

# 07

## Annual Report

This document is a non-binding translation only.  
For the binding document please refer to the German version, published under [www.adler-ag.de](http://www.adler-ag.de)

# Operating Figures

In TEUR		
Consolidated Balance Sheet (IFRS)	2007	2006
Shareholder Equity	34,708	27,654
Subscribed Capital	15,000	15,000
Consolidated Total Assets	44,674	37,048
Equity Ratio	77.7%	74.6%

In TEUR		
Consolidated Income Sheet (IFRS)	2007	2006
Revenues	5,415	2,628
Total Operating Income	18,435	12,158
EBITDA	7,276	8,933
EBIT	6,859	8,908
Consolidated Earnings	7,273	8,557
Earnings per Share (in EUR)	0.49	0.70
Employees	21	11

# Asset Key Figures

Project Development		
	2007	2006
Commercial		
• Number of Projects	8	8
• Project Investment (in TEUR)	194,328	21,391
Residential		
• Number of Projects	4	0
• Project Investment (in TEUR)	29,327	0

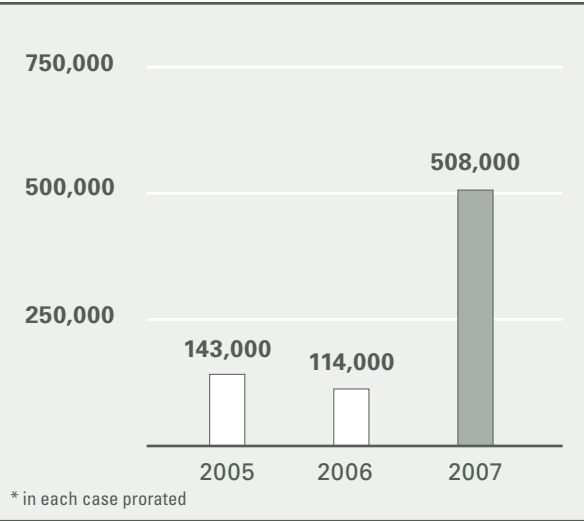
Asset/Property Management		
	2007	2006
• Number of Properties	29	14
• Plot Area (in sqm)	639,000	446,000
• Lettable Space (in sqm)	113,000	43,000
• Investments (in TEUR)	217,000	93,000

# Lines of Business



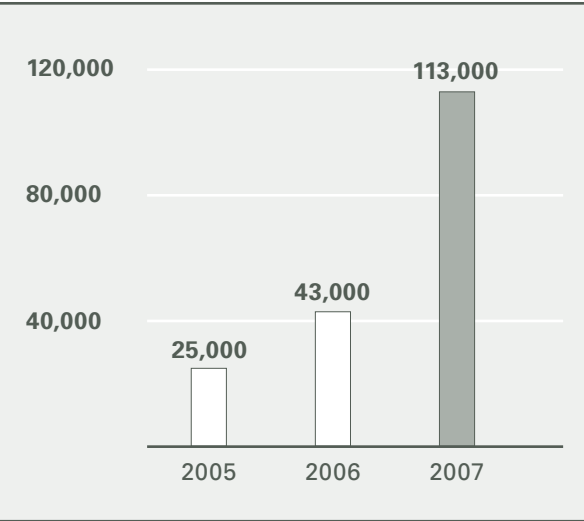
## Development Properties\*

(in sqm)



## Portfolio under Management

(lettable area in sqm)



## Location Overview

### ■ Development Projects

### ■ Portfolio Properties



### Project Development

#### Properties/Land Bank

##### Commercial

- **Berlin**, Fanny-Zobel-Strasse
- **Berlin**, Spaethstrasse
- **Duisburg**, Hamborner Strasse
- **Frankfurt a. M.**, Herriotstrasse
- **Homburg/Saar**, Am Forum
- **Saarbruecken**, Hafenstrasse
- **Offenbach**, Strahlenberger Strasse

##### Residential

- **Dallgow-Doeberitz (near Berlin)**, Triftstrasse
- **Grossbeeren (near Berlin)**, Trebbiner Strasse
- **Dresden**, Alttrachau
- **Moosburg an der Isar**, Am Muehlbachbogen

### Portfolio Investment

- **Frankfurt a. M.**, Herriotstrasse
- **Gruenstadt**, Hauptstrasse

### Financial Investment

#### Germany (15%)

- **Berlin**, Berliner Strasse
- **Berlin**, Cicerostrasse
- **Berlin**, Heidelberger Strasse
- **Bietigheim-Bissingen**, Hoepfigheimer Strasse
- **Dortmund**, Hildebrandstrasse
- **Dreieich (near Frankfurt a. M.)**, Im Gefierth
- **Dreieich (near Frankfurt a. M.)**, Max-Planck-Strasse
- **Goettingen**, Kasseler Landstrasse
- **Goettingen**, Rodeweg
- **Hechingen**, Sigmaringer Strasse
- **Martinsried (near Munich)**, Fraunhofer Strasse
- **Munich-Perlach**, Bayerwaldstrasse
- **Putzbrunn**, Hermann-Oberth-Strasse
- **Taufkirchen (near Munich)**, Mehlbeerenstrasse
- **Unterschleissheim (near Munich)**, Einsteinstrasse

#### The Netherlands and Luxembourg – Portfolio

- **Amsterdam**, Schiphol/NL (7.5%)
- **Luxembourg**, Airport Center Luxembourg/LUX (10%)

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## Short Profil

ADLER Real Estate AG operates as a real estate company specializing in asset management, portfolio development and project development. The Company's core competence consists of value- and income-oriented asset management and the realization and marketing of high-quality real estate projects.

Asset management ensures steady income and professional development of portfolio properties, in which ADLER holds a minority interest in order to benefit from the increased property values. The Company implements a conservative risk-averse strategy in executing its real estate projects. Projects are gradually brought towards a stage of realization in which use is largely secured in the form of leasing or sale to investors.

The Company's project development activities focus on both commercial and residential projects. In addition to promising commercial properties, which generally take a long time to develop, this division can develop residential projects in a relatively short period of time, thus generating a steady stream of income.

For larger investments, ADLER Real Estate AG enters into strategic partnerships with selected partners.

ADLER Real Estate AG emerged from the Frankfurter Adlerwerke, a company with a rich tradition going back to the 19th century.

## Foreword of the Management Board

**Dear Shareholders,  
Ladies and Gentlemen,**

The financial year 2007 was a crucial year in every respect: we made a lot of changes within the Company, and the external conditions in which we operate also changed drastically.

After spending the past two years relieving the Company from all preexisting obligations and setting it back on course, our efforts in 2007 were devoted above all to building up the Company's operational business. We structured ADLER Real Estate AG in three divisions: asset management, portfolio development and project development. Furthermore, progress was made in all three areas.

A transaction which stands out and appears, at first glance, to deviate from this course, is the acquisition of MÜBAU Real Estate GmbH, which boosted ADLER earnings in 2007 through onetime positive effects. However, the preliminary work for this successful acquisition was actually performed a long time ago, and did not interfere at all with the development of our operations during the reporting year. Of great importance in this context was our ability to sell a large number of the acquired assets with great success in a very short period of time as planned from the beginning.

Part of the assets acquired with MÜBAU Real Estate GmbH consists of three large housing development sites, which is the basis of our efforts to establish the housing development basis. We have also recently formed Münchener Baugesellschaft mbH, with registered office in Frankfurt a. M., which will diversify the project development business and increase the opportunities to generate a steady and predictable stream of income for this business.

In order to ensure the continuity of ADLER's revenues and earnings, we have concentrated on building up the Asset Management business in 2007.

We have extensive experience in this field, which we have built up over many years. Regular income from fees and services offer a stable basis for the entire business. At the same time, we have remained true to our original core project development model, realizing profits from the development of real estate projects and related to the enhancement in property values.

We also invest the capital in portfolios which we then assume in the Management, in order to benefit from the enhancement in property value which generally follows when we assume asset management responsibilities. In addition, these investment offerings place ADLER in a much better position to meet the criteria of investors, especially those from English-speaking countries, whose investments in Germany have appreciated very well in recent years and who are looking for competent partners to manage their real estate assets. These investors tend to seek a "win-win" investment model: instead of simply hiring an asset manager, they are looking for partners who are willing to share in the risk and opportunities of the investment, and will therefore work actively in the interests of their customers and take responsibility for the success of the investment.

To this end, in early August 2007, ADLER acquired two portfolios together with the partner AIG Global Real Estate Investment (Europe) Ltd., with a combined investment volume of about EUR 136 million. ADLER holds a 15% interest in these portfolios. In early October and November, we assumed asset management functions for the two portfolios, and thus took a large step towards the development of this business, which represents a solid pillar for a steady flow of income.

We were thus able to implement our three-pillar strategy in a very tough environment, as conditions worsened as a result of the US mortgage crisis. As this crisis developed, which affected numerous

banks in the US as well as German banks, real estate markets and companies were all lumped together. Investors across the board divested themselves of their real estate stocks, including that of ADLER Real Estate AG, unfortunately. All of this happened despite the fact that ADLER, as well as other companies, posted positive earnings and met their targets.

As a result, ADLER's stock market valuation was pushed everlower, and even today does not reflect the true value of the Company. The crisis also had consequences for segments of the German real estate market: since refinancing was not available for some transactions as a result of the US mortgage crisis, numerous package-deal transactions could not be executed. As a result, prices per square meter dropped back down to the known levels of recent years.

However, the crisis has had no impact on the German real estate market. According to the analysis and forecasts of numerous German market experts, the German real estate market is still at the beginning of a broad upswing, after 12 to 15 years of stagnation and decline. This assessment is supported by the stable German economic data, the clear reduction in the German unemployment rate and the rise in income due to higher wages.

These developments should prove especially beneficial for the housing market, which was placed under stress in 2007 by the cancellation of the homeowners' allowance. This market should also be stimulated by the reinstitution of a general commuter allowance, which will benefit newly built homes on the outskirts of major cities. It is

important for the Company to develop customized products which are tailored to suit the needs of their target audience. The new subsidiary, Münchener Baugesellschaft mbH, is already working on plans for attractive, energy-efficient and eco-friendly housing forms, which have attracted great interest thus far.

We are confident that the global mortgage crisis will not have a lasting impact on the German real estate market or on ADLER's business. On the contrary, we expect the strong economy, the recovery of the German job market and the improvement in real wages to generate a rise in demand for real estate in Germany, which will put an end to the undervaluation of real estate in many parts of the country. This development will be accelerated by the rising inflation, an undesirable but inevitable side effect of the strong economy.

The expected improvement in property values and the strong and sustained demand for real estate of all categories will not escape the notice of the financial markets, and we will see a turnaround in the performance of real estate stocks. We are convinced that the financial markets, which were scared away from the real estate sector by the subprime lending crisis, will learn sooner or later that we have created an appreciating asset with ADLER Real Estate AG, which will continue to grow in value for years to come.

Management Board

  
Barbara Yaltrak

  
Axel Harloff

## Report of the Supervisory Board

**Dear Shareholders,  
Ladies and Gentlemen,**

In the course of 2007, the Supervisory Board of ADLER Real Estate AG performed the functions assigned to it by law and the Articles of Association. Its functions were performed both in routine meetings and individual discussions. The Supervisory Board made itself available to advise the Management Board and supervise its activities. To this end, the Supervisory Board was kept informed at all times about the position of the Company and adopted all necessary resolutions. The chairman of the Supervisory Board maintained regular contact with the Management Board members, even outside of sessions and discussions, and was kept informed of recent developments in the Company's business. The Supervisory Board was directly involved in all decisions of fundamental importance for the Company.

The Management Board reports to the Supervisory Board in regular joint meetings, based on written Management Board reports. In those reports, the Management Board notifies the Supervisory Board of the overall situation of the Company and its subsidiaries, as well as individual matters of major importance. The deliberations focused on the course of business, the position and earnings of the Company, operational plans and other fundamental planning questions, as well as the course of business and position of the Group subsidiaries.

### **Meetings**

A total of four Supervisory Board sessions were held in the 2007 financial year, on March 29, June 25, September 13 and December 6. The members of the Supervisory Board regularly took part in the Supervisory Board meetings.

In view of the fact that the Articles of Association state that the Company's Supervisory Board is to consist of three members, no committees were formed. All members of the Supervisory Board

concerned themselves with the totality of the Supervisory Board's functions in the course of their activities.

Accordingly, all matters brought before the Supervisory Board were deliberated upon and decided by the entire Supervisory Board, approving all transactions and measures requiring its approval after due deliberation.

The Management Board kept the Supervisory Board informed of the course and status of business, the Company's earnings, operational plans and other fundamental planning questions through written quarterly reports.

### **Areas of Focus**

In its routine meetings, the Supervisory Board has focused on the Company's operational plans, as well as planned acquisition and sales, especially questions relating to the liquidity and earnings position, controlling, liquidity policy and risk management. The Supervisory Board has also considered issues in connection with the execution of the capital increase in 2007 from authorized capital in 2006.

### **German Corporate Governance Code (GCGC)**

The Management Board and Supervisory Board are in agreement that the GCGC contains internationally and nationally accepted standards of good and responsible corporate governance serving the management and supervision of exchange-listed German companies.

Implementation of the guidelines for ADLER Real Estate AG was already resolved by the Management and Supervisory Boards in the 2002 financial year. The guidelines have been implemented, with few exceptions. Insofar as the Company has deviated from the guidelines of the German Corporate Governance Code, those deviations are explained in a "Declaration of Compliance" pursuant to § 161 of the Corporations Act, which is posted at all times,



in up-to-date form, on ADLER's website under "Investor Relations."

The Declaration of Compliance, together with the annual financial statements, management report and other documents requiring disclosure, are published in the Bundesanzeiger [Federal Gazette] and submitted to the Commercial Register.

### **2007 Annual and Consolidated Financial Statements**

The annual financial statements for ADLER Real Estate AG prepared by the Management Board and the consolidated financial statements, including the management and consolidated management report for the 2007 financial year, were audited by the auditor selected in the General Meeting of June 26, 2007, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft (Hamburg), which issued an unqualified auditor's opinion.

The annual financial statements (Commercial Code), consolidated financial statements (IFRS), including management report and consolidated management report, and the audit reports of the auditor on the audit of the annual and consolidated financial statements, were presented to the Supervisory Board for review, as well as the Management Board's proposal for use of the retained earnings. At its balance sheet session of March 28, 2008, the Supervisory Board discussed with the Management Board and closely considered the documents relating to the annual financial statements and reports, particularly questions regarding the valuation of fixed and current assets. The auditor reported in the course of that session regarding the essential results of the audits and was available to the Supervisory Board for additional questions. Based on its independent review of the annual financial statements, the consolidated financial statements and the management reports for the Company and the Group, the Supervisory Board approved the result of the auditor's audit and conclusively found that there were no objections to the audit. By resolution of March 28, 2008, the

Supervisory Board approved the annual financial statements, which were accordingly adopted pursuant to § 172 of the Corporations Act, as well as the consolidated financial statements. The Supervisory Board adopted the Management Board's proposal for use of the retained earnings.

### **Dependency Report 2007**

The Supervisory Board has reviewed and approved the report prepared by the Management Board pursuant to § 312 of the Corporations Act regarding relations with affiliated companies. After concluding this review, the Supervisory Board has no objections to the declaration made by the Management Board at the close of its report pursuant to § 312 of the Corporations Act. The auditor has made no objections in its audit of this report, and the result of the audit is consistent with the findings of the Supervisory Board. PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft has issued its unqualified auditor's opinion for the report:

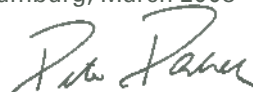
1. The factual information in the report is correct.
2. The payments made by the company in connection with the legal transactions listed in the report were not unreasonably high and disadvantages were offset.
3. There are no circumstances that would prompt a materially different assessment of the activities listed in the report that provides by the Board of Management.

### **Members of the Supervisory Board**

Pursuant to § 96 of the Corporations Act, the Supervisory Board is comprised of shareholder representatives.

The Supervisory Board thanks the Management Board and all employees of ADLER Group for their hard work in the 2007 financial year.

Hamburg, March 2008



Chairman of the Supervisory Board

## ADLER Stock

The beginning of 2007 on the stock market was almost as strong as the end of 2006, a very good year. Stock prices rose steadily through mid-year, with just a brief interruption in March. But then the mood on the international financial markets darkened as a result of the mortgage crisis in the US, and stock prices fluctuated sharply. After a strong downturn, the markets recovered briefly in mid-September and returned to their old highs. However, fears of inflation, the development of the US economy, record oil prices and the Euro-US dollar exchange rate produced further fluctuations in early November, which ultimately led to an extreme drop in stock prices in January 2008.

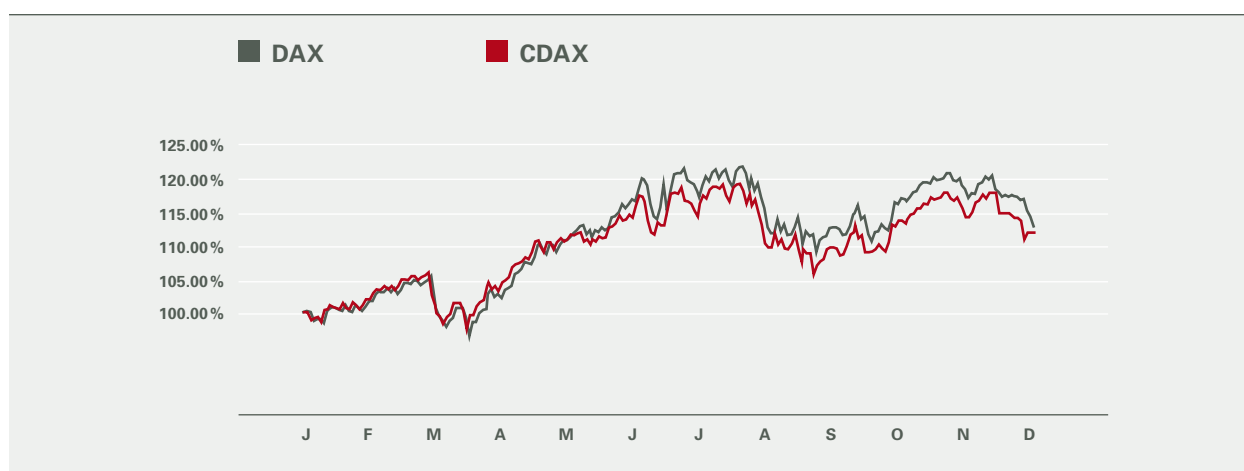
These developments are above all a reflection of the massive losses sustained by US banks as a result of the subprime lending crisis, and the disaster which heavily concerned the large French bank Société Générale, resulting in one of the most severe slumps ever in the German stock market. The bank lost billions in DAX futures trading because of a fraudulent trader, purchasing an extremely high number of futures contracts in a falling market, with

no limit. This caused the DAX to tumble to a low of 6,500, down from a high of over 8,000 in December. Since then, the DAX recovered slightly to 6,900 on February 27, 2008, though the fluctuations are continuing.

