to be paid during the financial year 2019, at the latest until 30. June 2019.

Current securities comprise temporary investments of surplus liquidity. These are bonds that are held as part of a business model whose aim is both to hold financial assets for the collection of contractual cash flows and to sell financial assets if necessary. Debt instruments are therefore measured at fair value through other comprehensive income.

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

All items within other current assets are of a short-term nature as they mainly result from contractual arrangements due to be settled within one year.

The Group's default risk, impairment losses of financial assets and the disclosures on the derivatives are presented in Section 11 of the notes to the consolidated financial statements.

8.10 Cash and cash equivalents

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

Cash and cash equivalents amounted to EUR 77,655k (previous year: EUR 368,233k) as at the balance sheet date, of which an amount of EUR 44,262k (previous year: EUR 276,077k) was subject to restrictions on disposal. ADLER can dispose of these resources, but they are intended for a special use. In particular, these are credit accounts on which funds are accumulated, which are then used for interest payment and repayment. As at the end of the 2017 financial year, the amount primarily results from the funds deposited for the repurchase of promissory note loans.

Due to the specific restrictions on disposal, bank credit balances of EUR 46,502k (previous year: EUR 38,984k) have been reported for the year under report under other current assets.

8.11 Non-current assets and liabilities held for sale

In connection with the sale of the majority of the shares in ACCENTRO and the sale of the Trading segment, ADLER carried out a transitional consolidation on 30 November 2017 and included the remaining investment in ACCENTRO of 6.2 percent as an associated company in accordance with IAS 28 in the consolidated financial statements. Shares were measured in accordance with IFRS 10 at fair value (stock market price) amounting to EUR 12,639k at the date of transitional consolidation and reported under non-current assets held for sale. ADLER continues to expect a short-term disposal of the remaining investment in ACCENTRO, as these residuals in the context of the sale of the majority of shares and extension the relevant payment period until 30 June 2019, are to be introduced or sold. As at the balance sheet date, the fair value less costs to sell was higher than the book value, meaning that no valuation allowance had to be made.

In the first quarter, an impairment of EUR 395k was recognised at fair value less costs to sell the shares. Owing to the increase in the fair value of the shares in the second quarter, the impairment was reversed in the amount of EUR 395k. ADLER received a dividend of EUR 263k for the remaining share in ACCENTRO in the period under report.

The other non-current assets held for sale include properties recognised at a value of EUR 185,543k (previous year: EUR 10,943k), for which notarial purchase contracts were available at the balance sheet date. Liabilities relating to the properties sold have accordingly been reported as liabilities held for sale. The disposal of the non-current assets held for sale in the previous year did not have any material impact on earnings, as the assets were already measured at fair value. This corresponded to the sale price for the properties less related expenses.

8.12 Capital stock

The fully paid up share capital at ADLER amounted to EUR 71,064k as at 31 December 2018 (previous year: EUR 57,548k) and was divided into 71,063,622 (previous year: 57,547,740) no-par bearer shares with equal voting rights.

Due to the exercising of conversion rights, capital stock increased by EUR 1,819k. The issued mandatory 2015/2018 convertible bond was converted into 11,697,065 new no-par bearer shares in ADLER at the end of the term. Since the mandatory convertible bond – with the exception of the interest component – was recognised as equity upon issue and recognised in the capital reserve, EUR 11,697k has been reclassified from the capital reserve to capital stock.

The number of outstanding share is as follows:

Amount	2018	2017
As at 01.01.	57.547.740	47.702.374
Conversion of convertible bonds	13.515.882	5.072.231
Non-cash capital increase through company acquisition	0	4.773.135
As at 31.12.	**71.063.622**	**57.547.740**

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

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

Authorised Capital 2015/I
Pursuant to § 4 (3) of the Articles of Association, the Management Board is authorised until 21 May 2020, subject to the approval of the Supervisory Board, to increase the company's capital stock on one or several occasions by a total of up to EUR 13,300,000 by issuing up to 13,300,000 new no-par bearer shares in return for cash contributions or contributions in kind. The Management Board is authorised, subject to the approval of the Supervisory Board, to exclude shareholders' subscription rights in the cases listed in § 4 (3) of the Articles of Association.

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

Contingent Capital 2012/I
Pursuant to § 4 (4) of the Articles of Association, the company has contingent capital of EUR 1,500k based on the resolution by the Annual General Meeting held on 28 June 2012, supplemented by resolution by the extraordinary General Meeting held on 15 October 2013 and recently amended on the basis of the resolution by the ordinary Annual General Meeting held on 30 May 2018. The resolution by the Annual General Meeting held on 30 May 2018 was entered in the Commercial Register on 18 June 2018.

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

Following the exercising of conversion rights in connection with the 2013/2018 convertible bond issued on 17 December 2013 (ISIN DE000A1YCMH2), Contingent Capital 2012 still amounted to EUR 293k at the balance sheet date.

Contingent Capital 2015/I
The company has Contingent Capital 2015/I of EUR 12,000k based on the resolution by the Annual General Meeting held on 22 May 2015, last amended by resolution by the ordinary Annual General Meeting held on 30 May 2018. The resolution by the Annual General Meeting held on 30 May 2018 about the increase in Contingent Capital 2015/I was entered in the Commercial Register on 18 June 2018.

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

Following the exercising of conversion rights in connection with the 2016/2021 convertible bond issued on 19 July 2016 (ISIN DE000A161XW6), Contingent Capital 2015 still amounted to EUR 11,388k at the balance sheet date.

Contingent Capital 2015/II
The company has Contingent Capital 2015/II of EUR 13,000k based on the resolution by the extraordinary General Meeting held on 15 October 2015, last amended by resolution by the ordinary Annual General Meeting held on 30 May 2018. The resolution by the Annual General Meeting held on 30 May 2018 about the increase in Contingent Capital 2015/II was entered in the Commercial Register on 18 June 2018.

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

Following the exercising of conversion rights in connection with the 2015/2018 convertible bond issued on 15 October 2015 (ISIN DE000A161ZA7), Contingent Capital 2015/2 still amounted to EUR 1,303k at the balance sheet date.

8.13 Capital reserve

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

Due to the exercising of conversion rights, the capital reserve increased by EUR 9,231k. At the end of the term of the mandatory 2015/2018 convertible bond, EUR 11,697k was transferred from the capital reserve to the capital stock, reducing the capital reserve by a total of EUR 2,466k because of these effects. Withdrawals of EUR 38,493k from the capital reserve at the parent company were also made in the 2018 financial year, which increased the net retained profit accordingly. The withdrawals from the capital reserve were made to offset the net loss that would otherwise exist at ADLER Real Estate AG.

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

8.14 Retained earnings

Retained earnings include adjustments in the opening balance sheet due to the conversion of accounting from the German Commercial Code (HGB) to International Financial Reporting Standards (IFRS) implemented in the 2005 financial year (first-time adoption), items resulting from changes to accounting policies pursuant to IAS 8 and current items resulting from the remeasurement of pension provisions. In addition, changes in the fair value of financial assets measured at fair value through other comprehensive income and shares in other comprehensive income and companies accounted for using the equity method are recognised.

In the financial year, profits and losses from the remeasurement of pension provisions amounting to EUR -48k (previous year: EUR 577k) and changes in the fair value of financial assets measured at fair value through other comprehensive income amounting to EUR -802k (previous year: EUR -966k) after netting with the related taxes were transferred to retained earnings. Reserves amounting to EUR 1,589k recognised directly in equity for the shares in conwert Immobilien Invest SE were reversed in the course of the disposal of the shares affecting expenses..

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

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

8.15 Currency translation reserve

The currency translation reserve includes the accumulated exchange rate difference from the initial and subsequent consolidations of Adler McKinney LLC on the reporting dates in the consolidated balance sheet. This amount is directly recognised in equity in the currency translation reserve. The change in the currency translation reserve by EUR 2k (EUR -4k) is attributable to the subsequent consolidation of Adler McKinney LLC.

8.16 Minority interests

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

Non-controlling interests developed as follows in the 2018 financial year:

in EUR ´000	2018	2017
Subsidiary WESTGRUND	51,477	39,723
Subsidiary BCP	264,841	-
Subsidiary JADE	10,980	9,445
WBR Wohnungsbau Rheinhausen GmbH	9,891	8,764
Other	25,016	18,992
Carrying amounts 31.12.	**362,205**	**76,924**

The development in non-controlling interests is presented separately in the statement of changes in equity.

As a result of the acquisition of BCP, the shares of non-controlling interests increased by EUR 225,536k. In the course of the acquisition of property and project development companies, the shares of non-controlling interests increased by a further EUR 190k (previous year: EUR 8,258k). Further details can be found in the consolidated statement of changes in equity.

The key financials of those subsidiaries with non-controlling interests which are of material relevance to the Group are presented in the following tables. The amounts are presented prior to consolidation. Due to the acquisition of BCP in the financial year 2018 no financial information for the 2017 financial year disclosed.

Combined consolidated balance sheets IFRS	Subsidiary WESTGRUND		Subsidiary BCP	
Headquarters Minority interest %	**Berlin 3,23**	**Berlin 3,23**	**Amsterdam 30,19**	**Amsterdam -**
in EUR ´000	**2018**	**2017**	**2018**	**2017**
Current assets[1)]	77,529	89,500	80,294	-
Current liabiliets[1)]	40,751	62,669	151,556	-
Net current assets	**36,778**	**26,831**	**-71,262**	**-**
Investment properties	1,243,944	1,111,000	1,410,282	-
Other non-current assets	3,783	477	332,499	-
Non-current liabilities	534,446	533,514	871,059	-
Net fixed assets	**713,281**	**577,963**	**871,722**	**-**
Equity	**750,059**	**604,794**	**800,460**	**-**

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

Combined statement of comprehensive income IFRS	Subsidiary WESTGRUND		Subsidiary BCP	
in EUR ´000	**2018**	**2017**	**2018**	**2017**
Revenue	99,744	98,313	106,148	-
Annual result	**144,753**	**103,894**	**119,043**	**-**
Other comprehensive income	456	1,340	0	-
Net result	**145,209**	**105,234**	**119,043**	**-**
Profit or loss attributable to non-controlling interests	7,178	5,185	18,124	-

Combined cash flow statement	Subsidiary WESTGRUND		Subsidiary BCP	
In EUR ´000	**2018**	**2017**	**2018**	**2017**
Cash flow from operating activities	23,045	23,706	-68,059	-
Cash flow from investing activities	-9,335	-6,900	-56,394	-
Cash flow from financing activities	-51,452	231	38,462	-
Change in cash and cash equivalents	**-37,742**	**17,037**	**-85,991**	**-**

At the level of the BCP sub-group, non-controlling interests in the consolidated earnings are determined partly on the basis of contractual provisions which provide for an allocation that deviates from the equity shares. The non-controlling interests are allocated an annual share of the consolidated earnings until the acquisition costs for their interest plus a return of 8.0 percent p.a. is achieved. Thus BCP receives 20.0 percent of the share in the consolidated earnings which would have been due in line with the capital share of the non-controlling interest.

8.17 Pension provisions

The projected unit credit method was used for the recognition and measurement of pension provisions as at 31 December 2018. This takes account of both the pensions and known pension entitlements at the balance sheet date and any increases in pension and salaries expected in the future.

The calculation was based on the following material actuarial assumptions:

In EUR ´000	31.12.2018	31.12.2017
Discount rate	1.80%	1.80%
Future salary increases	0.00% to 2.50%	0.00% to 2.50%
Future pension increases	1.5% to 1.75%	1.5% to 1.75%
Best-estimate actuarial assumptions	Mortality tables 2018 G by Dr. Klaus Heubeck	Mortality tables 2005 G by Dr. Klaus Heubeck

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

After offsetting against plan assets, the pension provisions amounted to EUR 3,714k as at the balance sheet date (previous year: EUR 3,989k). Plan assets were taken into account at EUR 1,069k (previous year: EUR 1,093k).

Actuarial losses of EUR 68k (excluding deferred taxes) were recognised in other comprehensive income in 2018 (previous year: gains of EUR 821k).

Sensitivity analysis: if all other assumptions remain unchanged, an increase or decrease in material actuarial assumptions would have had the following impact on the DBO as of 31 December 2018:

In EUR ´000		2018	2017
	Increase of 0.5 PP	-273	-305
Acturial interest	Decrease of 0.5 PP	307	339
	Increase of 0.25 PP	42	64
Pension increase	Decrease of 0.25 PP	-40	-62
	Increase of 0.25 PP	1	1
Income trend	Decrease of 0.25 PP	-1	-1

Of pension provisions, an amount of EUR 255k is due to mature within one year (previous year: EUR 255k). This amount has been uniformly reported together with the other pension obligations under non-current liabilities. As the commitments mainly relate to employees who have left the company and no new commitments are being made, an annual disbursement of around EUR 255k is expected in future years as well.

8.18 Other provisions

IA contingent liability of EUR 3,454k was recognised on the acquisition of BCP for a pending lawsuit in which the entity is a defendant. The claim has arisen from a general contractor demanding payment for services performed for a development project.

Other non-current provisions include amounts of EUR 250k (previous year: EUR 1,279k) in provisions from the SAR programme, EUR 56k (previous year: EUR 110k) for early retirement commitments and EUR 54k (previous year: EUR 46k) for anniversary provisions.

8.19 Liabilities from convertible bonds

In EUR ´000	31.12.2018	31.12.2017
Convertible bond 2013/2018	0	3,990
Mandatory convertible bond 2015/2018	0	777
Convertible bond 2016/2021	119,272	121,469
Total	**119,272**	**126,236**
– of which non-current	117,516	119,731
– of which current	1,756	6,505

Due to the issuing of bonus shares, the conversion prices and conversion ratios of outstanding convertible bonds changed as of August 31, 2018 as follows:

Description	Nominal value per unit	Old strike price	New strike price	Old conversion rate	New conversion rate
Convertible bond 2013/2018	3.75	3.4091	3.4003	1.0999	1.1028
Mandatory convertible bond 2015/2018	0.50	15.0000	14.9610	6,666.6666	6,684.0452
Convertible bond 2016/2021	13.79	12.5364	12.5039	1.0999	1.1028

At the end of the subscription period in July 2016, ADLER placed 10,000,000 convertible bonds 2016/2021 with a term of five years and an interest rate of 2.50 percent p. a. The net issue proceeds were being used to refinance existing loans and bonds with comparatively high interest rates, to finance property acquisitions and to modernise the proprietary property portfolio.

In December 2015, ADLER issued a mandatory convertible bond with a total nominal amount of EUR 175,000k and a three-year term. The mandatory convertible bond furnishes its bearers with conversion rights to a total of up to 11,697,065 new no-par bearer shares in ADLER from its contingent capital. At the end of the term in December 2018, the bonds were converted into new no-par bearer shares in ADLER at the conversion price then applicable. Given the certainty that the bonds will be converted into shares in ADLER, pursuant to IAS 32 the mandatory convertible bond only constitutes debt in the amount of the present value of interest payable. Following the deduction of transaction costs, the remaining amount of EUR 172,540k was allocated to the capital reserve.

In December 2013, ADLER issued its 2013/2018 convertible bond with a total number of 3,000,000 bonds with a nominal value of EUR 3.75 per bond. The convertible bond totals EUR 11,250k, has an interest rate of 6.00 percent and matures in December 2018. The outstanding convertible bonds have nearly completely been converted into ADLER shares.

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

8.20 Liabilities from bonds

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

In EUR '000	31.12.2018	31.12.2017
Bond 2013/2018	0	36,349
Bond 2015/2020	299,052	499,992
Bond 2017/2021	492,278	490,370
Bond 2017/2024	300,630	293,608
Bond 2018/2023	495,317	0
Bond 2018/2026	297,946	0
Bond BCP 2011/2020 (A)	29,188	0
Bond BCP 2013/2024 (B)	48,636	0
Bond BCP 2014/2026 (C)	38,324	0
Total	**2,001,371**	**1,320,319**
– of which non-current	1,961,112	1,277,640
– of which current	40,259	42,679

In March 2013, ADLER issued a bearer bond (2013/2018) of EUR 35,000k with an interest rate of 8.75 percent. This bond has a five-year term and matures in April 2018. Repayment was made at the nominal amount of the bond plus interest accumulated and as yet unpaid.

In April 2015, ADLER issued a bearer bond of EUR 300,000k with an interest rate of 4.75 percent that was increased by a further EUR 50,000k in October 2015. A further increase of EUR 150,000k was made in April 2017. The bond has a five-year term and matures in April 2020. In the reporting year, ADLER repurchased bonds at a nominal value of EUR 200,000k.

In December 2017, ADLER issued a corporate bond of EUR 800,000k in two tranches. The first tranche (2017/2021) with a coupon of 1.50 percent and a volume of EUR 500,000k runs until December 2021 and was issued at 99.52 percent. The second tranche (2017/2024) with a coupon of 2.13 percent and a volume of EUR 300,000k expires in February 2024 and was issued at 99.28 percent. On average, the interest on the bonds overall is 1.73 percent.

In April 2018, ADLER successfully placed corporate bonds of EUR 800,000k in two tranches again with institutional investors in Europe. The first tranche with a volume of EUR 500,000k, a coupon of 1.88 percent and a term until April 2023, the second tranche with a volume of EUR 300,000k, a coupon of 3.0 percent and a term until April 2026. On average, the interest on the bonds overall is 2.30 percent. The net proceeds were largely used to refinance the bridging loan which ADLER had raised in connection with the acquisition of BCP.

As part of the acquisition of BCP, ADLER has acquired liabilities for bonds in three tranches with an original volume of NIS 700 million. At the balance sheet date, the amortised cost amounted to EUR 116,148k in total. Tranche A (originally NIS 400 million) has a term up to July 2020 and has 4.80 percent interest rate. Tranche B (originally NIS 175 million) has a term up to December 2024 and has a 3.29 percent interest rate. Tranche C (originally NIS 125 million) has a term up to 2026 and has a 3.30 percent interest rate. Annual principal payments are made until the end of the respective term. The interest rate and the repayment of the three tranches is also linked to the development of the Israeli Consumer Price Index. Interests in the subsidiary Brack German Properties B.V., Amsterdam/Netherlands, have been pledged as collateral for the fulfilment of the obligations arising from these bonds.

