ADLER REAL ESTATE

08

Annual Report 2008

This document is a non-binding translation only. For the binding document, please refer to the German version, published at www.adler-ag.de

Operating Figures

In TEUR

Consolidated Balance Sheet (IFRS)	**2008**	**2007**
Shareholder Equity	30,608	34,708
Subscribed Capital	15,000	15,000
Consolidated Total Assets	41,562	44,674
Equity Ratio	73.6%	77.7%

In TEUR

Consolidated Income Sheet (IFRS)	**2008**	**2007**
Revenues	9,174	5,415
Total Operating Income	10,454	18,435
EBITDA	1,001	7,276
EBIT	–3,978	6,859
Consolidated Earnings	–4,197	7,273
Earnings per Share (in EUR)	–0.28	0.49
Employees	24	21

Asset Key Figures

Project Development

	2008	**2007**
Commercial (number of projects)		
· Own Projects	6	7
· Joint Ventures	1	1
Residential (number of projects)		
· Own Projects	4	4
· Joint Ventures	1	0

Asset/Property Management (under management)	**2008**	**2007**
Commercial		
· Number of Properties	28	29
· Plot Area (in sqm)	511,000	639,000
· Lettable Space (in sqm)	113,000	113,000

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Short Profile

ADLER Real Estate AG operates as an integrated real estate company specializing in asset management and investments. ADLER's core competencies are the management and optimization of real estate portfolios. In addition to its own expertise, ADLER relies on a broad network consisting in part of direct subsidiaries.

In addition to its core business, asset management, ADLER invests in promising real estate projects in Germany and abroad, thus securing access to major projects. Aside from joint ventures with German and international companies, ADLER focuses on developing and marketing its own commercial and residential projects.

Foreword by the Management Board

Dear Shareholders,
Ladies and Gentlemen,

2008 was a year of light and shadows for our company. While we were able to achieve a major operational success in this extremely tough environment, as well as establishing a highly significant strategic foundation for future growth by investing in a new partner, the global economic crisis, which broke out in September 2008, continues to weigh upon our business.

The full impact of the financial crisis is gradually becoming evident. The consequences have been massive drop-offs in orders in key industries, especially the automotive and mechanical engineering industries. The German economy, which is heavily dependent on exports, is suffering from the various problems, which have arisen in nearly all of its major export markets, both in Europe and beyond. The crisis has also affected the German commercial real estate market: Demand for investment, office and industrial properties is down sharply. In addition, most banks are shying away from financing major projects in light of their immense losses and the substantial risks which some of them still have on their books.

We have moved very quickly to contend with the consequences of the crisis for our company, conducting stress tests on our portfolios, financial position and strategic direction and drawing the necessary conclusions. In addition, we cannot expect to expand our commercial real estate portfolio together with our partner AIG Global Real Estate, in view of the fact that our partner's American parent company, AIG, needed hundreds of billions of dollars in state aid to stave off collapse.

Towards the end of the reporting year, we therefore began to search for other opportunities and partners in order to advance towards our goal of expanding our asset management business. DB Immobilien GmbH, in which we acquired a stake in December, proved to be an ideal strategic partner. DB Immobilien GmbH is one of the leading real estate brokerage firms in Germany and maintains a presence in more than 60 locations all over Germany, mostly in Deutsche Bank branches. Not only will DB Immobilien support us in obtaining asset management contracts, it will also assist in the marketing of our own properties, as well as properties and projects which are slated for sale. Should we choose to acquire new projects, DB Immobilien gives us broad expertise in most local markets throughout Germany.

In addition to renewing our company's growth engine, the asset management business, we took advantage of our core competencies, experience and our excellent network to make a very promising investment in the USA, in the midst of the terrible storm raging over the international real estate markets, investing in a residential project in

McKinney, Texas, the fastest-growing city in the United States of America. Our partner in this investment is The Worthing Companies, one of the most active real estate development companies in the southern states. Over the past 20 years, The Worthing has successfully developed around 25,000 high-quality residential units with a total value of around USD 2.2 billion. McKinney, Texas, is a very stable region, in spite of the US housing crisis, so that we can expect a very strong return once the 330-unit complex is completed.

Our decision to invest in Texas, which was based on our extensive experience with residential real estate projects in the USA, is a good example of our future strategy in the projects business. We will invest very selectively in attractive projects with the potential for rapid development, based on outstanding knowledge of the local market.

Characteristic of this strategy is the rapid and successful sale of our logistics center project in Duisburg. We acquired the site in autumn 2007 and had already begun the initial phases of development when the opportunity arose for a quick and successful sale in autumn 2008. In the management report, you will find additional reports on the progress of our ongoing projects.

In general, we believe that we are very well positioned to withstand the economic crisis, which has proven to be the most severe in several decades. Our equity ratio is nearly unchanged, and still very high. In addition, we have a whole series of promising projects, as well as a strong and recently expanded network, and we expect the continuing crisis to offer opportunities in the real estate market, particularly in Germany.

Already in the first few weeks of 2009, we have registered lively demand for residential properties. Apparently, many investors are turning their backs on the financial markets and opting to invest their money in more secure assets. It is certainly possible that demand for real estate will strengthen even further. After all, many experts expect strong inflation in the coming year as a result of the billions in government aid and stimulus packages in all industrialized nations. This will cause demand for real estate to grow. This extensive state aid, together with very low interest rates and the steep decline in energy and raw materials prices, should produce an improvement in economic conditions this year.

We believe that our company, ADLER Real Estate AG, is well prepared for the coming recovery.

The Management Board

Barbara Yaltrak

Axel Harloff

Report of the Supervisory Board

Dear Shareholders,
Ladies and Gentlemen,

In the course of financial year 2008, the Supervisory Board of ADLER Real Estate AG performed its assigned functions in accordance with the law and the Articles of Association. These functions were performed in the course of routine sessions and in individual discussions. The Supervisory Board made itself available to advise the Management Board and supervise its activities. To this end, the Supervisory Board 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 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 sessions, 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 and operational planning, as well as the course of business and position of the Group subsidiaries.

Sessions

A total of four Supervisory Board sessions were held in financial year 2008, on March 28, June 18, September 3 and December 16. The members of the Supervisory Board regularly took part in the Supervisory Board sessions.

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 also 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 sessions, the Supervisory Board focused on the Company's operational plans, as well as acquisition and sales, especially questions relating to the liquidity and earnings position, corporate governance, liquidity policy and risk management. In light of the global financial crisis and the incipient economic crisis, the Supervisory Board also dealt intensively with questions relating to the valuation of the Company's assets, including the investments in the joint ventures with AIG. Naturally, up-to-date comparative market data is not available for real property and real estate investments in the manner e.g. of stock market quotes. The Management Board continued its efforts to revise and update appraisals for all real estate holdings by commissioning appraisals for the end of 2008 or relying on third-party appraisals. These appraisal values have been incorporated into the Group's accounting and were subjected to critical review by the auditors. The Supervisory Board obtained details on the valuation methods and approaches, as well as the resulting options and need for asset impairments. The appreciation in value as well as the considerable impairments made as at the balance sheet date are consistent with existing market conditions in spring of 2009, insofar as an assessment is possible at this time. A precautionary disclosure of additional impairments based on the assumption that general economic conditions will deteriorate even further was not made due to the impossibility of a realistic assessment. The Group's accounting principles state that asset measurements should reflect the proper long-term value of the asset. The Management and Supervisory Boards are unable to assess the duration and dimensions of the current crisis. In this regard, the conservative asset impairments offer opportunities in the event of a medium-term market recovery. Finally, the Supervisory Board devoted intensive consideration to the Company's relationship with AIG in the field of asset management.

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 publicly traded German companies.

Implementation of the guidelines for ADLER Real Estate AG was adopted by the Management and Supervisory Boards as early as financial year 2002. The guidelines have been implemented, with a 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, an updated version of which is posted at all times 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 Federal Gazette (Bundesanzeiger) and entered into the Commercial Register.

2008 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 financial year 2008, were audited by the auditor selected in the Annual General Meeting of June 19, 2008, PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft (Hamburg), which issued an unqualified auditor's opinion.

The annual financial statements (German Commercial Code), consolidated financial statements (IFRS), including management report and consolidated management report, and the audit reports 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 27, 2009, 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 major results of the audits and made itself available to the Supervisory Board for further 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 audit and conclusively found that there were no objections to the audit. By resolution of March 27, 2009, 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.

2008 Dependency Report

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:

"On completion of our audit and assessment in accordance with professional standards, we confirm that

1. the factual statements made in this report are correct;
2. the compensations paid by the Company for the transactions listed in the report were not inappropriately high;
3. there are no circumstances that would indicate a materially different assessment of the measures listed in the report to that given by the Management Board."

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 ADLER Group employees for their hard work in financial year 2008.

Hamburg, March 2009

Peter Pahlke
Chairman of the Supervisory Board

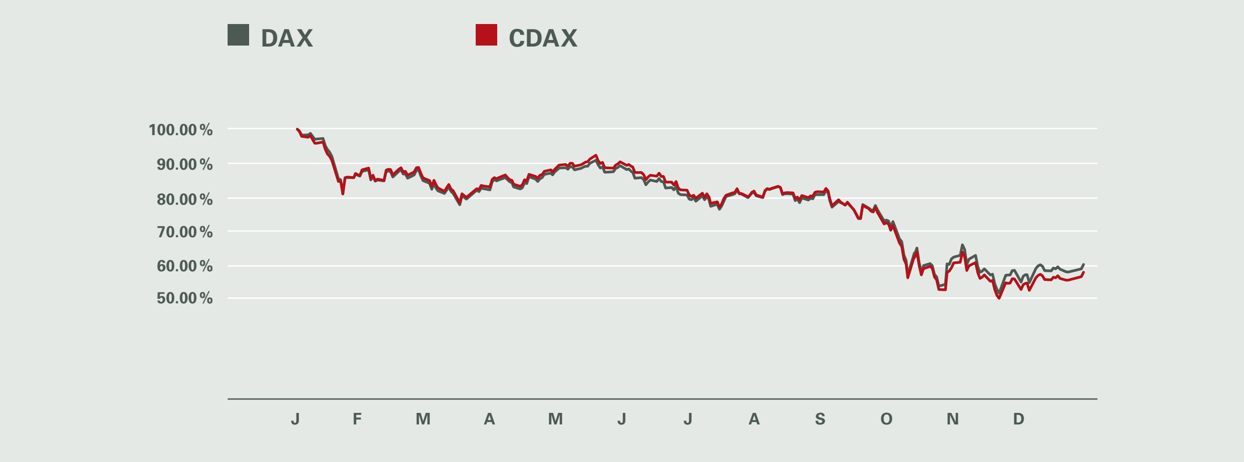
ADLER Stock

Mood on the Stock Market

In 2008, the international financial markets were hit by what was probably their worst crisis to date. What began in summer 2007 as the so-called "subprime crisis" nearly brought about the collapse of the Western financial system in late summer of 2008. The height of the crisis so far was marked by the bankruptcy of the US investment bank Lehman Brothers, which was followed by substantial losses in the banking and insurance sector and caused considerable financial problems in the US automotive industry especially. To this day, numerous banks and companies are being kept afloat by massive government aid. The massive financial crisis led to an extreme slump in the real estate market in the fourth quarter of 2008. It is difficult to see how events will develop from here. Hopes that the market will take a turn for the better are based on the gigantic stimulus packages and massive financial assistance from all national governments, as well as the impact of the sharp drop in energy prices.