The positive growth of the German economy and the sharp rise in energy prices have produced rising inflation. The European Central Bank responded to this development with forbearance, since its hands were tied by the continuing mortgage crisis. The US Federal Reserve Bank, on the other hand, reduced its base interest rate in several stages, from 4.25% in October to 3% on January 30, 2008, in an effort to overcome the crisis and keep the US economy from drifting off into recession.

Despite the fluctuations and concerns in the financial markets, the global economy and the German economy remain very robust, and while economic and financial experts expect the German economy to grow at a slower pace in 2008, that growth is still projected to reach 2.0%.

### Performance of the DAX and CDAX since the beginning of the year



### Performance of Real Estate Stocks

German real estate stocks underperformed this year. Measured by the German real estate stock index (the DIMAX), German real estate stocks lost an average of 31.8% of this value, as the DIMAX fell from 535 at the beginning of 2007 to 364.78 on January 31, 2008. In virtually no case can these substantial drops

be tied to falling earnings or a negative course of business for the companies affected. It should be noted that the financial markets have gradually lowered their valuations for publicly traded real estate companies due to general concerns about the future of the German real estate market in light of the US mortgage crisis.

### Performance of the DAX and CDAX since the beginning of the year



### Performance of ADLER Stock

In light of this situation, the performance of ADLER stock was extremely unsatisfactory, as the stock price dropped sharply relative to its position at the beginning of 2007. By mid-February, the stock price

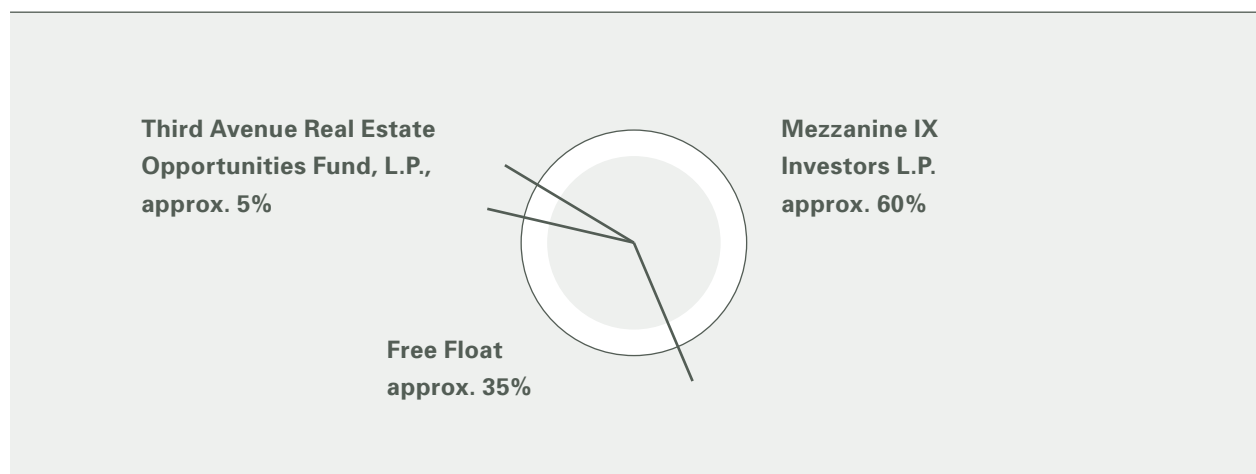
had fallen to a low of EUR 1.05, for a price/earnings ratio of just 2.25 based on 2007 net earnings. Ratios between 8 and 15 are more normal. We can only hope that the financial markets will correct their very low valuation of ADLER stock sooner or later.

### Shareholder Structure

The shareholder structure of ADLER Real Estate AG is unchanged relative to the structure on June 30, 2007. The US investor Mezzanine IX Investors L.P.

holds about 60% of the shares, Third Avenue Real Estate Opportunities Fund, L.P., New York, USA, now holds about 5%, and about 35% of shares are currently in free float.

#### Shareholder Structure (February 2008)



### Two Independent Research Analyses

Independent Research analyzed ADLER Real Estate AG in April 2007, publishing a price target of EUR 4.00 as the result of its study, and issuing a rating of BUY. Another analysis was undertaken in June 2007 by HypoVereinsbank AG, which also ascertained a price target of EUR 4.00 and a rating of BUY. This study placed particular emphasis on the Company's solid financial position and high earnings, as well as noting the interesting potential of the Company's existing project developments.

### Investor Relations

ADLER Real Estate AG's financial communications are based on the Prime Standard rules. In addition

to routinely publishing quarterly reports in German and English, the Company attends capital market conferences. For example, ADLER Real Estate AG took part in the HSBC Trinkaus Real Estate Conference in spring of 2007, the Real Estate Stock Initiative Conference in October 2007 and the Equity Forum in November 2007, which was organized by Deutsche Börse. Other conferences are planned in 2008. The Company hopes to enter the Prime Standard segment of the Frankfurt Stock Exchange in the medium term, which will open the Company to a broader and more international investor base. Up-to-date reports are also available on the website of ADLER Real Estate AG, [www.adler-ag.de](http://www.adler-ag.de), and additional information is published as developments occur.

## Corporate Governance

### General Remarks

We welcome the creation of the Corporate Governance Code and its incorporation into § 161 of the Corporation Act. We would like to point out that ADLER Real Estate AG cannot comply with all items in the Code. The Code is a standardized document applicable to both large international blue chips and to small exchange-listed enterprises sometimes active on only a national level. There are thus items that a small enterprise cannot fulfill, often leading to the differences that an enterprise must explain. We ask you to read the explanations of our divergence carefully.

### Declaration of Compliance with the German Code pursuant to § 161 of the Corporation Act

ADLER Real Estate AG has complied with the Recommendations of the Governmental Commission on the German Corporate Governance Code as amended on June 12, 2006 with the exceptions mentioned in the compliance declaration of January 2007 and with the exceptions of Sections 5.5.4 and 7.1.2.

ADLER Real Estate AG will follow the Recommendations of the Governmental Commission on the German Corporate Governance Code as amended on June 14, 2007 with the exceptions as follows:

- At variance with Section 3.8 of the Code, no deductible has been stipulated with respect to the D&O insurance agreement concluded for the officers. The Supervisory and Management Boards are of the opinion that a deductible would not improve incentive and performance at Adler Real Estate AG.
- At variance from Section 3.10 of the Code, no separate Corporate Governance Report has been provided in the Annual Report. Such a report would not contain any additional information

about Corporate Governance. The explanations to be included in such a report concerning deviations from the practices recommended in the Code are already contained in the compliance declaration pursuant to § 161 of the Corporation Act. The information requested beyond this is already contained in other parts of the business report, and can be derived from the publications provided on the Company's website in accordance with the Securities Trading Act.

- At variance with Section 4.2.1 of the Code, the Management Board of ADLER Real Estate Aktiengesellschaft, which consists of two persons, does not have a chairperson or spokesperson. The members of the Management Board were allocated to individual divisions by the Supervisory Board. The corporate strategy of ADLER Real Estate AG is developed in close consultation with the two Management Board members. The Management Board members are not separated geographically but are present at the same location in Hamburg. Rules of procedure exist to regulate cooperation within the Management Board.
- At variance with Section 4.2.3 of the Code, the total remuneration of the Management Board contains only fixed components and stock options. Likewise, the Supervisory Board chairperson does not disclose the main features of the remuneration system to the shareholders at the General Meeting.
- At variance with Sections 4.2.4 and 4.2.5 of the Code, the Company does not disclose total remuneration by individuals pursuant to a shareholder resolution of April 21, 2006.
- At variance with Section 4.3.1 of the Code, the Management Board members are not subject contractually to any comprehensive prohibition on competition.

- At variance with Section 5.2 of the Code, the Supervisory Board chairperson is not simultaneously the chairperson of the committees, because no committees have currently been formed. Management Board agreements are dealt with at the meetings of the Supervisory Board. The Supervisory Board currently consists of the minimum number of three members prescribed by the Corporation Act. This number of Supervisory Board members makes it unnecessary to form committees, as committees would not increase collaboration efficiency.
  - At variance with Section 5.3 of the Code, the Supervisory Board has currently not formed any committees. No audit committee has been set up. The duties of the audit committee are carried out by all the members of the Supervisory Board. In this regard as well, we would like to refer to Section 5.2 and state that the number of Supervisory Board members is not suited to form an audit or other committees.
  - At variance with Section 5.3.3 of the Code, the Supervisory Board has not formed a nomination committee. The entire Supervisory Board decides on and nominates suitable candidates for the consideration of the shareholders at the General Meeting.
  - At variance with Section 5.4.2 of the Code, Supervisory Board members may also carry out board functions or advisory duties for other major competitors of the Company. The Management and Supervisory Boards are of the opinion that the experience gained from such activities can be used profitably for ADLER Real Estate Aktiengesellschaft.
  - At variance with Section 5.4.3 of the Code, the Company does not notify the shareholders of nominations for the position of Supervisory Board chairperson. The Supervisory Board elects its chairperson "from its midst" pursuant to the provisions of law.
  - At variance with Section 5.4.7 of the Code, the remuneration of Supervisory Board members is not disclosed in the Corporate Governance Report, broken down by individual and component.
  - The Company does not comply with Section 6.6.2 of the Code. Information on stockholdings in the Company held by members of the Management or Supervisory Boards is provided in accordance with § 15a of the Securities Trading Act. In the view of the Company's Supervisory Board, the version of the Securities Trading Act is sufficient to comply with international transparency guidelines. The Management and Supervisory Boards do not provide itemized lists of exact shareholdings.
  - At variance with Section 7.1.2 of the Code, consolidated financial statements and interim reports are made available to the public in accordance with the disclosure requirements stipulated by law. ADLER Real Estate AG currently does not see any improvement in capital market transparency when business figures are published faster than required by law.
  - At variance with Section 7.1.3 of the Code, the information on the stock option plan and similar securities-related incentive systems has not been presented in a corporate governance report but at other points in the business report.
- ADLER Real Estate Aktiengesellschaft  
Hamburg, January 21, 2008
- The Management Board      The Supervisory Board

# Consolidated Management Report

## Introduction

The 2007 financial year for ADLER Real Estate AG was devoted to building up and developing its operations and structuring them in three divisions – asset management, portfolio development and project development – which will work closely together to ensure the lasting, steady and consistent success of the Company over the long term. To this end, the year was marked by four highlights:

- the Group's participation in the acquisition of two major portfolios involving office properties;
- the associated clear expansion of the asset management business;
- the acquisition and resale, to a large extent, of MÜBAU Real Estate GmbH;
- the associated development of a residential project business.

ADLER Group once again reported very strong earnings, which were attributable to a great extent to operational transactions, as well as extraordinary income.

## Economy and the Real Estate Market

2007 was a good year, not just for ADLER, but for the entire German economy and for the German commercial real estate market. Once again, Germany's gross domestic product (GDP) showed powerful growth, rising by 2.5%. However, Germany's economic growth continues to be attributable primarily to demand abroad as Asia, and the People's Republic of China in particular, once again ensured strong growth in the German, European and global economies.

The positive situation took a turn for the worse in summer 2007 when, after years of growth in the US real estate market, the rise in interest rates led to the so-called "US mortgage crisis." The first to be affected were private homebuyers in the US, who have received very high financing rates

in recent years, at times without regard for their creditworthiness. The first defaults from debt services of private borrowers created an avalanche the likes of which have never before been seen in the international banking industry, as many smaller loans had been combined into "packages" in the past and sold to other banks.

The defaults began to add up. According to industry estimates, about EUR 1,000 billion in loans, effected by losses, have been affected, forcing banks to write off about EUR 400 billion in losses at the end of 2007. The consequences were the near-collapse of some German banks as well, particularly banks in the public sector, and also a massive crisis of confidence in the financial industry.

The crisis led to an undifferentiated perception of actual conditions, as the considerable revenue losses, price drops and declines in property values in the US residential real estate market were indiscriminately attributed to the European and German markets as well, even though the German real estate market in recent years has not come close to duplicating the extreme rise in real estate prices in the US, Great Britain, France, Spain and other industrialized countries.

The sobering facts about the past development of the German real estate market are as follows:

- According to surveys by the BulwienGesa Institute, which has been studying the market since 1975 and whose methods are considered reliable (their studies are used by Deutsche Bundesbank as well), office rents dropped by a total of 17.5% from 1990 to 2006, or 1.1% a year. The situation for residential properties is not much better. According to the surveys, the price of condominiums in Germany rose by just 0.6% a year over the same period. Adjusted for inflation, this represents a steady loss in value.

- According to a survey of purchase prices in 370 German cities by the real estate association IVD, condominium prices in Germany fell by a half percent in 2007 nationwide. The IVD study found that a normally equipped 70-square-meter three-room apartment (no first-time occupancy) cost an average of EUR 977 per square meter at the end of September 2007, down from EUR 1,014 in 2006.
- A comparison of prices over the past ten years reveals that the price of single-family homes in 2007 was about the same as it was in 1997. Adjusted for inflation, this represents a considerable drop in property values.
- However, according to a market study by the BulwienGesa Institute, this trend was reversed in 2007, as property prices rose significantly for the first time in almost 15 years. Even an improvement of just over 1% is considered significant in German terms. Prices of commercial properties rose by 1.3% in 2007 and office rents in urban areas increased by as much as 2.0% over 2006. The growth in home prices was especially strong: 3.9% for properties in secondary locations and 3.7% for properties in prime locations.

It remains to be seen whether the global credit crisis will have an impact on the economy as a whole. Deutsche Bundesbank currently projects GDP growth of 1.9% in 2008.

ADLER expects the positive trend in the German real estate market to continue. This growth should be stimulated by rising wages in the coming years, as indicated by the first collective bargaining agreements in 2008, such as the collective bargaining agreement for the German metals industry, which increases wages by 5.2%. Rising income forms the basis for an increase in rents, which in turn will fuel a broad-based improvement in property values.

### Operations

ADLER used the 2007 financial year in order to further the structuring of its three business units,

asset management, portfolio development and project development. A major objective is the continued expansion of the asset management business, which promises to provide the Company with a steady and reliable income. In developing this business, ADLER can rely on the experience of its highly skilled staff, and will focus on offering portfolio management services to foreign investors. ADLER's goal is to seek partners to invest in specific assets, wherever possible, so as to benefit from the expected appreciation while offering the coinvestor the security of identical interests. Accordingly, the Group devoted a great deal of attention to building up its portfolio through coinvestments, which also represent a significant means of creating net asset value. In the future, the appreciation of the Company's properties will be realized whenever an appropriate opportunity presents itself. The project development business, which was originally the Group's only operating division, remains highly interesting as the Group's third pillar, since it continues to generate a great deal of additional income.

### Asset Management

The asset management business made clear progress, especially in the third quarter of the year, as two transactions laid the foundations for a tripling of its current portfolio "under management." In quick succession, ADLER reported two transactions in early August entered into by the Company together with its partner, AIG Global Real Estate Investment (Europe) Ltd., a member of the US insurance group American International Group, Inc. (AIG). A portfolio was acquired consisting of four office buildings in prime locations in the greater Munich area, with a total of 35,000 sqm in leasable space. The investment volume was EUR 58 million.

The second portfolio consists of twelve high-quality office properties in Berlin, Frankfurt a. M., Munich and other German cities, with a total of 54,000 sqm in leasable space. The investment volume for this transaction was EUR 78 million. ADLER holds a 15% interest in each of the joint ventures. All together, ADLER thus holds an interest together with AIG in



three different portfolios, and is responsible for all asset management responsibilities for those portfolios. The first collaboration with AIG was the acquisition of Airport Center Luxembourg in 2006, for which ADLER held a 10% interest in the project company.

A total of around EUR 200 million in real estate was under management at the end of 2007, and planning is underway to expand this business further.

### Portfolio Properties

The portfolio development unit was involved in multiple transactions during the reporting year. Various properties from MÜBAU Real Estate GmbH, which was acquired at the beginning of 2007, were assigned to this unit and subsequently sold over the course of the year. The Group's interest in the two portfolios described above, held together with AIG, was also assigned to this division. In addition, the following developments can be reported:

#### Frankfurt am Main, Herriotstrasse 5 in Niederrad:

This is a project with an existing building, with around 4,000 sqm in office space, as well as two additional construction sites, and which has been assigned to the "Portfolio development" unit since January 1, 2007. Building rights for a hotel were issued in 2003 for a section of the property 13,800 sqm in area. An agreement with the lending banks in 2006 regarding encumbrances opened the door to development of the property, and thorough renovation began in the reporting year. The first tenants in the building in 2007 were Adler Service and the newly formed Münchener Baugesellschaft. The City of Frankfurt a. M. also declared the undeveloped land to be a pilot site for its new initiative for the promotion of new housing in Niederrad. Discussions were held with the city in this regard during the reporting year. In the current year concrete results are not yet expected.