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

8.21 Financial liabilities

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

Non-current financial liabilities to banks amounted to EUR 1,476,187k as at the balance sheet date (31 December 2017: EUR 749,188k). The increase is attributable to an amount of EUR 664,695k for the acquisition of BCP.

Current financial liabilities to banks amounted to EUR 142,408k as at the balance sheet date (31 December 2017: EUR 278,676k). The change compared to the end of the previous year is primarily due to two counter effects. As planned, promissory note loans amounting to EUR 225,625k (nominal) – which were bought back in January and February 2018 – were therefore reclassified from non-current to current financial liabilities as at 31 December 2017. Current financial liabilities increased by EUR 101,391k as a result of the acquisition of BCP.

Current financial liabilities also include the repayments and interest liabilities of the non-current financial liabilities due within one year.

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

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

Financial liabilities are secured by assets as follows:

In EUR '000	2018	2017
Investment properties	2,500,953	1,018,151
Properties in inventories	87,234	0
Deposits with banks	49,478	303,017
Rent receivables	9,586	10,003

8.22 Other non-current liabilities

Other non-current liabilities mainly include non-current lease liabilities at EUR 12,054k (previous year: EUR 11,876k), the negative fair values of long-term interest hedges at EUR 5,888k (previous year: EUR 5,701k) – further information about these can be found in Note 11.3 "Derivative Financial instruments and hedge accounting" – and the liability to the Federal and State Government Employees Retirement Fund (VBL) at EUR 7,774k (previous year: EUR 7,492k). The obligation to the VBL results from the acquisition of JADE and was measured at fair value as at the balance sheet date. Distribution claims on the part of non-controlling interests have been recognised at EUR 3,040k (previous year: EUR 3,922k).

The remaining purchase price liabilities from the acquisition of the Wasserstadt Mitte property project development of EUR 17,121k (previous year: EUR 16,807k) were transferred to other current liabilities in the reporting year.

Current and non-current lease liabilities result of EUR 2,438k (previous year: EUR 5,299k) from WESTGRUND. Leasehold contracts generally provide for preferential rights of renewal in the event of a renewed leasehold following the expiry of the contract or for the first right of refusal in the event of the land being sold. The ground rent is mainly index-based. The carrying amounts are determined by discounting future cash flows with property-specific rates of 4.0 percent to 7.8 percent. Lease obligations in the amount of EUR 6,589k (previous year: EUR 6,591k) are based on leasehold agreements taken over as part the acquisition of ADP, AFP II and AFP III. The carrying amounts are determined by discounting future cash flows with property-specific rates of 5.5 percent to 6.1 percent. Lease obligations in the amount of EUR 3,072k are based on lease agreements taken over as part of the acquisition of BCP. The carrying amounts are determined by discounting future cash flows.

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

In EUR '000	Carrying amount 2018	Minimum lease payments 2018	Carrying amount 2017	Minimum lease payments 2017
Up to one year	46	746	15	742
1 to 5 years	1,147	2,985	69	2.966
More than 5 years	10,906	81,167	11.806	112.167
	12,099	84,898	11.890	115.875
Excl. future interest costs		-72,799	-	-103.985
Total	**12,099**	**12,099**	**11.890**	**11.890**

8.23 Trade payables, income tax liabilities and other current liabilities

All the trade payables of EUR 47,440k (previous year: EUR 29,125k) are current and owed to third parties. These items mainly relate to letting liabilities but also include unbilled maintenance measures and advisory services.

The income tax liabilities of EUR 12.921k (previous year: EUR 2,516k) involve corporate income and trade tax obligations for the current and previous financial years. The increase in income tax liabilities of EUR 9,995k is attributable to the BCP acquisition.

Other current liabilities comprise the following items:

In EUR '000	2018	2017
Purchase price liabilities	18,371	6,250
Payments received Investment Properties	23,198	3,074
Deferred rental income	4,427	4,775
Payment received Project Development	841	0
Security deposits received	8,060	86
Personnel obligations	2,800	823
Derivates current	583	158
Lease liabilities current	46	14
Other current liabilites	1,391	2,784
Total	**59,717**	**17,964**

The short-term purchase price liabilities amounting to EUR 17,121k relate to the acquisition of the Wasserstadt Mitte property project development and EUR 1,250k to the acquisition of ADP, AFP II and AFP III.

Advance payments received for sales of investment properties (contract liabilities) relate to disposals for which the benefits and obligations have not yet been transferred and control has not yet been transferred the reporting year.

Payments received for sales of project development properties (contract liabilities) are recognised if it is not possible to offset against the contract assets concerned.

The additional disclosures in accordance with IFRS 15 to the balances related to contracts with customers are presented in Section 10 of the notes to the consolidated financial statements.

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

The received deposits shown are attributable to BCP.

9. NOTES TO THE STATEMENT OF INCOME AND ACCUMULATED EARNINGS

9.1 Gross rental income

Gross rental income is structured as follows:

In EUR '000	2018	2017
Net income	238,412	170,282
Income from charged operating costs	107,649	91,628
Other income from property management	3,534	2,478
Total	**349,595**	**264,388**

Net rental income in an amount of EUR 59,406k, income from charged operating costs in an amount of EUR 20,406k and other income from property management in an amount of EUR 0k are attributable to the business of BCP.

9.2 Expenses from property lettings

Expenses from property lettings are broken down as follows:

In EUR '000	2018	2017
Apportionable and non-apportionable operating costs	122,458	115,562
Maintenance	22,763	21,903
Other property management expenses	687	1,124
Total	**145,908**	**138,589**

The operating costs result in EUR 24,358k, the maintenance expenses in EUR 2,839k and the other property management expenses in EUR 0k from the business of BCP.

9.3 Income from the sale of properties

Income from the sale of properties is structured as follows:

In EUR '000	2018	2017
Income from the disposal of project development inventory properties	44,178	0
Income from the disposal of other inventory properties	0	1,392
Income from the disposal of investment properties	30,890	33,462
Total	**75,068**	**34,854**

The income from the sale of project developments is fully attributable to BCP in the period under report, the income from the sale of investment properties in the amount of EUR 12,124k. In the previous year, other inventory properties were sold by ADLER.

9.4 Expenses from the sale of properties

Expenses from the sale of properties are structured as follows:

In EUR '000	2018	2017
Carrying amount of disposed project development inventory properties	36,663	0
Carrying amount of disposed other inventory properties	0	554
Carrying amount of disposed investment properties	29,946	32,761
Costs of disposal	354	750
Total	**66,963**	**34,065**

The retirements of inventory properties are fully attributable to the project development of BCP in the period under report, the retirements of investment properties in the amount of EUR 11,900k.

9.5 Personnel expenses

Personnel expenses include the following items:

In EUR '000	2018	2017
Wages, salaries and other benefits	29,389	18,098
Social security contributions	5,142	3,136
Old-age pension expenses	607	-933
Total	**35,138**	**20,302**

Personnel expenses in the amount of EUR 6,254k (previous year: 0) are attributable to BCP in the year under review.

In the previous year, old-age pension expenses include a reversal of other non-current liabilities for obligations to the Federal and State Government Employees Retirement Fund (VBL) amounting to EUR 1,186k. In the year under review, an addition of the VBL obligations amounting to EUR 239k is recognised in old-age pension expenses.

Stock appreciation right programme

ADLER introduced a stock appreciation right programme (SAR programme) in the 2015 financial year, which aims to retain the beneficiaries at the company and enable them to participate in the company's value growth. Based on a resolution adopted by the Supervisory Board, the rules of the scheme provide for a total volume of 599,178 stock appreciation rights. These rights entitle their beneficiaries to compensation whose amount is dependent on ADLER's share price performance. In all cases, rights are granted by concluding individual agreements between the company and the beneficiary or a framework decision of the Supervisory Board. These agreements provide for cash settlement.

The exercising of the rights granted by the stock appreciation programme is dependent on the beneficiary completing a specific period of service. Should the beneficiary resign from employment at ADLER prematurely for whatever reason, then their entitlement to as-yet unvested SAR rights is forfeited without replacement. For the beneficiary one-third of the stock appreciation rights granted become vested for the first time and in full at the end of one year. The remaining two-thirds of the stock appreciation rights granted become vested on a quarterly basis at an amount of one-twelfth per quarter through to the end of a three-year period.

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

Valuation as at 31.12.2018	**Total**	**Of which Board**
Number of fully earned SAR	176,757	146,507
Proportional recorded number of SAR in expenses	231,695	198,76
Fair value per SAR in EUR	1.08	1.01
Expenses in the reporting period in EUR´000	311	105
Provision for due date in EUR´000	**250**	**201**
of which intrinsic value for the earned SAR in EUR´000	127	82

Valuation as at 31.12.2017	**Total**	**Of which Board**
Number of fully earned SAR	210,849	36,671
Proportional recorded number of SAR in expenses	338,937	72,578
Fair value per SAR in EUR	3.77	2.01
Expenses in the reporting period in EUR´000	71	46
Provision for due date in EUR´000	**1,279**	**146**
of which intrinsic value for the earned SAR in EUR´000	830	50

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

Structure/valuation parameter 2018	Total	Of which Board
Maximum amount of granted SARs	**599,178**	**234,000**
Balance/Payment	**in cash**	**in cash**
Structure		
SARs granted at the beginning of reporting period		
Total number	403,000	271,000
Weighted basis price	12.80	12.98
SARs granted in the reporting period		
Total number	40,000	40,000
Weighted basis price	14.26	14.26
SARs contractually vested in the reporting period		
Total number	90,588	79,588
Weighted basis price	12.68	12.84
SARs forfeited in the reporting period		
Total number	0	0
Weighted basis price	-	-
SARs exercised in the reporting period		
Total number	176,000	77,000
Weighted basis price	7.48	8.40
Weighted average share price upon excercise	15.09	15.09
Exercise date	9. Dezember 2018	9. Dezember 2018
SARs outstanding at the end of reporting period		
Total number	267,000	234,000
Weighted basis prices	12.80	12.98
Min basis price	11.52	11.58
Max basis price	14.26	14.26
Weighted average remaining term in years	0.80	0.90
SARs exercisable		
Total number	0	0
Weighted basis price	-	-
Value determination		
Weighted average fair value of the option	1.09	1.04
Applied pricing model	Binomial model	Binomial model
Weighted average share price	13.02	13.02
Weighted average basis price	12.80	12.98
Anticipated yearly volatility	20.16 %	20.16 %
Anticipated dividend	0.28 %	0.28 %
Risk-free yearly interest rate	-0.68 %	-0.68 %

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

Structure/valuation parameter 2017	**Total**	**Of which Board**
Maximum amount of granted SARs	**559,178**	**253,000**
Balance/Payment	**in cash**	**in cash**
Structure		
SARs granted at the beginning of reporting period		
Total number	407,000	143,000
Weighted basis price	10.20	12.29
SARs granted in the reporting period		
Total number	143,000	110,000
Weighted basis price	13.27	13.38
SARs contractually vested in the reporting period		
Total number	137,513	29,337
Weighted basis price	10.42	11.81
SARs forfeited in the reporting period		
Total number	147,000	147,000
Weighted basis price	12.84	12.84
SARs exercised in the reporting period		
Total number	0	0
Weighted basis price	-	-
Weighted average share price upon excercise	-	-
Exercise date	-	-
SARs outstanding at the end of reporting period		
Total number	403,000	106,000
Weighted basis prices	10.33	12.66
Min basis price	6.76	11.58
Max basis price	13.93	13.93
Weighted average remaining term in years	1.26	1.72
SARs exercisable		
Total number	0	0
Weighted basis price	-	-
Value determination		
Weighted average fair value of the option	3.60	2.07
Applied pricing model	Binomial model	Binomial model
Weighted average share price	13.29	13.29
Weighted average basis price	10.33	12.66
Anticipated yearly volatility	26.3 %	26.3 %
Anticipated dividend	0,00	0,00
Risk-free yearly interest rate	-0.64 %	-0.64 %

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

9.6 Other operating income

Other operating income is structured as follows:

In EUR '000	2018	2017
Reversal of provisions and of provision-like liabilities	3,258	1,738
Insurance claims	1,719	1,588
Other	3,937	6,182
Total	**8,914**	**9,508**

Other operating income in the amount of EUR 0k is attributable to BCP in the year under review.

9.7 Other operating expenses

Other operating expenses break down as follows:

In EUR '000	2018	2017
Legal and consulting expenses	28,657	9,696
Impairment and write-downs of receivables	10,655	9,678
General and administrative expenses	1,359	1,801
Purchased services	2,975	1,001
Office and IT expenses	5,983	4,945
Cost of premises	3,122	1,514
Public relations	1,478	737
Miscellaneous other expenses	12,039	9,163
Total	**66,268**	**38,535**

Other operating expenses in the amount of EUR 8,164 are attributable to BCP in the year under review.

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

Impairment and write-downs of receivables mainly result from impairment of trade receivables. The Group's default risks and impairment losses of financial assets are presented in Section 11 of the notes to the consolidated financial statements.

9.8 Income from fair value adjustments of investment properties

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

9.9 Depreciation and amortisation

This item includes the amortisation of intangible assets and depreciation of property, plant and equipment at an amount of EUR 1,601k (previous year: EUR 826k).

9.10 Financial income

Financial income is structured as follows:

In EUR ´000	2018	2017[1]
Interest income – financial assets measured at amortised cost	6,477	2,818
Interest income – financial assets at fair value through other comprehensive income	897	405
Net change in fair value of derivatives	6,034	2,035
Net change in fair value of other financial instruments at fair value through profit or loss	2,019	0
Reversal of impairment of financial assets measured at amor-tised cost – loans, restricted funds and deposits at banks	864	0
Other financial income	4	134
Total	**16,295**	**5,392**

1) Revised in accordance with IFRS 9 to allow for a year-on-year comparision

Financial income in the amount of EUR 7,566 is attributable to BCP in the year under review.

9.11 Financial expenses

Financial expenses are structured as follows:

In EUR ´000	2018	2017[1]
Interest expenses – financial liabilities measured at amortised cost		
Interest expenses – bank loans	87,290	113,414
Interest expenses – bonds	49,160	34,757
Interest expenses – convertible bonds	8,270	8,902
Interest expenses – other	792	86
Net change in fair value of derivatives	349	0
Impairment of financial assets measured at amortised cost (loans, restricted funds, deposits at banks)	438	0
Net foreign exchange losses	987	0
Accrued interest on provisions	71	11
Reversal OCI – conwert (OCI)	0	1,589
Other financial expenses	166	16
Total	**147.523**	**158,775**

1) Revised in accordance with IFRS 9 to allow for a year-on-year comparision

Financial expenses in the amount of EUR 10.427k are attributable to BCP in the year under review.

The interest expenses for bonds include prepayment penalties and transaction costs of EUR 37,487k (EUR 60,589k) that required immediate recognition as expenses due to the early repayment of the promissory note loans with higher interest rates. Prepayment penalties and transaction costs of EUR 9,849k that required immediate recognition as expenses due to the early repayment of the bridging loan that was raised for the acquisition of BCP.

The interest expenses for bonds include prepayment penalties and transaction costs of EUR 7,003k (EUR 4,001k) that recognised immediately as expenses due to the early repayment of the bonds.

In previous year reserves (OCI) amounting to EUR 1,589k recognised directly in equity for the shares in conwert were reversed in the course of the disposal of the shares affecting expenses.

9.12 Income from at-equity valued investment associates

Further informaiton can be found in Note 8.5.

9.13 Income taxes

Taxes on income are broken down as follows:

In EUR '000	2018	2017
Current income tax expense	13,240	1,074
Income tax expense (income) from other accounting periods	-869	123
Actual income tax expense	**12,371**	**1,197**
Deffered tax expense (income), loss carry-forwards	-13,380	-16,237
Deferred tax expense (income), temporary differences	123,585	67,106
Deferred taxes	**110,205**	**50,869**
Total	**122,576**	**52,066**

Tax Expenses in the amount of EUR 24,034 is attributable to BCP in the year under review.

Current tax expense is calculated on the basis of the taxable income for the financial year. For the 2018 financial year, the tax rate for domestic companies, which combines corporate income tax and the solidarity surcharge, amounts to 15.8 percent (previous year: 15.8 percent). Including the trade tax rate of around 14.4 percent (previous year: 14.4 percent), the group tax rate therefore amounts to 30.2 percent (previous year: 30.2 percent). When measuring deferred taxes, account is taken of the expected implications of the extended trade tax reduction for the domestic trade tax charges.

The tax on the Group's pre-tax profit deviates from the theoretical tax rate that would result from applying the group tax rate of 30.2 percent (previous year: 30.2 percent) as follows:

In EUR '000	**2018**	**2017**
Earnings before taxes	454,762	158.437
Expected income tax 30.175% (previous year: 30.175%)	137,225	47.808
Reconciliation due to tax effects:		
Income taxes, previous years	-869	123
Derecognition of deferred tax assets, previous years	2,557	2.157
Sales proceeds exempt from taxes	-250	-569
Different tax rates	-41,687	-19.228
Utilisation of loss carry forwards not capitalised as deferred taxes	-3,835	-4.963
Non-deductible expenses	94	1,417
Unrecognised deferred tax assets on losses	22,450	26,590
Deferred taxes on loss carry forwards acquired	0	-2.297
Trade tax effects	6,424	4.495
Deferred taxes, previous years	0	-166
Other	467	-3.301
Total	**122,576**	**52.066**

9.14 Earnings after taxes from discontinued operations

In EUR ´000	2018	2017
Income from property lettings	0	7,170
Expenses from property lettings	0	-2,068
Earnings from property lettings	**0**	**5,102**
Income from the sale of properties	0	94,360
Expenses from the sale of properties	0	-69,732
Earnings from the sale of properties	**0**	**24,628**
Personnel expenses	0	-2,876
Other operating income	0	24,449
Other operating expenses	0	-3,690
Income from fair value adjustments of investment properties	0	0
Depreciation and amortisation	0	-347
Earnings before interest and taxes (EBIT)	**0**	**47,266**
Financial income	395	324
Financial expenses	-395	-6,357
Income from at-equity valued investment associates	263	225
Earnings before taxes (EBT)	**263**	**41,458**
Income taxes	0	-5,198
Earnings after tax from discontinued operations	**263**	**36,260**

9.15 Earnings per share

Earnings per share reflects the amount of earnings generated in a given period that are attributable to each share. This involves dividing consolidated net income by the weighted number of shares outstanding. This key figure is diluted by what are known as “potential shares” (e.g. from convertible bonds). Pursuant to IAS 33.23, all potential shares that may result from the conversion of a mandatory convertible bond must be treated as shares already issued and should be included in the calculation of basic earnings per share. In the previous year this increased the number of outstanding shares by the potential shares that would result from the actual conversion of the mandatory convertible bonds. In financial year 2018, the expiry of the mandatory convertible bond had no effect on the determination of the undiluted result.