The stock markets responded to these developments with substantial declines and record volatility. In light of the economic recession, which is rapidly gathering speed, the markets had corrected the valuations of the 30 components of the German Stock Index by around 40 % between the beginning and end of 2008 and the downward trend continued at the start of 2009.

Performance of the DAX and CDAX 2008



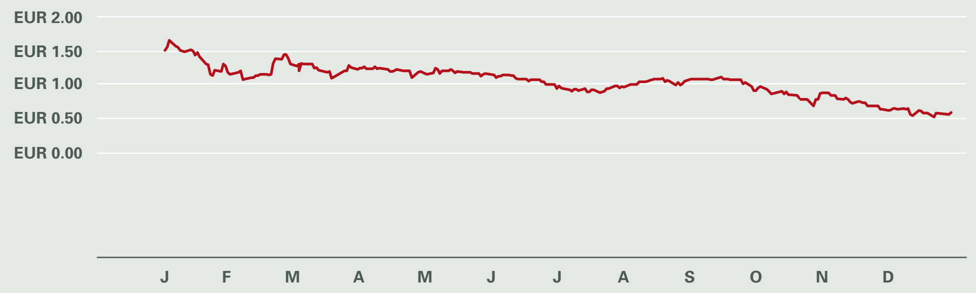
Performance of Real Estate Stocks

Real estate stocks have followed the general downward trend, losing between 30% and 80% of their value over the course of the year. Measured by the German real estate stock index (the DIMAX), German real estate stocks lost an average of 49.5%. The DIMAX fell from 373.8 at the end of 2007 to 184.83 at the end of 2008.

Performance of ADLER Stock

Before the backdrop of this general deterioration of the market, the performance of ADLER stock was highly unsatisfactory as well. In August, it seemed that the downward trend would come to an end, but ADLER stock continued to lose ground along with the rest of the market. By the end of 2008, ADLER's stock price had dropped to EUR 0.59, which approximated the average loss for German real estate stocks.

Stock Performance of ADLER Real Estate AG 2008



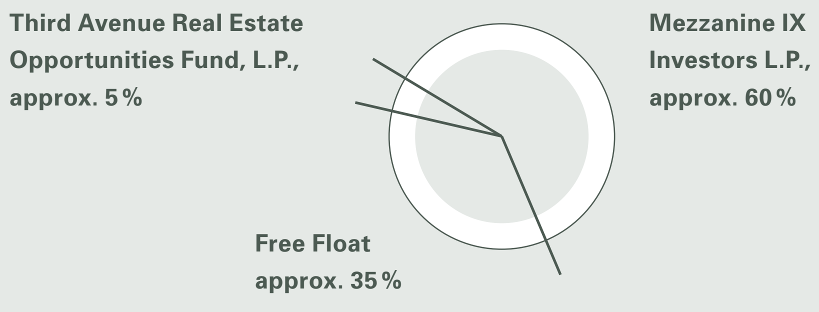
Shareholder Structure

The shareholder structure of ADLER Real Estate AG has not changed since June 30, 2008. In addition to the US investor Mezzanine IX Investors L.P., which holds about 60 % of shares, Third Avenue Real Estate Opportunities Fund, L.P., holds about 5 % of shares and about 35 % of shares are currently in free float.

Investor Relations

ADLER Real Estate AG's financial communications in the reporting period complied with the Prime Standard requirements. In addition to routine preparation of quarterly reports in German and English, the Company attended capital market conferences and held meetings with investors. Assuring compliance with the transparency in capital markets the quarterly reports for the first and the third quarter in 2009 will be replaced by interim reports according to § 37 x WpHG. Additionally, recent press releases and other timely information can be found on the website of ADLER Real Estate AG at www.adler-ag.de.

Shareholder Structure (February 2009)



Corporate Governance

General Remarks

The term “Corporate Governance” is connected to a responsible corporate management and controlling which aims to a long-term creation of value.

Additional essential aspects with regard to “Corporate Governance” are efficient cooperation between the Management Board and the Supervisory Board, respecting the shareholders´ interest, and candor and transparency in the Company´s communication.

This serves to support the confidence of international and national investors, customers, employees and the general public in the management and supervision of German stock corporations listed on the stock exchange.

ADLER Real Estate AG welcomes the creation of the Corporate Governance Code and its compliance with § 161 of the Corporation Act. Thus, an assessment means was created to rate good and responsible corporate management and controlling. 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.

Pursuant to § 161 of the German Stock Corporation Act, the Supervisory Board and the Management Board of ADLER Real Estate AG have issued a declaration of conformity to the recommendation of the “Government Commission of the German Code of Corporate Governance.”

Declaration of Compliance with the German Corporate Governance Code Pursuant to § 161 of the Corporation Act

The Management and Supervisory Boards of ADLER Real Estate Aktiengesellschaft declare the following 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 14, 2007, with the exceptions mentioned in the compliance declaration of February 21, 2008.

ADLER Real Estate AG will follow the Recommendations of the Governmental Commission on the German Corporate Governance Code as amended on June 6, 2008, with the exceptions as follows:

- At variance with Section 3.8 (2) 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 with 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 annual 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 monetary fixed components and stock options. The Supervisory Board chairperson does not disclose the main features of the remuneration system to the shareholders at the Annual General Meeting.

- At variance with Sections 4.2.4 and 4.2.5 of the Code, the Company does not disclose total remuneration per individual 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 noncompetition obligation.

- 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 nominates suitable candidates for the consideration of the shareholders at the Annual 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 the Supervisory Board chairperson. The Supervisory Board elects its chairperson “from its midst” pursuant to the provisions of law.

- At variance with Section 5.4.6 of the Code, the remuneration of Supervisory Board members is not disclosed.

- At variance with 6.6 and 7.13 of the Code, the statements were made not in the Corporate Governance Report but elsewhere in the Annual Report.

- 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.

ADLER Real Estate Aktiengesellschaft
Hamburg, January 16, 2009

The Management Board The Supervisory Board

Consolidated Management Report 2008

Introduction

The economic events of financial year 2008 created drastic new challenges for ADLER Real Estate AG. After successfully building up all areas of its business, the year 2008 brought setbacks in many areas. While ADLER Group reported a slight operating profit in 2008, it had a net loss of EUR 4.197 million as a result of EUR 2.098 million in write-downs on its real estate assets as well as a write-down of EUR 2.709 million on a loan for the portfolio held with AIG and a write-up of EUR 0.430 million. ADLER's capital base and equity ratio have been maintained, so that the Company is well prepared to meet the challenges of 2009.

Financial year 2008 was marked by the following events:

- In summer, ADLER was able to sell the Duisburg logistics center project, which had been acquired as recently as autumn 2007, for a healthy profit – the most important transaction of the year 2008.

- Following upon the Luxembourg Airport Center investment in 2006, ADLER made another foreign investment, acquiring a stake in a very promising development of a 334-unit apartment complex in McKinney, Texas/US.

- At the end of 2008, ADLER acquired a stake of 29% in DB Immobilien GmbH, an investment which has opened up a broad network which will facilitate the development of major aspects of ADLER's operations, particularly the asset management business.

- The financial and economic crisis and the enormous changes which ensued in the real estate markets have led to appraisal-based impairments in the Company's real estate holdings and financial assets. Provisions have been made for identifiable risks.

The Economy and the Real Estate Market

The financial crisis, which began in the US in August 2007 over so-called “subprime” mortgages, turned into a global economic crisis with the bankruptcy of Lehman Brothers, a major US investment bank, in September 2008. Since then, massive aid packages from nearly all national governments have been needed to prevent a collapse of the financial system. As a result, the global economy sustained its worst slump since World War II in the fourth quarter of the reporting year and the economic outlook is very bleak as well. Economic experts believe that Germany, the European Union and all other major industrialized states will undergo the worst recession since the global economic crisis of 1929.

These events have affected the German real estate market in a variety of ways. Only a few banks are still offering large-scale financing, particularly for real estate projects, and even these offers are subject to substantial restrictions. Most banks are focusing on reducing their risk and securing adequate liquidity. As a result, the potential for major construction projects is limited, and such projects can only be executed under very difficult conditions.

Nevertheless, the German real estate market showed strong growth in 2008. According to the real estate research institute BulwienGesa, property values and rents rose for the third year in a row, gaining 1.7% in 2008. The sharpest rise was in retail rents, which went up 4.7%. Office rents increased by 2.1% nationwide and rents for new residential construction gained 2.5%. Condominium prices rose by 1.1% during the reporting period. The only decline was in the cost of row houses and single home plots, which fell by 0.1%.

Despite the rising prices, real estate revenue in Germany fell by 17.5% according to the market research institute IVD-Marktforschung, to EUR 160 billion, as the withdrawal of foreign investors and funds from the German real estate market began to take its toll. BulwienGesa expects prices and rents to drop slightly in 2009, forecasting a 1.5% decline in commercial real estate prices and a 0.5% drop in residential prices. Since the beginning of 2009, however, many brokerage organizations in Germany's highly populated areas have reported unusually high demand for residential properties, both for purchase and for rent, while demand for office space and other commercial real estate has fallen sharply.

Even proven economists have found it difficult to forecast the future economic development. As of the drafting of this management report, the German economy has been in recession for the fourth quarter in a row. In the past, recessions have lasted for an average of one year; the longest recession since 1929 lasted 33 months in the US. However, the immense government stimulus packages which are being adopted all over Europe and beyond should stabilize the economy in the course of 2009 and prepare the way for a recovery.

Business Operations

Especially since autumn of the reporting year, the severe financial and economic crisis has presented new challenges to ADLER, which must now gird itself to withstand the crisis while expanding its operations in a changed environment. Among the greatest challenges is the altered risk perception of potential investors in ADLER's projects and properties, especially since autumn 2008, when the financial crisis entered its most severe phase.

ADLER's subsidiary Münchener Baugesellschaft mbH also observed a general uncertainty and reticence among potential buyers towards the end of the reporting year, affecting a variety of sites. Münchener Baugesellschaft mbH currently holds over 330,000 sqm of land in the greater areas of Berlin, Dresden and Munich.

In 2008, ADLER sold its large Duisburg project because a good price was attainable. At the same time, the sale offered an opportunity to get rid of the risk inherent in any development. ADLER also acquired a stake in DB Immobilien GmbH in order to better position itself in the market. DB Immobilien offers an excellent platform for the acquisition of asset management contracts, as well as developing new marketing concepts which will enable rapid sales of the marketing-ready properties of Münchener Baugesellschaft. In addition, ADLER's entry into a first-class project in McKinney, Texas, will ensure a continuing stream of solid income from the Company's project developments.

