



# NINE-MONTH REPORT

## 2007

### HIGHLIGHTS

- Takeover of a portfolio with AIG
- Sale of the logistics center in Gütersloh

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## > KEY FIGURES OF ADLER REAL ESTATE GROUP

<b>In EUR</b>	<b>Sept. 30, 2007</b>	<b>Dec. 31, 2006</b>	<b>+/- in %</b>
<b>Balance Sheet Ratios</b>			
Equity	34,995,061	27,653,596	26.5%
Equity ratio	79.6%	74.6%	6.6%
Subscribed capital	15,000,000	15,000,000	0.0%
Consolidated total assets	43,983,684	37,048,318	18.7%
<b>Key Figures</b>			
Total operating income	15,296,532	3,445,138	344.0%
EBIT	7,254,245	1,678,342	332.2%
Consolidated Profit for the year	7,597,393	2,064,147	268.1%
Earnings per share	0.51	0.18	183.3%
Employees	17	8	112.5%

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## > FORWARD OF MANAGEMENT BOARD

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Ladies and gentlemen,

The past quarter has been important, exciting and difficult for us at the same time. In the midst of a rapid expansion in our operations, conditions in the German real estate market seem to be changing drastically.

The transformation of our market is an aftershock of the sub-prime lending crisis in the US, which ultimately impacted the German real estate market as well. This crisis was caused by the steep rise in interest rates in the US, as an increasing number of homeowners who had originally obtained generous mortgages were unable to make their monthly payments. This ultimately had consequences for the interconnected global financial markets, since banks had bundled the individual credit risks into ever-larger and less transparent portfolios in recent years, issuing certificates which are traded worldwide. The consequence was a massive loss of confidence among banks and the collapse of the refinancing market for large real estate package deals and corporate transactions.

In this environment, we had been concerned that the interest of foreign investors in German real estate might wane since, after all, financing options had been restricted considerably. As a result, we were all the more pleased at our ability during the reporting period to execute the transactions which should pave the way for our planned portfolio enlargement and for the growth of our asset management business.

During the reporting period, specifically in early August, we acquired two portfolios with a combined investment volume of around EUR 136 million, together with our partner, AIG Global Real Estate Investment (Europe) Ltd. ADLER owns 15% of these portfolios. In early October and mid-November, we

took over asset management for these two portfolios, thus taking a big step in the development of that business unit, which will represent a solid pillar of our business and generate steady cash flow.

Our three-pillar strategy, the division of our operations into asset management, refurbishment and improvement of portfolio properties and project development, therefore began to take on a clear shape during the reporting period, despite a very tough environment. In the project development business, we took our first steps towards implementing some vital and interesting projects.

The German housing market, particularly construction of new homes, is still clearly under pressure. At the same time, however, the improving German economy and the clear reduction in unemployment have sparked new interest in home ownership. The expected reintroduction of the commuter compensation will also benefit housing construction in the suburbs of major cities. It is also important to develop customized products which are targeted at the right audiences in the right place.

Our new subsidiary, Muenchener Baugesellschaft, is developing concepts for attractive new housing forms which are both energy-efficient and eco-friendly, and which have met with a positive response.

We are confident that the global refinancing crisis will not have a lasting impact on the German real estate market, and therefore on our business. On the contrary, we expect the strong economy, the uptrend in the German job market and the improvement in real wages to generate rising demand for German real estate, so that real estate will no longer be massively undervalued, as it still is in

## > FORWARD OF MANAGEMENT BOARD

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many parts of the country. Rising inflation will contribute to this trend as an un-intended but inevitable side effect of the strong economy. The expected improvement in property values and the sustained strong demand for all categories of real estate will register on the financial markets, and help real estate stocks out of their slump. We are convinced that the financial markets, which have been scared away from real estate by the sub-prime lending crisis, will realize sooner or later that ADLER Real Estate AG is a company which has exhibited strong growth in the past and will continue to grow in the future.

Barbara Yaltrak

Axel Harloff

## > The ADLER-STOCK AND INVESTOR RELATIONS

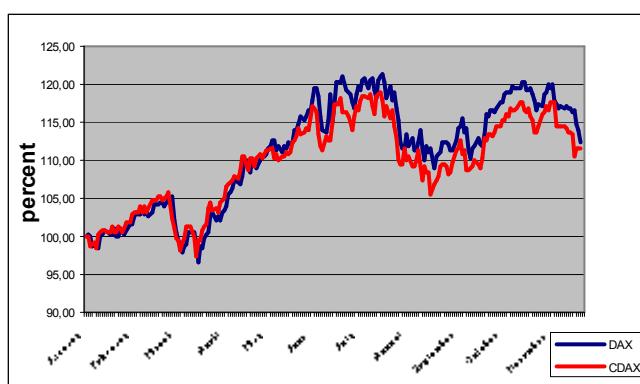
### Mood on the stock market

The mood in the international financial markets darkened considerably during the reporting period as a result of the mortgage crisis in the US. There were substantial fluctuations on the stock market: after a sharp downswing, the markets began to recover in mid-September, after which they returned to their old highs. Fears about inflation and the US economy, record oil prices and the strength of the Euro relative to the US dollar led to additional fluctuations in early November. Despite all that, however, the DAX was at 7,512 on November 19, 2007, up 13.9 percent on the year.