Earnings per share are structured as follows:

	2018 Continuing operations	2018 Discontinued operations	2018 Total
Consolidated net earnings (in EUR ´000)	332,186	263	332,449
Consolidated net earnings without non-controlling interests	265,293	263	265,556
Expenses incl. deferred taxes on convertibles	5,621	0	5,621
Consolidated net earnings without non-controlling interests (diluted)	270,914	263	271,177
Number of shares (in thousands)			
Weighted number of subscribed shares	66,998	66,998	66,998
Effect of conversion of convertibles	10,419	10,419	10,419
Weighted number of shares (diluted)	77,417	77,417	77,417
Earnings per share (in EUR)			
Basic earnings per share	3.96	0.00	3.96
Diluted earnings per share	3.50	0.00	3.50

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

10. DISCLOSURES ON REVENUES FROM CONTRACTS WITH CUSTOMERS

The effect from the first-time adoption of IFRS 15 on the revenue from contracts with customers is described in Note 2.2. Due to the transition method used for IFRS 15, the comparative information from the previous year was not restated to the new regulations.

The table below shows the sources of income related to property management and the sale of properties and the respective date of revenue recognition. The classified income is reconciled to the Group's reportable segments (see Note 7 "Segment reporting").

		Segments						Group	
In EUR ´000	**Notes**	**Rental**		**BCP**		**Other**			
		2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Net rental income (IAS 17)	9.1	**178,801**	**170,091**	**59,406**	**0**	**205**	**191**	**238,412**	**170,282**
Revenues from contracts with customers (IFRS 15)		**109,543**	**127,457**	**64,808**	**0**	**0**	**1,503**	**174,351**	**128,960**
Income from charged operating costs	9.1	87,244	91,628	20,406	0	0	0	107,650	91,628
Other income from property management	9.1	3,533	2,368	0	0	0	110	3,533	2,478
Income from the disposal of project developments	9.3	0	0	44,178	0	0	0	44,178	0
Income from the disposal of other inventory properties	9.3	0	0	0	0	0	1,393	0	1,393
Income from the sale of investment properties	9.3	18,766	33,461	12,124	0	0	0	30,890	33,461
Date of revenue recognition									
Revenue recognition over a period of time		269,578	264,087	123,990	0	205	301	393,773	264,388
Revenue recognition based on point in time		18,766	33,461	12,124	0	0	1,393	30,890	34,854
Income from property lettings		**269,578**	**264,087**	**79,812**	**0**	**205**	**301**	**349,595**	**264,388**
Income from the sale of properties		**18,766**	**33,461**	**56,302**	**0**	**0**	**1,393**	**75,068**	**34,854**

The table below provides information on receivables, contractual assets and contract liabilities from contracts with customers.

in EUR ´000	Notes	31.12.18	01.01.18
Contractual assets operating expenses	8.9	155	0
Receivables from sale of investment properties	8.9	171	305
Prepayments received from investment properties	8.23	23,198	3.074
Contractual assets project developments	8.9	4,474	0
Prepayments received project developments	8.23	841	0

Liabilities from the services that have not yet been invoiced related to operating costs are reported net with the advance payments of operating costs and the net amount is recognised under trade payables as contract assets operating costs or liabilities from advance payments of operating costs. Liabilities from advance payments of operating costs are paid to the respective tenants after settlement.

Payments received for sales of investment properties are recognised under other liabilities if control has not yet been transferred. Receivables from the sale of investment properties are offset when control has been transferred, The payments received as at 31 December 2018 in the amount of EUR 23,000k relate to the sale of around 1,400 rental units from the non-core-portfolio. On 17 December 2018, a binding sale and purchase agreement was signed. Control over the properties is transferred to the buyer at the beginning of the financial year 2019.

The amount of EUR 3,074k in advance payments received for investment properties at the beginning of the period was recognised as income from the sale of investment properties in the 2018 financial year.

Receivables from the services which have not yet been invoiced for project developments are recognised under trade receivables as contract assets project development. Payments received for sales of project development properties are recognised under other liabilities if it is not possible to offset again the contract assets. As part of the acquisition of BCP, contract assets of EUR 13,051k and received payments of EUR 1,069k were acquired.

As permitted under IFRS 15, no information is provided on the remaining performance obligations as at 31 December 2018, which have an expected original maturity of one year or less.

11. DISCLOSURES ON FINANCIAL INSTRUMENTS AND FAIR VALUES DISCLOSURES

11.1 General information on financial instruments

(A) Classification
The ADLER Group bases its classification of financial instruments as required by IFRS 7 on the respective balance sheet items. The table below shows the reconciliation of the carrying amounts for each IFRS 7 category (balance sheet item) and the IAS 39 and IFRS 9 measurement categories as at the individual balance sheet dates.

The tables below show the reconciliation of the original measurement categories in accordance with IAS 39 and the new IFRS 9 measurement categories, including the respective carrying amounts and the reconciliation of the closing balance of the impairments in accordance with IAS 39 and the opening balance of loss provisions in accordance with IFRS 9. Due to the chosen conversion method, the comparative values of the previous year have not been restated.

31.12.2017 In EUR ´000	Category according to IAS 39	Total carrying amount
Assets		
Loans to associated companies	lar	0
Other financial investments	afs	28
Other non-current assets	lar	205
Trade receivables	lar	10,717
Other current assets	lar; afs	243,508
Cash and cash equivalents	lar	368,233
Liabilities		
Financial liabilities to banks and (convertible) bonds	flac	2,475,248
Trade payables	flac	29,125
Other liabilities	flac; lafv	64,308
of which aggregated by IAS 39 categories		
Loans and receivables	lar	-
Available-for-sale financial assets	afs	-
Financial liabilities at fair value through profit or loss	lafv	-
Financial liabilities measured at amortised costs	flac	-

Abbreviation	category
lar	Loans and receivables
aafv	Financial assets at fair value through profit or loss
afs	Available for sale financial asset
flac	Financial Liabilities measured at amortised costs
lafv	Financial liabilities at fair value through profit or loss

Carrying amount of financial instruments	Amortised cost	Fair value directly to equity	Fair value through profit or loss	Fair value for comparative purposes	Impairment losses IAS 39
0	0	0	0	0	-3,603
28	0	28	0	28	0
205	205	0	0	205	0
10,717	10,717	0	0	10,717	-61,551
241,276	223,171	18,105	0	241,276	-58
368,233	368,233	0	0	368,233	0
2,475,248	2,475,248	0	0	2,544,592	0
29,125	29,125	0	0	29,125	0
57,999	44,648	0	13,351	57,999	0
602,326	602,326	0	0	602,326	-65,212
18,133	0	18,133	0	18,133	0
13,351	0	0	13,351	13,351	0
2,549,021	2,549,021	0	0	2,618,365	0

01.01.2018 In EUR ´000	Category according to IFRS 9	Total carrying amount
Assets		
Loans to associated companies	aac	0
Other financial investments	aafvoci	28
Other non-current assets	aac	205
Trade receivables	aac	10,673
Other current assets	aac, aafvoci	243,223
Cash and cash equivalents	aac	367,309
Liabilities		
Financial liabilities to banks and (convertible) bonds	flac	2,475,248
Trade payables	flac	29,125
Other liabilities	flac, lafv	64,308
of which aggregated by IFRS 9 categories		
Financial assets measured at amortised costs	aac	-
Financial assets at fair value through other comprehensive income	aafvoci	-
Financial liabilities at fair value through profit or loss	lafv	-
Financial liabilities measured at amortised costs	flac	-

Abbreviation	category
aac	Financial assets measured at amortised costs
aafv	Financial assets at fair value through profit or loss
aafvoci	Financial assets at fair value through other comprehensive income
flac	Financial Liabilities measured at amortised costs
lafv	Financial liabilities at fair value through profit or loss

Carrying amount of financial instruments	Amortised cost	Fair value directly to equity	Fair value through profit or loss	Fair value for comparative purposes	Impairment losses IFRS 9
0	0	0	0	0	-3,603
28	0	28	0	28	0
205	205	0	0	205	0
10,673	10,673	0	0	10,673	-61,595
240,991	222,886	18,105	0	240,991	-553
367,309	367,309	0	0	367,309	-924
2,475,248	2,475,248	0	0	2,544,592	0
29,125	29,125	0	0	29,125	0
57,999	44,648	0	13,351	57,999	0
601,073	601,073	0	0	601,073	-66,465
18,133	0	18,133	0	18,133	-210
13,351	0	0	13,351	13,351	0
2,549,021	2,549,021	0	0	2,618,365	0

31.12.2018 In EUR ´000	Category according to IFRS 9	Total carrying amount
Assets		
Loans to associated companies	aac	7,667
Other financial investments	aafv	37,019
Trade receivables	aac	25,898
Other current assets	aac, aafv, aafvoci	240,480
Cash and cash equivalents	aac	77,655
Liabilities		
Financial liabilities to banks and (convertible) bonds	flac	3,739,733
Trade payables	flac	47,440
Other liabilities	flac, lafv	88,473
of which aggregated by IFRS 9 categories		
Financial assets measured at amortised costs	aac	-
Financial assets at fair value through profit or loss	aafv	-
Financial assets at fair value through other comprehensive income	aafvoci	-
Financial liabilities at fair value through profit or loss	lafv	-
Financial liabilities measured at amortised costs	flac	-

Abbreviation	category
aac	Financial assets measured at amortised costs
aafv	Financial assets at fair value through profit or loss
aafvoci	Financial assets at fair value through other comprehensive income
flac	Financial Liabilities measured at amortised costs
lafv	Financial liabilities at fair value through profit or loss

Carrying amount of financial instruments	Amortised cost	Fair value directly to equity	Fair value through profit or loss	Fair value for comparative purposes	Impairment losses IFRS 9
7,667	7,667	0	0	7,667	-3,776
37,019		0	37,019	37,019	0
25,898	25,898	0	0	25,898	-66,795
230,720	216,010	14,571	139	230,720	-525
77,655	77,655	0	0	77,655	-325
3,739,733	3,739,733	0	0	3,648,135	0
47,440	47,440	0	0	47,440	0
57,064	42,818	0	14,245	57,064	0
327,230	327,230	0	0	327,230	-71,239
37,158	0	0	37,158	37,158	0
14,571	0	14,571	0	14,571	-182
14,245	0	0	14,245	14,245	0
3,829,992	3,829,992	0	0	3,738,394	0

In the financial year, liabilities from the payments of ancillary expenses amounting to EUR 85,465k (previous year: EUR 72,689k) were netted against an amount of EUR 85,620k (previous year: EUR 70,502k) for receivables from unbilled services, with the net amount being recognised as trade receivables (previous year: liabilities from trade receivables).

(B) Fair value disclosures

Financial assets and liabilities measured at fair value can be classified and assigned to levels according to the significance of the factors and information used in their measurement. Assets and liabilities are classified based on the significance of the input factors for their overall measurement. This in turn is based on those input factors in the lowest level relevant or significant for overall measurement. The measurement levels are hierarchically structured in line with their input factors:

- Level 1: Prices quoted for identical assets or liabilities on active markets (adopted unchanged)

- Level 2: Inputs that are not quoted prices considered in Level 1, but are observable directly or indirectly for the asset or liability (i.e. derived from prices)

- Level 3: Factors not based on observable market data for the measurement of the asset or liability (unobservable inputs)

		Overview of the measurement levels used to determine fair values		
31.12.2018 In EUR ´000	**Total Carrying amount**	**of which Level 1**	**of which Level 2**	**of which Level 3**
Assets				
Investment properties	4,989,054	0	0	4,989,054
Other financial instruments: Equity instruments – aafv	37,019	37,019	0	0
Other current assets: Debt instruments – aafvoci	14,571	14,571	0	0
Other current assets: Derivatives – aafv	139	0	139	0
Non-current assets held for sale according to IFRS 5	198,182	198,182	0	0
Equity and liabilities				
Other liabilities: Derivatives -lafv	6,471	0	6,471	0
Other non-current liabilities: Liabilities VBL – lafv	7,774	0	0	7,774
Liabilities held for sale according to IFRS 5	495	0	0	495

31.12.2017 In EUR ´000	Total Carrying amount	Overview of the measurement levels used to determine fair values of which Level 1	of which Level 2	of which Level 3
Assets				
Investment properties	3.018.518	0	0	3.018.518
Other financial investments: classified as afS	28	0	0	28
Other current assets: classified as afS	18.105	18.105	0	0
Non-current assets held for sale according to IFRS 5	23.582	23.582	0	0
Equity and liabilities				
Other liabilities: Derivatives	5.859	0	5.859	0
Other non-current liabilities: Liabilities VBL	7.492	0	0	7.492
Liabilities held for sale according to IFRS 5	829	0	0	829

Trade receivables, other current assets and cash and cash equivalents have short remaining terms. Their carrying amounts as at the balance sheet date therefore approximate to their fair values. The same applies for current liabilities to banks, trade payables and other current liabilities.

The fair value of non-current liabilities to banks and other non-current liabilities is determined by discounting future cash flows. Discounting is based on a market interest rate matching term and risk (Level 3). The fair values of bond and convertible bond liabilities are determined by reference to their market prices as at the balance sheet date (Level 1).

(C) Net result from financial instruments

The net result from financial instruments broken down into individual measurement categories is presented in the table below. Interest income and interest expenses from financial instruments represent a component of the net result. The gains and losses are due to impairments and reversals from the fair value measurement.

In EUR ´000	Category IRFS 9	Net result 2018 Interest	Profit/loss	Total
Financial assets measured at amortised cost	aac	6,477	-10,183	-3,706
Financial assets at fair value through profit or loss	aafv	0	2,019	2,019
Financial assets measured at fair value through other comprehensive income	aafvoci	897	-803	94
Financial liabilities measured at fair value through profit or loss	lafv	0	5,685	5,685
Financial liabilities measured at amortised cost	flac	-145,512	562	-144,950
Total		**-138,138**	**-2,719**	**-140,857**

In EUR ´000	Category IAS 39	Net result 2017 Interest	Profit/loss	Total
Loans and receivables	lar	3,142	-9,643	-6,501
Financial assets at fair value through other comprehensive income	afs	405	-966	-561
Financial liabilities measured at fair value through profit or loss	lafv	2,035	1,186	3,221
Financial liabilities measured at amortised cost	flac	-157,158	1,711	-155,447
Total		**-151,576**	**-7,712**	**-159,288**

Interest income and interest expenses are presented in financial income and financial expenses. Gains and losses relating to financial assets at amortised cost are recognised under trade receivables under other operating expenses (impairments/reversals) and also under financial income and finance costs. Gains and losses relating to financial assets or financial liabilities measured at fair value through profit or loss are recognised under financial income and financial expenses. Gains and losses relating to financial assets measured at fair value through other comprehensive income are generally recognised in other comprehensive income, but impairments are reclassified from other comprehensive income to financial expenses. Gains and losses relating to financial liabilities measured at amortised cost are recognised under other operating income or expenses in the case of trade payables and otherwise under financial income and financial expenses.

11.2 Financial risk management and IFRS 7 disclosures

The risk management system comprises all organisational requirements and activities necessary for the systematic, regular and company-wide implementation of the processes needed for risk management. Each risk is assigned to a designated employee. Risk management coordination is incumbent on the Governance-Risk-Compliance department, which keeps the Management Board regularly informed about the Group's overall risk situation. Within the quarterly Supervisory Board meeting framework, the Management Board in turn then reports the findings to the Supervisory Board. The core function of the Group-wide risk management system is to recognise developments that pose a risk to its existence, to measure risk-bearing capacity and to assess the extent of the threat. The risk management system is itself described in a risk policy, which is updated each year and whenever a specific need arises. An extensive risk catalogue documents all material risks to which ADLER is exposed.

Financial risk management is part of the Group-wide risk management system. The material risks monitored and managed by the Group's financial risk management include interest rate, default, liquidity and financing risks and currency risk.

(A) Interest rate risk
Virtually all the interest rate risks to which the ADLER Group is exposed are in the euro area.

Interest rate risks arise upon the conclusion of credit facilities with floating interest rates, in the context of follow-up financing or in the event of any significant change in capital market conditions. To a limited extent, changes in interest rates may therefore lead to higher interest payments. However, ADLER predominantly finances its business with financial liabilities that have interest rates that are either fixed permanently or for longer periods of time. Thus the Group basically pursues a risk-averse financing policy.

The interest risk for all of the Group's current and non-current financial liabilities with floating interest rates is determined in a sensitivity analysis which also takes account of fixed-interest periods. By analogy with the interest rate scenarios used to determine the value of investment properties, two interest scenarios have been referred to for the sensitivity analysis of loans. Based on the financial liabilities outstanding as at 31 December, any increase/decrease in the loan interest rate by 0.5 percent points would have led to the following increase/decrease in interest expense:

Interest rate risk sensitivity analysis	31.12.2018		31.12.2017	
Change in interest rate	+ 50 bp	- 50 bp	+ 50 bp	- 50 bp
Effect on interest expense in EUR ´000	1,250	-1,250	259	-259

Given the low impact on the carrying amount and income and the currently favourable capital market conditions, the Group's interest rate risk, taking due account of existing interest rate sensitivities, is assessed as moderate.

To reduce its interest rate risk further, ADLER deploys interest rate hedging instruments in the form of swaps (see Note 11.3). Had the interest rate level as at 31 December 2018 been 100 basis points higher/lower, the fair values of derivatives (EUR 6,079k previous year: EUR -5,859k) would have changed by EUR +5,122k (previous year: EUR +5,448k) or EUR -2,740k (previous year: EUR -5,583k).

(B) Credit risk

Default risk results from the risk of contractual partners failing to meet their contractually agreed payment obligations. The maximum default risk corresponds to the carrying amounts of financial assets.