Asset Management

ADLER plans to continue expanding its asset management business, investing in portfolios with other investors through joint ventures. At the end of the reporting year, ADLER's assets under management had remained unchanged at about EUR 200 million. The ownership of those properties is held predominantly and by majority by AIG Global Real Estate (Europe) Ltd. As the parent company of AIG Group has been devastated by the crisis, needing hundreds of billions in aid from the US government just to keep afloat, an extension of our broad cooperation with AIG must be considered thoroughly.

As a result, ADLER's focus in 2008 was on expanding its domestic network on its own and, shortly before the end of the year, ADLER forged a strategic partnership with DB Immobilien GmbH. Both directly (by purchasing shares) and indirectly (by participating in a share capital increase), ADLER acquired a minority interest of 29% in DB Immobilien GmbH, a real estate company operating nationwide. DB Immobilien has a network of over 60 sites, most of which are situated in branches of Deutsche Bank, the former parent company of DB Immobilien. With this relationship, ADLER will obtain a partner capable of marketing ADLER's properties and projects, providing local market expertise to identify potential new investments and assisting ADLER in the expansion of its asset management business.

Joint Ventures

Duisburg (60 % share): In autumn 2007, ADLER formed a joint venture with THG Real Estate GmbH for development of a logistics project in Duisburg. ADLER held a stake of 60%. The site under development, near Duisburg harbor, has an area of around 126,000 sqm. Once development of the project was underway and the building permit for the first phase of construction had already been prepared, the prospective tenant turned out not to be able to fulfill his liabilities. Thus the partners decided to accept a very attractive offer to sell the property rather than continuing to develop the project themselves. The sales contract was concluded in July, with transfer of benefits and encumbrances in October 2008. In order to shorten the shareholding chain, the 40% minority interest in Logistik-Zentrum Duisburg-Nord GmbH was also acquired in October 2008, and this interest was then merged into Siebte Verwaltungsgesellschaft ADLER Real Estate mbH.

Airport Center Luxembourg (10 % share): At the end of 2006, ADLER, in a joint venture with AIG Global Real Estate Investment (Europe) Ltd., acquired an office building with about 17,500 sqm of rental area on a plot of land directly adjacent to Luxembourg Airport. ADLER also assumed asset management functions for the building. Now that the common areas of the building have been renovated, the renovation and improvement work this year will focus on expanding the building's air-conditioning system. These improvements will make the building more attractive and therefore more competitive, enabling continued leasing successes in the hotly contested Luxembourg market. Additionally, negotiations have commenced with both of the two main tenants with a view towards extending their leases. The results are expected in the second quarter of 2009.

AAIGRE Portfolio (15 % share): In the fourth quarter of 2007, a portfolio of four office buildings located in the greater Munich area was acquired together with AIG Global Real Estate Investment (Europe) Ltd. The portfolio has a total of 35,000 sqm in leasable space. The portfolio is economically fully leased based on rent guarantees from the seller until September 30, 2010. The physical occupancy rate at the end of the reporting year was 69.39%. Due to successful leasing activities in recent months and rising demand in the Munich area it will improve considerably in the coming months. In addition, total rent increased in the second half of the year 2008 with a restructuring of some tenants with long-term lease contracts.

A second portfolio was acquired in the fourth quarter of 2007, together with AIG, consisting of twelve office buildings in Berlin and in the greater areas of Frankfurt and Munich with a total of 54,000 sqm in leasable space. The occupancy rate for this portfolio is currently 76.3% because of a lease which expired regularly at the end of 2008.

Leasing successes were registered as early as autumn 2008 due to renovations and intensive leasing activities. Promising lease negotiations are currently being held with several prospective tenants, and the leasing rate is expected to rise in the first half of 2009. By active lease management ADLER has succeeded in extending several leases in advance of their expiration dates.

Schiphol (7.5 % share): Until 2005, ADLER and THG Real Estate GmbH each held a 50% share in this site, about 160,000 sqm in area, which is located at Amsterdam Airport. At the end of 2005, the project company sold its property to a new company, in which SEGRO had majority ownership, which then took over development of the site. ADLER and THG Real Estate GmbH each continue to hold a 7.5% stake in the project through the former project company. In 2008, ADLER and its partner began negotiations with a view towards selling ADLER's stake in the project. ADLER expects a sale to take place in 2009.

McKinney (30 % share): Through subcompanies ADLER acquired a 30 % stake in the project company Worthing Lake Forest Investors LLC in 2008. Planned are the construction and operation of a 334-unit apartment complex, "The Heights at Lake Forest," in a northern suburb of Dallas, Texas/US, known as McKinney. Construction began in November 2008 and completion is scheduled for June 2010. The total investment will be about USD 40 million. An American bank will provide financing for 75 % of the project volume, which will be guaranteed by the project partner. ADLER itself will contribute about USD 5 million towards the equity financing. In this investment, ADLER will be able to rely on an experienced management team which, since 1993, has implemented various residential projects in Florida and in the Dallas area.

ADLER's partner and general contractor for the McKinney project is The Worthing Companies of Atlanta, USA, one of the most active real estate companies in the construction of apartments in the southern US. The Worthing has been in business for over 20 years, during which it has successfully developed over 25,000 high-quality residential units, for a total volume of USD 2.2 billion.

The McKinney project is located about 50 kilometers north of Dallas town center in Collin County, Texas's most affluent county. McKinney has already experienced enormous growth, with its population doubling between 2000 and 2006 alone. The authorities expect the city's strong growth to continue and are preparing for a substantial expansion in municipal infrastructure. The investors in this project aim to build, lease and operate an apartment complex with a view towards a sale of the fully leased complex in three or four years.

Commercial Projects

Berlin, Späthstraße: This site, located in Berlin's district "Baumschulenweg" and about 49,000 sqm in area, continues to be leased to Späth´sche Baumschulen, a storied Berlin tree nursery. Despite the convenient location of the district, right on the A 131 highway between downtown Berlin and BBI Airport, the development of this rather agricultural region has been a somewhat low priority thus far for the competent authorities. We expect demand and property values to rise as the area around the airport is developed. Until then, we will examine individual development options for specific users, as well as the prospects for obtaining the necessary building rights in each case.

Herriotstraße, Frankfurt-Niederrad: Preparations are being made in conjunction with the City of Frankfurt to market the undeveloped portion of this property, about 10,000 sqm in area as a residential project. Since the Frankfurt residential market is characterized by strong demand for housing, the City of Frankfurt is going ahead with plans to convert the vacancy-plagued Niederrad office district into a livelier area with residential opportunities. We expect the building rights process to begin in 2009.

The office building in the foreground of Herriotstraße 5 contains about 4,000 sqm of lease space. After intensive negotiations with two prospective tenants, the marketing strategy for the building has begun to show results. Both leases were concluded in February 2009. Two floors of the building are now leased, and the occupancy rate now is over 40 %. Additional leasing successes are expected in 2009.

Berlin, Fanny-Zobel-Straße: This property, located near the "Molecule Men", is now one of the few undeveloped sites left with direct access to the Spree River, a unique location which has stabilized the value of the property. The development plan procedure for this site has been delayed somewhat by the general political uproar surrounding the Mediaspree referendum during the reporting year. However, intergovernmental consultations for the new development plan are now nearly complete, and the new development plan is expected to take effect in 2009. Sale negotiations, which have been quite promising thus far, have been derailed somewhat by the financial crisis. However, we believe that a sale is feasible this year due to the good location of the property and the newly clarified legal situation.

Saarbrücken, Hafenstraße: During the reporting period, negotiations in connection with this site, around 4,300 sqm in area located in the center of Saarbrücken and used as a parking lot, initially focused on a hotel developer which had to cancel its plans for expansion when the financial crisis began, after which other alternatives were considered. We expect that we will finally be able to find a hotel operator for this site over the course of 2009. Once financing has been secured for the hotel project, construction could well begin under the planned joint venture with the hotel developer before the end of 2009. There are various scenarios for utilization of the remaining space, but detailed planning will have to wait until the building plans are finalized with the hotel operator.

Offenbach, Kaiserlei: This site in the Kaiserlei office district, around 10,000 sqm in area and currently used as a parking lot, was prepared for marketing during the reporting period. The Kaiserlei office district in Offenbach offers relief for the city of Frankfurt with low-priced office space available for back-office and administrative functions, just a few minutes away from downtown Frankfurt by public transportation or by car. The attractiveness of this location is demonstrated by the albeit moderate, but steadily rising demand for new office space in Kaiserlei. Several large office centers have been built in recent years in the surrounding area, as evidenced by the construction work and projects in the immediate vicinity of our property.

Homburg, Am Forum: The new development plan for the Am Forum site in Homburg, Saarland, is now complete but the necessary municipal resolution has not yet materialized, due to overlapping authority with other federal and state agencies in connection with work on a neighboring street, which is to be converted into a highway access road. The resolution is expected in the first half of 2009. ADLER is currently preparing marketing options and has already begun discussions with local developers with a view towards a possible sale.

Residential Portfolio

Moosburg an der Isar: Development of residential projects progressed according to plan over the course of the year. Development and parceling of the 28,000 sqm site in Moosburg/Isar, which was acquired in autumn 2007, proceeded as planned, in preparation for the construction of detached – and duplex houses and, ultimately, marketing. The excavation work and noise-dampening system were completed in the reporting year, except for some minor residual work. The noise-cancellation effect of this “terrace” is impressive: the future residents will be living in a green valley in the middle of the city. Demand for the plots has already begun to grow as work has progressed on the terrace. In 2009 an optimized marketing concept will be implemented, in conjunction with DB Immobilien GmbH, with the object of achieving a rapid sale of the individual parcels.

Dallgow-Döberitz: Additional progress was made in 2008 on the development of this site west of Berlin, about 38,000 sqm in area, which has already been parceled out into 73 subplots for the construction of single-family homes and row houses. The municipality has now given the go-ahead for various modifications and specifications of the development plan, allowing the site to be divided into various sections with different marketing concepts. Marketing concepts are now being developed together with DB Immobilien GmbH with a view towards a rapid sale.

Großbeeren: Initial improvements have been made by the municipality to this plot of land in the southern Berlin area, about 151,000 sqm in area, and the first parcels have already been sold. Demand for the parcels has risen now that construction is underway. Marketing concepts have been prepared in conjunction with DB Immobilien GmbH which provide either for a sale to private developers or to development companies interested in larger construction projects. The economic aid packages which have been adopted include land development projects. Prospects for approval are currently being assessed in consultation with the municipality.

Dresden-Trachau: ADLER owns a property in Dresden, about 108,000 sqm in area, for which negotiations were held during the reporting period with the competent authorities regarding a new development plan. Due to the Flood of the Century in 2002 this development plan was not continued in order to make sure the necessary adjustments for flood control near the river Elbe. The adaptations to the development plan reflect this circumstance, as well as the changed market conditions. At the same time, the feasibility of obtaining partial building permits for subplots is also being assessed.

Property

Grünstadt, Hauptstraße: This commercial property, situated on a plot of land of about 450 sqm and with about 1,100 sqm in rental area, was purchased in connection with the acquisition of MÜBAU Real Estate GmbH. Leasing assistance is provided by the Group's new partner, DB Immobilien GmbH. After successfully extending the lease with the anchor tenant, a textile retail market, by five years, negotiations are now being held with the operator of an ergotherapy practice for early extension of the existing lease.