The strong German economy and the sharp rise in energy prices have led to a rise in inflation. However, the European Central Bank has been slow to cut key interest rates, as its hands were tired due to the still-smoldering real estate financing crisis. The US Federal Reserve Bank cut the key interest rate by another 0.25% on October 31, 2007, to 4.25%, in order to gain control of the crisis and the possibly weakening US economy.

Notwithstanding the fluctuations and fears in the financial markets, both the German and the global economy have been very robust, and economic and financial experts believe that the mortgage crisis will have only a minor impact on the global economy.

### Developments of DAX and CDAX since beginning of year



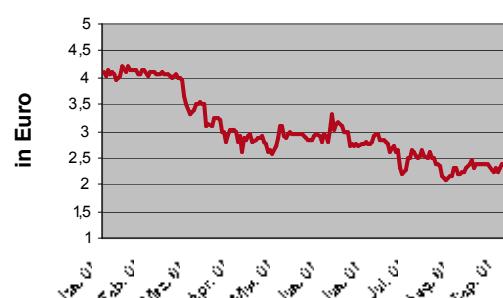
### Performance of real estate stocks

German real estate stocks underperformed over the course of the year. Using the German real estate stock index (the DIMAX) as a measure, German real estate stocks lost an average of 26% of their value. The DIMAX fell from 535 at the beginning of 2007 to just 396.36 in mid-November 2007. The considerable declines have almost nothing to do with disappointing earnings or slowdown in the business of individual companies. Instead, the financial market has gradually downgraded its valuations of real estate companies due to concerns about the future of the German real estate market in light of the real estate financing crisis in the US.

### Performance of ADLER stock

The performance of ADLER stock has been unsatisfactory in this view, as the stock price has dropped sharply since the beginning of the year. As of September 30, 2007, ADLER stock was quoted at EUR 2.38. This corresponds to a price/earnings ratio of just to below 5 using net earnings as of September 30, 2007. One can only hope that the financial market will adjust its very low valuation sooner or later.

### Performance of ADLER AG since beginning of the year



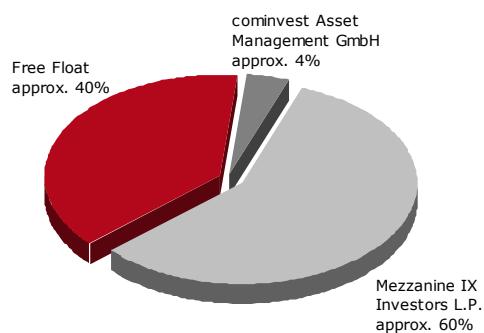
## > THE ADLER-STOCK AND INVESTOR RELATIONS

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### Shareholder structure

The ADLER Real Estate AG shareholder structure has not changed since June 30, 2007. In addition to the US investor Mezzanine IX Investors L.P., which holds about 60% of the shares, the shares held by cominvest Asset Management GmbH come to around 4% and about 36% of the shares are currently in free float.

#### Shareholder structure as of September 30, 2007



addition to preparing routine quarterly reports in German and English, the Company regularly attends capital market conferences. For example, ADLER Real Estate AG took part in the HSBC Trinkaus Real Estate Conference in spring 2007, the Real Estate Share Initiative Conference in October 2007 as well in the German Equity Forum in November 2007. A switch to the Prime Standard segment is planned in the medium term, which would open the Company to a broader and more international group of investors. Recent press releases and other timely information are published on the ADLER Real Estate AG website, [www.adler-ag.de](http://www.adler-ag.de).

### Two independent research analysts

Independent Research conducted an analysis of ADLER Real Estate AG in April 2007. As a result of this study, a price target of EUR 4.00 per share was announced, as well as a BUY recommendation. Another study was conducted by HypoVereinsBank AG in June 2007, which also announced a BUY rating and a price target of EUR 4.00. This study placed particular emphasis on the company's solid finances and positive earnings. The analysts also believe that the existing project space has interesting potential for development.