In EUR ´000	Kategorie nach IFRS 9	2018
Impairment loss trade receivables	aac	12,476
Impairment loss loans to associated companies	aac	173
Impairment loss other current assets – loans, restricted funds and cash and cash equivalents – deposits at banks	aac	265
Total		**12,914**

Trade receivables

Trade receivables mainly relate to a large number of customers (tenants and buyers of investment properties or apartments as part of project developments). The credit risk is managed on a portfolio level. ADLER has introduced a receivables management system with which new customers are initially analysed on an individual basis with regard to their credit rating. In the tenant selection process, priority is accorded to those with a pre-existing sound credit rating. Dunning procedures are initiated for all past due receivables and, upon completion, enforcement measures. The Group does not have any significant clusters of potential credit risks.

There were no significant default risks for contractual assets from oncharging operating costs, receivables from sales of investment properties and contract assets in connection with project developments, meaning that generally no expected credit losses are taken into account. Services which have not yet been invoiced in connection with operating costs are usually offset by advance payments received by the tenants in the corresponding amount. Purchase prices for investment properties are usually deposited on notary accounts and paid to ADLER when control has been transferred. No expected credit losses are recognised for contractual assets in connection with project developments, as the apartments are handed over to the purchasers only after the full purchase price has been paid.

For rental receivables, ADLER differentiates between tenants of apartments and commercial spaces. The simplified IFRS 9 impairment model is used. Deposits are not taken into account when measuring expected credit losses.

The following overview shows a summary of the default risk for trade receivables:

In EUR ´000	2018		
	not impaired	impaired	
		credit rating not impaired	credit rating impaired
Rent receivables	10,411	1,986	67,939
Contractual assets from operating costs	155	0	0
Receivables from the sale of investment properties	171	0	0
Contract assets project development	4,474	0	0
Other	7,558	0	0
Gross total carrying amount	22,769	1,986	67,939
Accumulated impairment losses	0	397	66,399
Net total carrying amount	22,769	1,589	1,540

Assessment of expected credit losses:

ADLER uses an impairment matrix to measure the expected credit losses of its receivables due from tenants of apartments, which comprise a very large number of small balances. The loss rates are determined on the basis of an assumption based on the probability that a receivable advances through successive stages in the delay in payment. The assessment takes into account historical default rates depending on the past due status.

31.12.18 In EUR ´000	Loss rate	Gross carrying amount	Impairment	Impaired credit rating
Not past due	0%	0	0	no
1 to 30 days past due	0%	10,411	0	no
31 to 90 days past due	20%	1,986	397	no
91 to 180 days past due	50%	3,083	1,542	yes
more than 180 days past due	100%	64,856	64,856	yes

The analysis of impairment and the age structure of trade receivables, which are neither past due nor impaired, are as follows as at 31 December 2017:

In EUR ´000	2017
Trade receivables	10,717
– of which not impaired as at the reporting date and not past due	1,594
– of which not impaired as at the reporting date and not past due by up to 30 days	0
– of which not impaired as at the reporting date and not past due between 31 and 60 days	44
– of which not impaired as at the reporting date and not past due between 61 and 90 days	0
– of which not impaired as at the reporting date and not past due between 91 and 180 days	284
– of which not impaired as at the reporting date and not past due between 181 and 360 days	0
– of which not impaired and more than 360 days past due at the reporting date	13
– of which net value of impaired trade receivables	8,782

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

Impairments of trade receivables have developed as follows:

In EUR ´000	2018	2017
As at 01.01 according to IAS 39	**61,551**	**61,491**
Adjustments arising from the first-time application of IFRS 9	44	0
As at 01.01 according to IFRS 9	**61,595**	-
Change in the scope of consolidation	4,549	-38
Additions (impairment)	12,476	7,815
Utilisation/reversals	-11,825	-8,168
As at 31 December	**66,795**	**61,551**

The changes in Value adjustment on trade receivables result in Essentially from the acquisition of BCP in the amount of EUR 4,549k.

Other financial assets

The default risk on borrowings, loans, bonds and credit balances at banks is managed at Group level. There are trading rules to ensure that transactions are only made with business partners if they have shown adequate payment behaviour in the past. In the borrower selection process, care is taken to ensure that they have at least a satisfactory credit rating. The analysis of credit includes external ratings, where available, as well as annual financial statements, information from credit agencies, industry information and, in some cases, bank information. ADLER monitors changes in credit risk by tracking the published information mentioned above.

The general impairment model pursuant to IFRS 9 is used. The risks of a default for a 12-month period and over the entire term are based on historical information provided by various rating agencies for each credit rating or classification and aggregated using the rating map or rating matrix (Creditreform or Stuttgart Stock Exchange).

As at the balance sheet date, the default risk for the other financial assets is as follows:

In EUR ´000	Category in accordance with IFRS 9	Net carrying amount 2018	Category in accordance with IAS 39	Net carrying amount 2017
Loans	aac	7,667	lar	0
Other current assets – purchase price receivable ACCENTRO	aac	149,878	lar	161,729
Other current assets – restricted funds	aac	46,502	lar	38,984
Other current assets – loans	aac	17,648	lar	17,392
Other current assets – bonds	aafvoci	14,571	afs	18,191
Cash and cash equivalents – deposits at banks	aac	77,630	lar	368,213
Total		**313,896**		**604,509**

The table below shows an analysis of the credit rating of borrowers of other financial assets (aac and aafvoci). It shows whether a loss allowance has been recognised for an expected 12-month credit loss or for lifetime expected credit losses for those assets measured at amortised cost or fair value in other comprehensive income and whether – in the latter case – an impaired credit rating exists:

	2018					
	At fair value through other comprehensive income (aafvoci)			Measured at amortised cost (aac)		
In EUR ´000	**Expected 12-month credit loss**	**Lifetime expected credit loss – credit rating not impaired**	**Lifetime expected credit loss– impaired credit rating**	**Expected 12-month credit loss**	**Lifetime expected credit loss – credit rating not impaired**	**Lifetime expected credit loss– impaired credit rating**
Very good to good credit rating (very low default risk)	-	-	-	-	-	-
Good to satisfactory credit rating (low default risk)	-	-	-	124,546	-	-
Satisfactory credit rating (Average default risk)	16,522	-	-	25,600	-	-
Sufficient dredit rating (Increased default risk)	-	-	-	-	-	-
Poor credit rating (High default risk)	-	-	-	-	-	-
Insufficient credit rating (Very high default risk)	-	-	-	-	-	3,776
Gross total carrying amount	**16,522**	**-**	**-**	**150,146**	**-**	**3,776**
Accumulated impairment losses	182	-	-	668	-	3,776
Other comprehensive income	1,769	-	-	-	-	-
Net total carrying amount	**14,571**	**-**	**-**	**149,478**	**-**	**0**

Due to existing collateral, no expected credit loss is taken into account for the ACCENTRO purchase price receivable. Should the buyer fail to meet its payment obligations within the agreed timeframe or not fully meet them, ADLER has the right to withdraw from the sale and the right to acquire the shares in ACCENTRO expires or reverts to ADLER.

Cash and cash equivalents are deposited at banks that predominantly have a good to satisfactory credit rating. The loans are partly due to associates that have no active operating activities.

Impairment losses on financial assets measured at amortised cost developed as follows over the course of the year:

	2018			
In EUR ´000	**Expected 12-month credit loss**	**Lifetime expected credit loss – credit rating not impaired**	**Lifetime expected credit loss– impaired credit rating**	**Total**
As at 01.01 according to IAS 39	**-**	**-**	**-**	**3.661**
Adjustments arising from the first-time application of IFRS 9	-	-	-	1.209
As at 01.01 according to IFRS 9	**1.267**	**-**	**3.603**	**4.870**
Net remeasurement of impairment losses	-	-	-	-
Reclassified as lifetime expected credit losses – credit rating not impaired	-	-	-	-
Reclassified as lifetime credit losses – impaired credit rating	-	-	-	-
Repaid financial assets	-864	-	-	-864
Newly acquired financial assets	265	-	173	438
As at 31 December	**668**	**-**	**3.776**	**4.444**

Impairment losses decreased compared to the beginning of the year, mainly due to the decline in cash and cash equivalents.

Impairment losses on financial assets measured at fair value through comprehensive income developed as follows over the course of the year:

	2018			
In EUR ´000	**Expected 12-month credit loss**	**Lifetime expected credit loss – credit rating not impaired**	**Lifetime expected credit loss– impaired credit ratingt**	**Total**
As at 01.01 according to IAS 39	**-**	**-**	**-**	**-**
Adjustments arising from the first-time application of IFRS 9	-	-	-	210
As at 01.01 according to IFRS 9	**210**	**-**	**-**	**210**
Net remeasurement of impair-ment losses	-	-	-	
Reclassified as lifetime expected credit losses – credit rating not impaired	-	-	-	-
Reclassified as lifetime credit losses – impaired credit rating	-	-	-	-
Repaid financial assets	-28	-	-	-28
Newly acquired financial assets	-	-	-	-
As at 31 December	**182**	**-**	**-**	**182**

(C) Liquidity risk

Responsibility for liquidity risk management rests with the Management Board, which has developed a suitable concept for managing the company's short, medium and long-term financing and liquidity requirements. The Group manages liquidity risks by continually monitoring its expected and actual cash flows and aligning the maturity profiles of financial assets and liabilities. Liquidity management aims to ensure that the Group is always able to meet its payment obligations by maintaining adequate liquidity reserves and optimising group-internal liquidity flows.

In credit agreements assumed in the context of acquisitions, the Group has in some cases undertaken to comply with contractually agreed financial covenants. Among other aspects, these relate to the generation of cash flows on a property company level. Asset management for these portfolios is geared to ensure compliance with these financial covenants.

Similarly, credit terms have also been agreed for the bonds issued. Any failure to comply with these terms could also lead to a liquidity risk. Infringement of the credit terms, such as a change of control, may result in the premature termination and repayment of these bonds and convertible bonds.

The ADLER Group had cash and cash equivalents of EUR 77.655k at the balance sheet date (previous year: EUR 368,233k). In addition, restricted cash and cash equivalents of EUR 46.502k are subject to restrictions on disposal and have been recognised under other current assets (previous year: EUR 38,984k).

The following liquidity analyses present the contractually agreed (undiscounted) cash flows for primary financial liabilities and derivative financial instruments, including interest payments, as at the respective balance sheet date. The analyses include all financial instruments held on the respective reporting date. Budget figures for future new liabilities are not included. Floating-rate interest payments were calculated by reference to the relevant spot rates on the respective balance sheet dates. With regard to outflows of cash for convertible bonds, it has been assumed that these will not be converted.

31.12.2018	Cash outflows					
In EUR ´000	**2019**	**2020**	**2021**	**2022**	**2023**	**> 2023**
Liabilities to banks	164,164	141,109	638,895	226,735	302,676	253,279
Liabilities from bonds	67,674	365,947	543,751	35,946	535,037	669,859
Liabilities from convertible bonds	3,256	3,256	133,503	0	0	0
Trade payables	47,440	0	0	0	0	0
Other liabilities	20,940	380	380	380	380	16,876
Total	**303,456**	**510,692**	**1,316,529**	**263,061**	**838,092**	**940,013**

31.12.2017	Cash outflows					
In EUR ´000	**2018**	**2019**	**2020**	**2021**	**2022**	**> 2022**
Liabilities to banks	296,473	47,880	88,824	302,777	82,159	295,655
Liabilities from bonds	69,787	37,625	525,750	513,875	6,375	312,750
Liabilities from convertible bonds	7,825	3,447	3,447	141,347	0	0
Trade payables	29,125	0	0	0	0	0
Other liabilities	11,863	17,187	380	380	380	10,060
Total	**415,073**	**106,139**	**618,402**	**958,379**	**88,914**	**618,465**

Further information about outflows of cash for lease liabilities can be found in Note 8.22, "Other non-current financial liabilities".

(D) Financing risk
In making further acquisitions, the Group depends on the granting of loans or capital increases. Expiring loans also have to be extended or refinanced. In all cases, there is the risk that such facilities cannot be extended, or only on different terms. Furthermore, within the scope of consolidation there are loan agreements with a total carrying amount of around EUR 1,063 million on which the banks have imposed requirements in the form of financial covenants (previous year: EUR 863 million). Depending on the property to which such agreements apply, the Group must achieve a debt service coverage ratio (DSCR) of between 105 percent and 175 percent (previous year: between 103 percent and 127 per cent), an interest coverage ratio (ICR) of 1.26 to 2.10 (previous year: 1.16 to 2.30), a loan-to-value (LTV) ratio of between 65 percent and 82 percent (previous year: between 74 percent and 80 percent) or a loan-to-mortgage-lending-value (LTMLV) ratio of no more than 82 percent (previous year: no more than 80 percent). Individual credit agreements require a minimum amount of maintenance work or rental income. Should the maintenance measures agreed in the loan agreement not be carried out, the company must maintain a cash reserve of the same amount on restricted accounts. Failure to comply with such covenants entitles the lenders to impose various sanctions, which may also include terminating the respective facility.

Similarly, credit terms have also been agreed for the convertible and corporate bonds issued. Failure to comply with such terms may result in a liquidity risk. In some cases, failure to comply with the terms may lead to the termination and premature repayment of these convertible bonds and corporate bonds.

(E) Currency risk
In the course of the acquisition of BCP, ADLER took over three bonds (series A, B and C) with a carrying amount of EUR 116,149k as at 31 December 2018. All three bonds were issued in New Israeli Shekel (NIS) and linked to the Consumer Price Index (CPI) for Israel. As there are no matching assets with such characteristics in the ADLER Group, ADLER is exposed to the foreign exchange risk for the currency pair EUR/NIS as well as to a fluctuation in the CPI. The changes in these factors can lead to an increase in interest payments and principal repayments of the bonds.

Had the exchange rate (EUR/NIS) as at 31 December 2018 been 5 percent higher/lower, the fair value of the bond would have changed by EUR 5,212k or EUR -5,760k. If the CPI had increased/reduced by 3 percent the fair value of the bond would have changed by EUR -884k or EUR 312k.

To reduce its foreign exchange risk (EUR/US_Dollar), ADLER deploys foreign currency derivatives (see Note 11.3) Had the exchange rate as at 31 December 2018 been 5 percent higher/lower, the fair values of derivatives (EUR -253k) would have changed by EUR 2,750k or EUR -2,750k.

11.3 Derivative Finanzinstrumente

Derivative financial instruments are used at the Group to hedge interest rate risks for floating-rate loan agreements in particular. No material rating risk is involved, as the interest hedges are concluded with the financing banks. In addition, foreign currency derivatives are also used on BCP level.

The fair values of the interest hedge contracts amounted to EUR -6,079k as at the balance sheet date (previous year: EUR -5,859). The fair values and nominal values of the interest hedge contracts broken down by maturity are presented below:

	Fair Values		Nominal	
In EUR ´000	**2018**	**2017**	**2018**	**2017**
Up to 1 year	-386	-158	6,406	1,411
Due between 1 and 5 years	-2,103	-3,430	123,154	91,534
Due between 5 and 10 years	-3,590	-2,271	55,387	50,030
Total	**-6,079**	**-5,859**	**184,946**	**142,975**

The fair values of the foreign currency derivatives amounted to EUR -253k as at the balance sheet date (previous year: EUR 0k). The fair values and nominal values of the interest hedge contracts broken down by maturity are presented below:

	Fair Values		Nominal	
In EUR ´000	**2018**	**2017**	**2018**	**2017**
Up to 1 year	-196	-	42,706	-
Due between 1 and 5 years	-57	-	12,294	-
Due between 5 and 10 years	0	-	0	-
Total	**-253**	**-**	**55,000**	**-**

The derivative financial instruments are initially measured at fair value, which is attributable to them on the day the contract is concluded. Subsequent measurement is based on the fair value of the respective balance sheet.

The fair value of derivates broken down by balance sheet item are presented below:

Balance sheet item In EUR ´000	Hedging relationship under IFRS 9	31.12.2018	31.12.2017
Other current asset (measured at fair Value though profit or loss)	no	139	0
Other current liabilites (measured at fair value through profit or loss)	no	-583	-158
Other non-current liabilities (measured at fair value through profit or loss)	no	-5,888	-5,701
Total		**-6,332**	**-5.859**

A valuation result of EUR 5,685k was recognised for derivatives in the financial year (previous year: EUR 2,035k).

12. CAPITAL RISIK MANAGEMENT

The Group manages its capital with the objective of maximising the earnings of shareholders by optimising the ratio of equity to debt. This ensures that all group companies can continue to operate as going concerns. Consolidated equity as posted in the balance sheet is used as an important key figure for capital management.

As a stock corporation, the company is subject to the minimum capital requirements set out in the German Stock Corporation Act (AktG). Furthermore, the Group is subject to both standard and industry-specific minimum capital requirements imposed by lenders, especially for financing specific property projects. These minimum capital requirements are continually monitored and were met in the year under report and the previous year.

Risk management reviews the Group's capital structure on a quarterly basis. Accounting ratios are identified and projected in order to ensure compliance with external capital requirements and the financial covenants applicable to numerous credit agreements. These also include property-specific debt service ratios, loan-to-value figures and contractually defined balance sheet and income ratios.

The year-end equity ratio was determined as follows:

In EUR ´000	31.12.2018	31.12.2017
Equity (incl. non-controlling interest)	1,579,631	1,037,500
Total assets	5,856,631	1,778,967
Equity ratio in %	**27.0**	**27.5**

Excluding convertible bonds, the ratio of net financial liabilities to assets net of cash (LTV) amounted to 61.4 percent (previous year: 59.4 percent). Further details can be found in the disclosures on the asset position in the group management report.

13. OTHER DISCLOSURES

13.1 Minimum lease payments from operating leases

Disclosures on operating leases pursuant to IAS 17.56 in EUR ´000	Comparative period 2017	Reporting period 2018	2019	2020 to 2023	from 2024
			up to1 year	1–5 years	more than 5 years
Total future minimum lease payments based on operating leases that cannot be cancelled as the lessor	170,069	238,207	85,736	78,320	86,485

The claims to minimum lease payments from long-term operating leases generally result from leasing commercial properties. In the residential property segment, lease contracts are generally subject to the three-month statutory term of notice. There are no more far-reaching claims to minimum lease payments. Minimum lease payments include rental income, not including allocable operating costs.