Financial, Earnings and Liquidity Position

ADLER Group's 2008 sales and earnings were heavily affected by the sale of the Duisburg project, the site of a planned logistics center. This transaction is largely responsible for the jump in consolidated sales to EUR 9.173 million (previous year: EUR 5.414 million). In addition to rental income from two commercial properties and various parking spaces, consolidated sales also include proceeds from the sale of residential properties and from asset management and property management fees. The Group was able to report slightly positive net operating income from current activities.
The financial and economic crisis had a negative impact on the valuation of the assets of the Company. An allowance of EUR 2.709 million was made for the loan to the limited partner of the AAIGRE companies, which contain the investment with AIG. This was made in view of the financial crisis and the financial problems faced by group parent AIG. Write-downs were performed in various other units as well based on appraisals. In addition, a write-up of EUR 0.430 million was performed for the Fanny-Zobel-Straße property in Berlin. Total allowances came to EUR 4.903 million. Other operating expenses rose to EUR 2.423 million.

The Group's cost of materials of around EUR 4.550 million was largely incurred in connection with the Moosburg/Isar and the Duisburg properties, as well as commercial and residential projects.

After deducting net interest income, the Group posted a net operating loss of EUR 3.978 million. Net consolidated earnings were EUR –4.197 million.

The EUR 41.562 million in total assets at the end of the reporting year does not adequately reflect the activities of ADLER Group with an effect on the balance sheet: The earnings from the sale of the Duisburg property were reinvested immediately by the investment in DB Immobilien and the apartment complex in McKinney, Texas. Total inventories, i. e. properties up for sale, came to EUR 29.090 million, approximately the same as the previous year (EUR 31.106 million). Once again, the vast majority of the Group's properties were disclosed as inventories. Liquid funds increased slightly to EUR 6.263 million (previous year: EUR 5.833 million).

Shareholders' equity was EUR 30.608 million at the end of the reporting year, for a sound equity ratio of 73.6%.

Research and Development

As a project development company, ADLER does not engage in research and development in the traditional sense. However, the real estate business has comparable requirements, such as observing and analyzing the various developments in the construction and building engineering sectors, as well as the changing requirements of tenants and users. Based on this analysis, the Company routinely collects valuable information, which it uses to assess the profitability of its current projects and prepare profit estimates for new exposures. Accordingly, this information serves as the foundation for all of the Company's operations.

Employees

As a holding company, ADLER AG has no employees other than the Management Board. The Group's office organization and operations are largely handled by the wholly-owned subsidiary ADLER Real Estate Service GmbH, which had 24 employees at the end of the reporting year. These employees are flexibly deployed to the various project companies based on the skills needed for the task.

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

The capital stock of ADLER AG amounts to EUR 15,000,000 and is divided into 15,000,000 no-par-value bearer shares, each representing EUR 1 of the capital stock.

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

cominvest Asset Management GmbH of Frankfurt am Main, Germany, has disclosed pursuant to § 21 (1) of the Securities Trading Act that its voting share in ADLER AG fell below the 3% threshold on February 5, 2008, and is now 0.99%.

Third Avenue Real Estate Opportunities Fund, L.P., of New York, USA, has disclosed pursuant to § 21 (1) of the Securities Trading Act that its voting share in ADLER AG exceeded the 5% threshold on February 7, 2008, and is now 5.31%.

On August 24, 2006, the General Meeting resolved to authorize the Management Board, with the consent of the Supervisory Board, to raise the Company's capital stock by up to EUR 7,500,000 (authorized capital) through August 23, 2011, in exchange for cash and/or non-cash capital contributions, by issuing new bearer shares, either at once or in multiple stages. This authorization has not yet been exercised.

Own Shares

On June 19, 2008, the General Meeting resolved to authorize the Company to buy back its own shares comprising up to 10% of the Company's existing capital stock through December 18, 2009, for the purposes which are admissible in accordance with § 71 (1) No. 8 of the Corporations Act. This authorization has not yet been exercised.

Convertible Bond and Creation of Conditional Capital II
By resolution of the General Meeting of June 26, 2007, the Management Board is authorized, with the consent of the Supervisory Board, to issue warrant and/or convertible bonds made out to the bearer with an aggregate par value of up to EUR 100,000,000.00 and a term of no more than ten years through June 25, 2012, at once or in multiple stages, and to grant the holders of warrant and/or convertible bonds warrant and/or conversion rights for up to 6,500,000 new bearer shares in the Company in accordance with the terms of the warrant or convertible bonds. This authorization has not yet been exercised.

On June 26, 2007, the General Meeting adopted a conditional increase in the capital stock by up to EUR 6,500,000.00 by issuing up to 6,500,000 bearer shares. This conditional capital increase serves exclusively to settle warrant and/or convertible bonds issued based on the General Meeting's authorization of June 26, 2007, through June 25, 2012. This authorization has not yet been exercised.

The appointment and removal of the Management Board members are regulated in § 84 and § 85 of the Corporations Act, under which Management and Supervisory Board members are appointed for a maximum term of five years. They may serve multiple or extended terms, however. In addition, § 7 of the Articles of Association states that the number of Management Board members is to be defined by the Supervisory Board and that the Management Board is to consist of at least two members.

The Supervisory Board consists of three members.

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

Supplementary Report
No events of particular significance for the Group's earnings, financial and liquidity position occurred after the end of the reporting year.

Report on Risks
Risk Management System
In accordance with the Corporate Governance and Transparency Act, ADLER AG has a risk management system.

ADLER Group has developed a risk management system customized to the Company's current size, with flat hierarchies. Under this organizational structure, the Management Board is responsible for early identification of risks, in addition to preparing a risk management report for the Supervisory Board.

Market Risks
The German real estate market is characterized by cyclical fluctuations and stiff competition. Business is also affected by the regulatory and tax environment, local politics and official procedures. The business environment and the competitive landscape are constantly observed and analyzed in order to counter market risks, including general trends with respect to space requirements and features as well as price and quality. The risk of market fluctuations is mitigated through regional and product-based diversification and constantly adapting to changing conditions.

Price Risks
Building costs make up a substantial percentage of project development costs. However, the associated price risk is low in the medium term in view of the overcapacity in the construction sector at the moment. ADLER counters the price risk in regionally cyclical markets through interregional diversification of its projects.

Financial Risks

Through its operations, ADLER Group is exposed to a variety of financial risks, including market risk (consisting of currency risk, interest rate risk and price risk), default risk and liquidity risk.

The Group's comprehensive risk management system focuses on the unforeseeability of developments in the financial markets and aims to minimize the impact of negative developments on the Group's financial position. The Group uses selected derivative instruments to hedge against certain risks.

Risk management is performed by the Group's central finance department in accordance with guidelines issued by the Management Board. The finance department identifies, evaluates and hedges against financial risks, in close consultation with the Group's operating units. The Management Board defines principles for interdivisional risk management, as well as guidelines for specific units, such as guidelines for handling currency risk, interest risk and credit risk, for the use of derivative and non-derivative instruments and for the investment of surplus liquidity.

Market risks may result in fluctuating earnings, equity and cash flow. ADLER has developed a variety of strategies to mitigate or eliminate these risks, including the use of derivatives.

Currency risk arises when future transactions, assets or debts are denominated in a currency other than the Company's functional currency. ADLER Group's operations (real estate investments) are concentrated predominantly in the euro zone. Insofar as foreign-currency financing is obtained, the risk of exchange rate fluctuations is precluded through currency hedging transactions.

Interest rate risk: ADLER Group is exposed to interest rate risks almost exclusively within the euro zone. The interest rate risk is divided into market interest rate risk and cash flow interest rate risk.

Market interest rate risk, i.e. the risk that the fair value of a financial instrument will change due to changes in market interest rates, exists primarily for fixed-interest medium- and long-term accounts receivable and payable. However, since ADLER Group reports these instruments at updated acquisition cost, not fair value, this risk does not directly impact shareholders' equity or earnings. Market interest rate risk with a potential impact on earnings does exist for interest rate derivatives.

Market price risk: Market price risk is the risk of changes in the value of financial instruments due to fluctuating market prices. The Group has equities which are classified in the consolidated balance sheet as assets "available for sale." However, since the equities in question are shares in limited liability companies which are not publicly traded and which are valued at acquisition cost, the Group is not directly exposed to a price risk in this regard. Due to the nature of its operations, the Group is also not exposed to price risk with respect to the price of raw materials.

Default risk: Default risk is the risk that contracting partners will be unable to meet their contractual payment obligations. The maximum default risk is the book value of all original and derivative financial assets, plus guarantees.

Risk management is handled on the Group level for the entire Group. Rules are in place to ensure that transactions are only executed with partners who have demonstrated adequate payment practices in the past. Contracts for derivative financial instruments and other financial transactions are only concluded with top-rated institutions. The Group's policy is to limit credit risk in connection with any one institution. The Group does not have any significant credit risk concentrations.

Liquidity risk: Liquidity risk is the risk that the Group will experience cash shortages and have to refinance at higher rates as a result. For this reason, conservative cash management includes maintaining an adequate cash reserve, the availability of adequate financing through confirmed lines of credit and the ability to issue new shares. ADLER Group maintains a group-wide cash management system, the object of which is to ensure that the Group can make its payments at all times by maintaining adequate cash reserves and optimizing the internal cash pooling system.

As at the balance sheet date, ADLER Group had EUR 6.263 million cash and cash equivalents (year before: EUR 5.833 million).

Operating Risks and Opportunities
Planning and deadline risks play a substantial role in the projects business. Miscalculations can lead to cost overruns, which impair the profitability of a project. In order to ensure that projects will be profitable, work does not proceed on commercial projects until significant marketing successes, such as leasing and sale, are achieved and contractually assured. Adherence to timetables and budgets is routinely monitored during the construction phase, allowing the Group to respond quickly in the event of deviations. Site quality and development potential are assessed prior to each real estate acquisition. In the case of Group-owned properties, conditions are constantly monitored in order to ensure early identification of deteriorating locations and avoid associated risks, if possible. The performance of architects and other external providers are routinely monitored in the process of construction, allowing the Group to identify defects early and remedy them quickly by taking suitable action or mitigating their impact. Risks are also mitigated or eliminated through insurance coverage to the extent possible and financially reasonable.

If work is completed ahead of schedule or if interest rates or building costs are lower than expected, there is a potential for increased profits. The most financially significant opportunities arise when rents exceed estimates and when investors' expected returns are lower than expected. In each case, the property's sale price is driven higher. The current development in many German real estate markets is characterized by a slight rise in rents and a decline in expected returns.

In general, there are no risks which threaten the continued existence of the Company, in management's view.

Dependency Report

ADLER AG was not subject to any control agreement in financial year 2008. Accordingly, the Management Board prepared a report on relationships with affiliated companies pursuant to § 312 of the Corporations Act. A “dependent relationship” in terms of § 17 of the Corporations Act existed in financial year 2008 with Mezzanine IX Investors L.P.