### Investor Relations

ADLER Real Estate AG's financial communications conform to the Prime Standard requirements. In

## > THE ADLER-STOCK AND INVESTOR RELATIONS

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Name	ADLER Real Estate AG
Registered Office Location	Frankfurt/Main HRB 7287
SIN (15 million non- par shares)	500 800
ISIN	DE005008007
Industry	Real Estate
Listed at	Official trading
Indices	CDAX, General Standard Index, DIMAX
Stock Exchange Listings	Xetra, Frankfurt, Berlin- Bremen, Duesseldorf, Hamburg, Munich
Designated Sponsors	Bayerische Hypo- und Vereinsbank AG, Close Brothers Seydler AG
Subscribed Capital	EUR 15 million, splitted in 15 million shares, 1 vote per share

## > INTERIM MANAGEMENT REPORT for the first nine months 2007

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### **INTERIM MANAGEMENT REPORT for the first nine months of 2007**

The business development of ADLER Real Estate AG and its subsidiaries in the first nine months of 2007 was dominated by the expansion of their operations and the structuring of their operations into three clear divisions: asset management, portfolio and project development. In addition to the project development activities already underway, the asset management business took its first major steps during the reporting period, creating the basis for a steady stream of income. ADLER also focused on developing portfolio properties and entering new projects and developments. With the acquisition of MUEBAU Real Estate GmbH at the beginning of the year, the Company added a housing development to a development portfolio that had previously focused on commercial properties.

#### **Asset Management**

The planned expansion of the asset management business made clear progress in the third quarter of the year, as two early transactions set the stage for a tripling of assets under management. In early August, ADLER reported two transactions in rapid succession in which ADLER joined up with AIG Global Real Estate Investment (Europe) Ltd., a member of American International Group, Inc. (AIG), a US insurance company. A portfolio comprised of four office buildings in good locations in the Bavarian capital of Munich was acquired, with 35,000 m<sup>2</sup> in leasable space. The investment volume is EUR 58 million.

The second portfolio consists of twelve high-quality office buildings in Berlin, Frankfurt, Munich and other German cities with total leaseable space of 54,000 m<sup>2</sup>. The investment volume for this portfolio is EUR 78 million. ADLER holds a 15% share in each of the two joint ventures, for acquisition and

for Management of the portfolio. All together, ADLER is engaged in three portfolios together with AIG and is responsible for asset management in each case. The first collaboration between the two companies involved the acquisition of Airport Center Luxembourg in 2006.

ADLER took over asset management for the Munich portfolio in early October and for the second portfolio in mid-November, and now manages about EUR 200 million in real estate assets with its own portfolio. A further expansion of this unit is planned.

#### **Portfolio**

The development of the portfolio unit was affected by preparations for the joint transactions with AIG and by the planned sales by way of portfolio adjustment and realignment. In the first half of the year, one ADLER property and two MUEBAU portfolio properties were sold. A property in Munich-Dornach was sold and MUEBAU sold a residential building in Berlin-Hellersdorf and the Guetersloh logistics center. The passage of benefits and encumbrances for the Guetersloh property took place in August 2007, for the Berlin property in September.

#### **Project Development**

The project development unit was able to significantly expand and diversify its operations at the very beginning of the year with the acquisition of MUEBAU Real Estate GmbH. Along with MUEBAU, a total of six properties were acquired, including three housing developments in Dallgow and Grossbeeren, near Berlin, and in the Altrachau district of Dresden. Those three properties were acquired by the newly formed subsidiary Muenchener Baugesellschaft GmbH. Dr. Ralph-René Lucius was added to that Company's management team in August, along with Peter Stommel.

The new Muenchener Baugesellschaft Company

## > INTERIM MANAGEMENT REPORT for the first nine months 2007

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works on concepts for the development of its existing land, as well as new operations, and had success in this area during the reporting period. Progress was made on the development of the Grossbeeren property, with a total of 150,000 m<sup>2</sup> and with building rights for residential development. The first four parcels were sold to private users in the third quarter for residential development.

The 38,600 m<sup>2</sup> property in the municipality of Dallgow is divided into 145 separate plots, and may be used for single-family housing, two-family housing or rowhouses. Plans are to sell the properties to developers or investors, along with building rights. The 108,000 m<sup>2</sup> building site in the Alttrachau district of Dresden is still waiting for the development plan which is required to conform to heightened flood protection requirements in the region.

Also in the reporting period, the acquisition of a new property progressed to the point where the acquisition could be notarized, in October. In Moosburg, on the Isar River in the district of Freising, an attractive property of about 28,000 m<sup>2</sup> was acquired. Muenchener Baugesellschaft will develop, improve and parcel the land, which will take about eight months, until it is ready for construction. The land is situated in the attractive growth region near Munich Airport and the Bavarian capital, a very popular location, especially for young families with children.

Another project development milestone is the acquisition of an attractive 126,000 m<sup>2</sup> logistics center in North Duisburg. The buyer is Logistik-Zentrum Duisburg-Nord GmbH, in which ADLER holds a 60% stake. Work on the development of the planned logistics center is already underway. There was strong interest on the market in the third quarter from both potential tenants and prospective investors.

ADLER is also working on the development of various portfolio properties. In the middle of Saarbruecken, across from the Congress Center, the Company owns a plot of land, where it plans to develop a hotel and office complex. Conceptual work is also being performed for a project on Fanny-Zobel-Strasse, on the bank of the Spree River in Berlin.