13.2 Other financial obligations and contingent liabilities

(A) Other financial obligations

The Group had the following significant financial obligations at the balance sheet date:

In EUR ´000	2018	2017
Rental and lease obligations		
Due within one year	6,537	5,734
Due between 1 and 5 years	17,644	9,605
Due in more than 5 years	12,654	1,899
	36,835	17,238
Management contracts, support agreements		
Due within one year	15,067	3,649
Due between 1 and 5 years	8,777	13,348
Due in more than 5 years	288	0
	24,132	16,997
Obligations from acquisitions/project developments		
Unpaid construction expenses	513,062	155,707
Total	**574,029**	**189,942**

Rental and lease obligations primarily result from the rental of office space, cars and hardware in non-cancellable operating leases. There are no purchase options. There are extension options beyond the fixed lease terms only for the rental of office spaces.

Outstanding construction costs result from property development projects that have already been started. The outstanding construction costs are taken from the residual value appraisals for these projects (see Note 8.3) and thus represent an estimate of the costs incurred until the completion of the respective project.

(B) Contingent liabilities

In connection with the divested stake in conwert Immobilien Invest SE, the Austrian Takeover Board has determined in review proceedings pursuant to § 33 Übernahmegesetz (ÜbG – Takeover Act) which are now legally binding that the company achieved a controlling stake in conwert by mutual agreement with other persons within the meaning of § 1 clause 6 ÜbG and then failed to make a mandatory bid as required pursuant to § 33 (1) clause 2 ÜbG. The company could therefore be confronted in future with restitution proceedings and administrative penalties. As far as can be seen, proceedings of this nature have not been conducted in Austria in the past. From a current perspective, neither the number nor the specific structure of such cases can be determined. ADLER continues to reject the determinations of the Takeover Commission as ascertained in its review as inaccurate and erroneous, due to being verifiable by any second instance.

In connection with the acquisition of shares in BCP, a minority shareholder filed a lawsuit at the Tel Aviv District Court, Tel Aviv, Israel. The complaint alleges a disadvantage whereby the majority shareholders Redzone Empire Holding Limited, Cyprus and the three members of senior management sell their shares in full to ADLER, while the remaining minority shareholders in BCP transferred their shares in the context of the STO only to a limited extent. As part of the lawsuit, a litigation value of NIS 78 to 116 million (equivalent to EUR 18 to 27 million as at the balance sheet date), the total value of the minority interests concerned, was asserted. At the current moment in time, the prospects for a successful outcome cannot yet be assessed. However, the company assesses the risk as very low. This is because comprehensive legal advice was obtained during the entire acquisition process, so that from the ADLER perspective there is no need to create provisions.

As part of the financing of a project development in Düsseldorf, BCP issued guarantees of EUR 9.0 million in total. The risk of utilization is currently estimated to be low, as all financing obligations have so far been met..

13.3 Related-party disclosures

Pursuant to IAS 24 “Related Party Disclosures”, related parties are defined as closely related companies and persons, including parent companies and subsidiaries, subsidiaries of a common parent company, associates, legal entities influenced by the management, as well as the company’s own management. Transactions between ADLER and its subsidiaries are eliminated through consolidation and are therefore not disclosed in the notes.

The following material transactions were executed between the Group and related parties:

A former member of the company's Supervisory Board is the Managing Director of KvU Land und Jagd Beteiligungen GmbH (hereinafter "KvU"), which holds minority interests in twenty-two of ADLER's property companies. In the year under report, the Group and KvU, which constitutes a related party until the departure of the Supervisory Board member, executed transactions in the form of loan agreements. The loans granted by ADLER and its subsidiaries, including accrued interest claims, were valued as follows at the balance sheet date:

Loan provider in the ADLER Group In EUR ´000	2018	Of which interest 2018	2017	Of which interest 2017
ADLER Real Estate AG	530	27	503	27
Magnus Zweite Immobilienbesitz und Verwaltungs GmbH	4,044	195	3,849	196
Magnus Dritte Immobilienbesitz und Verwaltungs GmbH	35	2	33	2
Münchner Baugesellschaft mbH	60	3	57	3
Magnus Fünfte Immobilienbesitz und Verwaltungs GmbH	5,371	272	5,099	273
Total nominal value	**10,040**	**499**	**9,541**	**501**
Accumulated impairment losses	111	-	0	-
Total	**9,929**	**499**	**9,541**	**501**

The loans have indefinite terms and may be terminated by ADLER at any time with a notice period of one month to the end of the quarter. A write-down on the loan receivables in the amount of EUR 111k (previous year: EUR 0k) was recognised in the financial year. In addition to the loan receivables, the Group reports a liability of EUR 121k (previous year: EUR 121k) due to KvU.

In 2016, the company sold 5.1 percent of the shares held in WESTGRUND Immobilien GmbH, WESTGRUND Immobilien II. GmbH, WESTGRUND Immobilien Beteiligung III. GmbH, WESTGRUND Immobilien IV. GmbH, WESTGRUND Immobilien VI. GmbH, WESTGRUND VII. GmbH, WESTGRUND VIII. GmbH, WESTGRUND Wolfsburg GmbH, WESTGRUND Brandenburg GmbH, WESTGRUND Niedersachsen Nord GmbH and WESTGRUND Niedersachen Süd GmbH as well as all of the shares held in Liaen Lorentzen Partners AG, Zug/Switzerland to Manoir des Aiglons S.à r.l., Luxembourg, at a total price of EUR 4,000k. No receivables are outstanding in this respect. Furthermore, in connection with the share thereby transferred the company undertook to provide the buyer with a minimum profit distribution of EUR 380k (before taxes) per year for a ten-year period. These distribution claims have been recognised under non-current other liabilities. In 2017, ADLER also granted a loan of EUR 277k to Manoir des Aiglons S.à r.l. The loan had a term until 31 March 2018 and was settled by offsetting the distribution claim for 2017. The company in question is a related party until the member of ADLER's Management Board who is also the Managing Director and a shareholder in Consortium Finance Limited resigns.

The Group had the following material loan receivables, including interest claims, due from unconsolidated companies, associates or joint ventures, as at the balance sheet date:

In EUR ´000	2018	2017
MRT (Mountleigh Roland Ernst B.V.)	2,658	2,616
Stovago B.V.	1,118	987
Brack Capital (Chemnitz) B.V.	4,000	-
Tuchmacherviertel GmbH & Co. KG	3,667	-
Total nominal value	**11,443**	**3,603**
Accumulated impairment losses	-3,376	-3,603
Carrying amounts as of 31.12.	**7,667**	**0**

The Group's other business relationships with unconsolidated companies, associates and joint ventures are of subordinate overall significance.

The Supervisory Board and Management Board hold the key management positions at ADLER AG. The compensation paid to these persons is structured as follows:

In EUR ´000	2018	2017
Supervisory Board remuneration	229	225
Management Board remuneration	3,362	1,001

A member of ADLER's Management Board is the Managing Director and a shareholder in Consortium Finance Limited, London. In the year under review, the compensation of the Management Board includes expenses of EUR 2,071k for services ADLER received from Consortium Finance Limited in connection with the work of the Management Board. In the previous year, ADLER paid EUR 1,125k for the capital market consulting services of Consortium Finance Limited, including a bonus and expenses. These expenses are recognised in the amount of EUR 1,613k (previous year: EUR 1,125k) under other operating expenses. No liabilities are outstanding in this respect. ADLER also granted the Consortium Finance Limited an interest-bearing loan (interest rate 1 percent) of EUR 400k, which was due for repayment on 31.December 2019.

The regular compensation of the Management Board includes payments of EUR 515k from allocated SARs. In addition to their regular compensation, in the 2018 financial year the members of the Management Board received a total of 40,000 SARs within the SAR programme. These had an average fair value of EUR 1.04 per SAR. Detailed disclosures on these rights can be found in Note 9.5 "Personnel expenses".

Individualised disclosure of Management Board compensation pursuant to § 314 (1) No. 6a, Sentences 5 to 9 of the German Commercial Code (HGB) has been waived as the 2016 Annual General Meeting passed a resolution valid for a period of five years.

13.4 Auditor's fee

The total fee invoiced by the auditor for the financial year is structured as follows:

In EUR ´000	2018	2017
Audit of financial statements	671	661
Other assurance service	87	142
Other services	60	29
Total	**818**	**832**

Of financial statement audit fees, an amount of EUR -32k relates to the previous year (previous year: EUR 57k). Other assurance services include services provided in the context of capital market transactions (issuing of comfort letters and examination of profit forecasts). Other services include support for selected accounting issues. In addition, the audit firm only carried out audits of financial statements of controlled companies.

13.5 Employees

The average number of employees was as follows:

Number	2018	2017
Board members	3	3
Full-time employees	790	497
Total	**793**	**500**

13.6 Notes to the consolidated cash flow statement

Financial funds correspond to cash and cash equivalents. Overall, cash and cash equivalents increased by EUR 290,578k (previous year: EUR 244,322k). The Group was able to meet its payment obligations at all times.

Furthermore, restricted liquid funds of EUR 46,502k (previous year: EUR 38,984k) with limitations on disposability were recognised under other assets.

Cash flows are subdivided into cash flows from operating, (divesting) investing and financing activities. The indirect method has been used to present cash flow from operating activities.

Net of non-cash income and expenses and including changes in working capital and investments in inventory properties (trading portfolio), the ADLER Group generated a net inflow of funds of EUR 130,999k from operating activities (previous year: EUR 36,348k). Of this amount, EUR 130,736k (previous year: EUR 66,221k) is attributable to continuing operations and EUR 263k (previous year: EUR -29,873k) to the discontinued Trading segment.

Net cash flow from investing activities came to EUR 609,077k (previous year: net cash flow EUR 212,676k). Net cash flow of EUR 472,278k resulted from the BCP acquisition and EUR 151,500k from investments in existing holdings (investment properties).

Net cash flow from financing activities amounted to EUR 187,825k (previous year: net cash flow EUR 4,702k) and is mainly due to the issuing of the 2018/2023 and 2018/2026 corporate bonds in the amount of EUR 800,000k (nominal) and the cash outflow to repay the outstanding promissory note loans, the different corporate bonds and scheduled repayments of financial loans.

Changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, changes due to accrued interest, changes due to the effective interest method, changes from exercising conversion rights and changes due to reclassifications in a reconciliation statement between the opening and closing balances in the statement were presented. There were no material implications from changes in foreign exchange rates.

		cash effective	not cash effective					
In EUR ´000	**31.12. 2017**		**Acqui-sitions/ sale**	**Interest liabilities**	**Amorti-sation effective interest method**	**Conversi-ons**	**Regrou-pings**	**31.12. 2018**
Non-current liabilities								
Liabilities from convertibles	119,731	0	0	0	5,437	-7,652	0	117,516
Liabilities from bonds	1,277,640	553,055	116,995	0	13,421	0	0	1,961,111
Liabilites to banks	749,188	121,030	629,681	417	8,785	0	-32,914	1,476,187
Current liabilities								
Liabilities from convertibles	6,505	-4,368	0	4,289	-573	-4,097	0	1,755
Liabilities from bonds	42,679	-64,396	18,317	45,334	-1,674	0	0	40,260
Liabilites to banks	278,676	-390,352	146,760	73,657	753	0	32,914	142,408
Total liabilities from financing	**2,474,419**	**214,969**	**911,753**	**123,697**	**26,149**	**-11,749**	**0**	**3,739,238**

In the previous year, the reconciliation statement was as follows:

		cash effective	not cash effective					
In EUR ´000	31.12. 2016		Acqui-sitions/ sale	Interest liabilities	Amorti-sation effective interest method	Conversi-ons	Regrou-pings	31.12. 2017
Non-current liabilities								
Liabilities from convertibles	143,870	-35,178	22,883	0	2,666	-9,743	-4,767	119,731
Liabilities from bonds	509,454	797,029	0	0	5,199	0	-34,042	1,277,640
Liabilites to banks	1,312,502	-393,529	26,164	123	11,685	0	-207,757	749,188
Current liabilities								
Liabilities from convertibles	1,554	-4,712	0	4,896	0	0	4,767	6,505
Liabilities from bonds	8,281	-28,954	0	29,310	0	0	34,042	42,679
Liabilites to banks	320,328	-236,314	-51,891	37,592	1,203	0	207,757	278,676
Total liabilities from financing	**2,295,989**	**98,342**	**-2,844**	**71,921**	**20,753**	**-9,743**	**0**	**2,474,419**

13.7 Management Board and Supervisory Board

The Management Board of ADLER Real Estate Aktiengesellschaft, Berlin, comprises the members Tomas de Vargas Machuca, Master of Science in Economics, Maximilian Rienecker, Master of Science in Management and Sven-Christian Frank, lawyer. Frank has been COO of the Management Board since 9 June 2016, while Vargas Machuca and Rienecker were appointed as co-CEOs on 22 December 2017.

The Supervisory Board of ADLER Real Estate AG consists of the following members:
- Dr Dirk Hoffmann, Rum/Austria, lawyer and banker, Chairman
- Thomas Katzuba von Urbisch, Monte Carlo/Monaco, lawyer and businessman, Deputy Chairman until 30 May 2018
- Thilo Schmid, Blotzheim/France, project controller, Deputy Chairman since 30 May 2018
- Claus Jorgensen, London/UK, businessman, since 30 May 2018

The following members of the Supervisory Board of ADLER Real Estate Aktiengesellschaft, Berlin, held the following further positions on supervisory boards and other supervisory bodies as defined in § 125 (1) Sentence 5 of the German Stock Corporation Act (AktG):

- Dr. Dirk Hoffmann
  WESTGRUND AG, Berlin (Supervisory Board Chairman since 2 January 2018, previously Advisory Board Member since 21 December 2017)
  Squadra Immobilien GmbH & Co. KGaA, Frankfurt am Main (Supervisory Board Chairman)
  ACCENTRO Real Estate AG, Berlin (Deputy Supervisory Board Chairman)

- Thilo Schmid
  Jedox AG, Freiburg (Advisory Board member)
  DTH S.A., Luxembourg (Member of the Board)
  Mindlab Solutions GmbH, Stuttgart (Advisory Board member)
  cynora GmbH, Bruchsal (Advisory Board member)

Claus Jorgensen and the members of the Management Board do not hold any positions on other supervisory boards as defined in § 125 (1) sentence 5 of the German Stock Corporation Act (AktG).

13.8 Events after the balance sheet date

During the first quarter of 2019, control to dispose of the approximately 3,700 properties has been transferred from the non-core holdings, which were sold in two separate transactions at the end of 2018.

In the first quarter of 2019, BCP started negotiations on the acquisition of non-controlling interests in several subsidiaries. The consideration for the transaction would probably to amount to EUR 91.0 million in the event of execution.

The third supplementary agreement dated 19 March 2019 to the share transfer agreement for the majority holding in ACCENTRO extended the term of payment of the remaining outstanding purchase price receivable of EUR 149.9 million as at 31 December 2018 by binding agreement until 30 June 2019 at the latest.

BCP has entered into a binding sale and purchase agreement on 25 March 2019 with an established London-based real estate private equity firm to dispose of three retail assets located in Rostock, Celle and Castrop-Rauxel. BCP will retain a minority stake of 10.1 percent as part of the share deal. Closing remains subject to customary closing conditions. The disposal of these three retail assets is in line with ADLER's strategy to remain a pure play German residential real estate company. The proceeds will be used to repay around EUR 107,0 million of bank debt to further strengthen the balance sheet with LTV of ADLER being positively impacted by approximately 80 bps.