The report closes with the following statement:

“Our Company received adequate consideration in each of the transactions cited in the report on relationships 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

Despite the financial and economic crisis, the German real estate market is in the process of a major turnaround. Germany is the only leading industrialized state which has not seen a massive boom in property values over the years. On the contrary: German property values have been declining for more than a decade, leading to massive divestments in many sectors of the real estate market. New residential construction has been declining for twelve years now, setting a new low every year.

As soon as the crisis passes and the economy stabilizes, the positive macro-trend in the German real estate market which began in 2005/2006 should take over and generate substantial and lasting appreciation. We are already seeing the first signs of this in the strong demand for residential properties so far in 2009. Many experts believe that the massive government stimulus packages and bank bailouts, and the substantial net debt which these programs will create, will lead to rapid inflation once the crisis peters out, which will, in turn, benefit assets such as real estate.

ADLER anticipates a gradual improvement in conditions over the course of the year and is constantly working to develop all of its properties and projects. With the Company’s new partner, DB Immobilien, prospects are bright for the continued growth of ADLER’s asset management business and for optimized marketing, especially of residential properties. There are also good opportunities with respect to some ongoing projects. ADLER plans to invest in new projects as soon as good opportunities arise. On the strength of its expanded network and the interest which has been registered in its projects and portfolios, ADLER should be able to conclude positive transactions in 2009 and 2010 and finish with positive net earnings.

Frankfurt am Main, March 27, 2009

The Management Board

Consolidated Balance Sheet

(IFRS) as at Dezember 31, 2008

in EUR	Note	2008	2007
Assets		**41,561,840.10**	**44,674,445.94**
Non-current assets		**5,795,096.12**	**6,181,020.52**
Intangible assets	C.1	18,722.11	15,593.27
Property, plant and equipment	C.2	666,018.36	801,009.23
Available-for-sale financial assets	C.3	153,750.00	156,300.00
Other loans	C.4	3,045,930.52	5,010,946.02
Shares in the associates	C.5	1,628,645.10	0.00
Deferred tax claims	C.6	282,030.03	197,172.00
Current assets		**35,766,743.98**	**38,493,425.42**
Inventories	C.7	29,090,062.37	31,106,209.97
Trade receivables	C.8	128,861.17	305,890.27
Income tax assets	C.10	90,873.44	89,474.15
Other current assets	C.9	193,594.78	1,158,564.99
Liquid funds	C.11	6,263,352.22	5,833,286.04

in EUR	Note	2008	2007
Equity and liabilities		**41,561,840.10**	**44,674,445.94**
Shareholders' equity		**30,607,795.06**	**34,707,977.65**
Share capital	C.12	15,000,000.00	15,000,000.00
Capital reserve	C.13	7,686,881.15	7,612,546.15
Retained earnings	C.12	420,572.49	420,572.49
Currency conversion reserve	C.14	–100,959.10	0.00
Net profit		7,601,300.52	11,797,818.23
Minority shares		0.00	–122,959.22
Non-current liabilities		**7,649,360.57**	**6,903,009.90**
Pension provisions	C.15	806,116.00	797,639.00
Liabilities for deferred taxes		6,918.88	15,380.49
Other provisions	C.16	591,774.22	822,097.51
Financial liabilities	C.17	6,244,551.47	5,267,892.90
Current liabilities		**3,304,684.47**	**3,063,458.39**
Other provisions	C.16	1,098,644.60	1,187,750.00
Income tax liabilities	C.18	450,523.84	441,045.42
Trade payables	C.19	943,815.30	474,871.41
Other current liabilities	C.20	811,700.73	959,791.56

The comments on page 32 to 64 are necessary for the completeness of this consolidated financial statement.

Consolidated Income Statement

(IFRS) for the Fiscal Year 2008

In EUR	Note	2008	2007
Sales revenue	D.1	9,173,587.13	5,414,644.08
Changes in inventories	D.2	–348,148.82	2,516,353.42
Other operating income	D.3	1,628,802.54	10,503,517.30
Total operating income		**10,454,240.85**	**18,434,514.80**
Expenses for material	D.4	–4,549,656.96	–7,028,680.92
Personnel expenses	D.5	–2,020,675.55	–1,686,843.23
Depreciation and amortization	D.6	–4,979,016.97	–417,072.04
Other operating expenses	D.7	–2,423,136.59	–2,370,769.54
Income from at-equity-valued investment associates	D.8	–459,739.90	–72,121.00
Result from operating activities (EBIT)		**–3,977,985.12**	**6,859,028.07**
Interest income	D.9	346,357.58	578,802.81
Financial expenses	D.9	–631,517.11	–508,170.32
Profit before income tax		**–4,263,144.65**	**6,929,660.56**
Income tax	D.10	66,626.94	343,483.61
Consolidated profit for the year		**–4,196,517.71**	**7,273,144.17**
Split as follows:			
Shareholders of the parent company		–4,196,517.71	7,406,103.39
Minorities		0.00	–132,959.22
Basic earnings per share	D.11	–0.28	0.49
Diluted earnings per share	D.11	–0.28	0.49

The comments on page 32 to 64 are necessary for the completeness of this consolidated financial statement.

Consolidated Cash Flow Statement

(IFRS) for the Fiscal Year 2008

In EUR		Note	2008	2007
	Operating profit		–3,977,985	6,859,028
+	Depreciation of non-current assets		172,144	127,562
–/+	Non-cash income/expenses		1,727,423	–7,582,727
–	Decrease in provisions	C.15/C.16	–397,259	–1,854,824
+/–	Losses/profits from disposals of non-current assets	C.2	0	–85,436
–/+	Increase/decrease in inventories, trade and other assets not attributable to financing activities	C.8	4,361,493	–1,931,504
–/+	Decrease/increase in trade payables and other liabilities not attributable to investing or financing activities	C.19	90,101	–240,220
+	Interest payments	D.9	153,809	405,022
–	Interest disbursements	D.9	–245,119	–434,483
+/–	Tax payments	D.10	1,126	–109,033
=	**Net cash inflow (previous: net cash outflow) from operating activities**		**1,885,734**	**–4,846,616**
–/+	Acquisition of subsidiary companies less acquired net liquid funds		0	227,476
+	Proceeds from disposals of non-current assets	C.2	0	7,660,700
–	Cash used for investments in property, plant and equipment	C.2	–26,239	–94,392
–	Cash used for investments in non-current financial assets	C.2	–14,044	–14,718
+/–	Proceeds/cash used for disposals of non-current assets (financial) and receivables allocated to investment activities	C.3/C.4	6,300	0
–	Cash used for investments in non-current assets	C.3/C.4	–2,408,909	–4,049,196
=	**Net cash outflow (previous: net cash inflow) for investing activities**		**–2,442,891**	**3,729,869**

–	Proceeds from equity capital disposals		0	–377,428
–	Other changes non-cash items in equity	C.14	–100,959	0
–	Change in consolidated companies		–275,000	0
+	Proceeds from taking up financial loans	C.17	1,450,176	849,824
–	Cash used for repayments of financial loans	C.17	–86,993	–3,913,525
=	**Net cash inflow (previous: cash outflow) from financing activities**		**987,223**	**–3,441,129**
	Reconciliation with the balance sheet			
	Cash and cash equivalents at the beginning of the period	C.11	**5,833,286**	**10,391,161**
	Net cash inflow (previous: net cash outflow) from operating activities		1,885,734	–4,846,616
	Net cash outflow (previous: net cash inflow) from investing activities		–2,442,891	3,729,869
	Net cash inflow (previous: net cash outflow) from financing activities		987,223	–3,441,129
=	**Cash and cash equivalents of the end of the period**	C.11	**6,263,352**	**5,833,286**

The comments on page 32 to 64 are necessary for the completeness of this consolidated financial statement.

Consolidated Statement of Changes in Equity

(IFRS) for the fiscal year 2008

in TEUR	Note	Subscribed capital	Capital reserve	Retained earnings
Balance as at Jan. 1, 2008	**C.12**	**15,000**	**7,612**	**421**
Consolidated profit		0	0	0
Change in consolidated companies Logistik-Zentrum Duisburg-Nord GmbH	**C.12/C.13**	0	0	0
Stock option plan	**C.12/C.13**	0	75	0
Appraisal McKinney December 31, 2008 (USD/EUR)	**C.14**	0	0	0
Balance as at Dec. 31, 2008	**C.12**	**15,000**	**7,687**	**421**

in TEUR	Note	Subscribed capital	Capital reserve	Retained earnings
Balance as at Jan. 1, 2007	**C.12**	**15,000**	**7,841**	**421**
Consolidated profit		0	0	0
Costs of the capital increase	**C.12/C.13**	0	–377	0
First-time consolidation of MÜBAU/ Duisburg	**C.12/C.13**	0	0	0
Stock option plan	**C.12/C.13**	0	148	0
Balance as at Dec. 31, 2007	**C.12**	**15,000**	**7,612**	**421**

The comments on page 32 to 64 are necessary for the completeness of this consolidated financial statement.

Currency conversion reserve	Net profit/ loss for the year	Capital and reserves owed to the shareholders of the parent company	Minority shares	Total equity
0	**11,798**	**34,831**	**–123**	**34,708**
0	–4,197	–4,197	0	–4,197
0	0	0	123	123
0	0	75	0	75
–101	0	–101	0	–101
–101	**7,601**	**30,608**	**0**	**30,608**

Currency conversion reserve	Net profit/ loss for the year	Capital and reserves owed to the shareholders of the parent company	Minority shares	Total equity
0	**4,392**	**27,654**	**0**	**27,654**
0	–748	–748	–133	–881
0	0	–377	0	–377
0	8,154	8,154	10	8,164
0	0	148	0	148
0	**11,798**	**34,831**	**–123**	**34,708**

Notes to the Consolidated Statements

A Basic Information about ADLER Group

ADLER Real Estate Aktiengesellschaft (hereinafter, "ADLER AG"), the Group parent company, has its registered office in Frankfurt am Main, Herriotstraße 5. The Group provides project development services in the form of planning, improvements, development and construction, as well as asset and property management services.

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

ADLER AG's consolidated financial statements for financial year 2008 were released for publication on March 27, 2009.

B Summary of Major Accounting and Valuation Methods

B.1 Accounting Principles

ADLER AG is obligated to prepare consolidated financial statements pursuant to § 290 of the Commercial Code. As a publicly traded company, ADLER AG is obligated under Article 4 of EC Regulation 1606/2002 of the European Parliament and of the Council of July 19, 2002, to prepare consolidated financial statements pursuant to § 315 a of the Commercial Code in accordance with international accounting standards.

All new and revised standards and interpretations of relevance for ADLER AG whose application became mandatory on January 1, 2008, and which were not implemented earlier in prior periods were adopted by ADLER AG during the reporting year. Revised standards were implemented in line with transitional rules. The initial application of these new rules did not have a substantive impact on the consolidated financial statements. The consolidated financial statements were prepared in accordance with the International Accounting Standards Board (IASB) and the published International Financial Reporting Standards (IFRS). The consolidated financial statements were prepared based on historical acquisition and production costs, except for mark-to-market valuation of available-for-sale financial assets and the disclosure of financial assets and liabilities at fair value.

The total cost method was selected for the income statement. The consolidated financial statements were prepared in euros, and disclosures in the Notes are made in TEUR (Euro thousands).

