ADLER
REAL ESTATE

AFFORDABLE LIVING PROSPECTS

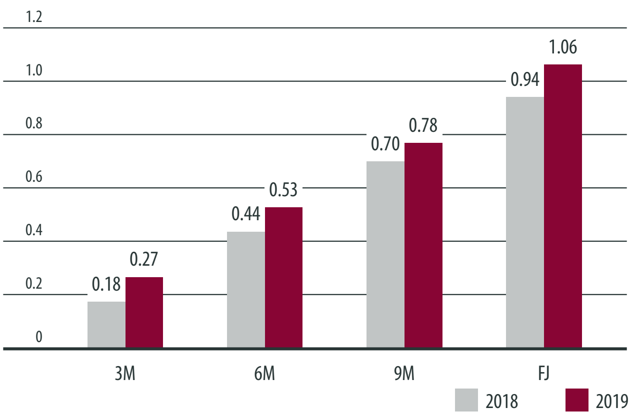
Annual Report 2019

/// KEY FINANCIAL FIGURES

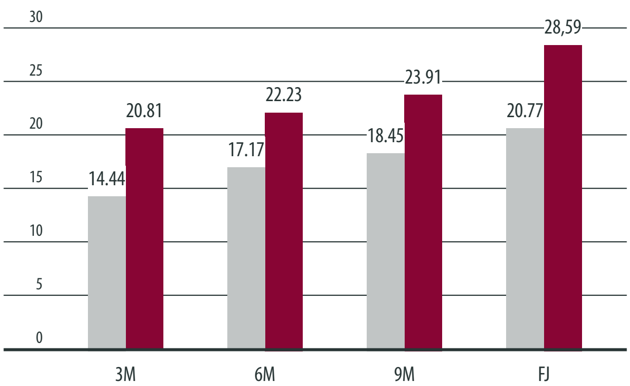
In EUR millions **Consolidated Statement of Income**	**2019**	**2018**
Net rental income	248.7	238.4
Earnings from property lettings	219.3	203.7
Earnings from the sale of properties	0.5	8.1
EBIT	469.0	582.8
Consolidated net profit from continuing operations	275.8	332.1
Consolidated net profit	367.8	332.4
FFO I	84.4	74.2
FFO I per share in EUR (fully diluted)[1]	1.06	0.94
Consolidated Balance Sheet	**31.12.2019**[3]	**31.12.2018**
Investment Properties (including inventories)	8,671.1	4,989.1
EPRA NAV (adjusted and fully diluted)	2,283.6	1,639.0
EPRA NAV per share in EUR (adjusted and fully diluted)[1]	28.59	20.77
LTV in %[2]	51.4	61.4
WACD	1.99	2.23
Cashflow	**2019**	**2018**
Net cash flow from operating activities	94.4	131.0
of which from continuing operations	94.4	131.0
Net cash flow from investing activities	-146.9	-609.1
of which from continuing operations	107.3	-609.1
Net cash flow from financing activities	600.0	187.8
of which from continuing operations	600.0	187.8
Employees	**31.12.2019**	**31.12.2018**
Number of employees	922	828
FTEs (Full-time equivalents)	852	752

[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
[3] Pro forma calculation on assumption that ADO Properties was not treated as held for sale

FFO I/SHARE FULLY DILUTED in EUR



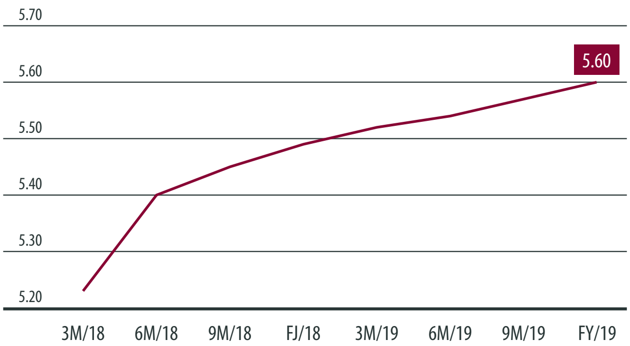
EPRA NAV/SHARE FULLY DILUTED (EXCL. GOODWILL) in EUR



/// At the end of 2019, ADLER Real Estate AG signed a business combination agreement with ADO Properties S.A. in order to create a common enterprise. For this purpose ADO Properties submitted a voluntary offer to all ADLER shareholders which, once accepted, will create a real estate group comprising c. 70,000 rental units. The new group shall be named ADLER Real Estate Group. In addition, it is intended to acquire the majority of stakes in Consus Real Estate AG which is active in the development of rental projects. The new ADLER Group will thus become one of the largest listed real estate companies in Germany, being able to further grow by its own ability to generate additional rental space in attractive German metropolitan areas through its own development arm.

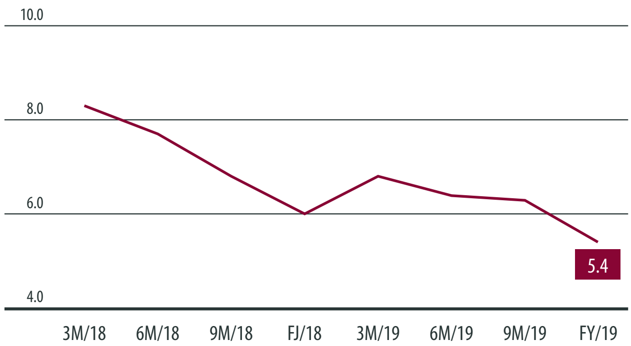
/// PROPERTY FIGURES

AVERAGE RENT[1] in EUR/sqm/month



[1] 2018 core portfolio

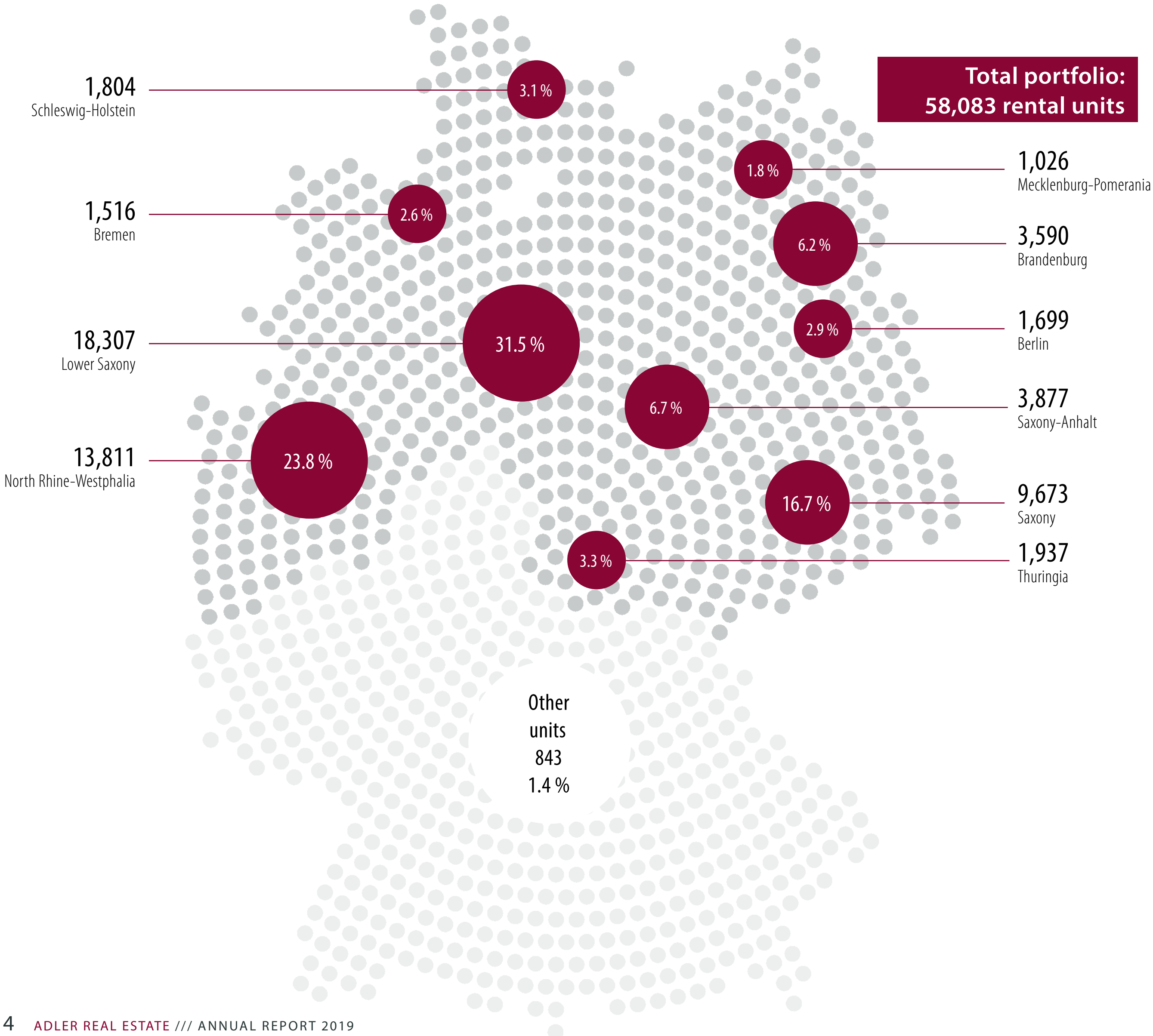
VACANCY RATE[1] in %



[1] 2018 Core Portfolio

Rental units

as at 31 December 2019



/// 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 holder of a 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 six 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, lastly as Head of Internal Auditing.

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.

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.

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. From 2014 she was in charge of strategic portfolio management at berlinovo Immobilien GmbH.

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.

/// LETTER FROM THE MANAGEMENT BOARD

Ladies and Gentlemen,

At the time of writing Covid-19 is having a very significant impact on all aspects of our society. Your management board's priority in these unprecedented conditions is the health and safety of our employees and our tenants, and we are following all Public Health and Government guidelines to ensure everyone remains safe as we help to limit the spread of the virus. We are in discussions with our tenants and are considering rent deferral schemes for the most vulnerable. The management board would like to thank the German health service and key workers for their exceptional and selfless efforts to safeguard the German population. We also offer our sincere condolences to any of you who have lost friends or family to the virus.

As we look at the year under review, which ended prior to the escalation of Covid-19, we saw ADLER Real Estate (ADLER) produce a good set of results, as you can see from the figures and overview in the first pages of this report, with a 39.3% increase in EPRA NAV per share to EUR 2,283.6 (Q4 2018: EUR 1,639.0). ADLER's success in 2019 is also reflected in the fact that the company not only met, but in many cases exceeded, its financial targets for the year. Net rental income was EUR 248.7 million, in excess of a target range of EUR 235-240 million. At EUR 84.4 million, Funds From Operations (FFO) I was in the middle of the forecast range of EUR 83-86 million. Average rent was on target at EUR 5.60 per sqm per month and the vacancy rate came to 5.4%, better than the target of 6%. LTV (excl. convertibles) as of 31 December 2019 stood at 51.4%, better than the 55% target.

On 15 December 2019 ADO Properties SA (ADO) made a voluntary public tender offer for the entire share capital of ADLER. This is a very exciting step and creates a major new residential player with a fully integrated platform in core German cities. The transaction will deliver greater scale and geographical diversification as well as greater liquidity and financial strength. It will also provide opportunities to derive synergies and cost savings as the central functions of the two groups are combined.

The offer already had the support of ADLER's major shareholders at the time of announcement and the transaction has received strong support since, with currently 94.15% (including treasury shares) acceptances to the offer. After the settlement date on 9 April 2020, ADLER will be fully combined with ADO to create one of the largest residential real estate groups in Germany. The combined business will be named ADLER Real Estate Group (ADLER Group), thus retaining the long heritage and strength of the ADLER brand name and will own over 70,000 residential rental properties with GAV of EUR 8.5 billion.

Under the terms of the offer, members of ADLER's management board will continue to be part of the team of the new ADLER Group (which will be a Luxembourg listed entity). Maximilian Rienecker will be CO-CEO, Sven-Christian Frank will be COO and Tomas de Vargas Machuca will be Deputy Chairman, thus ensuring management continuity.

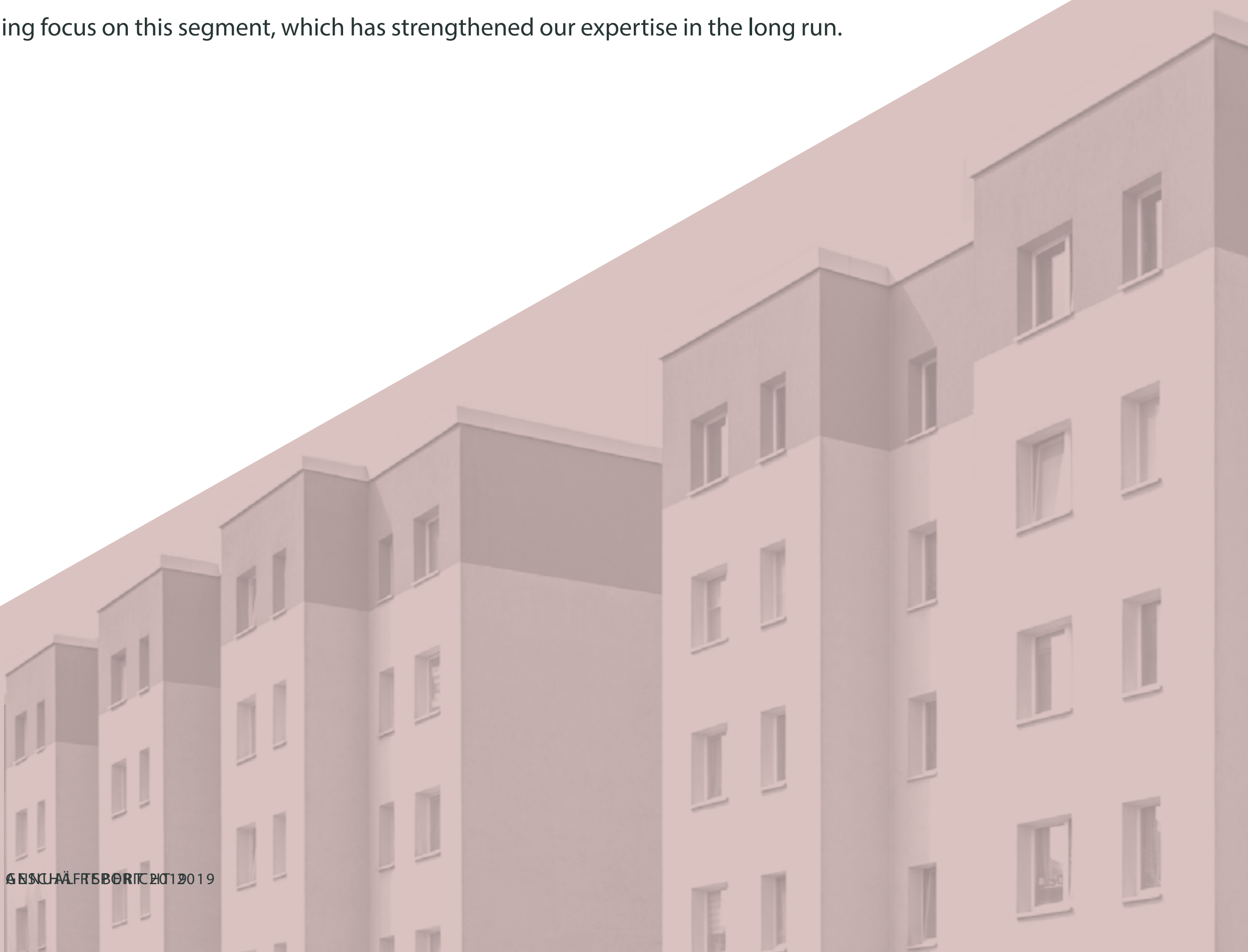
Markets remain unpredictable, driven by the Covid-19 pandemic, the uncertainty as to when this will end, and the potential economic impact. However, the combined group is well positioned, with strong finances and a robust underlying housing market in Germany.

Yours sincerely,

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

MORE ACHIEVED THAN PLANNED

Forecasts always have an expiry date. Even after the past financial year had ended, the targets we had set ourselves again proved to be altogether realistic. Not only did we meet all of these targets, but we even exceeded some of them. This pleasing outcome is mainly due to our long-standing experience and market expertise in affordable rental apartments. But of course we were also helped by the long-standing focus on this segment, which has strengthened our expertise in the long run.



/// PORTFOLIO

/// THE ADLER SHARE

/// SUPERVISORY BOARD REPORT

/// PORTFOLIO

THE PROPERTY PORTFOLIO

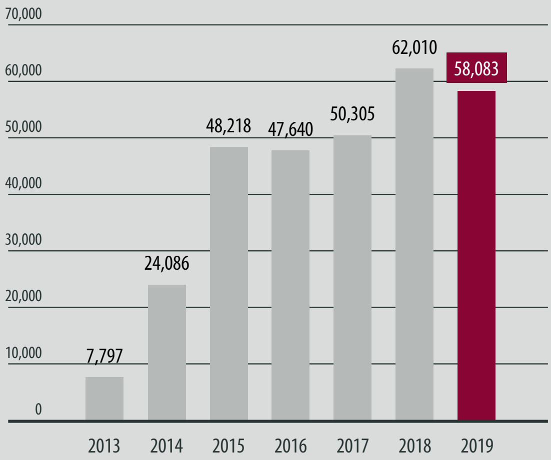
The description of the portfolio relates exclusively to the rental units of ADLER and its group companies including BCP. The portfolio of ADO Properties is not included in the analysis although ADLER fully owns ADO Group which in turn holds about one third of the shares in ADO Properties. The reason for the exclusion is that due to the capital measures planned by ADO Properties for 2020, ADLER will, in all likelihood, lose its controlling interest. ADO Properties therefore qualifies as held for sale.

At the end of 2019, ADLER's portfolio comprised 58,083 quality rental units totalling 3.5 million square metres with an annualised net rent (including parking spaces and other areas) of EUR 224.4 million. The fair value of the total portfolio (investment properties and inventories) was EUR 5,007.3 million. The regional focus is on Lower Saxony (18,307 units), North Rhine-Westphalia (13,811 units) and Saxony (9,673 units). In December 2018, the non-core portfolio comprising c. 3,700 rental units was sold in two separate transactions, the rights and obligations of which were transferred in the first quarter 2019. The sale resulted in a corresponding reduction of the protfolio.

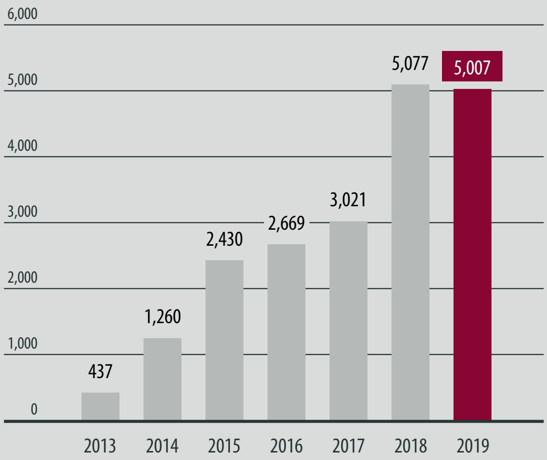
ADLER's residential portfolio also includes a small number of associated commercial units, mainly shops and offices of a type that is often found in city-centre residential properties. As at the end of 2019, ADLER held 950 of these units which accounted for 1.6 percent of the properties held for permanent letting.

ADLER actively manages its portfolio and, as part of its continuous portfolio optimisation, the underlying features of its assets and market data are assessed to determine the amount and proportion of capital allocated to capital expenditure, maintenance and renovation expenses. This is to ensure that the quality of the apartments is consistent with market standards and 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, and after coordination with regional managers, different strategies are implemented – such as increasing marketing activities for properties which are of good quality but are located in less favourable areas, or capital expenditure if the area is good but the asset itself is not. Properties of lower quality, as well as properties located in less attractive macroenvironments are earmarked for sale.

PORTFOLIO
(Investment properties, units)



FAIR VALUE INVESTMENT PROPERTIES
including inventories in EUR millions



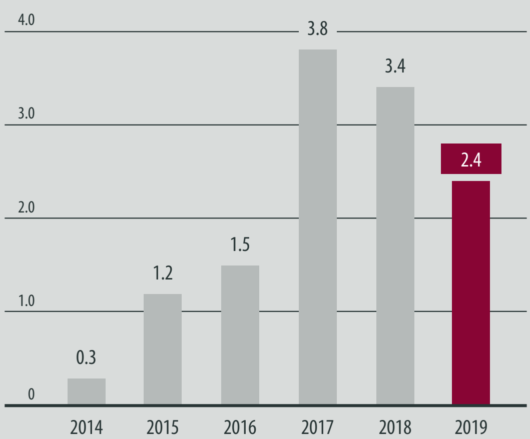
Operating performance – average rent increased, vacancy rate reduced

In 2019, the Group once again improved its operating performance. As of 31 December 2019, the average contractually agreed rent per square metre per month amounted to EUR 5.60 , an increase of EUR 0.11 compared to EUR 5.49 at the end of 2018.

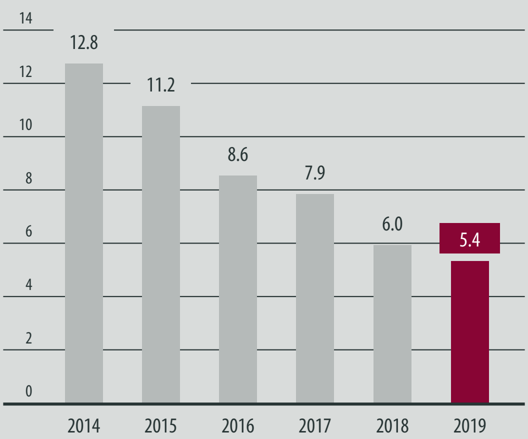
The vacancy for the core portfolio rate stood at 5.4 percent at the end of 2019, a year-on-year improvement of 0.6 percentage points (end of 2018: 6.0 percent).

Net rental income increased by 2.4 percent on a like-for-like basis.

LIKE-FOR-LIKE RENTAL GROWTH in %



VACANCY RATE in %



Fair value gain due to improved operations

The fair value of the total portfolio (investment properties plus inventories) calculated in accordance with IFRS was EUR 5,007.3 million at the end of 2019 as compared to EUR 5,077.2 million one year earlier. The decrease reflects the fact that approximatively 72 percent of the purely commercial properties of BCP and a development project in Duesseldorf were sold. Fair value gains relating to the revaluation of developments and investment properties had a positive impact on results. In 2019, ADLER invested EUR 106.5 million in maintenance and modernisation measures (previous year: EUR 73.6 million), of which EUR 26.3 million related to ongoing maintenance work and EUR 80.2 million to renovation and modernisation measures which can be capitalised.

Key focus on Lower Saxony and North Rhine-Westphalia

ADLER owns properties located on the edges of larger conurbations. This is particularly apparent in North Rhine-Westphalia, where all of the company's properties are in the Ruhr, which is still Germany's largest industrial region. In Lower Saxony, the property holdings are mainly located in the Wolfsburg/Braunschweig/Helmstedt region, a traditionally strong region in economic terms, and in Wilhelmshaven, a city which is benefiting from its deep-water port and from what is the German Navy's largest base on the North Sea. In Saxony and Saxony-Anhalt, the properties are predominantly located in the – in part strongly – growing catchment areas for Halle, Leipzig, Chemnitz and Dresden.

Property holdings on the edges of conurbations are typically characterised by higher vacancy rates, but also generate higher rental yields than properties in central locations. Peripheral locations benefit extensively from tight rental markets in city centres; when rents rise in desirable locations in the city centre and affordable apartments are no longer available, price-sensitive demand tends to automatically shift to the surrounding areas.

Focus on small to medium-sized residential units

ADLER´s portfolio largely comprises small to medium-sized residential units. The apartments have an average size of just over 60 square metres and are thus particularly suited to the needs of the company's target group, namely tenants with low to medium incomes. For ADLER, this alignment makes economic sense, as its properties satisfy the trend observed for some years 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.

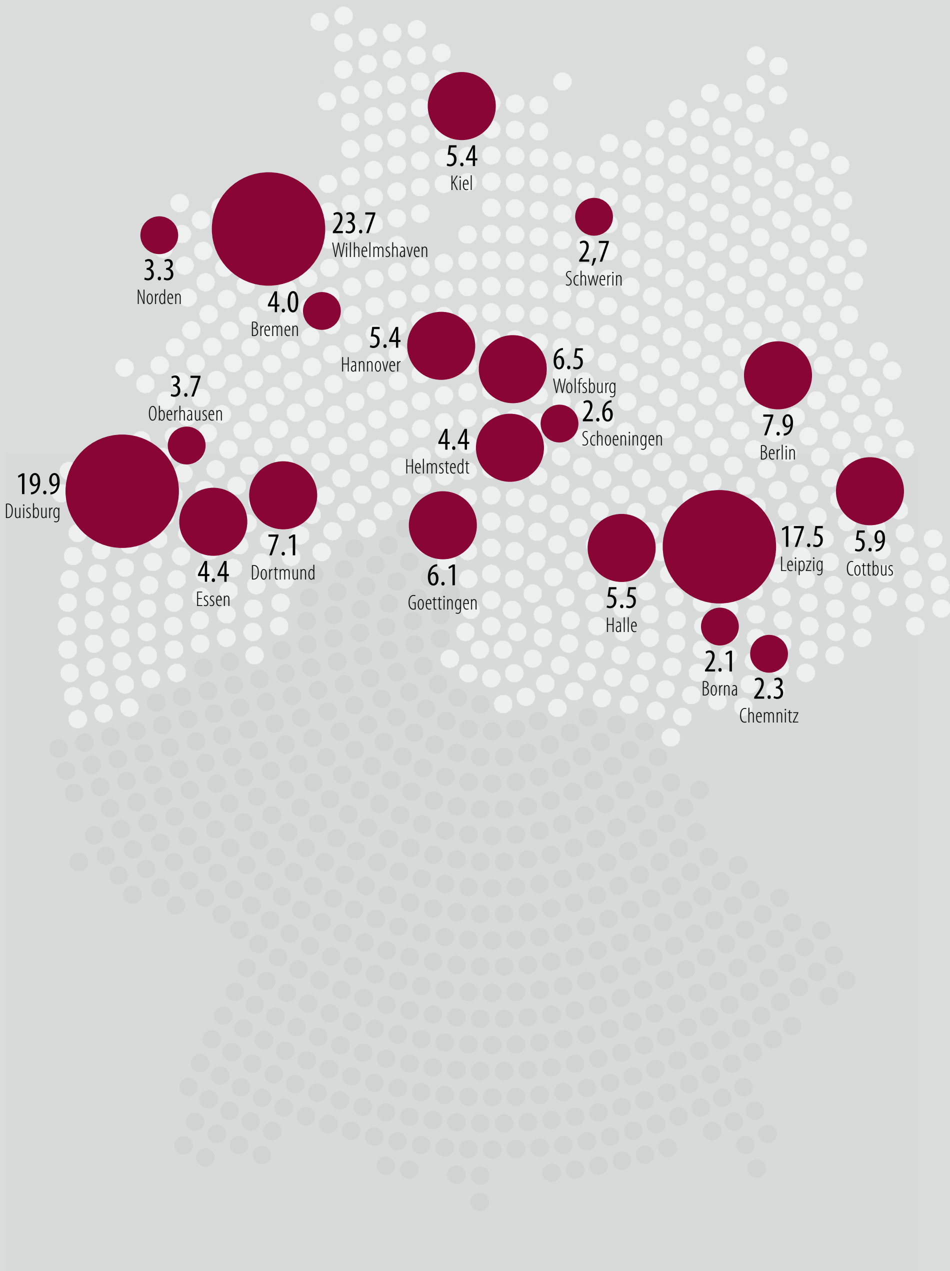
Size of apartment	Units	% of total units	Rent/sqm/ month in EUR
< 45 sqm	8,772	15.4	6.51
≥ 45 and < 60 sqm	19,473	34.1	5.51
≥ 60 and < 75 sqm	19,773	34.6	5.49
≥ 75 and < 90 sqm	7,216	12.6	5.42
> 90 sqm	1,911	3.3	5.32
Total	**57,145**	**100.0**	**5.57**

Top 20 locations generate more than 60 percent of rental income

The focus on the metropolitan regions outlined above also means that the properties in ADLER's 20 most-important towns and cities account for more than 62 percent of the company's total rental income. Wilhelmshaven remains the most important location for the Group, with 6,895 rental units and annual net rental income of EUR 23.7 million. Measured in terms of rental units, Duisburg is the next largest location, with 4,925 units and net rental income of EUR 19.9 million, and Leipzig, with 4,749 units and net rental income of EUR 17.5 million. Berlin, 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 the local housing belongs to the Group.

ANNUAL NET RENTAL INCOME – TOP 20 LOCATIONS in EUR millions

as at 31 December 2019



TOP 20 LOCATIONS

Location	Units	Area (000 sqm)	NRI (EUR m)	Average rent per sqm/month (EUR)	Change yoy (%)
Wilhelmshaven	6,895	406.6	23.7	5.15	1.9
Duisburg	4,925	305.0	19.9	5.55	0.8
Leipzig	4,749	254.8	17.5	5.93	3.8
Cottbus	1,867	110.0	5.9	4.79	1.3
Halle (Saale)	1,858	105.9	5.5	4.93	2.5
Dortmund	1,770	103.0	7.1	5.86	2.6
Berlin	1,699	111.7	7.9	5.97	2.0
Goettingen	1,377	85.2	6.1	6.10	2.7
Wolfsburg	1,301	87.6	6.5	6.31	3.0
Helmstedt	1,219	70.7	4.4	5.26	1.0
Hannover	1,113	63.3	5.4	7.21	3.2
Essen	1,043	66.3	4.4	5.75	0.9
Kiel	970	66.8	5.4	6.81	3.4
Borna	900	50.2	2.1	4.69	1.1
Bremen	873	53.6	4.0	6.34	2.2
Schoeningen	846	50.2	2.6	5.01	4.6
Chemnitz	837	52.5	2.3	4.80	-5.4
Oberhausen	819	62.6	3.7	5.09	1.0
Schwerin	816	48.0	2.7	4.87	1.3
Norden	795	50.2	3.3	5.52	3.8
Top 20	**36,672**	**2,203.5**	**140.2**	**5.58**	**2.2**
Total	**58,083**	**3,546.4**	**224.4**	**5.60**	**2.0**

Customer orientation with in-house property and facility management

Over the past two years, ADLER has developed into an integrated real estate group which offers its tenants all major residential services via its subsidiaries ADLER Wohnen Service GmbH, ADLER Gebäude Service GmbH and ADLER Energie Service GmbH. The portfolio of BCP is being managed by the Group company RT Facility Management GmbH & Co KG. In addition, a letting department has been set up exclusively to handle marketing activities for vacant apartments or apartments that are due to become vacant.

ADLER expects that, as a result of this, tenant satisfaction will be significantly improved, in turn leading to reduced turnover rates. We are also working to improve communication with tenants, for example through a central hotline, the opening of additional tenants' offices and further digitalisation measures.

Vacancy rate (%)	Change yoy (PP)	Fair value (EUR m)	Fair value per sqm (EUR)	Rental yield (%)	Location
5.9	-1.5	394.6	970	6.0	Wilhelmshaven
2.1	-0.7	335.2	1,099	5.9	Duisburg
3.7	-2.1	395.4	1,552	4.4	Leipzig
6.9	-2.0	85.5	777	6.9	Cottbus
11.9	1.0	91.7	866	6.0	Halle (Saale)
1.5	-0.9	115.5	1,130	6.1	Dortmund
1.8	-1.3	265.3	2,374	3.0	Berlin
1.7	-2.9	133.1	1,561	4.6	Goettingen
1.2	-4.8	136.8	1,562	4.8	Wolfsburg
2.0	-0.9	65.8	930	6.6	Helmstedt
1.6	-1.8	121.1	1,914	4.4	Hanover
3.0	-0.3	86.0	1,297	5.2	Essen
0.7	-0.5	103.4	1,548	5.2	Kiel
24.5	10.8	36.8	734	5.8	Borna
1.9	-0.7	72.6	1,354	5.5	Bremen
15.4	-1.2	40.5	807	6.3	Chemnitz
15.5	1.2	40.5	772	5.7	Schoeningen
3.9	-0.3	55.6	887	6.6	Oberhausen
3.6	-0.3	44.0	917	6.1	Schwerin
1.7	-0.2	52.4	1,043	6.2	Norden
4.8	**-1.0**	**2,671.7**	**1,212**	**5.2**	**Top 20**
5.4	**-0.6**	**4,139.2**	**1,167**	**5.4**	**Total**

[1] Without developments

Projects

Besides its letting business, ADLER has also been investing in modernisation projects, such as adding floors to existing residential buildings and in the construction of new facilities. The Wasserstadt Mitte project in Berlin was completed at the end of the year and ready to be occupied. The acquisition of three neighbouring plots of land on the outskirts of Berlin near Schoenefeld Airport is the basis for another residential project with space for over 2,000 apartments. Planning for the development of the property in Dresden Trachau is expected to commence as soon as the development plan has been approved. In addition, BCP manages several development projects in Dusseldorf and Aachen, of which one has been sold in a share deal maintaining a minority stake of 25 percent. These projects will create urgently-needed new living spaces. One of the benefits of new construction is that all current requirements relating to energy efficiency and reducing CO_2 are easily met – requirements which can only be achieved with difficulty or at higher costs in existing buildings.

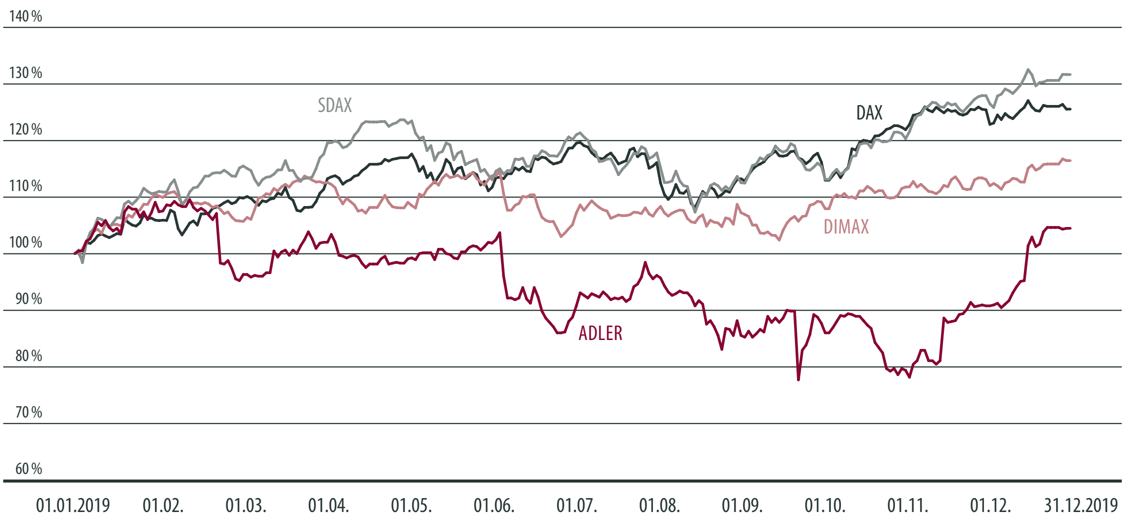
/// THE ADLER SHARE

A good year for the stock market

The German stock market showed a very positive performance in 2019. The DAX increased by around 25 percent in the reporting period, reaching its year high of over 13,300 points right before year-end. The SDAX even gained more than 30 percent during the course of the year, closing the year at a little over 12,500 points. This made 2019 one of the best years on the German stock market ever, even though the market did not show any clear direction for much of the year and only embarked on a sharp upturn at year-end. Various factors may have triggered this development: Tensions in the US–China trade dispute were easing, the general election in the UK finally brought the long-overdue clarity over Brexit, the US Federal Reserve Bank decided to lower US interest rates again while in Europe no signs of a change in interest rate policy were visible. Hence, investment decisions were increasingly made in favour of assets that bear a clear relation to real economic developments.

Real estate stocks, however, did not keep pace with general market performance in 2019. Although the Solactive DIMAX, the index comprising Germany's major listed property holding companies, did end the year around 16 percent higher as well, it performed significantly more weakly than the general indices SDAX or the DAX. For this gap in performance there was an obvious reason: The Berlin Senate's plans to introduce a cap on rents. Announced in June 2019, it sent the index tumbling by around 10 percent within a short period of time – although many companies in the index were barely affected at all by the decisions in Berlin. The situation did not improve until the fourth quarter, when more distanced and factual analysis superseded the initial emotional reactions.

DEVELOPMENT OF THE DAX, SDAX, DIMAX AND THE ADLER SHARE 2019 | JANUARY 2019 =100



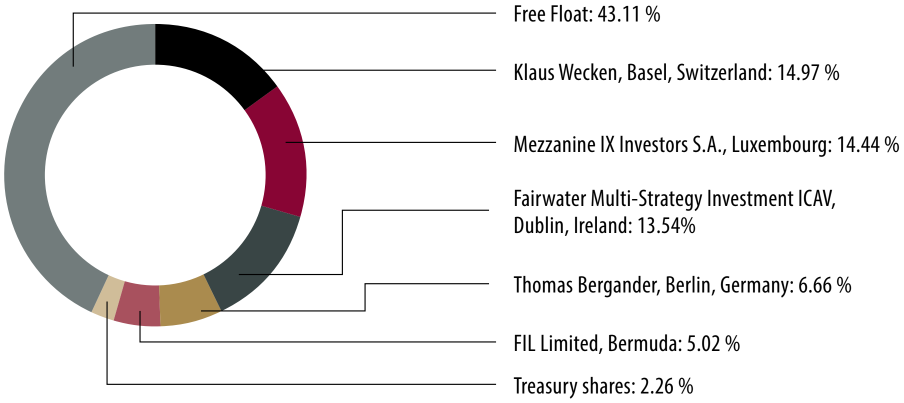
The ADLER share performed along similar lines. Following a positive start to the year, it suffered its first downturn after a financial institution offered institutional investors over six percent of the company's capital stock in the framework of a bookbuilding transaction. In the middle of the year, when market sentiment changed as a result of the Berlin Senate's aforementioned rent cap announcement, ADLER's share price also dropped sharply. Factually, there was hardly any reason for the downturn as ADLER's exposure to the Berlin market was very small. Moreover, ADLER was removed ftrom the SDAX. The share price took a third hit in autumn following the announcement of the company's intention to acquire ADO Group, which holds around one third of the shares in Berlin-based ADO Properties. It evidently took market participants a little time to fully assess the benefits of the intended merger as, from November on, the share price rallied considerably, gaining a sizeable 20 percent in one month before closing the year at EUR 13.50. This equated to an increase of around four percent since the start of the year.

Minor changes to number of shares

There were only minor changes to the number of shares in 2019 as conversion rights were exercised for only a few of the outstanding 2016/2021 convertible bonds over the course of the year. As at the balance sheet date of December 31, 2019, shareholders' equity of ADLER consisted of 71,063,743 shares with a nominal value of EUR 1.00 per share, 121 shares more than at the start of the year.

The shareholder structure changed at the end of 2019 with FIL Limited, Bermuda, announcing to be in possession of 5.02 percent of total equity. In July 2019, ADLER used 980,000 of its treasury shares as transaction currency to acquire a property portfolio with the voting rights of these shares being reactivated in the process. This also brought the number of treasury shares below the lowest notification threshold of 3 percent. Based on the relevant notifications ADLER has received from its shareholders, the shareholder structure was as follows as at 31 December 2019:

SHAREHOLDER STRUCTURE AS ON 31 DECEMBER 2019



Tender offer announced

At the end of December 2019, ADO Properties S.A. informed ADLER Real Estate AG that it held instruments allowing access to 52.21 percent of outstanding ADLER shares. These instruments are irrevocable commitments by major shareholders who pledged to tender their shares to ADO Properties S.A. in the voluntary tender offer which was not yet fully completed at the time of reporting. However, at the end of the initial offer period on March 6, 2020, c. 83 percent of the shareholders have already accepted the offer. In addition, ADLER and ADO Properties signed a business combination agreement at the end of 2019, which will see them join forces to create one of the top listed real estate company in Germany once the takeover is complete. It is intended to call it ADLER Real Estate Group.