### **Financial, Earnings and Liquidity Position**

Sales and earnings in the first nine months of the year were affected by the acquisition of MUEBAU Real Estate GmbH and the sale of ADLER's Munich-Dornach property.

The clear rise in sales revenues relative to the same period of the year before, to EUR 4.27 million, was primarily a result of the sale of the Munich-Dornach property. The sales figures also include rental income from the lease of parking spaces and two commercial properties. The income from the first consolidation of MUEBAU is downcast in other operating income, which increased to EUR 9.85 million. Net income from the first consolidation came to EUR 8.15 million. In addition, EUR 0.96 million in litigation risk provisions were reversed since the underlying claims expired at the beginning of 2007. The sale of the Guetersloh logistics center has shown separately about EUR 86,000 in the Group's sales and earnings in the first nine months. Most of the income was reported as a result of the first consolidation.

The Company's free cash flow in the first nine months of the year was affected primarily by the sale of properties in Munich-Dornach and the Guetersloh logistics center, including amortization of the land charge credit, the acquisition of the Duisburg property and the joint ventures with AIG. Overall, there was a net cash outflow of EUR 2.7 million in the first nine months of the year.

## > INTERIM MANAGEMENT REPORT for the first nine months 2007

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As of September 30, 2007, ADLER Group had 17 employees (previous year: 10).

The expansion of operations was reflected by a 19% rise in total assets in the reporting period, to EUR 44 million. This increase is primarily attributable to a EUR 7.6 million increase in real estate assets, which is in turn attributable to the first consolidation of MUEBAU Real Estate GmbH, as well as the acquisition of the Duisburg property.

Company is expected to report very strong earnings for the year, although it remains to be seen whether additional income will be earned from sales or project transactions in the fourth quarter.

### **Report on Risks**

ADLER Group has established a risk management system customized to current Company size, and with flat hierarchies. During the reporting period and through the time this report was prepared, the Management Board of ADLER Real Estate AG was not faced to any risks which would jeopardize ADLER's existence, now or in the future. The statements made in the Report on Risks in the Annual Report 2006 remain valid.

### **Outlook**

ADLER Real Estate AG and its subsidiaries made clear progress during the reporting period in developing and consolidating their business. A big step forward was taken in the asset management division. The building development of a largely unencumbered portfolio of undeveloped land is also proceeding in promising fashion, e.g. in Saarbruecken, where a hotel and office complex is being developed, and by Muenchener Baugesellschaft in Grossbeeren, Berlin. The investment in the development of a large logistics center in Duisburg is proving to be the right move, as there has already been strong interest from potential tenants and investors. The acquisition of Muenchener Baugesellschaft, in Moosburg, which is in the district of Freising near Munich, also creates a great deal of potential. Based on developments thus far, the

> CONSOLIDATED BALANCE SHEET  
(IFRS) as at September 30, 2007

<b><u>ASSETS in EUR</u></b>	<b><u>Sept. 30, 2007</u></b>	<b><u>Dec. 30, 2006</u></b>
<b>Non-current assets</b>	<b>5,667,372.74</b>	<b>2,435,516.31</b>
Intangible assets	6,111.90	4,829.70
Property, plant and equipment	790,393.24	42,345.61
Available-for-sale financial assets	4,798,746.60	2,333,800.00
Shares in the associates	72,121.00	54,541.00
<b>Current assets</b>	<b>38,316,311.24</b>	<b>34,612,801.56</b>
Inventories	29,359,124.44	22,449,365.86
Trade receivables	11,483.99	792,788.46
Income tax assets	108,119.83	108,319.91
Other current assets	417,466.52	871,165.88
Cash on hand and at bank	7,720,116.46	10,391,161.45
Available-for-sale-non-current-assets	700,000.00	0.00
<b>ASSETS</b>	<b>43,983,683.98</b>	<b>37,048,317.87</b>

> CONSOLIDATED BALANCE SHEET  
(IFRS) as at September 30, 2007

<b><u>Equity and Liabilities in EUR</u></b>	<b><u>Sept. 30, 2007</u></b>	<b><u>Dec. 30, 2006</u></b>
<b><u>Shareholders equity</u></b>	<b><u>34,995,060.63</u></b>	<b><u>27,653,595.86</u></b>
Share capital	15,000,000.00	15,000,000.00
Capital reserve	7,575,380.15	7,841,308.53
Retained earnings IFRS	420,572.49	420,572.49
Net profit	11,998,035.58	4,391,714.84
Minority shares	1,072.41	0.00
<b><u>Non-current liabilities</u></b>	<b><u>6,520,544.39</u></b>	<b><u>5,711,316.81</u></b>
Pension provisions	900,833.00	900,833.00
Liabilities for deferred taxes	16,286.40	0.00
Other provisions	1,164,452.20	310,483.81
Financial liabilities	4,438,972.79	4,500,000.00
<b><u>Current liabilities</u></b>	<b><u>2,468,078.96</u></b>	<b><u>3,683,405.20</u></b>
Other provisions	1,088,207.20	2,055,157.20
Income tax liabilities	239,847.00	266,222.00
Trade payables	679,626.29	624,376.36
Other non-current liabilities	460,398.47	737,649.64
<b><u>Equity and Liabilities</u></b>	<b><u>43,983,683.98</u></b>	<b><u>37,048,317.87</u></b>