**Luxembourg, Airport Center** (10% share in the project company): At the end of 2006, ADLER AG, in a joint venture with the real estate subsidiary of the US insurance company AIG, AIG Global Real Estate,

acquired an office building with about 17,500 sqm in rental space situated on a plot of land located right next to the Luxembourg Airport, 4,850 sqm in area. The total transaction volume was about EUR 54 million. A fundamental improvement concept for the leasable space was developed during the reporting year and partially implemented. In addition to equipping the building with an air-conditioning system, the concept calls for renovating and redesigning the entrance halls and elevator lobbies, as well as improving safety standards. The concept is to be completed in the first half of 2008. Since the property was acquired, the leasing rate has increased by about 20%, and is now about 70%. In the current business year, a full letting will be sought for.

**Gruenstadt, Hauptstrasse:** This commercial building, situated on a plot of land about 450 sqm in area and with about 1,100 sqm in rental space, was acquired in connection with the acquisition of MÜBAU Real Estate GmbH and added to the Group's portfolio. Currently 77% has been let. Once fully let the property shall be sold.

The residential facility, which needs refurbishment, in **Berlin, Hellersdorfer Strasse**, and the **Logistics Center in Guetersloh**, both acquired in the course of the acquisition of MÜBAU Real Estate GmbH, have been successfully sold. The logistics center changed owners effective August 2007. Benefits and encumbrances for the 110 unoccupied residential units in Berlin passed to the new owner in September 2007. The income from the Guetersloh and Berlin transactions was already largely realized in the course of the consolidation, demonstrating that the adjusted valuation was realistic.

### Project Development

In addition to its extensive efforts to build up and develop the two divisions mentioned above, ADLER's third business, project development, also made progress during the reporting year. Since 1999, ADLER Group has focused on the commercial planning and realization of real estate projects, e.g. in the form of joint ventures and investments. A prerequisite for successful project development is

for use to be largely assured in advance in the form of adequate preleasing.

### Commercial Projects

During the reporting year, the Company focused on developing its existing properties. In addition to current projects, there was another significant acquisition, a plot of land about 126,000 sqm in area in Duisburg-Nord, for the development of a Logistics Center. ADLER will develop this center together with a partner, THG Real Estate GmbH of Munich, and holds a 60% interest in this project. Plans call for an optimally designed logistics center with around 60,000 sqm in storage space.

This project is very promising, since Duisburg is an ideal location as one of Europe's largest inland ports and as a city with an excellent transportation infrastructure. The plan allows for a flexible division of space and is based on current requirements with respect to the height of the center, soil pollution, gates, fire safety and energy efficiency. Numerous tenants have already expressed interest in the Center, as well as investors. The preleasing process which is necessary for the success of the project is ongoing. As soon as enough space has been leased, the construction can begin. It is also conceivable that the project will be sold with building legislation before completion and before leasing.

The following developments can be reported with respect to the Group's other projects:

**Berlin, Spaethstrasse.** This urban property, about 49,000 sqm in area, is still being used as a tree nursery. Revision of the land use plan by the city has been suspended due to internal disputes between the city and district governments. ADLER is currently examining ways to expedite the procedure for obtaining building rights. It is also examining a possible alliance with the tree nursery operator, which is interested in a more profitable use for its own properties, which are also being used as tree nurseries, but is dependent on cooperation from the authorities to do so.

**Berlin, Fanny-Zobel-Strasse.** During the reporting year, building rights were obtained for the entire site, which is still in an early planning stage, in the course of a development plan procedure. The architectural concept which has been developed together with a local partner would then be incorporated into the new development plan. Implementation of the building rights would mean a much higher level of development in the site, bringing a considerable increase in the value of the property. At the same time, there has been a tangible upswing and strong investor interest in the entire area, on both sides of the Spree river. Planning for this area, designated as "Mediaspree," is now nearly complete, and many new projects have been realized or are under construction.

**Saarbruecken, Hafenstrasse.** Promising negotiations are underway with a prospective office tenant for the property, situated in a central location in Saarbruecken and about 4,300 sqm in area, leading in 2007 to revision of the architectonic concept and the offered use space. ADLER has an offer to contract from a well-known hotel operator interested in using the property as a hotel, as planned. Discussions with potential lenders are underway in order to ensure that, after conclusion of the office lease agreement, adequate financing options are available in order to conclude an agreement with the hotel operator and commence realization in 2008/2009.

**Homburg Saar, Am Forum.** The development plan slated this property for use as a parking lot for the home improvement store. Negotiations are currently underway to amend the development plan and to succeed with a further building legislation. Completion is expected in the third quarter of 2008. At the same time, retail users are being sought. It is conceivable that this property will be developed as an independent project or that the property will be sold.

**Offenbach, Kaiserlei.** The remaining property, which is situated in an easily accessible location, is currently being used as a parking lot until a user can

be found. Demand for this site, about 10,000 sqm in area, was not very high during the reporting year. The Group plans to sell this property.

**Amsterdam, Schiphol.** ADLER owns a 7.5% interest in a real estate company which owns a commercial property in the immediate vicinity of the Amsterdam Airport, Schiphol. In summer 2007, another property was acquired from S-Park BV. ADLER owns a 7.5% interest in that company as well. The principal shareholder is SEGRO, which is planning to build a logistics center on this site. Construction is to begin before the end of 2008.

### Residential Project Development

ADLER extended its project development business in the reporting year to include residential projects, through the acquisition of MÜBAU Real Estate GmbH. Three larger properties were taken from that company, which was acquired retroactively to the beginning of 2007, and transferred to the newly formed Münchener Baugesellschaft mbH. The new company will develop residential projects from its registered office in Frankfurt a. M., including both apartment buildings and single-family homes (duplexes, row houses, town houses and villas). In the reporting year, the newly created Münchener Baugesellschaft has already begun to work on plans to develop its existing properties, as well as new operations.

Development is ongoing on the property in **Grossbeeren in the south of Berlin**, with a total of 151,000 sqm, including about 95,000 sqm available for new construction, as well as development, traffic and compensatory space for residential construction. Since Reunification, the municipality has been a very attractive residential location and a very popular vacation destination in the near vicinity of the nation's capital. The population has more than doubled since 1990 to 7,320 habitants. Demand should be further stimulated by construction of the new international airport in southeastern Berlin. A study commissioned by Münchener Baugesellschaft regarding the expected demand for residential

space concluded that more rental apartments will be needed in the coming years.

Accordingly, the Company is developing new concepts which deviate from the existing principles and must therefore be included in the ongoing considerations pertaining to amendment of the original development plan. One section has already been developed and has been divided into the first subplot, with eleven parcels. Of these, four were sold during the reporting year and reservations exist for additional parcels.

The property, about 38,600 sqm in area, is situated in the municipality of **Dallgow-Doeberitz**, which can be found in the Berlin-Spandau-Doeberitzer Heide-Falkensee triangle, at the western edge of Berlin. It is divided into 145 subplots and can be used for single-family homes, two-family homes and row houses. Under the development plan currently in force, one area has been slated for apartment buildings: five multi-family homes with rental units may be built in this section. The Group plans to sell the land to developers or investors along with building rights after making the necessary improvements. In order to improve the marketing potential, negotiations are underway with the municipality with a view towards amending the development plan. In addition, the existing construction sites are being prepared for marketing, and discussions are being held with marketing partners.

The development plan for the approximately 108,000 sqm prospective construction site in **Dresden-Alttrachau** is still outstanding. The development plan is required in light of the need to improve flooding protection in the region. A market analysis was commissioned and prepared with a view towards developing a new construction concept and revising the existing draft of the development plan. It revealed not inconsiderable potential demand for rental properties.

In addition to developing the properties acquired from MÜBAU Real Estate GmbH, the newly formed

Münchener Baugesellschaft mbH acquired a property in autumn 2007 in **Moosburg an der Isar** in the District of Freising, north of Munich. It acquired an attractive property about 28,000 sqm in area. The property is located in the fast-growing area near Munich Airport and the Bavarian capital, which is a sought-after location, particularly for young families with children. The Company will develop, improve and parcel out the property until it is ready for construction. Plans call for dividing the property into marketable parcels and selling them to private developers. Current market estimates indicate that attractive purchase prices can be attained.

### Financial, Earnings and Liquidity Position

ADLER AG's revenues and earnings in the reporting year were affected by the acquisition of MÜBAU Real Estate GmbH and the sale of ADLER's property in Munich-Dornach. The growth in revenues over the same period of the year before, to EUR 5.41 million, resulted primarily from the sale of the property in Munich-Dornach. Revenues also include rental revenue from the leasing of parking spaces and two commercial properties, as well as proceeds from the sale of residential properties.

Revenues from the consolidation of MÜBAU Real Estate GmbH were reflected in other operating income, which came to EUR 10.5 million. The net effect of the consolidation was EUR 8.15 million. In addition, provisions for litigation risks in the amount of EUR 1.08 million were reversed, since the underlying claims expired in early 2007. The sale of the Logistics Center in Guetersloh contributed just about TEUR 90 to the Group's revenues and earnings, as most of the income has been cancelled out by the consolidation.

The sharp rise in cost of materials, by EUR 7.0 million, is primarily attributable to acquisition of the property in Moosburg an der Isar and the property of Logistik-Zentrum Duisburg-Nord GmbH, as well as the development expenses for commercial and residential projects. Personnel expenses increased as the Group raised its staff levels.

In light of the clear rise in investments, which is reflected in the cost of materials discussed above, the Group was able to report very strong net operating income, EUR 6.86 million. Earnings before tax and after-interest earnings were EUR 6.93 million in the reporting year, for a consolidated net income of EUR 7.273 million and EUR 11.798 million in retained earnings carried forward to next year.

The development of the Group's free cash flow in 2007 was affected above all by the sale of properties in Munich-Dornach and the Guetersloh Logistics Center, including repayment of the land charge credit, as well as by acquisition of the property in Duisburg, acquisition of a share of two portfolios together with the Group's joint venture partner, AIG, and the purchase of a property in Moosburg. The Group had a net cash outflow of EUR 4.56 million in the reporting year.

Due to the Group's intensified operations, total assets increased by 20%, to EUR 44.67 million. This growth is attributable in particular to a rise in inventories, i.e. real property available for resale, to EUR 31.1 million (previous year: EUR 22.45 million), which is in turn largely attributable to the consolidation of MÜBAU Real Estate GmbH, as well as to the acquisition of properties in Duisburg and in Moosburg. By far the majority of the Group's real properties were once again reported under inventories. Liquid funds decreased to EUR 5.8 million (previous year: EUR 10.4 million) as a result of the investments made by the Group over the course of the year.

ADLER's financial strength is particularly evident on the liabilities side. Because of the Group's strong earnings, shareholders' equity increased to EUR 34.76 million (previous year: EUR 27.65 million) as of the balance sheet date, for a total equity ratio of 78%.

### Research and Development

As a project development company, ADLER does not engage in research and development in the traditional sense. However, the real estate market

does require similar activities, as the wide variety of developments in the construction sector and in building engineering must be monitored and analyzed, as well as the changing requirements of tenants and users. These analyses generate important data for the Company on a regular basis, allowing it to routinely monitor the profitability of ongoing projects and estimate the profitability of new commitments. As a result, this data is a vital basis for all aspects of the Company's operations.

### Employees

As a holding company, ADLER AG has no employees other than the Management Board. Office organization and operational functions are largely handled by the wholly owned subsidiary Adler Real Estate Service GmbH, which had 21 employees as of the end of the reporting year. That Company's employees are used flexibly in the various project companies in accordance with their area of specialization.

### Management Board Compensation

Management Board members receive a fixed compensation. The Supervisory Board may also adopt additional resolutions with respect to profit shares for the Management Board.

At the General Meeting of April 21, 2006, the shareholders resolved, with 99.95% of the vote, to refrain from individualized disclosure of Management Board compensation for the financial years 2006–2010.

The General Meeting of April 21, 2006 also approved a stock option plan for Management Board members of ADLER AG. Each option entitles the holder to acquire shares upon expiration of the waiting period for an exercise price of EUR 3.88 per share. The waiting period is two years in one third of the options, three years in another third and four years in the remaining options. Another condition of the stock options is that they may only be exercised if the relative performance of the Company's stock between the issue date and the exercise date is better than the performance of the MDAX over the

same period. Performance is measured using the average closing price of the stock or index in the ten trading days prior to the issue or exercise date. The stock options may only be exercised in a four-week period beginning with the fifth banking day after publication of the Company's annual financial statements or quarterly report. The maximum term of the options is seven years.

Valuation of the stock options was performed using a Monte Carlo simulation, which is an allowable valuation method pursuant to IFRS 2. In Monte Carlo simulations, future stock performance is simulated and the value of the options is defined as the expected distribution amount. Nominal distribution of profits is assumed. The following parameters are of relevance for the valuation:

- Price of ADLER stock on the issue date: EUR 4.10
- Index on the issue date: 5,434.58
- Stock volatility: 39%
- Index volatility: 14%
- Correlation between stock and index: 0.0%
- Expected dividend from stock: 0.0%
- Expected term of options: three years
- Risk-free interest rate: 3.6%

Volatility was measured based on the stock's performance in the past six months, since direct measurement over a period of time comparable to the term of the option in the Company's past would not be a reliable indicator in view of the Company's history. This volatility is consistent with the volatility of comparable companies over a period of three years.

By resolution of the Supervisory Board of June 27, 2006, each member of the Management Board was granted 100,000 stock options. They were accepted on July 14, 2006.

The fair value of the stock options was EUR 1.30 for the two-year options, EUR 1.50 for the three-year options and EUR 1.66 for the four-year options. An expense of TEUR 144 was incurred for the 2007 financial year.

### **Supplementary Statements in Accordance with § 315(4) of the Commercial Code**

The capital stock of ADLER AG is EUR 15,000,000, divided into 15,000,000 no-par-value bearer shares valued at EUR 1 per share.

Mezzanine IX Investors L.P. of Atlanta, Georgia (USA), has given notice pursuant to § 21(1) of the Securities Trading Act that its percentage of voting rights in ADLER AG went below the 75% threshold on July 24, 2006, and is now 60.79%.

By resolution of the extraordinary General Meeting of August 24, 2006, the Management Board was authorized, with the consent of the Supervisory Board, to increase the Company's capital stock by up to EUR 7,500,000 (authorized capital) through August 23, 2011, either once or in several stages, in exchange for cash contributions and/or contributions in kind, by issuing new bearer shares. This authority has not been exercised thus far.

### **Own Shares**

By resolution of the General Meeting on June 26, 2007, the Company has been authorized to purchase up to 10% of its current capital stock through December 25, 2008 for the purposes allowed by § 71(1) No. 8 of the Corporations Act. This authority has not been exercised thus far.

### **Convertible Bond and Creation of Conditional Capital II**

The Management Board, with the consent of the Supervisory Board, was authorized by resolution of the General Meeting on June 26, 2007 to issue warrants and/or convertible bonds made out to the bearer, with a combined par value up to EUR 100,000,000 and with a term of no higher than ten years through June 25, 2012, either once or in multiple stages, and to grant the holders of warrants and/or convertible bonds options or conversion rights to up to 6,500,000 new bearer shares in the Company as specified in the terms of the warrants or convertible bonds. This authority has not been exercised thus far.

On June 26, 2007, the General Meeting resolved a conditional increase of the capital stock by up to EUR 6,500,000 through the issuance of up to 6,500,000 bearer shares. The conditional capital increase serves exclusively to meet obligations arising from warrants and convertible bonds issued by June 25, 2012 based on the authorization of the General Meeting of June 26, 2007. This authority has not been exercised thus far.

The appointment and removal of Management Board members is regulated in § 84 and § 85 of the Corporations Act, which states that Management Board members are appointed by the Supervisory Board for a maximum term of five years. Multiple or extended terms, for five years in each case, are allowed. In addition, § 7 of the Articles of Association states that the number of Management Board members is defined by the Supervisory Board, but that the Management Board must consist of at least two members.

The Supervisory Board consists of three members.

Changes to the Articles of Association require a resolution of the General Meeting pursuant to § 179(1) of the Corporations Act, which in turn requires a majority of three-fourths of the capital stock represented in the voting, unless otherwise specified in the Articles of Association.

### **Report on Risks**

#### **Risk Management System**

ADLER AG maintains a risk management system in accordance with the Corporate Supervision and Transparency Act.

ADLER Group has developed a risk management system which is tailored to the currently manageable size of the Company, with flat hierarchies. In this organizational structure, the Management Board itself is responsible for early identification of risks. The Management Board also prepares a risk management report for the Supervisory Board.



### Market Risks

The German real estate market features cyclical fluctuations and stiff competition. The Company's operations are also affected by the statutory and tax environment, local politics and official procedures. In order to minimize market risks, the Company constantly monitors and analyzes its business environment and competition. This includes general trends with respect to the demand for space and features, as well as price and quality. Risks arising from market fluctuations are mitigated through regional and product-related diversification, and by adapting projects to changing conditions.

### The Risk of Price Changes

The most important category of expenses in connection with project development is building costs. In light of the overcapacity in the construction sector at the moment, this risk must be considered low in the medium term. ADLER works to counteract the market price risk in the cyclical regional real estate markets through regional diversification of its projects throughout Germany.

### Financial Risks

ADLER Group is exposed to various financial risks through its operations. These risks include the market risk (consisting of the foreign currency risk, interest rate risk and market price risk), the default risk and the liquidity risk.

The Group's comprehensive risk management system is focused on the unforeseeable nature of developments in the financial markets and seeks to minimize the potential negative impact on the Group's financial position. The Group utilizes selected derivative financial instruments in order to hedge against certain risks.

Risk management is performed by a centralized financial department (the Group financial department), in accordance with the guidelines issued by the Management Board. The Group financial department identifies measures and mitigates financial risks in close consultation with the operating units of ADLER Group. The

Management Board defines the principles of risk management for the entire Group, as well as issuing guidelines for specific areas, such as the handling of foreign currency, interest rate and credit risk, the use of derivative and non-derivative financial instruments and the investment of surplus liquidity.