Investor relations strengthened

At the end of 2018, ADLER had decided to realign and strengthen its investor relations activities. As a consequence of this decision, the company intensified its contact with the capital markets. In 2019, ADLER's management participated in more than 30 conferences and roadshows in the framework of which numerous one-on-ones were executed. For the first time, ADLER presented itself to Asian investors in the course of a roadshow organised by EPRA. The first-ever Capital Markets Day was hosted in the middle of the year, aimed at giving investors another opportunity to visit some of ADLER's properties in Berlin. Telephone conferences with the Management Board on the subject of last year's financial statements, the half-year financial statements, the ADO Group takeover and the business combination agreement with ADO Properties gave prospective investors additional opportunities to gain in-depth information about the company's position.

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. 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

/// 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

Neither the Supervisory Board nor the Management Board of ADLER Real Estate AG witnessed any changes in composition in the past 2019 financial year. In 2020, however, the following changes occurred: Dr. Dirk Hoffmann resigned from office effective February 29, 2020. On March 20, Martin Billhardt was nominated by court member of the Supervisory Board. He was elected Chairman of the Board in the Supervisory Board meeting on March 25, 2020.

Supervisory Board meetings

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

The Supervisory Board held a total of four scheduled meetings during the 2019 financial year. These took place on 25 March, 5 June, 10 September and 12 December. All members of the Supervisory Board attended the meetings in person. Board resolutions were further taken at a total of seven extraordinary Supervisory Board meetings or telephone conferences and by way of 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 measures to drive the focus of the company towards its core business: the profitable letting of apartments. This was achieved in particular through the disposal of the retail portfolio of Brack Capital Properties N. V., the first tranche of which was sold in April. Further tranches were sold over the course of the year, such that by the end of the year around 70 percent of the retail portfolio was no longer owned by the Group.

The Supervisory Board also supported the replacement of the last remaining high-yield corporate bonds with low-yield bond issues. The company issued EUR 400 million of these bonds in April 2019.

In autumn, ADLER then set its sights on securing additional growth through the acquisition of ADO Group. In the course of the acquisition, ADLER acquired approximately 33 percent of the shares in ADO Properties, which has the majority of its residential portfolios in Berlin. One of the methods considered for financing the transaction was a capital increase taking into consideration shareholders' subscription rights, and the Supervisory Board supported this as a means of bolstering the financing structure. However, this did not take place because towards the end of the year ADO Properties announced that it was making a takeover offer to all ADLER shareholders. The initial offer period ended on March 6, 2020, at which date already c. 83 percent of the shareholders had accepted the offer. The second offer period began on March 12 and ended on March 25, 2020. The Management Board and the Supervisory Board advised shareholders of ADLER to accept the offer as the new group, which is expected to be named ADLER Real Estate Group, will thereby become one of the top listed real estate company in Germany. ADLER is expected to remain a separate entity but is likely to assume the lesser role of a subordinated group company in this corporate structure.

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 have 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).

In December 2019, the Management Board and Supervisory Board jointly issued an updated Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act, which is published on the company's website. The act implementing the Second Shareholders' Rights Directive (ARUG II), which came into effect on 1 January 2020, and the new version of the German Corporate Governance Code 2020 were continuously monitored and will be taken into account to the necessary extent in the work of the Supervisory Board from the 2020 financial year onwards.

There were no indications of any conflicts of interest on the part of either the Supervisory Board or the Management Board in the 2019 financial year.

2019 annual and consolidated financial statements

The annual financial statements of ADLER prepared by the Management Board and the consolidated financial statements, including the combined management report, for the 2019 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 11 June 2019.

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 30 March 2020, 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 25 March 2020, 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.

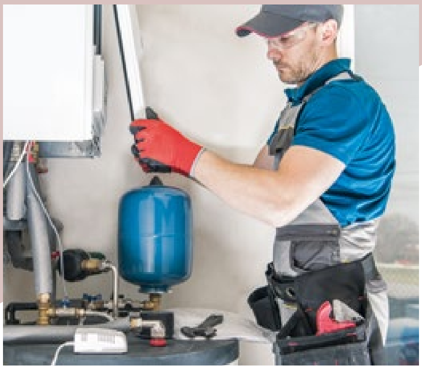
Members of the Supervisory Board

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 2020

Martin Billhardt
Chairman of the Supervisory Board



EVEN MORE EXPERTISE UNDER ONE ROOF

The strategy we have been pursuing for the past three years of integrating all tenant-related services within the Group brought us a whole host of business advantages, significantly speeding up many of our work processes, substantially shortening many of our decision-making channels and making the relevant units clearly more efficient. We are bringing our services ever closer to our customers and, given the growing number of residential units, they are also proving to be profitable over the long term.

/// COMBINED MANAGEMENT REPORT

1. GROUP FUNDAMENTALS OF ADLER REAL ESTATE AG

BUSINESS MODEL

ADLER is one of Germany's leading residential property companies with a 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 of the Group's properties and business operations are located in Germany, and benefit from the high employment in the German economy in general and also favourable real estate market dynamics in German 'B cities'. The Group's residential portfolio has been built up over the past five years by acquiring individual portfolios or shares in property holding companies.

ADLER's core business model is the long-term letting of flats and generation of sustainable cash flows with a selective exposure to project developments with a 'build and hold' strategy in 'A cities' such as Wasserstadt Mitte in Berlin or the Grafental project in Dusseldorf. To maximise long-term profitability, ADLER's residential real estate management business is complemented with advantageous acquisitions and disposals. Newly-acquired assets initially have a higher vacancy rate which is reduced through active asset management. All main functions relating to property management are carried out internally through ADLER's own staff. This includes property, facility and energy management activities, which ADLER maintains through its subsidiaries ADLER Wohnen Service GmbH, ADLER Gebäude Service GmbH and ADLER Energie Service GmbH. The BCP portfolio is currently managed by the group company RT Facility Management GmbH.

As ADO Properties also manages its portfolio internally, this structure will most likely be maintained even after ADLER Real Estate AG has been taken over by ADO Properties S.A. and the new Group has been formed under the name of ADLER Real Estate Group.

The commercial portfolio of BCP does not fit ADLER's business model. As a result, around two-thirds of the total commercial portfolio have been sold in several transactions in the course of 2019 with the remaining assets actively being marketed for disposal. This orientation will not change either after takeover by ADO Properties as ADO Properties is focussed on residential properties as well.

Residential real estate portfolio

As at 31 December 2019, ADLER held a total of 58,083 rental units with a total space of 3.5 million square metres, a fair value of EUR 5,007.3 million (including inventories) and an annualised net rent (including parking spaces and other areas) of EUR 224.4 million. The regional focus is on Lower Saxony (18,307 units), North Rhine-Westphalia (13,811 units) and Saxony (9,673 units). The number of units declined as a result of the completion of sale of 3,700 non-core residential units in Q1 2019.

ADLER's portfolio is largely composed of small to medium-sized residential units. The apartments have an average size of slightly over 60 square metres and are particularly well suited to the needs of the company's target group, namely tenants with low to medium incomes. For ADLER, this alignment makes economic sense. Its properties satisfy the trend, which has been observed for some time now, towards an 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 increasingly sought-after by municipalities and local councils on the lookout for permanent homes for people with particular needs.

ADLER actively manages its portfolio and, as part of its continuous portfolio optimisation strategy, the underlying features of its assets and market data are regularly assessed to determine the amount and proportion of capital to be allocated in terms of capital expenditure, maintenance and renovation expenses. This is to ensure that the quality of the flats is consistent with market standards as well as to optimise the level of occupancy and rental growth. The 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 the operational strategy is implemented – such as increasing marketing activities for properties that are of good quality but located in less favourable areas, or capital investment measures if the area is good but the asset itself is not. Properties of lower quality as well as properties located in less attractive macroenvironments are thus earmarked for sale.

After takeover by ADO Properties it is expected that ADLER Real Estate AG will not operate any proprietary asset or portfolio management any longer, but rather play a leading part in the asset and portfolio management of the new Group.

Acquisition strategy

After takeover by ADO Properties which is to be expected in April 2020, ADLER will no longer pursue a proprietary acquisition strategy any longer, but be integrated in the overall strategy of the new Group. Up to now, ADLER intended to expand its residential portfolio further through acquisitions of shares in companies as well as individual portfolios or assets and focused its investments on residential property portfolios with core market quality. When suitable market opportunities arose, ADLER also supplemented its portfolio by investing in 'core plus locations' in mid-sized cities or cities such as Berlin or Leipzig in order to benefit from diversification and value growth in these markets.

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 at attractive yields, and purchasing prices have come closer to construction costs, ADLER also explored 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 increased with the acquisition of BCP. However, the exposure to these value-added activities has amounted to a rather small, single-digit percentage of ADLER's balance sheet total only.

This is all the more true since ADLER sold 75 percent of the shares in Glasmacherviertel GmbH & Co. KG, Dusseldorf, in a share deal at the end of 2019. Since then ADLER is only a 25 percent minority shareholder in its largest development project in Duesseldorf.

Financing strategy

Again, after the expected takeover by ADO Properties, ADLER will cease to pursue a proprietary financing strategy, but rather be subject to decisions taken by the new Group.

Owing to economic efficiency and risk considerations, ADLER so far believed 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 aimed 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 has also successfully reduced its average cost of debt. The issue of a corporate bond in the volume of EUR 400 million in 2019 was helpful in this respect. It mainly served the purpose of refinancing existing liabilities.

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 BB/stable outlook credit rating as awarded by Standard and Poor.

Economic success sometimes also 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 which happened to be the case in the acquisition of a small portfolio in 2019.

MANAGEMENT SYSTEM

Financial performance indicators

The main financial performance indicators used by ADLER are: EPRA net asset value (EPRA NAV, adjusted for goodwill and fully diluted), 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.

With effect from 1 January 2020, EPRA has developed three new ratios to replace the NAV to reflect changes in the regulatory framework in Europe. There are the EPRA Net Reinstatement Value (NRV), the EPRA Net Tangible Assets (NTA) and the EPRA Net Disposal Value (NDV). ADLER will therefore focus its reporting on the NRV from the 2020 financial year onwards, as significant sales activities of the residential properties held are regularly only of minor relevance, as is the case with the NTA and NDV.

A significant change of the NRV compared with the current NAV involves the real estate transfer tax of the properties held. This is deducted for the purposes of property valuation and is now to be added again, since a sale is not currently expected.

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 a 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 significantly deviate from budget figures, then corrective measures are devised and implemented.

Non-financial key figures also play a major role in the acquisition of new property portfolios. Factors such as changes in local infrastructure, expected demographic developments and potential changes in regional labour markets all influence the future growth in value of properties. An awareness or assessment of these key figures is factored into all decisions around 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, facility management via ADLER Gebaeude Service and energy management via ADLER Energie Service GmbH. The BCP portfolio is managed by the group company RT Facility Management GmbH. As a result of the internalisation of previously-outsourced functions, the number of employees at the ADLER Group has increased from 828 at the end of 2018 to 922 full-time and part-time employees at the end of 2019. The majority of these employees work in the property management (291 employees) and facility management (401 employees) divisions. BCP had 140 employees at the end of December 2019, most of whom focus on operating activities.

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, valuation companies and bank research departments. This information is supplemented by the internal experience gained 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. These insights form an important basis for all of the company's operating activities.

2. ECONOMIC REPORT

MACROECONOMIC AND SECTOR-SPECIFIC SETTINGS

In 2019, the German economy grew only marginally. The Federal Statistical Office calculated calendar-adjusted GDP growth at 0.6 percent – the lowest growth rate for years. The average inflation rate for the year reached a moderate 1.4 percent at the end of the year, while the number of people in employment seems unaffected by the current slowdown and has increased to more than 45 million. It is not expected that the European Central Bank, after the change in its presidency, will raise interest rates for the time being. On the contrary, due to the corona crisis there seems to be a tendency to reduce interest rates again.

Despite the slowing growth in overall economic activity, industry-specific settings for real estate companies like ADLER remain positive. The housing rental market again proved stable in 2019. According to the cost-of-living index, German rents were 1.4 percent higher nationwide in December 2019 as compared to the previous year, thus increasing slightly less than the total cost of living, which was 1.5 percent higher year on year. As a comparison, rents increased 1.6 percent in 2018. It therefore looks like rent increases in Germany are likely to level out. 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 mainly 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 and their surroundings. Tenants no longer able or willing to pay higher rents look for alternatives and often move further away from city centres in order to reduce their rent. Moreover, the average figure does not take into account the fact that the development of rents under new and existing leases usually differs significantly.

Legal framework

In January 2019, there was a first tightening of the 'German Law on Limiting Rental Price Growth'. In particular it covered the landlord's obligation to provide information which includes the level of rent previously paid, as well as making it simpler for a tenant to object in the form of a simple complaint. In October 2019, in a draft bill additional extensions were presented. This included the extension of the rent brake until 2025 (instead of until 2020), a retroactive reimbursement of overpaid money (previously only from the time of the complaint) and an extension of the calculation period for the local comparative rent from four to six years.

In 2019, the legal framework changed particularly in Berlin. The Berlin Senate passed a resolution to cap rents for the next five years with effect from the middle of the year. It is still questionable, however, whether a federal state such as Berlin can introduce such a regulation in the first place, as rental law is a matter for central government. It will take some time though before this matter will be cleared. Meanwhile many real estate companies have announced their intention to reduce investments and capex in the Berlin market.

Uncertainty also persists in relation to the reform of property tax which was agreed by the German parliament in the middle of October 2019. The reform relates the tax base to the value of properties, but also contains an escape clause for federal states preferring a tax base solely relating to area. As a transition phase has been agreed upon until December 2024, the subsequent redistribution in the tax burden will only then become effective. It is the intention of the government to keep overall revenues from the property tax constant, although it cannot fully control property tax revenues since municipal and local councils autonomously set their own multipliers.

In the middle of 2019, the German government announced the intention to tighten regulations concerning the real estate trade tax in the framework of share deals. Amongst others, the threshold triggering tax payment was to be reduced from 95 percent to 90 percent and the holding period to be extended from 5 to 10 years. Implementation did not happen in 2019, but is planned for the first half of 2020.

Although not directly linked to these issues, in the first quarter of 2019, ADLER also decided to become a member of the Zentraler Immobilien Ausschuss e.V. (ZIA – German Property Federation). For the first time, the company is represented in a leading association of the German property sector.

ECONOMIC DEVELOPMENT OF THE GROUP

Over the past two years, ADLER has been transformed into an integrated real estate group that offers all tenant-related services internally. BCP, which was acquired in 2018, was further integrated into these corporate structures in 2019. After selling the non-core residential properties, ADLER now focuses intensively on maintaining its existing portfolio, increasing investment in existing properties and strengthening communication with tenants. Two thirds of BCP´s retail portfolio have been sold in the course of 2019 and the refinancing of higher interest bearing liabilities has been successfully completed.

The latest step towards the reduction of the average cost of debt was the issuance of a corporate bond of EUR 400 million, which was placed at the beginning of April 2019 and served exclusively to refinance existing liabilities. In total, calculated on an annual basis, FFO I improved by EUR 12 million, and the weighted average cost of debt (WACD) dropped to 1.99 percent.

In the course of the first quarter of 2019, the sale of approximately 3,700 rental units, representing virtually the entire non-core residential portfolio was completed. They were transferred into two joint ventures in each of which ADLER holds a minority interest of around 25 percent.

At the end of March 2019, BCP began selling its commercial portfolio. Assets worth EUR 180.6 million were sold in a share deal, representing around 37 percent of the entire commercial portfolio. An additional tranche worth EUR 141.1 million was sold in an asset deal at the end of June 2019. In total, around 72 percent of BCP's commercial portfolio has been sold so far in 2019.

In mid-July, 980,000 treasury shares, valued at EUR 14.50 each, were used as payment for the acquisition of a small portfolio. The properties located in Berlin and Potsdam with an additional attractive development potential were purchased for EUR 20.3 million.

In September 2019, ADLER signed a merger agreement to acquire all shares in ADO Group Ltd. for a consideration of EUR 708 million plus EUR 10.3 million acquisition expenses, which resulted in ADLER holding a 33 percent stake in ADO Properties and has been successfully completed in December 2019.

In September 2019, ADLER has, via BCP, entered into a binding sale and purchase agreement with private real estate investors to dispose of one of the development projects in Dusseldorf with an agreed value of the real estate of EUR 375 million while maintaining a 25 percent minority stake and its management.

In December 2019, ADO Properties and ADLER resolved to entered into a business combination agreement. For this purpose, ADO Properties announced a voluntary public tender offer for all outstanding shares of ADLER. A majoprity of 52 percent of the outstanding shares has already been secured via irrevocable understandings with large shareholders in ADLER. In the business combination agreement both parties agree to rename the new entity to ADLER Real Estate Group and to endow Maximilian Rienecker with the position of Co-CEO, Sven-Christian Frank with the position of COO and Tomas de Vargas Machuca with the position of vice chairman of the Board of Directors of the new company which will have its legal domicile in Luxembourg.

3. RESULT FROM OPERATIONS, NET ASSETS AND FINANCIAL POSITION

PRELIMINARY REMARK

Effective 10 December 2019, ADLER achieved control over ADO Group and thereby indirectly also over ADO Properties S.A. (ADO Properties) as well due to the, compared to other shareholders, dominant share in the company and the representation in the board of directors. They were included in consolidation as at 31 December 2019 on the grounds of simplicity and materiality. As ADLER will lose control over ADO Properties again in the first half of 2020 due to the rights issue by ADO Properties which will dilute ADLER´s share in the company, it constitutes a discontinued operation in accordance with IFRS 5. The assets and liabilities of ADO Properties are reported under non-current assets and liabilities held for sale. The consolidated statement of comprehensive income shows only the continuing operation in the respective items, while the discontinued operation is shown as a total under earnings after taxes from discontinued operations. With regard to the consolidated statement of cash flows, cash flows from operating, investing and financing activities are shown in relation to continuing and discontinued operations.

At the same time, ADLER is disclosing pro forma information on net assets for the 2019 financial year (adjusted as at 31 December 2019). This assumes that ADO Properties is not a discontinued operation, which means that the assets and liabilities concerned are not reported under non-current assets and liabilities held for sale (see also Note 4.2).

At the beginning of the second quarter of 2018, ADLER acquired nearly 70 percent of the shares in BCP, and has since then fully consolidated the company and its subsidiaries. A separate segment showing the economic development of this group division had originally been created for BCP as the company was managed and controlled as an independent unit. After the purchase price allocation was finalised along with the first-time allocation of goodwill, BCP was fully integrated into the rental segment.

As at 30 November 2017 (closing date), ADLER had lost its controlling influence over ACCENTRO Real Estate, Berlin (ACCENTRO)and its susidiaries after selling the majority of the shares it owned. 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 decision to dispose of the remaining interest in ACCENTRO was reversed at the end of the reporting year, with the result that it was reclassified to investments in associated companies. The amount reported in the same period of the previous year was restated accordingly in the consolidated balance sheet, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the notes to the consolidated financial statements.

RESULT FROM OPERATIONS

ADLER generates its income almost exclusively from the management of its existing properties. This is the main focus of its business model.

In EUR millions	2019	2018
Gross rental income	370.3	349.6
of which net rental income	248.7	238.4
Expenses from property lettings	-151.0	-145.9
Earnings from property lettings	**219.3**	**203.7**
Income from the sale of properties	533.8	75.1
Expenses from the sale of properties	-533.3	-67.0
Earnings from the sale of properties	**0.5**	**8.1**
Personnel expenses	-47.1	-35.1
Other operating income	8.4	8.9
Other operating expenses	-69.0	-66.3
Income from fair value adjustments of investment properties	362.6	465.1
Depreciation and amortisation	-5.7	-1.6
Earnings before interest and taxes (EBIT)	**469.0**	**582.8**
Financial result	-110.7	-131.2
Net income from at-equity valued investment associates	-1.3	3.2
Earnings before taxes (EBT)	**357.0**	**454.7**
Income taxes	-81.2	-122.6
Net consolidated result from continuing operation	**275.8**	**332.1**
Earnings after tax from discontinued operation[1)]	92.0	0.3
Net consolidated result	**367.8**	**332.4**

[1)] Consolidated net income 2019 from the discontinued operation ADO Properties

Earnings from property lettings increased

In 2019, gross rental income increased by 5.9 percent to EUR 370.3 million, (2018: EUR 349.6 million). Net rental income was up 4.3 percent to EUR 248.7 million (2018: EUR 238.4 million). The increase in gross and net rental income is partly attributable to the effect of a 12-month consolidation of BCP's operations in 2019 as compared to nine months in 2018. BCP contributed EUR 99.7 million in gross rental income (2018: EUR 79.8 million) and EUR 73.8 million in net rental income (2018: EUR 59.4 million). By contrast, income was reduced by the sale of the non-core portfolio of approximately 3,700 rental units which closed during the first quarter 2019 and has not contributed since then. The same is true for BCP's commercial portfolio two thirds of which were sold in several tranches in the course of 2019.

Continued improvements in our operating performance also had a positive effect on income and net rental income.

At the end of the reporting period, the average contractually-agreed rent per square metre per month amounted to EUR 5.60, EUR 0.11 higher than the figure for the same period of the previous year (2018: EUR 5.49).

The vacancy rate stood at 5.4 percent at the end of 2019, a year-on-year improvement of 0.6 percentage points (End of 2018: 6.0 percent).

Expenses from property lettings comprise recoverable and non-recoverable operating expenses and maintenance expenses. Compared with the previous year, these expenses increased by 3.5 percent to EUR 151.0 million in 2019. The increase is primarily attributable to the full year impact of BCP.

Net of expenses, earnings from property lettings was 7.7 percent higher at EUR 219.3 million in 2019 (2018: EUR 203.7 million).

Streamlining of portfolio with marginal impact on earnings from the sale of properties

The sale of about two thirds of the BCP retail portfolio which happened in several tranches had a positive impact on earnings from the sale of properties, which in total amounted to EUR 0.5 million (2018: EUR 8.1 million).

Again strong fair value adjustments, but less than previous year

At EUR 362.6 million, income from fair value adjustments of investment properties was again positive during 2019 reflecting the operational improvements and the changes in the market environment as well as the fact that a development project of BCP in Dusseldorf, which is in the process of being sold, was revalued to the sale price. Accordingly, the contribution of BCP to income from fair value adjustments increased from EUR 91.6 million in the previous year to EUR 228.5 million in the reporting period. Nevertheless, income from fair value adjustments of investment properties was considerably lower than in the previous year (2018 EUR 465.1 million)

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.

Personnel expenses increased with rises in staff numbers

Personnel expenses came to EUR 47.1 million in the 2019 financial year while they had amounted to EUR 35.1 million in 2018. The majority of this increase is attributable to the full year impact of BCP as well as the internalisation of property and facilities management activities. As a result, the Group had a total of 922 employees as at 31 December 2019, 94 more than a year earlier.

Other operating expenses came to EUR 69.0 million in 2019 (2018: EUR 66.3 million). This line item includes general administration expenses, IT expenses, legal and advisory expenses, impairments of receivables and public relations expenses. The increase is mainly due to higher expenses for IT-services and one-off expenses.

Other operating income amounted to EUR 8.4 million in 2019 as compared to EUR 8.9 million in the previous year.

EBIT decreased due to lower fair value adjustments

After deducting all non-financial expenses, earnings before income and taxes (EBIT) for the 2019 financial year amounted to EUR 469.0 million. Compared to the previous year (EUR 582.8 million), this represents a decrease of 19.5 percent which is mainly due to lower fair value adjustments. BCP´s contribution to EBIT increased to EUR 269.9 million (2018: EUR 137.4 million) due to the increase in income from fair value adjustments relating to the development project in Dusseldorf held for sale.

Improved financial result

At minus EUR 110.7 million, the financial result for 2019 was significantly better than the equivalent figure of the previous year (minus EUR 131.2 million). The improvement was largely attributable to the fact that non-recurring expenses such as prepayment penalties, refinancing expenses, loan commitment fees and transaction costs were significantly higher in the previous year.

In 2019, earnings before tax (EBT) was EUR 357.0 million, to which BCP contributed EUR 235.4 million. In 2018, EBT was EUR 454.7 million, to which BCP had contributed EUR 137.6 million.

In terms of taxes, expenses amounted to EUR 81.2 million in 2019, while tax expenses were EUR 122.6 million in 2018. The vast majority, amounting to EUR 63.5 million or 78.2 percent, is related to non-cash-effective deferred taxes; only EUR 17.8 million or 21.8 percent of tax expenses are cash effective.

Consolidated net profit from continuing operations for 2019 was EUR 275.8 million (2018: EUR 332.1 million). Consolidated net profit from discontinued operations which exclusively comprises ADO Properties came to EUR 92.0 million and which is exclusively attributable to valuation gains. In total, consolidated net profit stood at EUR 367.8 million in 2019 (2018: EUR 332.4 million), of which EUR 2,238.8 million were attributable to shareholders in the parent company (2018: EUR 265.6 million).

Segment reporting

In its segment reporting, ADLER has so far distinguished between the "Rental", "BCP" and "Other" segments. BCP, the majority of which was acquired in April 2018, was initially presented as an independent segment in accordance with internal reporting to the Management Board. After the purchase price allocation was finalised along with the first-time allocation of goodwill to the relevant CGUs, BCP was integrated into the Rental segment. The comparative figures have been adjusted accordingly. The residual interest in ACCENTRO was reclassified from non-current assets held for sale (Trading) to investments accounted for using the equity method as the decision to sell it was reversed at the end of the reporting year.

Acquired in December 2019, ADO Properties constitutes a discontinued operation in accordance with IFRS 5 and is therefore not included in segment reporting.

The "rental" segment includes all of ADLER's portfolios, 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. This segment also includes the expenses for craftsmen and caretaker services which are provided by the Group's internal facility management. To a small extent, the segment also comprises commercial assets of BCP and developments which are intended to be sold to third parties and are thus not intended to be transferred to the rental portfolio.

Group activities that do not constitute stand-alone 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		Other		Group	
In EUR millions	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Gross rental income and income from the sale of properties	904.0	424.5	0.2	0.2	904.2	424.7
of which gross rental income	370.2	349.4	0.2	0.2	370.4	349.6
of which income from disposals	533.8	75.1	0.0	0.0	533.8	75.1
Change in the value of investment properties	362.6	465.1	0.0	0.0	362.6	465.1
Earnings before interest and taxes (EBIT)	**468.8**	**582.7**	**0.2**	**0.1**	**469.0**	**582.8**
Income from investments accounted for using the at-equity method	-1.3	3.2	0.0	0.0	-1.3	3.2
Financial result	**-110.8**	**-131.3**	**0.1**	**0.1**	**-110.7**	**-131.2**
Earnings before taxes (EBT)	**356.7**	**454.6**	**0.3**	**0.1**	**357.0**	**454.7**

Funds from operations (FFO) improved

As is customary in the real estate sector, ADLER refers to funds from operations (FFO) as its major cash-flow-based performance indicator in order to assess the profitability of its operating business. FFO I represents the performance of the property letting business.

As is documented in the overview provided below, FFO is determined by first calculating earnings before interest, taxes, depreciation and amortisation, impairment losses and income from fair value adjustments of investment properties (EBITDA IFRS), and then adjusting this figure to exclude non-recurring and extraordinary items (Adjusted EBITDA). The adjustments made involve items that are of a non-periodic nature, recur irregularly, are not typical for operation, 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 and current income taxes. Any investments made to maintain the condition of the properties but that have not been capitalised are then added.

In EUR millions		2019	2018
Consolidated net profit		**367.8**	**332.4**
of which from continuing operations		**275.8**	**332.1**
+	Financial result	18.7	131.2
	of which from continuing operations	110.7	131.2
+	Income taxes	81.2	122.6
	of which from continuing operations	81.2	122.6
+	Depreciation and amortisation	5.7	1.6
	of which from continuing operations	5.7	1.6
–	Income from measurement of investment properties	362.6	465.1
	of which from continuing operations	362.6	465.1
–	Income from investments accounted for using the at-equity method	-1.3	3.5
	of which from continuing operations	-1.3	3.2
EBITDA IFRS (continuing and discontinued operation)		**112.1**	**119.3**
+/–	Non-recurring and extraordinary items	57.5	46.1
Adjusted EBITDA		**169.6**	**165.4**
–	Interest expense FFO	66.2	71.1
–	Current income taxes	1.8	2.2
+	Capitalisable maintenance measures	2.0	0.0
–	Earnings before interest and taxes from the sale of properties, discontinued operations and minority interests	19.3	18.0
FFO I		**84.4**	**74.2**
Number of shares (basic)[1]		69,460,511	68,480,390
FFO I per share (basic)		1.22	1.08
Number of shares (diluted)[2]		79,879,195	78,899,195
FFO I per share (diluted)		1.06	0.94

[1] 68,460,511 shares as at balance sheet date (previous year: 68,480,390)
[2] Plus 10,418,684 shares from assumed conversion of convertible bonds with entitlement to conversion (previous year: 10,418,805)

EBITDA IFRS improved by EUR 2.9 million compared to the previous year due to the first-time application of IFRS 16 Leasing (see presentation in the notes to the consolidated financial statements under 2.2).

Non-recurring and extraordinary items are structured as follows:

Non-recurring and extraordinary items In EUR millions	2019	2018
Non-cash income/expenses and one-off payments	26.0	19.3
Costs of acquisition/integration/sale	25.8	15.2
Optimisation of business model, structuring	5.7	11.6
Total of non-recurring and extraordinary items	**57.5**	**46.1**

The FFO interest charge is derived as follows:

Interest expense FFO In EUR millions	2019	2018
Interest income	102.2	16.7
Interest expenses	-120.9	-147.9
Total interest income (continued and discontinued operations)	**-18.7**	**-131.2**
Adjustments		
Interest expenses from the sale of properties	0.0	0.0
Prepayment compensation and provision costs	11.1	42.9
Effects of measurement of primary financial instruments	15.8	16.2
Other adjustments	-74.4	1.0
Interest expenses FFO	**-66.2**	**-71.1**

In the reporting period, income from value adjustments of financial instruments of ADO Properties (EUR 92.0 million), currency effects (EUR 10.9 million) and amortisation on financial assets (EUR 2.2 million) were recognised in other adjustments.

Calculated this way, FFO for 2019 amounted to EUR 84.4 million, of which EUR 25.6 million was contributed by BCP. This was EUR 10.2 million or 13.8 percent more than in the same period of the previous year (EUR 74.2 million with a contribution from BCP of EUR 22.6 million).

Calculated on an undiluted basis, FFO per share was EUR 1.22 as at 31 December 2019. On a diluted basis (shares issued less treasury shares, plus shares from the assumed conversion of outstanding convertible bonds to the extent that they are already convertible), FFO per share was EUR 1.06.

NET ASSETS

In EUR millions	31.12.2019	as percentage of total assets	31.12.2019 adjusted[1)]	as percentage of total assets[1)]	31.12.2018	as percentage of total assets
Non-current assets	**5,288.7**	**49.5**	**9,215.4**	**86.3**	**5,220.8**	**89.1**
of which investments properties	4,920.0	46.1	8,544.5	80.0	4,989.1	85.2
Current assets	**554.4**	**5.2**	**1,036.8**	**9.7**	**437.6**	**7.5**
of which inventories	87.3	0.8	126.6	1.2	88.1	1.5
of which cash and cash equivalents investments	237.4	2.2	625.0	5.9	77.7	1.3
Non-current assets held for sale	**4,838.6**	**45.3**	**429.5**	**4.0**	**198.2**	**3.4**
Assets	**10,681.7**	**100.0**	**10,681.7**	**100.0**	**5,856.6**	**100.0**
Equity	**3,547.9**	**33.2**	**3,547.9**	**33.2**	**1,579.6**	**27.0**
of which capital stock	71.1	0.7	71.1	0.7	68.5	1.2
of which capital reserve	309.3	2.9	309.3	2.9	309.2	5.3
of which net retained profit	1,093.5	10.2	1,093.5	10.2	842.9	14.4
of which non-controlling interests	2,102.0	19.7	2,102.0	19.7	362.2	6.2
Non-current liabilities	**4,928.5**	**46.1**	**6,518.3**	**61.0**	**3,972.0**	**67.8**
of which liabilities from convertible bonds	122.2	1.1	215.8	2.0	117.5	2.0
of which liabilities from bonds	2,327.8	21.8	2,729.8	25.6	1,961.1	33.5
of which financial liabilities to banks	2,002.1	18.7	2,731.8	25.6	1,476.2	25.2
Current liabilities	**377.9**	**3.6**	**487.9**	**4.6**	**304.5**	**5.2**
of which financial liabilities to banks	157.7	1.5	198.2	1.9	142.4	2.4
Liabilities held for sale	**1,827.4**	**17.1**	**127.6**	**1.2**	**0.5**	**0.0**
Equity and liabilities	**10,681.7**	**100.0**	**10,681.7**	**100.0**	**5,856.6**	**100.0**

1) Pro forma consolidated balance sheet for the presentation of ADO Properties as a non-discontinued operation (see presentation in the notes to the consolidated financial statements under 4.2), unaudited

Due to the acquisition of ADO Group at the end of 2019 and its full consolidation, total assets have almost doubled. As of the reporting date, ADLER had assets totaling EUR 10,681.7 million, 82.4 percent more than at the end of the previous year (EUR 5,856.6 million). In the following, both the IFRS disclosure and the pro-forma calculation are commented on, in which it is assumed that ADO Properties is not a discontinued operation.

Sharp rise in investment properties

Due to the acquisition of ADO Group, investment properties increased from EUR 4,989.1 million to EUR 8,544.5 million in the restated calculation. This increase is due exclusively to the acquisition of ADO Group. In contrast, ADLER's IFRS presentation showed a slight decline because about two-thirds of the commercial portfolio was sold during the year and a development project of BCP in Dusseldorf was reclassified as non-current assets held for sale. An increase resulted from the acquisition of a small portfolio of 72 units and a landbank for a development project, valuation gains, investments in modernisation and investments in project development properties. In balance, a decrease of EUR 1.4 percent to EUR 4,920.0 million was shown in this position of the balance sheet.

Control over the rental units of the non-core portfolio was transferred in the first quarter of 2019. Following receipt of partial payments, ADLER recognises non-current receivables from the buyers of EUR 71.9 million as at 31 December 2019. The respective properties, which were recognised under non-current assets held for sale as at 31 December 2018, were disposed of in the amount of EUR 179.2 million in the first quarter of 2019.

Current assets amounted to EUR 1,036.8 million as of the balance sheet date in the adjusted calculation. EUR 599.2 million more than at the beginning of the year. Here, too, the increase is mainly due to the acquisition of the ADO Group. ADLER's IFRS figures showed growth of 26.7 percent to EUR 554.4 million, which was primarily due to the increase in cash and cash equivalents. Current assets comprised EUR 56.3 million in receivables against the buyer of the shares in ACCENTRO which ADLER had already sold at the end of 2017. Payment had, however, been postponed. In July 2019, the buyer made a further partial payment of EUR 95.0 million. ADLER also received a dividend amounting to EUR 2.9 million which the buyer would have an entitlement to. The remaining receivables are expected to be settled in 2020. These receivables bear a customary interest and are secured.

Cash and cash equivalents were EUR 625.0 million at the reporting date in the adjusted calculation and EUR 237.4 in ADLER´s IFRS accounts.

Non-current assets held for sale as of 31 December 2019 in the adjusted calculation mainly comprise remaining units of the second tranche of BCP's commercial properties, for which the closing is expected soon, and the development project in Dusseldorf, which is intended to be sold.

In ADLER's IFRS balance sheet, non-current assets held for sale amount to EUR 4,838.6 million, as this item also includes the assets of ADO Properties.

Shareholders' equity and equity ratio strengthened significantly

Shareholders' equity amounted to EUR 3,547.9 million at the end of 2019. The increase compared to the end of the previous year (EUR 1,579.6 million) is mainly attributable to the consolidation of ADO Group and in particular to the minorities, but also to the positive net profit and the fact that, in the middle of the year, 980,000 treasury shares were used to finance an acquisition at a value of EUR 14.50 each. The shareholders' equity ratio reached 33.2 percent, equivalent to an increase of 6.2 percentage points as compared to the previous year. Moreover, shares of non-controlling interests in several group companies of BCP have been acquired, amounting to a total of EUR 89.9 million.

Liabilities increase due to acquisition of ADO Group

Non-current liabilities amounted to EUR 6,518.3 million at the end of 2019 in the adjusted calculation, an increase of EUR 64.1 percent. The majority of the increase is again due to the consolidation of ADO Group. ADLER's IFRS accounts showed an increase of 24.1 percent to EUR 4,928.5 million. This also reflects a trend shift in the financing structure toward capital market-oriented instruments, as liabilities from bonds increased while liabilities to banks declined due to repayment. However, the raising of a bridge loan to finance the acquisition of shares in ADO Group had an opposite effect. At the end of 2019, current liabilities in the restated financial statements amounted to EUR 487.9 million, also higher than at the end of 2018 (EUR 304.5 million).

In ADLER's IFRS accounts, the change in liabilities is attributable to several effects. Liabilities related to the first tranche of BCP's retail portfolio have been released in the course of the share deal as agreed upon. In connection with the sale of non-core properties, liabilities on these properties were partly repaid in the first quarter. At the same time, an advance payment for the non-core properties received in the previous year was offset against the purchase price receivables when rights and obligations were transferred. The effects mentioned above have partly been offset by the fact that, while EUR 400 million was raised via the 2019/2022 bond, only EUR 300 million was paid back through the premature call of the 2015/2020 bond. In addition, non-current liabilities to banks were reclassified as current liabilities due to the upcoming repayments, in particular in connection with the sale of the second tranche of BCP's commercial portfolio in terms of an asset deal. Liabilities against banks related to BCP´s development project in Dusseldorf have been transferred to liabilities held for sale since the transaction is structured as a share deal.

Liabilities held for sale amounted to EUR 127.6 million at the end of 2019 in the adjusted calculation. In the previous year, they had only amounted to EUR 0.5 million. This reflects the sale of BCPs development project. In contrast, ADLER's IFRS presentation shows liabilities held for sale of EUR 1,827.4 million, as this additionally reflects the liabilities of ADO Properties.

Adjusted net financial liabilities amounted to EUR 4,852.4 million in the adjusted calculation and to EUR 3,974.1 million in ADLER´s IFRS accounts at the end of 2019 increasing significantly as compared to the previous year (EUR 3,237.5 million).

Decrease in loan to value (LTV)

ADLER calculates 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 advance payments minus liabilities held for sale) to ADLER's total property assets, as is customary in the industry. Assuming that the convertible bonds outstanding at the reporting date were converted into shares, the LTV according to this calculation was 51.4 percent at the end of December 2019 in the adjusted calculation, 10.0 percentage points lower than at the end of 2018. In ADLER´s IFRS accounts LTV was even lower at 49.4 percent.

In EUR millions		31.12.2019	31.12.2019 adjusted[2)]	31.12.2018
Convertible bonds		124.2	217.8	119.3
+	Bonds	2,429.5	2,831.5	2,001.4
+	Financial liabilities to banks	2,159.8	2,930.1	1,618.6
–	Cash and cash equivalents	237.4	625.0	77.7
=	**Net financial liabilities**	**4,476.1**	**5,354.4**	**3,661.6**
–	Non-current assets held for sale and purchase price receivables, financial instruments minus liabilities associated with assets held for sale[1)]	502.0	502.0	424.1
=	**Adjusted net financial liabilities**	**3,974.1**	**4,852.4**	**3,237.5**
Investment properties		4,920.0	8,544.5	4,989.1
+	Inventories	87.3	126.6	88.1
+	Property, plant and equipment for property management	25.3	31.6	2.5
+	Shares in real estate companies	59.1	321.3	3.0
+	Net financial liabilities ADO Properties[3)]	2,709.3	-	-
=	**Gross asset value**	**7,801.0**	**9,024.0**	**5,082.7**
LTV including convertible bonds in %		50.9	53.8	63.7
LTV excluding convertible bonds in %		49.4	51.4	61.4

1) Purchase price receivables including interest from the sale of ACCENTRO in the amount of EUR 56.3 million (previous year: EUR 149.9 million); non-current assets held for sale excluding ADO Properties in the amount of EUR 429.5 million (previous year: EUR 198.2 million); equity instruments measured at fair value in the amount of EUR 6.5 million. (previous year: EUR 37.0 million) and debt instruments in the amount of EUR 14.7 million (previous year: EUR 14.6 million); receivables/loans/loans to real estate companies in the amount of EUR 122.5 million (previous year: EUR 24.9 million) and liabilities held for sale without ADO Properties in the amount of EUR 127.6 million (previous year: EUR 0.5 million).