> KONZERN-GEWINN- UND VERLUSTRECHNUNG  
(IFRS) zum 30.09.2007

In EUR	Jan. 1 <sup>st</sup> - Sept. 30, 2007	Jan. 1 <sup>st</sup> - Sept. 30, 2006	July 1 <sup>st</sup> - Sept. 30, 2007	July 1 <sup>st</sup> - Sept. 30, 2006
Sales revenue	4,269,140.00	2,628,153.44	154,413.24	54,330.47
Changes in inventories	1,179,758.08	-1,783,059.52	3,504,067.80	6,374.64
Other operating income	9,847,634.11	2,600,044.15	644,269.95	2,212,859.04
<b>Total operating income</b>	<b>15,296,532.19</b>	<b>3,445,138.07</b>	<b>4,302,750.99</b>	<b>2,273,564.15</b>
Expenses for material	-5,248,604.64	0.00	-3,763,757.58	0.00
Personnel expenses	-1,154,696.95	-581,637.53	-501,881.82	-238,685.28
Depreciation and amortization	-108,937.89	-5,105.85	-19,722.78	0.00
Other operating expenses	-1,530,065.50	-1,180,052.66	-461,634.00	-428,548.21
Income from investment associates	17.50	0.00	17.50	0.00
<b>Result from operating activities (EBIT)</b>	<b>7,254,244.71</b>	<b>1,678,342.03</b>	<b>-444,227.69</b>	<b>1,606,330.66</b>
Interest income	300,863.79	142,268.61	108,621.72	112,409.32
Financial expenses	-331,450.73	-1,340.38	-87,709.16	4,300.00
<b>Profit before income tax</b>	<b>7,223,657.77</b>	<b>1,819,270.26</b>	<b>-423,315.13</b>	<b>1,723,039.98</b>
Income tax	373,735.36	244,876.96	420,030.68	-4,220.00
<b>Consolidated profit for the year</b>	<b>7,597,393.13</b>	<b>2,064,147.22</b>	<b>-3,284.45</b>	<b>1,718,819.98</b>
<b>Splittet as follows:</b>				
Shareholders of the parent company	7,606,320.72	2,064,147.22	-743.73	1,718,819.98
Minorities	-8,927.59	0.00	-2,540.72	0.00
Basic earnings per share	0.51	0.18	0.00	0.11
Diluted earnings per share	0.51	0.18	0.00	0.11

> CONSOLIDATED CASH FLOW STATEMENT  
(IFRS) for the Januar 1<sup>st</sup> to September 30, 2007

In EUR	January 1, 2007 - September 30, 2007	January 1, 2006 - September 30, 2006
Operating profit	7,254,244.71	1,678,342.03
+ Depreciation of non-current assets	108,937.89	5,105.85
- Non-cash income and expenses	-8,149,349.00	0
+ Nicht zahlungswirksame Aufwendungen	111,500.00	0
- Decrease in provisions	-1,925,845.51	-2,763,239.07
+/- Losses / Profits from disposals of non-current assets	-88,185.43	0
+ Decrease in inventories, trade and other assets not attributable to financing activities	-165,072.89	6,763,310.93
+/- Increase/ decrease in trade payables and other liabilities not attributable to investing for financing activities	-679,731.63	-551,544.18
+ Interest payments	300,863.79	142,268.61
- Interest disbursements	-331,450.73	-1,340.38
+/- Tax payments	373,735.36	244,876.96
= <b>Net cash inflow (2007: Net cash outflow) for operating activities</b>	<b>-3,190,353.44</b>	<b>5,517,780.75</b>
+ Acquisition of subsidiary companies less acquired net liquid funds	227,476.00	0
+ Proceeds from disposals of non-current assets	7,660,700.00	0
- Cash used for investments in plant, property and equipment	-80,549.29	-18,020.15
+/- Cash used proceeds from disposals of non-current financial assets and receivables classified under investing activities	10,000.00	0
- Cash used for investments in non-current assets	-3,028,269.10	-956,300.00
= <b>Net cash inflow (2007: net cash outflow) from investing activities</b>	<b>4,789,357.61</b>	<b>-974,320.15</b>
- Cash used for expenses in connection with equital capital disposals	-377,428.38	12,616,975.53
- Cash used for repayments of financial loans	-3,892,620.78	-4,293,234.43
= <b>Net cash outflow from financing activities</b>	<b>-4,270,049.16</b>	<b>8,323,741.10</b>
Reconciliation with Balance Sheet		
<b>Cash and cash equivalents at the beginning of the period</b>	<b>10,391,161.45</b>	<b>1,362,637.15</b>
Net cash inflow from operating activities	-3,190,353.44	5,517,780.75
Net cash inflow (2007: Net cash outflow) from investing activities	4,789,357.61	-974,320.15
Net cash outflow from financing activities	-4,270,049.16	8,323,741.10
= <b>Cash and cash equivalents of the end of the period</b>	<b>7,720,116.46</b>	<b>14,229,838.85</b>

> CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
(IFRS) for the ending quarter as at September 30, 2007

In TEUR	Subsribed Capital	Capital reserve	Retained earnings	Net profit/loss for the year	Capital and reserves owed to the shareholders of parent company	Minority shares	Total Equity
<b>Balance as at Jan. 1<sup>st</sup>, 2007</b>	<b>15,000</b>	<b>7,841</b>	<b>421</b>	<b>4,392</b>	<b>27,654</b>	<b>0</b>	<b>27,654</b>
Consolidated profit	0	0	0	-548	-548	-9	-557
Costs of the capital increase	0	-377	0	0	-377	0	-377
Initial consolidation of MUEBAU/Duisburg	0	0	0	8,154	8,154	10	8,164
Stock option plan	0	111	0	0	111	0	111
<b>Balance as at Sept. 30, 2007</b>	<b>15,000</b>	<b>7,575</b>	<b>421</b>	<b>11,998</b>	<b>34,994</b>	<b>1</b>	<b>34,995</b>

In TEUR	Subsribed Capital	Capital reserve	Retained earnings	Net profit/loss for the year	Capital and reserves owed to the shareholders of parent company	Minority shares	Total Equity
<b>Balance as at Jan. 1<sup>st</sup>, 2006</b>	<b>10,000</b>	<b>0</b>	<b>421</b>	<b>-4,165</b>	<b>6,256</b>	<b>0</b>	<b>6,256</b>
Consolidated profit	0	0	0	2,064	2,064	0	2,064
Increase of funds	5,000	9,000	0	0	14,000	0	14,000
Costs of the capital increase	0	-1,384	0	0	-1,384	0	-1,384
<b>Balance as at Sept. 30, 2006</b>	<b>15,000</b>	<b>7,616</b>	<b>421</b>	<b>-2,101</b>	<b>20,936</b>	<b>0</b>	<b>20,936</b>

## > NOTES TO INTERIM FINANCIAL STATEMENTS

as at September 30, 2007

### **Accounting and Valuation Methods**

All new or modified IFRS and IFRIC interpretations whose application became mandatory as of January 1, 2007 were considered in the interim financial statements. The first-time application of these new or modified rules had no impact on the financial, earnings and liquidity position and cash flow reported in the interim financial statements.

Accordingly, in preparing the interim financial statements and ascertaining comparison figures for the year before, the same consolidation, accounting and valuation principles were applied as in the consolidated financial statements 2006. A detailed description of those methods can be found in the notes to the consolidated financial statements 2006.

These interim financial statements conform to the rules for interim financial reporting set down in IAS 34.

### **Consolidated Companies**

The consolidated financial statements are prepared for ADLER Real Estate AG, Frankfurt, as the Group parent company. Subsidiaries are either fully consolidated, and holdings are measured using the equity method. In addition to the parent company, the Group includes twenty-five subsidiaries, including MUEBAU Real Estate GmbH and its six subsidiaries, which were included in the consolidated financial statements for the first time on January 1, 2007 in accordance with IFRS 3. These companies are included in the consolidated financial statements based on the rules for fully consolidated companies. Of the companies included in ADLER's consolidated financial statements, 26 companies were fully consolidated and 5 companies were reported at equity.

### **Consolidation of MUEBAU**

ADLER Real Estate AG purchased 93.9% of shares in MUEBAU and its subsidiaries in January 2007, and

the remaining 6.1% at the end of June 2007, so that ADLER now holds all shares in the Company. MUEBAU has an attractive portfolio of unencumbered project developments, as well as two leased commercial properties.

The final condition precedent for the acquisition of MUEBAU was met in January 2007. The acquisition cost is divided into two components: the purchase price paid to the seller, MRE Holding GmbH, and the expense incurred for the redemption of third-party obligations, for a total of EUR 1.244 million.

	EUR millions
Acquisition cost	1.244
Shareholders' equity after re-appraisal	<u>9.393</u>
Net income	8.149

The amount by which the Company's share of MUEBAU's re-appraised shareholders' equity exceeded the purchase price of EUR 8.149 million was reported as other operating income.

At the time of first consolidation, the sums indicated below were included into the consolidated balance sheet.

### **MUEBAU Real Estate GmbH      Jan. 1<sup>st</sup>, 2007**

	EUR millions
<b>Non-current assets</b>	<b>8.378</b>
<b>Current assets</b>	<b>7.136</b>
<b>Equity after re-appraisal</b>	<b>9.393</b>
<b>Non-current liabilities</b>	<b>1.218</b>
<b>Current liabilities</b>	<b>4.903</b>

MUEBAU contributed EUR 652,000 in net earnings for the nine-month period.