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

13.9 Declaration of Conformity with the German Corporate Governance Code

The Declaration of Conformity of ADLER AG was most recently submitted by the Management Board in March 2019. It is permanently available to shareholders at:

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

The Declaration of Conformity of WESTGRUND AG was most recently submitted by that company's Management Board in September 2018. It is permanently available to shareholders at:

http://www.westgrund.de/investor-relations/corporate-governance/entsprechenserklaerung

Berlin, 25 March 2019

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

No.	Company	Headquarters
	Subsidiaries fully consolidated	
1	ADLER Real Estate AG (Muttergesellschaft)	Berlin
2	ADLER Real Estate Service GmbH	Hamburg
3	Verwaltungsgesellschaft ADLER Real Estate mbH	Hamburg
4	Achte ADLER Real Estate GmbH & Co. KG	Hamburg
5	Adler Real Estate Properties GmbH & Co. KG	Hamburg
6	MÜBAU Real Estate GmbH	Hamburg
7	"ADLER Lux S.à.r.l."	Luxembourg//Grand Duchy of Luxembourg
8	Adler McKinney LLC	McKinney / USA
9	Münchener Baugesellschaft mbH	Hamburg
10	ADLER Wohnen Service GmbH	Hamburg
11	MBG Beteiligungsgesellschaft mbH & Co. KG	Hamburg
12	MBG Dallgow GmbH & Co. KG	Hamburg
13	MBG Großbeeren GmbH & Co. KG	Hamburg
14	MBG Trachau GmbH & Co. KG	Hamburg
15	MBG Wohnbau Verwaltungsgesellschaft mbH	Hamburg
16	MBG Erste Vermögensverwaltungs GmbH	Hamburg
17	Magnus zweite Immobilienbesitz und Verwaltungs GmbH	Hamburg
18	Energy AcquiCo I GmbH	Frankfurt am Main
19	Magnus Dritte Immobilienbesitz und Verwaltungs GmbH	Hamburg
20	EAGLE BidCo GmbH	Hamburg
21	Magnus Fünfte Immobilienbesitz und Verwaltungs GmbH	Hamburg
22	WBG GmbH	Helmstedt
23	WER 1. Wohnungsgesellschaft Erfurt Rieth mbH	Berlin
24	WER 2. Wohnungsgesellschaft Erfurt Rieth mbH	Berlin
25	ESTAVIS 6. Wohnen GmbH	Berlin
26	ESTAVIS 7. Wohnen GmbH	Berlin
27	ESTAVIS 8. Wohnen GmbH	Berlin
28	ESTAVIS 9. Wohnen GmbH	Berlin
29	RELDA 36. Wohnen GmbH	Berlin
30	RELDA 38. Wohnen GmbH	Berlin
31	RELDA 39. Wohnen GmbH	Berlin
32	RELDA 45. Wohnen GmbH	Berlin
33	RELDA Bernau Wohnen Verwaltungs GmbH	Berlin
34	MBG Sachsen GmbH	Aue
35	Magnus-Relda Holding Vier GmbH	Berlin
36	Cato Immobilienbesitz und -verwaltungs GmbH	Hamburg
37	Magnus Immobilienbesitz und Verwaltungs GmbH	Hamburg
38	WBR Wohnungsbau Rheinhausen GmbH	Hamburg
39	S.I.G. RE GmbH	Hamburg
40	Resident Baltic GmbH	Berlin

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

	Equity interest in %	Held by No.	Business activity
			Holding
	100.0	1	Service company
	100.0	1	General Partner
1)	100.0	1	Project development
1)	100.0	1	Project development
	100.0	1	None
	100.0	1	None
	100.0	6	Intermediate holding company
	100.0	1	Intermediate holding company
	100.0	9	Service company
1)	94.9	9	Intermediate holding company
1)	100.0	9	Project development
1)	100.0	9	Project development
1)	100.0	9	Project development
	100.0	9	Intermediate holding company
	100.0	9	Intermediate holding company
	100.0	9	Intermediate holding company
	100.0	17	Intermediate holding company
	100.0	9	Intermediate holding company
	100.0	1	None
	100.0	9	Intermediate holding company
	94.0	18	Portfolio management
	94.9	9	Portfolio management
	94.9	9	Portfolio management
	94.9	35	Portfolio management
	94.9	35	Portfolio management
	94.9	35	Portfolio management
	94.9	35	Portfolio management
	94.9	35	Portfolio management
	94.9	35	Portfolio management
	94.9	35	Portfolio management
	94.9	35	Portfolio management
	94.0	35	Portfolio management
	94.9	9	Portfolio management
	98.1	9	Portfolio management
	94.9	17	Portfolio management
	100.0	9	Intermediate holding company
	94.9	37	Portfolio management
	100.0	16	Intermediate holding company
	94.8	39	Portfolio management

No.	Company	Headquarters
	Subsidiaries fully consolidated	
41	Resident Sachsen P&K GmbH	Berlin
42	Resident West GmbH	Hamburg
43	MBG Schwelm GmbH	Hamburg
44	MBG Lüdenscheid GmbH	Hamburg
45	MBG Dorsten GmbH & Co. KG	Hamburg
46	Alana Properties GmbH	Hamburg
47	Aramis Properties GmbH	Hamburg
48	REO-Real Estate Opportunities GmbH	Frankfurt am Main
49	ROSLYN Properties GmbH	Hamburg
50	Rostock Verwaltungs GmbH	Hamburg
51	SEPAT PROPERTIES GmbH	Hamburg
52	Wallace Properties GmbH	Hamburg
53	Zweite REO-Real Estate Opportunities GmbH	Frankfurt am Main
54	ADLER ImmoProjekt Erste GmbH	Hamburg
55	ADLER Energie Service GmbH	Hamburg
56	MountainPeak Trading Limited	Nikosia / Cyprus
57	Magnus Achte Immobilienbesitz und Verwaltungs GmbH	Hamburg
58	Magnus Neunte Immobilienbesitz und Verwaltungs GmbH	Hamburg
59	MBG Projektentwicklungsgesellschaft mbH	Hamburg
60	ADLER Immo Invest GmbH	Hamburg
61	Wohnungsbaugesellschaft JADE mbH	Wilhelmshaven
62	JADE Immobilien Management GmbH	Wilhelmshaven
63	ADLER Gebäude Service GmbH	Wilhelmshaven
64	Westgrund Aktiengesellschaft	Berlin
65	Westgrund Immobilien GmbH	Berlin
66	Westgrund Immobilien II. GmbH	Berlin
67	Westconcept GmbH	Berlin
68	IMMOLETO Gesellschaft mit beschränkter Haftung	Berlin
69	ICR Idee Concept und Realisation von Immobilienvorhaben GmbH	Berlin
70	HKA Grundstücksverwaltungsgesellschaft mbH & Co. Kommanditgesellschaft	Berlin
71	HKA Verwaltungsgesellschaft mbH	Berlin
72	Westgrund Immobilien Beteiligung GmbH	Berlin
73	Westgrund Immobilien Beteiligung II. GmbH	Berlin
74	Westgrund Immobilien Beteiligung III. GmbH	Berlin
75	Westgrund Westfalen GmbH & Co. KG	Berlin
76	WESTGRUND Immobilien IV. GmbH	Berlin
77	WESTGRUND Immobilien V. GmbH	Berlin
78	WESTGRUND Immobilien VI. GmbH	Berlin
79	Wiederaufbau-Gesellschaft mit beschränkter Haftung	Ludwigshafen am Rhein
80	TREUHAUS Hausbetreuungs-GmbH	Ludwigshafen am Rhein

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

	Equity interest in %	Held by No.	Business activity
	94.8	39	Portfolio management
	94.8	39	Portfolio management
	94.9	17	Portfolio management
	94.9	9	Portfolio management
	5.1	11	
1)	94.0	17	Portfolio management
	6.0	9	
	94.4	19	Portfolio management
	94.8	19	Portfolio management
	94.9	19	Portfolio management
	94.8	19	Portfolio management
	94.0	19	Portfolio management
	94.8	19	Portfolio management
	94.8	19	Portfolio management
	94.9	19	Portfolio management
	100.0	1	None
	100.0	1	Service company
	100.0	1	Intermediate holding company
	100.0	9	Intermediate holding company
	100.0	9	Intermediate holding company
	100.0	1	Project development
	100.0	1	Project development
	94.9	21	Portfolio management
	100.0	61	Service company
	100.0	9	Service company
	96.7	1	Holding
	94.9	64	Portfolio management
	94.9	64	Portfolio management
	100.0	64	Service company
	100.0	64	Intermediate holding company
	94.9	68	Portfolio management
	100.0	69	Portfolio management
	100.0	69	General Partner
	100.0	64	None
	100.0	64	None
	94.9	64	Portfolio management
	94.9	69	Portfolio management
	94.9	64	Portfolio management
	94.0	64	Portfolio management
	94.9	64	Portfolio management
	94.8	64	Portfolio management
	100.0	67	Service company

No.	Company	Headquarters
	Subsidiaries fully consolidated	
81	WAB Hausverwaltungsgesellschaft mbH	Ludwigshafen am Rhein
82	Westgrund Wolfsburg GmbH	Berlin
83	Westgrund Niedersachsen Süd GmbH	Berlin
84	Westgrund Niedersachsen Nord GmbH	Berlin
85	Westgrund Brandenburg GmbH	Berlin
86	Westgrund VII. GmbH	Berlin
87	Westgrund I. Halle GmbH	Berlin
88	Westgrund Halle Immobilienverwaltung GmbH	Berlin
89	Westgrund Immobilien II. Halle GmbH & Co. KG	Berlin
90	Westgrund VIII. GmbH	Berlin
91	RESSAP – Real Estate Service Solution Applications -GmbH	Berlin
92	Xammit GmbH	Berlin
93	Magnus Zehnte Immobilienbesitz und Verwaltungs GmbH	Hamburg
94	Magnus Elfte Immobilienbesitz und Verwaltungs GmbH	Hamburg
95	Zweite CM Real Estate GmbH	Berlin
96	Dritte CM Real Estate GmbH	Berlin
97	Vierte CM Real Estate GmbH	Berlin
98	TGA Immobilien Erwerb 3 GmbH	Berlin
99	ADP Germany GmbH	Hamburg
100	AFP II Germany GmbH	Hamburg
101	AFP III Germany GmbH	Hamburg
102	RIV Harbour West MI 1 GmbH	Berlin
103	RIV Harbour East WA 1 GmbH	Berlin
104	RIV Total MI 2 GmbH	Berlin
105	RIV Central WA 2 GmbH	Berlin
106	RIV Square West MI 3 GmbH	Berlin
107	RIV Square East WA 3 GmbH	Berlin
108	RIV Channel MI 4 GmbH	Berlin
109	RIV Kornspreicher GmbH	Berlin
110	Magnus Zwölfte Immobilienbesitz und Verwaltungs GmbH	Berlin
111	Magnus Dreizehnte Immobilienbesitz und Verwaltungs GmbH	Berlin
112	TGA Immobilien Erwerb 10 GmbH	Berlin
113	Brack Capital Properties N.V. (BCP)	Amsterdam/The Netherlands
114	Magnus Fünfzehnte Immobilienbesitz und Verwaltungs GmbH	Berlin
115	Magnus Sechszehnte Immobilienbesitz und Verwaltungs GmbH	Berlin
116	Brack German Properties B.V.	Amsterdam/The Netherlands
117	Brack European Ingatlankezelö KFT	Budapest/Hungary
118	Brack Capital (Düsseldorf-Rossstrasse) B.V.	Amsterdam/The Netherlands
119	Brack Capital (Düsseldorf-Schanzenstraße) B.V.	Amsterdam/The Netherlands
120	Brack Capital (Bad Kreuznach) B.V.	Amsterdam/The Netherlands

	Equity interest in %	Held by No.	Business activity
	100.0	79	None
	94.9	64	Portfolio management
	94.9	64	Portfolio management
	94.9	64	Portfolio management
	94.9	64	Portfolio management
	94.9	64	Portfolio management
	94.9	64	Portfolio management
	100.0	87	General Partner
	100.0	87	Portfolio management
	94.9	64	Portfolio management
	100.0	9	None
	100.0	64	None
	100.0	9	Intermediate holding company
	100.0	9	Intermediate holding company
	94.9	58	Portfolio management
	94.9	58	Portfolio management
	94.9	58	Portfolio management
	94.9	19	Portfolio management
	94.9	94	Portfolio management
	94.9	94	Portfolio management
	94.9	94	Portfolio management
	94.9	93	Portfolio management
	94.9	93	Portfolio management
	94.9	93	Portfolio management
	94.9	93	Portfolio management
	94.9	93	Portfolio management
	94.9	93	Portfolio management
	94.9	93	Portfolio management
	94.9	93	Portfolio management
	100.0	9	Intermediate holding company
	100.0	9	Intermediate holding company
	94.9	110	Portfolio management
	69.8	1	Holding
	100.0	9	Intermediate holding company
	100.0	9	Intermediate holding company
	100.0	113	Intermediate holding company
	100.0	113	Service company
	100.0	116	Portfolio management
	100.0	116	Portfolio management
	100.0	116	Portfolio management

No.	Company	Headquarters
	Subsidiaries fully consolidated	
121	Brack Capital (Gelsenkirchen) B.V.	Amsterdam/The Netherlands
122	Brack Capital (Neubrandenburg) B.V.	Amsterdam/The Netherlands
123	Brack Capital (Ludwigsfeld) B.V.	Amsterdam/The Netherlands
124	Brack Capital (Remscheid) B.V.	Amsterdam/The Netherlands
125	Brack Capital Theta B.V.	Amsterdam/The Netherlands
126	Graniak Leipzig Real Estate GmbH & Co KG	Frankfurt am Main
127	BCRE Leipzig Residenz am Zoo GmbH	Frankfurt am Main
128	Brack Capital Epsilon B.V.	Amsterdam/The Netherlands
129	Brack Capital Delta B.V.	Amsterdam/The Netherlands
130	Brack Capital Alfa B.V.	Amsterdam/The Netherlands
131	Brack Capital (Hamburg) B.V.	Amsterdam/The Netherlands
132	BCP Leipzig B.V.	Amsterdam/The Netherlands
133	BCRE Leipzig Wohnen Nord B.V.	Amsterdam/The Netherlands
134	BCRE Leipzig Wohnen Ost B.V.	Amsterdam/The Netherlands
135	BCRE Leipzig Wohnen West B.V.	Amsterdam/The Netherlands
136	Brack Capital Germany (Netherlands) XVIII B.V.	Amsterdam/The Netherlands
137	Brack Capital Germany (Netherlands) XXII B. V.	Amsterdam/The Netherlands
138	BCRE Essen Wohnen B.V.	Amsterdam/The Netherlands
139	BCRE Duisburg Wohnen B.V.	Amsterdam/The Netherlands
140	BCRE Dortmund Wohnen B.V.	Amsterdam/The Netherlands
141	Brack Capital Germany (Netherlands) XVII B.V.	Amsterdam/The Netherlands
142	Brack Capital Germany (Netherlands) Hedging B.V.	Amsterdam/The Netherlands
143	Brack Capital Germany (Netherlands) XLV B.V.	Amsterdam/The Netherlands
144	S.I.B. Capital Future Markets Ltd.	Tel Aviv/Israel
145	Brack Capital Labda B.V.	Amsterdam/The Netherlands
146	Hanse Holdings S.A.R.L.	Luxembourg//Grand Duchy of Luxembourg
147	LBHQ Investments B.V.	Amsterdam/The Netherlands
148	RealProb (Rodelheim) C.V.	Amsterdam/The Netherlands
149	RealProb Investment Germany (Netherlands) III B.V.	Amsterdam/The Netherlands
150	Brack Capital Germany (Netherlands) XLVII B.V.	Amsterdam/The Netherlands
151	Brack Capital Germany (Netherlands) L B.V.	Amsterdam/The Netherlands
152	Brack Capital Germany (Netherlands) LI B.V.	Amsterdam/The Netherlands
153	Brack Capital Germany (Netherlands) LIII B.V.	Amsterdam/The Netherlands
154	Brack Capital Germany (Netherlands) LIV B.V.	Amsterdam/The Netherlands
155	Brack Capital Germany (Netherlands) XLVIII B.V.	Amsterdam/The Netherlands
156	Glasmacherviertel GmbH & Co. KG	Düsseldorf
157	Brack Capital Beta B.V.	Amsterdam/The Netherlands
158	Grafental Mitte B.V.	Amsterdam/The Netherlands
159	Brack Capital Germany (Netherlands) XXVI B.V.	Amsterdam/The Netherlands
160	Grafental GmbH & Co. KG	Düsseldorf

	Equity interest in %	Held by No.	Business activity
	100.0	116	Portfolio management
	100.0	116	Portfolio management
	100.0	116	Portfolio management
	100.0	116	Portfolio management
	100.0	116	Intermediate holding company
	94.9	125	Portfolio management
	94.9	125	General Partner
	100.0	116	Portfolio management
	52.3	116	Portfolio management
	52.3	116	Portfolio management
	100.0	116	None
	100.0	116	Intermediate holding company
	100.0	132	Portfolio management
	100.0	132	Portfolio management
	100.0	132	Portfolio management
	100.0	116	Portfolio management
	100.0	116	Intermediate holding company
	100.0	137	Portfolio management
	100.0	137	Portfolio management
	100.0	137	Portfolio management
	100.0	116	Portfolio management
	100.0	116	None
	100.0	116	Service company
	100.0	143	Service company
	100.0	116	Intermediate holding company
	73.7	145	Portfolio management
	100.0	116	Portfolio management
	99.0	147	Portfolio management
	1.0	149	
	100.0	116	Portfolio management
	100.0	116	Portfolio management
	100.0	116	Intermediate holding company
	100.0	116	Intermediate holding company
	100.0	116	Portfolio management
	100.0	116	None
	100.0	116	Intermediate holding company
	100.0	155	Portfolio management
	85.0	116	Intermediate holding company
	100.0	157	Project development
	85.0	157	Project development
	100.0	159	Project development

No.	Company	Headquarters
	Subsidiaries fully consolidated	
161	Brack Capital Germany (Netherlands) XLIX B.V.	Amsterdam/The Netherlands
162	Brack Capital Germany (Netherlands) XLVI B.V.	Amsterdam/The Netherlands
163	Brack Capital (Witten GmbH & Co. Immobilien KG	Düsseldorf
164	Brack Capital Witten GmbH (GP)	Düsseldorf
165	Brack Capital Germany (Netherlands) XII B.V.	Amsterdam/The Netherlands
166	Brack Capital Germany (Netherlands) XIX B.V.	Amsterdam/The Netherlands
167	Brack Capital Germany (Netherlands) XXI B.V.	Amsterdam/The Netherlands
168	Brack Capital Germany (Netherlands) XLI B.V.	Amsterdam/The Netherlands
169	Brack Capital Germany (Netherlands) XXIII B.V.	Amsterdam/The Netherlands
170	Brack Capital Germany (Netherlands) XLII B.V.	Amsterdam/The Netherlands
171	Brack Capital Germany (Netherlands) XLIII B.V.	Amsterdam/The Netherlands
172	Brack Capital Germany (Netherlands) XLIV B.V.	Amsterdam/The Netherlands
173	Brack Capital Germany (Netherlands) XXIV B.V.	Amsterdam/The Netherlands
174	Brack Capital Germany (Netherlands) XXX B.V.	Amsterdam/The Netherlands
175	Brack Capital Germany (Netherlands) LVI B.V.	Amsterdam/The Netherlands
176	Brack Capital Germany (Netherlands) XXXI B.V.	Amsterdam/The Netherlands
177	Brack Capital Germany (Netherlands) XXXV B.V.	Amsterdam/The Netherlands
178	Brack Capital Germany (Netherlands) XXXVI B.V.	Amsterdam/The Netherlands
179	Brack Capital Germany (Netherlands) XXXVII B.V.	Amsterdam/The Netherlands
180	Brack Capital Germany (Netherlands) XXXVIII B.V.	Amsterdam/The Netherlands
181	Brack Capital Germany (Netherlands) XXXIX B.V.	Amsterdam/The Netherlands
182	Brack Capital Germany (Netherlands) XXV B.V.	Amsterdam/The Netherlands
183	Brack Capital Wuppertal (Netherlands)	Amsterdam/The Netherlands
184	Brack Capital (Wuppertal) GmbH	Frankfurt am Main
185	Invest Partner GmbH	Frankfurt am Main
186	Brack Capital Gelsenkirchen GmbH &Co. Immobilien KG	Frankfurt am Main
187	Brack Capital (Oberhausen) GmbH	Frankfurt am Main
188	Grafental Verwaltungs GmbH (phG)	Düsseldorf
189	Brack Capital Kaufland Sarl	Luxembourg//Grand Duchy of Luxembourg
190	TPL Augsburg Sàrl	Luxembourg//Grand Duchy of Luxembourg
191	TPL Bad Aibling Sàrl	Luxembourg//Grand Duchy of Luxembourg
192	TPL Biberach Sàrl	Luxembourg//Grand Duchy of Luxembourg
193	TPL Borken Sàrl	Luxembourg//Grand Duchy of Luxembourg
194	TPL Geislingen Sàrl	Luxembourg//Grand Duchy of Luxembourg
195	TPL Erlangen Sàrl	Luxembourg//Grand Duchy of Luxembourg
196	TPL Neckersulm Sàrl	Luxembourg//Grand Duchy of Luxembourg
197	TPL Vilshofen Sàrl	Luxembourg//Grand Duchy of Luxembourg
198	TPL Ludwigsburg Sàrl	Luxembourg//Grand Duchy of Luxembourg
199	Brack Capital Eta B.V.	Amsterdam/The Netherlands
200	Admiralty Holdings Limited (Gibraltar Co.)	Gibraltar/Gibraltar