2) Pro forma consolidated balance sheet for the presentation of ADO Properties as a non-discontinued operation (see presentation in the notes to the consolidated financial statements under 4.2), unaudited.

3) Assets held for sale EUR 4,409.1 million (prior year: EUR 0.0 million) less liabilities held for sale EUR 1,699.8 million (prior year: EUR 0.0 million) of ADO Properties.

In the financial year 2019, ADLER successfully implemented major refinancing measures. Most importantly, the 2015/2020 bond yielding 4.75 percent interest was refinanced through a new bond with a coupon of 1.5 percent in the second quarter, bringing the average cost of debt for all of the ADLER Group's liabilities (WACD = weighted average cost of debt) down from 2.23 percent to 2.05 percent in the course of the year without and to 1.99 percent with consideration of the ADO Group consolidation.

Further increase in net asset value (EPRA NAV)

Net asset value (EPRA NAV), adjusted for goodwill and fully diluted, which is calculated in accordance with the guidelines issued by EPRA, reached EUR 2,283.6 million at the end of 2019 in the adjusted calculation. This represents a significant increase on the figure at the end of 2018 (EUR 1,639.0 million). ADLER´s IFRS account showed a considerable increase to EUR 1,925.4 million as well.

Based on the total number of existing shares in circulation at the balance sheet date less treasury shares, fully diluted and adjusted EPRA NAV per share amounted to EUR 28.59 as at 31 December 2019 in the adjusted calculation and to EUR 24.10 in ADLER´s IFRS accounts (31 December 2018: EUR 20.77).

In EUR millions	31.12.2019	31.12.2019 adjusted[4]	31.12.2018
Equity	**3,547.9**	**3,547.9**	**1,579.6**
Non-controlling interests	-2,102,0	-2,102.0	-362.2
Equity attributable to ADLER shareholders	**1,445.9**	**1,445.9**	**1,217.4**
Deferred tax liabilities on investment properties	517.1	871.0	465.1
Goodwill from deferred taxes on investment properties[1]	0.0	0.0	0.0
Diff. between fair values and carrying amounts of inventory properties	6.3	6.3	5.3
Fair value of derivative financial instruments	4.7	10.9	6.3
Deferred taxes for derivative financial instruments	-1.4	-3.3	-1.9
EPRA NAV	**1,972.5**	**2,330.7**	**1,692.3**
Goodwill resulting from synergies[1]	-169.4	-169.4	-170.8
Adjusted EPRA NAV	**1,803.1**	**2,161.3**	**1,521.5**
Diluted EPRA NAV	**2,094.8**	**2,453.0**	**1,809.8**
Adjusted diluted EPRA NAV	**1,925.4**	**2,283.6**	**1,639.0**
Number of shares, basic[2]	69,460,511	69,460,511	68,480,390
EPRA NAV per share (basic) in EUR	**28.40**	**33.55**	**24.71**
Number of shares, diluted[3]	79,879,195	79,879,195	78,899,195
EPRA NAV per share (diluted) in EUR	**26.22**	**30.71**	**22.94**
Adjusted EPRA NAV per share (diluted) in EUR	**24.10**	**28.59**	**20.77**

[1] Disclosure including previous year adjusted, as the purchase price allocation of BCP has been completed; the goodwill results entirely from synergies
[2] 69,460,511 shares as at balance sheet date (previous year: 68,480,390)
[3] Plus 10,418,684 shares from assumed conversion of all other convertible bonds with entitlement to conversion (previous year: 10,418,805)
[4] On the basis of the pro forma consolidated balance sheet for the presentation of ADO Properties as a non-discontinued operation (see presentation in the notes to the consolidated financial statements under 4.2), unaudited

FINANCIAL POSITION

In EUR millions	2019	2018
Cash flow from operating activities	94.4	131.0
of which from continuing operations	94.4	131.0
Cash flow from investing activities	-146.9	-609.1
of which from continuing operations	107.3	-609.1
Cash flow from financing activities	600.0	187.8
of which from continuing operations	600.0	187.8
Cash-effective change in cash and cash equivalents	547.4	-290.3
Non-cash effective change in cash and cash equivalents	-0.1	-0.3
Cash and cash equivalents at beginning of period	77.7	368.2
Cash and cash equivalents at end of period	625.0	77.7

In 2019, cash flow from operating activities reached EUR 94.4 million. In the previous year, it amounted to EUR 131.0 million.

Investing activities resulted in a cash outflow of EUR 146.9 million in 2019, which was EUR 254.2 million, primarily due to the acquisition of financial assets by ADO Properties (investment in Consus) and EUR 200.7 million of investments in the real estate portfolio (investment properties). The acquisition of ADO Group incl. ADO Properties (the net cash acquired exceeded the purchase price) in the amount of EUR 67.0 million, the sale of the non-core portfolio and the commercial properties of BCP in the amount of EUR 170.7 million, the receipt of a further purchase price payment and dividends for the shares in ACCENTRO in the amount of EUR 97.9 million had an opposite effect.

Financing activities resulted in a cash inflow of EUR 600.0 million in 2019. The cash inflow is mainly due to the issue of the 2019/2022 corporate bond in the amount of EUR 400.0 million (nominal) as well as the raising of the bridge loan to finance the acquisition of the shares in ADO Group. This was offset in particular by the acquisition of non-controlling interests in several subsidiaries of BCP at a purchase price of EUR 90.8 million. This had a nominal effect of EUR 300.0 million on the cash flow from operating activities and the early repayment of the 2015/2020 corporate bond in the amount of EUR 300.0 million (nominal).

On December 31, 2019, ADLER Group had cash and cash equivalents of EUR 237.4 million. (31 December 2018: EUR 77.7 million) and including ADO Properties of EUR 625.0 million.

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

OVERALL SUMMARY OF BUSINESS PERFORMANCE AND POSITION OF GROUP

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

4. EVENTS AFTER THE BALANCE SHEET DATE

On February 7, 2020 ADO Properties announced that the acceptance period for the the voluntary takeover bid to ADLER shareholders had commenced after approval by the Federal Financial Supervisory Authority BaFin. According to the offer document, the initial offer period terminates on March 6, 2020. ADO Properties offers 0.4164 ADO Properties shares for each ADLER share tendered.

On February 11, 2020 pursuant to the terms and conditions of the 2016/2021 convertible bond, there was a change of control as, on that date, over 50 percent of the shareholders of ADLER AG (the obligor) had accepted the takeover offer (exchange offer) by ADO Properties S.A. to the obligor's shareholders that was published on 7 February 2020. Each bondholder is thereby entitled, by submitting a notice of redemption, to demand from ADLER AG as at 27 February 2020 (the effective date) the redemption of some or all of their bonds for which the conversion right was not exercised and which were not declared due for early repayment, at their principal amount plus interest accrued up to the effective date (exclusively). None of the bondholders have exercised this right.

On February 17, 2020 the Chairman of the Supervisory Board of ADLER, Dr. Dirk Hoffmann stepped down at his own request as member and chairman of the Supervisory Board with effect from February 29, 2020. It is intended that Dr. Hoffmann will remain associated with the new ADLER group in an advisory capacity.

On February 20, 2020 Management and Supervisory Board of ADLER recommended that ADLER shareholders accept the ADO Properties offer. The recommendation including the reasons for it is available on the website of ADLER Real Estate AG.

On March 20, 2020 Martin Billhardt was named new member of the Supervisory Board.

At the end of the initial acceptance period the offer was accepted by ca. 83 percent of ADLER shareholders according to the statement of ADO Properties.

On March 12, 2020 the additional acceptance period commenced, ending on March 25, 2020. ADO Properties announced that at the end of the additional acceptance period a total of nearly 92 percent of ADLER shares had been tendered.

In relation to the corona crisis reference is made to the risk report and the report on expected developments.

On March 25, 2020 ADO Properties announced a voluntary public takeover offer to all outstanding shares of WESTGRUND AG as a subsidiary of ADLER.

No further events with the potential to significantly influence the earnings, assets and financial position of ADLER 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 2020 financial year are based on current planning at ADLER, which includes all group companies apart from ADO Group Ltd., which was acquired at the end of the year. However, planning for 2020 should take into consideration the fact that ADO Properties acquired a majority shareholding in ADLER at the end of the first quarter of 2020. The two companies have signed a business combination agreement agreeing to form a combined business, which is expected to be named ADLER Real Estate Group. This means that all relevant decisions concerning ADLER will be made by the parent company in the future. ADLER itself is relinquishing its autonomy in this respect.

General conditions slightly sombre, but still stable

ADLER expects the macroeconomic conditions for companies in the property sector to remain stable overall in 2020 as well. It is true that the economic outlook has deteriorated considerably on account of the coronavirus crisis. But thanks to the extensive measures the German government has taken to shore up the economy in the face of widespread disruption to supply chains, mobility and the flow of goods, most economic research institutes are estimating a potential downturn in economic output of no more than 1 percent. At the same time, the sector-specific outlook suggests that demand for housing will remain high – at least in conurbations. The housing supply, on the other hand, will increase only to the extent of already approved new construction projects. These will certainly help to cover some of the additional demand, but not all.

To date ADLER has not reported any terminations of leases or a noticeable decline in demand from tenants. The property sector and residential properties in particular can be considered a safe form of investment. Nevertheless, the restrictions in everyday life may lead to significantly delayed processes and possibly also to loss of rent receivables, which may result in the forecast not being met. However, in the medium term, the "Properties" asset class is likely to attract even more buyer/investor interest due to its perceived higher crisis resistance compared with other forms of investment. As a result, the risk of a sharp drop in business due to the rampant wave of infection should not be particularly pronounced for ADLER.

In terms of the actual corona-pandemia we refer to further remarks in the risk report under (10) Negative change in the macroeconomic and property sector framework.

It therefore again appears reasonable to expect an increase in the utilisation of existing capacities in the rental accommodation market in 2020, leading to higher occupancy rates. This environment may also allow rent increases to a certain degree. Despite all of these negative factors in the macroeconomic environment, the general conditions remain quite stable overall for companies in the property sector.

Retain existing tenants and find new renters

In 2019, ADLER geared its entire organisation towards increasing tenant satisfaction, reducing tenant fluctuation rates and making use of any possible potential for rent increases. This purpose is being served in particular by investment in renovation, which is set to be expanded significantly in 2020 to improve the quality of apartment fittings and fixtures. This is expected to improve retention of the company's existing tenants in particular. Sales and marketing activities are also set to be expanded to attract more new tenants. Efforts will be directed predominantly at the first-time letting of newly-built apartments in development projects.

Stay successful with smaller portfolio

Due to the reduction of the portfolio in 2019 and to the expectation of further portfolio optimisation in 2020, ADLER anticipates a moderate decline in net rental income and FFO I in 2020. This does not include any potential impact connected to the actual corona pandemic. However, we do not expect it to be as grave as in other industries as the business model of a real estate company like ADLER is comparatively stable.

Although ADLER expects to be able to further increase average rent as well as its occupancy rate in 2020 on a like-for-like basis, net rental income is expected to fall in the range of EUR 240 to 245 million short of the previous year by one to three percent.

In 2020, FFO I will presumably reach a level of between EUR 75 and 80 million, equivalent to a decline of around 5 to 11 percent.

LTV is expected to fall into the range of 50 to 55 percent, considering the fact that ADO Properties will have to be deconsolidated again after ADO Properties has taken over the majority of ADLER shares.

	Results 2019	Targets 2019	Δ Results to targets
Net rental income (EUR m)	248.7	235 to 240	Exceeded
Vacancy rate (%)	5.4	6.0	Exceeded
Ø rent/sqm/month (EUR)	5.60	5.60 to 5.65	Met
FFO I (EUR m)	84.4	80 - 85	Met
EPRA NAV (EUR m)	1,972.5	Suspended	
LTV excl. convertible bonds (%)	49.4	ca. 55	Exceeded
WACD (%)	1.99	2.0 to 2.1	Exceeded

Previous year’s forecasts met and partly exceeded

ADLER has achieved the targets it set itself for 2019 and, in some cases, exceeded them. At the end of 2019, the vacancy rate was 5.4 percent, which was 0.6 percentage points below the forecast figure of 6 percent. The average rent rose to EUR 5.60 per sqm/month, compared with a forecast figure of between EUR 5.60 and EUR 5.65. Net rental income increased by 4.3 percent to EUR 248.7 million, exceeding even the target range of EUR 235 million to EUR 240 million.

FFO I reached a figure of EUR 84.4 million, putting it exactly within the forecast range of EUR 83 million to EUR 86 million which had been revised upwards in the course of the year.

The company’s financial indicators also improved over the course of 2019. The forecast for weighted average cost of debt for ADLER on a stand-alone basis of between 2.0 percent and 2.1 percent was exceeded with a figure of 1.99 percent.

LTV (also not including ADO Group Ltd. acquired at the end of the year) reached 49.4 percent at the end of the year.

There was no forecast for EPRA NAV due to the unpredictability of market developments. It increased by nearly 17 percent to EUR 1,972.5 million. This increase in value reflects not only the changes in the market, but also the operational improvements that ADLER has achieved by internalising the Property Management and Facility Management departments.

Overall the forecasts for 2019 provided a very accurate picture of the future economic development of ADLER Real Estate AG.

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 71,063,743 as of 31 December 2019 (previous year: EUR 71,063,622) and was divided into 71,063,743 no-par bearer shares (previous year: 71,063,622). 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 2019:

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 10,637,188 voting rights in total. Amounting to a total of 2,129,550 voting rights thereby attributable, this constituted a 14.97 percent share of the capital stock at the balance sheet date. The voting rights held by Wecken & Cie, Basle, Switzerland and Care4AG, Basle, Switzerland, which in turn hold a 3.0 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 13.54 percent share of the capital stock at the balance sheet date. The voting rights held by Fairwater Multi-Strategy Investment ICAV, Dublin, Ireland, which in turn holds a 13.54 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 §§ 84, 85 AktG. Accordingly, Management Board members are generally appointed by the Supervisory Board for a maximum term of five years and cannot be called from office unless for an important reason. 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. The Supervisory Board is also authorised, under Section 16 of the Articles of Association, to resolve changes to the Articles of Association that relate solely to the wording.

Powers of the Management Board to issue and buy back shares

Authorisation to acquire treasury stock

By resolution adopted by the Annual General Meeting of ADLER Real Estate Aktiengesellschaft on 11 June 2019, the Management Board is authorised until 10 June 2024 to acquire and dispose of treasury stock up to a total of 10 percent of the capital 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 Annual General Meeting published in the Federal Gazette (Bundesanzeiger) on 29 April 2019.

By 2019 the company acquired 2,583,232 treasury shares through three share buyback programmes on the basis of older share buyback authorisations. 980,000 of these treasury shares were used in 2019 as acquisition currency to acquire a property portfolio. As at the balance sheet date of 31 December 2019, the company had remaining treasury shares of 1,603,232. This equates to a share of 2.26 percent in the capital stock on the balance sheet date.

Authorised capital as per Section 4 (2) of the Articles of Association

Pursuant to Section 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. The Management Board is authorised, subject to the approval of the Supervisory Board, to exclude shareholders' subscription rights in the cases listed in Section 4 (2) of the Articles of Association.

Authorised capital as per Section 4 (3) of the Articles of Association

Pursuant to Section 4 (3) of the Articles of Association, the Management Board is authorised until 10 June 2024, 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 23,000,000 by issuing up to 23,000,000 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 Section 4 (3) of the Articles of Association.

Contingent capital as per Section 4 (4) of the Articles of Association

Pursuant to Section 4 (4) of the Articles of Association, the company's capital stock is contingently increased by up to EUR 22,000,000 by issuing up to 22,000,000 new no-par bearer shares (Contingent Capital 2019).

The contingent capital increase exclusively serves to issue shares to the bearers of warrant or convertible bonds issued until 10 June 2024 on the basis of the authorisation granted by the Annual General Meeting on 11 June 2019.

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 entitlements from the beginning of the financial year in which they are issued, for all financial years for which the Annual General Meeting has not yet adopted any resolutions in respect of the appropriation of profit.

Contingent capital as per Section 4 (5) of the Articles of Association

Pursuant to Section 4 (5) of the Articles of Association, the company's capital stock is contingently increased by up to EUR 12,000,000 by issuing up to 12,000,000 new no-par bearer shares (Contingent Capital 2015/I).

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 and conditions 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 entitlements from the beginning of the financial year in which they are issued, 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 11,388,174 on the balance sheet date.

Authorisation to issue warrant and or convertible bonds

2019 Authorisation

By resolution adopted by the Annual General Meeting on 11 June 2019, the Management Board is authorised, subject to approval by the Supervisory Board, to issue, on one or more occasions up to and including 10 June 2024, bearer or registered warrant and/or convertible bonds with a total nominal amount of up to EUR 700,000,000 with a maximum term of ten years, and to grant the bearers of warrant and/or convertible bonds warrant and/or conversion rights to up to 22.000.000 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, should 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.

For the financial year 2019, a special bonus for the Management Board was granted and expensed (EUR 3.5 million), which is related to the acquisition of shares in ADO Group and indirectly in ADO Properties on December 10, 2019 as well as the merger of both groups of companies (Business Combination) successfully initiated on December 15, 2019.

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 risk management system of the ADLER Real Estate AG Group, Berlin, ("ADLER" or "ADLER Group") is the formative component of the Governance-Risk-Compliance rule book. The compliance management system, the internal control system and internal auditing 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. In exploiting these business opportunities, an effort is made to avoid inappropriate risks that jeopardise the continued existence of the company.

The core function of the Group-wide risk management system is to recognise developments that pose a risk to the company's existence, to measure risk-bearing capacity and to assess the extent of the threat. Individual risks are only likely to lead to the company's existence being threatened in extreme cases. Individual risks that 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 and an increase in the vacancy rate 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 successful completion of ADLER's strategic realignment 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, adapted and documented in the 2019 financial year as well. As part of this realignment, an update of the processes and the individual risks in risk management and compliance management was produced.

On December 10, 2019 ADLER has acquired all shares in ADO Group and gained dominant influence on the company. ADO Group holds a participating interest of 33.25 percent in ADO Properties S.A., Luxembourg, ("ADO Properties"). Due to the amount of own voting rights and the wide distribution of other shareholders´voting rights and due to the composition of ADO Properties´ Board of Directors, ADLER has also gained dominant influence over ADO Properties. Therefore, ADO Group and ADO Properties were fully consolidated in the ADLER Group as of December 31, 2019.

On 15 December 2019, ADLER and ADO Properties announce a futher catractual agreeement according to which ADOI Properties shallacquire ADLER in the context of a public tender offer. For this purpose, on December 31, 2019, shareholders of ADLER with a total share of c. 52 percent irrevocably agreed, to tender their shares into the public offer. Due to the planned and necessary capital increase at ADO, the public offer will lead to a considerable increase in equity and thus to a corresponding dilution of ADLER´s share in ADO Properties. As ADLER will thus loose its dominant influence on ADO again, according to IFRS 5 all assets and liabilities of ADO as at December 31, 2019 will be shown under assets and liabiities held for sale.

The Management Board and the Supervisory Board of ADLER welcomed the offer in a statement dated 21 February 2020. The material risks to ADLER and to ADLER shareholders that may result from the takeover as well as those arising from ADO Group are thoroughly presented in the risk assessment as at the balance sheet date.

The risk management system comprises all organisational requirements and activities necessary for the systematic, regular and company-wide implementation of the processes required for risk management (with the exception of ADO Properties). 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 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 primary objective of the Group-wide risk management system, whose functionality is safeguarded by regular internal and external reviews, is to secure ADLER's existence over the long term.

An extensive risk catalogue, which was again updated in the reporting year, documents all material risks, including the compliance-related risks to which ADLER is exposed. These risks were presented in detail on account of the full consolidation of ADO Properties. External service providers were called in to help with compliance-related issues and routine compliance audits in the 2019 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 2017, ADLER set up a working group of internal employees, external professional service providers and ADLER's external data protection officer. This working group works on a continuous basis to develop measures aimed at meeting the GDPR obligations, and focuses in particular on rights of data subjects, technical and organisational measures, order processing, installation of erasure concepts, etc., which are all documented accordingly.

The risk management system (including the compliance management system) is itself described in a risk policy, which was amended at the start of the 2020 financial year and will be updated each future year and on an ad hoc basis.

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.

A new version of the German Corporate Governance Code was approved on 16 December 2019. This brought an end to the current public discussions regarding the new GCGC that have been ongoing since October 2018. On 23 January 2020, the Government Commission on the German Corporate Governance Code submitted the new version of the Code to the Federal Ministry of Justice and Consumer Protection (BMJV) to be examined. It came into force with the publication in the Federal Gazette on March 20, 2020. The more stringent target requirements of the future Code were also taken into consideration in compliance management. The partial non-application of the Code which was in force at the balance sheet date is reflected in the declaration pursuant to § 289f and § 315d of the German Commercial Code respectively, which is published on ADLER's website in accordance with § 161 of the Stock Corporation Act.

Risk classification

ADLER uses a six-point scale for assessing risk. 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. A re-assessment was undertaken in which the standard descriptions of the risk classes and the probabilities of occurrence were also revised. Other, more suitable risk descriptions have also been used for some of the risks.

The risk officers (risk owners) assess the individual risks in their areas 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.

Risk classification

The risk classification is based on the following classifications:

Classification	Value	Description
Low	1	Risk occurrence would result in loss / additional costs of up to around EUR 0.1 million
Medium	2	Risk occurrence would result in loss / additional costs of up to around EUR 0.5 million
Significant	3	Risk occurrence would result in loss / additional costs of up to around EUR 1.5 million
Drastic	4	Risk occurrence would result in loss / additional costs of up to around EUR 7.5 million
Severe	5	Risk occurrence would result in loss / additional costs of up to around EUR 50.0 million
Dangerous to company/portfolio	6	Risk occurrence would result in loss / additional costs of more than EUR 50.0 million

Probability of occurrence

The probability of occurrence is based on the following classes with a timeframe of between one and three years:

Classification	Value	Description
Improbable	1	Up to 15.0 percent probability of occurrence
Remote	2	15.1 – 30.0 percent probability of occurrence
Infrequent	3	30.1 – 45.0 percent probability of occurrence
Conceivable	4	45.1 – 60.0 percent probability of occurrence
Possible	5	60.1 – 75.0 percent probability of occurrence
Probable	6	Over 75.0 percent probability of occurrence

ADLER measures its risks using a scoring model (1 to 6), which 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 loss 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 adapted to some of the changed structures and requirements in the 2019 financial year.

Internal control system in respect of the financial reporting process

ADLER's internal control system in respect of the financial reporting process comprises all Group-wide principles, procedures and measures intended to safeguard the efficiency, reliability and correctness of its financial reporting and to secure compliance with the most important legal requirements in order to ensure that external reporting provides a true and fair view of the company. This includes organisational requirements, such as the dual control principle and routine IT process checks performed automatically. Written procedural 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 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 that is customary to the market and certified by independent auditors.

When preparing the ADLER Group's consolidated financial statements, subsidiaries supplement their single-entity financial statements with the required reporting packages. All facts and figures 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 that are specifically provided for this purpose in the IT system for consolidation. All consolidation entries are made and documented there.

Internal auditing

In the 2019 financial year, ADLER again carried out audits, both on an ad hoc basis and, when this was not the case, with the aim of stepping up the controls and recognising potential for improvement. The audits also partly comprised compliance audits, which also aim to check the effectiveness of the internal control system, the risk management system 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. In the 2019 financial year, for example, the audits reviewed aspects such as the management of vacant rental units in WEST and EAST, the processes in place for awarding measures favourable to rents, the technical standards for lift management, the billing of additional costs in the shared service centres, and the implementation of data erasure concepts (GDPR requirements) in the rental housing management and commercial unit management segments. The aim of internal 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 on an hoc basis and when this was not the case, audits were also implemented during the 2019 financial year to support the development of new systems (for example, GDPR compliance and leasing) at 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 net assets, financial position and results of operations, or on its business performance moving forward. All risks that ADLER considers significant and drastic are outlined below. Determining their importance also involves setting out the possible effects on ADLER.

The most significant individual risks for ADLER are as follows:

	Risks	Risk categories	Valuation
1	Deterioration in the external corporate rating	Financial/Refinancing risk	Drastic
2	Valuation risk	Financial/Refinancing risk	Drastic
3	Refinancing risk	Financial/Refinancing risk	Drastic
4	Risk of non-compliance with financial covenants	Financial/Refinancing risk	Drastic
5	Negative change in interest rates	Financial/Refinancing risk	Significant
6	Reduction in the market rent	Portfolio/Refinancing risk	Significant
7	Increase in the vacancy rate	Financing/Portfolio Management	Significant
8	Profitability risk	Portfolio/Cashflow risk	Significant
9	Reputational risk – damage to our public image	Industry/Operations risk	Significant
10	Negative change in the macroeconomic and property sector framework	Market/Legal risk	Significant

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.

(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 a potential downgrade of this external corporate rating as important. However, ADLER considers the likelihood of a current deterioration in the corporate rating to be "improbable".

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.

(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 responds to the valuation risk by commissioning renowned valuation institutes and by cautiously determining the valuation parameters. The probability of occurrence is currently estimated as "remote" by risk officers.

ADLER's overall risk of being affected by the Berlin Senate's "law on updating the legislation on rent control" has increased substantially as a result of all ADO Group's housing portfolios being presented in ADLER's consolidated financial statements as at the balance sheet date. As ADLER will most likely be taken over by ADO Properties in 2020, ADO Properties has been treated as held for sale. Therefore potential impact is limited to the period until takeover.

The risk from the coming into force of the Berlin Senate's "law on updating the legislation on rent control", also known as the "Berlin rent cap", and the negative impact it stands to have on the market development of rental apartments (risk of property devaluation) is not currently deemed likely by property valuation specialists. The same applies to a potential deterioration in the housing market as a whole and to potential apartment sales.

(3) Refinancing risk

As a property company with a high share of borrowing, 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 (re-)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.

In autumn 2019, ADLER managed to obtain a 33.25 percent bridging loan for the participation in ADO Properties in an amount of roughly EUR 710 million. The weighted average cost of debt (WACD) was thus kept at a low level.

In the current interest rate climate, the risk of obtaining follow-up financing only at higher interest rates upon the expiry of existing facilities is extremely low. With interest rates rising moderately again, follow-up financing with sufficient collateral can be expected to be more favourably priced than the expiring facilities for the foreseeable future. ADLER expects refinancing to have a positive effect on cash flow and FFO. 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 covenants 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 on an ad hoc basis, and is reported to creditors as part of routine bank reporting.

Non-compliance with financial covenants also includes change of control clauses in bank and bond financing, which could take effect in light of ADO Properties S.A.'s intended takeover of the ADLER Group. However, according to a notification by ADLER on 11 March 2020, bondholders and banks have signed waivers for around EUR 3.135 billion of a total amount of approximately EUR 3.5 billion, agreeing to waive special termination rights under these change of control clauses. Discussions are ongoing with private investors who have not yet made a decision.

Although the risk of non-compliance with financial covenants has been judged drastic, the probability of occurrence is deemed to be remote.

(5) Negative change in interest rates

The ADLER Group has debts denominated only in its functional currency – with the exception of those bonds of BCP that 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 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 approximately 4 percent on the value of investment properties. ADLER considers the potential negative interest rate change alone to be a significant risk. As a means of countering 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 are considered to be "remote".

(6) Reduction in the market rent

The risk of deterioration in the market rent may 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.

At present, the forecasts for the property sector and the increasing shortage of housing would suggest that the significant risk of a reduction in the market rent is "remote". This assessment is also based on the current low probability of risk occurrence due to the general housing shortage.

(7) Increase in the vacancy rate

Another risk of considerable importance and possible impact on the value of the property portfolio and the ADLER Group's earning power is – in its own right – the increase in the vacancy rate of rental units. When viewed in isolation, ADLER sees this risk as significant in principle. As 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 reducing these vacancy rates. However, the utilisation of construction companies, technical service providers and even internal technical capacities also proved to be an important factor for vacancy management in the 2019 financial year.

ADLER is lowering its vacancy risk by implementing ongoing maintenance measures and programmes. The vacancy risk, which is classed as significant, has a probability of occurrence somewhere between "remote" and "infrequent".

(8) Profitability risk

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 mitigate the profitability risk. Following the acquisition of a portfolio, one aspect of portfolio management is to continue investigations to identify which units should be sold or which holdings can be developed to make them more profitable.

This risk, which is classed as drastic, has a probability of occurrence of "conceivable".

(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, which is evidenced, for example, by the fact that it received the "Gold Level" award from EPRA for its financial reporting. 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. In the 2019 financial year, for example, tenants were informed in a newsletter about the application and implementation of the EU GDPR. ADLER currently views the reputational risk on the capital market as "significant", with a "conceivable" probability of occurrence.

This assessment has not yet taken into account possible statements from market participants to the contrary with respect to ADLER's impending takeover by ADO Properties.

(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. At the time these financial statements are being prepared, it is difficult to assess the impact of coronavirus on the German economy as a whole, and it may well be considerable. However, it is not yet expected to have a direct and, above all, material impact on the German property market. 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. The probability of this risk occurring is therefore classed as "remote".

In the case of regulatory and political measures in the area of property (e.g. rent brake, rent cap in Berlin, tightening of real estate transfer tax rules and increase in property tax), potential changes must be investigated at short notice and, where necessary, countermeasures developed.

The fact that ADLER has a diversified portfolio in terms of the regions covered throughout the Group can also be viewed as a risk distribution measure. The ADLER Group is represented by its portfolios in 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 optimised. Reporting of non-core holdings that are held for sale serves to identify unviable properties, the aim being to sell these and thus offset the associated market risk.

Risks in relation to the 33.25 percent participation in ADO Properties

Risks arising from the takeover could arise from not fulfilling the prconditions of a dominant influence. Due to the composition of ADO Properties´ Board of Directors and past majorities of ADLER in ADO Properties AGMs, this risk is low. As at 31 December 2019, the participation and the related liabilities are presented in ADLER's consolidated financial statements as properties held for sale as the loss of a dominant influence and deconsolidation are highly likely in 2020.

After the takeover of ADLER by ADO Properties, risks of financing and the related rating will be borne by the envisaged ADLER Real Estate Group.

Risks in relation to ADLER's takeover by ADO Properties

On 15 December 2019, ADO Properties S.A. ("ADO Properties") resolved to present a voluntary tender offer in the form of an exchange offer to ADLER shareholders. ADO Properties intends to offer shareholders 0.4164 ADO Properties shares for each ADLER share.

In addition, ADO Properties and ADLER signed a business combination agreement. The objects of the business combination agreement include the common understanding of the strategic objectives of both ADO Properties and ADLER, portfolio diversification, the intended future corporate structure of the Group, the intended integration process, the timeframe and the terms and conditions of the offer (including certain acceptance thresholds), and the fundamental support of ADLER's Management Board and Supervisory Board.

Furthermore, a credit facility agreement for EUR 3.463 billion was agreed between ADO Properties and J.P. Morgan Securities Plc, J.P. Morgan AG and J.P. Morgan Europe Limited to satisfy any loans that may become due under change of control clauses.

ADLER's takeover by ADO Properties poses a large number of risks. Selected core risks are:

- Change of control clauses could lead to additional expenses for liabilities due immediately in an amount of up to EUR 3.5 billion. However, as things stand at 11 March 2020, creditors (mainly bondholders and bank creditors), who would have special termination rights under these change of control clauses, have signed waivers for around EUR 3.135 billion of a total amount of EUR 3.5 billion.

- ADO Properties used incorrect assumptions in its assessment of the takeover, and it failed to – or did not properly – identify the risks.

- The takeover announcement prompted a significant number of ADO Properties employees to hand in their notices of resignation. A considerable amount of expertise stands to be lost in some departments. This loss of staff may have significant negative repercussions for the performance of operational duties with regard to tenants.

- The ADO portfolio's dependence on the regional market may not have been assessed correctly. This may have a negative effect on property values as legal regulations (rent brake and moratorium on rent increases) can significantly curb growth.

- Liquidity shortfalls may arise as liquidity is tied up in properties and this may be compromised by high one-off costs in connection with the takeover.

- There is the risk of a change in property fair value in the event of an economic downturn.

- There is the risk of financing costs becoming more expensive for the new ADLER Real Estate Group (e.g. rating downgrade) combined with interest rates going up.

- The tax burden could increase. ADO's takeover of ADLER results in the loss of loss carryforwards for ADLER's property holding companies, as defined in section 8c of the German Corporation Tax Act, if there are no more hidden reserves.

- The tax environment in Luxembourg is of paramount importance to the new company and may have been incorrectly assessed. This could lead to unscheduled tax payments.

- Risks for securities: Dilution of the former shareholders and a (total) loss of shareholders unwilling to exchange their shares could occur in the event of a possible delisting of the former ADLER Real Estate AG, Berlin.

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 of EUR 55.6 million was due for payment by the end of 2019, following the granting of an extended payment term and the interim payment of EUR 97.9 million. Payment terms have been prolongated until 30 June 2020. ADLER considers the receivable as well collateralised.

ADLER acquired just under 70 percent of shares in BCP in April 2018. BCP is a company based in the Netherlands and listed on the Tel Aviv Stock Exchange, Israel. Its continued integration in the ADLER Group poses integration risks. On the one hand, the capitalised earnings value risk of the investment itself is recognised and assessed; on the other, the operational risks of BCP's property portfolios and project developments are also recorded. ADLER indirectly incurs the usual project development risks on account of BCP's project developments. BCP has since contractually divested a significant number of commercial properties and a 75 percent interest in its major property development in Gerresheim. At the time these consolidated financial statements are being prepared, this poses two areas of risk as outlined below:

Disposal of eleven commercial properties

In the process of divesting the commercial portfolio of BCP, a second tranche has been notarised with effect of 28 June 2019. Four Brack Group companies disposed of seven commercial properties with a total value of EUR 98.2 million in an agreement dated 28 June 2019. A further three Brack Group companies disposed of three commercial properties with a total value of EUR 30.4 million in an agreement dated 28 June 2019. The agreements concerning the ten commercial properties in total have a total volume of around EUR 128.6 million.

To date, transactions involving six of the ten properties have closed. The transactions of four commercial properties are expected to close in April/May 2020. The agreements that have not yet been closed have a total volume of around EUR 50.0 million. Reasons for the transactions not having closed yet include long lists of demands for documents for which the sellers require input from the tenant before they can respond. This gives rise to earnings and liquidity risks and risks of potential rescission of the agreements.

The commercial properties that currently remain are difficult to sell. Consideration is being given to the possibility of no longer selling them or repurposing them. Risks associated with this include anticipated losses in a disposal scenario or costs for repurposing. As at the reporting date, the remaining commercail assets were revalued at current value.

Disposal of 75 percent interest in project development in Gerresheim

In an agreement dated 22 September 2019/26 December 2019, Brack Capital Germany (Netherlands) XLVIII B.V. sold its 75 percent interest in Glasmacherviertel GmbH & Co. KG, Gerresheim, Dusseldorf, with effect from 1 June 2019 and taking over existing financial liablities for a total purchase price of EUR 213.75 million. The value of the real estate assets (development project) has been set to EUR 375 million. Closing and payment of the agreed four purchase price instalments are dependent on approvals that are still pending. There was still no approval at the time these consolidated financial statements were being prepared. there is a risk that payments for future installments may not be made.

Currency risks

As part of the acquisition of BCP, ADLER indirectly incurred a currency risk that may result from the three bonds issued in New Israeli Shekels (ILS or NIS) previously totalling approximately EUR 106 million. Moreover, ADO Group holds bonds issued in New Israeli Shekels (ILS or NIS) totalling EUR 330.9 million at the reporting date. This currency risk is not hedged.

In the 2019 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 2019 financial year, ADLER stepped up these precautions further and transformed its IT into managed information technology. The increased data security requirements introduced by the EU General Data Protection Regulation on 25 May 2016 – which will penalise the absence of safeguards as at 25 May 2018 – are being 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.

During a period of self-reflection inspired by a sentence that was handed down to a property company based in Germany for data protection infringements, ADLER undertook an internal review to determine whether the necessary precautions were being taken with regard to data protection. The preliminary finding was that ADLER had taken significant data protection precautions by installing a data protection management system and that this most likely satisfied the legal requirements.

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 and documenting all significant information relevant to ongoing business 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 (tax compliance), 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 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 on 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's workforce grew again in the 2019 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 induction 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. ADLER's strong growth, particularly in the areas of property and facility management, meant that a high number of employees was required. Meeting staffing requirements promptly by recruiting qualified staff has become more difficult in the 2019 financial year and it has taken longer to fill vacant positions, especially in technical areas.

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 even drastic risks and the additional further risks currently do not jeopardise the continued existence of ADLER Real Estate AG and ADLER 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. This includes the risks arising from the interim acquisition of the 33.25 percent interest in ADO Properties and the risks relating to ADO Properties' takeover of ADLER. Many of the risks mentioned in this regard (e.g. repayment of liabilities as a result of change of control clauses) have already been reduced significantly through contracts and agreements. The Management Board and the Supervisory Board of ADLER support the merger between ADO and ADLER, a view they expressed in their statement dated 21 February 2020.

REPORT ON OPPORTUNITIES

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

Presentation of the most significant individual opportunities

The key opportunities are described below. This assessment reflects an indication of the current significance of these opportunities for ADLER.

(1) Improvement in the external corporate rating

In its last assessment in September 2018, Standard & Poor's gave ADLER a BB with "stable outlook" rating. The company endeavours to further improve this rating. 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. An investment grade rating also often constitutes a basic requirement for institutional investors to even consider a possible investment.

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

The new management of the envisaged ADLER Group expects to obtain an investment grade rating as a result of ADLER's takeover by ADO Properties.

(2) Operating opportunities of an integrated real estate company

ADLER sees the programmes to renovate vacant residential units, which were completed in 2019, as a 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.

ADLER extended its value chain beyond the mere renting of apartments. The group company ADLER Energie Service GmbH has now taken over the energy procurement and energy supply for the Group's housing portfolios.

Almost all housing portfolios have been managed in-house since the 2019 financial year. 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 being achieved and will continue to be increased gradually due to ADLER Real Estate AG's own administration and management of property portfolios within the main process of property management. Most of the unsatisfactory work by previous external agents has now been rectified. However, the challenges associated with recruiting sufficiently qualified staff remain. Further savings in the form of synergies are also expected in connection with the management of BCP's housing portfolios (service agreement).

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 borrowing 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. This, in turn, results in higher IFRS values (fair value). Sensitivity analyses in the case of a discount rate reduction by 0.5 percentage points result in an increase in IFRS values by around 4 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 being observed everywhere. ADLER also recorded a moderate increase in its average rent price in the 2019 financial year. This is partly attributable to the full consolidation of BCP from the second quarter of 2018 and to the transfer of newly-acquired properties (Berlin (Wasserstadt) and Potsdam) to own portfolio management at the end of 2019. The higher average rent prices in Berlin and Potsdam have a positive impact on ADLER's average rent price overall. In this respect, ADLER also believes that there is an opportunity 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 the 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 a further market rent increase is considered significant as more factors currently point in favour of an increase than against it.

(6) Reduction in the vacancy rate

ADLER was able to achieve substantial improvements in earnings and a reduction in the vacancy rate in the 2016 to 2019 financial years through intensive programmes to modernise previously vacant residential units. The financial opportunities were reflected in the higher profitability of its property portfolio and in the savings in vacancy costs as a result of the letting. In addition, residential estates are becoming more attractive due to higher occupancy rates and investments in the districts, 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. The introduction of a Real Estate Operation Centre and the gradual increase in activities provide tenants with a central communication platform. The associated increase in efficiency should also have a positive effect on ADLER's cost structure.

In the 2019 financial year, ADLER completed two software projects. First, software for the implementation of all treasury operations was introduced and has now been fully implemented. Second, personnel management software was purchased in the 2019 financial year. 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. External reviews showed, on the one hand, that large volumes of manual administrative work were a potential for error and a key human resources risk and, on the other, that some of the processes did not correspond 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. The data will be transferred into 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.