Market risks may result in fluctuations in earnings, shareholders' equity and cash flow. In order to limit or eliminate these risks, ADLER Group has developed various hedging strategies, including the use of derivative financial instruments.

**Foreign currency risk:** Foreign currency risk arises when future transactions or disclosed assets or liabilities are denominated in a currency other than the functional currency of the Company. The operations of ADLER Group (real estate investment) are concentrated in the Euro zone. Property financing transactions were executed exclusively in Euros. As a result, foreign currency risks arising from fluctuations in exchange rates are excluded.

**Interest rate risk:** ADLER Group is subject to interest rate risks almost exclusively within the Euro zone. This risk can be divided into the market value interest risk and the cash flow interest risk.

A market value interest risk, i.e. the possible change in the fair value of a financial instrument due to changes in market interest rates, generally exists for fixed-interest medium- and long-term receivables and obligations. However, since ADLER Group measures these instruments at their updated amortized cost, and not at fair value, this risk had no direct impact on the Group's shareholders' equity or earnings. On the other hand, this risk does exist for interest rate derivatives, with an effect on earnings.

**Currency risks:** The real estate investments of ADLER Group are concentrated in the Euro zone, so that property financing transactions were executed exclusively in euros. As a result, currency risks arising from fluctuations in exchange rates are excluded. ADLER Group issued a loan in US dollars in the course of the year as a means of investing its

liquid funds. The loan was secured against currency risks through futures transactions and was repaid on time at the end of the year.

**Market price risk:** Market price risks are changes in the value of financial instruments due to fluctuations in market prices. The Group holds capital interests which are classified in the consolidated balance sheet as "available for sale." However, since those interests consist of shares in non-publicly-traded limited liability companies which are measured at amortized cost, the Group is not exposed to a direct price risk. The Group is also not exposed to risks associated with changes in the price of raw materials due to the nature of its business.

**Default risk:** Default risk arises from the risk that contracting parties will be unable to perform their payment obligations. The maximum default risk is defined by the book values of primary and derivative financial assets plus financial guarantees issued by the Group.

Default risk is managed on the Group level for the entire Group. Existing rules ensure that transactions can only be executed with partners who have displayed satisfactory payment practices in the past. Contracts regarding derivative financial instruments and financial transactions are only concluded with banks with the highest credit ratings. The Group has a commercial policy which limits credit risk with respect to each individual bank. No significant concentrations exist within the Group with respect to possible credit risks.

**Liquidity risk:** Liquidity risks consist of possible cash flow shortages and the resulting increase in refinancing costs. For this reason, prudent liquidity

management includes the maintenance of an adequate reserve of liquid funds, the availability of financing through an adequate confirmed line of credit and the option of market issues. ADLER Group employs a group-wide cash management system to manage its liquidity. The object of its cash management system is to ensure that the Group can perform its obligations at all times by maintaining adequate cash reserves and optimizing liquidity equalization.

As of the balance sheet date, ADLER Group had EUR 5.833 million in liquid funds (previous year: EUR 10.391 million).

### **Operating Risks and Opportunities**

Planning and deadline risks are major risks in the project business. Errors in calculation may cause projects to exceed their budgets, making them less profitable. In order to ensure the profitability of development projects, the beginning of construction for commercial properties is therefore approved only once significant marketing successes have been achieved, in terms of leasing or sales, and once those successes have been secured by contract. During construction, adherence to timetables and budgets is routinely monitored, so that we can respond quickly in case of any deviation.

Before a property is acquired, an adequate assessment is made of the quality of its location and the potential for development. In the case of properties within the Group's portfolio, conditions are constantly monitored in order to enable early identification of any worsening of the situation and to avoid associated risks if possible. The services of architects and external partners engaged to perform construction work are subjected to constant review.



In this manner, defects can be discovered quickly, allowing the Group to rapidly remedy those defects or mitigate their impact. To the extent possible and financially responsible, risks are limited or eliminated through insurance policies.

Income potential may arise if construction is completed ahead of schedule, or if interest payments and building costs come in under budget. The most significant financial opportunities arise when rental revenues exceed estimates and when the expected income of investors is lower than expected by the Group, both of which result in an improvement in the attainable sale price. The current development on numerous German real estate markets is characterized by a slight rise in rents, while investors' income expectations are declining.

#### **Dependency Report**

ADLER AG was not subject to any control agreement in the 2007 financial year. The Management Board therefore prepared a report on relations with affiliated companies pursuant to § 312 of the Corporations Act. A "dependent relationship" pursuant to § 17 of the Corporations Act existed in the 2007 financial year with Mezzanine IX Investors L.P.

This report closes with the following declaration:

"Our Company received adequate consideration in each transaction mentioned in the report on relations with affiliated companies. Our Company was not disadvantaged by the actions or omissions mentioned. This assessment was made based on the circumstances known to us at the time of the reported transactions and other measures."

#### **Outlook**

During the reporting year, the German real estate market has grown faster than it had in the entire previous decade. The Management Board believes that the market is still at the beginning of a broad-based upswing, as rising income, heated by wage increases, and a strong economy gradually bring about an improvement in property values of regional growth in Germany.

Due to its strong financing position, ADLER is not affected by the so-called "US mortgage crisis." In the asset management business, good opportunities exist for a strong expansion in business volume, and the Group plans to increase its portfolio under management to EUR 500 million in the next three years. Some portfolio properties have developed very well due to ongoing renovations, possibly leading to a rise in rents and property values. Development of ADLER Group's projects is proceeding steadily, with differing timetables until income can be realized or cash flow released. The recent acquisitions in Duisburg and Moosburg an der Isar appear to be very promising, and the Group may also be able to generate income from the development of existing properties, which remain largely unencumbered.

All together, the Management Board expects to post strong earnings in the 2008 financial year.

Frankfurt am Main, March 28, 2008

The Management Board

## Consolidated Balance Sheet

(IFRS) as of December 31, 2007

In EUR	Note	2007	2006
<b>Assets</b>		<b>44,674,445.94</b>	<b>37,048,317.87</b>
<b>Non-current assets</b>		<b>6,181,020.52</b>	<b>2,435,516.31</b>
Intangible assets	<b>C.1</b>	15,593.27	4,829.70
Property, plant and equipment	<b>C.2</b>	801,009.23	42,345.61
Available-for-sale financial assets	<b>C.3</b>	5,167,246.02	2,333,800.00
Shares in the associates	<b>C.4</b>	0.00	54,541.00
Deferred tax claims	<b>C.5</b>	197,172.00	0.00
<b>Currents assets</b>		<b>38,493,425.42</b>	<b>34,612,801.56</b>
Inventories	<b>C.6</b>	31,106,209.97	22,449,365.86
Trade receivables	<b>C.7</b>	305,890.27	792,788.46
Other current assets	<b>C.8</b>	1,158,564.99	871,165.88
Income tax assets	<b>C.9</b>	89,474.15	108,319.91
Cash on hand and at bank	<b>C.10</b>	5,833,286.04	10,391,161.45
<b>Equity and liabilities</b>		<b>44,674,445.94</b>	<b>37,048,317.87</b>
<b>Shareholders' equity</b>		<b>34,707,977.65</b>	<b>27,653,595.86</b>
Share capital	<b>C.11</b>	15,000,000.00	15,000,000.00
Capital reserve	<b>C.12</b>	7,612,546.15	7,841,308.53
Retained earnings	<b>C.11</b>	420,572.49	420,572.49
Net profit		11,797,818.23	4,391,714.84
Minority shares		-122,959.22	0.00
<b>Non-current liabilities</b>		<b>6,903,009.90</b>	<b>5,711,316.81</b>
Pension provisions	<b>C.13</b>	797,639.00	900,833.00
Liabilities for deferred taxes		15,380.49	0.00
Other provisions	<b>C.14</b>	822,097.51	310,483.81
Financial liabilities	<b>C.15</b>	5,267,892.90	4,500,000.00
<b>Current liabilities</b>		<b>3,063,458.39</b>	<b>3,683,405.20</b>
Other provisions	<b>C.14</b>	1,187,750.00	2,055,157.20
Income tax liabilities	<b>C.16</b>	441,045.42	266,222.00
Trade payables	<b>C.17</b>	474,871.41	624,376.36
Other non-current liabilities	<b>C.18</b>	959,791.56	737,649.64

The comments on page 32 to 62 are necessary for the completeness of this consolidated financial statement.

## Consolidated Income Statement

(IFRS) for the Fiscal Year 2007				
In EUR	Note	2007	2006	
Sales revenue	D.1	5,414,644.08	2,628,153.44	
Changes in inventories	D.2	2,516,353.42	-1,753,928.62	
Other operating income	D.3	10,503,517.30	11,283,567.61	
<b>Total operating income</b>		<b>18,434,514.80</b>	<b>12,157,792.43</b>	
Expenses for material	D.4	-7,028,680.92	0.00	
Personnel expenses	D.5	-1,686,843.23	-997,039.29	
Depreciation and amortization	D.6	-417,072.04	-24,737.59	
Other operating expenses	D.7	-2,370,769.54	-2,227,843.75	
Income from at equity valued investment associates		-72,121.00	0.00	
<b>Result from operating activities (EBIT)</b>		<b>6,859,028.07</b>	<b>8,908,171.80</b>	
Interest income	D.9	578,802.81	240,952.22	
Financial expenses	D.9	-508,170.32	-561,194.87	
<b>Profit before income tax</b>		<b>6,929,660.56</b>	<b>8,587,929.15</b>	
Income tax	D.10	343,483.61	-31,265.12	
<b>Consolidated profit for the year</b>		<b>7,273,144.17</b>	<b>8,556,664.03</b>	
<b>Split as follows:</b>				
Shareholders of the parent Company		7,406,103.39	8,556,664.03	
Minorities		-132,959.22	0.00	
Basic earnings per share	D.11	0.49	0.70	
Diluted earnings per share	D.11	0.49	0.70	

The comments on page 32 to 62 are necessary for the completeness of this consolidated financial statement.

## Consolidated Cash Flow Statement

(IFRS) for the Fiscal Year 2007			
In EUR	Note	2007	2006
Operating profit	<b>F.7</b>	6,859,028.07	8,908,171.80
+ Depreciation of non-current assets		127,561.73	24,737.59
– Non-cash income		–8,149,349.00	10,192,000.00
+ Non-cash expenses		566,622.36	0.00
– Decrease in provisions		–1,854,823.93	–3,498,144.39
+/- Losses/profits from disposals of non-current assets		–85,436.43	–1,000.00
+ Decrease in inventories, trade and other assets not attributable to financing activities		–1,931,504.45	9,875,986.58
+/- Decrease/increase in trade payables and other liabilities not attributable to investing for financing activities		–240,220.05	–467,718.25
+ Interest payments		405,021.90	240,952.22
– Interest disbursements		–434,482.59	–561,194.87
+/- Tax payments		–109,033.22	–31,265.12
<b>= Net cash outflow (previous: net cash inflow) for operating activities</b>		<b>–4,846,615.61</b>	<b>4,298,525.56</b>
+ Acquisition of subsidiary companies less acquired net liquid funds		227,476.00	0.00
+ Proceeds from disposals of non-current assets		7,660,700.00	5,000.00
– Cash used for investments in property, plant and equipment		–94,392.40	–29,000.00
– Cash used for investments in non-current financial assets		–14,717.93	0.00
– Cash used for investments in non-current assets		–4,049,196.42	–2,238,000.00

<b>= Net cash inflow (previous: net cash outflow) from investing activities</b>	<b>3,729,869.25</b>	<b>-2,262,000.00</b>
- Proceeds from equital capital disposals	-377,428.38	12,841,308.53
+ Proceeds from taking up financial loans	849,824.23	0.00
- Cash used for repayments of financial loans	-3,913,524.90	-5,849,450.91
<b>= Net cash outflow (previous: net cash inflow) for financing activities</b>	<b>-3,441,129.05</b>	<b>6,991,857.62</b>
Reconciliation with the balance sheet		
<b>Cash and cash equivalents at the beginning of the period</b>	<b>10,391,161.45</b>	<b>1,363,000.00</b>
Net cash inflow from operating activities	-4,846,615.61	4,298,525.56
Net cash inflow (previous: net cash outflow) from investing activities	3,729,869.25	-2,262,000.00
Net cash outflow from financing activities	-3,441,129.05	6,991,857.62
<b>= Cash and cash equivalents of the end of the period</b>	<b>5,833,286.04</b>	<b>10,391,383.18</b>

The comments on page 32 to 62 are necessary for the completeness of this consolidated financial statement.

## Consolidated Statement of Changes in Equity

(IFRS) for the Fiscal Year 2007

In TEUR	Note	Subscribed capital	Capital reserve	Retained earnings
<b>Balance as of Jan. 1, 2007</b>	<b>C.11</b>	<b>15,000</b>	<b>7,841</b>	<b>421</b>
Consolidated profit		0	0	0
Costs of the capital increase	<b>C.11/C.12</b>	0	-377	0
Stock option plan	<b>C.11/C.12</b>	0	148	0
<b>Balance as of Dec. 31, 2007</b>	<b>C.11</b>	<b>15,000</b>	<b>7,612</b>	<b>421</b>

In TEUR	Note	Subscribed capital	Capital reserve	Retained earnings
<b>Balance as of Jan. 1, 2006</b>	<b>C.11</b>	<b>10,000</b>	<b>0</b>	<b>421</b>
Consolidated profit		0	0	0
Increase of funds	<b>C.11/C.12</b>	5,000	9,000	0
Costs of the capital increase	<b>C.11/C.12</b>	0	-1,232	0
Stock option plan	<b>C.11/C.12</b>	0	73	0
<b>Balance as of Dec. 31, 2006</b>	<b>C.11</b>	<b>15,000</b>	<b>7,841</b>	<b>421</b>

The comments on page 32 to 62 are necessary for the completeness of this consolidated financial statement.

Capital and reserves		Minority shares	Total equity
Net profit/ loss for the year	owed to the shareholders of the parent Company		
4,392	27,654	0	27,654
7,406	7,406	-123	7,283
0	-377	0	-377
0	148	0	148
11,798	34,831	-123	34,708

Capital and reserves		Minority shares	Total equity
Net profit/ loss for the year	owed to the shareholders of the parent Company		
-4,165	6,256	0	6,256
8,557	8,557	0	8,557
0	14,000	0	14,000
0	-1,232	0	-1,232
0	73	0	73
4,392	27,654	0	27,654

## Notes to Consolidated Statements

### A General Information about the Group

ADLER Real Estate Aktiengesellschaft (hereinafter, "ADLER AG"), the parent Company of the Group, has its registered office in Frankfurt am Main. The Group provides project development services in the form of improvement, planning, development and construction, as well as asset management services and property management services.

Mezzanine IX Investors L.P. of Atlanta, USA, holds a 60.79% interest in ADLER AG.

The present consolidated financial statements of ADLER AG for the 2007 financial year were approved for publication on March 28, 2008.

### B Summary of Significant Accounting Policies

#### B.1 Basis for Preparation

ADLER AG is required to prepare consolidated financial statements pursuant to § 290 of the Commercial Code. As an exchange-listed company, ADLER AG is required as a result of Article 4 of EC Regulation No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 to prepare its consolidated financial statements pursuant to § 315a of the Commercial Code in accordance with international accounting standards.

The consolidated financial statements of ADLER AG were prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as adopted by the European Union (EU) as of December 31, 2007. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities at fair value.

The income statement has been prepared according to the total expenditure format. The consolidated financial statements were prepared in euros, and figures in the Consolidated Notes are indicated in TEUR (EUR thousands).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in "Other notes."

#### CHANGES TO ACCOUNTING POLICIES

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have modified or reissued some standards and interpretations, whose application became mandatory in the 2007 financial year:

- **IAS 1, "Presentation of Financial Statements":**  
Due to the amendment to IAS 1, an entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.
- **IFRS 7 "Financial Instruments: Disclosures":**  
The changes associated with this new standard essentially aim to summarize, revise and extend the previous reporting and disclosure requirements with respect to the accounting for financial instruments.
- **IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies":** This interpretation clarifies questions in connection with IAS 29 in the event that the country whose currency is the functional currency of the reporting company falls victim to hyperinflation.
- **IFRIC 8 "Scope of IFRS 2":** In IFRIC 8, the IASB takes a position on the scope of IFRS 2, "Share-Based Payment," which is applicable to transactions in which a company receives goods or services as consideration for share-based payment.



- **IFRIC 9 “Reassessment of Embedded Derivatives”:** The IFRIC 9 interpretation clarifies the question as to whether the assessment of embedded derivatives in accordance with IAS 39 must be made only when the entity first becomes a party to the contract or should the assessment be reconsidered throughout the life of the contract.
- **IFRIC 10 “Interim Financial Reporting and Impairment”:** This interpretation deals with the treatment of impairment with respect to goodwill in accordance with IAS 36, “Impairment of Assets,” as well as certain financial assets in accordance with IAS 39, “Financial Instruments: Recognition and Measurement,” in the course of interim financial statements pursuant to IAS 34, “Interim Financial Reporting.”

The first-time application of the changes to IAS 1 and IFRS 7 results in an extension of the disclosures in the Notes to ADLER’s consolidated financial statements for the 2007 financial year. The other interpretations mentioned above had no significant impact on ADLER’s consolidated financial statements.

#### **Impact of New Accounting Standards Not Yet Effective**

IASB and IFRIC have published the interpretations mentioned below, whose application is not yet mandatory for the 2007 financial year. Future application requires adoption by the EU into European law:

- **IFRS 8 “Operating Segments”:** IFRS 8 replaces IAS 14, “Segment Reporting,” and adapts the standard, with minor differences, to the US GAAP rules stated in Statement of Financial Accounting Standards (SFAS) 131. IFRS 8 requires the identification of operating segments based on internal reports (the

management approach). The standard is to be applied for periods beginning on or after January 1, 2009. First-time application of IFRS 8 is not expected to have a significant impact on the consolidated financial statements of ADLER AG.