	Equity interest in %	Held by No.	Business activity
	100.0	116	Portfolio management
	100.0	116	Portfolio management
	100.0	162	Portfolio management
	100.0	162	General Partner
	100.0	116	Intermediate holding company
	100.0	116	Portfolio management
	100.0	116	Portfolio management
	100.0	116	Portfolio management
	100.0	116	Portfolio management
	100.0	116	Portfolio management
	100.0	116	Portfolio management
	100.0	116	Portfolio management
	100.0	116	Portfolio management
	100.0	116	Portfolio management
	100.0	116	None
	100.0	116	Portfolio management
	100.0	116	Portfolio management
	100.0	116	Portfolio management
	100.0	116	Portfolio management
	100.0	116	Project development
	100.0	116	Portfolio management
	100.0	116	Intermediate holding company
	100.0	116	Portfolio management
	94.4	116	Portfolio management
	94.0	184	Portfolio management
	100.0	121	Intermediate holding company
	100.0	121	General Partner
	100.0	165	General Partner
	52.4	116	Intermediate holding company
	92.0	189	Portfolio management
	92.0	189	Portfolio management
	92.0	189	Portfolio management
	92.0	189	Portfolio management
	92.0	189	Portfolio management
	92.0	189	Portfolio management
	92.0	189	Portfolio management
	92.0	189	Portfolio management
	92.0	189	Portfolio management
	100.0	116	Intermediate holding company
	94.9	199	Portfolio management

No.	Company	Headquarters
	Subsidiaries fully consolidated	
201	Brack Capital Germany (Netherlands) XL B.V.	Amsterdam/The Netherlands
202	Parkblick GmbH & Co. KG	Düsseldorf
203	Grafental am Wald GmbH (PhG)	Düsseldorf
204	Brack Capital Germany (Netherlands) LII B.V. "Holdco BV"	Amsterdam/The Netherlands
205	Brack Capital Patros GmbH "Holdco GmbH"	Frankfurt am Main
206	Brack Capital Magdeburg I GmbH	Berlin
207	Brack Capital Magdeburg II GmbH	Berlin
208	Brack Capital Magdeburg III GmbH	Berlin
209	Brack Capital Magdeburg IV GmbH	Berlin
210	Brack Capital Magdeburg V GmbH	Berlin
211	Brack Capital Magdeburg VI GmbH	Berlin
212	Brack Capital Halle I GmbH	Berlin
213	Brack Capital Halle II GmbH	Berlin
214	Brack Capital Halle III GmbH	Berlin
215	Brack Capital Halle IV GmbH	Berlin
216	Brack Capital Halle V GmbH	Berlin
217	Brack Capital Leipzig I GmbH	Berlin
218	Brack Capital Leipzig II GmbH	Berlin
219	Brack Capital Leipzig III GmbH	Berlin
220	Brack Capital Leipzig IV GmbH	Berlin
221	Brack Capital Leipzig V GmbH	Berlin
222	Brack Capital Leipzig VI GmbH	Berlin
223	Brack Capital Germany (Netherlands) LV B.V.	Amsterdam/The Netherlands
224	RT Facitily Management GmbH & Co. KG	Düsseldorf
225	RT Facitily Management (Germany) GmbH (GP)	Düsseldorf
226	BCRE Kassel I B.V.	Amsterdam/The Netherlands
227	Brack Objekt Kassel Hafenstrasse GmbH	Frankfurt am Main
228	Brack Capital (Kassel) GmbH & Co. Immobilien KG	Frankfurt am Main
229	RealProb Investment (Duisburg) B.V.	Amsterdam/The Netherlands

	Equity interest in %	Held by No.	Business activity
	100.0	116	Intermediate holding company
	100.0	201	Portfolio management
	100.0	201	General Partner
	100.0	116	Intermediate holding company
	100.0	204	General Partner
	94.9	205	Portfolio management
	94.9	205	Portfolio management
	94.9	205	Portfolio management
	94.9	205	Portfolio management
	94.9	205	Portfolio management
	94.9	205	Portfolio management
	94.9	205	Portfolio management
	94.9	205	Portfolio management
	94.9	205	Portfolio management
	94.9	205	Portfolio management
	94.9	205	Portfolio management
	94.9	205	Portfolio management
	94.9	205	Portfolio management
	94.9	205	Portfolio management
	94.9	205	Portfolio management
	94.9	205	Portfolio management
	94.9	205	Portfolio management
	100.0	116	Intermediate holding company
	100.0	223	Service company
	100.0	224	General Partner
	51.0	116	Intermediate holding company
	94.9	226	General Partner
	94.9	226	Portfolio management
	100.0	116	Portfolio management

No.	Company	Headquarters
	Associated Companies or Joint Ventures included in the consolidated financial statements	
230	Worthing Lake Forest Investors LLC	Atlanta / USA
231	GG Erlabrunn Verwaltungs UG	Aue
232	ACCENTRO REAL ESTATE AG	Berlin
233	ADLER Real Estate Assekuranzmakler GmbH & Co. KG	Düsseldorf
234	Caesar JV Immobilienbesitz und Verwaltungs GmbH (vormals: Magnus Vierzehnte Immobilienbesitz und Verwaltungs GmbH)	Berlin
235	AB Immobilien B.V.	Amsterdam/The Netherlands
236	Tuchmacherviertel GmbH & Co. KG	Aachen
237	Brack Capital (Chemnitz) B.V.	Amsterdam/The Netherlands

	Companies not significant enough to be included at equity in the consolidated financial statements	
238	MRT (Mountleigh Roland Ernst) B.V.	Rotterdam / The Netherlands
239	Stovago B.V.	Rotterdam / The Netherlands

[2] Associated Company – non-current asset held for sale

	Equity interest in %	Held by No.	Business activity
	30.0	8	Project development
	50.0	34	Portfolio management
2)	6.2	1	Trade
	50.0	1	Insurance broker
	25.0	9	Portfolio management
	25.0	9	Portfolio management
	50.0	182	Portfolio management
	60.0	116	Portfolio management
	50.0	1	none
	50.0	1	none

/// AFFIRMATION BY THE LEGAL REPRESENTATIVES

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

Berlin, 25 March 2019

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

/// LEGAL REMARK

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

/// AUDITOR'S REPORT

This is a convenience translation of the german original. Solely the original text in german language is authoritative.

To the ADLER Real Estate Aktiengesellschaft, Berlin

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of ADLER Real Estate Aktiengesellschaft, Berlin and its subsidiaries (the Group), comprising the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January to 31 December 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we audited the combined management report of ADLER Real Estate Aktiengesellschaft for the financial year from 1 January to 31 December 2018. We did not audit the contents of the Group's management declaration published on the Group's website pursuant to Section 315d HGB and the separate non-financial consolidated report pursuant to Sections 315b and 315c HGB, to which reference is made in section 6 or section 1 of the combined management report, in compliance with German law.

In our opinion, based on the findings of our audit,

- the attached consolidated financial statements comply in all material respects with IFRSs, as adopted by the EU, and the additional requirements of German law pursuant to Section 315e (1) HGB and, in accordance with these requirements, give a true and fair view of the Group's net assets and financial position as at 31 December 2018, and of its results of operations for the financial year from 1 January to 31 December 2018, and
- the attached combined management report, as a whole presents an accurate view of the Group's position. The combined management report is consistent with the consolidated financial statements, complies with German legal regulations and suitably presents the opportunities and risks of future development. Our audit opinion regarding the combined management report does not extend to the contents of the Group's management declaration pursuant to Section 315d HGB published on the Group's website and the separate non-financial consolidated report pursuant to Section 315b and 315c HGB, to which reference is made in section 6 or section 1 of the combined management report.

Pursuant to Section 322 (3) Sentence 1 HGB, we state that our audit has not led to any reservations with regard to the compliance of the consolidated financial statements or the combined management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and the combined management report in accordance with Section 317 HGB, the EU Audit Regulation (No. 537/2014; hereinafter "EU-AR"), and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibility according to these regulations and standards is described in further detail in the "Responsibility of the Auditor for the Audit of the Consolidated Financial Statements and the Combined Management Report" section of our auditor's report. We are independent of the consolidated companies in compliance with the provisions of European law, German commercial law and professional law and have fulfilled our other German professional obligations in compliance with these requirements. In addition, we declare pursuant to Article 10 (2) lit. f) EU-AR that we have provided no prohibited non-audit services referred to in Article 5 (1) EU-AR. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions regarding the consolidated financial statements and the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements
Key audit matters are such matters that, in our professional judgement, were the most significant in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2018. These matters were considered in connection with our audit of the consolidated financial statements as a whole and the formulation of our audit opinion; we do not provide a separate audit opinion on these matters.

We present the matters that we consider key audit matters below:
1. Recoverability of goodwill
2. Fair value adjustments of investment properties
3. Initial consolidation of Brack Capital Properties N.V., Amsterdam/Netherlands

Ref 1) Recoverability of goodwill

a) Financial Statement Risk

As of the reporting date, the consolidated statement of financial position shows goodwill items with a total carrying amount of EUR 170.8 million. The Group's disclosures on goodwill are included in sections 5.3, 6 and 8.1 of the notes to the consolidated financial statements. According to IAS 36.90, cash-generating units to which goodwill has been allocated shall be tested for impairment at least annually. This impairment test is carried out by ADLER Real Estate Aktiengesellschaft in the fourth quarter of each year. For each group of cash-generating units, the carrying amount should be compared with the recoverable amount. The recoverable amount is the higher of the value in use as determined using a discounted cash flow method and fair value less disposal costs. As the value in use for the groups of cash-generating units was above the carrying amount as at 31 December 2018, the additional determination of the fair value less disposal costs was not required. However, the result of this measurement depends to a large extent on expectations regarding the future development of the respective operating business, the resulting cash flows and the discount rate used (WACC). In addition, the unchanged observable yield compression, i.e. the different dynamics of the development in property purchase price and rental price, also had an effect in the 2018 financial year. This is due to the carrying amount of investment properties which increases more strongly compared to the forecast cash flows. These carrying amounts decrease the difference between the value in use and the carrying amount of the group of cash-generating units. The result of the impairment test therefore depends significantly on the influence of estimated values. As even minor changes in the assumptions regarding the expected cash flows or the discount rate can have a significant impact on the recoverable amount, we believe that these matters were particularly significant for our audit. Comprehensive disclosures are required in the notes under IAS 36.

b) Audit Approach and Conclusions
As part of our audit, in addition to checking the appropriateness of the measurement model, we checked the plausibility of the planning underlying the impairment tests of all material goodwill on the basis of the historical development and industry-specific market expectations. As a significant part of the value in use results from cash flow forecasts for the period after the detailed planning period (perpetual phase), in particular we have critically assessed the sustainable expected rental increase applied in the perpetual phase. We inspected the planning for potentially biased judgement. As well as checking the plausibility of the underlying planning, we assessed planning accuracy by comparing the previous year's planning with the values actually achieved. With regard to the discount rate used, we have checked the appropriateness of the discount rate provided by an external expert concerning the individual parameters used as well as a critical overall assessment. The impairment test performed as at the balance sheet date identified significant surplus cover of the recoverable amount above the carrying amount for the cash-generating units being assessed. We validated the client's calculation results using complementary analyses, including sensitivity analyses. We have also checked the completeness and appropriateness of the disclosures required under IAS 36 in the notes to the

consolidated financial statements.

We have no indications or findings that the discretion of the legal representatives would not be balanced and appropriate to the valuation parameters and assumptions used. The disclosures made in the notes to the consolidated financial statements in accordance with IAS 36, including those relating to the sensitivities, are complete and appropriate.

Ref 2) Fair value adjustments of investment properties

a) Financial Statement Risk
As at the reporting date, the consolidated statement of financial position shows investment properties with a total carrying amount of EUR 4,989.1 million. ADLER Real Estate Aktiengesellschaft measures investment properties at fair value in accordance with IAS 40 in connection with IFRS 13. In the past financial year, increases in fair value of EUR 465.1 million were recognised in the consolidated statement of financial position. The company's disclosures on investment properties are included in sections 5.2, 6 and 8.3 of the notes to the consolidated financial statements. Further information on the opportunities and risks is provided in chapter 7 of the combined management report. As part of our audit, the fair value of investment properties is determined by reference to surveys compiled by external experts on the basis of current market data and using internationally recognised valuation methods. Discounted cash flow methods are used to discount cash flows expected to be generated by a property object by application of a market-specific, property-specific discount and capitalisation interest rate on the balance sheet date as at 31 December 2018. We believe the measurement of investment properties was of significant importance, as the approach and the measurement of this item which has a significant impact on the amount is largely based on estimates and assumptions. Even small changes in the parameters relevant for measurement can lead to significant changes in the resulting fair values. The most significant parameters in the past financial year were the discounting and capitalisation rates and the sustainable future rental income. Their development reflects the different dynamics of property purchase price and rental price development (yield compression), which is the main driving force for the increase in fair values as at 31 December 2018 compared to the previous year. In addition, IAS 40 and IFRS 13 require a large number of disclosures, the completeness and appropriateness of which are to be ensured.

b) Audit Approach and Conclusions
In particular, our audit procedures included the assessment of the measurement process for compliance with IAS 40 in connection with IFRS 13, the accuracy and completeness of the data used on property holdings and the appropriateness of the parameters related to the measurement, such as discount and capitalisation rates, sustainable rental income, operating costs and vacancy rates. To assess the parameters relevant for measurement used, we also used external market data among other aspects. For a deliberate risk-oriented selection of measurement units, we conducted onsite inspections to check the respective condition of the property and its appropriate consideration in the reports of the external experts. We have also obtained a second valuation report (control account) from another external expert. We convinced ourselves of the qualification and objectivity of the external surveyors commissioned by ADLER Real Estate Aktiengesellschaft. With the knowledge that even relatively small changes in the parameters relevant to the measurement can have a significant impact on the amount of investment properties, we also checked the sensitivity analyses carried out by ADLER Real Estate Aktiengesellschaft and in mathematical terms verified the effects of possible fluctuations in these parameters. We also assessed the appropriateness of the associated disclosures in the consolidated financial statements.

ADLER Real Estate Aktiengesellschaft has implemented appropriate regulations suitable for determining fair values in accordance with IAS 40 and IFRS 13. In our view, the assessments of the legal representatives on which the accounting is based are sufficiently documented and substantiated and ensure an appropriate presentation in the consolidated financial statements. The disclosures in the notes to the consolidated financial statements in accordance with IAS 40 and IFRS 13 are complete and appropriate.

Ref 3) Firt-time (initial) consolidation of Brack Capital Properties N.V., Amsterdam/The Netherlands

a) Financial Statement Risk
With effect as at 2 April 2018, ADLER Real Estate Aktiengesellschaft acquired 69.81 percent of the shares in Brack Capital Properties N.V., Amsterdam/Netherlands, (BCP), whose shares are traded on the Tel Aviv Stock Exchange, Israel, thus gaining controlling influence over BCP. BCP owns a property portfolio of 11,678 units in Germany. The acquisition was recognised as a business combination within the meaning of IFRS 3. At the time of acquisition, a provisional purchase price was allocated, which, taking into account acquisition costs of EUR 554.8 million, resulted in goodwill of EUR 69.6 million.

This acquisition transaction constitutes the significant transaction of the Group in the 2018 financial year and its presentation in the consolidated financial statements of ADLER Real Estate Aktiengesellschaft, Berlin, requires judgement and scope for judgement. There is a risk for the financial statements that the acquired assets and liabilities assumed may be incorrectly identified or measured. There is also the risk that the information required by IFRS 3 in the notes to the consolidated financial statements is not complete or appropriate.

The disclosures of ADLER Real Estate Aktiengesellschaft on the transaction are contained in Sections "4.2 Business combinations" and "8.1 Goodwill, intangible assets" of the notes to the consolidated financial statements and Section "3. Results from operations, net assets and financial position" in the combined management report.

b) Audit approach and conclusions
As part of the audit of the acquisition transaction, we have checked the company acquisition agreements, in particular the agreement with Redzone Empire Holding Limited, Cyprus, the special tender offer and acquisitions made by the senior management of BCP and other relevant documents. Based on these documents and consulting the Management Board and relevant employees, we have gained an understanding of the transaction. To gain further knowledge about the business activities and the economic and legal environment of BCP, we held discussions with the auditor of BCP. We also satisfied ourselves that the acquired assets and liabilities are a business and the transaction represents a business combination.

The provisional identification of individual assets and liabilities and the provisional determination of the fair values were based on (fair value) appraisals prepared by external surveyors commissioned by ADLER Real Estate Aktiengesellschaft. We assessed the extent to which the work of the external surveyors can be utilised, taking into account their competence, ability and objectivity. Our additional audit procedures for which we also included property experts commissioned by ADLER Real Estate Aktiengesellschaft, focus in particular on the identification of value-determining factors for the investment properties to be valued – in particular the market rents and the expected rental price development, the estimated maintenance costs and the discount and capitalisation rates – and focused on the full recognition and measurement of financial liabilities. In addition, we examined the data provided to the surveyors for completeness and accuracy and assessed the consistency of the assumptions with industry-specific market assessments. Our audit procedures also included the analysis and assessment of the possible loss of tax loss carryforwards as well as the recognition of liabilities and receivables from land transfer tax. For the goodwill resulting from the purchase price allocation, we analysed the main synergy drivers and assessed them on the basis of the information and evidence provided to us.