(8) Opportunities in purchasing and selling properties

The opportunities of purchasing properties at affordable prices are becoming slimmer and slimmer. For this reason, ADLER is exploring new avenues of property procurement, which may be realised following the takeover by the ADO Group.

Thanks to the Management Board's many years of industry experience and its good networks, ADLER still has an adequate portfolio of possible investments, which are continuously evaluated and, where necessary, reviewed in more detail in a due diligence context.

In the 2019 financial year, as a result of the acquisition of properties in Potsdam, such an opportunity was used for investment. In terms of BCP's commercial property holdings, this was also the case for the disposal of an extensive number of properties and for the project development segment (Gerresheim). The resulting income and/or cash inflows are expected to be used to continue to repay debt and to improve LTV.

(9) Positive change in macroeconomic and sector framework

The ADLER Group continued to consolidate its financial stability in the 2019 financial year. Consolidation of the organisational structure, creation of improved processes and the implementation of an integrated real estate group are starting to bear fruit in economic terms. This has propelled ADLER into the ranks 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. Once no more apartments are available in desirable central locations, demand automatically shifts to the surrounding areas. In the 2019 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 a consistently 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 continued to be built and approved in 2019, 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. However, this assessment as at the balance sheet date and at the time this management report is being prepared does not take into account all the potential negative implications of weaker economic development during the 2020 financial year in the wake of the coronavirus pandemic. Nor does this assessment yet reflect all the opportunities brought by the merger with ADO Properties.

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

But the realignment of the ADLER Group into an integrated real estate group, concentration on the capital market and investments in A and B locations also yield opportunities for the continued positive development of the ADLER Group as a whole.

Opportunities in relation to ADLER's takeover by ADO Properties

There is nothing more standing in the way of the successful takeover of the ADLER Group by ADO Properties since the acceptance period expired on 6 March 2020 and 59,821,764 ADLER shares were tendered (provisional acceptance rate of 82.82 percent), of which 741,720 shares originated from the conversion of the ADLER 2016/2021 convertible bond. The additional acceptance period is set to begin on 12 March 2020 and end on 25 March 2020.

The merger of the two companies will form one of the largest listed residential real estate companies in Europe. The property portfolio of the combined business will have a total value of approximately EUR 8.5 billion. Thanks to the partnership with property development company CONSUS Real Estate AG, Berlin, ("CONSUS") the combined business will be in a position to actively combat the housing shortage in major German cities.

The merger of ADO Properties and ADLER is expected to produce synergies of approximately EUR 25.0 million to EUR 39.0 million. A further merger with CONSUS is expected to generate as much as EUR 180 million to EUR 210 million in more efficient corporate structures, stringent financial discipline and improved corporate governance.

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.

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

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 company-related 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 millions	2019	2018
Turnover	3.5	5.3
Other operating income	0.1	1.4
Personnel expenses	-5.1	-2.3
Other operating expenses	-34.7	-42.4
Income from participations	0.3	0.3
Income from securities and lending of financial assets	60.0	43.7
Other financial and similar income	14.7	24.9
Depreciation on financial assets and on securities from currents assets	-0.4	-1.5
Other financial and similar expenses	-53.8	-65.9
Income taxes	0.0	-0.1
Earnings after taxes	**-15.4**	**-36.6**
Other taxes	0.0	0.0
Net result	**-15.4**	**-36.6**
Profit carried forward from previous year	0.0	14.7
Dividend to shareholders	0.0	-2.2
Transfer from capital reserves	0.0	38.5
Purchase of treasure shares	12.3	-14.4
Net accumulated loss	**-3.1**	**0.0**

In the 2019 financial year, ADLER AG generated revenue amounting to EUR 3.5 million (previous year: EUR 5.3 million) from services to Group companies. The reason for the decline was a change in the accounting of Group allocations, according to which asset management services are now provided and allocated by a subsidiary of ADLER AG.

Personnel expenses amounted to EUR 5.1 million, compared to EUR 2.3 million in the previous year. The increase is mainly due to bonuses for the Management Board in connection with the acquisition of ADO Group and indirectly ADO Properties as well as the Business Combination successfully initiated on December 15, 2019. This was offset by lower expenses from the share-based compensation program has had an effect.

Other operating expenses fell by EUR 7.7 million year-on-year to EUR 34.7 million. The decrease compared with the previous year is primarily as a result of expenses for issuing bonds, which amounted to a total of EUR 5.4 million (previous year: EUR 12.6 million). Legal and advisory costs amounted to EUR 8.6 million (previous year: EUR 9.6 million).

The company generated income of EUR 74.7 million (previous year: EUR 68.6 million) from loans to Group companies and current financial and security investments. The increase over the previous year is due in particular to the rise in loans to Münchener Baugesellschaft mbH (EUR 15.4 million). The sale of the previously acquired promissory note loans to the respective subsidiaries in 2018 financial year (EUR -8.2 million) had the opposite effect. Income from interest on the purchase price receivable from the sale of shares in ACCENTRO Real Estate AG has fallen as a result of a partial repayment in July 2019 (EUR -1.2 million).

This income is offset by interest expenses of EUR 53.8 million (previous year: EUR 65.9 million), which mainly result from issued bonds and convertible bonds. The decline is due to refinancing bonds at more favourable conditions in the 2018 and 2019 financial years. Taking up a bridging loan to finance the acquisition of 100% of the shares in ADO Group in December 2019 did not have a material effect in the year under review.

Write-downs of long-term financial assets and investments classified as current assets amounted to EUR 0.4 million in the 2019 financial year and thus declined compared with the previous year (previous year: EUR 1.5 million). In particular, this includes write-downs on other securities amounting to EUR 0.2 million (previous year: EUR 1.3 million).

ADLER AG reports net loss of EUR 15.4 million for the 2019 financial year (previous year: EUR 36.6 million). In the 2019 financial year, there were no transfers from the capital reserves (previous year: EUR 38.5 million) and no dividend was paid out to shareholders (previous year: EUR 2.2 million).

The company had acquired a total of 2,583,232 treasury shares through share buyback programmes as at 31 December 2018. The share buyback programme expired in March 2018. The nominal amount of the treasury stock thereby acquired has been deducted from share capital at the time of acquisition, while the acquisition costs in excess of the nominal amount have been deducted from net retained profit. In the 2019 financial year, the purchase price for the acquisition of property companies was paid partly through the transfer of 980,000 treasury shares, valued at EUR 14.50 per share. The deduction from subscribed capital was reversed up to the nominal amount of the transferred treasury shares (EUR 0.9 million). The difference between the nominal amount and the transfer amount was reallocated to net retained profit/ net accumulated loss up to the amount that was offset in previous years (EUR 12.3 million). The remaining difference was transferred to the capital reserve (EUR 1.0 million).

ADLER reports a net accumulated loss of EUR 3.1 million for financial year 2019 (previous year: EUR 0.0 million).

Financial position and net assets

In EUR millions	31.12.2019	31.12.2018
Non-current assets	**2,735.4**	**1,848.2**
Financial assets	2,733.3	1,846.3
Property, plant and equipment	2.1	1.9
Current assets	**454.0**	**519.3**
Receivables against associated companies	88.1	72.3
Other assets	73.7	165.9
Other securities	261.7	277.3
Deposits	30.5	3.8
Deferred income	**14.3**	**20.3**
Assets	**3,203.7**	**2,387.8**
Equity	**229.8**	**231.0**
Capital stock (minus treasury stock)	69.4	68.5
Capital reserve	163.5	162.5
Net accumulated loss	-3.1	0.0
Provisions	**8.5**	**3.7**
Liabilities	**2,965.4**	**2,153.1**
Liabilities from convertibles and bonds	2,155.1	2,055.1
Trade payables	710.6	0.0
Liabilities against associated companies	1.7	1.5
Other liabilities	96.3	95.6
Deferred expenses	1.7	0.9
Equity and liabilities	**3,203.7**	**2.387,8**

ADLER AG's balance sheet total increased by EUR 815.9 million year-on-year. The change is attributable to several partly opposing effects.

At the end of the fourth quarter of 2019, ADLER AG acquired all shares in ADO Group at acquisition cost including ancillary costs of EUR 718.5 million and took out a bridging loan of EUR 710.0 million in this context.

At the beginning of the second quarter of 2019, ADLER successfully placed a corporate bond of EUR 400 million with a coupon of 1.5 percent with institutional investors in Europe. The bond has a three-year term and matures in April 2022. In this context, in mid-April, the 2015/2020 corporate bond, which still had a volume of EUR 300 million and a coupon of 4.75 percent, was terminated early. It was repaid in June 2019 at nominal value.

In the course of the 2019 financial year, ADLER AG also granted its subsidiary BCP an interest-bearing long-term loan of EUR 44.2 million and acquired shares in property companies in the amount of EUR 37.0 million. Loans to Münchener Baugesellschaft mbH also increased to EUR 56.4 million.

Because ADLER 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 2,733.3 million (previous year: EUR 1,846.3 million) and account for over 85 percent of total assets (previous year: 77 percent).

Financial assets include the following:

- EUR 995.8 million (previous year: EUR 939.4 million) for Münchener Baugesellschaft GmbH, of which EUR 7.7 million (previous year: EUR 7.7 million) for the shareholding and EUR 988.2 million (previous year: EUR 931.7 million) on loans to this company.

- EUR 718.5 million for the ADO Group shareholding. The purchase price for the acquisition of all shares in ADO Group totalled EUR 708.4 million and was paid in cash. The costs directly associated with the acquisition in the amount of EUR 10.1 million were capitalised as incidental acquisition costs.

- EUR 611.5 million (previous year: EUR 567.3 million) for BCP, of which EUR 567.3 million (previous year: EUR 567.3 million) on the shareholding and EUR 44.2 million (previous year: EUR 0.0 million) to loans to this company.

- EUR 266.4 million (previous year: EUR 265.7 million) for WESTGRUND 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 59.5 million).

- EUR 31.8 million for Eurohaus Frankfurt AG shareholding, whose shares (89.99 percent) ADLER acquired in the 2019 financial year.

- EUR 14.5 million on a fixed-interest bond, which was still recognised under other securities classified as current assets in the previous year because a short-term sale was initially planned. The bond has a term until August 2021.

Receivables from affiliated and Group companies increased by EUR 15.8 million to EUR 88.1 million. This is mainly due to current offsetting.

At EUR 56.3 million (previous year: EUR 149.9 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 97.9 million was repaid on the purchase price receivable in the 2019 financial year. By contrast, interest income on the receivable of EUR 4.3 million was recognised. The remaining and secured purchase price receivable is to be settled in the course of 2020.

Other securities classified as current assets amounting to a total of EUR 261.7 million (previous year: EUR 277.3 million) include interest-bearing promissory note loans of EUR 256.0 million (previous year: EUR 257.3 million) and, as in the previous year, the remaining shares in ACCENTRO (4.8 percent of diluted share capital) were unchanged year-on-year at EUR 5.7 million.

As at the balance sheet date, deposits with banks amounted to EUR 30.5 million (previous year: EUR 3.8 million).

Prepaid expenses of EUR 14.3 million (previous year: EUR 20.3 million) essentially comprised of the premium resulting from the issuance of convertibles and bonds.

Equity decreased by EUR 1.2 million to EUR 229.8 million (previous year: EUR 231.0 million). The transfer of 980,000 treasury shares valued at EUR 14.50 increased subscribed capital by EUR 0.9 million and the capital reserves by EUR 1.0 million, while the net accumulated loss decreased by EUR 12.3 million. The net loss of EUR 15.4 million (previous year: EUR 36.6 million) had an opposite effect. The equity ratio amounts to 7.2 percent (previous year: 9.7 percent) as at the balance sheet date.

Provisions increased by EUR 4.8 million to EUR 8.5 million (previous year: EUR 3.7 million). EUR 3.7 million of this increase is attributable to personnel-related provisions.

Liabilities increased overall by EUR 812.3 million to EUR 2,965.4 million (previous year: EUR 2,153.1 million). EUR 710.6 million of this increase is primarily attributable to liabilities to banks from the raising of a bridging loan to finance the acquisition of shares in ADO Group, including interest accrued as of the balance sheet date. In April 2019, the EUR 400.0 million 2019/2022 bond was issued, while the EUR 300.0 million 2015/2020 bond was repurchased and therefore redeemed in June 2019. Overall, the liabilities from convertible bonds and bonds therefore increased by EUR 100.0 million to EUR 2,155.1 million (previous year: EUR 2,055.1 million). Receivables from affiliated companies rose by EUR 0.7 million to EUR 96.3 million (previous year: EUR 95.6 million). This is primarily attributable to higher liabilities from ADLER Real Estate Service GmbH.

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 strategic investments that have been made, 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.

The previous year's forecast, which had assumed a continued significant negative annual result for the reporting year at the level of the 2018 financial year, was clearly exceeded. Significantly lower one-off expenses from refinancing and acquisition measures, but also overall lower financing costs and higher interest income from loans had a positive effect.

ADLER AG expects the annual results for the 2020 financial year to be significantly more negative than in the reporting year, since the success of business activity is initially only evident in the 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, 25 March 2020

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

ADVANTAGE OF NEW GROUP'S SIZE

The establishment of the new Adler Real Estate Group is going to create a real estate group of a whole new dimension with new promising opportunities. This promotion to the premier league of European real estate groups will give us not only considerably more financing power, but also – and in particular – the ability to grow under our own stream. The potential synergies originating from our new size are also promising as they entail additional potential for both savings and growth.

/// 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 2019

In EUR '000	Note	31.12.2019	31.12.2018
Assets		**10,681,677**	**5,856,631**
Non-current assets		**5,288,676**	**5,233,411**
Goodwill	8.1	169,439	170,758
Intangible assets	8.1	584	612
Property, plant and equipment	8.2	19,348	7,578
Investment properties	8.3	4,920,008	4,989,054
Loans to associated companies	8.4	79,524	7,667
Investments in associated companies [1]	8.5	23,432	15,709
Other financial investments	8.6	56,603	37,019
Other non-current assets	8.6	17,783	2,480
Deferred tax assets	8.7	1,955	2,535
Current assets		**554,355**	**437,677**
Inventories	8.8	87,308	88,096
Trade receivables	8.9	31,987	25,898
Income tax receivables	8.9	4,643	5,549
Other current assets	8.9	193,002	240,480
Cash and cash equivalents	8.10	237,415	77,655
Non-current assets held for sale [1]	8.11	**4,838,646**	**185,543**

[1] For information on the remaining shares in ACCENTRO, including the previous year, adjusted in accordance with IFRS 5.26 ff; see section 2.1 of the notes to the consolidated financial statements

In EUR '000	Note	31.12.2019	31.12.2018
Equity and liabilities		**10,681,677**	**5,856,631**
Shareholders' equity		**3,547,857**	**1,579,631**
Capital stock	8.12	71,064	71,064
Treasury shares	8.12	-1,603	-2,583
		69,461	68,480
Capital reserve	8.13	309,337	309,233
Retained earnings	8.14	-26,438	-3,264
Currency translation reserve	8.15	0	88
Net retained profit		1,093,506	842,888
Equity attributable to owners of the parent company		1,445,865	1,217,426
Non-controlling interests	8.16	2,101,992	362,205
Non-current liabilities		**4,928,486**	**3,971,980**
Pension provisions	8.17	4,092	3,714
Deferred tax liabilities	8.7	439,856	380,794
Other provisions	8.18	3,148	3,900
Liabilities from convertible bonds	8.19	122,249	117,516
Liabilities from bonds	8.20	2,327,846	1,961,112
Financial liabilities to banks	8.21	2,002,136	1,476,187
Other non-current liabilities	8.22	29,159	28,756
Current liabilities		**377,916**	**304,526**
Other provisions	8.18	12	25
Income tax liabilities	8.23	15,960	12,921
Liabilities from convertible bonds	8.19	1,947	1,756
Liabilities from bonds	8.20	101,612	40,259
Financial liabilities to banks	8.21	157,708	142,408
Trade payables	8.23	37,380	47,440
Other current liabilities	8.23	63,297	59,717
Liabilities held for sale	8.11	**1,827,418**	**495**

/// CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(IFRS) for the period from 1 January to 31 December 2019

In EUR '000	Note	2019	2018
Gross rental income	9.1	370,362	349,595
Expenses from property lettings	9.2	-151,044	-145,908
Earnings from property lettings		**219,317**	**203,687**
Income from the sale of properties	9.3	533,823	75,068
Expenses from the sale of properties	9.4	-533,329	-66,963
Earnings from the sale of properties		**495**	**8,105**
Personnel expenses	9.5	-47,130	-35,138
Other operating income	9.6	8,364	8,914
Other operating expenses	9.7	-68,964	-66,268
Income from fair value adjustments of investment properties	9.8	362,638	465,129
Depreciation and amortisation	9.9	-5,712	-1,601
Earnings before interest and tax (EBIT)		**469,008**	**582,828**
Financial income	9.10	10,190	16,295
Financial costs	9.11	-120,885	-147,523
Net income from at-equity valued investment associates [1)]	9.12	-1,327	3,425
Earnings before tax (EBT) [1)]		**356,986**	**455,025**
Income taxes	9.13	-81,231	-122,576
Consolidated net profit from continuing operations [1)]		**275,755**	**332,449**
Earnings after taxes of discontinued operations [1)]	9.14	92,009	0
Consolidated net profit		**367,764**	**332,449**
Actuarial gains/losses before taxes	8.17	-502	-68
Deferred taxes on actuarial gains/losses		152	21
OCI gains/losses not reclassifiable into profit or loss		**-350**	**-48**
Gains/losses from currency translation	8.15	-88	2
Change in value of financial assets measured at fair value	11.1	-205	-802
OCI own bonds – reclassifiable		0	-32
Deferred taxes OCI – reclassifiable		0	10
OCI gains/losses reclassifiable into profit or loss		**-293**	**-822**
Total comprehensive income from continuing operations		**275,111**	**331,578**
Total comprehensive income of discontinued operations	9.14	23,982	0
Total comprehensive income		**299,093**	**331,578**

In EUR '000	Note	2019	2018
Carry-over total comprehensive income		**299,093**	**331,578**
Net profit from continuing operations:			
Owners of the parent company [1)]		207,745	265,556
Non-controlling interests		68,010	66,893
Consolidated net profit attributable to:			
Owners of the parent company		238,338	265,556
Non-controlling interests		129,426	66,893
Total comprehensive income from continuing operations:			
Owners of the parent company		207,101	264,685
Non-controlling interests		68,010	66,893
Total comprehensive income attributable to:			
Owners of the parent company		215,075	264,685
Non-controlling interests		84,018	66,893
Earnings per share, basic in EUR (consolidated net profit from continuing operations)	9.15	3.01	3.96
Earnings per share, diluted in EUR (consolidated net profit from continuing operations)	9.15	2.69	3.50
Earnings per share, basic in EUR (consolidated net profit)	9.15	3.46	3.96
Earnings per share, diluted in EUR (consolidated net profit)	9.15	3.08	3.50

[1)] Adjusted including the previous year in accordance with IFRS 5.26; see section 2.1 of the notes to the consolidated financial statements

/// CONSOLIDATED STATEMENT OF CASH FLOWS

(IFRS) for the period from 1 January to 31 December 2019

In EUR ´000		31.12.2019	31.12.2018
Earnings before interest and taxes (EBIT) – continuing and discontinued operations		469,008	582,828
+	Depreciation and amortisation	5,712	1,601
–/+	Net income from fair value adjustments of investment properties	-362,638	-465,129
–/+	Non-cash income/expenses	19,773	14,399
–/+	Changes in provisions and accrued liabilities	-387	-1,514
–/+	Increase/decrease in inventories, trade receivables and other assets not attributable to investment or financing activities	-46,929	-49,493
–/+	Decrease/increase in trade payables and other liabilities not attributable to investment or financing activities	18,205	35,976
+	Interest received	865	1,521
+	Dividends received	248	463
+/–	Tax payments	-10,280	-6,658
=	**Operating cash flow before dis-/reinvestment into the trading portfolio**	**93,577**	**113,994**
–/+	Increase/decrease in inventories (commercial properties)	782	17,005
=	**Net cash flow from operating activities**	**94,359**	**130,999**
	thereof continuing operations	94,359	130,999
	thereof discontinued operations	0	0
–	Acquisition of subsidiaries, net of cash acquired	30,014	-477,278
+	Disposal of subsidiaries, net of cash disposed	162,030	17,107
–	Purchase of investment properties	-200,691	-151,500
+	Disposal of investment properties	170,705	49,827
–	Purchase of property, plant and equipment and intangible assets	-7,208	-4,577
+	Disposal of property, plant and equipment and intangible assets	299	109
–	Payments into short-term deposits	-48,969	-13,100
+	Proceeds from short-term deposits	15,064	5,321
+	Proceeds from disinvestment of financial assets	0	14
–	Investments in financial assets	-256,173	-35,000
+	Proceeds from the repayment of long-term receivables from associated companies	500	0
–	Payments for long-term receivables from associated companies	-12,500	0
=	**Net cash flows from investing activities**	**-146,929**	**-609,077**
	thereof continuing operations	107,256	-609,077
	thereof discontinued operations	-254,185	0

In EUR ´000		31.12.2019	31.12.2018
–	Payments for acquisition of treasury shares including acquisition costs	0	-15,604
–	Transactions with non-controlling interests	-91,538	-447
–	Dividends paid to non-controlling interests	0	-6,854
–	Dividends paid to the owners of the company	0	-2,204
–	Payments for acquisition and repayment of convertible bonds	0	-34
+	Proceeds from issue of bonds	400,000	791,151
–	Repayment of bonds	-318,676	-251,513
–	Payments from issuing debt	-5,599	-20,783
–	Interest payments	-83,231	-112,212
+	Proceeds from bank loans	1,321,887	745,194
–	Repayment of bank loans	-619,203	-936,834
–	Repayment of leasing liabilities	-2,468	0
–	Payment of interest portion of leasing liabilities	-1,136	0
–	Decrease in financial liabilites	0	-2,035
=	**Net cash flows from financing activities**	**600,036**	**187,825**
	of which from continuing operations	600,036	187,825
	of which from discontinued operations	0	0

In EUR ´000			
	Reconciliation to Consolidated Balance Sheet		
	Cash and cash equivalents at beginning of periods	**77,655**	**368,233**
	Non-cash changes in cash and cash equivalents	-148	-325
	Net cash flow from operating activities	94,359	130,999
	Net cash flow from investing activities	-146,929	-609,077
	Net cash flow from financing activities	600,036	187,825
=	**Cash and cash equivalents at end of periods**	**624,973**	**76,655**
	of which from continuing operations	237,415	77,655
	of which from discontinued operations	387,558	0

/// CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(IFRS) for the period from 1 January to 31 December 2019

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 resolution of the Extraordinary General Meeting of 28 August 2018

In EUR '000	Capital stock	Treasury shares	Capital reserves
As at 1 January 2019	**71,064**	**-2,583**	**309,233**
Consolidated net profit	0	0	0
Withdrawals from reserves	0	0	0
Other comprehensive income (OCI) – reclassifiable	0	0	0
Other comprehensive income (OCI) – non-reclassifiable	0	0	0
Increase/decrease in shareholding with no change in status	0	0	-847
Change in scope of consolidation	0	0	0
Transfer of Treasury shares	0	980	951
Conversion of convertible bonds	0	0	1
As at 31 December 2019	**71,064**	**-1,603**	**309,337**

Retained earnings	Currency translation reserve	Net retained profit	Equity attributable to the owners of the parent company	Non-controlling interests	Total equity
-1,310	**86**	**555,442**	**960,576**	**76,924**	**1,037,500**
0	0	265,556	265,555	66,893	332,448
0	0	38,493	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**

Retained earnings	Currency translation reserve	Net retained profit	Equity attributable to the owners of the parent company	Non-controlling interests	Total equity
-3,264	**88**	**842,888**	**1,217,426**	**362,205**	**1,579,631**
0	0	238,338	238,338	129,426	367,764
0	0	0	0	0	0
-204	-88	0	-292	0	-292
-22,970	0	0	-22,970	-45,408	-68,378
0	0	0	-847	-90,735	-91,582
0	0	0	0	1,746,504	1,746,504
0	0	12,279	14,210	0	14,210
0	0	0	1	0	1
-26,438	**0**	**1,093,506**	**1,445,865**	**2,101,992**	**3,547,857**

PROMISING PROSPECTS

Growth is an important success factor in our industry. It is also the reason why we are responding to necessity and joining forces with ADO Properties to reorganise our company into the new Adler Real Estate Group. The logic behind this merger lies in particular in the significant boost to growth that it will bring and in the many new synergies that it will generate for the operating business.

/// NOTES TO THE
CONSOLIDATED FINANCIAL STATEMENTS 2019

/// 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 selectively expands its portfolio through new-build project developments.

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.

Since 2017, the activities of trading residential properties and individual apartments have been given up. Trading activities were largely covered by the Group's majority interest in the listed company ACCENTRO Real Estate AG (hereinafter "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 2020.

2. BASIS OF ACCOUNTING

2.1 Basis for the preparation of financial statements

ADLER's consolidated financial statements as at 31 December 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS) effective in the European Union and the provisions of § 315e (1) of the Handelsgesetzbuch (HGB – German Commercial Code). The requirements of the standards applied have been met and the financial statements represent a true and fair view of the company's net assets, financial position and result of operations.

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.

Effective 30 November 2017, ADLER lost its control 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 initially reported the remaining investment in ACCENTRO under non-current assets held for sale. The decision to dispose of the remaining interest in ACCENTRO was reversed at the end of the reporting year, with the result that it was reclassified to investments in associated companies. The amount reported in the same period of the previous year was restated accordingly in the consolidated balance sheet, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the notes to the consolidated financial statements. An amendment in profit or loss for prior periods since classification as held for sale was dispensed with on the grounds of materiality (see note 8.5).

Effective 10 December 2019, ADLER achieved control over ADO Group Ltd, Tel Aviv/Israel (ADO Group) and thereby ADO Properties S.A., Senningerberg/Luxembourg (ADO Properties) as well. They were included in consolidation as at 31 December 2019 on the grounds of simplicity and materiality. As ADLER is expected to lose control over ADO Properties again in the first half of 2020, it constitutes a discontinued operation in accordance with IFRS 5. The assets and liabilities of ADO Properties are reported under non-current assets and liabilities held for sale (see note 4.2).

The consolidated statement of comprehensive income shows only continuing operations in the respective items, while the discontinued operation is shown as a total (earnings after taxes and total comprehensive income 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 2019 financial year

The Group applied the following new and revised IFRS standards and interpretations in the 2019 financial year:

Standard/ Interpretation	Title	IASB Effective date[1]	Initial application date in the EU[1]
IFRS 16	Leases	01.01.2019	01.01.2019
Amendments to IAS 19	Employee benefits: Plan amendment, curtailment or settlement	01.01.2019	01.01.2019
Amendments to IAS 28	Long-term interests in associates and joint ventures	01.01.2019	01.01.2019
Amendments to IFRS 9	Prepayment features with negative compensation	01.01.2019	01.01.2019
IFRIC 23	Uncertainty over income tax treatments	01.01.2019	01.01.2019
Annual Improvements (2015-2017 cycle)	Amendments to IFRS 3, IFRS 11; IAS 12 and IAS 23	01.01.2019	01.01.2019

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

IFRS 16 – Leases

The previous standard for leases, IAS 17 and the related interpretations were 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 is amortised over the contractual term. 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 are being 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 operating or financing leases.

ADLER applied IFRS 16 for the first time as at 1 January 2019 using the modified retrospective method. There was no cumulative effect from the first-time application of IFRS 16 which would have been recognised as an adjustment to the opening balance of retained earnings as at 1 January 2019. Comparative information for previous periods has not been restated. ADLER uses the simplification approach to maintain the definition of a lease for the transition. This means that the Group applies 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 uses the simplified approach for short-term leases (less than 12 months) and leases for which the underlying asset is of low value and will recognise the lease payments as an expense when incurred over the lease term. Moreover, ADLER disregarded the initial direct costs on measurement of the right-of-use asset as at the date of adoption and defined the term of leases retrospectively.

As part of the analysis of leases already in place, the following types of contract were identified in which ADLER assumed obligations as the lessee and obtained the right-of-use asset:

- Leasehold contracts for land (leaseholds)
- Leases for office space, garages and storage space (property)
- Leases for cars and commercial vehicles (vehicles)
- Leases for hardware and heating equipment (hardware and contracting)

There are no material effects on the Group's existing finance leases (in particular individual leaseholds) as a lessee. For these finance leases, the carrying amount of the right-of-use asset and the lease liability as at 1 January 2019 was stated at the carrying amount of the leased asset and the lease liability in accordance with IAS 17 immediately before this date (EUR 12,099k).

The obligations previously entered into as a lessee for operating leases with terms of more than one year or not low value are of subordinate significance overall. In this context, additional lease liabilities and rights of use of EUR 10,000k were recognised as at 1 January 2019. The weighted average incremental borrowing rate for the lease liabilities reported as at 1 January 2019 was 3.0%. The right-of-use assets were stated in the amount of the lease liabilities and relate to the following assets: leasehold contracts amounting to EUR 3,306k; leases for office space, garages and storage space amounting to EUR 4,578k; leases for cars amounting to EUR 1,781k; and leases for hardware amounting to EUR 335k.

Shareholders' equity decreased slightly as a result of the increase in total assets. 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. Cash payments for the reduction of the outstanding lease liability and cash payments for the interest portion of the lease liabilities are 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 a lessor, IFRS 16 has no material implications in terms of recognition and measurement. The Group's revenue from letting items of investment property (net rental income) is attributable to leases and is included in the scope of IFRS 16 as at 1 January 2019. ADLER has classified these leases as operating leases and applied IFRS 15 Revenue from Contracts with Customers to allocate the contractually agreed consideration to the individual lease and non-lease components. 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 now included in the scope of IFRS 16 in addition to net rental income.

The tables below summarise the impact of the application of IFRS 16 on the relevant items of the consolidated balance sheet as at 31 December 2019 and the consolidated statement of comprehensive income for the period from 1 January to 31 December 2019. There were no other material implications on the consolidated statement of cash flows for the reporting period.

Impact on Consolidated Balance Sheet in EUR ´000	Without application of IFRS 16	Adaptations	With application of IFRS 16
31 December 2019			
Assets			
Property, plant and equipment	12,777	6,571	19,348
Investment Properties	4,915,798	4,210	4,920,008
Total assets	**10,670,897**	**10,780**	**10,681,677**
Equity and liabilities			
Total equity	**3,547,894**	**-37**	**3,547,857**
Deferred tax liabilities	439,872	-16	439,856
Other non-current liabilities	20,835	8,324	29,159
Other current liabilities	60,787	2,509	63,297
Total liabilities	**7,123,003**	**10,817**	**7,133,820**
Total assets	**10,670,897**	**10,780**	**10,681,677**

Impact on Consolidated Balance Sheet in EUR ´000	Without application of IFRS 16	Adaptations	With application of IFRS 16
31 December 2019			
Earnings from property lettings	218,852	465	219,317
Other operating expenses	-71,369	2,405	-68,964
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**471,850**	**2,870**	**474,720**
Depreciations and amortisation	-3,236	-2,476	-5,712
Earnings before interest and taxes (EBIT)	**468,614**	**394**	**469,008**
Financial expenses	-120,437	-447	-120,885
Earnings before taxes (EBT)	**357,040**	**-53**	**356,986**
Income taxes	-81,247	16	-81,231
Consolidated net profit from continuing operations	**275,792**	**-37**	**275,755**

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 when 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 better predicts 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 tax amounts, the entity shall assess whether it is probable that the relevant taxation authority will accept the respective tax treatment the entity used or plans to use in its income tax declaration. If the entity concludes that it is not probable that the tax treatment will be accepted, the entity has to apply the most likely or expected amount of the tax treatment depending on which method better predicts the resolution of the uncertainty. An entity has to reassess its assessments and estimates if facts and circumstances change. The first-time application of IFRIC 23 did not have any material implications on ADLER's consolidated financial statements.

The aforementioned other amendments did not have any material implications.

2.3 Standards and interpretations not prematurely applied

A number of amendments and clarifications to existing standards and interpretations were also adopted, but these are not expected to have any material implications for the consolidated financial statements.

Standard/Interpretation	Title	IASB Effective date[1]	Initial application date in the EU[1]
EU endorsement achieved:			
Amendments to IAS 1 and IAS 8	Definition of materiality	01.01.2019	01.01.2019
Amendments to the Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards	01.01.2019	01.01.2019
EU endorsement outstanding:			
Amendments to IFRS 3	Definition of a business	01.01.2020	expected 01.01.2020

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

Amendment to 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.

Amendment to the Conceptual Framework – Amendments to References to the Conceptual Framework

Amendments to references to the Conceptual Framework in IFRS Standards (including IFRS 2, IFRS 3, IAS 1, IAS 8, IAS 34, IAS 37 and IAS 38) were published with the revision of the Conceptual Framework. The amendments, which are updates, have no material impact on the consolidated financial statements.

Amendment to IFRS 3 – Definition of a Business

The amendments contain an updated definition of a business to clarify the three associated elements. The amendment was prompted by uncertainty regarding the existence of a business on acquisition. ADLER does not expect any material implications on its consolidated financial statements, since the resulting clarifications of the definition of a business operation have already been observed by ADLER.

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 and of a potential de facto control even though voting rights are less than 50 percent of the total.

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 be 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 an 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 joint ventures also applies to the recognition of associated companies.

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 Shares in subsidiaries

Including the parent company, the scope of consolidation comprises a total of 433 (previous year: 229) fully consolidated companies. The Group owns no real estate outside Germany.

The consolidated group has developed as follows:

Quantity	2019	2018
As of 01.01.	229	111
Additions	211	121
Disposals	4	2
Mergers/accruals	3	1
As of 31.12.	**433**	**229**

In the period under review, 211 companies were newly-included in the consolidated group and three companies were deconsolidated. Four companies were merged with other companies in the consolidated group.

Following the departure of a shareholder, ADLER Real Estate Properties GmbH & Co. KG merged in the first Quarter 2019 with the remaining shareholder in the consolidated group. This did not affect the Group's net assets, financial position and results of operations.

As a result of the binding sale and purchase agreement concluded in the first quarter of 2019 for the sale of three commercial units in Rostock, Celle and Castrop-Rauxel, three property companies of Brack Capital Properties N.V. (BCP) were disposed of in the second quarter of 2019. BCP retained 10.1% of the shares in each of these companies as part of the agreed share deal.

Five companies were founded during the third quarter, each of which is intended to serve as an intermediate holding company in the portfolio segment. Two non-active companies (EAGLE BidCo GmbH and MBG Projektentwicklungsgesellschaft mbH) were merged with another company in the consolidated group. Another inactive company (Adler McKinney LLC) was liquidated. This had no effect on the Group's net assets, financial position and results of operations.

ADLER also acquired shares (94.9 percent each) in two real estate property companies in the third quarter.

In the middle of the fourth quarter, ADLER acquired the shares (89.99 percent) in a real estate project development company. In addition, two companies were founded, each of which is intended to serve as an intermediate holding company in the portfolio segment. At the end of the fourth quarter, ADLER also completed the acquisition of all shares in ADO Group Ltd (ADO Group) and fully consolidated the company and its 199 subsidiaries for the first time. In particular, ADO Group holds 33.25 percent of the Luxembourg-based ADO Properties S.A. (ADO Properties) located in Luxembourg together with its subsidiaries.

ADLER's shareholdings as of December 31, 2019, which also correspond to voting rights, are presented in an annex to the notes to the consolidated financial statements on page 190.

4.2 Business combinations

At the end of the fourth quarter, ADLER completed the acquisition of all shares in ADO Group and fully consolidated the company and subsidiaries for the first time.

Acquisition of ADO Group including ADO Properties

In December 2019, ADLER acquired all shares in ADO Group by way of a merger of a subsidiary acquired for this purpose with ADO Group, and thus indirectly acquired 33.25 percent of the shares in ADO Properties, a listed residential real estate company with investment properties of approximately EUR 3.6 billion in Berlin.

The transaction is treated as a business combination according to IFRS 3. The acquisition date on which ADLER gained control of ADO Group and, indirectly, of ADO Properties is December 10, 2019, at which time the last condition for completion of the merger was met. For the sake of simplicity, initial consolidation was carried out as of December 31, 2019, whereby one significant business transaction (acquisition of an interest in Consus Real Estate AG, Berlin, hereinafter: CONSUS, by ADO Properties) was treated separately.

The control of ADO Properties results primarily from the factual majority presence at the annual general meeting and representation on the administrative board. The reason for the de facto majority presence is the fact that ADLER is the Company's largest shareholder with 33.25 percent, and the remaining shares are relatively readily dispersed. Based on the past and expected future presence of the remaining shareholders, ADLER has a de facto majority of voting rights. With the voting rights acquired, ADLER would have had a majority at all of ADO Properties' past five annual shareholders' meetings. In addition, a substantial number of the company's board members were newly appointed as part of the acquisition, allowing ADLER to significantly expand its influence. For example, one member of the Board of Directors of ADO Properties is also a member of ADLER's Executive Committee. Particularly because of these two circumstances, ADLER came to the conclusion that the acquisition would result in control of ADO Properties as of December 31, 2019 and the Group is in a position to manage the significant activities of the Company.

ADO Group is a holding company listed in Tel Aviv/Israel, which mainly holds the 33.25 percent of ADO Properties as assets and has taken out financial liabilities for this purpose. Excluding the shares in ADO Properties and intercompany transactions, negative net assets were allocated to the acquisition of ADO Group as part of the purchase price allocation. Since the acquisition of the ADO Group was 100 percent, no minority interests arose from the acquisition of these net assets.

The main reason for the business combination was the acquisition of the shares in ADO Properties and thus the indirect access to the property portfolio of the company in Berlin in order to generate operational and financial synergies from the joint management and financing.

ADO Properties is a listed company specialising in residential properties and is based in Senningerberg, Luxembourg. ADO Properties' property portfolio is concentrated exclusively in Berlin and consists of 17,706 units (thereof 16,220 residential units) with a market value of approximately EUR 3,6 billion and a total area of 1,235,118 m².

The consideration for the acquisition of all shares in ADO Group and indirectly 33.25 percent of the shares in ADO Properties amounted to EUR 708,434k and was paid in cash. Incidental acquisition costs of EUR 10,160k were incurred, which were recorded under other operating expenses. Taking into account the acquired cash and cash equivalents of EUR 775,467k, the acquisition resulted in a net cash inflow of EUR 67,033k.

The preliminary allocation of the total purchase price to the acquired assets and liabilities at the time of initial consolidation is based on a preliminary external valuation report commissioned for this purpose to determine the fair values of these assets and liabilities. The acquired assets and liabilities have the following provisionally determined fair values at the time of initial consolidation:

in EUR ´000	
Property, plant and equipment	11,356
Investment properties	3,624,453
Inventories	39,270
Trade receivables	13,987
Cash and cash equivalents	775,467
Other assets	54,914
Assets taken over	**4,519,447**
Financial liablities	-1,624,451
Deferred tax liabilities	-334,305
Trade liabilities	-22,082
Other liabilities	-87,524
Liabilities taken over	**-2,068,362**
Net assets at fair value	**2,451,085**
Non-controlling interests	1,742,651
Acquisition costs (consideration)	708,434
Balance	**0**

The fair values of the investment properties were determined at the time of initial consolidation on the basis of expert opinions prepared by external experts using the discounted cash flow method.

The acquired inventories primarily comprise properties held for trading and sold to third parties outside the Group. The fair values of these properties were determined in appraisals prepared by external experts using the discounted cash flow method.

The acquired inventories mainly comprise real estate held for trading and sold to third parties outside the Group. The fair values of these properties were determined on the basis of expert opinions prepared by external experts using the discounted cash flow method.

The carrying amounts of the acquired current trade accounts receivable already take into account any necessary valuation adjustments and correspond to their fair values. The gross value of trade accounts receivable due totalled EUR 18,144k, of which EUR 4,157k are expected to be uncollectible.

Other assets mainly relate to earmarked funds with special restrictions on use, advance payments and accruals for advance payments. They were acquired at their fair values.

Financial liabilities of EUR 797,939k in financial liabilities to banks, EUR 732,910k in liabilities from bonds and EUR 93,602k in liabilities from convertible bonds were assumed at their fair values.

The carrying amounts of the acquired current trade payables correspond to their fair values.