- **IAS 1, “Presentation of Financial Statements”:** The major changes relate to the presentation of shareholders’ equity and the titles of the individual components of the financial statements. The revised version of IAS 1 is to be applied for periods beginning on or after January 1, 2009. The EU has yet to adopt the revised standard into European law. The changes will not have a significant impact on ADLER’s consolidated financial statements.

- **IAS 23, “Borrowing Costs”:** The revision of IAS 23 will abolish the former option of immediate recognition as an expense of borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets. In the future, such borrowing costs should be capitalized as part of the costs of the asset. The standard is to be applied for periods beginning on or after January 1, 2009. It has not yet been adopted by the EU into European law. The impact on ADLER’s consolidated financial statements is currently under review.

- **IFRIC 11 “IFRS 2: Group and Treasury Share Transactions”:** This interpretation deals with the question as to how IFRS 2, “Share-Based Payment,” should be applied to agreements pertaining to share-based payments of an entity’s own equity instruments or equity instruments of another entity in the same group. This interpretation is to be applied for periods beginning on or after March 1, 2007. First-time application of IFRIC 11 is not expected to have a significant impact on ADLER’s consolidated financial statements.

- **IFRIC 12 “Service Concession Arrangements”:** IFRIC 12 regulates the accounting for arrangements in which public entities award concessions to private operators for the provision of public services (for example, airports, prisons, energy and water supply lines, etc.). In order to provide these services, the operator uses infrastructure which remains within the power of disposal of the public sector. However, the operator is responsible for building, operating and maintaining that infrastructure. This interpretation is to be applied for periods beginning on or after January 1, 2008. IFRIC 12 has not yet been adopted by the EU into European law. The impact of the first-time application of IFRIC 12 on ADLER’s consolidated financial statements is currently under review.
- **IFRIC 13, “Customer Loyalty Programs”:** This interpretation deals with the accounting and valuation of revenues from sales transactions and associated expenses for obligations arising from customer loyalty programs, such as premium, bonus and loyalty programs, whether such programs are operated by the manufacturer or service provider itself or by third parties. This interpretation is to be applied for periods beginning on or after July 1, 2008. Adoption into European law is still outstanding. The impact on ADLER’s consolidated financial statements is currently under review.
- **IFRIC 14, “IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction”:** This interpretation defines guidelines on assessing the limit in IAS 19, “Employee Benefits”, on the amount of the surplus that can be recognized as an asset. It also explains the impacts on the valuation of benefit plan assets and provisions which may arise based on minimum funding requirements, whether such requirements are imposed by law or by the rules of the benefit plan. This will ensure consistent treatment of benefit plan surpluses as assets. However, IFRIC 14 states that the employer has no further obligation as long as the minimum contribution is returned to the company. This interpretation is to be applied for periods beginning on or after January 1, 2008. Adoption into European law is still outstanding. The impact of IFRIC 14 on ADLER’s consolidated financial statements is currently under review.

## B.2 Consolidation Principles

### SUBSIDIARIES

“Subsidiaries” are all companies (including special-purpose entities) in which ADLER AG has the power to govern the financial and commercial policy, generally accompanying a shareholding of more than 50% of voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

First-time consolidation of subsidiaries in the consolidated financial statements was performed through December 31, 2003 using the book value method pursuant to the Commercial Code.

Consolidation of acquired subsidiaries after January 1, 2004 was generally performed using the purchase method in accordance with IFRS 3, by deducting the cost of an acquisition from the acquirer’s share of the reassessed shareholders’ equity in the subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed as of the date of the transaction, plus any costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured upon deconsolidation at their fair values at the transaction date.

Intragroup transactions and balances, as well as unrealized gains on transactions between Group companies, are eliminated.

Services and deliveries within ADLER Group are generally performed at standard market terms.

#### ASSOCIATES

Investments in companies over which ADLER AG has significant influence, accompanying a shareholding of between 20 to 50% of the voting rights, are accounted for using the equity method of accounting. Under the equity method the carrying amount is increased or decreased to recognize the investor's share of the profit or loss in the investee after the date of acquisition. On acquisition of the investment, differences from initial consolidation are accounted for in accordance with the principles of full consolidation. Profits and losses from transactions between Group companies and associated companies are eliminated to the extent of the Group's interest in the associated companies. Profits and losses arising from transactions between associated companies are not eliminated.

### B.3 Scope of Consolidated Financial Statements

Consolidated financial statements include, in addition to the parent Company, a total of twenty (previous year: nine) fully consolidated domestic companies. Investments in three companies (previous year: two) with interests of between 20% and 100% were not accounted for using the equity method as they are immaterial. However, they are reported as available-for-sale financial assets. Measurement is performed in accordance with IAS 39 (available for sale). The interest in Airport Center Luxembourg GmbH, Luxembourg, comprising 10% of the shares, was accounted for using the equity method in the 2006 financial year for the first time. Pursuant to IAS 28.7, 28.13, a personal connection is created by the appointment of one of two managing directors. New in the scope of consolidation is MÜBAU Real Estate GmbH, with seven subsidiaries, which were merged into MÜBAU Real Estate GmbH at the end of the year. In addition, a shelf

company was acquired and then renamed Logistik-Zentrum Duisburg-Nord GmbH. Furthermore, a housing business was created with the foundation of Münchener Baugesellschaft mbH, MBG Bayern GmbH, MBG Dallgow GmbH & Co. KG, MBG Grossbeeren GmbH & Co. KG, MBG Trachau GmbH & Co. KG, and MBG Moosburg GmbH & Co. KG.

#### ACQUISITIONS AND FOUNDATIONS

ADLER Group founded a foreign company in the 2007 financial year which is recognized as available-for-sale financial assets. Measurement is performed in accordance with IAS 39 (available for sale).

#### FIRST-TIME CONSOLIDATION OF MÜBAU REAL ESTATE GMBH

In January 2007, ADLER Real Estate AG acquired 93.9% of shares in MÜBAU Real Estate GmbH and its subsidiaries, before acquiring the remaining 6.1% at the end of June 2007. After acquiring the remaining shares, ADLER now holds all of the shares in this company. At the time of the acquisition, MÜBAU Real Estate GmbH had an attractive portfolio of unencumbered residential project developments, as well as two leased commercial properties.

The final condition precedent for the acquisition of MÜBAU Real Estate GmbH was met in January 2007. The acquisition costs are comprised of two components, the purchase price payable to the seller, MRE Holding GmbH, and the expense for the redemption of third-party obligations, a total of EUR 1,244,000.

#### In TEUR

Acquisition costs of the investment	1,244
Reassessed shareholders' equity	9,393
Excess amount	8,149

The amount, by which the Company's share of the reassessed shareholders' equity of MÜBAU Real Estate GmbH exceeds the acquisition costs in the amount of TEUR 8,149, was reported as other operating income.

At the date of initial consolidation, the following balances were included in the consolidated balance sheet.

#### MÜBAU Real Estate GmbH

In TEUR	January 1, 2007
Non-current assets	8,378
Current assets	7,137
Reassessed shareholders' equity	9,393
Non-current liabilities	1,218
Current liabilities	4,903

#### COMPANIES SOLD

No companies were sold in the 2007 financial year.

### B.4 Foreign Currency Translation

#### FUNCTIONAL AND PRESENTATION CURRENCY

The items included in the financial statements of each of the Group's companies are measured using the currency of the primary economic environment in which that Company operates (functional currency). The currency of the consolidated financial statements is the euro, which represents the functional currency of the parent Company and the consolidated subsidiaries.

#### CURRENCY TRANSLATION

Foreign currency balances contained in the annual financial statements under "cash on hand" are translated using the average exchange rate as of the balance sheet date pursuant to IAS 21. The consolidated financial statements of ADLER Group do not include any balances in foreign currency.

### B.5 Intangible Assets

Acquired intangible assets are initially measured at acquisition cost and then amortized using the straight-line method over their expected useful lives. Amortization is based on the following useful lives:

Asset	Useful life, in years
IT software, licenses	3 to 5

### B.6 Impairment of Non-Financial Assets

Intangible assets which have an indefinite useful life or are not yet in a condition necessary to be capable of operating, as well as goodwill, are not subject to amortization and are tested annually for impairment.

Assets that are subject to amortization are reviewed for impairment when events or changed circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

### B.7 Property, Plant and Equipment

Property, plant and equipment are valued at historical cost, less cumulated depreciation. Historical costs include expenses directly attributable to the acquisition. Repairs and maintenance expenses are reported in the income statement for the year in which they accrued.

Depreciation on property, plant and equipment is performed using the straight-line method, with historical costs depreciated as follows over the expected useful life of the assets:

Asset	Useful life, in years
Outside installations	10
Vehicles	6
Fixtures, fittings and equipment	3 to 20

Residual book values and useful lives are reviewed on each balance sheet date and adjusted if necessary.

Real properties are not subject to depreciation, since they have an indefinite useful life.

Gains and losses from the disposal of assets are measured as the difference between sale proceeds and book value and reported in the profit and loss statement.

Property, plant and equipment are reviewed for impairments if events or changed circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized in the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Once the indications for the impairment no longer exist, the value of the asset is raised to the book value which would have resulted if no impairment had been made.

No impairments were necessary in the reporting year.

Borrowing costs are not capitalized, pursuant to IAS 23.7.

## **B.8 Financial Assets**

ADLER Group classifies its financial assets into the following categories:

- At fair value through profit or loss (AAFV);
- Loans and receivables (LAR); and
- Available-for-sale financial assets (AFS).

The other category of financial assets in IAS 39 (held to maturity) is not discussed any further since it bears no relevance for ADLER Group. The classification depends on the purpose for which each financial asset was acquired. They are made upon initial recognition and are reviewed on each balance sheet date. In general, reclassifications are possible only under certain conditions. No reclassifications were made.

### **a. Financial Assets at Fair Value through Profit or Loss (AAFV)**

This category consists of two sub-categories: financial assets held for trading, and financial assets designated upon initial recognition as assets to be measured at fair value through profit or loss (fair value option).

In general, a financial asset is assigned to the AAFV category if it is acquired with the intention of a near-term sale or is designated as such by management. Derivatives also belong to this category if they are not classified as hedges. Assets in this category are reported as current assets if they are either held for trading or if realization of their value is expected within 12 months of the balance sheet date. Application of the fair value option is waived in ADLER Group.

Held-for-trading financial assets exist in ADLER Group exclusively in the form of derivative financial instruments concluded for hedging purposes but to which the strict rules of IAS 39 Hedge Accounting were not applied (for an explanation, see B.9).

### **b. Loans and Receivables (LAR)**

Loans and receivables are non-derivative financial assets with fixed or determinable payments and which are not quoted in an active market. They count as current assets unless they mature more than 12 months after the balance sheet date, in which case they are reported as non-current assets. Loans granted and receivables are reported in the balance sheet as trade receivables and other assets (for an explanation, see B.11).

### **c. Available-For-Sale Financial Assets (AFS)**

Available-for-sale financial assets are non-derivative financial assets which are either assigned to this category or are not assigned to any of the other categories. They count as non-current assets, unless management plans to sell them within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognized on the trading date, i.e. the day on which the Group agrees to buy or sell the asset. Financial assets which do not belong to the AAFV category are initially recognized at fair value plus transaction costs. Financial assets belonging to the AAFV category are initially recognized at fair value

and associated transaction costs are recognized as profit or loss. Financial assets are derecognized if the contractual rights to the cash flows arising from an investment have expired or are transferred and if the Group has essentially transferred all risks and rewards associated with ownership. Available-for-sale financial assets and assets which are held for trading (HFT) are measured at fair value after initial recognition. Loans and receivables (LAR) are measured at amortized cost using the effective interest method.

Gains and losses from financial assets measured at fair value through profit and loss (AAFPV), including interest and dividend income, are recognized in the income statement in the period of accrual, and are disclosed net under other gains (losses).

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale (AFS) are recognized in the shareholders' equity with no effect on profit or loss.

If securities classified as available-for-sale (AFS) are sold or are subject to impairment, the cumulative changes in fair value previously recorded in the shareholders' equity are recognized in the income statement as gain (loss) from securities and are disclosed under other gains. Dividends on available-for-sale equity instruments are recognized in profit or loss when the entity's right to receive payment is established.

The fair value of exchange-listed shares is measured by the current offer price. If no active market exists for financial assets or if the assets are not listed, fair value is measured using suitable valuation techniques. These include references to recent transactions between independent partners, use of current market prices of other assets which are essentially similar to the asset concerned, the discounted cash flow (DCF) method and option price models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

If reliable measurement is impossible, the assets are measured at amortized cost.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In case of equity instruments classified as available-for-sale (AFS), a substantial or persistent decline in fair value below the acquisition cost of the equity instruments is considered as an indication that the equity instruments are impaired. If such an indication exists for financial assets available-for-sale, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any prior impairment losses with respect to the asset, is deducted from shareholders' equity and recognized in the income statement. Once impairment losses on equity instruments are recognized in the income statement, they cannot be reversed. Impairment tests for trade receivables are described under E.2 below.

## **B.9 Derivative Financial Instruments and Hedging**

Derivative financial instruments are initially recognized at fair value, measured on the date of the contract. Subsequently, they are measured at fair value as of the balance sheet date. The method of recognizing the resulting gain or loss depends on whether the derivative financial instrument was designated as a hedging instrument and, if so, on the type of item being hedged. No derivative financial instruments have been designated as hedging instruments in ADLER Group, so that the hedge accounting option in IAS 39 has not been exercised.

## **B.10 Inventories**

Inventories are reported at acquisition/production cost or the net sale value, whichever is the lower. The cost of the real estate projects reported under "Inventories" includes the cost of project development, and if applicable raw materials and supplies, direct personnel expenses, other direct costs, and indirect costs attributable to the project. Production costs do not include borrowing



costs. Net sale value is the estimated sale price less estimated expenses through completion and estimated selling expenses.

#### **B.11 Trade Receivables and Other Assets**

Trade receivables are initially recognized at fair value and then measured at the amortized cost using the effective interest method, less provision for impairments. The effective interest method is only applied if the receivable matures in over twelve months.

Impairments in trade receivables are reported if objective indications exist that the mature accounts receivable cannot be collected in full. Indications of an impairment exist, e.g. if the debtor is facing considerable financial difficulties, if there is an increased probability that a borrower will undergo bankruptcy or another reorganization procedure or in the case of a breach of contract, such as failure to make principal or interest payments. The amount of the impairment is stated as the difference between the book value of the receivable and the present value of the estimated future cash flow arising from the receivable, discounted at the effective interest rate. The impairment is reported in the income statement under "Other operating result." If a receivable becomes uncollectable, it is written off and deducted from the impairment account for trade receivables. Subsequent payments received on accounts receivable which were already written off are reported as "other operating result," and subtracted from the "impairments on trade receivables" reported in the income statement.

The fair value of trade receivables is assumed to be nominal value less allowances.

Trade receivables and other assets maturing after twelve months or more are reported as non-current assets.

Accounts receivable with a maturity of over one year earning interest below the market rate, or earning no interest at all, are discounted.

#### **B.12 Cash and Cash Equivalents**

Cash and cash equivalents include cash in hand, bank deposits available on call, other short-term and highly liquid financial assets with an original maturity of no more than three months and bank overdraft. Utilized bank overdraft is reported in the balance sheet under current liabilities, as accounts payable to banks.

#### **B.13 Shareholders' Equity**

Ordinary shares are classified as equity.

Costs directly attributable to the issuance of new shares or options are recognized in shareholders' equity, after taxes, as a deduction from issue proceeds.

If a member of ADLER Group purchases the equity share capital of ADLER Real Estate AG (treasury shares), the value of the consideration paid, including directly attributable additional costs (net of income taxes) is deducted from equity attributable to the equity holders of ADLER Real Estate AG until the shares are redeemed, reissued or resold. If such own shares are subsequently re-issued or sold, the consideration received, net of any directly attributable additional transaction costs and associated taxes, is included in equity attributable to the equity holders of ADLER Real Estate AG. ADLER Group does not hold any of its own shares.

#### **B.14 Employee Benefit Provisions**

The amount recognized in the balance sheet for defined benefit plans is the present value of the defined benefit obligation (DBO) as of the balance sheet date less the fair value of plan assets, adjusted for unrecognized actuarial gains and losses and unrecognized past service cost. The DBO is measured each year by an independent actuarial expert using the projected unit credit method. The present value of the DBO is determined by discounting expected future payments using the market yields of top-rated corporate bonds. The corporate bonds are denominated in the currency of

the payments and have maturities corresponding to those of the benefit obligations.

Actuarial gains and losses based on experience-based adjustments and changes in actuarial assumptions are recognized in profit or loss in the period in which they arise.

#### **B.15 Other Provisions and Accrued Liabilities**

Other provisions and accrued liabilities are recognized for legal or factual obligations to third parties originating in the past whose date of maturity or amount is uncertain, if it is probable an outflow of Group's resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized is the best estimate of the current obligation as of the balance sheet date. Non-current provisions are recognized at the settlement amount discounted to the balance sheet date.

#### **B.16 Accounts Payable**

ADLER Group generally classifies its financial liabilities into the following categories stated in IAS 39:

##### **a. Other Liabilities (OL)**

This category includes non-derivative financial instruments such as trade payables, accounts payable to banks and other financial liabilities.

##### **b. Financial Liabilities at Fair Value through Profit or Loss (LAFV)**

This category includes derivatives with negative market values which are not in hedge accounting, as well as financial liabilities for which the fair value option is used. Application of the fair value option is waived in ADLER Group.

Loan obligations and other accounts payable are initially recognized at fair value after deducting transaction costs. In subsequent periods, they are measured at amortized cost: any differences between the amount disbursed and the repayment amount are recognized in the income statement over the term of the loan using the effective interest method. Financial liabilities are written off when they are redeemed, i.e. once the contractual obligations are settled, cancelled or expired. Liabilities are classified as current liabilities unless ADLER AG has the unconditional right to postpone repayment of the liability to a date at least twelve months after the balance sheet date.