Preparation of the consolidated financial statements in accordance with IFRS sometimes requires the use of critical accounting and valuation estimates. Areas with a great deal of evaluative discretion, highly complex areas, and areas where assumptions and estimates are of decisive importance for the consolidated financial statements are cited in the Other Notes section.

CHANGES TO ACCOUNTING AND VALUATION METHODS

The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have modified or revised some standards and interpretations whose application became mandatory in financial year 2008:

- **IFRS 7 and IAS 39 ("Reclassification of Financial Assets,"** applicable retroactively to July 1, 2008): In light of the current financial crisis, the IASB has published a standard revising IAS 39 (Financial Instruments: Recognition and Measurement) and IFRS 7 (Financial Instruments: Disclosures) which takes effect retroactively on July 1, 2008. The new standard responds to recent developments in the financial markets and is meant to eliminate differences between IFRS and US GAAP rules with respect to the reclassification of certain financial instruments. The application of the new standard does not affect ADLER's consolidated financial statements.

- **IFRIC 8 ("Scope of IFRS 2 Group and Treasury Share Transactions in conjunction with IFRIC 11"):** In IFRIC 8, the IASB states its position on the scope of IFRS 2 ("Share-Based Payment"), which is applicable to transactions (applicable for reporting periods as of March 1, 2007) in which a company receives goods or services in consideration for share-based payment. The changes to IFRS 2 ("Share-Based Payment") are that terms of exercise and annulments are applicable only for reporting periods as of January 1, 2009.

- IFRIC 11 addresses questions relating to the handling of share-based compensation agreements involving an entity's own shares, or those of other consolidated companies. This interpretation has no relevance for the consolidated financial statements of ADLER AG at this time.

The IASB and IFRIC have published the following interpretations whose application is mandatory for financial year 2008 but which have yet to be adopted by the European Commission:

- **IFRIC 12 ("Service Concession Arrangements"):** This interpretation is applicable for reporting periods as of January 1, 2008. IFRIC 12 addresses the handling of service concession arrangements between the public sector, as licensor, and a private operator. Contracts fall under this category if the contract placement authority controls or regulates which services the operator can perform using the infrastructure, as well as the price and recipient of the services. The infrastructure is returned to the licensor when the contract expires. The scope of this interpretation includes infrastructure which is built by the operator or acquired by a third party, as well as existing infrastructure which the licensor provides access to. We currently expect that this interpretation will not have a substantial impact on ADLER's consolidated financial statements.

- **Amendments to IAS 39 ("Reclassification of Financial Assets, Effective Date and Transition"):** Due to ambiguities with respect to the application date for amendments to IAS 39 and IFRS 7 (see under Standards whose application is mandatory for reporting periods as of January 1, 2008), this clarification was issued.

The IASB and IFRIC have published the following interpretations whose application has been adopted for financial year 2008 but which are not yet mandatory:

- **IAS 1 ("Presentation of Financial Statements"):** The changes relate primarily to the presentation of shareholders' equity and designation of the individual components of the financial statements. The revised version of IAS 1 is applicable for financial years beginning on or after January 1, 2009. The EU has yet to adopt this revision. The changes will not have a substantial impact on ADLER's consolidated financial statements.

- **IAS 23 ("Borrowing Costs"):** The revision to IAS 23 abolishes the prior option of immediate recognition of borrowing costs directly associated with the acquisition, construction or production of qualifying assets. In the future, such borrowing costs must be recognized as acquisition or production costs. This standard is applicable for reporting periods beginning on or after January 1, 2009. It has not yet been adopted by the EU. The impact on ADLER's consolidated financial statements is currently under review.

- **IAS 27 ("Consolidated and Separate Financial Statements"):** This standard addresses e.g. the handling of share purchases and sales after the acquisition of control. In the future, losses to minority interests in excess of their disclosed value will be recognized as negative book value in consolidated shareholders' equity. Adjustments will be made for future transactions. Application of this standard will begin no earlier than reporting periods which begin after July 1, 2009.

- **IAS 32 ("Financial Instruments: Presentation"), in conjunction with IAS 1:** IAS 32 determines whether a financial instrument is to be classified as equity or as a liability for the issuer. Under certain circumstances, the revised IAS 32 allows recognition of puttable instruments as equity. Consequential changes result for IAS 1 (revised February 2008).

- **IAS 39 ("Financial Instruments: Recognition and Measurement"):** The standard specifies how the hedge accounting principles defined in IAS 39 are to be applied to two specific situations: One-sided risk in a hedged item and inflation in a financial hedged item. We do not expect a substantial impact for ADLER Group.

- **IFRS 1, in conjunction with IAS 27,** was restructured in the course of revision. No substantive changes were made. **IFRS 1, in conjunction with IAS 27,** contains simplified rules for the measurement of the cost of a subsidiary in the separate financial statements of the parent on first-time adoption of IFRS. We do not expect a substantial impact for ADLER Group.

- **IFRS 3 ("Business Combinations"):** IFRS 3 includes rules e.g. with respect to purchase-price components, the handling of minority interests and goodwill and the recognition of assets, liabilities and contingent liabilities. We do not expect any substantial adjustments to the existing mode of reporting.

- **IFRS 8 ("Operating Segments"):** IFRS 8 replaces IAS 14 ("Segment Reporting") and adapts the standard, with minor differences, to the US GAAP rules defined in Statement of Financial Accounting Standards (SFAS) 131. IFRS 8 calls for the identification of operating segments based on the management approach. The standard is applicable for reporting years beginning on or after January 1, 2009. Initial application of IFRS 8 is not expected to have a substantial impact on the consolidated financial statements of ADLER AG.

- **IFRIC 13 ("Customer Loyalty Programmes"):** This Interpretation addresses the recognition and measurement of income from sale processes and associated expenses for obligations, such as discounts, bonuses or award credits, arising from customer loyalty programs which are operated by the manufacturer or service provider, either itself or through third parties. The interpretation is applicable for reporting years beginning on or after July 1, 2008. It has not yet been adopted by the EU. We do not expect a substantial impact for ADLER Group.

- **IFRIC 14 ("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. We do not expect this interpretation to have a substantial impact on ADLER Group.

- **IFRIC 15 ("Agreements for the Construction of Real Estate"):** This Interpretation, applicable for reporting periods as of January 1, 2009, defines accounting rules for real estate sales which take place before construction is complete. The interpretation clarifies the conditions under which IAS 11 or IAS 18 applies as the relevant standard. ADLER AG is currently assessing the impact of future application.

- **IFRIC 16 ("Hedges of a Net Investment in a Foreign Operation"):** This interpretation, applicable for reporting periods as of October 1, 2008, clarifies questions in connection with accounting for currency hedges within an entity and its foreign operations. This interpretation has no relevance for ADLER Group.

- **IFRIC 17 ("Distributions of Non-Cash Assets to Owners"):** Applicable for reporting periods as of July 1, 2009, IFRIC 17 contains rules with respect to accounting and valuation of non-cash distributions. This interpretation has no relevance for ADLER AG.

- **IFRIC 18 ("Transfers of Assets from Customers"):** This standard applies for reporting periods as of July 1, 2009, and clarifies the requirements for agreements in which an entity receives from a customer an item of property, plant and equipment (or cash, that must be used to acquire or construct the item of property, plant and equipment) that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as supply of electricity, gas or water). ADLER Group is currently assessing the impact of future application on the consolidated financial statements.

- **Amendments to various standards** as part of the "Improvements to IFRS" adopted by the IASB in May 2008.

B.2 Consolidation Principles

SUBSIDIARIES

"Subsidiaries" are all companies (including special-purpose vehicles) in which ADLER AG exercises control over finances and operations. Such control is generally accompanied by more than 50% of voting rights. The determination of control takes into consideration the existence and impact of potential voting rights currently subject to exercise or conversion.

Subsidiaries are fully consolidated from the date on which control passed to the parent company. They are deconsolidated once this control ceases to exist.

Capital consolidation of subsidiaries acquired after January 1, 2004, was generally performed using the acquisition method in accordance with IFRS 3, by subtracting the acquisition cost of the shares from the Group's share of the subsidiary's reappraised shareholders' equity. The acquisition costs of the shares correspond to the fair value of the acquired assets, equity instruments issued and debt incurred or assumed as of the transaction date, plus costs directly attributable to the acquisition. In the case of a business combination, identifiable assets, liabilities and contingent liabilities are measured at fair value as at the transaction date upon initial consolidation. The amount by which acquisition costs exceed the Group's share of net assets at fair value is recognized as goodwill.

The assets and liabilities of the consolidated companies are generally recognized and measured in standardized fashion using the accounting principles in effect for the parent company. Measurement is performed in accordance with statutory rules and in line with principles which have not changed since the year before.

Intra-Group transactions and items, as well as unrealized gains from transactions between Group companies, are netted out.

Services between ADLER Group companies are generally provided using the arm's length principle.

ASSOCIATED COMPANIES

In general, investments in which ADLER AG has a controlling interest, generally based on share ownership between 20% and 50%, are measured using the equity method. In the case of investments which are measured at-equity, acquisition costs are adjusted each year to reflect changes in the Group's share in shareholders' equity. Upon first-time measurement of investments using the equity method, differences arising from initial consolidation are treated in accordance with the principles of full consolidation. Gains and losses from transactions between Group companies and associated companies are netted out in proportion to the Group's share in the associated companies. Gains and losses from transactions between associated companies are not netted out. Recognition and measurement of the assets and liabilities of associated companies are performed using standardized Group principles. Transactions with minority shareholders are treated like transactions with outside parties. Sales of shares to minority shareholders are disclosed as profit and loss in the consolidated financial statements. By the same token, the purchase of shares from minority shareholders leads to the recognition of goodwill in the amount of the difference between the purchase price and the Group's share of the subsidiary's net assets at book value.

B.3 Consolidated Companies and Investments

In addition to the parent company, the consolidated companies include a total of twenty-one (2007: twenty) domestic companies and two foreign companies, which are fully consolidated. A 40% interest in Logistik-Zentrum Duisburg-Nord GmbH was acquired from third parties and then merged into Siebte Verwaltungsgesellschaft ADLER Real Estate mbH. One (2007: three) investment of between 20% and 50% was not reported at-equity due to its secondary importance. However, it was recognized under available-for-sale financial assets. Measurement was performed in accordance with IAS 39 (available for sale). The investment in Airport Center Luxembourg GmbH, Luxembourg, in the amount of 10%, as well as the 29% interest in DB Immobilien GmbH and the 30% interest in Worthing Lake Forest Investors (LLC), were reported at-equity.

NEW ACQUISITIONS AND NEWLY FORMED COMPANIES

ADLER Group formed a new foreign company in financial year 2008, which was fully consolidated. The Group acquired a shelf company and a 17% stake in DB Immobilien GmbH with subsequent capital increase, resulting in a 29% interest. Furthermore, the Group acquired a 30% interest in Worthing Lake Forest Investors LLC. The stake in AFP Agentur für Projektmanagement GmbH was sold.