In determining deferred taxes, ADO Properties offset deferred tax assets on loss carryforwards in the amount of EUR 20,178k against deferred tax liabilities on temporary differences arising from the valuation of the investment properties. The loss carryforwards are still deductible in accordance with the applicable tax regulations despite the acquisition of the investment, as there are sufficient hidden reserves in the acquired companies.

Other liabilities relate primarily to loan liabilities to non-banks, liabilities from deposits received and deferred income. They were acquired at their fair values.

In measuring non-controlling interests, the option provided by IFRS 3.19 was exercised to measure non-controlling interests at their share of the identified net assets of ADO Properties. In determining the non-controlling interests, indirect minority interests were added together.

On December 15, 2019, ADLER and ADO Properties entered into a business combination agreement under which ADO Properties is to acquire ADLER as part of a public takeover offer. To this end, ADLER shareholders with a stake of approximately 52 percent had irrevocably declared their intention to contribute their shares to the public takeover offer by December 31, 2019. The German Federal Cartel Office also approved the merger on December 20, 2019. The takeover offer was published on February 7, 2020.

As a result of the irrevocable declarations of acceptance and the approval already given by the Federal Cartel Office, the successful completion of the public takeover bid is considered highly probable. For the completion of the takeover bid, ADO Properties will increase its share capital against contribution in kind under exclusion of the shareholders' statutory subscription rights and issue a number of new shares corresponding to the takeover quota. This will lead to a significant dilution of ADLER's existing shares. Further significant dilution is expected as part of the planned rights issue and a mandatory takeover bid for the acquisition of Consus by ADO Properties. The dilution is therefore considered highly probable as of the balance sheet date and will lead to a loss of control over ADO Properties. Therefore, all assets and liabilities of ADO Properties are reported as held for sale as of December 31, 2019, as part of a discontinued operation.

The ADO Group including ADO Properties has been included in the consolidated financial statements for the first time and for simplicity's sake, taking into account material transactions since its acquisition as of December 31, 2019. Since the acquisition, the share of profit after tax has been fully attributable to ADO Properties and is therefore shown under discontinued operations (see section 9.14).

If ADO Group including ADO Properties had been fully consolidated as of January 1, 2019, the Company would have contributed EUR 633,310k to profit after tax. The disclosure of a contribution to revenues was waived because ADO Properties is shown as a discontinued operation.

Pro-Forma prior-year figures

The following table shows the consolidated balance sheet as of the balance sheet dates 31 December 2019 and 31 December 2018 as well as pro forma information for the balance sheet date of 31 December 2019.

The pro-forma disclosures for the 2019 financial year are based on the assumption that ADO Properties is not a discontinued operation, so that the assets and liabilities concerned are not reported under non-current assets or liabilities held for sale.

Consolidated balance sheet ADLER Real Estate AG (pro forma)

In EUR ´000	31.12.2019 (pro-forma)[1)]	31.12.2019 (as reported)	31.12.2018 (as reported)
Assets	**10,681,677**	**10,681,677**	**5,856,631**
Non-current assets	**9,215,423**	**5,288,676**	**5,233,411**
Goodwill	169,439	169,439	170,758
Intangible assets	584	584	612
Property, plant and equipment	30,313	19,348	7,578
Investment properties	8,544,461	4,920,008	4,989,054
Receivables and loans to associated companies	79,524	79,524	7,667
Investments in associated companies	23,432	23,432	15,709
Other financial investments	341,632	56,603	37,019
Other non-current assets	24,082	17,782	2,480
Deferred tax assets	1,955	1,955	2,535
Current assets	**1,036,706**	**554,355**	**437,677**
Inventories	126,578	87,308	88,096
Trade receivables	45,974	31,987	25,898
Income tax receivables	4,803	4,643	5,549
Other current assets	234,377	193,001	240,480
Cash and cash equivalents	624,973	237,415	77,655
Non-current assets held for sale	**429,548**	**4,838,646**	**185,543**

[1)] Pro-forma consolidated balance sheet for the presentation of ADO Properties upon adoption of the presentation as continuing operations, unaudited

In EUR ´000	31.12.2019 (pro-forma)[1)]	31.12.2019 (as reported)	31.12.2018 (as reported)
Equity and liabilities	**10,681,677**	**10,681,677**	**5,856,631**
Equity	**3,547,857**	**3,547,857**	**1,579,631**
Capital stock	71,064	71,064	71,064
Treasury shares	-1,603	-1,603	-2,583
Capital reserve	309,337	309,337	309,233
Retained earnings	-26,438	-26,438	-3,264
Currency translation reserve	0	0	88
Net retained profit	1,093,506	1,093,506	842,888
Equity attributable to owners of the parent company	1,445,865	1,445,865	1,217,426
Non-controlling interests	2,101,992	2,101,992	362,205
Non-current liabilities	**6,518,297**	**4,928,486**	**3,971,979**
Pension provisions	4,092	4,092	3,714
Deferred tax liabilities	774,161	439,856	380,794
Other provisions	3,148	3,148	3,900
Liabilites from convertible bonds	215,851	122,249	117,516
Liabilities from bonds	2,729,854	2,327,846	1,961,112
Financial liabilities to banks	2,731,834	2,002,136	1,476,187
Other non-current liabilities	59,357	29,159	28,756
Current liabilities	**487,949**	**377,916**	**304,526**
Other provisions	12	12	25
Income tax liabilities	19,069	15,960	12,921
Liabilites from convertible bonds	1,947	1,947	1,756
Liabilities from bonds	101,612	101,612	40,259
Financial liabilities to banks	198,236	157,708	142,408
Trade payables	59,462	37,380	47,440
Other current liabilities	107,611	63,297	59,717
Liabilities held for sale	**127,574**	**1,827,418**	**495**

[1)] Pro-forma consolidated balance sheet for the presentation of ADO Properties upon adoption of the presentation as continuing operations, unaudited

4.3 Acquisition of property companies and project development companies

In the third quarter, ADLER acquired shares (94.9 percent each) in two real estate companies, which own a small portfolio of 72 residential units and plots of land for project development. The companies do not conduct business operations as defined by IFRS 3, and the acquisition was therefore presented as a direct purchase of properties. The acquisition costs of the respective property companies were allocated to individually identifiable assets and liabilities based on their fair values. Investment properties totalling EUR 38,811k and financial liabilities to banks totalling EUR 19,154k were acquired through the property companies.

In the fourth quarter, ADLER acquired an 89.99 percent interest in a project development company, which owns a former office building and land. Plans call for a change in use from office to residential with 434 residential units, as well as small commercial spaces and a daycare center. The company does not conduct any business operations as defined by IFRS 3, so the acquisition was presented as a direct purchase of properties. The acquisition costs were allocated to the individually identifiable assets and liabilities on the basis of their fair values. Investment properties of EUR 54,319k and financial liabilities to banks of EUR 19,500k were acquired through the company.

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 an 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 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 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 which as 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.

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 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 12 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 12 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 12 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 12 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.

ADLER uses an impairment matrix to measure the expected credit losses of its receivables, 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.

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.

In ADLER's view, 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 12 months of the end of the reporting period (or a shorter period if the expected life of the instrument is less than 12 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. Interest hedging instruments are used to hedge interest rate risks while foreign currency derivatives are used to hedge currency risks. However, the derivative financial instruments are not currently reported 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 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 an 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 obligation amount 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 12 months after the balance sheet date or if settlement is expected within 12 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.

In accordance with IAS 12, deferred taxes are recognised for all temporary differences between the tax base of the assets and liabilities and their carrying amounts in the IFRS financial statements – with the exception of deferred tax liabilities that arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affect neither the accounting profit nor taxable profit or loss – and for tax loss carryforwards. The exemption provided as per IAS 12.15(b) has been applied regarding the acquisition of property companies that have been included in the consolidated financial statements as acquisitions of groups of assets and liabilities rather than as a business combination in accordance with IFRS 3. Where the Group's acquisition costs exceed the 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

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

ADLER has adopted IFRS 16 applying the modified retrospective approach, hence the comparative information has not been restated and is instead still presented in accordance with IAS 17 and IFRIC 4.

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee

In particular, ADLER enters into leases for the following assets:

- Leasehold contracts for land (leaseholds)
- Leases for office space, garages and storage space (property)
- Leases for cars and commercial vehicles (vehicles)
- Leases for hardware and heating equipment (hardware and contracting)

When an arrangement that contains a lease component is entered into or amended, the Group allocates the contractually-agreed consideration to the individual lease and non-lease components based on relative stand-alone selling prices.

At the commencement date, the Group recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost, which is equal to the first-time measurement of the lease liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs, less any lease incentives received.

The right-of-use asset is then depreciated on a straight-line basis from the commencement date to the end of the lease period, unless ownership of the underlying asset transfers to the Group by the end of the lease term or if the measurement of the right-of-use asset reflects that the Group will exercise a purchase option. In this case the right-of-use asset is depreciated on a straight-line basis over the useful life of the underlying asset, which is calculated in accordance with the provisions for property, plant and equipment. In addition, the right-of-use asset is adjusted on an ongoing basis for any impairment losses and certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using the Group's incremental borrowing rate. With the exception of leases for leaseholds, ADLER uses its incremental borrowing rate as the discount rate as the interest rate implicit in the lease cannot be readily determined.

To calculate its incremental borrowing rate, ADLER considers interest rates from several of its external financing sources in the form of the weighted average cost of debt (WACD) and possibly makes certain adjustments reflecting the terms of the lease and the nature of the asset. A single discount rate is applied to portfolios of leases with similar characteristics.

Interest rates for specific properties or market-based discount rates are used for leaseholds.

The lease payments included in the measurement of the lease liability comprise fixed payments, variable lease payments, amounts expected to be payable under residual value guarantees, the exercise price of a purchase option if the Group is reasonably certain to exercise that option and payments of penalties for terminating the lease, unless the Group is reasonably certain that it will not terminate the lease early.

The lease liability is measured at carrying amount applying the effective interest method. It is reassessed if there is a change in future lease payments resulting from a change in an index or a rate, when the Group adjusts its estimate of the amounts expected to be payable under the residual value guarantee, when the Group adjusts its opinion on exercising an option to extend or terminate the lease, or to purchase the underlying asset, or there is a change in in-substance fixed lease payments. When the lease liability is reassessed, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or this is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

ADLER reports right-of-use assets that do not meet the definition of investment property in its statement of financial position under property, plant and equipment and lease liabilities in other liabilities. Right-of-use assets to investment property (leaseholds in particular) measured at fair value in accordance with IAS 40 are also measured at fair value and reported under investment properties.

ADLER has decided not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments in connection with these leases as an expense on a straight-line basis over the term of the lease.

As a lessor

If the Group is the lessor in a lease, it classifies each lease as a finance lease or an operating lease at inception of the contract.

ADLER leases its investment property. A lessor classifies these leases as operating leases as the lessee does not receive substantially all of the risks and rewards incidental to ownership. ADLER recognises lease payments for operating leases on a straight line basis over the term of the lease in gross rental income (net rental income).

When a lease is entered into or amended, the Group allocates the contractually-agreed consideration based on relative stand-alone selling prices. When an arrangement contains lease and non-lease components, the Group applies IFRS 15 to allocate the contractually-agreed consideration. 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 now included in the scope of IFRS 16 in addition to net rental income.

The Group applies the derecognition and impairment requirements of IFRS 9 to its receivables and liabilities from the lease.

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. 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 contracts in question provide for only this 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. In accordance with IFRS 15, revenue from these sales are recognised before transfer of the apartments to the buyer, 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 on 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 a 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 the contract assets again.

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

5.17 Residual interests and dividend distributions

In its consolidated financial statements, ADLER also includes subsidiaries that have the legal form of partnerships with 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:

- In the event of business combinations as defined by IFRS 3, estimates are made to calculate the fair value of the consideration transferred and for the preliminary calculation of the fair values of the identifiable assets acquired and liabilities assumed.

- 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 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 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 valuing 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. Effects from the change of shareholders, which can lead to a demise of loss carryforwards if there are not sufficient hidden reserves in the respective company, must also be taken into account.

- 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 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.

- When including ADO Properties in consolidation, it had to be decided whether there was de facto control as defined by IFRS 10.B38 even though the share of voting rights was less than 50%. As ADLER is expected to lose control over ADO Properties again in the first half of 2020, it had to be decided whether it constitutes a discontinued operation. Please see note 4.2 for details.

- 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 are 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 2019 financial year, as a result of which the acquisitions have not yet been presented as business combinations pursuant to IFRS 3 in 2019.

- When acquiring equity investments, it must be decided whether there is significant influence when control is pooled. Significant influence is typically assumed for a shareholding of between 20% and 50%, though this presumption can be overcome in individual cases. In the 2019 financial year, in connection with the acquisition of ADO Properties, shares in Consus Real Estate AG, Berlin, amounting to approximately 22% in total were classified as a financial instrument in accordance with IFRS 9. Please see note 8.11 for details.

- To assess the lease term when accounting for leases, it must be decided whether it is reasonably certain that an extension option will be exercised. It must also be determined how the incremental borrowing rate will be calculated for discounting lease obligations.

- 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 its segment reporting, ADLER has so far distinguished between the “Rental”, “BCP” and “Other” segments. BCP, the majority of which was acquired in April 2018, was initially presented as an independent segment in accordance with internal reporting to the Management Board. After the purchase price allocation was finalised along with the first-time allocation of goodwill to the relevant CGUs, BCP was integrated into the Rental segment. The comparative figures have been adjusted accordingly. The residual interest in ACCENTRO was reclassified from non-current assets held for sale (Trading) to investments accounted for using the equity method as the decision to sell it was reversed at the end of the reporting year. The comparative figures have been adjusted accordingly.

Acquired in December 2019, ADO Properties constitutes a discontinued operation in accordance with IFRS 5 and is therefore not included in segment reporting. We refer to section 4.2.

The “Rental” segment includes all ADLER’s portfolios, 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’s internal Facility Management. To a lesser extent, this item also includes BCP’s commercial properties held for sale and project developments that are sold to non-Group companies and which are therefore not to be added to the portfolio after completion.

Other group activities that do not constitute standalone segments are pooled in the “Other” column. These are mainly historic holdings relating to development projects that have been in the rest of the process since the Group’s realignment.

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** **2019**	**Other** **2019**	**Group** **2019**
Income from the management of properties and from the sale of properties	903,977	208	904,185
– of which letting	370,154	208	370,362
– of which disposals	533,823	0	533,823
Change in the fair value of investment properties	362,638	0	362,638
Earnings before interest and tax (EBIT)	**468,766**	**242**	**469,008**
Result of investments accounted for using the equity method	-1,327	0	-1,327
Financial result	**-110,808**	**113**	**-110,695**
Result before taxes (EBT)	**356,654**	**332**	**356,986**

Revenue in the Rental segment amounted to EUR 903,977k (previous year: EUR 424,458k). The year-on-year increase of EUR 479,519k essentially relates to the sale of the non-core portfolio and BCP commercial units. In addition, BCP has only been included in the Group since the second quarter of 2018. Changes in the value of investment property amounted to EUR 364,638k (previous year: EUR 465,129k). EBIT in the Rental segment amounted to EUR 468,766k (previous year: EUR 582,732k), while earnings before income taxes were EUR 356,654k (previous year: EUR 454,895k).

Group earnings before income taxes were negatively affected by one-off items. Non-recurring expenses of EUR 10,511k were incurred in connection with the disposal of the BCP commercial units. There were also one-off expenses of EUR 13,847k (previous year: EUR 54,339k) for the early repayment of financial liabilities and bonds. Net financial income of EUR 441k (previous year: EUR 8,099k) is due to the measurement of financial instruments at fair value in the reporting period. There were also net foreign exchange losses of EUR 10,869k (previous year: EUR 987k) related to BCP bonds.

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

ADLER Group In EUR ´000	**Rental 2019**	**Other 2019**	**Group 2019**
Depreciation of property, plant and equipment	-4,167	0	-4,167
Amortisation of intangible assets	-1,546	0	-1,546

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

ADLER Group In EUR ´000	**Rental 2018**	**Other 2018**	**Group 2018**
Income from the management of properties and from the sale of properties	424,458	205	424,663
– of which letting	349,390	205	349,595
– of which disposals	75,068	0	75,068
Change in the fair value of investment properties	465,129	0	465,129
Earnings before interest and tax (EBIT)	**582,732**	**96**	**582,828**
Result of investments accounted for using the equity method	3,425	0	3,425
Financial result	**-131,339**	**111**	**-131,228**
Result before taxes (EBT)	**454,895**	**130**	**455,025**

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 2018	Other 2018	Group 2018
Depreciation of property, plant and equipment	-1,432	0	-1,432
Amortisation of intangible assets	-169	0	-169

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

ADLER Group In EUR ´000	Rental 2019	Other 2019	Consoli- dation 2019	Group 2019
Assets per segment	6,249,175	4,515	-4,543	6,249,147
Result of investments accounted for using the equity method	23,432	0	0	23,432
Total segment assets	**6,272,607**	**4,515**	**-4,543**	**6,272,579**
Non-current assets held for sale ADO Proper-ties	-	-	-	4,409,098
Segment liabilities	**5,433,898**	**4,621**	**-4,543**	**5,433,976**
Non-current liabilities held for sale ADO Properties	-	-	-	1,699,844
Segment investments	**349,202**	**0**	**0**	**349,202**

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

ADLER Group In EUR ´000	Rental 2018	Other 2018	Consoli- dation 2018	Group 2018
Assets per segment	5,841,192	4,691	-4,961	5,840,922
Result of investments accounted for using the equity method	15,709	0	0	15,709
Total segment assets	**5,856,901**	**4,691**	**-4,961**	**5,856,631**
Non-current assets held for sale	-	-	-	-
Segment liabilities	**4,276,965**	**4,997**	**-4,961**	**4,277,001**
Segment investments	**165,128**	**0**	**0**	**165,128**

Segment assets mainly comprise property, plant and equipment, investment properties and receivables due from third parties and the "Other" segment. Goodwill of EUR 169.439k (previous year: EUR 170.758k) is recognised in the rental 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 2019	Goodwill	Other intangible assets
Carrying amounts 01.01.	**170,758**	**612**
Additions from acquisitions (+)	0	0
Additions (+)	0	199
Depreciation current year (–)	0	-227
Reclassification	**-1,319**	**0**
Carrying amounts 31.12.	**169,439**	**584**

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

Goodwill of EUR 101,198k is attributable to the acquisition of WESTGRUND in June 2015 and of EUR 69,560k to the acquisition of BCP in April 2019. Allocation has been made to the regional business units (North, Middle, West, East) of the rental segment.

The allocation of the goodwill resulting from the BCP acquisition to groups of cash-generating units was completed in the reporting period and took due account of the sustainable synergies (financing, administrative and operating synergies) expected to result from the business combination.

At the end of September 2019, ADLER concluded a binding share deal for the sale of a 75 percent shareholding to a project development company in Dusseldorf via its subsidiary BCP. Goodwill of EUR 1,319k from the acquisition of BCP proportionally attributable to this project development company was reclassified to non-current assets held for sale and then fully amortised.

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 was raised to 7.50 percent in the year under review (previous year: 6.75 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 31.12.2019	North	Central	West	East	Total
Goodwill in EUR ´000	32,223	22,894	62,526	51,796	169,439
WACC before tax in %	2.7	2.7	2.7	2.7	-
Sustainable growth rate in %	1.0	1.0	1.0	1.0	-

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	-

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 not have led to an impairment of the book values of any of the regional business units 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 had no impact on the recoverability of the book values of the regional business units.

8.2 Property, plant and equipment

In EUR ´000	2019	2018
Carrying amounts 01.01.	**7,578**	**4,948**
Additions from the first-time application of IFRS 16 (+)	6,694	-
Additions from acquisitions (+)	392	270
Additions (+)	9,459	3,815
Depreciation current year (–)	-4,167	-1,431
Disposals (–)	-608	-24
Carrying amounts 31.12.	**19,348**	**7,578**

The disclosures according to IFRS 16 on the rights of use to assets in the context of leases are presented in section 12 of the notes to the consolidated financial statements.

8.3 Investment properties

In EUR ´000	Let investment properties	Project development properties	Total 2019
Carrying amounts 01.01.	**4,382,884**	**606,170**	**4,989,054**
Additions through acquisitions IFRS 3 (+)	3,306	0	3,306
Additions through investment properties/property companies (+)	0	107,276	107,276
Other additions (+)	81,650	84,271	165,921
Fair value increase (+)	163,038	246,231	409,269
Fair value decrease (-)	-26,437	-20,194	-46,631
Reclassifications IFRS 5 (+/-)	-313,786	-375,000	-688,786
Reclassifications (+/-)	363,312	-363,312	0
Disposals (-)	-19,400	0	-19,400
Carrying amounts 31.12.	**4,634,567**	**285,441**	**4,920,008**

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	483,988
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**

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

The additions were due to EUR 84,271k for investments in project development properties under construction, EUR 93,130k for the acquisition of project development companies, EUR 81,650k for capitalisable modernisation measures, EUR 14,146k for the acquisition of an undeveloped site for project development and EUR 3,306k for the first-time application of leaseholds in accordance with IFRS 16.

Valuation gains of EUR 409.269k (previous year: EUR 483.988k) and valuation losses of EUR 46.631k (previous year: EUR 18,859k) were recognised in the 2019 financial year. Due to these gains and losses, net income from fair value adjustments of investment properties came to EUR 362.638k (previous year: EUR 465,129k). The reclassifications amounting to EUR 688.786k relate to investment properties classified in accordance with IFRS 5 as non-current assets held for sale. The departures result from the sale of sub-portfolios and individual units. Project properties were included in the financial year, a value of EUR 363,312k was completed and the rental was taken over.

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

In EUR ´000	2019	2018
Income from property management	370,362	349,595
Expenses from property management	-151,044	-145,908
Earnings from property management	**219,318**	**203,687**

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 2019 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 3.5 percent to 11.0 percent are then deducted from this gross value (previous year: 4.5 percent to 11.0 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	%	4.40	3.00-6.25
Capitalisation rate	%	4.76	2.90-6.85
Maintenance costs	EUR/sqm	8.14	6.00-11.00
Administrative expenses	EUR/per rental unit/ year	228.08	200.00-307.00
Stabilised vacancy rate	%	3.90	0.00-15.00
Valuation results			
Actual rent multiplier		19.50	12.47-36.40
Market value per sqm	EUR/sqm	1,278.08	628,28-7,708.56

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	%	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

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	196,584	-192,190	-524,861	521,502	58,064	-56,446
in %	4.26	-4.16	-11.37	11.30	1.29	-1.26

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	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

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

	Total rental area in sqm	Discount rate in %	Capitalisa-tion rate in %	Actual rent multiplier	Stabilised vacancy rate in %	Market value 2019 in EUR ´000
Lower Saxony	1,122,439	4.59	5.12	17.88	4.29	1,251,613
North Rhine-Westphalia	887,238	4.57	4.90	17.57	3.70	1,021,627
Saxony	560,141	4.59	4.74	20.67	4.03	666,728
Saxony-Anhalt	221,942	4.72	5.19	17.43	4.34	197,212
Brandenburg	213,368	4.79	4.78	16.30	4.51	202,488
Berlin	158,874	3.34	3.24	33.40	3.33	628,595
Other	429,451	4.37	5.06	18.93	3.83	666,304
Total	**3,593,453**	**4.40**	**4.76**	**19.50**	**3.94**	**4,634,567**

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 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**

Project development properties – Residual value method

The determination of the fair value of properties 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	%	2.73	1.88-3.52
Calculated construction costs of the net rentable area	in EUR/sqm	3,782.73	2,214.31-5,928.00
Risk deduction for risk and profit	%	10.00	10.00-10.00
Multiplier gross annual profit		28.25	24.23-31.51

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

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	%	16.46	3.91–35.04
Multiplier gross annual profit		16.00	6.67–27.04

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	89,315	-57,590	-51,402	51,289	30,056	-30,980
in %	59.58	-38.42	-26.15	26.09	15.29	-15.76

[1] Without consideration of potential project guarantees

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

	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

Project development properties – DCF-Method

For projects that are already very advanced, the DCF method used for existing properties was applied. The outstanding construction costs were recognised as cash in the first year. The fair value of these projects amounts to TEUR 66,590 and thus 23.3 percent of the fair value of the project development properties. The outstanding expenses taken into account in the following year amount to TEUR 5,565.

The following overview shows the main assumptions used in determining the fair value of these projects in the context of the valuation using the DCF method.

Valuation parameters	Unit	Average	Range
Discount rate	%	2.68	2.40-2.93
Capitalisation rate	%	2.64	2.36-3.50
Maintenance costs	EUR/sqm	8.67	7.81-14.25
Administrative expenses	EUR/unit/year	235.88	203.77-249.00
Valuation results			
Actual rent multiplier		28.7	22.9-33.1
Market value per sqm	EUR/sqm	3,498.84	2,803.36-4,133.06

The selected interest rate and the underlying market rents were identified as significant value drivers influenced by the market. The effects of possible fluctuations in these parameters are shown below in isolation from each other. Interactions between the parameters are possible, but cannot be quantified due to the complexity of the relationships.

	Discount rate		Market Rent/Cost Rent	
	-0,5 PP	+0,5 PP	-10,0 %	+10,0 %
Change in value				
In EUR ´000	3,240	-3,150	-7,630	7,800
In %	4.87	-4.73	-11.46	11.71

No project development properties were valued using the DCF method in the previous year.

8.4 Receivables and loans to associated companies

The increase in the carrying amount of receivables and loans to associated companies to EUR 79,524k (31 December 2018: EUR 7,667k) is due to EUR 71,855k for the disposal of the non-core portfolio of approximately 3,700 rental units, which ADLER disposed of in two separate transactions in December 2018.

On 17 December 2018, ADLER entered into a binding agreement with an investor, which plans to sell around 1,400 rental units to Caesar JV Immobilienbesitz und Verwaltungs GmbH, Berlin, in which ADLER holds a 25 percent interest. ADLER will continue to undertake asset management for these portfolios. The properties had a carrying amount of approximately EUR 61,500k. On 27 December 2018, ADLER also entered into a binding agreement with Benson Elliot Capital Management LLP, which plans to sell around 2,300 rental units to a joint venture, AB Immobilien B.V., Amsterdam, Netherlands, in which ADLER likewise 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 were worth approximately EUR 117,700k. In light of these two agreements, investment properties of EUR 179,200k were recognised as non-current assets held for sale as at 31 December 2018 and reclassified accordingly. Control over the rental units in both cases was transferred in the first quarter of 2019.

The remaining receivables from the sale of approximately 1,400 rental units to Caesar JV Immobilienbesitz und Verwaltungs GmbH are deferred and are due to be paid by 1 December 2022 at the latest, subject to customary interest and collateral. A partial payment of EUR 16,000k must be made by 1 December 2020 at the latest. As at the balance sheet date, ADLER recognises non-current receivables including interest claims against Caesar JV Immobilienbesitz und Verwaltungs GmbH of EUR 26,361k. An amount of EUR 16,000k is recognised under other current assets.

The agreement for the sale of around 2,300 rental units to AB Immobilien B.V. does not provide for a significant financing component as the remaining consideration is variable after the partial payment has been made. The amount and date of the consideration depend on the resale of properties to third parties over which ADLER has no material influence. However, payment is intended by no later than 31 December 2028. As at the balance sheet date, ADLER recognises receivables from AB Immobilien B.V. of EUR 45,494k.

Other 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

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

In EUR´000	2019	2018
Carrying amounts 01.01.[1]	**15,709**	**12,664**
Additions through acquisitions IFRS 3	0	166
Other additions	9,300	14
Other disposals	-2	0
Share of gains and losses (at-equity result)[1]	-1,327	3,425
Other results attributable to the Group	0	0
Dividends received [1]	-248	-560
Carrying amounts 31.12.	**23,432**	**15,709**

[1] Reporting, including the previous year, of the remaining shares in ACCENTRO adjusted in accordance with IFRS 5.26 et seq.

The main investments in associated companies are ACCENTRO, AB Immobilien B.V. and Caesar JV Immobilienbesitz und Verwaltungs GmbH.

The remaining interest in ACCENTRO (share of 4.78 percent after dilution) 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. They were reported initially under non-current assets held for sale. But the decision to dispose of the remaining interest in ACCENTRO was reversed at the end of the reporting year, with the result that it was reclassified to investments in associated companies. The amount reported in the same period of the previous year was restated accordingly in the consolidated balance sheet, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the notes to the consolidated financial statements and the Group management report. An amendment in profit or loss for prior periods since classification as held for sale was dispensed with on the grounds of materiality. The effect on profit or loss (EUR 1,122k) from the amendment was remedied in the fourth quarter of 2019 and recognised in net income from at-equity valued investment associates.

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 investment in ACCENTRO developed as follows:

In EUR ´000	2019	2018
Carrying amounts 01.01.[1]	**12,639**	**12,639**
Share of gains and losses (at equity result)[1]	-1,105[2]	263
Other result attributable to the Group	0	0
Dividends received[1]	-248	-263
Carrying amounts 31.12.	**11,286**	**12,639**

[1] Reporting, including the previous year, of the remaining shares in ACCENTRO adjusted in accordance with IFRS 5.26 et seq.
[2] Taking into account the update of the hidden reserves / burdens uncovered and the dilution of the shares

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

In EUR ´000	31.12.2019	31.12.2018
Assets		
Non-current assets	102,508	81,109
of which goodwill	17,776	17,776
Current assets	478,250	393,096
of which inventories	416,573	345,241
of which cash and cash equivalents	24,167	15,464
Equity and liabilities		
Equity	220,811	199,104
Non-current liabilities	215,919	176,431
of which financial liabilities to banks	114,474	76,773
of which liabilities from bonds	99,235	98,561
Current liabilities	144,028	98,669
of which financial liabilities to banks	102,368	54,357
of which liabilities from bonds	1,563	1,563

In EUR ´000	2019	2018
Earnings from sale of inventories	29,841	33,085
Earnings from property lettings	6,518	6,130
Earnings from services	2,363	2,282
EBIT	39,804	32,864
EBT	32,488	23,975
Consolidated net profit	26,299	18,301

In EUR ´000	2019	2018
Cash flow from operating activities	-75,665	-48,346
Cash flow from investing activities	2,411	-51,290
Cash flow from financing activities	81,017	111,410
Change in cash and cash equivalents	7,763	11,774

AB Immobilien B.V. is a property company that pursues the objective of selling its assets at a profit. The interest (25 percent) was still classified as immaterial in the previous year and developed as follows:

In EUR ´000	2019	2018
Carrying amounts 01.01.	**7**	**0**
Other additions	5,300	7
Share in gains and losses (at equity result)	62	0
Carrying amounts 31.12.	**5,369**	**7**

The tables below contain the combined financial information of AB Immobilien B.V.:

In EUR ´000	31.12.2019	31.12.2018
Assets		
Non-current assets	6	0
Current assets	133,319	30
Equity and liabiities		
Equity	5,577	30
Non-current liabilities	79,309	0
Current liabilities	48,439	0

In EUR ´000	2019	2018
Earnings form property lettings	2,688	-
Earnings from the sale of properties	0	-
EBIT (Earnings before interest and taxes)	2,573	-
Net profit	247	-

Caesar JV Immobilienbesitz und Verwaltungs GmbH is a property company whose objective is to generate income from letting and, where applicable, also selling its properties. The interest (25 percent) was still classified as immaterial in the previous year and developed as follows:

In EUR ´000	2019	2018
Carrying amounts 01.01.	**6**	**0**
Other additions	4,000	6
Share in gains and losses (at equity result)	-283	0
Carrying amounts 31.12.	**3,723**	**6**

The tables below contain the combined financial information of Caesar JV Immobilienbesitz und Verwaltungs GmbH:

In EUR ´000	31.12.2019	31.12.2018
Assets		
Non-current assets	70,867	23,005
Current assets	6,093	4,343
Equity and liabiities		
Equity	2,826	-42
Non-current liabilities	51,366	27,290
Current liabilities	22,768	100

In EUR ´000	2019	2018
Earnings form property lettings	1,460	-
Earnings from the sale of properties	0	-
EBIT (Earnings before interest and taxes)	999	-22
Net profit	-1,132	-66

The Group still holds investments in three (previous year four) 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	2019	2018
Carrying amount of shares on not-vital-at-equity consolidated companies	**3,054**	**3,070**
Group's share in the result of non-vital-at-equity companies:		
– Profit from continuing operations	0	3,162
– Other results	0	0
Total result	**0**	**3,162**

The prorated share of profit and loss at the companies included using the equity method has been recognised in full in 2019. There are no accumulated unrecognised losses.

8.6 Other financial investments and other non-current assets

In the 2018 financial year, ADLER acquired 4,870,891 (3.6 percent) of the shares in a project development company 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 2019, based on the stock market price, the fair value amounted to EUR 35,655k (31 December 2018: EUR 37,019k). The change in value year on year of EUR 1,364k is recognised under financial expenses.

Also reported under other financial assets as at the balance sheet date 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 with changes in other comprehensive income. As at 31 December 2019, based on the stock market price, the fair value amounted to EUR 14,454k. The bonds were still recognised at EUR 14,571k under other current assets in the previous year because a subsequent sale was intended in the near future.

Furthermore, as part of the sale of three commercial units, the remaining shares (in each case 10.1 percent) in the property companies of BCP in the amount of EUR 6,494k are recognised under other financial assets. They are measured at fair value through profit or loss.

Other non-current assets mainly include advance payments in connection with the expansion of existing residential estates in Göttingen and Wolfsburg and the acquisition of land for project development and project development companies.

8.7 Deferred taxes

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

In EUR ´000	2019	2018
Tax loss carryforwards (deferred tax assets)	78,059	87,527
Valuation of other liabilities (deferred tax assets)	1,961	5,315
Valuation of pension provisions (deferred tax assets)	667	557
Valuation of (convertible) bonds (deferred tax assets)	58	2,183
Valuation of financial liabilities (deferred tax assets)	9,978	10,747
Valuation of rights of use leasing liabilities (deferred tax assets)	8	0
Valuation of investment properties/inventories (deferred tax liabilities)	-517,076	-465,102
Valuation of (convertible) bonds (deferred tax liabilities)	-8,599	-9,505
Accrual of financing costs (deferred tax liabilities)	-2,702	-2,273
Other	-255	-7,709
Total deferred tax assets	90,731	98,621
Total deferred tax liabilities	-528,632	-476,881
Offsetting	-88,776 88,776	-96,086 96,086
Reported deferred tax assets	**1,955**	**2,535**
Reported deferred tax liabilities	**-439,856**	**-380,794**

In the first quarter of 2019, ADLER decided to use the extended property reduction for trade tax purposes for selected companies in the scope of consolidation that exclusively own and manage property holdings. In this context, deferred tax liabilities of EUR 13,652k were reversed through profit or loss.

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 179.5 million (previous year: around EUR 353.8 million) and trade tax loss carryforwards of around EUR 146.7 million (previous year: around EUR 250.8 million) as their realisation is not sufficiently certain. No deferred tax assets were recognised for corporate tax loss carryforwards of around EUR 289.8 million and trade tax loss carryforwards of around EUR 188.2 million as they are expected to be eliminated as a result of ADLER AG's majority takeover by ADO Properties S.A. in the first half of 2020.

No deferred tax liabilities have been recognised on amounts totalling EUR 58.6 million (previous year: EUR 36.0 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 87.289k for properties acquired for sale (previous year: EUR 88,071k) and an amount of EUR 20k for other inventories (previous year: EUR 25k). The portfolio of inventory properties or properties from project developments (newly built apartments) acquired for sale developed as follows:

In EUR ´000	2019	2018
Carrying amounts 01.01.	**88,071**	**2,941**
Additions through acquisition (+)	0	24,466
Additions (+)	58,183	24,805
Disposals (-)	-58,964	-36,663
Reclassifications (+/-)	0	72,522
Carrying amounts 31.12.	**87,289**	**88,071**

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 73.644k (previous year: EUR 87,234k). Inventory properties with total carrying amounts of EUR 57.118k (previous year: EUR 74,600k) are only expected to be sold after more than 12 months.

8.9 Trade receivables, income tax claims and other current assets

Current trade receivables comprise the following items:

In EUR ´000	2019	2018
Rent receivables	11,792	13,542
Contractual assets from operating costs	5,805	155
Contractual assets from project developments	7,464	4,474
Receivables from sale of investment properties	131	171
Other	6,796	7,557
Total	**31,987**	**25,898**

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	2019	2018
Purchase price receivable ACCENTRO including interest claims	56,261	149,878
Current securities	294	14,571
Earmarked financial assets	82,125	46,502
Short-term loans to third parties	20,953	17,648
Short-term loans to associated companies	16,000	0
Sales tax receivables	1,784	1,375
Advance payment of financing costs	1,142	1,723
Derivates current	1,637	139
Receivables reductions in purchase price	3,123	190
Other current assets	9,682	8,454
Total	**193,002**	**240,480**

The ACCENTRO purchase price receivable results from the sale of ACCENTRO in the fourth quarter of 2017. EUR 97.937k (previous year: EUR 17,370k) was repaid on the purchase price receivable in the 2019 financial year. By contrast, interest income on the receivable of EUR 4.319k (previous year: EUR 5,520k) was recognised. The remaining and secured purchase price receivable is to be paid during the financial year 2020 after a further extension of the due date granted.

The bonds that were recognised under current securities in the previous year were reclassified to other financial assets.

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 decide on their disposal.

The item current loans to associated companies includes a portion of the deferred claim for payment against Caesar JV Immobilienbesitz und Verwaltungs GmbH from the sale of properties, which will be due by 1 December 2020 at the latest.

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 237,415 (previous year: EUR 77,655k) as at the balance sheet date, of which an amount of EUR 15.753k (previous year: EUR 44,262k) 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.

Due to the specific restrictions on disposal, bank credit balances of EUR 82,125k (previous year: EUR 46,502k) have been reported for the year under report under other current assets.

8.11 Non-current assets and liabilities held for sale

Non-current assets and liabilities held for sale particularly include the assets and liabilities of ADO Properties after consolidation of transactions within the Group. As ADLER is expected to lose control over ADO Properties again in the first half of 2020, it constitutes a discontinued operation in accordance with IFRS 5.

Following the acquisition of ADO Properties as at 10 December 2019, ADO Properties concluded a share purchase agreement with several shareholders of Consus Real Estate AG (Consus) for the acquisition of 22.2 percent of Consus' outstanding shares in total. By 31 December 2019, the company acquired 18.6 percent of the shares of Consus at a purchase price of EUR 254,185k. The shares were classified as assets measured at fair value through comprehensive income and are reported under other financial assets in the table below. As at 31 December 2019, based on the stock market price, the fair value of these assets amounted to EUR 186,158k. The change in value is reported in other comprehensive income (OCI), taking into account deferred taxes. The remaining shares of 3.6 percent were acquired in January 2020.

In addition, ADO Properties has concluded an option agreement with Consus' major shareholder, Aggregate Holdings S.A. (Aggregate), Luxembourg, which stipulates that ADO Properties will receive a call option from Aggregate allowing ADO Properties to acquire Consus shares, which currently make up 50.97 percent of Consus' total share capital, in exchange for ADO Properties shares. The option is exercisable from the closing date of 15 December 2019 until 16 June 2021.

Under the option agreement, ADO Properties also undertakes to make a voluntary takeover bid to acquire the remaining Consus shares, provided that ADO Properties has exercised the option. As consideration per Consus share, Consus shareholders are to receive 0.2390 newly-created ADO Properties shares each, whereby the exchange ratio is to be adjusted in the event of dividends and raising equity by ADO Properties or Consus. Under the same agreement, Aggregate receives an option to sell its Consus shares in the event of a change of control of ADO Properties. When exercising this option to sell, ADO Properties is obliged to acquire the Consus shares held by Aggregate. The consideration per Consus share consists of either a cash payment of EUR 8.35 or the issue of 0.2390 ADO Properties shares at the choice of ADO Properties, whereby the latter exchange ratio is to be adjusted in the event of dividends and raising equity by ADO Properties or Consus. The option was measured using the Monte Carlo simulation and classified as financial assets at fair value through profit or loss. The option is shown under other financial assets in the table below. As at 31 December 2019, the fair value of the option amounted to EUR 92.009k.