#### **B.17 Deferred Taxes**

Pursuant to IAS 12, deferred taxes are generally reported for all temporary differences between the tax base of assets and liabilities and their carrying amounts in consolidated financial statements, as well as on tax loss carryforwards.

The tax rates used to calculate deferred taxes are determined based on statutory provisions currently in force. For German group companies, a tax rate of 39% is used, which includes an average trade tax rate in addition to the standard corporation tax rate and solidarity markup. Deferred tax claims based on temporary differences and tax loss carryforwards are recognized to the extent that it is probable that the temporary differences can be deducted from future taxable income.

Existing tax loss carryforwards were included in the course of ascertaining the current tax liability. Additional capitalization of tax loss carryforwards was not performed, since future usability is not sufficiently certain.



**B.18 Leases**

Beneficial ownership of leased objects is attributed to the lessee in accordance with IAS 17 (revised 2003) if the latter bears all major risks and rewards associated with the object (finance lease). Leases, in which a major proportion of the risks and rewards associated with ownership of the leased object are retained by the lessor, are classified as operating leases. Payments made in connection with operating leases are recognized in the income statement on a straight-line basis over the term of the lease.

**B.19 Revenue Recognition**

Revenue consists of the amount invoiced for the sale of goods and services net of value-added tax, rebates and discounts.

Revenue from the sale of goods is recognized if the Group made the relevant delivery and the probability that the claim will be paid is sufficiently high.

Revenue from the provision of services is recognized in the financial year in which the services are provided. In case services are provided over several periods, revenue is recognized for each period in proportion to the total services provided.

Interest income is recognized on a time-proportion basis over the residual term with due regard for the residual receivable and effective interest rate. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Revenue from user fees is recognized for each period in accordance with the provisions of the underlying contracts.

**B.20 Segment Reporting**

A business segment is an identifiable component of an enterprise which provides a single product or service or a group of related products and services, and which is subject to risks and returns that are different from those of the other business segments. In accordance with the internal structure of the Group, the primary reporting format is organized by business segment. Through December 31, 2006, the Group was engaged exclusively in the "Projects and Project Developments" segment. In 2007, two new segments were developed, "Portfolio Development" and "Asset Management."

**B.21 Stock Options**

In 2006, the Group launched a share-based compensation plan in the form of stock options. The fair value of the work performances rendered by employees as consideration for issuance of the stock options is recognized as an expense. The total expense to be recognized over the vesting period of the stock options is measured based on the fair value of the stock options. The estimate of the number of stock options which are expected to vest is reviewed on each balance sheet date. The effects of any changes to original estimates are recognized in the income statement and the shareholders' equity over the remaining vesting period is adjusted accordingly. The fair value of the stock options was determined using a Monte Carlo simulation on the grant date.

## C Notes to the Consolidated Balance Sheet

### C.1 Intangible Assets

Intangible assets include IT software. Pursuant to IAS 16, they are measured at historical cost less cumulated amortization. No impairments

were necessary in 2007. The additions through consolidation relate to software from the first-time consolidation of MÜBAU Real Estate GmbH, which is now reported as disposals since it is no longer in use.

Intangible Assets	
In TEUR	IT software
<b>Historical costs Jan. 1, 2006</b>	<b>95</b>
Additions	0
Change in scope of consolidation	0
Transfers	0
Disposals	-87
<b>Dec. 31, 2006</b>	<b>8</b>
<b>Depreciation and impairment Jan. 1, 2006</b>	<b>88</b>
Additions – on schedule	2
Change in scope of consolidation	0
Transfers	0
Disposals	-87
<b>Dec. 31, 2006</b>	<b>3</b>
<b>Net book value, Dec. 31, 2006</b>	<b>5</b>
<b>Net book value, Jan. 1, 2006</b>	<b>7</b>

Intangible Assets	
In TEUR	IT software
<b>Historical costs Jan. 1, 2007</b>	<b>8</b>
Additions	14
Change in scope of consolidation	79
Transfers	0
Disposals	-79
<b>Dec. 31, 2007</b>	<b>22</b>
<b>Depreciation and impairment Jan. 1, 2006</b>	<b>3</b>
Additions	4
Change in scope of consolidation	79
Transfers	0
Disposals	-79
<b>Dec. 31, 2007</b>	<b>7</b>
<b>Net book value, Dec. 31, 2007</b>	<b>15</b>
<b>Net book value, Jan. 1, 2007</b>	<b>5</b>

### C.2 Property, Plant and Equipment

The real properties and external installations include a gate system, as well as the addition through first-time consolidation of the properties in Gruenstadt, Hauptstrasse, and Guetersloh, Verler Strasse, which are measured at historical cost minus cumulated depreciation pursuant to IAS 16, like the other fixtures, fittings and equipment.

In addition, assets in the amount of EUR 70,000 were added to fixtures, fittings and equipment in 2007. The disposals relate to the sale of the property at Guetersloh, Verler Strasse and to the scrapping of unusable hardware and equipment.

<b>Property, Plant and Equipment</b>			
<b>In TEUR</b>	<b>Real properties and external installa- tions</b>	<b>Fixtures, fittings and equipment</b>	<b>Total</b>
<b>Historical costs Jan. 1, 2006</b>	<b>4</b>	<b>1,301</b>	<b>1,305</b>
Additions	0	28	28
Change in scope of consolidation	0	0	0
Transfers	0	0	0
Disposals	0	-1,044	-1,044
<b>Dec. 31, 2006</b>	<b>4</b>	<b>285</b>	<b>289</b>
<b>Depreciation and impairment Jan. 1, 2006</b>	<b>0</b>	<b>1,264</b>	<b>1,264</b>
Additions – on schedule	1	21	22
Change in scope of consolidation	0	0	0
Transfers	0	0	0
Disposals	0	-1,040	1,040
<b>Dec. 31, 2006</b>	<b>1</b>	<b>245</b>	<b>246</b>
<b>Net book value, Dec. 31, 2006</b>	<b>3</b>	<b>40</b>	<b>43</b>
<b>Net book value, Jan. 1, 2006</b>	<b>4</b>	<b>37</b>	<b>41</b>
<b>Historical costs Jan. 1, 2007</b>	<b>4</b>	<b>285</b>	<b>289</b>
Additions	24	75	99
Change in scope of consolidation	8,330	42	8,372
Transfers	0	0	0
Disposals	-7,630	-242	-7,872
<b>Dec. 31, 2007</b>	<b>728</b>	<b>160</b>	<b>888</b>
<b>Depreciation and impairment Jan. 1, 2007</b>	<b>1</b>	<b>246</b>	<b>247</b>
Additions	84	40	124
Change in scope of consolidation	0	21	21
Transfers	0	0	0
Disposals	-69	-236	-305
<b>Dec. 31, 2007</b>	<b>16</b>	<b>71</b>	<b>87</b>
<b>Net book value, Dec. 31, 2007</b>	<b>712</b>	<b>89</b>	<b>801</b>
<b>Net book value, Jan. 1, 2007</b>	<b>3</b>	<b>39</b>	<b>42</b>

### C.3 Available-For-Sale Financial Assets

ADLER AG reports an interest in the "de Hoek" working group in the amount of EUR 150,000. In the 2007 financial year, the "de Hoek" working group, through another company, acquired an interest in S-Park B.V. (indirect share: 7.5%), the owner of a property near the Schiphol Airport in the Netherlands. The additions relate to the foundation of a new company, ADLER Lux S.à.r.l., including a loan granted of EUR 3.546 million, as well as a loan granted to Airport Center Luxembourg GmbH in the amount of TEUR 281, and, moreover, an investment in a local project development company. The disposal relates to an advance payment on the shares of MÜBAU Real Estate GmbH in the course of consolidation.

#### Available-For-Sale Financial Assets

##### In TEUR

<b>Net book value Dec. 31, 2006</b>	<b>150</b>
Additions	2,184
<b>Net book value Jan. 1, 2006</b>	<b>2,334</b>
<b>Historical costs Jan. 1, 2007</b>	<b>2,334</b>
Additions	3,826
Change in scope of consolidation	-950
Transfers	0
Disposals	-28
<b>Dec. 31, 2007</b>	<b>5,182</b>
<b>Depreciation Jan. 1, 2007</b>	<b>0</b>
Additions	0
Change in scope of consolidation	0
Transfers	0
Disposals	0
<b>Dec. 31, 2007</b>	<b>0</b>
<b>Net book value, Dec. 31, 2007</b>	<b>5,182</b>
<b>Net book value, Jan. 1, 2007</b>	<b>2,334</b>

### C.4 Investments in Associates

While ADLER's share in Airport Center Luxembourg GmbH is 10%, since ADLER appoints a managing

director, and thus exercises a significant influence over the company, the investment was accounted for using the equity method. The carrying amount of the investment was decreased to EUR 0 due to recognition of the company's net loss of TEUR 72.

#### Development of Reassessment ACL (for 10%)

	TEUR
Jan. 1, 2007	55
Capital increase	17
Proportionate loss 2007	-237
Dec. 31, 2007	-165

With regard to the summarized financial information of Arge "de Hoek" GbR and AFP Agentur für Projektmanagement GmbH we refer to F.9 Nr. 2.

### C.5 Deferred Tax Assets

Based on the net loss of Logistics-Centrum Duisburg-Nord GmbH in 2007, a deferred tax asset of TEUR 197 was recognized based on its expected usefulness as a deduction from taxable income in future years.

### C.6 Inventories

In particular, the inventories of EUR 31.1 million relate to the following real estate projects:

Berlin	Fanny-Zobel-Strasse
Berlin	Spaethstrasse
Dallgow-Doeberitz	Triftstrasse, etc.
Dresden	Alttrachau
Duisburg	Hamborner Strasse
Frankfurt a. M.	Herriotstrasse
Grossbeeren	Trebbiner Strasse
Gruenstadt	Hauptstrasse
Homburg	Remaing site
Moosburg	Am Muehlbachbogen
Offenbach	Strahlenberger Strasse
Saarbruecken	Hafenstrasse

Based on the Management Board's assessment of lower market values, impairments in the amount of EUR 7.676 million were made on individual

properties in previous years. The book value of the real estate projects reported at the lower net realizable value is EUR 16.095 million.

The book value of inventories pledged as security for obligations is EUR 8.370 million.

The amount of inventories pledged, which has been recorded as expenses in the financial year, results from the sale of part land in Dornach, of the purchase of land in Duisburg and Moosburg and from capitalized project expenses.

### C.7 Trade Receivables

The current trade receivables, in the amount of TEUR 306, consist entirely of receivables from third parties.

### C.8 Other Current Assets

In TEUR	31.12.2007	31.12.2006
Accounts receivable from Arge "de Hoek" (special partnership "de Hoek")	376	376
Accounts receivable from MRT (Mountleigh Roland Ernst) B.V.	394	0
Other assets	389	495
<b>Total</b>	<b>1,159</b>	<b>871</b>

The accounts receivable from Arge "de Hoek" and MRT result from loans granted to a project company, Schiphol/The Netherlands, in which ADLER AG holds an indirect share.

### C.9 Tax Claims

Current tax claims consist essentially of tax refund claims.

### C.10 Cash and Cash Equivalents

The composition of the Group's liquid funds is as follows:

In TEUR	31.12.2007	31.12.2006
Bank deposits	5,833	10,391

### C.11 Equity Capital

The individual components of shareholders' equity and their development in 2007 are presented in the Statement of Changes in Equity.

The equity capital of ADLER AG is EUR 15,000,000 and is divided into 15,000,000 no-par-value bearer shares.

By resolution of the Extraordinary General Meeting of August 24, 2006, the Management Board was authorized, with the consent of the Supervisory Board, to increase the Company's equity capital by up to EUR 7,500,000 (authorized capital) through August 23, 2011, either once or in several stages, in exchange for cash contributions and/or contributions in kind, by issuing new bearer shares. This authority has not been exercised thus far.

#### OWN SHARES

By resolution of the General Meeting on June 26, 2007, the Company has been authorized to purchase up to 10% of its current equity capital through December 25, 2008 for the purposes allowed by § 71(1) No. 8 of the Corporations Act. This authority has not been exercised thus far.

#### CONVERTIBLE BOND AND CREATION OF CONDITIONAL CAPITAL II

The Management Board, with the consent of the Supervisory Board, was authorized by resolution of the General Meeting on June 26, 2007 to issue warrants and/or convertible bonds made out to the bearer, with a combined par value up to EUR 100,000,000 and with a term of no higher than ten years through June 25, 2012, either once or in multiple stages, and to grant the holders of warrants and/or convertible bonds options or conversion rights to up to 6,500,000 new bearer shares in the Company as specified in the terms of the warrants or convertible bonds. This authority has not been exercised thus far.

On June 26, 2007, the General Meeting resolved a conditional increase of the equity capital by up to EUR 6,500,000 through the issuance of up to

6,500,000 bearer shares. The conditional capital increase serves exclusively to meet obligations arising from warrants and convertible bonds issued by June 25, 2012, based on the authorization of the General Meeting of June 26, 2007. This authority has not been exercised thus far.

Mezzanine IX Investors L.P. of Atlanta, Georgia (USA) has given notice pursuant to § 21(1) of the Securities Trading Act that its percentage of voting rights in ADLER AG went below the 75% threshold on July 24, 2006, and is now 60.79%.

The retained earnings include adjustments to the opening balance sheet in the course of first-time adoption of IFRS in the 2005 financial year.

#### C.12 Capital Reserve

The capital reserve originates from the share capital increase of June 11, 2006. The amount in excess of the mathematical nominal value was recognized as the capital reserve, net of the cost of the capital increase in the amount of EUR 1.610 million (IAS 32.37). The 2007 expense for the executive stock option plan, in the amount of TEUR 149, was recognized as capital reserve.

#### C.13 Employee Benefit Provisions

The accounting and valuation of employee benefit provisions as of December 31, 2007 was performed using the projected unit credit method, including

both known pensions and vested pension rights as of the balance sheet date and expected future increases in pensions and salaries. Actuarial gains and losses are recognized in the year of accrual. Commitments consist entirely of old commitments to departed employees and are financed exclusively through provisions.

The following major actuarial assumptions were made:

In %	December 31, 2007	December 31, 2006
Discount rate	5.5	4.5
Future salary increases	0	0
Future pension increases	1.5	1.5
Basis for calculation	2005G benchmark table of Dr. Klaus Heubeck	2005G benchmark table of Dr. Klaus Heubeck

Employee benefit provisions consist only of commitments to departed employees, so that a fluctuation of 0% is assumed.

The development of provisions in the years 2006 and 2007 is described in the table below:

#### Other Provisions

In TEUR	January 1, 2007	Addition through consolidation	Reclassification to other liabilities
Provision for litigation risks	960		
Provision for warranties	310	768	
Provision for residual building costs	22		
Clean-up obligations	1,023		
Other	50	587	-50
<b>Total</b>	<b>2,365</b>	<b>1,355</b>	<b>-50</b>

In TEUR	2007	2006
Employee benefit provision as of January 1	901	809
Net actuarial gain (2006 loss)	-110	85
Interest expense	39	39
Pension payment	-32	-32
Employee benefit provision as of December 31	798	901

Employee benefit provisions correspond to defined benefit obligations (DBO) on each balance sheet date.

TEUR 32 of employee benefit provisions are classified as current.

The expenses recognized in the income statements are:

In TEUR	2007	2006
Net actuarial gain (2006: loss)	-110	85
Interest expense	39	39
Pension expense/ provisions reversed on December 31	-71	124

Interest expense is recognized in "financial result" and all other expenses in "personnel expenses."

#### C.14 Other Provisions and Accrued Liabilities

Other provisions and accrued liabilities developed as follows in the 2007 financial year:

The **provision for litigation risks** relates to possible claims arising from litigation. The provisions were reversed at the beginning of year and recognized as income since the claims expired.

The **provision for warranties** charged for statutory and contractual warranty obligations arising from the sale of real estate. The addition from first-time consolidation results from the acquisition of MÜBAU Real Estate GmbH. The provision is estimated as one lump sum for the amount needed to remedy any defects which cannot be charged to other parties. Utilization is possible if recourse cannot be taken against subcontractors.

The **clean-up obligations** relate to the expenses necessary to clean up the soil of an existing real property recognized under inventories.

**Other provisions and accrued liabilities** relate to risks from imminent litigation.

Utilization	Reversal	Transfer	December 31, 2007	Non-current
	960		0	
190	226	288	950	822
	22		0	
			1.023	
42	546	37	37	
<b>232</b>	<b>1,754</b>	<b>325</b>	<b>2,010</b>	<b>822</b>

### C.15 Financial Liabilities

With the loan agreement of December 20, 2006 an existing loan agreement was newly stipulated. This led to the extinguishment of the existing loan liability and to the recognition of the newly stipulated loan obligation, including debtor warrant (IAS 39.40). The loan states the value of EUR 3.918 million as of the balance sheet date, the principal repayment was stipulated at 2% plus interest saved. A variable interest rate was stipulated for the loan. The loan qualifies as non-current in view of the option to extend the loan. The stipulated debtor warrant was measured at amortized cost, in the amount of TEUR 500, arising from the waiver declared by LBBW on December 30, 2006.

The loan is secured by land charges against the hereditary building right to the property in Frankfurt-Niederrad in the amount of EUR 4.000 million, the assignment of rent for the office building, initially in tacit form, and by a letter of support from ADLER to the consolidated subsidiary which owns the real property.

A subsidiary obtained a loan for EUR 3.885 million for the acquisition and development of a real property. The interest on the loan is 8.1%, and the loan states the value of TEUR 800 on the balance sheet date. The loan qualifies as non-current in light of the duration of the project. The loan is secured by land charges against the real property in Moosburg, Am Muehlbachbogen in the amount of EUR 3.885 million, through the assignment of all current and future claims against the buyer, the assignment of payment claims arising from the general contractor agreement yet to be concluded and a letter of support from ADLER for the consolidated subsidiary which owns the real property.