## > NOTES TO INTERIM FINANCIAL STATEMENTS

as at September 30, 2007

### **Notes to the Financial, Earnings and Liquidity Position**

The Group's total assets as of September 30, 2007 came to EUR 43.984 million, up around 19% from December 31, 2006. This increase is primarily attributable to the EUR 7.606 million growths in real estate assets, which was largely due to the first consolidation of MUEBAU Real Estate GmbH, Hamburg. The aforementioned increase is also attributable to the acquisition of a 126,119 m<sup>2</sup> property in Duisburg. The buyer is Logistik-Zentrum Duisburg-Nord GmbH, in which ADLER AG holds a 60% stake. Net cash in banks amounted to EUR 7.720 million on September 30, 2007, compared to EUR 10.391 million at the end of 2006.

The Hellersdorfer Strasse property in Berlin, held through MUEBAU, was sold in April 2007. In view of the upcoming transfer of benefits and encumbrances, this property was transferred to the item for non-current assets held for sale in accordance with IFRS 5.

The capital reserve comes from the share capital increase of June 11, 2006. The sum in excess of the mathematical nominal value was transferred to the capital reserve, minus the cost of the capital increase, in the amount of EUR 1.232 million (IAS 32.37).

In the wake of the capital increase during the three quarter 2007, an expense of EUR 614,000 reduced by the notional tax rate of EUR 236,000, were also deducted from the capital reserve pursuant to IAS 32.37.

The EUR 4.269 million in sales in the first nine months resulted primarily from the sale of a 9,200 m<sup>2</sup> property in Munich-Dornach. The transfer of benefits and encumbrances, as well as the purchase price payment, took place in April 2007. The sales also include rental income from the lease of parking space and two commercial properties.

Other operating income of EUR 9.948 million rose by EUR 7.248 million relative to the nine-month 2006, including EUR 8.149 million in income from the first consolidation of MUEBAU and EUR 960,000 from reversal of the provision for litigation risks, as the Company no longer expects any claims in this regard. The limitation period on the claims in question expired at the beginning of 2007. Other operating income also includes the reversal of warranty provisions for sold properties, in the amount of EUR 453,000. The major factor in this reversal was a settlement with a buyer, which precludes a possible claim. The sale of the Guetersloh logistics center accounted for EUR 86,000 in income.

A result from operating income (EBIT) during the reporting period was EUR 7.254 million. The growth by EUR 5.576 million was primarily attributable to other operating income in connection with the acquisition of MUEBAU.

The first consolidation of MUEBAU generated EUR 8.149 million in income with no effect on payments. The liquid funds received in the course of the acquisition of MUEBAU exceeded the payments made for the acquisition by EUR 227,000.

EUR 374,000 in tax income was reported as of September 30, 2007. The re-appraisal of the Guetersloh logistics center as part of first consolidation produced a new residual book value for the Guetersloh property as of January 1, 2007, EUR 1,276 million higher than the residual book value reported in the individual financial statements. A provision for deferred taxes was made in this regard, using a tax rate of 38.5%, which has been reversed now that the property has been sold.

The Company's free cash flow in the first nine months of the year was affected primarily by investments in the Duisburg logistics center, the portfolio acquisition as part of the joint venture with AIG and the refurbishment of the Herriistraße property in

## > NOTES TO INTERIM FINANCIAL STATEMENTS

as at September 30, 2007

Frankfurt / Main. These expenses were offset in part by revenue from the sale of properties in Dornach and Gütersloh. Net free cash flow was EUR -2.671 million.

Earnings during the reporting period were not affected by seasonal fluctuations. There were no share capital increases or dividends during the first nine months of the year. By admission resolution of July 19, 2007, the Frankfurt Stock Exchange admitted for official trading 5,000,000 bearer shares created by the share capital increase adopted by the Management Board, with the consent of the Supervisory Board, on June 27, 2006, and entered in the Commercial Register of the Local Court of Frankfurt / Main on July 18, 2006, in exchange for cash contributions from authorized capital, as well as up to 200,000 bear shares created by the conditional share capital increase adopted by the general meeting on April 21, 2006 in order to execute the Company's stock option plan.

Detailed segment-by-segment reporting will be dispensed with since most of the Company's operations during the reporting period involved project development.

As of September 30, 2007, ADLER Group had 17 employees (previous year: 10).

In August, ADLER and AIG Global Real Estate Investment Ltd. acquired a portfolio consisting of four office buildings, around 35,000 m<sup>2</sup>, in Munich. The overall investment volume is around EUR 58 million. In September 2007, ADLER paid EUR 1.797 million towards its share of the equity. This amount is listed under non-current financial assets available for sale.

Also in August, ADLER and AIG Global Real Estate Investment Ltd. acquired another portfolio, consisting of twelve office buildings in Berlin, Frankfurt, Munich and other German cities with total leaseable space of 54,000 m<sup>2</sup>. The investment volume for this portfolio is around EUR 78 million.