The option was assessed as non-substantial with regard to further potential voting rights which, together with the existing voting rights, could convey control. The main reason for this assessment was that a current exercise can be ruled out based on the objective and structure of the option and taking into account the specific exercise conditions. On the one hand, the exercise of the call option requires the approval of the antitrust authorities. On the other hand, the exercise of the call option is simultaneously linked to an obligation to make a voluntary takeover bid to the remaining shareholders, the completion of which – prior to the successful completion of the planned business combination between ADLER and ADO Properties – is currently economically impossible. A possible exercise of the option as at 31 December 2019 and prior to the completion of the takeover bid of ADO Properties would have had a negative impact on the company’s rating. After a qualitative assessment of all circumstances and facts, no significant influence on the company could be derived from the additional acquisition of around 18.6 percent – in addition to the previous 3.6 percent that the Group indirectly holds via BCP. This is mainly due to the lack of presence in the representative bodies (Management Board and Supervisory Board) of the company, of which around 51 percent is controlled by a major shareholder. There were also no management staff exchanged with Consus. There have been no significant business transactions with Consus to date. No significant technical information has been provided to Consus. Accordingly, no other indicators of significant influence have been identified. The company was therefore not included in the consolidated financial statements as an associated company.

Assets and liabilities of ADO Properties at the balance sheet day are as follows:

In EUR ´000	**31.12.2019**
Property, plant and equipment	10,965
Investment Properties	3,624,453
Other financial investments	285,029
Other non-current assets	6,300
Inventories	39,270
Trade receivables	13,987
Income tax receivables	160
Other current assets	41,376
Cash and cash equivalents	387,558
Total assets	**4,406,098**

In EUR ´000	31.12.2019
Income tax liabilities	334,305
Liabilities from convertible bonds, non-current	93,602
Liabilities from bonds, non-current	402,008
Financial liabilities to banks, non-current	729,698
Other non-current liabilities	30,198
Income tax liabilities	3,109
Financial liabilities to banks, current	40,528
Trade liabilites	22,082
Other current liabilities	44,314
Total liabiities	**1,699,844**

Other non-current assets held for sale primarily include properties recognised at a value of EUR 429,548k (31 December 2018: EUR 185,543k), for which notarial purchase contracts were available at the balance sheet date. The disposal of 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. Other non-current liabilities held for sale of EUR 127,574 are transferred on disposal of the assets.

In detail, the following developments occurred in relation to other non-current assets and liabilities held for sale:

Control over the rental units of the non-core portfolio was transferred in the first quarter of 2019, thus the properties held for sale as at 31 December 2018 with a value of EUR 179,200k were disposed of.

Through its subsidiary BCP, ADLER signed a binding sale and purchase agreement with an established London-based private equity company specialising in real estate on 25 March 2019. The agreement concerns the sale of three commercial units in Rostock, Celle and Castrop-Rauxel. Due to the sale of the commercial units, investment properties of EUR 181,862k, other current assets of EUR 1,840k, financial liabilities to banks of EUR 105,484k, deferred tax liabilities of EUR 12,564k and trade payables/other liabilities of EUR 7,592k were classified as non-current assets or liabilities held for sale and reclassified accordingly. In the second quarter, following the transfer of control, these assets and liabilities were disposed of in corresponding amounts.

At the end of June 2019, ADLER concluded a binding purchase agreement with the Redos Group, Hamburg, as a representative of Union Investment Real Estate GmbH, Hamburg, via its subsidiary BCP. The object of the agreement is the sale of eleven commercial units in Bad Aibling, Vilshofen, Dreieich, Kassel, Laatzen, Leverkusen, Dusseldorf, Cologne, Bad Segeberg, Emden and Witten. Due to the sale of the commercial units, investment properties of EUR 128,641k were classified as non-current assets held for sale and reclassified accordingly. On 31 December 2019, control of a portion of these assets was transferred, such that a reduced amount of EUR 54,155k was reported as held for sale.

At the end of September 2019, ADLER concluded a binding share deal for the sale of a 75 percent shareholding to a project development company in Dusseldorf via its subsidiary BCP. The sale meant that investment properties of EUR 375,000k and financial liabilities to banks of EUR 127,512k were classified as non-current assets held for sale or liabilities held for sale and reclassified accordingly. Goodwill of EUR 1,319k from the acquisition of BCP proportionally attributable to this project development company was also reclassified to non-current assets held for sale and then fully amortised.

8.12 Capital stock

The fully paid up share capital at ADLER amounted to EUR 71,064k as at 31 December 2019 (previous year: EUR 71,064k) and was divided into 71,063,743 (previous year: 71,063,622) no-par bearer shares with equal voting rights. Due to the exercising of conversion rights, capital stock increased marginally. The number of outstanding shares is as follows:

Amount	2019	2018
As at 01.01.	71,063,622	57,547,740
Conversion of convertible bonds	121	13,515,882
As at 31.12.	**71,063,743**	**71,063,622**

The Ordinary General Meeting of the company held on 11 June 2019 replaced the Management Board authorisation resolved on 15 October 2015 to acquire and dispose of treasury stock with a new authorisation to acquire and dispose of treasury stock for a limited period until 10 June 2024.

Authorisation to acquire treasury stock

The Management Board is authorised until 10 June 2024 to acquire treasury stock of the company up to a total of 10 percent of the existing share capital of the company while observing the principle of equal treatment (Section 53a AktG). At no time may the shares acquired on the basis of this authorisation, together with other shares of the company that the company has already acquired or still holds or which are attributable to the company pursuant to Sections 71d and 71e AktG, account for more than 10 percent of the company's respective share capital. The authorisation may be exercised in whole or in part, once or several times. The acquisition may also be carried out by Group companies dependent on the company or by third parties for its or their account. Treasury shares may be acquired only to the extent that the company could form a reserve in the amount of the expenses for the acquisition without reducing the share capital or a reserve to be formed in accordance with the law or the Articles of Association, which may not be used for payments to the shareholders.

The Management Board is authorised, subject to compliance with the principle of equal treatment within the meaning of Section 53a AktG, to resell on the stock exchange any treasury stock acquired by virtue of the aforementioned authorisation or any prior authorisations, or to offer them to the shareholders by way of an offer to all shareholders by maintaining the shareholders' subscription rights. Trading in treasury stock is not permitted.

On 16 June 2017, ADLER AG began a share buyback programme, which has been supplemented twice. The share buyback programme expired in March 2018. A total of 2,583,232 no-par bearer shares were acquired up to 31 December 2018. 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. In the 2019 financial year, the purchase price for the acquisition of property companies was paid partly through the transfer of 980,000 treasury shares, valued at EUR 14.50 per share. The deduction from share capital of EUR 980k was reversed up to the nominal amount of the transferred treasury shares. The difference between the nominal amount and the transfer amount was reallocated to net retained profit up to the amount of EUR 12,279k that was offset. The remaining difference of EUR 951k was allocated to the capital reserve.

Authorised Capital 2017/I

The Ordinary General Meeting of the company resolved on 7 June 2017 to create additional authorised capital. By entry of Authorised Capital 2017/1 in the Commercial Register on 27 June 2017, 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 12,500k by issuing new no-par bearer shares in return for cash contributions or contributions in kind, excluding shareholders' subscription rights.

Authorised Capital 2019/I

The Ordinary General Meeting of the company resolved on 11 June 2019 to create additional authorised capital. By entry of Authorised Capital 2019/1 in the Commercial Register on 17 June 2019, the Management Board is authorised until 10 June 2024, 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 23,000k by issuing new no-par bearer shares in return for cash contributions or contributions in kind, excluding shareholders' subscription rights.

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 General Meeting held on 30 May 2018. The resolution by the Annual General Meeting held on 30 May 2018 regarding 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 issued until 21 May 2020 on the basis of the authorisation granted by the Annual General Meeting on 22 May 2015. In accordance with the terms and conditions 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 entitlements from the beginning of the financial year in which they are issued, 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 EUR 137.9 million, 2.5 percent 2016/2021 convertible bond, Contingent Capital 2015 still amounted to EUR 11,388k as at 31 December 2019.

Contingent Capital 2019/I

The company has Contingent Capital 2019/I of EUR 22,000k based on the resolution by the Ordinary General Meeting held on 11 June 2019. The resolution by the Annual General Meeting held on 11 June 2019 regarding the increase in Contingent Capital 2019/I was entered in the Commercial Register on 17 June 2019.

The contingent capital increase exclusively serves to issue shares to the bearers of warrant or convertible bonds issued until 10 June 2024 on the basis of the authorisation granted by the Annual General Meeting on 11 June 2019. In accordance with the terms and conditions 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 entitlements from the beginning of the financial year in which they are issued, for all financial years for which the Annual General Meeting has not yet adopted any resolutions in respect of the appropriation of profit.

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 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 1k. At the beginning of the third quarter, non-controlling interests amounting to EUR 89,865k were acquired in several subsidiaries of BCP. The consideration for the transaction amounted to EUR 90,837k. As this was a share purchase with no change in status, the difference was offset against the capital reserve.

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 re-measurement 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 re-measurement of pension provisions amounting to EUR -350k (previous year: EUR -48k) and changes in the fair value of financial assets measured at fair value through other comprehensive income amounting to EUR -22,824k (previous year: EUR -802k) after netting with the related taxes were transferred to 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 in previous year 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 -88k (EUR 2k) is attributable to the liquidation 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 breaked down as follows:

in EUR ´000	2019	2018
Subsidiary ADO Properties	1,758,659	0
Subsidiary WESTGRUND	57,102	51,477
Subsidiary BCP	232,503	264,841
Subsidiary JADE	11,618	10,980
WBR Wohnungsbau Rheinhausen GmbH	10,535	9,891
Other	31,575	25,016
Carrying amounts 31.12.	**2,101,992**	**362,205**

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

As a result of the acquisition of ADO Properties, the shares of non-controlling interests increased by EUR 1,742,651k. In the course of the acquisition of property and project development companies, the shares of non-controlling interests increased by a further EUR 3,853k. In the reporting year, non-controlling interests amounting to EUR 89,865k were acquired in several subsidiaries of BCP.

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 ADO Properties in the financial year 2019 no financial information for the 2018 financial year is disclosed.

Combined consolidated balance sheets IFRS	Subsidiary ADO Properties		Subsidiary WESTGRUND		Subsidiary BCP	
Headquarters Minority interest %	**Berlin 66.75**	**Berlin -**	**Berlin 3.12**	**Berlin 3.23**	**Amsterdam 30.19**	**Amsterdam 30.19**
in EUR ´000	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Current assets[1]	464,324	-	50,217	77,529	349,471	80,294
Current liabiliets[1]	111,714	-	70,386	40,751	262,119	151,556
Net current assets	**352,610**	**-**	**-20,169**	**36,778**	**87,352**	**-71,262**
Investment properties	3,624,453	-	1,331,089	1,243,944	1,123,350	1,410,282
Other non-current assets	307,688	-	18,963	3,783	190,363	332,499
Non-current liabilities	1,586,306	-	499,647	534,446	647,628	871,059
Net fixed assets	**2,345,835**	**-**	**850,405**	**713,281**	**666,085**	**871,722**
Equity	**2,698,445**	**-**	**830,236**	**750,059**	**753,437**	**800,460**

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

Combined statement of comprehensive income IFRS	Subsidiary ADO Properties		Subsidiary WESTGRUND		Subsidiary BCP	
in EUR ´000	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Revenue	156,520	-	102,221	99,744	99,675	106,148
Annual result	**606,924**	**-**	**79,953**	**144,753**	**19,311**	**119,043**
Other comprehensive income	-67,502	-	225	456	0	0
Net result	**539,422**	**-**	**80,178**	**145,209**	**19,311**	**119,043**
Profit or loss attributable to non-controlling interests	5,050	-	3,922	7,178	-555	18,124

Combined cash flow statement	Subsidiary ADO Properties		Subsidiary WESTGRUND		Subsidiary BCP	
In EUR ´000	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Cash flow from operating activities	88,764	-	26,843	23,045	37,508	-68,059
Cash flow from investing activities	269,061	-	-10,628	-9,335	89,948	-56,394
Cash flow from financing activities	1,767	-	-16,877	-51,452	-110,185	38,462
Change in cash and cash equivalents	**359,592**	**-**	**-662**	**-37,742**	**17,271**	**-85,991**

8.17 Pension provisions

The projected unit credit method was used for the recognition and measurement of pension provisions as at 31 December 2019. 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	31.12.2019	31.12.2018
Discount rate	1.00%	1.80%
Future salary increases	0.00% to 2.35%	0.00% to 2.50%
Future pension increases	1.5% to 1.6%	1.5% to 1.75%
Best-estimate actuarial assumptions	Mortality tables 2018 G by Dr. Klaus Heubeck	Mortality tables 2018 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 Adler Wohnen Service GmbH.

After offsetting against plan assets, the pension provisions amounted to EUR 4,092k as at the balance sheet date (previous year: EUR 3,714k). Plan assets were taken into account at EUR 1,094k (previous year: EUR 1,069k).

Actuarial losses of EUR 502k (excluding deferred taxes) were recognised in other comprehensive income in 2019 (previous year: EUR 68k).

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 2019:

In EUR ´000		2019	2018
Actuarial interest	Increase of 0.5 PP	-308	-273
	Decrease of 0.5 PP	346	307
Pension increase	Increase of 0.25 PP	42	42
	Decrease of 0.25 PP	-41	-40
Income trend	Increase of 0.25 PP	1	1
	Decrease of 0.25 PP	-1	-1

Of pension provisions, an amount of EUR 206k 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 206k is expected in future years as well.

8.18 Other provisions

A contingent liability of EUR 2,954k (previous year: 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 124k (previous year: EUR 250k) in provisions from the SAR programme, EUR 18k (previous year: EUR 56k) for early retirement commitments and EUR 52k (previous year: EUR 53k) for anniversary provisions.

8.19 Liabilities from convertible bonds

In EUR ´000	31.12.2019	31.12.2018
Convertible bond 2016/2021	124,196	119,272
Total	**124,196**	**119,272**
– of which non-current	122,249	117,516
– of which current	1,947	1,756

The 2016/2021 convertible bond with a total number of 10,000,000 bonds with a nominal value of EUR 13.79 per bond was issued in June 2016. The convertible bond totals EUR 137,900k, has an interest rate of 2.5 percent and matures in July 2021. ADLER grants each bondholder the right, within the exercise period, to convert each bond into no-par bearer shares in ADLER each representing a nominal value of EUR 1.00 of the share capital as at the issue date. The conversion price at issuance was EUR 13.79. The conversion price was adjusted to EUR 12.5364 as at 7 June 2017 and then to EUR 12.5039 as at 31 August 2018 as a result of the issuing of bonus shares. A total of 611,882 bonds were converted up to 31 December 2019, which means that there are now only 11,388,118 convertible bonds in issue.

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	31.12.2019	31.12.2018
Bond 2015/2020	0	299,052
Bond 2017/2021	495,020	492,278
Bond 2017/2024	300,692	300,630
Bond 2018/2023	497,759	495,317
Bond 2018/2026	298,930	297,946
Bond 2019/2022	399,920	0
Bond BCP 2011/2020 (A)	15,828	29,188
Bond BCP 2013/2024 (B)	49,816	48,636
Bond BCP 2014/2026 (C)	40,590	38,324
Bond ADO Group 2015/2023 (G)	173,820	0
Bond ADO Group 2017/2025 (H)	157,083	0
Total	**2,429,458**	**2,001,371**
– of which non-current	2,327,846	1,961,112
– of which current	101,612	40,259

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 has a volume of EUR 500,000k, a coupon of 1.88 percent and a term until April 2023; the second tranche has 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.

In April 2019, ADLER successfully placed a corporate bond of EUR 400,000k with a coupon of 1.5 percent with institutional investors in Europe. The bond has a three-year term and matures in April 2022. The net issue proceeds serve exclusively to refinance existing liabilities. In this context, in mid-April, the 2015/2020 corporate bond which still had a volume of EUR 300 million was terminated early. It was repaid in June 2019 at nominal value.

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 106,234k in total (previous year EUR 116,148k). 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.

As part of the acquisition of the ADO Group, ADLER has acquired liabilities for bonds in two tranches with an original volume of NIS 1,147 million. As at the balance sheet date, the amortised cost amounted to EUR 330,903k in total. Tranche G (originally NIS 608 million) has a term up to January 2023 and a 4.05 percent interest rate. Tranche H (originally NIS 539 million) has a term up to June 2025 and a 2.50 percent interest rate. The interest rate and the repayment of the two tranches are also linked to the development of the Israeli Consumer Price Index. Interests in ADO Properties 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 2,002,136 as at the balance sheet date (previous year: EUR 1,476,187k). The increase compared to the previous year is mainly due to the raising of a bridge loan to finance the acquisition of shares in ADO Group (EUR 700,172k) and the initial consolidation of ADO Group (EUR 27,617k). This was offset by the disposal in the context of the sale of BCP commercial units and the reclassification to current financial liabilities due to repayments, in particular in connection with the sale of the second tranche of BCP's commercial portfolio. Financial liabilities were also reclassified to liabilities held for sale in connection with the sale of a BCP project development company.

Current financial liabilities to banks amounted to EUR 157,708k as at the balance sheet date (31 December 2018: EUR 142,408k). 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	2019	2018
Investment properties	1,438,791	2,500,953
Properties in inventories	73,644	87,234
Deposits with banks	59,737	49,478
Rent receivables	8,104	9,586

8.22 Other non-current liabilities

Other non-current liabilities mainly include non-current lease liabilities at EUR 20,525k (previous year: EUR 12,054k), the negative fair values of long-term interest hedges at EUR 5,973k (previous year: EUR 5,888k) – further information about these can be found in Note 11.3, "Derivative financial instruments and hedge accounting" and Note 12 "Information on leases in accordance with IFRS 16" .

The liability to the Federal and State Government Employees Retirement Fund (VBL) at EUR 8,608k (previous year: EUR 7,774k) were transferred to other current liabilities in the reporting year. Distribution claims on the part of non-controlling interests have been recognised at EUR 2,660k (previous year: EUR 3,040k).

8.23 Trade payables, income tax liabilities and other current liabilities

All the trade payables of EUR 37,380k (previous year: EUR 47,440k) 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 15,960k (previous year: EUR 12.921k) involve corporate income and trade tax obligations for the current and previous financial years.

Other current liabilities comprise the following items:

In EUR '000	2019	2018
Purchase price liabilities	17,690	18,371
Payments received – Investment Properties	220	23,198
Deferred rental income	3,655	4,427
Payment received – Project Development	1,143	841
Selling costs commercial real estate	8,363	0
Security deposits received	8,699	8,060
Liability to Federal and State Goverment Employees Retirement Fund (VBL)	8,608	0
Personnel obligations	7,545	2,800
Derivates current	393	583
Current lease liabilities	2,701	46
Real estate transfer tax	1,667	0
Other current liabilities	2,613	1,391
Total	**63,297**	**59,717**

The short-term purchase price liabilities relate to the acquisition of the Wasserstadt Mitte property project development.

Advance payments received for sales of investment properties (contract liabilities) relate to disposals for which the benefits and obligations had not yet been transferred and control had not yet been transferred in the reporting year.

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

Liabilities from costs of disposal are attributable to expenses in connection with the disposal of the BCP commercial units.

The received deposits shown are attributable to BCP.

The obligation to the VBL results from the acquisition of JADE and was measured at fair value as at the balance sheet date.

The additional disclosures in accordance with IFRS 16 on lease liabilities are presented in Section 12 of the notes to the consolidated financial statements.

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	2019	2018
Net income	248,735	238,412
Income from charged operating costs	114,961	107,649
Other income from property management	6,666	3,534
Total	**370,362**	**349,595**

Net rental income in an amount of EUR 73,771k (previous year: EUR 59,406k), income from charged operating costs in an amount of EUR 25,904k (previous year: EUR 20,406k) and other income from property management in an amount of EUR 0k (previous year: 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	2019	2018
Apportionable and non-apportionable operating costs	124,279	122,458
Maintenance	26,293	22,763
Other property management expenses	472	687
Total	**151,044**	**145,908**

The operating costs amounted to EUR 29,524k (previous year: EUR 24,358k), the maintenance expenses to EUR 4,878k (previous year: EUR 2,839k) and the other property management expenses to EUR 0k (previous year: 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	2019	2018
Income from the disposal of project development inventory properties	70,029	44,178
Income from the disposal of other inventory properties	81	0
Income from the disposal of investment properties	463,713	30,890
Total	**533,823**	**75,068**

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 275,060k (previous year: EUR 12,124k). The income from the sale of investment properties is attributable to the sale of the rental units in the non-core portfolio and the BCP commercial units.

9.4 Expenses from the sale of properties

Expenses from the sale of properties are structured as follows:

In EUR '000	2019	2018
Carrying amount of disposed project development inventory properties	58,894	36,663
Carrying amount of disposed other inventory properties	70	0
Carrying amount of disposed investment properties	463,618	29,946
Costs of disposal	10,747	354
Total	**533,329**	**66,963**

As in the previous year, the retirements of inventory properties are fully attributable to the project development of BCP in the period under report, while the retirements of investment properties amount to EUR 275,059k (previous year: EUR 11,900k).

The carrying amount disposals from the sale of investment properties are attributable to the sale of the rental units in the non-core portfolio and the BCP commercial units.

The costs of disposal amounting to EUR 10,511k (previous year: EUR 0k) are attributable to expenses in connection with the disposal of the BCP commercial units.

9.5 Personnel expenses

Personnel expenses include the following items:

In EUR '000	2019	2018
Wages, salaries and other benefits	41,095	29,389
Social security contributions	5,025	5,142
Old-age pension expenses	1,010	607
Total	**47,130**	**35,138**

Personnel expenses in the amount of EUR 9,573k (in previous year: EUR 6,254k) are attributable to BCP in the year under review.

In the year under review, an addition of the VBL obligations amounting to EUR 951k (in previous year: 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 a 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 31.12.2019	Total	of which Board
Number of fully-earned SAR	83,590	83,590
Proportional recorded number of SAR in expenses	105,739	105,739
Fair value per SAR in EUR	1,17	1,17
Expenses in the reporting period in EUR´000	65	33
Provision for due date in EUR´000	**124**	**124**
of which intrinsic value for the earned SAR in EUR´000	20	20

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	198,776
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

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

Structure/valuation parameter 2019	Total	of which Board
Maximum amount of granted SARs	**599,178**	**113,000**
Balance/Payment	**in cash**	**in cash**
Structure		
SARs granted at the beginning of reporting period		
Total number	267,000	234,000
Weighted basis price	13.75	13.75
SARs granted in the reporting period		
Total number	0	0
Weighted basis price	-	-
SARs contractually vested in the reporting period		
Total number	44,338	44,338
Weighted basis price	13.83	13.83
SARs forfeited in the reporting period		
Total number	0	0
Weighted basis price	-	-
SARs exercised in the reporting period		
Total number	154,000	121,000
Weighted basis price	12.10	12.25
Weighted average share price upon excercise	13.34	14.30
Exercise date	9 June 2019	9 June 2019
SARs outstanding at the end of reporting period		
Total number	113,000	113,000
Weighted basis prices	13.75	13.75
Min basis price	12.93	12.93
Max basis price	14.26	14.26
Weighted average remaining term in years	0.69	0.69
SARs exercisable		
Total number	0	0
Weighted basis price	-	-
Value determination		
Weighted average fair value of the option	1.19	1.19
Applied pricing model	Binomial model	Binomial model
Weighted average share price	13.60	13.60
Weighted average basis price	13.75	13.75
Anticipated yearly volatility	30.18 %	30.18 %
Anticipated dividend	0 %	0 %
Risk-free yearly interest rate	-0.76 %	-0.76 %

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 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 December 2018	9 December 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 logarithmised daily equity return over periods of six months, one, and one 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	2019	2018
Reversal of provisions and of provision-like liabilities	1,702	3,258
Insurance claims	1,660	1,719
Other	5,003	3,937
Total	**8,364**	**8,914**

Other operating income in the amount of EUR 500k is attributable to BCP in the year under review (previous year: EUR 0k).

9.7 Other operating expenses

Other operating expenses break down as follows:

In EUR '000	2019	2018
Legal and consulting expenses	24,091	28,657
Impairment and write-downs of receivables	10,962	10,655
General and administrative expenses	1,136	1,359
Purchased services	4,440	2,975
Office and IT expenses	7,997	5,983
Cost of premises	3,240	3,122
Public relations	924	1,478
Miscellaneous other expenses	16,174	12,039
Total	**68,964**	**66,268**

Other operating expenses in the amount of EUR 13,938k are attributable to BCP in the year under review (previous year: EUR 8,164k).

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 5,712k (previous year: EUR1,601k).

9.10 Financial income

Financial income is structured as follows:

In EUR ´000	2019	2018
Interest income – financial assets measured at amortised cost	6,598	6,477
Interest income – financial assets at fair value through other comprehensive income	836	897
Net change in fair value of derivatives	2,418	6,034
Net change in fair value of other financial instruments at fair value through profit or loss	0	2,019
Reversal of impairment of financial assets measured at amortised cost – loans, restricted funds and deposits at banks	254	864
Other financial income	84	4
Total	**10,190**	**16,295**

Financial income in the amount of EUR 2,423k is attributable to BCP in the year under review (previous year: EUR 7,566k).

9.11 Financial expenses

Financial expenses are structured as follows:

In EUR ´000	2019	2018
Interest expenses – financial liabilities measured at amortised cost		
Interest expenses – bank loans	42,157	87,290
Interest expenses – bonds	55,243	49,160
Interest expenses – convertible bonds	8,186	8,270
Interest expenses – leasing	1,179	0
Interest expenses – other	347	792
Net change in fair value of derivatives	613	349
Net change in fair value of other financial instruments at fair value through profit or loss	1,364	0
Impairment of financial assets measured at amortised cost (loans, restricted funds, deposits at banks)	820	438
Impairment of financial assets measured at fair value with changes in other comprehensive income	6	0
Net foreign exchange losses	10,869	987
Accrued interest on provisions	65	71
Other financial expenses	36	166
Total	**120,885**	**147,523**

Financial expenses in the amount of EUR 36,893k are attributable to BCP in the year under review (previous year: EUR 10,427k).

The interest expenses for bank loans include prepayment penalties and transaction costs that required immediate recognition as expenses due to the early repayment of financial liabilities to banks and other expenses related to the refinancing of EUR 10,947k (previous year: EUR 37,487k) in total.

The interest expenses for bonds include prepayment penalties and transaction costs of EUR 2,900k (EUR 7,003k) that were recognised immediately as expenses due to the early repayment of the bonds.

9.12 Income from at-equity valued investment associates

Further information can be found in Note 8.5.

9.13 Income taxes

Taxes on income are broken down as follows:

In EUR '000	2019	2018
Current income tax expense	16,227	13,240
Income tax expense (income) from other accounting periods	1,536	-869
Actual income tax expense	**17,763**	**12,371**
Deferred tax expense (income), loss carry forwards	9,467	-13,380
Deferred tax expense (income), temporary differences	54,001	123,585
Deferred taxes	**63,468**	**110,205**
Total	**81,231**	**122,576**

Tax expenses in the amount of EUR 42,518k are attributable to BCP in the year under review (previous year: EUR 24,034k). Current tax expense is calculated on the basis of the taxable income for the financial year. For the 2019 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	2019	2018
Earnings before taxes	356,987	454,762
Expected income tax 30.175% (previous year: 30.175%)	107,721	137,225
Reconciliation due to tax effects:		
Income taxes, previous years	1,536	-869
Derecognition of deferred tax assets, previous years	14,052	2,557
Sales proceeds exempt from taxes	-1,355	-250
Different tax rates	-57,880	-41,687
Utilisation of loss carryforwards not capitalised as deferred taxes	-3,768	-3,835
Non-deductible expenses	9,178	94
Unrecognised deferred tax assets on losses	7,746	22,450
Deferred taxes on loss carryforwards acquired	0	0
Trade tax effects	2,896	6,424
Deferred taxes, previous years	0	0
Other	1,105	467
Total	**81,231**	**122,576**

9.14 Earnings after taxes and total comprehensive income from discontinued operations

In EUR ´000	2019	2018
Income from property lettings	0	0
Expenses from property lettings	0	0
Earnings from property lettings	**0**	**0**
Income from the sale of properties	0	0
Expenses from the sale of properties	0	0
Earnings from the sale of properties	**0**	**0**
Personnel expenses	0	0
Other operating income	0	0
Other operating expenses	0	0
Income from fair value adjustments of investment properties	0	0
Depreciation and amortisation	0	0
Earnings before interest and taxes (EBIT)	**0**	**0**
Financial income [1)]	92,009	0
Financial expenses [1)]	0	0
Income from at-equity valued investment associates [1)]	0	0
Earnings before taxes (EBT) [1)]	**92,009**	**0**
Income taxes	0	0
Earnings after tax from discontinued operations [1)]	**92,009**	**0**
Change in value of equity instruments measured at fair value through OCI	-68,027	0
Total comprehensive income of discontinued operations	**23,982**	**0**

[1)] Reporting, including the previous year, adjusted in accordance with IFRS 5.26 et seq., see Note 2.1 and 8.5

The financial income is based on the valuation of a call option for the acquisition of further shares in Consus by ADO Properties.

The changes in value of equity instruments measured at fair value through OCI result from the valuation of the shares in Consus that have already been acquired by ADO Properties.

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).

Earnings per share are structured as follows:

	2019 Continuing operations	2019 Discontinued operations	2019 Total
Consolidated net earnings (in EUR ´000)	275,755	92,009	367,764
Consolidated net earnings without non-controlling interests	207,745	30,593	238,338
Expenses incl. deferred taxes on convertibles	5,716	0	5,716
Consolidated net earnings without non-controlling interests (diluted)	213,461	30,593	244,054
Number of shares (in thousands)			
Weighted number of subscribed shares	68,922	68,922	68,922
Effect of conversion of convertibles	10,419	10,419	10,419
Weighted number of shares (diluted)	79,340	79,340	79,340
Earnings per share (in EUR)			
Basic earnings per share	3.01	0.44	3.46
Diluted earnings per share	2.69	0.39	3.08

	2018 Continuing operations	2018 Discontinued operations	2018 Total
Consolidated net earnings (in EUR ´000) [1]	332,449	0	332,449
Consolidated net earnings without non-controlling interests [1]	265,556	0	265,556
Expenses incl. deferred taxes on convertibles	5,621	0	5,621
Consolidated net earnings without non-controlling interests (diluted) [1]	271,177	0	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

[1] Reporting, including the previous year, adjusted in accordance with IFRS 5.26 et seq., see Note 2.1 and 8.5

10. DISCLOSURES ON REVENUES FROM CONTRACTS WITH CUSTOMERS (IFRS 15)

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**		**Other**			
		2019	**2018**	**2019**	**2018**	**2019**	**2018**
Revenues from leases (IFRS 16; 2018 IAS 17)		**265,610**	**238,207**	**208**	**205**	**265,818**	**238,412**
Net rental income	9.1	248,527	238,207	208	205	248,735	238,412
Income from charging of expenses for property tax and building insurance	12	17,083	-	0	-	17,083	-
Revenues from contracts with customers (IFRS 15)		**638,367**	**186,251**	**0**	**0**	**638,367**	**186,251**
Income from charged operating costs	9.1	97,878	107,650	0	0	97,878	107,650
Other income from property management	9.1	6,666	3,533	0	0	6,666	3,533
Income from the disposal of project developments	9.3	70,029	44,178	0	0	70,029	44,178
Income from the disposal of other inventory properties	9.3	81	0	0	0	81	0
Income from the sale of investment properties	9.3	463,713	30,890	0	0	463,713	30,890
Date of revenue recognition							
Revenue recognition over a period of time		440,183	393,568	208	205	440,391	393,773
Revenue recognition based on a point in time		463,794	30,890	0	0	463,794	30,890
Income from property lettings		**370,154**	**349,390**	**208**	**205**	**370,362**	**349,595**
Income from the sale of properties		**533,823**	**75,068**	**0**	**0**	**533,823**	**75,068**

The table below provides information on receivables, contractual assets and contract liabilities from contracts with customers.

in EUR ´000	Notes	31.12.19	31.12.2018
Contractual assets operating expenses	8.9	5,805	155
Receivables from sale of investment properties	8.9	131	171
Prepayments received from investment properties	8.23	220	23,198
Contractual assets project developments	8.9	7,464	4,474
Prepayments received project developments	8.23	1,143	841

Liabilities from the services that have not yet been invoiced related to operating costs are reported net with the advance payments of operating costs, while 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 2019 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.

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 against the contract assets.

As permitted under IFRS 15, no information is provided on the remaining performance obligations as at 31 December 2019, 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 IFRS 9 measurement categories as at the individual balance sheet dates.

31.12.2019 In EUR ´000	Category according to IFRS 9	Total carrying amount
Assets		
Loans to associated companies	aac	79,524
Other financial investments	aafv, aafvoci	56,603
Trade receivables	aac	31,987
Other current assets	aac, aafv, aafvoci	193,002
Cash and cash equivalents	aac	237,415
Liabilities		
Financial liabilities to banks and (convertible) bonds	flac	4,841,072[1)]
Trade payables	flac	37,380
Other liabilities	flac, lafv	92,456
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

[1)] Including IFRS 5 Debts held for sale without discontinued ADO Properties

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
79,524	79,524	0	0	79,524	-4,546
56,603	0	14,454	42,149	56,603	-188
31,987	31,987	0	0	31,987	-37,619
185,088	183,156	294	1,637	185,088	-336
237,415	237,415	0	0	237,415	-148
4,841,072	4,841,072	0	0	4,923,804	0
37,380	37,380	0	0	37,380	0
78,068	63,094	0	14,974	78,068	0
532,082	532,082	0	0	532,082	-42,649
43,786	0	0	43,786	43,786	0
14,748	0	14,748	0	14,748	-188
14,974	0	0	14,974	14,974	0
4,941,546	4,941,546	0	0	5,024,278	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	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	42,819	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 79,662k (previous year: EUR 85.465k) were netted against an amount of EUR 85,466k (previous year: EUR 85,620k) for receivables from unbilled services, with the net amount being recognised as 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		
31.12.2019 In EUR ´000	**Total carrying amount**	**of which Level 1**	**of which Level 2**	**of which Level 3**
Assets				
Investment properties	4,920,008	0	0	4,920,008
Other financial instruments: Equity instruments – aafv	42,149	42,149	0	0
Other current assets: Debt instruments – aafvoci	14,748	14,748	0	0
Other current assets: Derivatives – aafv	1,637	0	1,637	0
Non-current assets held for sale according to IFRS 5	429,280	429,280	0	0
Equity and liabilities				
Other liabilities: Derivatives – lafv	6,366	0	6,366	0
Other non-current liabilities: Liabilities VBL – lafv	8,608	0	0	8,608
Liabilities held for sale according to IFRS 5	127,574	0	0	127,574

		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	185.543[1)]	185.543	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

1) For information on the remeining shares in ACCENTRO, including the previous year, adjusted in accordance with IFRS 5.26 ff; see section 2.1 of the notes to the consolidated financial statements.

Trade receivables, other current assets and cash and cash equivalents have short remaining terms. Their carrying amounts as at the balance sheet date are 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 2019 Interest	Profit/loss	Total
Financial assets measured at amortised cost	aac	6,598	-11,202	-4,604
Financial assets at fair value through profit or loss	aafv	0	-1,370	-1,370
Financial assets measured at fair value through other comprehensive income	aafvoci	836	-205	631
Financial liabilities measured at fair value through profit or loss	lafv	0	1,805	1,805
Financial liabilities measured at amortised cost	flac	-107,112	-9,567	-116,680
Total		**-99,678**	**-20,539**	**-120,217**

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**

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	31.12.2019		31.12.2018	
Change in interest rate	+ 50 bp	- 50 bp	+ 50 bp	- 50 bp
Effect on interest expense in EUR ´000	823	-823	1,250	-1,250

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 2019 been 100 basis points higher/lower, the fair values of derivatives (EUR 6,364k previous year: EUR 6,079k) would have changed by EUR +3,546k (previous year: EUR +5,122k) or EUR -3,513k (previous year: EUR -2,740k).

(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	Category according to IFRS 9	2019
Impairment loss trade receivables	aac	13,240
Impairment loss loans to associated companies	aac	157
Impairment loss other current assets – loans, restricted funds and cash and cash equivalents – deposits at banks	aac	663
Total		**14,060**

In EUR ´000	Category according to 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 the transfer of operating expenses, 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 from the tenants in the corresponding amount. Purchase prices for investment properties are usually lodged to 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, 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	2019		
	not impaired	impaired	
		credit rating not impaired	credit rating impaired
Rent receivables	8,017	2,063	39,330
Contractual assets from operating costs	5,805	0	0
Receivables from the sale of investment properties	131	0	0
Contract assets project development	7,464	0	0
Other	6,795	0	0
Gross total carrying amount	28,212	2,063	39,330
Accumulated impairment losses	0	413	37,206
Net total carrying amount	28,212	1,650	2,124

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.

31.12.19 In EUR ´000	Loss rate	Gross carrying amount	Impairment	Impaired credit rating
Not past due	0%	202	0	no
1 to 30 days past due	0%	7,815	0	no
31 to 90 days past due	20%	2,063	413	no
91 to 180 days past due	50%	4,247	2,124	yes
more than 180 days past due	100%	35,082	35,082	yes

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

Impairments of trade receivables have developed as follows:

In EUR ´000	2019	2018
As at 01.01 according to IAS 39	**-**	**61,551**
Adjustments arising from the first-time application of IFRS 9	-	44
As at 01.01 according to IFRS 9	**66,795**	61,595
Change in the scope of consolidation	0	4,549
Additions (impairment)	13,240	12,476
Utilisation/reversals	-42,416	-11,825
As at 31 December	**37,619**	**66,795**

The changes in value adjustment on trade receivables result mainly from the derecognition of receivables that have been written down in full.

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 2019	Net carrying amount 2018
Loans to associated companies	aac	79,524	7,667
Other assets – bonds	aafvoci	14,454	0
Other current assets – purchase price receivable ACCENTRO	aac	56,261	149,878
Other current assets – restricted funds	aac	82,125	46,502
Other current assets – loans	aac	44,771	17,648
Other current assets – bonds	aafvoci	294	14,571
Cash and cash equivalents – deposits at banks	aac	237,380	77,630
Total		**514,809**	**313,896**

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:

	2019					
	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)	-	-	-	319,664	-	-
Satisfactory credit rating (average default risk)	16,910	-	-	74,639	-	-
Sufficient credit rating (increased default risk)	-	-	-	-	-	-
Poor credit rating (high default risk)	-	-	-	-	-	-
Insufficient credit rating (very high default risk)	-	-	-	-	-	3,933
Gross total carrying amount	**16,910**	**-**	**-**	**394,303**	**-**	**3,933**
Accumulated impairment losses	188	-	-	1,097	-	3,933
Other comprehensive income	1,974	-	-	-	-	-
Net total carrying amount	**14,748**	**-**	**-**	**393,206**	**-**	**0**

	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 credit 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 deferred ACCENTRO purchase price receivable. The same applies for the deferred remaining receivables from the sale of 1,400 rental units to Caesar JV Immobilienbesitz und Verwaltungs GmbH.

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:

	2019			
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 IFRS 9	**668**	**-**	**3,776**	**4,444**
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	-254	-	-	-254
Newly acquired financial assets	663	-	157	820
As at 31.12	**1,076**	**-**	**3,933**	**5,009**

	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 31.12	**668**	**-**	**3,776**	**4,444**

Impairment losses on financial assets measured at fair value through comprehensive income developed as follows over the course of the year:

	2019			
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 IFRS 9	**182**	**-**	**-**	**182**
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	-	-	-	-
Newly acquired financial assets	6	-	-	6
As at 31.12	**188**	**-**	**-**	**188**

	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	**-**	**-**	**-**	**-**
Adjustments arising from the first-time application of IFRS 9	-	-	-	210
As at 01.01 according to IFRS 9	**210**	**-**	**-**	**210**
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	-28	-	-	-28
Newly acquired financial assets	-	-	-	-
As at 31.12	**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. We refer to the presentation in section 14.7 Events after the balance sheet date.

The ADLER Group had cash and cash equivalents of EUR 237,415k at the balance sheet date (previous year: EUR 77,655k). In addition, restricted cash and cash equivalents of EUR 82,125k are subject to restrictions on disposal and have been recognised under other current assets (previous year: EUR 46,502k).