The increase in bank borrowings, in the amount of TEUR 768, results from a new loan to finance a residential project, less amortization by installments.

### C.16 Tax Liabilities

Tax liabilities include obligations to the local tax offices arising from corporate income tax, solidarity markup and trade tax relating to fiscal year 2007 and the subsequent taxation of EK 02 under the Annual Tax Act of 2008.

### C.17 Trade Payables

In TEUR	Dec. 31, 2007	Dec. 31, 2006
Trade payables	475	624

All trade payables qualify as current liabilities and are payable to third parties.

### C.18 Other Current Liabilities

Other current liabilities, in the amount of TEUR 960, consist primarily of obligations for outstanding accounts (TEUR 776), the negative market value of an interest hedging transaction (TEUR 56) and others (TEUR 71).

## D Notes to the Consolidated Income Statement

### D.1 Revenues

2007 revenues amount to EUR 5.414 million (year before: EUR 2.628 million) and pertain to the sale of the Dornach project as well as rental income from the leasing of parking spaces on properties in Frankfurt a. M., Offenbach and Saarbruecken, rent from the lease of office and logistics space in Gruenstadt and Guetersloh and asset management fees.

In TEUR	Dec. 31, 2007	Dec. 31, 2006
Bank borrowings	5,268	4,500
· thereof, non-current	5,188	4,420
· thereof, current	80	80



### Details to Operating Leasing Pursuant to IAS 17.56

	Reporting Period			
	2007	2008	2009 to 2012	as of 2013
TEUR		Up to 1 year	1 to 5 years	After 5 years
Total of projected minimum leasing payment due to irredeemable operating leasing agreements of the lessor	80	160	72	0

#### D.2 Changes in Inventories of Finished Goods and Work in Progress

The decrease in inventories is primarily in connection with the Munich-Dornach project and results from the sale of the property, which had been capitalized under inventories, as well as from the capitalization of project development expenses and the purchase of real properties in Moosburg and Duisburg.

#### D.3 Other Operating Income

Other operating income, in the amount of EUR 10.504 million (year before: EUR 11.284 million), essentially consists of revenues from the first-time consolidation of MÜBAU Real Estate GmbH, in the amount of EUR 8.149 million, from the reversal of provisions (EUR 1.745 million) and the write-off of liabilities with provision character (TEUR 234). This item also includes revenues from the disposal of the property at Guetersloh, Verler Strasse.

#### D.4 Cost of Materials

The cost of materials essentially consisted of the acquisition of real properties in Moosburg, Duisburg, and expenses for the development of commercial and residential projects.

#### D.5 Personnel Expenses

In TEUR	2007	2006
Wages and salaries	1,513	848
Social security contributions	174	149
<b>Total</b>	<b>1,687</b>	<b>997</b>

The increase in personnel expenses over the year before is attributable to the higher number of employees in 2007.

Employer contributions towards statutory pension insurance are classified as contribution-based benefit plans pursuant to IAS 19.38. These expenses came to TEUR 73 in the reporting year (previous year: TEUR 35).

#### D.6 Depreciation, Amortization and Impairment Expense

In TEUR	2007	2006
Amortization on intangible assets	4	3
Depreciation on property, plant and equipment	124	22
Write-down on inventories	289	0
<b>Total</b>	<b>417</b>	<b>25</b>

#### D.7 Other Operating Expenses

In TEUR	2007	2006
Impairment on accounts receivable	38	23
Legal and consulting expenses	440	345
Administrative expenses	610	552
Office and IT supplies	149	111
Accounting and auditing expenses	349	197
Public relations	89	63
Loan expenses	0	428
Other	696	509
<b>Total</b>	<b>2,371</b>	<b>2,228</b>

#### D.8 Income from Investments

As in the year before, no income from investments was earned.

**D.9 Financial Result**

In TEUR	2007	2006
Interest income	579	241
Borrowing costs	508	561
<b>Total</b>	<b>71</b>	<b>-320</b>

The increase in interest income over 2006 can be explained as follows: TEUR 362 was earned from fixed deposit accounts, TEUR 174 from interest on loans granted to subsidiaries and TEUR 36 from the compounding of provisions. The interest expenses relate with TEUR 375 to non-current liabilities, with TEUR 74 to expenses from the discounting of provisions and with TEUR 2 to other interest expenses.

**D.10 Income Tax Expense**

Taxes on the Group's profit before tax deviate as follows from the theoretical tax rate arising upon application of the Group tax rate of 39%:

In TEUR	2007	2006
Actual income tax expense for previous years	185	67
Actual income tax revenue for previous years	-120	-272
Actual income tax expense for future years	33	0
Actual income taxes for current year	11	236
Deferred taxes	-453	0
<b>Total net tax revenue (previous year: tax expense)</b>	<b>-343</b>	<b>31</b>
IFRS profit before tax	6,930	8,588
Expected tax expense (Group tax rate: 39%)	2,703	3,349
Tax-free revenues	-2,668	0
Use of uncapitalized loss carryforwards	-294	-3,113
Other	-183	0
<b>Tax revenue for current year (previous year: tax expense)</b>	<b>-442</b>	<b>236</b>
Tax expense and tax revenue for previous years and future years	98	-205
<b>Total taxes</b>	<b>-343</b>	<b>31</b>
Effective Group tax rate	-6.38%	2.75%

Deferred tax assets for temporary differences and tax loss carryforwards are only recognized if it is probable that the temporary difference or unused tax loss can be deducted from future taxable income (see C.5). For this reason, no deferred tax assets were recognized based on loss carryforwards in the amounts of EUR 40.069 million (corporate income tax), EUR 53.295 million (trade tax) and TEUR 256 (§ 15(4) of the Income Tax Act).

In accordance with § 8b of the Corporate Income Tax Act, tax-free revenues include tax-free distributions by corporations.

### D.11 Earnings per Share

The undiluted earnings per share are determined by dividing the profit attributable to the equity holders of ADLER AG by the weighted average number of shares in issue during the financial year.

	2007	2006
Profit attributable to equity holders of ADLER AG, in EUR million	7,406	8,557
Weighted average number of shares in issue	15,000,000	12,287,671
Undiluted earnings per share, in EUR	0.49	0.70

Diluted earnings per share in the 2007 financial year are **EUR 0.49 (previous year: EUR 0.70)**

Group profit is reported in the consolidated income statement. The number of shares is determined down to the day, including the 5.0 million new shares created on July 27, 2006. For the diluted earnings, the 200,000 stock options assumed on July 14, 2006 were also included to the day.

## E Financial Instruments

### E.1 Additional Disclosures to Financial Instruments

#### (A) CLASSIFICATION

The classification of financial instruments required in IFRS 7 was performed by ADLER Group in line with the various balance sheet items. The tables below (see pages 52/53) show the conversion of the book values for each IFRS 7 category (balance sheet item) into the IAS 39 measurement categories for each balance sheet date.

#### (B) FAIR VALUE DISCLOSURES

The fair value of financial instruments traded in an active market is essentially based on the market price of the instrument on the balance sheet date. The relevant market price for financial instruments is their current bid rate. The fair value of financial

instruments which are not traded in an active market is measured through the use of valuation techniques.

The fair value of derivative financial instruments may be positive or negative. If no market values are available, fair value is measured using recognized financial models. The fair value of interest rate swaps is ascertained based on the present value of estimated future cash flows. For derivative financial instruments, fair value is additionally measured by the relevant banks.

For the measurement of fair value for non-derivative financial instruments, ADLER Group uses its own valuation models (e.g. the DCF method), making assumptions based on conditions in the market on the balance sheet date.

Available-for-sale financial assets, one of the categories prescribed in IFRS 7, include TEUR 171 worth of shares in non-exchange-listed companies (year before: TEUR 184), for which no reliable market value can be ascertained. The shares are measured at cost. The Group does not plan to sell these shares in the near future. In the financial year 2006, revenues of TEUR 44 had been realized due to a sale of an investment.

In the case of trade receivables and payables, as well as other current assets and liabilities, it is assumed that the fair value equals the nominal value less impairments.

The fair value of other non-current receivables, maturing in more than one year, equals the present values of the cash flows associated with the assets, with due regard for current interest rate parameters, which reflect changes in conditions and expectations pertaining to the market as a whole or to the transaction partner. The fair value of non-current financial liabilities reported in the Notes is measured by discounting future contractually stipulated cash flows at the current market interest rate granted to ADLER Group for comparable financial instruments.

December 31, 2007 TEUR	Total carrying amount	Carrying amount of financial instruments
<b>IFRS 7 categories Assets</b>		
Available-for-sale financial assets (LAR, AFS)	5,182	5,182
Trade receivables (LAR)	306	306
Other current assets (LAR)	1,144	945
Cash and cash equivalents (LAR)	5,833	5,833
<b>IFRS 7 categories Liabilities</b>		
Financial liabilities (OL)	5,268	5,268
Trade payables (OL)	475	475
Other current liabilities (OL)	960	913
<b>Thereof, broken down by IAS 39 categories</b>		
Loans and receivables (LAR)		12,095
Available-for-sale financial assets (AFS)		171
Financial assets measured at fair value through profit and loss (AAFV)		0
Financial liabilities measured at fair value through profit and loss (LAFV)		56
Other liabilities (OL)		6,600

December 31, 2006 TEUR	Total carrying amount	Carrying amount of financial instruments
<b>IFRS 7 categories Assets</b>		
Available-for-sale financial assets (LAR, AFS)	2,334	2,334
Trade receivables (LAR)	793	793
Other current assets (LAR)	871	826
Cash and cash equivalents (LAR)	10,391	10,391
<b>IFRS 7 categories Liabilities</b>		
Financial liabilities (OL)	4,500	4,500
Trade payables (OL)	624	624
Other current liabilities (OL)	738	458
<b>Thereof, broken down by IAS 39 categories</b>		
Loans and receivables (LAR)		14,160
Available-for-sale financial assets (AFS)		184
Financial assets measured at fair value through profit and loss (AAFV)		0
Financial liabilities measured at fair value through profit and loss (LAFV)		0
Other liabilities (OL)		5,582

Measurement of financial instruments in accordance with IAS 39				Fair value of financial instruments
Amortized cost	At cost	At fair value without effect on profit and loss	At fair value through profit and loss	
5,011	171	0	0	5,332
306	0	0	0	306
945	0	0	0	945
5,833	0	0	0	5,833
5,268	0	0	0	5,131
475	0	0	0	475
857	0	0	56	913
12,095	0	0	0	12,245
0	171	0	0	171
0		0	0	0
0	0	0	56	56
6,600	0	0	0	6,463

Measurement of financial instruments in accordance with IAS 39				Fair value of financial instruments
Amortized cost	At cost	At fair value without effect on profit and loss	At fair value through profit and loss	
2,150	184	0	0	2,579
793	0	0	0	793
826	0	0	0	826
10,391	0	0	0	10,391
4,500	0	0	0	4,369
624	0	0	0	624
458	0	0	0	458
14,160	0	0	0	14,405
0	184	0	0	184
0	0	0	0	0
0	0	0	0	0
5,582	0	0	0	5,451

**(C) NET RESULT FROM FINANCIAL INSTRUMENTS**

The net result from financial instruments, broken down into the individual categories in IAS 39, is shown in the table below.

TEUR	2007 net result			2006 net result		
	Interest	Gains/ losses	Total	Interest	Gains/ losses	Total
Available-for-sale financial assets (AFS)	0	0	0	0	44	44
Loans and receivables (LAR)	576	-36	540	241	-23	218
Financial assets measured at fair value through profit and loss (AAFV/LAFV)	0	-56	-56	0	0	0
Other liabilities (OL)	-378	0	-378	-500	2,043	1,543
<b>Total</b>	<b>198</b>	<b>-92</b>	<b>106</b>	<b>-310</b>	<b>2,115</b>	<b>1,805</b>

Interest income and expenses from financial instruments represent one part of the net result. Gains/losses are comprised of allowances, write-offs and gains/losses from disposal, as well as the effects of fair value measurement.

In the past two years, there were no commission revenues or expenses from financial instruments not measured at fair value through profit and loss.

**E.2 Risks and risk management****(A) PRINCIPLES OF RISK MANAGEMENT**

ADLER Group is exposed to various financial risks through its operations. These risks include the market risk (consisting of the foreign currency risk, interest rate risk and market price risk), the credit risk and the liquidity risk.

The Group's comprehensive risk management system is focused on the unforeseeable nature of developments in the financial markets and seeks to minimize the potential negative impact on the Group's financial position. The Group utilizes selected derivative financial instruments in order to hedge against certain risks.

Risk management is performed by a centralized financial department (the Group financial department), in accordance with the guidelines

issued by the Management Board. The Group financial department identifies measures and mitigates financial risks in close consultation with the operating units of ADLER Group. The Management Board defines the principles of risk management for the entire Group, as well as issuing guidelines for specific areas, such as the handling of the foreign currency, interest rate and credit risk, the use of derivative and non-derivative financial instruments and the investment of surplus liquidity.

**(B) MARKET RISK**

Market risks may result in fluctuations in earnings, shareholders' equity and cash flow. In order to limit or eliminate these risks, ADLER Group has developed various hedging strategies, including the use of derivative financial instruments.

*(i) Foreign Currency Risk*

Foreign currency risk arises when future transactions or disclosed assets or liabilities are denominated in a currency other than the functional currency of the Company. The operations of ADLER Group (real estate investment) are concentrated in the Euro zone. Property financing transactions were executed exclusively in euros. As a result, foreign currency risks arising from fluctuations in exchange rates are excluded.

*(ii) Interest Rate Risk*

ADLER Group is subject to interest rate risks almost exclusively within the Euro zone. This risk can be divided into the fair value interest rate risk and the cash flow interest rate risk.

A fair value interest risk, i.e. the possible change in the fair value of a financial instrument due to changes in market interest rates, generally exists for fixed-interest medium- and long-term receivables and obligations. However, since ADLER Group measures these instruments at their amortized cost, and not at fair value, this risk had no direct impact on the Group's shareholders' equity or earnings. On the other hand, this risk does exist for interest rate derivatives, with an effect on earnings.

ADLER Group is exposed to a cash flow interest rate risk, with effect on earnings, in the case of financial instruments based on variable interest rates (loans, cash and cash equivalents, financial liabilities and interest rate derivatives). Since longer-term interest rate arrangements are generally not possible for project developments, the cash flow interest rate risk is mostly relevant for the Group's variable-rate financial liabilities, which are constantly monitored in view of the given and planned debt structure.

Interest hedging transactions are concluded when necessary to manage risk.

In 2006, an agreement was reached with lenders under which the interest on all of ADLER Group's bank debt was waived through December 31, 2006.

In order to reduce the cash flow interest rate risk, an interest hedging transaction was concluded in 2007 (an interest rate swap for EUR 3.900 million) which limits financing costs on the Group's borrowings. The swap was not classified as a cash flow hedge pursuant to IAS 39, and is therefore fully recognized through profit or loss.

Pursuant to IFRS 7, the risk of interest rate changes is measured using a sensitivity analysis, which shows the effect of changes in market interest rates on interest income and expenses, as well as on other components of earnings and shareholders' equity. In the past two financial years, the impact was exclusively on the financial result of ADLER Group. The calculation is essentially based on the status as of the end of each year. Insofar as the end-of-year status is not representative of the year as a whole, the sums are adjusted accordingly.

Sensitivity Analysis:		December 31, 2007		December 31, 2006	
Interest Rate Risk					
In TEUR					
Variable: interest rate		+100 base points	-100 base points	+100 base points	-100 base points
Net interest expense		+121	-199	+104	-104

The increased sensitivity in the net interest expense in 2007 relative to 2006 is attributable to the waiver of interest on the LBBW loan in 2006.

*(iii) Market Price Risk*

Market price risks are changes in the value of financial instruments due to fluctuations in market prices. The Group holds equity instruments which

are classified in the consolidated balance sheet as "available for sale." However, since those equity instruments relate to shares in non-publicly-traded limited liability companies which are measured at cost, the Group is not exposed to a direct price risk. The Group is also not exposed to risks associated with changes in the price of raw materials due to the nature of its business.

**(C) CREDIT RISK**

Credit risk arises from the risk that contracting parties will be unable to perform their payment obligations. The maximum credit risk is defined by the book values of primary and derivative financial assets plus financial guarantees issued by the Group.

Credit risk is managed on the Group level for the entire Group. Rules are in place which ensures that transactions can only be executed with partners who have displayed satisfactory payment practices

in the past. Contracts regarding derivative financial instruments and financial transactions are only concluded with banks with the highest credit ratings. The Group has a commercial policy which limits credit risk with respect to each individual bank. No significant concentrations exist within the Group with respect to possible credit risks.

The tables below show the maturity analyses indicating the risk of default for each separate category, in accordance with IFRS 7.

<b>Balance sheet date:</b> <b>December 31, 2007</b>	<b>Carrying amount of financial instru- ments</b>	<b>Thereof, neither overdue nor im- paired</b>	<b>Therefore, not impaired and overdue by the following number of days:</b>			
<b>TEUR</b>			<b>&lt; 30 days</b>	<b>30 – 90 days</b>	<b>91 – 180 days</b>	<b>&gt; 180 days</b>
Available-for-sale financial assets	5,182	5,182	0	0	0	0
Trade receivables	305	305	0	0	0	0
Other current assets	896	896	0	0	0	0
Cash and cash equivalents	5,833	5,833	0	0	0	0
<b>Total</b>	<b>12,216</b>	<b>12,216</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b>Balance sheet date:</b> <b>December 31, 2007</b>	<b>Carrying amount of financial instru- ments</b>	<b>Thereof, neither overdue nor im- paired</b>	<b>Therefore, not impaired and overdue by the following number of days:</b>			
<b>TEUR</b>			<b>&lt; 30 days</b>	<b>30 – 90 days</b>	<b>91 – 180 days</b>	<b>&gt; 180 days</b>
Available-for-sale financial assets	2,334	2,334	0	0	0	0
Trade receivables	793	793	0	0	0	0
Other current assets	826	826	0	0	0	0
Cash and cash equivalents	10,391	10,391	0	0	0	0
<b>Total</b>	<b>14,344</b>	<b>14,344</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

For the sums indicated as neither overdue nor impaired, no indications exist that the debtors will be unable to perform their obligations.