In September 2007, ADLER made an advance payment of EUR 750,000 towards its share of the equity. This amount is also listed as financial assets available for sale.

### **Related Persons**

Supervisory Board Member Andreas Helwig received EUR 65,862.52 in fees up to September 30, 2007 for consulting services in connection with preparation of the issuing offering prospectus and for other consulting work and assistance.

### **Information about Subscription Rights of Corporate Officers and Employees**

Under the stock option program adopted by the general meeting 2006, the Management Board Members held 200,000 stock options as of the balance sheet date (December 31, 2006: 200,000 stock options). Additional information about the stock option program can be found in our Annual Report. An expense of EUR 111 was recognized during the reporting period.

### **Major Transactions after September 30, 2007**

In August, ADLER and AIG Global Real Estate Investment Ltd. acquired a portfolio consisting of four Munich office buildings, for a total of about 35,000 m<sup>2</sup>. The investment volume was about EUR 58 million. The transfer of benefits and encumbrances took place in October 2007.

Also in August, ADLER and AIG Global Real Estate Investment Ltd. acquired another portfolio, consisting of twelve office buildings in Berlin, Frankfurt, Munich and other German cities, with around 54,000 m<sup>2</sup> in leaseable space. The investment volume is around EUR 78 million. The transfer of benefits and encumbrances will presumably take place in November 2007.

ADLER holds a 15% share in the real estate investment company which made the acquisition, which is

## > NOTES TO INTERIM FINANCIAL STATEMENTS

as at September 30, 2007

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based in Luxembourg. As part of the collaboration with AIG Global Real Estate, Adler Real Estate Service GmbH will assume asset management responsibilities for both portfolios.

A plot of land of around 28,000 m<sup>2</sup> was acquired for the housing development in Freising in October 2007. The project volume is around EUR 8 million.

Muenchener Baugesellschaft GmbH will develop, improve and parcel the land until it is ready for construction. The parcels which will be created, 57 in all, may be used to build single-family or two-family homes. The "Am Muehlbachbogen Nord" property in the southern part of the City of Moosburg is situated in the attractive growth region near Munich Airport and the Bavarian capital, an especially popular area for young families with children. It will take about eight months to develop this area.

Progress was made on the development of the Grossbeeren property, with a total of 150,000 m<sup>2</sup> and with building rights for residential development. The first four parcels were sold to private users in the third quarter for residential development. The transfer of benefits and encumbrances for two parcels took place in October 2007.

## > DECLARATION PURSUANT

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### **Declaration Pursuant to § 37y No. 1 of the Securities Trading Act**

"We hereby affirm to the best of our knowledge, pursuant to the applicable accounting principles for interim financial reporting, with due regard for the requirements of § 37w of the Securities Trading Act, that the interim consolidated financial statements convey a true and fair view of the Group's financial, earnings and liquidity position, that the course of business, including the results of operations and the position of the Group, is represented in the interim consolidated management report in such a manner as to convey a true and fair view and that all essential opportunities and risks foreseeable for the Group in the remainder of the financial year are described."

ADLER Real Estate Aktiengesellschaft  
The Management Board

## > CERTIFICATE OF AUDIT REVIEW

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### **Review Report**

To ADLER Real Estate AG, Frankfurt

We have reviewed the condensed consolidated interim financial statements - comprising the condensed balance sheet, condensed income statement, condensed cash flow statement, condensed statement of changes in equity and selected explanatory notes - and the interim group management report of Lloyd Fonds AG, Hamburg, for the period from 1 January to 30 September 2007, which are part of the quarterly financial report pursuant to § (Article) 37x paragraph 3 WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act). The preparation of the condensed consolidated interim financial statements in accordance with the IFRS applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports is the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to issue a review report on the condensed consolidated interim financial statements and on the interim group management report based on our review.

We conducted our review of the condensed consolidated interim financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with moderate assurance, that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU

and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports. A review is limited primarily to inquiries of company personnel and analytical procedures and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot express an audit opinion.

Based on our review, no matters have come to our attention that cause us to presume that the condensed consolidated interim financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU nor that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the German Securities Trading Act applicable to interim group management reports.

Hamburg, 16 November 2007

**PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft**

(Müllner) (ppa. Wilke)  
Wirtschaftsprüfer Wirtschaftsprüfer

## > LEGAL REMARKS

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This report contains future-oriented statements that reflect the current Management views of ADLER Real Estate AG regarding future events. Every statement in this report that reflects intentions, assumptions, expectations or predictions as well as the assumptions, on which they are based, is 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 that can result in actual developments deviating 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.

## > FINANCIAL CALENDARS AND IMPRINTS

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### FINANCIAL CALENDARS

April 2008

Annual Report 2007

June 2008

Annual General Meeting 2008

### IMPRINTS

#### **Publisher**

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Axel Harloff

#### **Concept and Content / Investor Relations**

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