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.

31.12.2019	**Cash outflows**					
In EUR ´000	**2020**	**2021**	**2022**	**2023**	**2024**	**> 2024**
Liabilities to banks	337,990[1)]	1,126,493	214,689	82,068	94,520	590,954
Liabilities from bonds	130,260	611,397	495,653	589,315	379,235	401,379
Liabilities from convertible bonds	3,256	133,503	0	0	0	0
Trade payables	37,380	0	0	0	0	0
Other liabilities	46,338	380	380	380	380	760
Total	**555,224**	**1,871,773**	**710,722**	**671,763**	**474,135**	**993,093**

1) Including liabilities to banks (IFRS 5)

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**

Further information about outflows of cash for lease liabilities can be found in chapter 12.

(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 1,739 million on which the banks have imposed requirements in the form of financial covenants (previous year: EUR 1,063 million). Depending on the property to which such agreements apply, the Group must achieve a debt service coverage ratio (DSCR) of between 107 percent and 160 percent (previous year: between 105 percent and 175 percent), an interest coverage ratio (ICR) of 1.26 to 2.10 (previous year: 1.26 to 2.10), a loan-to-value (LTV) ratio of between 60 percent and 80 percent (previous year: between 65 percent and 82 percent) or a loan-to-mortgage-lending-value (LTMLV) ratio of no more than 74 percent (previous year: no more than 82 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 the ADO Group and BCP, ADLER took over in total five bonds. All five bonds were issued in New Israeli Shekels (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 2019 been 5 percent higher/lower, the fair value of the bonds would have changed by EUR 20,584k (previous year EUR 5,212k) or EUR -20,584k (previous year EUR -5,760k). If the CPI had increased/reduced by 3 percent the fair value of the bonds would have changed by EUR -12,527 (previous year EUR -884k) or EUR 10,572k (previous year EUR 312k).

To reduce its foreign exchange risk (EUR/USD), BCP deploys foreign currency derivatives (see Note 11.3) Had the exchange rate as at 31 December 2019 been 5 percent higher/lower, the fair values of derivatives (EUR 1,635k, previous year EUR -253k) would have changed by EUR 1,500k (previous year EUR 2,750k) or EUR -1,500k (previous year EUR -2,750k).

11.3 Derivative financial instruments

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 by BCP.

The fair values of the interest hedge contracts amounted to EUR -6,364k as at the balance sheet date (previous year: EUR -6,079k). The fair values and nominal values of the interest hedge contracts broken down by maturity are presented below:

	Fair Values		Nominal	
In EUR ´000	**2019**	**2018**	**2019**	**2018**
Up to 1 year	-393	-386	2,613	6,406
Due between 1 and 5 years	-5,702	-2,103	184,472	123,154
Due between 5 and 10 years	-269	-3,590	7,651	55,387
Total	**-6,364**	**-6,079**	**194,735**	**184,946**

The fair values of the foreign currency derivatives amounted to EUR -1,635k as at the balance sheet date (previous year: EUR -253k). The fair values and nominal values of the interest hedge contracts broken down by maturity are presented below:

	Fair Values		Nominal	
In EUR ´000	**2019**	**2018**	**2019**	**2018**
Up to 1 year	1,635	-196	30,000	42,706
Due between 1 and 5 years	0	-57	0	12,294
Due between 5 and 10 years	0	-	0	0
Total	**1,635**	**-253**	**30,000**	**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**	**31.12.2019**	**31.12.2018**
Other current asset (measured at fair value though profit or loss)	no	1,637	139
Other current liabilities (measured at fair value through profit or loss)	no	-393	-583
Other non-current liabilities (measured at fair value through profit or loss)	no	-5,973	-5,888
Total		**-4,729**	**-6,332**

A valuation result of EUR 1,805k was recognised for derivatives in the financial year (previous year: EUR 5,685k).

12. DISCLOSURES ON LEASES IN ACCORDANCE WITH IFRS 16

The effect of the adoption of IFRS 16 on the Group's leases is described in Note 2.2. Due to the modified retrospective method used by ADLER for IFRS 16, the comparative information from the previous year was not restated in line with the new regulations.

Leases as a lessee

In particular, ADLER enters into leases for the following assets:

- Leasehold contracts for land (leaseholds)
- Leases for office space, garages and storage space (property)
- Leases for cars and commercial vehicles (vehicles)
- Leases for hardware and heating equipment (hardware and contracting)

Leasehold contracts have terms of up to 200 years and sometimes provide for preferential rights of renewal in the event of a renewed leasehold following the expiry of the contract or for the right of first refusal in the event of the land being sold. The lessee has no renewal or purchase options. Some of the leasehold payments are index-linked. The future cash flows are discounted using interest rates for specific properties or market-based discount rates ranging from 4.0 percent to 7.8 percent. Most of the leasehold contracts were already classified as finance leases in accordance with IAS 17.

ADLER leases office space, garages and storage space. These leases typically do not have a fixed term and can be terminated by the contracting parties observing a defined notice period. In assessing the term of such leases, ADLER assumed that the respective leases will remain in effect for five years, unless there were specific indications of shorter use. Some leases provide for additional lease payments based on changes in local price indexes. These leases were previously classified as operating leases in accordance with IAS 17.

The terms for leases for cars and commercial vehicles are typically between three and four years. Typically there are no renewal or purchase options, or such options are not exercised. These leases were also previously classified as operating leases in accordance with IAS 17.

ADLER leases hardware and heating equipment (contracting). The terms for leases for hardware are typically between four and five years. Typically there are no renewal or purchase options, or such options are not exercised. In the context of contracting agreements, the leases for heating equipment will gradually expire by 2031 at the latest and will not be renewed.

Lease obligations not resulting from leaseholds are discounted using the incremental borrowing rate. Discount rates of between 2.05 percent and 3.00 percent were applied in the reporting year.

ADLER reports right-of-use assets that do not meet the definition of investment property in its statement of financial position under property, plant and equipment and lease liabilities in other liabilities. Right-of-use assets to investment property (leaseholds) measured at fair value in accordance with IAS 40 are likewise measured at fair value and reported under investment properties.

The following table shows the right-of-use assets that do not meet the definition of investment property.

in EUR ´000 2019	Property	Vehicles	Hardware/ Contracting	Total
Carrying amounts 01.01.	**0**	**0**	**0**	**0**
Addition from the first-time application of IFRS 16 (+)	4,578	1,781	335	6,694
Additions from acquisitions (+)	365	0	0	365
Addition in current year (+)	259	1,201	968	2,427
Depreciation and amortisation (–)	-1,299	-889	-288	-2,476
Disposals (–)	0	-55	-20	-75
Carrying amounts 31.12.	**3,903**	**2,038**	**995**	**6,936**

The following table shows the amounts recognised in the consolidated statement of comprehensive income in connection with leases (including leaseholds):

in EUR ´000 2019	2019
Interest expenses for lease liabilities	1,179
Expenses for short-term leases	137
Expenses for low-value leases	1,928
Total	**3,244**

The expenses for low-value leases essentially relate to payments for emergency call devices in lifts, smoke alarms, heating and water meters.

The carrying amounts of lease liabilities and the cumulative lease payments over the lease term (including leaseholds) break down as follows by maturity:

in EUR ´000	Carrying amount 2019	Lease payments in 2019	Carrying amount 2018	Lease payments 2018
Up to 1 year	2,701	3,798	46	746
1 to 5 years	4,258	8,205	1.147	2.985
More than 5 years	16,267	88,998	10.906	81.167
	23,226	**101,001**	**12.099**	**84.898**
Less future interest costs		-77,775		-72.799
Total	**23,226**	**23,226**	**12.099**	**12.099**

The carrying amounts and lease payments related to leaseholds classified as finance leases in the 2018 financial year.

Leases as a lessor

ADLER leases its investment property. A lessor classifies these leases as operating leases as the lessee does not receive substantially all of the risks and rewards incidental to ownership.

Thus, revenue from the charge of property tax and building insurance expenses of EUR 17,083k are included in the scope of IFRS 16 from the 2019 financial year.

The claims to lease payments from long-term operating leases generally result from the letting of commercial properties. In the residential property segment, leases are generally subject to the three-month statutory term of notice. There are no further claims to lease payments. The lease payments shown in the following tables include the net rental income only.

2019 Disclosures on operating leases in accordance with IFRS 16.97 in EUR ´000	2019	2020	2021 to 2024	From 2025
		Up to 1 year	1 to5 years	More than 5 years
Total future lease payments under non-cancellable operating leases as a lessor	248,734	66,936	31,291	21,375

2018 Disclosures on operating leases in accordance with IAS 17.56 in EUR ´000	2018	2019	2020 to 2023	From 2024
		Up to 1 year	1 to5 years	More than 5 years
Total future lease payments under non-cancellable operating leases as a lessor	238,207	85,736	78,320	86,485

13. CAPITAL RISK MANAGEMENT

The Group manages its capital with the objective of maximising the earnings of shareholders by optimising the ratio of equity to debt. This ensures that all group companies can continue to operate as going concerns. Consolidated equity as posted in the balance sheet is 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	31.12.2019	31.12.2018
Equity (incl. non-controlling interest)	3,547,857	1,579,631
Total assets	10,681,677	5,856,631
Equity ratio in %	**33.2**	**27,0**

Excluding convertible bonds, the ratio of net financial liabilities to assets net of cash (LTV) amounted to 49.4 percent (previous year: 61.4 percent). Further details can be found in the disclosures on the asset position in the combined management report.

14. OTHER DISCLOSURES

14.1 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	2019	2018
Rental and lease obligations		
Due within 1 year	6,647	6,537
Due between 1 and 5 years	17,706	17,644
Due in more than 5 years	11,995	12,654
	36,348	36,835
Management contracts, support agreements		
Due within 1 year	20,310	15,067
Due between 1 and 5 years	6,017	8,777
Due in more than 5 years	2,605	288
	28,931	24,132
Obligations from acquisitions/project developments		
Unpaid construction expenses	269,061	513,062
Total	**572,852**	**574,029**

Rental and lease obligations primarily result from leasing relationships of minor value or from short-term leases within the meaning of IFRS 16 as well as from contracts that do not entitle the holder to control the use of an identified asset for a specified period of time.

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. In connection with this, ADLER is engaged in three litigation proceedings against companies that are seeking to claim compensation from ADLER. The total litigation value is roughly EUR 1.2 million. The claims brought in the first litigation proceeding have already been dismissed by two courts. The two other litigation proceedings are still in the initial stages. ADLER continues to reject the determinations of the Takeover Commission as ascertained in its review but unverifiable by any second instance as inaccurate and erroneous.

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, sold 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 Dusseldorf, BCP issued guarantees of EUR 12.4 million in total (previous year EUR 9.0 million). The risk of utilisation is currently estimated to be low, as all financing obligations have so far been met.

14.2 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.

As of the balance sheet date, the Group had the following significant loan receivables including interest receivables from non-consolidated companies, associated companies and joint ventures:

In EUR ´000	2019	2018
MRT (Mountleigh Roland Ernst) B.V.	2,694	2,658
Stovago B.V.	1,239	1,118
Brack Capital (Chemnitz) B.V.	4,000	4,000
Tuchmacherviertel GmbH & Co. KG	3,775	3,667
AB Immbilien B.V.	46,000	0
Caesar Immobilienbesitz und Verwaltungs GmbH	42,361	0
Total nominal value	**100,069**	**11,443**
Accumulated impairment losses	-4,546	-3,776
Total	**95,523**	**7,667**

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	2019	2018
Supervisory Board remuneration	261	229
Management Board remuneration	2,069	3,362

The current remuneration of the Management Board includes payments of EUR 59k (previous year: EUR 515k) from exercised SARs. In addition to the current remuneration, the Management Board received a total of 44,338 SARs under the SAR program in fiscal year 2019, with an average fair value of EUR 1.17 per SAR. With the exception of the right of the Company to use stock appreciation rights instead of replacing cash compensation with shares of the Company, there are no stock options in favor of the Management Board members.

A member of ADLER's Management Board is the Managing Director and a shareholder in Consortium Finance Limited, London. In the year under review, payments totalling EUR 1,677k (previous year: EUR 2,071k including payments from exercised SARs) were made to the Consortium Finance Limited. In addition to the remuneration of this Management Board member, these payments include non-deductible input tax, the rent for the business premises in London, reimbursed travel expenses and other administrative costs of this company.These expenses are reported under other operating expenses in the amount of EUR 1,677k (previous year: EUR 1,613k). 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 2020.

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.

14.3 Auditor's fee

The total fee invoiced by the auditor for the financial year is structured as follows:

In EUR ´000	2019	2018
Audit of financial statements	735	671
Other assurance services	137	87
Other services	26	60
Total	**898**	**818**

Of financial statement audit fees, an amount of EUR -14k relates to the previous year (previous year: EUR -32k). 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.

14.4 Employees

The average number of employees was as follows:

Number	2019	2018
Board members	3	3
Full-time employees	888	790
Total	**891**	**793**

14.5 Notes to the consolidated cash flow statement

Financial funds generaly correspond to cash and cash equivalents of EUR 237,415k (previous year: EUR 77,655k). In the year under review, financial funds also included cash and cash equivalents from discontinued operations amounting to EUR 387,558k (previous year EUR 0k). It increased by a total of 547,318k (previous year: increased by 290,578k). The Group was able to meet its payment obligations at all times.

Furthermore, restricted liquid funds of EUR 82,125k (previous year: EUR 46,502k) 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 94,359k from operating activities (previous year: EUR 130,999k).

Net cash outflow from investing activities came to EUR 146,929k (previous year: net cash outflow EUR 609,077k). A net cash outflow of EUR 254,185k resulted mainly due to the acquisition of financial assets by ADO Properties (investment in Consus) and EUR 200,691k from investments in existing holdings (investment properties). This was offset by the acquisition of ADO Group including ADO Properties (the net cash acquired exceeded the purchase price) in the amount of EUR 67,033k, the sale of the non-core portfolio and the commercial properties of BCP in the amount of EUR 170,705k and the receipt of a further purchase price payment for the shares in ACCENTRO in the amount of EUR 97,937k.

Net cash inflow from financing activities amounts to EUR 600,036k (previous year: net cash inflow of EUR 187,825k) and is mainly due to the issuing of the 2019/2022 corporate bond in the amount of EUR 400,000k (nominal) and the taking up of the bridging loan to finance the acquisition of the shares in the ADO Group. This was offset, in particular, by BCP's acquisition of non-controlling interests in several subsidiaries for EUR 90,807k and the premature call of the 2015/2020 corporate bond, which yielded EUR 300,000k (nominal).

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 are presented in the following. There were no material implications from changes in foreign exchange rates.

In EUR ´000	31.12. 2018	Cash effective
Non-current liabilities		
Liabilities from convertibles	117,516	0
Liabilities from bonds	1,961,111	75,725
Liabilities to banks	1,476,187	1,304,841
Leasing liabilities	0	0
Current liabilities		
Liabilities from convertibles	1,756	-3,256
Liabilities from bonds	40,260	-42,754
Liabilities to banks	142,408	-610,662
Leasing liabilities	0	-2,501
Total liabilities from financing	**3,739,238**	**721,393**

Not cash effective								
First time adoption IFRS 16	**Acquisitions/ sale**	**Index and exchange rate effects**	**Interest liabilities**	**Amortisation effective interest method**	**Conversions**	**Regroupings**	**Regroupings IFRS 5**	**31.12. 2019**
0	0	0	0	4,734	-2	0	0	122,249
0	278,323	9,263	0	11,105	0	-7,681	0	2,327,846
0	-59,623	0	0	2,865	0	-722,134	0	2,002,136
19,963	3,010	0	0	0	0	-2,448	0	20,525
0	0	0	3,448	0	0	0	0	1,947
0	52,580	1,606	42,638	-399	0	7,681	0	101,612
0	28,040	0	7,933	-4,584	0	722,134	-127,562	157,708
2,026	728	0	0	0	0	2,448	0	2,700
21,989	**303,058**	**10,869**	**54,019**	**13,721**	**-2**	**0**	**-127,562**	**4,736,723**

In the previous year, the reconciliation statement was as follows:

		Cash effective	Not cash effective					
In EUR ´000	31.12. 2017		Acqui-sitions/ sale	Interest liabilities	Amorti-sation effective interest method	Conver-sions	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
Liabilities 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	1,756
Liabilities from bonds	42,679	-64,396	18,317	45,334	-1,674	0	0	40,260
Liabilities 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**

14.6 Management Board and Supervisory Board

The Management Board of ADLER comprises the members Tomas de Vargas Machuca, Master of Science in Economics; Maximilian Rienecker, Master of Science in Management and Sven-Christian Frank, lawyer. Mr Frank has been COO of the Management Board since 9 June 2016, while Mr Vargas Machuca and Mr Rienecker were appointed as co-CEOs on 22 December 2017.

The Supervisory Board of ADLER Real Estate AG consists of the following members:

- Martin Billhardt, Pfäffikon/Switzerland, lawyer, Chairman, since March 20, 2020
- Dr Dirk Hoffmann, Lagos/Portugal, lawyer and banker, Chairman, until February 29, 2020
- Thilo Schmid, Blotzheim/France, project controller, Deputy Chairman
- Claus Jørgensen, London/UK, businessman

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):

- Martin Billhardt
  Deutsche Rohstoff AG, Heidelberg (Supervisory Board Chairman)
  Cub Greek Energy LLC, Highlands Ranch/USA (Non-executive Board Member)
  Elster & Oil Gas LLC, Highlands Ranch/USA (Non-executive Board Member)
  Bright Rock Energy LLC, Denver/USA (Non-executive Board Member)

- Dr Dirk Hoffmann
  WESTGRUND AG, Berlin (Supervisory Board Chairman)
  DTH S.à r.l., Luxembourg (Non-executive director)
  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 Jørgensen
  Brack Capital Properties N.V., Amsterdam/NL (Member of the Directors´ Board)

14.7 Events after the balance sheet date

In December 2019, ADO Properties signed a business combination agreement with ADLER and announced a voluntary tender offer for all ADLER shares. On 7 February 2020, ADO Properties announced that the acceptance period for the voluntary tender offer to ADLER shareholders had begun following approval by the German Federal Financial Supervisory Authority (BaFin). The offer documents state that the first offer period ran until 6 March 2020. ADO Properties is offering 0.4164 shares in ADO Properties for every ADLER share. On 20 February 2020, the Management Board and the Supervisory Board advised ADLER shareholders to accept the offer from ADO Properties. The recommendation, including the statement of reasons, is available on the ADLER website. At the end of the first acceptance period, a notification by ADO Properties indicated that around 83 percent of ADLER shareholders had accepted the offer. The additional acceptance period began on 12 March 2020 and ended on 25 March 2020. At the end of the additional acceptance period, a notification by ADO Properties indicated that nearly 92 percent of ADLER shareholders had accepted the offer.

Pursuant to the terms and conditions of the 2016/2021 convertible bond, there was a change of control on 11 February 2020 as, on that date, over 50 percent of the shareholders of ADLER (the obligor) had accepted the takeover offer (exchange offer) by ADO Properties to the obligor's shareholders that was published on 7 February 2020. Each bondholder is thereby entitled, by submitting a notice of redemption, to demand from ADLER as at 27 February 2020 (the effective date) the redemption of some or all of their bonds for which the conversion right was not exercised and which were not declared due for early repayment, at their principal amount plus interest accrued up to the effective date (exclusively). None of the bondholders has exercised this right.

With regard to the other bond liabilities and financial liabilities to ADLER banks, bondholders have chosen already by 11 March 2020 to waive their change of control clauses in the amount of approximately EUR 3.135 billion of around EUR 3.5 billion in total. On the basis of discussions held, ADLER expects that this amount will continue to grow.

The bond liabilities of the ADO Group were repaid early on 17 February 2020 at nominal value plus interest accrued. Bonds that were repaid early include the 2015/2023 bonds, which have a coupon of 4.05 percent, a term until 1 January 2023 and an outstanding amount of NIS 614.4 million (approximately EUR 163.4 million at the current exchange rate), and the 2017/2025 bonds with a coupon of 2.5 percent, a term until 30 June 2025 and an outstanding amount of NIS 550.8 million (approximately EUR 146.5 million at the current exchange rate). For the purpose of the refinancing, ADLER increased the bridging loan, which it had taken out to acquire the shares in the ADO Group, by EUR 175 million. The remaining amount was covered by the available cash and cash equivalents of the ADO Group.

On 17 February 2020, the Chairman of the Supervisory Board of ADLER, Dr Dirk Hoffmann, resigned from office as a member and the Chairman of the Supervisory Board of his own accord. His resignation will take effect from 29 February 2020. Dr Hoffmann is expected to stay on to support the new ADLER Group in an advisory capacity. On March 20, 2020, Martin Billhardt was legally appointed as a new member of ADLER's Supervisory Board.

On March 25, 2020 ADO Properties announced a voluntary public takeover offer in cash for all outstanding shares of WESTGRUND as a subsidiary of ADLER.

With regard to the effects of the corona virus, we refer to our comments in the risk and forecast report of the combined management report.

No further events with the potential to significantly influence the earnings, assets and financial position of ADLER 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.

14.8 Declaration of Conformity with the German Corporate Governance Code

The Declaration of Conformity of ADLER was most recently submitted by the Management Board in December 2019. It is permanently available to shareholders at:

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

The Declaration of Conformity of WESTGRUND was most recently submitted by that company's Management Board in December 2019. It is permanently available to shareholders at:

http://www.westgrund.de/investor-relations/corporate-governance/entsprechenserklaerung

Berlin, 25 March 2020

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	MÜBAU Real Estate GmbH	Hamburg
6	ADLER Lux S.à.r.l.	Luxembourg//Grand Duchy of Luxembourg
7	Münchener Baugesellschaft mbH	Hamburg
8	ADLER Wohnen Service GmbH	Hamburg
9	MBG Beteiligungsgesellschaft mbH & Co. KG	Hamburg
10	MBG Dallgow GmbH & Co. KG	Hamburg
11	MBG Großbeeren GmbH & Co. KG	Hamburg
12	MBG Trachau GmbH & Co. KG	Hamburg
13	MBG Wohnbau Verwaltungsgesellschaft mbH	Hamburg
14	MBG Erste Vermögensverwaltungs GmbH	Hamburg
15	Magnus zweite Immobilienbesitz und Verwaltungs GmbH	Hamburg
16	Energy AcquiCo I GmbH	Frankfurt am Main
17	Magnus Dritte Immobilienbesitz und Verwaltungs GmbH	Hamburg
18	Magnus Fünfte Immobilienbesitz und Verwaltungs GmbH	Hamburg
19	WBG GmbH	Helmstedt
20	WER 1. Wohnungsgesellschaft Erfurt Rieth mbH	Berlin
21	WER 2. Wohnungsgesellschaft Erfurt Rieth mbH	Berlin
22	ESTAVIS 6. Wohnen GmbH	Berlin
23	ESTAVIS 7. Wohnen GmbH	Berlin
24	ESTAVIS 8. Wohnen GmbH	Berlin
25	ESTAVIS 9. Wohnen GmbH	Berlin
26	RELDA 36. Wohnen GmbH	Berlin
27	RELDA 38. Wohnen GmbH	Berlin
28	RELDA 39. Wohnen GmbH	Berlin
29	RELDA 45. Wohnen GmbH	Berlin
30	RELDA Bernau Wohnen Verwaltungs GmbH	Berlin
31	MBG Sachsen GmbH	Aue
32	Magnus-Relda Holding Vier GmbH	Berlin
33	Cato Immobilienbesitz und -verwaltungs GmbH	Hamburg
34	Magnus Immobilienbesitz und Verwaltungs GmbH	Hamburg
35	WBR Wohnungsbau Rheinhausen GmbH	Hamburg
36	S.I.G. RE GmbH	Hamburg
37	Resident Baltic GmbH	Berlin
38	Resident Sachsen P&K GmbH	Berlin
39	Resident West GmbH	Hamburg
40	MBG Schwelm GmbH	Hamburg

	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
	100.0	1	None
	100.0	1	None
	99.95	1	Intermediate holding company
	83.3	7	Service company
	16.7	1	
1)	94.9	7	Intermediate holding company
1)	100.0	7	Project development
1)	100.0	7	Project development
1)	100.0	7	Project development
	100.0	7	Intermediate holding company
	100.0	7	Intermediate holding company
	100.0	7	Intermediate holding company
	100.0	15	Intermediate holding company
	100.0	7	Intermediate holding company
	100.0	7	Intermediate holding company
	94.0	16	Portfolio management
	94.9	7	Portfolio management
	94.9	7	Portfolio management
	94.9	32	Portfolio management
	94.9	32	Portfolio management
	94.9	32	Portfolio management
	94.9	32	Portfolio management
	94.9	32	Portfolio management
	94.9	32	Portfolio management
	94.9	32	Portfolio management
	94.9	32	Portfolio management
	94.0	32	Portfolio management
	94.9	7	Portfolio management
	98.1	7	Intermediate holding company
	94.9	15	Portfolio management
	100.0	7	Intermediate holding company
	94.9	34	Portfolio management
	100.0	14	Intermediate holding company
	94.8	36	Portfolio management
	94.8	36	Portfolio management
	94.8	36	Portfolio management
	94.9	15	Portfolio management

No.	Company	Headquarters
	Subsidiaries fully consolidated	
41	MBG Lüdenscheid GmbH	Hamburg
42	MBG Dorsten GmbH & Co. KG	Hamburg
43	Alana Properties GmbH	Hamburg
44	Aramis Properties GmbH	Hamburg
45	REO-Real Estate Opportunities GmbH	Frankfurt am Main
46	ROSLYN Properties GmbH	Hamburg
47	Rostock Verwaltungs GmbH	Hamburg
48	SEPAT PROPERTIES GmbH	Hamburg
49	Wallace Properties GmbH	Hamburg
50	Zweite REO-Real Estate Opportunities GmbH	Frankfurt am Main
51	ADLER ImmoProjekt Erste GmbH	Hamburg
52	ADLER Energie Service GmbH	Berlin
53	MountainPeak Trading Limited	Nicosia/Cyprus
54	Magnus Achte Immobilienbesitz und Verwaltungs GmbH	Hamburg
55	Magnus Neunte Immobilienbesitz und Verwaltungs GmbH	Hamburg
56	ADLER Immo Invest GmbH	Hamburg
57	Wohnungsbaugesellschaft JADE mbH	Wilhelmshaven
58	JADE Immobilien Management GmbH	Wilhelmshaven
59	ADLER Gebäude Service GmbH	Berlin
60	Westgrund Aktiengesellschaft	Berlin
61	Westgrund Immobilien GmbH	Berlin
62	Westgrund Immobilien II. GmbH	Berlin
63	Westconcept GmbH	Berlin
64	IMMOLETO Gesellschaft mit beschränkter Haftung	Berlin
65	ICR Idee Concept und Realisation von Immobilienvorhaben GmbH	Berlin
66	HKA Grundstücksverwaltungsgesellschaft mbH & Co. Kommanditgesellschaft	Berlin
67	HKA Verwaltungsgesellschaft mbH	Berlin
68	Westgrund Immobilien Beteiligung GmbH	Berlin
69	Westgrund Immobilien Beteiligung II. GmbH	Berlin
70	Westgrund Immobilien Beteiligung III. GmbH	Berlin
71	Westgrund Westfalen GmbH & Co. KG	Berlin
72	WESTGRUND Immobilien IV. GmbH	Berlin
73	WESTGRUND Immobilien V. GmbH	Berlin
74	WESTGRUND Immobilien VI. GmbH	Berlin
75	Wiederaufbau-Gesellschaft mit beschränkter Haftung	Ludwigshafen am Rhein
76	TREUHAUS Hausbetreuungs-GmbH	Ludwigshafen am Rhein
77	WAB Hausverwaltungsgesellschaft mbH	Ludwigshafen am Rhein
78	Westgrund Wolfsburg GmbH	Berlin
79	Westgrund Niedersachsen Süd GmbH	Berlin
80	Westgrund Niedersachsen Nord GmbH	Berlin

	Equity interest in %	Held by No.	Business activity
	94.9	7	Portfolio management
	5.1	9	
1)	94.0	15	Portfolio management
	6.0	7	
	94.4	17	Portfolio management
	94.8	17	Portfolio management
	94.81	17	Portfolio management
	94.8	17	Portfolio management
	94.0	17	Portfolio management
	94.8	17	Portfolio management
	94.8	17	Portfolio management
	94.9	17	Portfolio management
	100.0	1	Project development
	100.0	1	Service company
	100.0	1	Intermediate holding company
	100.0	7	Portfolio management
	100.0	7	Intermediate holding company
	100.0	1	None
	94.9	18	Portfolio management
	100.0	57	Service company
	100.0	7	Service company
	96.88	1	Holding
	94.9	60	Portfolio management
	94.9	60	Portfolio management
	100.0	60	Service company
	100.0	60	Intermediate holding company
	94.9	64	Portfolio management
	100.0	65	Portfolio management
	100.0	65	General Partner
	100.0	60	None
	100.0	60	None
	94.9	60	Portfolio management
	94.9	65	Portfolio management
	94.9	60	Portfolio management
	94.0	60	Portfolio management
	94.9	60	Portfolio management
	94.8	60	Portfolio management
	100.0	63	Service company
	100.0	75	None
	94.9	60	Portfolio management
	94.9	60	Portfolio management
	94.9	60	Portfolio management

No.	Company	Headquarters
	Subsidiaries fully consolidated	
81	Westgrund Brandenburg GmbH	Berlin
82	Westgrund VII. GmbH	Berlin
83	Westgrund I. Halle GmbH	Berlin
84	Westgrund Halle Immobilienverwaltung GmbH	Berlin
85	Westgrund Immobilien II. Halle GmbH & Co. KG	Berlin
86	Westgrund VIII. GmbH	Berlin
87	RESSAP - Real Estate Service Solution Applications -GmbH	Berlin
88	Xammit GmbH	Berlin
89	Magnus Zehnte Immobilienbesitz und Verwaltungs GmbH	Hamburg
90	Magnus Elfte Immobilienbesitz und Verwaltungs GmbH	Hamburg
91	Zweite CM Real Estate GmbH	Berlin
92	Dritte CM Real Estate GmbH	Berlin
93	Vierte CM Real Estate GmbH	Berlin
94	TGA Immobilien Erwerb 3 GmbH	Berlin
95	ADP Germany GmbH	Hamburg
96	AFP II Germany GmbH	Hamburg
97	AFP III Germany GmbH	Hamburg
98	RIV Harbour West MI 1 GmbH	Berlin
99	RIV Harbour East WA 1 GmbH	Berlin
100	RIV Total MI 2 GmbH	Berlin
101	RIV Central WA 2 GmbH	Berlin
102	RIV Square West MI 3 GmbH	Berlin
103	RIV Square East WA 3 GmbH	Berlin
104	RIV Channel MI 4 GmbH	Berlin
105	RIV Kornspreicher GmbH	Berlin
106	Magnus Zwölfte Immobilienbesitz und Verwaltungs GmbH	Berlin
107	Magnus Dreizehnte Immobilienbesitz und Verwaltungs GmbH	Berlin
108	TGA Immobilien Erwerb 10 GmbH	Berlin
109	Brack Capital Properties N.V. (BCP)	Amsterdam/The Netherlands
110	Magnus Fünfzehnte Immobilienbesitz und Verwaltungs GmbH	Berlin
111	Magnus Sechszehnte Immobilienbesitz und Verwaltungs GmbH	Berlin
112	Brack German Properties B.V.	Amsterdam/Netherlands
113	Brack European Ingatlankezelö KFT	Budapest/Hungary
114	Brack Capital (Düsseldorf-Rossstrasse) B.V.	Amsterdam/Netherlands
115	Brack Capital (Düsseldorf-Schanzenstraße) B.V.	Amsterdam/Netherlands
116	Brack Capital (Bad Kreuznach) B.V.	Amsterdam/Netherlands
117	Brack Capital (Gelsenkirchen) B.V.	Amsterdam/Netherlands
118	Brack Capital (Neubrandenburg) B.V.	Amsterdam/Netherlands
119	Brack Capital (Ludwigsfelde) B.V.	Amsterdam/Netherlands
120	Brack Capital (Remscheid) B.V.	Amsterdam/Netherlands
121	Brack Capital Theta B.V.	Amsterdam/Netherlands
122	Graniak Leipzig Real Estate GmbH & Co KG	Frankfurt am Main

	Equity interest in %	Held by No.	Business activity
	94.9	60	Portfolio management
	94.9	60	Portfolio management
	94.9	60	Portfolio management
	100.0	83	General Partner
	100.0	83	Portfolio management
	94.9	60	Portfolio management
	100.0	7	None
	100.0	60	None
	100.0	7	Intermediate holding company
	100.0	7	Intermediate holding company
	94.9	55	Portfolio management
	94.9	55	Portfolio management
	94.9	55	Portfolio management
	94.9	17	Portfolio management
	94.9	90	Portfolio management
	94.9	90	Portfolio management
	94.9	90	Portfolio management
	94.9	89	Portfolio management
	94.9	89	Portfolio management
	94.9	89	Project developement
	94.9	89	Portfolio management
	94.9	89	Portfolio management
	94.9	89	Portfolio management
	94.9	89	Portfolio management
	94.9	89	Project developement
	100.0	7	Intermediate holding company
	100.0	7	Project developement
	94.9	106	Portfolio management
	69.81	1	Holding
	100.0	7	Project developement
	100.0	7	Project developement
	100.0	109	Intermediate holding company
	100.0	109	Service company
	100.0	112	Portfolio management
	100.0	112	Portfolio management
	100.0	112	Portfolio management
	100.0	112	Portfolio management
	100.0	112	Portfolio management
	100.0	112	Portfolio management
	100.0	112	Portfolio management
	100.0	112	Intermediate holding company
	100.0	121	Portfolio management

No.	Company	Headquarters
	Subsidiaries fully consolidated	
123	BCRE Leipzig Residenz am Zoo GmbH	Frankfurt am Main
124	Brack Capital Epsilon B.V.	Amsterdam/Netherlands
125	Brack Capital Delta B.V.	Amsterdam/Netherlands
126	Brack Capital Alfa B.V.	Amsterdam/Netherlands
127	Brack Capital (Hamburg) B.V.	Amsterdam/Netherlands
128	BCP Leipzig B.V.	Amsterdam/Netherlands
129	BCRE Leipzig Wohnen Nord B.V.	Amsterdam/Netherlands
130	BCRE Leipzig Wohnen Ost B.V.	Amsterdam/Netherlands
131	BCRE Leipzig Wohnen West B.V.	Amsterdam/Netherlands
132	Brack Capital Germany (Netherlands) XVIII B.V.	Amsterdam/Netherlands
133	Brack Capital Germany (Netherlands) XXII B. V.	Amsterdam/Netherlands
134	BCRE Essen Wohnen B.V.	Amsterdam/Netherlands
135	BCRE Duisburg Wohnen B.V.	Amsterdam/Netherlands
136	BCRE Dortmund Wohnen B.V.	Amsterdam/Netherlands
137	Brack Capital Germany (Netherlands) XVII B.V.	Amsterdam/Netherlands
138	Brack Capital Germany (Netherlands) Hedging B.V.	Amsterdam/Netherlands
139	Brack Capital Germany (Netherlands) XLV B.V.	Amsterdam/Netherlands
140	S.I.B. Capital Future Markets Ltd.	Tel Aviv/Israel
141	Brack Capital Labda B.V.	Amsterdam/Netherlands
142	LBHQ Investments B.V.	Amsterdam/Netherlands
143	RealProb (Rodelheim) C.V.	Amsterdam/Netherlands
144	RealProb Investment Germany (Netherlands) III B.V.	Amsterdam/Netherlands
145	Brack Capital Germany (Netherlands) XLVII B.V.	Amsterdam/Netherlands
146	Brack Capital Germany (Netherlands) L B.V.	Amsterdam/Netherlands
147	Brack Capital Germany (Netherlands) LI B.V.	Amsterdam/Netherlands
148	Brack Capital Germany (Netherlands) LIII B.V.	Amsterdam/Netherlands
149	Brack Capital Germany (Netherlands) LIV B.V.	Amsterdam/Netherlands
150	Brack Capital Germany (Netherlands) XLVIII B.V.	Amsterdam/Netherlands
151	Glasmacherviertel GmbH & Co. KG	Dusseldorf
152	Brack Capital Beta B.V.	Amsterdam/Netherlands
153	Grafental Mitte B.V.	Amsterdam/Netherlands
154	Brack Capital Germany (Netherlands) XXVI B.V.	Amsterdam/Netherlands
155	Grafental GmbH & Co. KG	Dusseldorf
156	Brack Capital Germany (Netherlands) XLIX B.V.	Amsterdam/Netherlands
157	Brack Capital Germany (Netherlands) XLVI B.V.	Amsterdam/Netherlands
158	Brack Capital (Witten GmbH & Co. Immobilien KG	Dusseldorf
159	Brack Capital Witten GmbH (GP)	Dusseldorf
160	Brack Capital Germany (Netherlands) XII B.V.	Amsterdam/Netherlands

	Equity interest in %	Held by No.	Business activity
	94.9	121	General Partner
	100.0	112	Portfolio management
	52.29	112	Portfolio management
	37.28	109	
	10.43	7	
	52.29	112	Portfolio management
	37.28	109	
	10.43	7	
	100.0	112	None
	100.0	112	Intermediate holding company
	100.0	128	Portfolio management
	100.0	128	Portfolio management
	100.0	128	Portfolio management
	100.0	112	Portfolio management
	100.0	112	Intermediate holding company
	100.0	133	Portfolio management
	100.0	133	Portfolio management
	100.0	133	Portfolio management
	100.0	112	Portfolio management
	100.0	112	None
	100.0	112	Service company
	100.0	139	Service company
	100.0	112	Intermediate holding company
	100.0	112	Portfolio management
	99.0	142	Portfolio management
	1.0	149	
	100.0	112	Portfolio management
	100.0	112	Portfolio management
	100.0	112	Intermediate holding company
	100.0	112	Intermediate holding company
	100.0	112	Portfolio management
	100.0	112	None
	100.0	112	Intermediate holding company
	100.0	150	Portfolio management
	84.98	112	Intermediate holding company
	100.0	152	Project development
	100.0	152	Project development
	100.0	154	Project development
	100.0	112	Portfolio management
	100.0	112	Portfolio management
	100.0	157	Portfolio management
	100.0	157	General Partner
	100.0	112	Intermediate holding company

No.	Company	Headquarters
	Subsidiaries fully consolidated	
161	Brack Capital Germany (Netherlands) XIX B.V.	Amsterdam/Netherlands
162	Brack Capital Germany (Netherlands) XXI B.V.	Amsterdam/Netherlands
163	Brack Capital Germany (Netherlands) XLI B.V.	Amsterdam/Netherlands
164	Brack Capital Germany (Netherlands) XXIII B.V.	Amsterdam/Netherlands
165	Brack Capital Germany (Netherlands) XLII B.V.	Amsterdam/Netherlands
166	Brack Capital Germany (Netherlands) XLIII B.V.	Amsterdam/Netherlands
167	Brack Capital Germany (Netherlands) XLIV B.V.	Amsterdam/Netherlands
168	Brack Capital Germany (Netherlands) XXX B.V.	Amsterdam/Netherlands
169	Brack Capital (Darmstadt Goebelstrasse) GmbH	Frankfurt am Main
170	Brack Capital Germany (Netherlands) XXXI B.V.	Amsterdam/Netherlands
171	Brack Capital Germany (Netherlands) XXXV B.V.	Amsterdam/Netherlands
172	Brack Capital Germany (Netherlands) XXXVI B.V.	Amsterdam/Netherlands
173	Brack Capital Germany (Netherlands) XXXVII B.V.	Amsterdam/Netherlands
174	Brack Capital Germany (Netherlands) XXXVIII B.V.	Amsterdam/Netherlands
175	Brack Capital Germany (Netherlands) XXXIX B.V.	Amsterdam/Netherlands
176	Brack Capital Germany (Netherlands) XXV B.V.	Amsterdam/Netherlands
177	Brack Capital Wuppertal (Netherlands) B.V.	Amsterdam/Netherlands
178	Brack Capital (Wuppertal) GmbH	Frankfurt am Main
179	Invest Partner GmbH	Frankfurt am Main
180	Brack Capital Gelsenkirchen GmbH & Co. Immobilien KG	Frankfurt am Main
181	Brack Capital (Oberhausen) GmbH	Frankfurt am Main
182	Grafental Verwaltungs GmbH (phG)	Dusseldorf
183	Brack Capital Kaufland Sarl	Luxembourg/Grand Duchy of Luxembourg
184	TPL Augsburg Sàrl	Luxembourg/Grand Duchy of Luxembourg
185	TPL Bad Aibling Sàrl	Luxembourg/Grand Duchy of Luxembourg
186	TPL Biberach Sàrl	Luxembourg/Grand Duchy of Luxembourg
187	TPL Borken Sàrl	Luxembourg/Grand Duchy of Luxembourg
188	TPL Geislingen Sàrl	Luxembourg/Grand Duchy of Luxembourg
189	TPL Erlangen Sàrl	Luxembourg/Grand Duchy of Luxembourg
190	TPL Neckersulm Sàrl	Luxembourg/Grand Duchy of Luxembourg
191	TPL Vilshofen Sàrl	Luxembourg/Grand Duchy of Luxembourg
192	TPL Ludwigsburg Sàrl	Luxembourg/Grand Duchy of Luxembourg
193	Brack Capital Eta B.V.	Amsterdam/Netherlands
194	Brack Capital Germany (Netherlands) XL B.V.	Amsterdam/Netherlands
195	Parkblick GmbH & Co. KG	Dusseldorf
196	Grafental am Wald GmbH (PhG)	Dusseldorf
197	Brack Capital Germany (Netherlands) LII B.V. "Holdco BV"	Amsterdam/Netherlands
198	Brack Capital Patros GmbH "Holdco GmbH"	Frankfurt am Main
199	Brack Capital Magdeburg I GmbH	Berlin
200	Brack Capital Magdeburg II GmbH	Berlin