B.4 Currency Translation

FUNCTIONAL CURRENCY AND REPORTING

Each disclosure in the financial statements of consolidated companies is made based on the currency which corresponds to the currency of the primary economic environment in which the company operates (functional currency). The currency of the consolidated financial statements is the euro, which represents the functional currency of the parent company.

CONSOLIDATED COMPANIES

The earnings and balance sheet items of all consolidated companies (with the exception of those in hyper-inflationary countries) which have a functional currency other than the euro are translated as follows:

Assets and liabilities are translated at the applicable exchange rate on each balance sheet date.

Income and expenses are translated at the average exchange rate for each income statement (unless using the average exchange rate does not reasonably approximate cumulative effects which would have arisen upon translation at the applicable rates on the transaction dates, in which case income and expenses are translated at their respective transaction-date exchange rates).

All translation differences are recognized in a separate item within "Other Reserves," as part of shareholders' equity.

Goodwill and adjustments to fair value arising upon the acquisition of foreign companies are treated as assets and liabilities of the foreign company and translated at the balance sheet date exchange rate.

B.5 Intangible Assets

Acquired intangible assets are measured at acquisition cost and depreciated using the straight-line method over their expected useful life. Depreciation is based on the following useful lives:

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

Assets which are subject to straight-line depreciation are checked for impairment if events or changed circumstances indicate that their book value may no longer be attainable.

B.6 Impairment of Non-Financial Assets

Intangible assets with an uncertain useful life or which are not in operational condition, as well as goodwill, are not subjected to straight-line depreciation. Instead, the need for impairments is checked each year. Assets which are subject to straight-line depreciation are checked for impairments if events or changed circumstances indicate that the book value of those assets may no longer be realizable. An impairment loss is recognized in the amount by which the book value exceeds the realizable value. Realizable value is either the fair value of the asset minus selling expenses or the value-in-use, whichever is higher. For the purpose of the impairment test, assets are combined on the lowest level for which cash flow can be separately identified (cash-generating units).

B.7 Property, Plant and Equipment

Property, plant and equipment is measured at historical acquisition cost minus depreciation. Acquisition costs include expenses directly attributable to the acquisitions. Repair and maintenance expenses are recognized as expenses in the year in which they accrue.

Depreciation on property, plant and equipment is performed on a straight-line basis as follows over the expected useful life of the asset:

Asset	Useful life, in years
External 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 as necessary.

Straight-line depreciation is not performed for land, since land has an uncertain useful life.

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

Property, plant and equipment are checked for impairments if events or changed circumstances indicated that the book value may no longer be realizable. An impairment loss is recognized in the amount by which the book value exceeds the realizable value. Realizable value is either the fair value of the asset minus selling expenses or the value-in-use, whichever is higher. If the grounds for an impairment cease to exist, the asset is written up to the updated book value which would have been in effect if the impairment had not been recognized.

Impairments were recognized in the reporting year to the extent necessary.

Financing costs were not recognized as income, in accordance with IAS 23.7.

B.8 Financial Assets

ADLER Group divides its financial assets into the following categories:

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

The other category of financial assets mentioned in IAS 39 (held-to-maturity investments) has no relevance for ADLER Group and will therefore not be discussed. Financial assets are assigned to the above categories based on the purpose for which they were acquired. The assignment is made upon initial recognition and is reviewed on each balance sheet date. The reassignment of financial assets to different categories is subject to certain conditions, and no such reassignments were made.

a. Financial assets at fair value through profit or loss (AAFV)
This category has two subcategories: Held-for-trading (HFT) financial assets and financial assets which were designated as assets at fair value through profit and loss upon initial recognition (the fair value option).

Financial assets are assigned to the AAFV category if they were acquired with the object of a near-term sale or if they were designated as such by management. Derivatives belong to this category except those classified as hedging instruments. Assets in this category are disclosed as current assets if they are held for trading or if a sale is expected within twelve months of the balance sheet date. ADLER Group has opted not to exercise the fair value option.

ADLER Group’s held-for-trading financial instruments consist entirely of derivatives executed for hedging purposes, but which are not subject to the strict hedge accounting requirements of IAS 39 (Note 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 are disclosed as current assets unless their maturity date is more than twelve months after the balance sheet date, in which case they are reported as non-current assets. Loans and receivables are disclosed in the balance sheet as trade receivables and other assets (Note B.11).

c. Available-for-sale financial assets (AFS)
Available-for-sale financial assets are any non-derivative financial assets which are assigned to this category or which are not assigned to any of the other categories. They are classified as non-current assets if management does not plan to sell them within twelve months of the balance sheet date. Routine purchases and sales of financial assets are recognized on the trade date, i.e. the date on which the Group agreed to buy or sell the asset.

Financial assets not assigned to the “financial assets at fair value through profit and loss” (AAFV) category are initially recognized at fair value plus transaction costs. Financial assets which belong to the AAFV category are initially recognized at fair value, and associated transaction costs are recognized as a loss. Financial assets are derecognized upon the expiration or transfer of rights to payment arising from the investment, and once the Group essentially transfers all risks and opportunities associated with ownership. Available-for-sale financial assets and financial assets at fair value through profit and loss (HFT) are measured at fair value after initial recognition. Loans and receivables are measured at amortized cost using the effective interest method.

Net profit and loss from financial assets at fair value through profit and loss (AAFV), including interest and dividend income, is recognized in the period of accrual and is disclosed in the income statement under other profit (loss).

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

If securities designated as available-for-sale (AFS) are sold or impaired, prior cumulative changes in fair value are recognized in the income statement as gains (losses) from securities, under other income. Dividends from available-for-sale (AFS) equity instruments are recognized as income once the Group's right to the dividend is created.

The fair value of quoted shares is measured by the current bid price. If no active market exists for financial assets or the assets are unquoted, fair value is measured using appropriate valuation methods. These include references to recent transactions between independent counterparties, use of current market prices for other assets which are essentially similar to the asset in question, the discounted cash flow (DCF) method and option price models which are based as much as possible on market data and on as little as possible on company-specific data. If reliable measurement is impossible through these means, the assets are generally measured at amortized cost.

On each balance sheet date, an assessment is made as to whether objective indications exist that a financial asset or group of financial assets is impaired. In the case of equity instruments classified as available-for-sale financial assets (AFS), a substantial and continuing decline in fair value below the amortized cost of the instruments is viewed as an indicator that the instruments are impaired. If such an indication exists for available-for-sale financial assets, the cumulative loss (measured as the difference between amortized cost and fair value, minus any prior impairment losses recognized for the asset) is subtracted from shareholders' equity and recognized in the income statement. Once they are recognized in the income statement, impairment losses in financial instruments cannot be reversed and recognized as income. Impairment tests for trade receivables are described under Note B.11.

B.9 Derivatives and Hedging Instruments

Derivatives are initially measured at fair value as at the contract date and are subsequently measured at fair value as at the relevant balance sheet date. The method for recognizing gains and losses depends on whether the derivative is designated as a hedging instrument and, if so, on the type of hedge. No derivatives were designated as hedging instruments by ADLER Group in the past two years, i.e. the option in IAS 39 (Hedge Accounting) was not exercised.

B.10 Inventories

Inventories are recognized at amortized cost or net realizable value, whichever is lower. Costs which are disclosed by ADLER AG as "inventories" include the cost of project development, raw materials and supplies, direct personnel expenses, other direct costs and overhead costs attributable to the project. Amortized cost does not include borrowing costs. Net realizable value is the estimated sale price minus estimated costs through completion and estimated selling expenses.

B.11 Accounts Receivable and Other Assets

Accounts receivable are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method minus allowances. The effective interest method is only used if the receivable matures in over twelve months.

Trade receivables are impaired if objective indications exist that the full receivable will not be collected upon maturity. Such indications arise e.g. if a debtor encounters considerable financial difficulties, the increased likelihood of a debtor filing for bankruptcy or entering another restructuring process or breach of contract, such as non-payment or late payment of principal and interest. The amount of the impairment is the difference between the book value of the receivable and the present value of estimated future cash flows arising from the receivable, discounted at the effective interest rate. The impairment is recognized in the income statement as other operating profit (loss). If a receivable becomes uncollectible, it is derecognized and charged to the allowance account for trade receivables. Subsequent payments on derecognized receivables are recognized in the income statement as other operating profit (loss) and deducted from allowances on trade receivables.

It is assumed that the fair value of trade receivables is nominal value minus allowances.

Accounts receivable and other assets maturing more than twelve months after the balance sheet date are reported as non-current assets.

Accounts receivable maturing in more than one year which accrue interest below the market rate are discounted.

B.12 Liquid Funds

Liquid funds include cash, sight deposits, other short-term and highly liquid financial assets with an original term of no more than three months and current-account credit. Used current-account credit is recognized in the balance sheet as accounts payable to banks, under current financial liabilities.

B.13 Shareholders' Equity

Common shares are classified as shareholders' equity.

Costs which are directly attributable to the issuance of new shares or options are disclosed in shareholders' equity, after taxes, and subtracted from issue proceeds.

If a company of ADLER Group acquires shares in the shareholders' equity of ADLER Real Estate AG (treasury shares), the value of the paid consideration, including directly attributable additional costs (after taxes) is subtracted from the shareholders' equity of ADLER Real Estate AG until the shares are redeemed, reissued or sold. If such shares are subsequently reissued or sold, the consideration received, after subtracting directly attributable additional transaction costs and associated taxes, is recognized as shareholders' equity of ADLER Real Estate AG. ADLER Group companies do not hold any shares in ADLER Real Estate AG.

B.14 Pension Accruals

The recognized accrual for defined benefit plans represents the present value of defined benefit obligations (DBOs) on the balance sheet date minus the fair value of plan assets, adjusted for actuarial gains and losses and the service cost not yet reflected in profit and loss. DBOs are calculated each year by an independent actuarial expert using the projected unit credit method. The present value of DBOs is determined by discounting expected future cash flows using the interest rate for top-rated corporate bonds of the same currency and term.

Actuarial gains and losses which are based on adjustments or changes to actuarial assumptions as a result of past experience are recognized in the year of accrual and reflected in profit and loss.

B.15 Other Provisions

Other provisions are set aside for de facto or de jure liabilities which originated in the past but whose amount or maturity is uncertain, provided that it is likely that a payment of Group resources will be necessary to settle the liability and a reliable estimate can be made as to the amount of the liability.

Other provisions are measured using the best possible estimate of the existing liability as at the balance sheet date. Non-current provisions are recognized at the settlement amount discounted to the balance sheet date.

B.16 Liabilities

ADLER Group essentially divides its financial liabilities into the following IAS 39 categories:

a. Other financial liabilities (financial liabilities measured at amortized cost, OL)
This category includes non-derivative financial liabilities 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 subject to hedge accounting rules, as well as financial liabilities for which the fair value option was exercised. ADLER Group has opted not to exercise the fair value option.

Loans and other liabilities are initially recognized at fair value minus transaction costs and are subsequently measured at amortized cost. The outstanding principal is disclosed in the income statement over the term of the loan using the effective interest method. Financial liabilities are derecognized once they are extinguished, i.e. once the contractual obligations are discharged, cancelled or expire. Liabilities are classified as current liabilities unless the Group has an unconditional right to postpone amortization to a point in time at least twelve months after the balance sheet date.