For the financial years concerned ADLER Group had no financial assets which would be overdue or diminished unless the terms of the contract were renegotiated.

In the 2007 financial year, TEUR 38 in trade receivables pursuant to IFRS 7 were written off directly (year before: TEUR 12).

Allowances are made on a case-by-case basis in light of quantitative and qualitative factors. Allowances made in the past two financial years were as follows:



TEUR	January 1	Addition	Scope of consolidation	Utilization	Reversal	December 31
2007	595	0	32,061	0	3	32,653
2006	584	11	0	0	0	595

All allowances related to trade receivables which were more than 180 days overdue.

The allowances based on changes to the scope of consolidation relate primarily to the fully impaired receivables of MÜBAU Real Estate GmbH from MRE Holding GmbH, arising from the assumption of losses.

During the years shown, the Group did not receive any significant payments (principal and/or interest) on impaired receivables.

ADLER Group did not hold any securities for possible credit risks in connection with trade receivables, nor did it take possession of any securities meeting the criteria for capitalization.

#### (D) LIQUIDITY RISK

Liquidity risks consist in possible cash flow shortages and the resulting increase in refinancing costs. For this reason, prudent liquidity management

includes the maintenance of an adequate reserve of cash and cash equivalents, the availability of financing through an adequate confirmed line of credit and the option of market issues. ADLER Group employs a Group-wide cash management system to manage its liquidity. The object of its cash management system is to ensure that the Group can perform its obligations at all times by maintaining adequate cash reserves and optimizing liquidity equalization.

As of the balance sheet date, ADLER Group had EUR 5.833 million in cash and cash equivalents (previous year: EUR 10.391 million).

The liquidity analyses below show the contractually stipulated (undiscounted) cash flows from primary and derivative financial instruments for each balance sheet date. The analyses include all financial instruments held as of the balance sheet date. Estimates for future obligations are not included. Variable interest payments are estimated based on the spot rates as of each balance sheet date.

Balance sheet date December 31, 2007		Cash outflows		
TEUR	2008	2009	2010 – 2012	> 2012
Financial liabilities	368	1,168	956	6,182
Trade payables	475	0	0	0
Other current liabilities	913	0	0	0
<b>Total</b>	<b>1,756</b>	<b>1,168</b>	<b>956</b>	<b>6,182</b>

Balance sheet date December. 31, 2006		Cash outflows		
TEUR	2007	2008	2009 – 2011	> 2011
Financial liabilities	266	266	798	6,203
Trade payables	624	0	0	0
Other current liabilities	458	0	0	0
<b>Total</b>	<b>1,348</b>	<b>266</b>	<b>798</b>	<b>6,203</b>

**(D) CAPITAL RISK MANAGEMENT**

The Group's objectives with respect to capital management are ensuring the continued existence of the Company in order to continue payments to shareholders and other interested parties entitled to payments from the Group, and maintaining an optimal capital structure in order to reduce capital costs. In the interests of maintaining or modifying its capital structure, the Group can, as the need arises, issue new shares or sell assets in order to pay off debts. The Group monitors its capital in accordance with typical industry practice, based on its debt ratio, or net debt divided by total assets. Net debt is equal to total financial liabilities (including trade payables and other liabilities as reported in the consolidated balance sheet) less cash and cash equivalents. Total capital is share capital as reported in the consolidated balance sheet plus net debt.

As of December 31, 2007, the Group's debt ratio was 2%, up from 0% on December 31, 2006.

**F Other Notes****F.1 Critical Accounting Estimates and Judgments**

All estimates and judgments are routinely re-examined and are based on historical experience and other factors, including expectations with respect to future events, as appears reasonable under the given circumstances.

The Group makes estimates and assumptions with respect to future events. Of course, actual future circumstances will be in only the rarest of cases identical with the estimates derived from those estimates and assumptions. Estimates and assumptions which carry a significant risk in the form of an adjustment of book values for assets and debt within the next financial year are explained below.

The most significant risks in our business area arise in connection with project developments. Therefore, the Company utilizes the services of independent experts. Estimates are particularly necessary in connection with provisions and impairments

of developed and undeveloped properties and receivables. The Company made the estimates based on the information and knowledge available as of the balance sheet date.

In order to make fair allowances on trade receivables, the recoverability of receivables was assessed for each portfolio of receivables. This assessment was generally made based on past experience values, the age structure and the status of receivables in reminder and collection procedures.

Provisions (and, if the requirements for recognition are met, assets) are set aside with respect to active and passive litigation based on the assessment of the Management Board and the attorneys representing the Group companies.

**F.2 Commitments**

As of December 31, 2007, operating lease commitments existing based on lease and rental agreements, as well as obligations arising from support agreements.

In TEUR	Dec. 31, 2007	Dec. 31, 2006
Rental and lease commitments		
· maturing in less than one year	195	130
· maturing in 1 – 5 years	463	186
<b>Total</b>	<b>658</b>	<b>316</b>
Commitments from support agreements		
· maturing in less than one year	181	89
· maturing in 1 – 5 years	32	0
<b>Total</b>	<b>213</b>	<b>89</b>

The commitments arising from rental and lease agreements resulted primarily from the leasing of office space in the course of interminable operating lease relations. No purchase options or options to extend the lease beyond the basic term exist.

In order to secure liabilities, properties in current assets were encumbered with land charges for a total of EUR 7.885 million.

### F.3 Related Party Transactions

The following major transactions took place between the Group and related parties:

For consulting services and activities not falling under the Supervisory Board mandate, Supervisory Board member Andreas Helwig received a fee of TEUR 57.

As of December 31, 2007, the following major receivables from and liabilities to related parties existed:

<b>Accounts Receivable from Related Parties</b>		
<b>In TEUR</b>	<b>2007</b>	<b>2006</b>
Arge "de Hoek" GbR, Cologne	376	376
MRT (Mountleigh Roland Ernst) B.V., Rotterdam, NL	394	0
Airport Center Luxembourg GmbH, Luxembourg, LUX	1,481	1,200
Opus LP Holdings S.à.r.l., Bertrange, LUX	3,530	0

The receivables from Airport Center Luxembourg GmbH, MRT (Mountleigh Roland Ernst) B.V. and Opus LP Holdings S.à.r.l. consist of interest-bearing loans with a term of over one year.

All aforementioned revenues, purchases of services and charges were settled using the arm's length principle.

The Supervisory and Management Boards hold the key management positions in ADLER AG. The compensation of those persons is comprised as follows:

<b>In TEUR</b>	<b>2007</b>	<b>2006</b>
Supervisory Board compensation	91	110
Salaries and other short-term benefits to the Management Board	317	282
Share-based Management Board compensation	149	73
<b>Total</b>	<b>557</b>	<b>465</b>

At the General Meeting of April 21, 2006, the shareholders resolved, with 99.95% of the vote, to refrain from individualized disclosure of Management Board compensation for the financial years 2006 – 2010. No compensation was paid in the 2007 financial year to former members of the Supervisory and Management Boards.

### STOCK OPTIONS PLAN

The General Meeting of April 21, 2006 approved a stock options plan for Management Board members of ADLER AG. Each option entitles the holder to acquire shares upon expiration of the vesting period for an exercise price of EUR 3.88 per share. The vesting period is two years in one-third of the options, three years in another third and four years in the remaining options. Another condition of the stock options is that they may only be exercised if the relative performance of the Company's stock between the issue date and the exercise date is better than the performance of the MDAX over the same period. Performance is measured using the average closing price of the stock or index in the ten trading days prior to the issue or exercise date. The stock options may only be exercised in a four-week period beginning with the fifth banking day after publication of the Company's annual financial statements or quarterly report. The maximum term of the options is seven years.

Valuation of the stock options was performed using a Monte Carlo simulation, which is an allowable valuation method pursuant to IFRS 2. In Monte Carlo simulations, future stock performance is simulated

and the value of the options is defined as the expected distribution amount. Nominal distribution of returns is assumed. The following parameters are of relevance for the valuation:

- Price of ADLER stock on the issue date: EUR 4.10
- Index on the issue date: 5,434.58
- Stock volatility: 39%
- Index volatility: 14%
- Correlation between stock and index: 0.0%
- Expected dividend from stock: 0.0%
- Expected option term: three years
- Risk-free interest rate: 3.6%.

Volatility was measured based on the stock's performance in the past six months, since direct measurement over a period of time comparable to the term of the option in the Company's past would not be a reliable indicator in view of the Company's history. This volatility is consistent with the volatility of comparable companies over a period of three years.

By resolution of the Supervisory Board of June 27, 2006, each member of the Management Board was granted 100,000 stock options. They were accepted on July 14, 2006.

The fair value of the stock options was EUR 1.30 for the two-year options, EUR 1.50 for the three-year options and EUR 1.66 for the four-year options. An expense of TEUR 149 was incurred for the 2007 financial year.

#### F.4 Auditor Fees

The auditor fees in 2007 amounted to TEUR 349 and breaks down as follows:

	TEUR
Year-end audit	140
Other auditing services	178
Other services	31
<b>Total</b>	<b>349</b>

#### F.5 Employees

The average number of employees was as follows:

	2007	2006
Management Board employees	2	2
Permanent employees	17	8
<b>Total</b>	<b>19</b>	<b>10</b>

#### F.6 Segment Reporting

Segment reporting in accordance with IAS 14 was dispensed with since the individual segments of the Company have not yet reached the size thresholds stated in IAS 14, so that the Group is still considered to be operating exclusively in real estate project development in Germany.

#### F.7 Notes to the Consolidated Cash Flow Statement

The "cash and cash equivalents" item represents total liquid funds. Cash flow is divided into the following categories: operating activities, investing (divesting) and financing activities. For representation of cash flow from operating activities, the indirect method was chosen.

After adjusting for non-cash items, including write-ups on inventories, waiver of bank loans and gains from the reversal of provisions, and accounting for changes in working capital, ADLER AG generated a net cash flow from operating activities of EUR 4.847 million (previous year: EUR 4.299 million).

Net cash flow from investing activities was EUR 3.730 million (previous year: EUR 2.262 million) due to a cash outflow in connection with acquisition of the Opus and Tertio property portfolios as loans granted to ADLER Lux S.à.r.l. as well as the cash inflow from the sale of the logistics property in Guetersloh, Verler Strasse.

The net cash outflow from financing activities resulted primarily from the repayment of EUR 3.914 million in loan obligations to banks, from cash inflow due to the receipt of a loan of TEUR 850 in

connection with a project development, as well as cash outflow of TEUR 377 for expenditures in connection with last year's share capital increase.

Overall, cash and cash equivalents declined by EUR 4.558 million, which is reflected in the decrease in liquid funds.

Company	Capital %	Registered office	Subscribed capital TEUR	Equity Dec. 31, 2007 TEUR
<b>1. Affiliated companies</b>				
Adler Real Estate Service GmbH	100	Hamburg	1,500	1,746
Verwaltungsgesellschaft Adler Real Estate mbH	100	Hamburg	26	306
Erste Adler Real Estate GmbH & Co. KG	100	Hamburg	52	43
Dritte Adler Real Estate GmbH & Co. KG	100	Hamburg	52	52
Fünfte Adler Real Estate GmbH & Co. KG	100	Hamburg	52	52
Achte Adler Real Estate GmbH & Co. KG	100	Hamburg	52	52
Zehnte Adler Real Estate GmbH & Co. KG	100	Hamburg	52	52
Adler Real Estate Properties GmbH & Co. KG	100	Hamburg	200	200
Siebte Verwaltungsgesellschaft Adler Real Estate mbH	100	Hamburg	30	234
Adler Projekt Homburg GmbH	100	Hamburg	251	113
Adler Real Estate Hotel GmbH	100	Hamburg	25	16
MÜBAU Real Estate GmbH	100	Hamburg	517	2,469
Münchener Baugesellschaft mbH	100	Hamburg	500	5,819
MBG Bayern GmbH	100	Hamburg	25	24
MBG Dallgow GmbH & Co. KG	100	Hamburg	100	100
MBG Großbeeren GmbH & Co. KG	100	Hamburg	100	100
MBG Trachau GmbH & Co. KG	100	Hamburg	100	100
MBG Moosburg GmbH & Co. KG	100	Hamburg	740	740
Logistik-Zentrum Duisburg-Nord GmbH	60	Hamburg	25	-387
ADLER Lux S.à.r.l.	100	Luxembourg	15	15
<b>2. Investments (working groups)</b>				
Arge "de Hoek" (Airport Schiphol/The Netherlands)*	50	Cologne	0	2,287
Airport Center Luxembourg GmbH	10	Luxembourg	375	-19,777
AFP Agentur für Projektmanagement GmbH*	25.2	Merzig	25	24

\* Data as of December 31, 2006

**F.8 Events After the Balance Sheet Date**

No events whose disclosure is required occurred after the balance sheet date.

**F.9 Share Ownership List (see page 61)**

The share ownership list shows the shares held directly or indirectly in the consolidated companies. Shareholders' equity and earnings are reported in accordance with the accounting rules of the German Commercial Code.

**F.10 Management Board and Supervisory Board**

The Management Board of ADLER Real Estate Aktiengesellschaft, Hamburg, is comprised of:

- Mr. Axel Harloff, Hamburg
- Ms. Barbara Yaltrak, Seevetal

Members of the Supervisory Board are:

- Mr. Peter Pahlke, Heikendorf, retired banker, Chairman
- Mr. Andreas Helwig, Hamburg, businessman, Deputy Chairman
- Mr. John D. Heikenfeld, Atlanta, Georgia, USA, businessman

The remuneration of the Supervisory Board for the 2007 financial year came to TEUR 91 (previous year: TEUR 110).

The following members of the Supervisory and Management Boards of ADLER Real Estate Aktiengesellschaft, Frankfurt am Main, held the following other supervisory board mandates and memberships in other executive boards in terms of § 125(1) Sentence 3 of the Corporations Act:

Ms. Barbara Yaltrak, Mr. Axel Harloff, Mr. Andreas Helwig and Mr. John D. Heikenfeld did not serve on

other executive boards in terms of § 125(1) Sentence 3 of the Corporations Act.

Mr. Peter Pahlke

- AGIV Real Estate Aktiengesellschaft i. l., Hamburg (Deputy Chairman)
- Heidenreich & Harbeck Aktiengesellschaft, Moelln (Chairman)

**F.11 Declaration of Compliance with the German Corporate Governance Code**

The annual Declaration of Compliance in accordance with § 161 of the Corporations Act was issued by the Management Board and made available to the shareholders through publication on the Company's website.

**ASSURANCE FROM THE STATUTORY REPRESENTATIVES**

We hereby give assurance that, to the best of our knowledge, these consolidated financial statements give a true and fair view of the Group's net assets, financial position and results of operations in accordance with applicable accounting principles and that the consolidated management report describes the course of business, including the company's position and results, in such a way as to convey a true and fair view, as well as describing the major risks and opportunities of the Group's expected development.

Frankfurt am Main, March 28, 2008



Barbara Yaltrak



Axel Harloff

## Auditor's Report

We have audited the consolidated financial statements prepared by the ADLER Real Estate Aktiengesellschaft, Frankfurt am Main, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the business year from January 1 to December 31, 2007. The preparation of the consolidated financial statements and the Group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § (Article) 315a Abs. (paragraph) 1 HGB ("Handelsgesetzbuch": German Commercial Code) are the responsibility of the parent Company's Board of Managing Directors. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit 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 audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence

supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of the entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's Board of Managing Directors, as well as evaluating the overall presentation of the consolidated financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg March 28, 2008

PricewaterhouseCoopers  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

(Richard Müllner)  
German Public Auditor

(ppa. Niklas Wilke)  
German Public Auditor

## At a glance

### Supervisory Board

<b>Peter Pahlke</b>	Chairman, Heikendorf
<b>Andreas Helwig</b>	Deputy Chairman, Hamburg
<b>John D. Heikenfeld</b>	Atlanta/Georgia, USA

### Board of Management

<b>Axel Harloff</b>	Hamburg
<b>Barbara Yaltrak</b>	Seevetal

### Company Facts

<b>Registered Office Location</b>	Frankfurt am Main, Registration No. HRB 7287
<b>Administrative Address</b>	ADLER Real Estate Aktiengesellschaft Neuer Wall 77 20354 Hamburg Germany Tel.: +49-40-2981-300 Fax: +49-40-2981-3099 E-mail: <a href="mailto:info@adler-ag.de">info@adler-ag.de</a>
<b>Website</b>	<a href="http://www.adler-ag.de">www.adler-ag.de</a>
<b>Investor Relations</b>	german communications dbk ag Alsterufer 34 20354 Hamburg Germany Tel.: +49-40-4688-330 Fax: +49-40-478-180 E-mail: <a href="mailto:contact@german-communications.com">contact@german-communications.com</a>
<b>Subscribed Capital</b>	EUR 15 million.
<b>Classification</b>	15 million non-par shares
<b>Arithmetical Value</b>	EUR 1 per share
<b>Voting Details</b>	1 vote per share
<b>Stock Details</b>	15 million non-par shares SIN 500 800 ISIN DE0005008007 Ticker Symbol ADL Reuters ADLG.DE
<b>Designated Sponsors</b>	UniCredit/Bayerische Hypo- und Vereinsbank AG, Close Brothers Seydler AG
<b>Stock Exchanges</b>	Xetra, Frankfurt am Main, Berlin-Bremen, Duesseldorf, Hamburg, Munich
<b>Indices</b>	CDAX, DIMAX
<b>Fiscal Year</b>	Calendar year