In addition, we evaluated the presentation of non-controlling interests. By reviewing contracts and accounts and corresponding coordination with Accounting, we have verified whether the costs incurred in connection with the business combination were recognised as expenses and recognised as other operating expenses. Finally, we assessed whether the disclosures on the acquisition of BCP are complete and appropriate.

The purchase price allocation shown in the consolidated financial statements was made appropriately overall on the basis of appropriate measurement models, assumptions and data. The disclosures in the notes to the consolidated financial statements are complete and appropriate.

Other information

The legal representatives are responsible for the other information. The other information includes:

- the Group's company management declaration published on the company's website pursuant to Section 315d HGB, to which reference is made in Section 6 of the combined management report,
- the Group's separate non-financial consolidated report, to which reference is made in Section 1 of the combined management report,
- the other parts of the annual report, with the exception of the audited consolidated financial statements and combined management report and our auditor's report,
- the Corporate Governance Report in accordance with No. 3.10 of the German Corporate Governance Code and
- the responsibility statement pursuant to Section 297 (2) Sentence 4 HGB on the consolidated financial statements and the responsibility statement pursuant to Section 289 (1) Sentence 5 HGB in connection with Section 315 (1) Sentence 5 HGB on the combined management report.

Our audit opinions regarding the consolidated financial statements and the combined management report do not extend to the other information, and accordingly we provide neither an audit opinion nor any other form of audit conclusion in this regard.

As part of our audit of the consolidated financial statements, we have a responsibility to read the other information and to evaluate whether it

- exhibits material discrepancies with the consolidated financial statements, the combined management report or the knowledge we have obtained during our audit, or
- otherwise seems significantly incorrect.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the legal representatives and the Supervisory Board for the consolidated financial statements and the combined management report

The legal representatives are responsible for preparing the consolidated financial statements, which in all material respects comply with IFRSs, as adopted by the EU, and the additional requirements of German law pursuant to Section 315e (1) HGB, and for the consolidated financial statements giving a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. Furthermore, the legal representatives are responsible for the internal controls that they deemed necessary to enable the preparation of consolidated financial statements that are free from material mis-statement, whether due to fraud or error.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's status as a going concern. In addition, they have a responsibility to disclose matters related to the status as a going concern, if relevant. They are also responsible for accounting on the basis of the going concern principle, unless they intend to liquidate the Group or discontinue its business operations, or there is no realistic alternative.

Moreover, the legal representatives are responsible for preparing the combined management report, which as a whole provides an accurate view of the Group's position and is consistent with the consolidated financial statements in all material respects, complies with German legal regulations and suitably presents the opportunities and risks of future development. The legal representatives are also responsible for the arrangements and measures (systems) that they considered necessary to enable the preparation of a combined management report in compliance with applicable German legal regulations and to allow sufficient, suitable evidence to be provided for the statements in the combined management report.

The Supervisory Board is responsible for monitoring the Group's accounting process for the preparation of the consolidated financial statements and the combined management report.

Responsibility of the auditor for the audit of the consolidated financial statements and the combined management report

Our objective is to obtain reasonable assurance as to 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 accurate view of the Group's position and is in all material respects consistent with the consolidated financial statements and with the findings of the audit, complies with German legal regulations and suitably presents the opportunities and risks of future development, and to issue an auditor's report containing our audit opinions regarding the consolidated financial statements and the combined management report.

Reasonable assurance is a high level of assurance but not a guarantee that an audit carried out in compliance with Section 317 HGB, the EU-AR and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always uncover a material misstatement. Misstatements can result from transgressions or inaccuracies and are deemed material if it could be reasonably expected that they would individually or together influence the financial decisions made by users on the basis of the consolidated financial statements and combined management report.

We exercise due discretion during the audit and maintain a critical attitude. In addition,

- we identify and evaluate the risk of material misstatements, whether due to fraud or error, in the consolidated financial statements and the combined management report, plan and implement audit procedures in response to these risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk that material misstatements are not uncovered is higher in the case of transgressions than in the case of inaccuracies, as transgressions can entail fraudulent collaboration, falsifications, deliberate omissions, misleading depictions or the suspension of internal controls.
- we gain an understanding of the internal control system relevant for the audit of the consolidated financial statements and of the arrangements and measures relevant for the audit of the combined management report in order to plan audit procedures that are appropriate given the circumstances, but not with the aim of providing an audit opinion regarding the effectiveness of these systems.
- we evaluate the appropriateness of the accounting policies used by the legal representatives and the reasonableness of the estimated values presented by the legal representatives and the associated disclosures.
- we draw conclusions about the appropriateness of the going concern principle applied by the legal representatives and, on the basis of the audit evidence obtained, whether there is material uncertainty regarding events or circumstances that could cause significant doubt about the Group's ability to continue as a going concern. If we come to the conclusion that there is material uncertainty, we are obliged to call attention to the associated disclosures in the consolidated financial statements and in the combined management report in the auditor's report or, if these disclosures are inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances may mean that the Group is no longer a going concern.
- we evaluate the overall presentation, the structure and the content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events such that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRSs, as adopted by the EU, and the additional requirements of German law pursuant to Section 315a (1) HGB.
- we obtain sufficient appropriate audit evidence for the company's accounting information or business activities within the Group in order to provide audit opinions regarding the consolidated financial statements and the combined management report. We are responsible for directing, monitoring and implementing the audit of the consolidated financial statements. We bear sole responsibility for our audit opinions.
- we evaluate the consistency of the combined management report with the consolidated financial statements, its legality and the view it gives of the position of the Group.
- we conduct audit procedures regarding the forward-looking disclosures made by the legal representatives in the combined management report. On the basis of sufficient appropriate audit evidence, we examine the significant assumptions underlying the legal representatives' forward-looking disclosures in particular and evaluate the appropriateness of the derivation of the forward-looking disclosures from these assumptions. We do not provide a separate audit opinion regarding the forward-looking disclosures or the underlying assumptions. There is a considerable, unavoidable risk that future events will differ significantly from the forward-looking disclosures.

Topics for discussion with those responsible for monitoring include the planned scope and scheduling of the audit as well as significant audit findings, including any deficiencies in the internal control system that we find during our audit.

We issue a statement to the monitors to the effect that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that can reasonably be assumed to affect our independence and the safeguards put in place to protect against this.

From among the matters that we have discussed with the monitors, we determine which matters were most significant in the audit of the consolidated financial statements for the current reporting period and are therefore the key audit matters. We describe these matters in the auditor's report, unless laws or other legal provisions preclude their public disclosure.

Other legal and regulatory requirements

Other disclosures pursuant to Article 10 EU-AR
We were elected as the auditor of the consolidated financial statements by the Annual General Meeting on 30 May 2018. We were engaged by the Supervisory Board on 5 October 2018. We have been the auditor of the consolidated financial statements of ADLER Real Estate Aktiengesellschaft without interruption since the 2010 financial year.

We declare that the audit opinions contained in this auditor's report are consistent with the additional report to the Supervisory Board according to Article 11 EU-AR (audit report).

Auditor responsible

The German Public Auditor responsible for the engagement is Mr. Julian Breidthardt.
Hamburg, 25 March 2019

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Thomas Götze	Julian Breidthardt
Auditor	Auditor

/// REPORT ACCORDING TO EPRA RECOMMENDATIONS

The European Public Real Estate Association (EPRA) is a non-commercial organisation based in Brussels which represents the interests of publicly listed European property companies. It sees its role as raising awareness and understanding of investment opportunities in publicly listed property companies in Europe as an alternative to traditional forms of investment. ADLER AG has been a member of EPRA since 2013. To enhance the comparability of property companies and foster the presentation of matters specific to the property industry, EPRA has created a framework for standardised reporting over and above IFRS requirements. These EPRA recommendations (best practice recommendations – BPR) are presented below. ADLER only draws on some of these recommendations for its key management figures; in some cases, the figures are therefore commented on outside the management report. The recommendations constitute non-GAAP measures. We would like to point out that the EPRA best practice recommendations refer both to residential and to commercial property companies.

In EUR millions	2018	2017	Change in %
EPRA NAV	1,632.7	1,207.2	35.2
Adjusted EPRA NAV	1,521.5	1,106.0	37.6
EPRA NNNAV	1,696.7	1,158.7	46.4
EPRA earnings	92.0	-40.8	> -100.0
Adjusted EPRA earnings	76.4	35.2	> 100.0
EPRA net initial yield (NIY) in %	3.3	4.2	-22.8
EPRA “topped-up” NIY in %	3.3	4.2	-22.8
EPRA vacancy rate in %	6.7	8.7	-23.7
EPRA cost ratio (incl. direct vacancy costs) in %	33.8	40.5	-16.6
EPRA cost ratio (excl. direct vacancy costs) in %	33.1	39.4	-15.9

NAV/NNNAV

Based on the EPRA definition, the NAV presentation should show the net asset value in a business model with a long-term focus. The equity attributable to shareholders in ADLER AG is adjusted to account for deferred taxes on investment properties/properties held for sale, the differences between fair values and carrying amounts of inventory properties as well as for the fair value of derivative financial instruments and deferred taxes on derivative financial instruments. To enhance transparency, an adjusted EPRA NAV figure, in which goodwill has been fully eliminated, is also reported.

Based on the EPRA NAV figure, adjustments are then made to account for the fair value of financial liabilities and allocable taxes. This results in the EPRA NNNAV figure, which presents the fair value of a property company.

In EUR millions	31.12.18	31.12.17	Change in %
Equity attributable to shareholders in ADLER	1,217.4	960.6	26.7
Deferred taxes on investment properties/properties held for sale	465.1	235.5	97.5
Goodwill from deferred taxes on investment properties	-59.6	0.0	
Differences between fair values and carrying amounts of inventory properties	5.3	7.0	-23.8
Fair value of derivative financial instruments	6.3	5.9	8.1
Deferred taxes on derivative financial instruments	-1.9	-1.8	8.1
EPRA NAV	**1,632.7**	**1,207.2**	**35.2**
Goodwill from synergies	-111.2	-101.2	9.9
Adjusted EPRA NAV	**1,521.5**	**1,106.0**	**37.6**
EPRA NAV per share in EUR[1]	23.8	17.8	33.9
Adjusted EPRA NAV per share in EUR[1]	22.2	16.3	36.2

[1] 68,480,390 shares as at balance sheet date (previous year: 56,155,838 plus 11,666,666 shares from assumed conversion of mandatory convertible bonds which are considered as equity)

In EUR millions	31.12.18	31.12.17	Change in %
EPRA NAV	1,632.7	1,207.2	35.2
Fair value financial liabilities	91.7	-69.4	> -100.0
Deferred taxes on fair values of financial liabilities	-27.7	20.9	> -100.0
EPRA NNNAV	**1,696.7**	**1,158.7**	**46.4**
EPRA NNNAV per share in EUR[1]	24.8	17.1	44.9

[1] 68,480,390 shares as at balance sheet date (previous year: 56,155,838 plus 11,666,666 shares from assumed conversion of mandatory convertible bonds which are considered as equity)

EPRA EARNINGS

The EPRA earnings figure presents the sustainable dividend capacity of a property company as a portfolio holder. Based on net income for the given period, adjustments are made to account for changes in the values of assets and liabilities and for income from negative goodwill. As company-specific adjustments, non-recurring and extraordinary items, non-period and one-off interest expenses are eliminated, as are all taxes other than current income taxes.

In EUR millions	2018	2017	Change in %
Net income for the period (IFRS)	332.4	142.6	> 100.0
Revaluation of investment properties	-465.1	-235.4	97.6
Income from the sale of properties	-7.7	-19.2	-59.9
Taxes on profits or losses on disposals	0.0	6.2	> -100.0
Revaluation of financial instruments and associated transaction costs	0.5	-1.5	> -100.0
Negative goodwill	0.0	0.0	0.0
Deferred taxes in respect of EPRA adjustments	232.0	66.5	> 100.0
EPRA earnings	**92.0**	**-40.8**	**> -100.0**
EPRA earnings per share	1.3	-0.6	> -100.0
Adjustment for non-recurring and extraordinary items	46.1	3.5	> 100.0
Adjustment for non-period/one-off interest expenses	60.1	88.5	-32.0
Adjustment for other deferred/non-period taxes	-121.9	-16.0	> 100.0
Adjusted EPRA earnings	**76.4**	**35.2**	**> 100.0**
Adjusted EPRA earnings per share in EUR[1)]	1.1	0.5	> 100.0

[1)] 68,480,390 shares as at balance sheet date (previous year: 56,155,838 plus 11,666,666 shares from assumed conversion of mandatory convertible bonds which are considered as equity)

EPRA NET INITIAL YIELD

The EPRA net initial yield (NIY) presents annualised rental income as a proportion of the adjusted fair values of the properties. This involves adjusting the fair values to eliminate any ancillary acquisition costs. The "topped-up" net initial yield is additionally adjusted to account for lease incentives.

In EUR millions	2018	2017	Change in %
Investment properties	4,989.1	3,018.5	65.3
Fair value of inventory properties	93.4	9.9	> 100.0
Assets held for sale	185.5	10.9	> 100.0
Market value of property portfolio (net)	**5,268.0**	**3,039.4**	**73.3**
Ancillary acquisition costs	447.8	258.3	73.3
Market value of property portfolio (gross)	**5,715.8**	**3,297.8**	**73.3**
Annualised rental income	221.4	190.3	16.4
Non-allocable property costs	-35.2	-51.1	-31.2
Annualised net rental income	**186.2**	**139.1**	**33.9**
Adjustment for lease incentives	0.0	0.0	0.0
Topped-up annualised rental income	**186.2**	**139.1**	**33.9**
EPRA net initial yield in %	**3.3**	**4.2**	**-22.8**
Topped-up EPRA net initial yield in %	**3.3**	**4.2**	**-22.8**

EPRA VACANCY RATE

The EPRA vacancy rate portrays the rental value of vacant residential space as a proportion of the rental value of the overall residential portfolio, i.e. the vacancy rate as presented in the property management chapter is valued by reference to the rental value of the residential properties.

In EUR millions	31.12.18	31.12.17	Change in %
Market rent of vacant units	1.3	1.5	-13.1
Market rent of residential property portfolio	19.8	17.4	13.8
EPRA vacancy rate in %	**6.7**	**8.7**	**-23.7**

EPRA COST RATIO

The EPRA cost ratio presents EPRA costs as a proportion of gross rental income and thus indicates the cost efficiency of a property company. Adjustments are made to exclude ground rent costs and direct vacancy costs. This way, the EPRA cost ratio corresponds to an EBITDA margin. To enhance transparency, a company-specific adjustment is made to account for maintenance expenses, as these depend on the company's individual accounting policy with regard to capitalising maintenance work and the company's individual maintenance strategy. The adjusted EPRA cost ratio then corresponds to an EBITDA margin excluding maintenance.

In EUR millions	2018	2017	Change in %
Adjusted EBITDA rental/portfolio	-157.7	-105.2	49.9
Rental income	238.4	177.5	34.4
Maintenance expenses	-22.8	-21.9	3.9
Property management expenses	**58.0**	**50.4**	**15.1**
Maintenance expenses	22.8	21.9	3.9
Ground rent	-0.2	-0.6	-57.6
EPRA costs (including direct vacancy costs)	**80.5**	**71.7**	**12.3**
Direct vacancy costs	-1.6	-2.0	-20.2
EPRA costs (excluding direct vacancy costs)	**78.9**	**69.7**	**13.2**
Rental income	238.4	177.5	34.4
Ground rent	-0.2	-0.6	-57.6
Gross rental income	**238.2**	**176.9**	**34.7**
EPRA cost ratio (including direct vacancy costs) in %	**33.8**	**40.5**	**-16.6**
EPRA cost ratio (excluding direct vacancy costs) in %	**33.1**	**39.4**	**-15.9**
Maintenance adjustment	22.8	21.9	3.9
Adjusted EPRA costs (including direct vacancy costs)	**57.7**	**49.8**	**15.9**
Adjusted EPRA costs (excluding direct vacancy costs)	**56.1**	**47.8**	**17.5**
Adjusted EPRA cost ratio (including direct vacancy costs) in %	**24.2**	**28.1**	**-13.7**
Adjusted EPRA cost ratio (excluding direct vacancy costs) in %	**23.5**	**26.9**	**-12.6**

/// GLOSSARY

EBIT

Earnings before Interest and Tax

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

EBITDA

Earnings before Interest, Tax, Depreciation and Amortisation

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

Adjusted EBITDA

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

FFO I

Funds from Operations I

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

EPRA

European Public Real Estate Association

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

EPRA – NAV

Net asset value based on EPRA

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

LTV

Loan-to-value

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

Swap

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

Dilution of shares

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

WACD

Weighted average cost of debt

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

/// AT A GLANCE

Supervisory Board	
Dr Dirk Hoffmann	Chairman of the Supervisory Board
Thilo Schmid	Vice Chairman of the Supervisory Board
Claus Jorgensen	Member of the Supervisory Board
Management Board	
Tomas de Vargas Machuca	Member of the Management Board (Co-CEO)
Maximilian Rienecker	Member of the Management Board (Co-CEO)
Sven-Christian Frank	Member of the Management Board
Company Facts	
Legal domicile	Berlin Charlottenburg, Berlin HRB 180360 B
Address	ADLER Real Estate Aktiengesellschaft Joachimsthaler Straße 34 10719 Berlin Phone: +49 30 39 80 18 10 E-Mail: info@adler-ag.com
Website	www.adler-ag.com
Investor relations	Tina Kladnik Phone: +49 30 389 01 81 23 E-Mail: t.kladnik@adler-ag.com
Public relations	Dr Rolf-Dieter Grass Phone: +49 30 200 09 14 29 E-Mail: r.grass@adler-ag.com
Capital stock	EUR 71,063,622[1]
Classification	71,063,622[1] no-par value shares
Arithmetical value	EUR 1 per share
Voting right	1 vote per share
Identification	WKN 500 800 ISIN DE0005008007 Ticker symbol ADL Reuters ADLG.DE
Designated sponsors	ODDO SEYDLER BANK AG HSBC Trinkaus & Burkhardt AG
Stock exchanges	Xetra, Frankfurt am Main
Indices	SDAX, CDAX, FTSE EPRA/NAREIT Global Real Estate Index, GPR General Index, DIMAX
Financial year	Calendar year

[1] As at 31 December 2018

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