	Equity interest in %	Held by No.	Business activity
	100.0	112	Portfolio management
	100.0	112	Portfolio management
	100.0	112	Portfolio management
	100.0	112	Portfolio management
	100.0	112	Portfolio management
	100.0	112	Portfolio management
	100.0	112	Portfolio management
	100.0	112	Portfolio management
	100.0	164	None
	100.0	112	Portfolio management
	100.0	112	Portfolio management
	100.0	112	Portfolio management
	100.0	112	Portfolio management
	100.0	112	Project development
	100.0	112	Portfolio management
	100.0	112	Intermediate holding company
	100.0	112	Portfolio management
	100.0	112	Portfolio management
	94.0	178	Portfolio management
	99.3	117	Intermediate holding company
	100.0	117	General Partner
	100.0	160	General Partner
	100.0	112	Intermediate holding company
	92.0	183	Portfolio management
	92.0	183	Portfolio management
	92.0	183	Portfolio management
	92.0	183	Portfolio management
	92.0	183	Portfolio management
	92.0	183	Portfolio management
	92.0	183	Portfolio management
	92.0	183	Portfolio management
	92.0	183	Portfolio management
	100.0	112	Intermediate holding company
	100.0	112	Intermediate holding company
	100.0	194	Portfolio management
	100.0	194	General Partner
	100.0	112	Intermediate holding company
	100.0	197	Intermediate holding company
	94.9	198	Portfolio management
	94.9	198	Portfolio management

No.	Company	Headquarters
	Subsidiaries fully consolidated	
201	Brack Capital Magdeburg III GmbH	Berlin
202	Brack Capital Magdeburg IV GmbH	Berlin
203	Brack Capital Magdeburg V GmbH	Berlin
204	Brack Capital Magdeburg VI GmbH	Berlin
205	Brack Capital Halle I GmbH	Berlin
206	Brack Capital Halle II GmbH	Berlin
207	Brack Capital Halle III GmbH	Berlin
208	Brack Capital Halle IV GmbH	Berlin
209	Brack Capital Halle V GmbH	Berlin
210	Brack Capital Leipzig I GmbH	Berlin
211	Brack Capital Leipzig II GmbH	Berlin
212	Brack Capital Leipzig III GmbH	Berlin
213	Brack Capital Leipzig IV GmbH	Berlin
214	Brack Capital Leipzig V GmbH	Berlin
215	Brack Capital Leipzig VI GmbH	Berlin
216	Brack Capital Germany (Netherlands) LV B.V.	Amsterdam/Netherlands
217	RT Facility Management GmbH & Co. KG	Dusseldorf
218	RT Facility Management (Germany) GmbH (GP)	Dusseldorf
219	BCRE Kassel I B.V.	Amsterdam/Netherlands
220	Brack Objekt Kassel Hafenstrasse GmbH	Frankfurt am Main
221	Brack Capital (Kassel) GmbH & Co. Immobilien KG	Frankfurt am Main
222	RealProb Investment (Duisburg) B.V.	Amsterdam/Netherlands
223	Magnus Siebzehnte Immobilienbesitz- und Verwaltungs GmbH	Berlin
224	Wasserstadt Co-Living GmbH (formerly Magnus Achtzehnte Immobilienbesitz und Verwaltungs GmbH)	Berlin
225	Magnus Neunzehnte Immobilienbesitz- und Verwaltungs GmbH	Berlin
226	Magnus Zwanzigste Immobilienbesitz- und Verwaltungs GmbH	Berlin
227	Spree Zweite Beteiligungs Ost GmbH	Zossen
228	Spree Röbellweg 2-10 Verwaltungs GmbH	Berlin
229	ADO GROUP LTD. (before Li Lorgen Ltd.)	Israel
230	BCP Invest Rostock B.V.	Amsterdam/Netherlands
231	BCP Invest Celle B.V.	Amsterdam/Netherlands
232	BCP Invest Castrop B.V.	Amsterdam/Netherlands
233	Eurohaus Frankfurt AG	Berlin
234	ADO Properties S.A.	Senningerberg/Grand Duchy of Luxembourg
235	ADO SBI Holdings S.A. & Co. KG	Berlin
236	ADO Lux Finance S.à.r.l.	Senningerberg/Grand Duchy of Luxembourg
237	ADO FC Management Unlimited Company	Dublin/Irland
238	ADO Lux-EEME S.à.r.l.	Senningerberg/Grand Duchy of Luxembourg
239	ADO Malta Limited	Valletta/Malta
240	Berale Grundstücks GmbH	Berlin

	Equity interest in %	Held by No.	Business activity
	94.9	198	Portfolio management
	94.9	198	Portfolio management
	94.9	198	Portfolio management
	94.9	198	Portfolio management
	94.9	198	Portfolio management
	94.9	198	Portfolio management
	94.9	198	Portfolio management
	94.9	198	Portfolio management
	94.9	198	Portfolio management
	94.9	198	Portfolio management
	94.9	198	Portfolio management
	94.9	198	Portfolio management
	94.9	198	Portfolio management
	94.9	198	Portfolio management
	94.9	198	Portfolio management
	100.0	112	Intermediate holding company
	100.0	216	Service company
	100.0	217	General Partner
	89.9	112	Intermediate holding company
	10.1	7	
	94.9	219	General Partner
	100.0	219	Portfolio management
	100.0	112	Portfolio management
	100.0	7	None
	100.0	7	Intermediate holding company
	100.0	7	None
	100.0	7	None
	94.9	1	Portfolio management
	94.9	1	Portfolio management
	100.0	1	Holding
	100.0	112	Intermediate holding company
	100.0	112	Intermediate holding company
	100.0	112	Intermediate holding company
	89.99	1	Portfolio management
	33.25	229	Intermediate holding company
	94.0	234	Intermediate holding company
	100.0	234	Finance Company
	100.0	238	Finance Company
	100.0	234	Finance Company
	100.0	237	Finance Company
2)	94.0	234	Portfolio management

No.	Company	Headquarters
	Subsidiaries fully consolidated	
241	Tara Grundstücks GmbH	Berlin
242	Maya Grundstücks GmbH	Berlin
243	Pola Grundstücks GmbH	Berlin
244	Wernerwerkdamm 25 Berlin Grundstücks GmbH	Berlin
245	Drontheimer Straße 4 Grundstücks GmbH	Berlin
246	Adoa Grundstücks GmbH	Berlin
247	Tamuril Grundstücks GmbH	Berlin
248	Mezi Grundstücks GmbH	Berlin
249	Trusk Grundstücks GmbH	Berlin
250	Reshet Grundstücks GmbH	Berlin
251	Ahava Grundstücks GmbH	Berlin
252	Badolina Grundstücks GmbH	Berlin
253	Nehederet Grundstücks GmbH	Berlin
254	Papun Grundstücks GmbH	Berlin
255	Muse Grundstücks GmbH	Berlin
256	Gozal Grundstücks GmbH	Berlin
257	Sababa 18. Grundstücks GmbH	Berlin
258	Sababa 19. Grundstücks GmbH	Berlin
259	Sababa 20. Grundstücks GmbH	Berlin
260	Sababa 21. Grundstücks GmbH	Berlin
261	Sababa 22. Grundstücks GmbH	Berlin
262	Sababa 23. Grundstücks GmbH	Berlin
263	Sababa 24. Grundstücks GmbH	Berlin
264	Sababa 25. Grundstücks GmbH	Berlin
265	Sababa 26. Grundstücks GmbH	Berlin
266	Sababa 27. Grundstücks GmbH	Berlin
267	Sababa 28. Grundstücks GmbH	Berlin
268	Sababa 29. Grundstücks GmbH	Berlin
269	Sababa 30. Grundstücks GmbH	Berlin
270	Sababa 31. Grundstücks GmbH	Berlin
271	Sababa 32. Grundstücks GmbH	Berlin
272	Yarok Grundstücks GmbH	Berlin
273	Neshama Grundstücks GmbH	Berlin
274	Eldalote Grundstücks GmbH	Berlin
275	Osher Grundstücks GmbH	Berlin
276	Tehila Grundstücks GmbH	Berlin
277	Tehila 1 Grundstücks GmbH	Berlin
278	Tehila 2 Grundstücks GmbH	Berlin
279	Anafa Grundstücks GmbH	Berlin
280	Anafa 1 Grundstücks GmbH	Berlin

	Equity interest in %	Held by No.	Business activity
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
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2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Intermediate holding company
2)	94.0	234	Intermediate holding company
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management

No.	Company	Headquarters
	Subsidiaries fully consolidated	
281	Anafa 2 Grundstücks GmbH	Berlin
282	Gamazi Grundstücks GmbH	Berlin
283	Geut Grundstücks GmbH	Berlin
284	Nuni Grundstücks GmbH	Berlin
285	Krembo Grundstücks GmbH	Berlin
286	Tussik Grundstücks GmbH	Berlin
287	Adest Grundstücks GmbH	Berlin
288	Lavlav Grundstücks GmbH	Berlin
289	Lavlav 1 Grundstücks GmbH	Berlin
290	Lavlav 2 Grundstücks GmbH	Berlin
291	Lavlav 3 Grundstücks GmbH	Berlin
292	ADO Immobilien Management GmbH	Berlin
293	Central Facility Management GmbH	Berlin
294	ADO Properties GmbH	Berlin
295	ADO Treasury GmbH	Berlin
296	CCM City Construction Management GmbH	Berlin
297	ADO Living GmbH	Berlin
298	Yahel Grundstücks GmbH	Berlin
299	Bamba Grundstücks GmbH	Berlin
300	Mastik Grundstücks GmbH	Berlin
301	Zman Grundstücks GmbH	Berlin
302	Adom Grundstücks GmbH	Berlin
303	Adon Grundstücks GmbH	Berlin
304	Bombila Grundstücks GmbH	Berlin
305	Gamad Grundstücks GmbH	Berlin
306	Geshem Grundstücks GmbH	Berlin
307	Stav Grundstücks GmbH	Berlin
308	Yussifun Grundstücks GmbH	Berlin
309	Sheket Grundstücks GmbH	Berlin
310	Seret Grundstücks GmbH	Berlin
311	Melet Grundstücks GmbH	Berlin
312	Yabeshet Grundstücks GmbH	Berlin
313	YaditT Grundstücks GmbH	Berlin
314	Zamir Grundstücks GmbH	Berlin
315	Arafel Grundstücks GmbH	Berlin
316	Sharav Grundstücks GmbH	Berlin
317	Sipur Grundstücks GmbH	Berlin
318	Matok Grundstücks GmbH	Berlin
319	Barbur Grundstücks GmbH	Berlin
320	Parpar Grundstücks GmbH	Berlin

	Equity interest in %	Held by No.	Business activity
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
	100.0	234	Service company
	100.0	234	Service company
	100.0	234	Service company
	100.0	234	Service company
	100.0	234	Service company
	100.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
2)	94.0	234	Portfolio management
	100.0	234	Portfolio management
	100.0	234	Portfolio management
	100.0	234	Portfolio management
	100.0	234	Portfolio management
	100.0	234	Portfolio management
	100.0	234	Portfolio management
	100.0	234	Portfolio management
	100.0	234	Portfolio management
	100.0	234	Portfolio management
	100.0	234	Intermediate holding company
	94.9	234	Portfolio management
	100.0	234	Portfolio management

No.	Company	Headquarters
	Subsidiaries fully consolidated	
321	Matok Löwenberger Straße Grundstücks GmbH	Berlin
322	JoySun1 B.V.	Amsterdam/Netherlands
323	JoySun2 B.V.	Amsterdam/Netherlands
324	Joysun Nestorstraße Grundstücks GmbH	Berlin
325	Joysun Florapromenade Grundstücks GmbH	Berlin
326	Joysun Cotheniusstraße Grundstücks GmbH	Berlin
327	Joysun Tauroggener Str. Grundstücks GmbH	Berlin
328	Joysun Kiehlufer Grundstücks GmbH	Berlin
329	Joysun Rubensstraße Grundstücks GmbH	Berlin
330	Ziporim Investment GmbH	Berlin
331	Songbird 1 ApS	Kopenhagen/Denmark
332	Songbird 2 ApS	Kopenhagen/Denmark
333	Yona Investment GmbH & Co. KG	Berlin
334	Yanshuf Investment GmbH & Co. KG	Berlin
335	Yona Stettiner Straße Grundstücks GmbH	Berlin
336	Yona Schulstraße Grundstücks GmbH	Berlin
337	Yona Otawistraße Grundstücks GmbH	Berlin
338	Yona Stromstraße Grundstücks GmbH	Berlin
339	Yona Gutenbergstraße Grundstücks GmbH	Berlin
340	Yona Kameruner Straße Grundstücks GmbH	Berlin
341	Yona Schichauweg Grundstücks GmbH	Berlin
342	Yona Alt-Tempelhof Grundstücks GmbH	Berlin
343	Yona Gruberzeile Grundstücks GmbH	Berlin
344	Yona Schloßstraße Grundstücks GmbH	Berlin
345	Yona Lindauer Allee Grundstücks GmbH	Berlin
346	Yona Nogatstraße Grundstücks GmbH	Berlin
347	Yona Bötzowstraße 55 Grundstücks GmbH	Berlin
348	Yona Herbststraße Grundstücks GmbH	Berlin
349	Yona Danziger Straße Grundstücks GmbH	Berlin
350	Yona Schönstraße Grundstücks GmbH	Berlin
351	Yanshuf Kaiserstraße Grundstücks GmbH	Berlin
352	Yanshuf Binzstraße Grundstücks GmbH	Berlin
353	Yanshuf Antonienstraße Grundstücks GmbH	Berlin
354	Yanshuf Seestraße Grundstücks GmbH	Berlin
355	Yanshuf Hermannstraße Grundstücks GmbH	Berlin
356	Yanshuf Schmidt-Ott-Straße Grundstücks GmbH	Berlin
357	Hanpaka Holding GmbH	Berlin
358	Hanpaka Immobilien GmbH	Berlin
359	Jessica Properties B.V.	Capelle aan den Ijssel/Netherlands
360	Alexandra Properties B.V.	Capelle aan den Ijssel/Netherlands

	Equity interest in %	Held by No.	Business activity
	100.0	318	Portfolio management
	60.0	234	Intermediate holding company
	60.0	234	Intermediate holding company
3)	94.0	322	Portfolio management
3)	94.0	322	Portfolio management
3)	94.0	322	Portfolio management
3)	94.0	322	Portfolio management
3)	94.0	322	Portfolio management
3)	94.0	322	Portfolio management
	50.0	331	Intermediate holding company
	50.0	332	
	60.0	234	Intermediate holding company
	60.0	234	Intermediate holding company
	100.0	331	Intermediate holding company
	100.0	332	Intermediate holding company
4)	85.0	333	Portfolio management
4)	85.0	333	Portfolio management
4)	85.0	333	Portfolio management
4)	85.0	333	Portfolio management
4)	85.0	333	Portfolio management
4)	85.0	333	Portfolio management
4)	85.0	333	Portfolio management
4)	85.0	333	Portfolio management
4)	85.0	333	Portfolio management
4)	85.0	333	Portfolio management
4)	85.0	333	Portfolio management
4)	85.0	333	Portfolio management
4)	85.0	333	Portfolio management
4)	85.0	333	Portfolio management
4)	85.0	333	Portfolio management
4)	85.0	333	Portfolio management
5)	85.0	334	Portfolio management
5)	85.0	334	Portfolio management
5)	85.0	334	Portfolio management
5)	85.0	334	Portfolio management
5)	85.0	334	Portfolio management
5)	85.0	334	Portfolio management
	100.0	234	Intermediate holding company
6)	94.9	357	Portfolio management
	94.5	234	Portfolio management
	94.4	234	Portfolio management

No.	Company	Headquarters
	Subsidiaries fully consolidated	
361	Marbien Properties B.V.	Capelle aan den Ijssel/Netherlands
362	Meghan Properties B.V.	Capelle aan den Ijssel/Netherlands
363	Dvash 1 Holding GmbH	Berlin
364	Dvash 2 Holding GmbH	Berlin
365	Dvash 3 B.V.	Capelle aan den Ijssel/Netherlands
366	Rimon Holding GmbH	Berlin
367	Bosem Grundstücks GmbH	Berlin
368	Rimon Grundstücks GmbH	Berlin
369	5. Ostdeutschland Invest GmbH	Berlin
370	8. Ostdeutschland Invest GmbH	Berlin
371	ADO Sonnensiedlung Sarl	Senningerberg/Grand Duchy of Luxembourg
372	Dvash 21 Grundstücks GmbH	Berlin
373	Dvash 22 Grundstücks GmbH	Berlin
374	Dvash 23 Grundstücks GmbH	Berlin
375	Dvash 24 Grundstücks GmbH	Berlin
376	Dvash 11 Grundstücks GmbH	Berlin
377	Dvash 12 Grundstücks GmbH	Berlin
378	Dvash 13 Grundstücks GmbH	Berlin
379	Dvash 14 Grundstücks GmbH	Berlin
380	Horef Holding GmbH	Berlin
381	HOREF Grundstücks GmbH	Berlin
382	ADO 9110 Holding GmbH	Berlin
383	ADO 9160 Grundstücks GmbH	Berlin
384	Silan Grundstücks GmbH	Berlin
385	Sprengelstraße 39 GmbH	Berlin
386	Scharnweberstraße 112 Verwaltungsgesellschaft mbH	Berlin
387	Kantstraße 62 Grundstücks GmbH	Berlin
388	ADO 9200 Grundstücks GmbH	Berlin
389	ADO 9210 Grundstücks GmbH	Berlin
390	ADO 9220 Grundstücks GmbH	Berlin
391	ADO 9230 Grundstücks GmbH	Berlin
392	ADO 9240 Grundstücks GmbH	Berlin
393	ADO 9250 Grundstücks GmbH	Berlin
394	ADO 9260 Grundstücks GmbH	Berlin
395	ADO 9270 Grundstücks GmbH	Berlin
396	ADO 9280 Grundstücks GmbH	Berlin
397	ADO 9290 Grundstücks GmbH	Berlin
398	ADO 9300 Grundstücks GmbH	Berlin
399	ADO 9310 Grundstücks GmbH	Berlin
400	ADO 9320 Grundstücks GmbH	Berlin

	Equity interest in %	Held by No.	Business activity
	94.9	234	Portfolio management
	94.4	234	Portfolio management
	100.0	234	Intermediate holding company
	100.0	234	Intermediate holding company
	100.0	234	None
	100.0	234	Intermediate holding company
	100.0	234	Intermediate holding company
6)	94.9	366	Portfolio management
6)	94.9	367	Portfolio management
6)	94.9	367	Portfolio management
6)	94.9	234	Portfolio management
6)	94.9	364	Portfolio management
6)	94.9	364	Portfolio management
6)	94.9	364	Portfolio management
6)	94.9	364	Portfolio management
6)	94.9	363	Portfolio management
6)	94.9	363	Portfolio management
6)	94.9	363	Portfolio management
6)	94.9	363	Portfolio management
	100.0	234	Intermediate holding company
6)	94.9	380	Portfolio management
	100.0	234	Intermediate holding company
6)	94.9	382	Portfolio management
	100.0	234	Intermediate holding company
6)	94.0	248	Portfolio management
6)	94.9	248	Portfolio management
	100.0	309	Portfolio management
6)	94.9	248	Portfolio management
6)	94.9	248	Portfolio management
6)	94.9	248	Portfolio management
6)	94.9	248	Portfolio management
6)	94.9	248	Portfolio management
6)	94.0	248	Portfolio management
6)	94.9	320	Portfolio management
6)	94.8	320	Portfolio management
6)	94.9	320	Portfolio management
6)	94.9	320	Portfolio management
6)	94.9	320	Portfolio management
6)	94.9	320	Portfolio management
6)	94.9	320	Portfolio management

No.	Company	Headquarters
	Subsidiaries fully consolidated	
401	ADO 9330 Grundstücks GmbH	Berlin
402	ADO 9340 Grundstücks GmbH	Berlin
403	ADO 9350 Grundstücks GmbH	Berlin
404	ADO 9360 Holding GmbH	Berlin
405	ADO 9370 Grundstücks GmbH	Berlin
406	ADO 9380 Grundstücks GmbH	Berlin
407	ADO 9390 Grundstücks GmbH	Berlin
408	ADO 9400 Grundstücks GmbH	Berlin
409	ADO 9410 Grundstücks GmbH	Berlin
410	ADO 9420 Grundstücks GmbH	Berlin
411	ADO 9430 Grundstücks GmbH	Berlin
412	ADO 9440 Grundstücks GmbH	Berlin
413	ADO 9450 Grundstücks GmbH	Berlin
414	ADO 9460 Grundstücks GmbH	Berlin
415	ADO 9470 Grundstücks GmbH	Berlin
416	ADO 9480 Grundstücks GmbH	Berlin
417	ADO 9490 Grundstücks GmbH	Berlin
418	ADO 9500 Grundstücks GmbH	Berlin
419	ADO 9510 Grundstücks GmbH	Berlin
420	ADO 9520 Grundstücks GmbH	Berlin
421	ADO 9530 Grundstücks GmbH	Berlin
422	ADO 9540 Holding GmbH	Berlin
423	ADO 9550 Grundstücks GmbH	Berlin
424	ADO 9560 Grundstücks GmbH	Berlin
425	ADO 9570 Grundstücks GmbH	Berlin
426	ADO 9580 Holding GmbH	Berlin
427	RVB Angerburger Allee B.V.	Capelle aan den Ijssel/Netherlands
428	ADO 9600 Grundstücks GmbH	Berlin
429	ADO 9610 Grundstücks GmbH	Berlin
430	ADO 9620 Grundstücks GmbH	Berlin
431	ADO 9630 Grundstücks GmbH	Berlin
432	ADO 9640 Grundstücks GmbH	Berlin
433	Glasmacherviertel Verwaltungs GmbH (phG)	Dusseldorf

	Equity interest in %	Held by No.	Business activity
6)	94.9	320	Portfolio management
6)	94.9	320	Portfolio management
6)	94.9	320	Portfolio management
	100.0	234	Intermediate holding company
6)	94.9	404	Portfolio management
6)	94.9	366	Portfolio management
6)	94.9	366	Portfolio management
6)	94.9	366	Portfolio management
6)	94.9	366	Portfolio management
6)	94.9	366	Portfolio management
6)	94.9	366	Portfolio management
6)	94.9	366	Portfolio management
6)	94.9	366	Portfolio management
6)	94.9	366	Portfolio management
6)	94.9	357	Portfolio management
6)	94.9	366	Portfolio management
6)	94.9	357	Portfolio management
6)	94.9	234	Portfolio management
6)	94.9	357	Portfolio management
6)	94.9	366	Portfolio management
6)	94.9	366	Portfolio management
	100.0	234	Intermediate holding company
6)	94.9	422	Portfolio management
6)	94.9	422	Portfolio management
6)	94.9	422	Portfolio management
	100.0	234	Intermediate holding company
6)	94.0	426	Portfolio management
6)	94.9	422	Portfolio management
6)	94.9	422	Portfolio management
6)	94.9	422	Portfolio management
6)	94.9	422	Portfolio management
6)	94.9	422	Portfolio management
	100.0	150	General Partner

No.	Company	Headquarters
	Associated Companies or Joint Ventures included in the consolidated financial statements	
434	ACCENTRO REAL ESTATE AG	Berlin
435	ADLER Real Estate Assekuranzmakler GmbH & Co. KG	Dusseldorf
436	Caesar JV Immobilienbesitz und Verwaltungs GmbH	Berlin
437	AB Immobilien B.V.	Amsterdam/Netherlands
438	Tuchmacherviertel GmbH & Co. KG	Aachen
439	Brack Capital (Chemnitz) B.V.	Amsterdam/Netherlands
	Companies not significant enough to be included at equity in the consolidated financial statements	
440	MRT (Mountleigh Roland Ernst) B.V.	Rotterdam/Netherlands
441	Stovago B.V.	Rotterdam/Netherlands

[1] The Company intends to utilise the exemption option under § 264 b HGB with regard to disclosure requirements
[2] The remaining share is held by ADO SIB Holdings S.A. & Co KG
[3] The remaining share is held by JoySun 2 B.V.
[4] The remaining share is held by Yanshuf Investment GmbH & Co. KG
[5] The remaining share is held by Yona Investment GmbH & Co. KG
[6] The remaining share is held by A.D.O. Group Ltd

	Equity interest in %	Held by No.	Business activity
	6.2	1	Trade
	50.0	1	Insurance broker
	25.0	7	Portfolio management
	25.0	7	Portfolio management
	50.0	176	Portfolio management
	60.0	112	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 2020

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

/// 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 implicitly 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. Only the original text in German is authoritative.

To 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 2019, 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 2019, 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 2019. 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 and 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 2019, and of its results of operations for the financial year from 1 January to 31 December 2019, 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 and 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 2019. 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 ADO Group Ltd., Tel Aviv/Israel

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 169.4 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 2019, 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 2019 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 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 4,920.0 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 362.6 million were recognised in the consolidated statement of comprehensive income. 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. 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 2019. 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 2019 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 an 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 on-site inspections to check the respective condition of the property and its appropriate consideration in the reports of the external experts. We also obtained an additional valuation report (control account) from two external experts mandated by us. 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) First-time (initial) consolidation of ADO Group Ltd., Tel Aviv/Israel

a) Financial statement risk

Effective as at 10 December 2019, ADLER Real Estate Aktiengesellschaft acquired all shares in ADO Group Ltd., Tel Aviv, Israel, thus gaining a controlling influence over ADO Group Ltd. ADO Group Ltd. in turn holds 33.25 percent of the shares in ADO Properties S.A., Senningerberg, Luxembourg. Due to the size of its own share of the voting rights in relation to the size and distribution of the voting rights held by other entities entitled to vote and the composition of the Board of Directors of ADO Properties S.A., ADLER Real Estate Aktiengesellschaft has also indirectly acquired a controlling influence over ADO Properties S.A. through ADO Group Ltd. ADO Properties S.A. is listed in the Prime Standard of the Frankfurt Stock Exchange and is itself the owner of a property portfolio of around 18,000 units in Germany, almost all of which are located in Berlin. The acquisition of ADO Group Ltd. and indirectly of ADO Properties S.A. 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 a transferred consideration of EUR 708.4 million and acquired net assets of EUR 2,451.0 million, resulted in the recognition of non-controlling interests of EUR 1,742.6 million. On 15 December 2019, ADLER Real Estate Aktiengesellschaft and ADO Properties S.A. entered into another contractual arrangement (business combination agreement) under which ADO Properties S.A. is to acquire ADLER Real Estate Aktiengesellschaft through a public tender offer. The shareholders of ADLER Real Estate Aktiengesellschaft with a shareholding of around 52 percent had already irrevocably declared as at 31 December 2019 that they would tender their shares under the public tender offer. In the course of a planned and necessary capital increase, the tender offer will also lead to a significant increase in the subscribed capital of ADO Properties S.A. and, accordingly, to a significant dilution of the indirect shareholding of ADLER Real Estate Aktiengesellschaft in ADO Properties S.A. Due to the expected loss of control over ADO Properties S.A. as a result, all assets and liabilities of ADO Properties S.A. are recognised as held for sale (discontinued operation) in accordance with IFRS 5 as at the balance sheet date of 31 December 2019.

In accordance with IFRS 3, the identifiable assets acquired and liabilities assumed are normally recognised at fair value on the date of acquisition (10 December 2019) or the date of initial consolidation on 31 December 2019. ADLER Real Estate Aktiengesellschaft consulted an independent surveyor to determine the valuation of the identifiable assets acquired and liabilities assumed.

The acquisition transaction constitutes a significant transaction of the Group in the 2019 financial year and its presentation in the consolidated financial statements of ADLER Real Estate Aktiengesellschaft requires judgement and scope for judgement. There is a risk for the financial statements that the conditions for the existence of control in accordance with IFRS 10 were not assessed appropriately, or that the acquired assets and assumed liabilities are incorrectly identified and/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. In addition, there is the risk that the classification as a discontinued operation in accordance with IFRS 5 may not be appropriate.

The disclosures of ADLER Real Estate Aktiengesellschaft on the transaction are included in Sections 4.2 "Business combinations" and 8.11 "Non-current assets and liabilities held for sale" of the notes to the consolidated financial statements and in 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 agreements – in particular the purchase agreement for all shares in ADO Group Ltd. and the business combination agreement – and other relevant documents. Based on these documents and consulting the Management Board and relevant employees, we have gained an understanding of the transaction. In this context, we also analysed attendence at past AGMs and replacement of positions in the Board of Directors. Relying on expert opinion we assessed the conditions for dominance in accordance with to IFRS 10. To gain further knowledge about the business activities and the economic and legal environment of ADO Group Ltd. and ADO Properties S.A., we held discussions with the auditors of these companies. We also satisfied ourselves that the acquired assets and liabilities are a business operation and that 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 the appraisal prepared by the external surveyor commissioned by ADLER Real Estate Aktiengesellschaft. We assessed the extent to which the work of the external surveyor can be utilised, taking into account their competence, ability and objectivity. In our additional audit procedures, we focused in particular on the identification of value-determining factors for the investment properties and inventory properties to be valued and the full recognition and measurement of financial liabilities. In addition, we examined the data provided by the surveyors for completeness and accuracy and used the audit opinion of the component auditor of ADO Group Ltd. Our audit procedures also included the involvement of internal and external (capital market) experts to assess the conditions under which discontinued operations in accordance with IFRS 5 are presumed to exist as of the balance sheet date of 31 December 2019.

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 regarding the acquisition and the reporting as at 31 December 2019 of ADO Group Ltd. and ADO Properties S.A. are complete and appropriate.

The provisional 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 and the Supervisory Board are responsible for the other information. Other information obtained at the date of this auditor's report includes:

- the Group's Corporate Governance Declaration published on the Group's website pursuant to Section 315d HGB, to which reference is made in Section 6 of the combined management report,

- the Supervisory Board Report,

- the Corporate Governance Report in accordance with No. 3.10 of the German Corporate Governance Code, to which reference is made in Section 6 of the combined management report,

- the other parts of the annual report, excluding the consolidated financial statements, the disclosures contained in the combined management report that were not included in the audit and our associated auditor's report, 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.

The separate non-financial consolidated report in accordance with Sections 315b and 315c in conjunction with Sections 289b to 289e HGB, to which reference is made in the combined management report, is expected to be made available to us after the date of this auditor's report.

The Supervisory Board is responsible for the Supervisory Board Report. The legal representatives and the Supervisory Board are responsible for the declaration on the German Governance Code pursuant to Section 161 of the German Stock Corporation Act, which forms part of the Group's Corporate Governance Declaration contained in Section 6 of the combined management report. The legal representatives are responsible for the other information.

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 mentioned above – as soon as it is available – and to evaluate whether it

- exhibits material discrepancies with the consolidated financial statements, with the audited disclosures contained in the combined management report or with knowledge we have obtained during our audit, or
- otherwise seems significantly incorrect.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there has been 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 misstatement, 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 misstatements, 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 an 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 315e (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 11 June 2019. We were engaged by the Supervisory Board on 15 July 2019. 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, 30 March 2020

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	2019	2018	Change in %
EPRA NAV	1,972.5	1,692.3	16.6
Adjusted EPRA NAV	1,803.1	1,521.5	18.5
EPRA NNNAV	1,914.6	1,756.3	9.0
EPRA earnings	46.3	92.0	-49.7
Adjusted EPRA earnings	67.8	76.4	-11.3
EPRA net initial yield (NIY) in %	4.1	3.3	24.8
EPRA "topped-up" NIY in %	4.1	3.3	24.8
EPRA vacancy rate in %	8.7	6.7	31.0
EPRA cost ratio (incl. direct vacancy costs) in %	35.4	33.8	4.7
EPRA cost ratio (excl. direct vacancy costs) in %	34.8	33.1	5.0

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	31.12.19	31.12.18	Change in %
Equity attributable to shareholders in ADLER	1,445.9	1,217.4	18.8
Deferred taxes on investment properties/properties held for sale	517.1	465.1	11.2
Goodwill from deferred taxes on investment properties	0.0	0.0	0.0
Differences between fair values and carrying amounts of inventory properties	6.3	5.3	18.2
Fair value of derivative financial instruments	4.7	6.3	-26.3
Deferred taxes on derivative financial instruments	-1.4	-1.9	-25.6
EPRA NAV	**1.972.5**	**1,692.3**	**16.6**
Goodwill which is results entirely from synergies[1]	-169.4	-170.8	-0.8
Adjusted EPRA NAV	**1.803.1**	**1,521.5**	**18.5**
EPRA NAV per share in EUR2[2]	28.4	24.7	14.9
Adjusted EPRA NAV per share in EUR[2]	25.9	22.2	16.8

[1] Disclosure including previous year adjusted, as the purchase price allocation of BCP has been completed; the goodwill results entirely from synergies.
[2] 69,460,511 shares as at balance sheet date (previous year: 68,480,390)

In EUR millions	31.12.19	31.12.18	Change in %
EPRA NAV	1,972.5	1,692.3	16.6
Fair value financial liabilities	-82.9	91.7	> -100.0
Deferred taxes on fair values of financial liabilities	25.0	-27.7	> 100.0
EPRA NNNAV	**1,914.6**	**1,756.3**	**9.0**
EPRA NNNAV per share in EUR[1]	27.5	25.6	7.4

[1] 69,460,511 shares as at balance sheet date (previous year: 68,480,390)

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	2019	2018	Change in %
Net income for the period (IFRS)	367.8	332.4	10.6
Revaluation of investment properties	-362.6	-465.1	-22.0
Income from the sale of properties	-10.2	-7.7	32.5
Taxes on profits or losses on disposals	0.4	0.0	> 100.0
Revaluation of financial instruments and associated transaction costs	-1.6	0.5	> -100.0
Negative goodwill	0.0	0.0	0.0
Deferred taxes in respect of EPRA adjustments	52.5	232.0	-77.4
EPRA earnings	**46.3**	**92.0**	**-49.7**
EPRA earnings per share	0.7	1.3	-50.5
Adjustment for non-recurring and extraordinary items	57.5	46.1	24.7
Adjustment for non-period/one-off interest expenses	-47.5	60.1	> -100.0
Adjustment for other deferred/non-period taxes	11.5	-121.9	> 100.0
Adjusted EPRA earnings	**67.8**	**76.4**	**-11.3**
Adjusted EPRA earnings per share in EUR[1)]	1.0	1.1	-12.5

[1)] 69,460,511 shares as at balance sheet date (previous year: 68,480,390)

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	2019	2018	Change in %
Investment properties	4,920.0	4,989.1	-1.4
Fair value of inventory properties	93.6	93.4	0.2
Assets held for sale (properties)	0.3	185.5	-99.9
Market value of property portfolio (net)	**5,013.9**	**5,268.0**	**-4.8**
Ancillary acquisition costs	426.2	447.8	-4.8
Market value of property portfolio (gross)	**5,440.1**	**5,715.8**	**-4.8**
Annualised rental income	263.6	221.4	19.0
Non-allocable property costs	-42.2	-35.2	20.1
Annualised net rental income	**221.3**	**186.2**	**18.8**
Adjustment for lease incentives	0.0	0.0	0.0
Topped-up annualised rental income	**221.3**	**186.2**	**18.8**
EPRA net initial yield in %	**4.1**	**3.3**	**24.8**
Topped-up EPRA net initial yield in %	**4.1**	**3.3**	**24.8**

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	31.12.19	31.12.18	Change in %
Market rent of vacant units	2.1	1.3	59.5
Market rent of residential property portfolio	24.0	19.8	21.7
EPRA vacancy rate in %	**8.7**	**6.7**	**31.0**

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	2019	2018	Change in %
Adjusted EBITDA rental/portfolio	-161.3	-157.7	2.3
Rental income	249.7	238.4	4.7
Maintenance expenses	-26.3	-22.8	15.5
Property management expenses	**62.1**	**58.0**	**7.1**
Maintenance expenses	26.3	22.8	15.5
Ground rent	0.0	-0.2	-82.5
EPRA costs (including direct vacancy costs)	**88.4**	**80.5**	**9.8**
Direct vacancy costs	-1.6	-1.6	-2.6
EPRA costs (excluding direct vacancy costs)	**86.8**	**78.9**	**10.0**
Rental income	249.7	238.4	4.7
Ground rent	0.0	-0.2	-82.5
Gross rental income	**249.7**	**238.2**	**4.8**
EPRA cost ratio (including direct vacancy costs) in %	**35.4**	**33.8**	**4.7**
EPRA cost ratio (excluding direct vacancy costs) in %	**34.8**	**33.1**	**5.0**
Maintenance adjustment	26.3	22.8	15.5
Adjusted EPRA costs (including direct vacancy costs)	**62.1**	**57.7**	**7.5**
Adjusted EPRA costs (excluding direct vacancy costs)	**60.5**	**56.1**	**7.8**
Adjusted EPRA cost ratio (including direct vacancy costs) in %	**24.9**	**24.2**	**2.6**
Adjusted EPRA cost ratio (excluding direct vacancy costs) in %	**24.2**	**23.5**	**2.9**

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. From mid-2019, Adler will give it on a diluted basis and adjusted for goodwill.

LTV
Loan-to-value
Ratio of net financial liabilities (financial liabilities net of cash, non-current assets held for sale, purchase price receivables and liabilities 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.

Supervisory Board	
Martin Billhardt	Chairman of the Supervisory Board (since March 20, 2020)
Thilo Schmid	Vice Chairman of the Supervisory Board
Claus Jorgensen	Member of the Supervisory Board
Management Board	
Tomas de Vargas Machuca	Member of the Management Board (Co-CEO)
Maximilian Rienecker	Member of the Management Board (Co-CEO)
Sven-Christian Frank	Member of the Management Board (COO)
Company Facts	
Legal domicile	Berlin Charlottenburg, Berlin HRB 180360 B
Address	ADLER Real Estate Aktiengesellschaft Joachimsthaler Strasse 34 10719 Berlin Phone: +49 30 39 80 18 – 10 E-mail: info@adler-ag.com
Website	www.adler-ag.com
Investor Relations	Tina Kladnik Tel.: +49 30 398 01 81 23 E-mail: t.kladnik@adler-ag.com
Public Relations	Dr Rolf-Dieter Grass Tel.: +49 30 200 09 14 29 E-mail: r.grass@adler-ag.com
Capital stock	EUR 71,063,743[1)]
Classification	71,063,743[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	Baader Bank AG Kepler Cheuvreux HSBC Trinkaus & Burkhardt AG ODDO BHF AG
Stock exchanges	Xetra, Frankfurt am Main
Indices	CDAX, GPR General Index, DIMAX
Financial year	Calendar year

[1)] As at 31 December 2019

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