B.17 Deferred Taxes
Under IAS 12, deferred taxes are generally recognized for all temporary differences between the tax base of assets and liabilities and their book values disclosed in IFRS financial statements, as well as tax loss carryforwards.

The tax rates used for the measurement of deferred taxes were determined based on the statutory rules currently in effect. For German corporations, a tax rate of 32% is used for the formation of deferred taxes and for the consumption/reversal of deferred taxes, including the standard corporation tax rate, solidarity markup and the average trade tax rate. Deferred tax claims for temporary differences and tax loss carryforwards are recognized in the amount which will likely be deductible from future taxable income.

B.18 Leases
In accordance with IAS 17 (revised 2003), beneficial ownership of leased objects is ascribed to the lessee if all risks and rewards incident to ownership are substantially transferred to the lessee (finance lease). Leases in which a substantial portion of risks and rewards incident to ownership of the leased objects is retained by the lessor are classified as operating leases. Payments made in connection with operating leases (after deducting incentives paid by the lessor) are recognized in the income statement on a straight-line basis over the term of the lease.

B.19 Recognition of Income
Income from the sale of properties and services comprise the invoiced amount minus value-added tax, rebates and discounts.

Income from the sale of goods is recognized if the Group has delivered the goods in question and if the likelihood of payment is deemed sufficiently certain.

Income from the provision of services is recognized for the year in which the services were provided. If services are provided in multiple reporting periods, income is recognized on a proportional basis.

Interest income is recognized over time with due regard for the total outstanding and the effective interest rate over the remainder of the term. If a receivable is impaired, the amount of the impairment is subtracted from the realizable value, which equals the present value of expected future cash flows based on the original effective interest rate. The receivable then continues to accrue interest, which is recognized as interest income.

Income from user fees is recognized for the appropriate period in accordance with the terms of the underlying contracts.

B.20 Segment Reporting
A business segment is a component of an enterprise that provides a single product or service or a group of related products or services and that is subject to risks and returns that are different from those of

other business segments. In accordance with the Group's internal organization, the primary reporting format is structured based on the Group's business units. The "asset management" unit was expanded in 2008.

B.21 Stock Options

In 2006, the Group launched a stock-based compensation plan in the form of stock options. The fair value of the work performed by the employees as consideration for receiving the stock options is recognized as an expense. The total expense recognized over the vesting period of the stock options is determined based on the fair value of the options. The estimated number of stock options expected to vest is reviewed on each balance sheet date. Any changes to original estimates are recognized in the income statement and shareholders' equity is modified accordingly over the remainder of the vesting period. The fair value of the stock options was measured using a Monte Carlo simulation for the date on which the options were granted.

B.22 Changes to Accounting Methods

Loans which had previously been disclosed as available-for-sale financial assets (TEUR 3,046; 2007: TEUR 5,011) are disclosed as "Other loans" this year in order to provide a clearer picture of the Group's assets.

C Notes to the Consolidated Balance Sheet

C.1 Intangible Assets

Intangible assets include IT software and licenses. Under IAS 38, these assets are measured at amortized cost. No allowances were necessary in financial year 2008. The additions comprise software and server licenses.

Intangible Assets

In TEUR	IT software
Acquisition costs	
Jan. 1, 2007	**8**
Additions	14
Change in consolidated companies	79
Transfers	0
Disposals	–79
Dec. 31, 2007	**22**
Depreciation and impairment	
Jan. 1, 2007	**3**
Additions (scheduled)	4
Change in consolidated companies	79
Transfers	0
Disposals	–79
Dec. 31, 2007	**7**
Net book value, Dec. 31, 2007	**15**
Net book value, Jan. 1, 2007	**5**
Amortized costs	
Jan. 1, 2008	**22**
Additions	14
Change in consolidated companies	0
Transfers	0
Disposals	0
Dec. 31, 2008	**36**
Depreciation and impairment	
Jan. 1, 2008	**7**
Additions	10
Change in consolidated companies	0
Transfers	0
Disposals	0
Dec. 31, 2008	**17**
Net book value, Dec. 31, 2008	**19**
Net book value, Jan. 1, 2008	**15**

C.2 Property, Plant and Equipment

Property, Plant and Equipment

Disclosure in TEUR	Land and buildings	Fixtures, fittings and equipment	Total
Acquisition costs			
Jan. 1, 2007	**4**	**285**	**289**
Additions	24	75	99
Change in consolidated companies	8,330	42	8,372
Transfers	0	0	0
Disposals	–7,630	–242	–7,872
Dec. 31, 2007	**728**	**160**	**888**
Depreciation and impairment			
Jan. 1, 2007	**1**	**246**	**247**
Additions (scheduled)	84	40	124
Change in consolidated companies	0	21	21
Transfers	0	0	0
Disposals	–69	–236	–305
Dec. 31, 2007	**16**	**71**	**87**
Net book value, Dec. 31, 2007	**712**	**89**	**801**
Net book value, Jan. 1, 2007	**3**	**39**	**42**
Acquisition costs			
Jan. 1, 2008	**728**	**160**	**888**
Additions	0	45	44
Change in consolidated companies	0	0	0
Transfers	0	0	0
Disposals	0	–42	–42
Dec. 31, 2008	**728**	**163**	**890**
Depreciation			
Jan. 1, 2008	**16**	**71**	**87**
Additions	15	51	66
Depreciations	95	0	95
Change in consolidated companies	0	0	0
Transfers	0	0	0
Disposals	0	–24	–24
Dec. 31, 2008	**126**	**99**	**224**
Book value, Dec. 31, 2008	**602**	**64**	**666**
Book value, Jan. 1, 2008	**712**	**89**	**801**

Land and buildings consist of a barrier system and the real property at Grünstadt, Hauptstraße, for which a depreciation was accomplished during the reporting period.

Fixtures, fittings and equipment also include TEUR 45 in additions in financial year 2008. The disposals relate to the scrappage of hardware and furniture which were no longer needed.

C.3 Available-for-Sale Financial Assets
ADLER AG disclosed an investment in Arge "de Hoek" in the amount of TEUR 150. This Arge "de Hoek," through another company, held an indirect 7.5% interest in S-Park B.V. in financial year 2008 which, in turn, is the owner of a property at the airport in Schiphol, Holland. ADLER AG, through Adler Lux S.à.r.l., also holds an interest of TEUR 4 in OPUS LP S.à.r.l. comprising 15% of the company's capital stock.

Available-For-Sale Financial Assets

Disclosure in TEUR	
Book value, Jan. 1, 2007	**1,134**
Additions	0
Change in consolidated companies	–950
Disposals	–28
Book value, Dec. 31, 2007	**156**
Costs of acquirement, Jan. 1, 2008	**156**
Additions	28
Reclassification	–24
Transfers	0
Disposals	–6
Dec. 31, 2008	**154**
Book value, Dec. 31, 2008	**154**
Book value, Jan. 1, 2008	**156**

C.4 Other Loans
Loans to associated companies include loans to Arge "de Hoek" in the amount of TEUR 620, which were reclassified from "other current assets" to "other loans." This item also includes a loan in the amount of TEUR 3,526 from ADLER AG to OPUS LP S.à.r.l. Due to reappraisal of the portfolio, the loan was impaired by TEUR 2,709 and is now measured at TEUR 817. The loan to Airport Center Luxembourg GmbH had a principal of TEUR 1,608 as at the balance sheet date.

Loans to associated companies

Disclosure in TEUR	
Book value, Jan. 1, 2007	**1,200**
Additions	3,811
Change in consolidated companies	0
Disposals	0
Book value, Dec. 31, 2007	**5,011**
Acquisition costs, Jan. 1, 2008	**5,011**
Additions	392
Reclassification	352
Transfers	0
Disposals	0
Dec. 31, 2008	**5,755**
Write-offs, Jan. 1, 2008	**0**
Additions	2,709
Change in consolidated companies	0
Transfers	0
Disposals	0
Dec. 31, 2008	**2,709**
Book value, Dec. 31, 2008	**3,046**
Book value, Jan. 1, 2008	**5,011**

C.5 Shares in Associated Companies
ADLER holds 10% of shares in Airport Center Luxembourg GmbH. However, since ADLER appoints a managing director, it exercises a controlling influence over the company, so that these shares are measured using the at-equity method. ADLER AG has invested in the apartment project McKinney LLC through subsidiaries. Its 30% interest is measured at-equity in financial year

2008. Acquisition of the interest, including the subsequent share capital increase in DB Immobilien GmbH, which amounted to 29 % on the balance sheet date, is recognized for the first time in the consolidated financial statements of ADLER. Adler AG does not have a controlling interest in either company. After adjusting the balance sheet disclosure to reflect the earnings of the Group's subsidiaries, the balance sheet disclosure was changed to TEUR 1,628.

Change in the measurement of shares in associated companies

	TEUR
Acquisition cost	2,160
Group's share of past losses	–72
Group's share of 2008 loss	–460
Dec. 31, 2008	1,682

Financial data for associated companies (TEUR)

	Airport Center Luxembourg		McKinney LLC		DB Immobilien GmbH	
	2008	2007	2008	2007	2008	2007
Assets	37,363	36,539	4,493	N/A	5,630	N/A
Liabilities	58,773	56,336	711	N/A	4,905	N/A
Shareholders' equity	–19,797	–17,412	3,782	N/A	725	N/A
Earnings	–1,613	–2,385	0	N/A	–1,585	N/A
Share in earnings	–161.3	–161.4	0	N/A	–460	N/A

C.6 Deferred Tax Assets

A deferred tax asset of TEUR 282 was recognized based on net losses reported by individual subsidiaries in financial year 2008 and the expectation that these losses will be deducted from future taxable income.

C.7 Inventories

Inventories, in the amount of EUR 29.090 million, consist of the following projects:

Berlin	Fanny-Zobel-Straße
Berlin	Späthstraße
Dallgow-Döberitz	Triftstraße e.g.
Dresden	Alttrachau
Frankfurt a. M.	Herriotstraße
Großbeeren	Trebbiner Straße
Grünstadt	Hauptstraße
Homburg	Am Forum
Moosburg	Am Mühlbachbogen
Offenbach	Strahlenberger Straße
Saarbrücken	Hafenstraße

A total of TEUR 7,676 in impairments were made on individual properties in recent years based on an appraisal from an independent expert. In the present consolidated financial statements, total impairments of TEUR 2,098 were performed for the following properties as well:

Frankfurt a. M.	Herriotstraße
Offenbach	Strahlenberger Straße
Saarbrücken	Hafenstraße
Homburg	Am Forum

A write-up of TEUR 430 was made for one property:

Berlin	Fanny-Zobel-Straße

In the appraisal, market value was ascertained based on FSI, a reasonable property rate, standard land value, construction defects, costs of maintenance and, if applicable, lease agreements.

The book value of inventories pledged as security for the Group's obligations (Frankfurt, Herriotstraße, Moosburg, Am Mühlbachbogen) was TEUR 10,364.

Inventories recognized as expenses in 2008 consisted of the sale of the Duisburg logistics center project, acquisition of the Moosburg project and other capitalized project expenses.

C.8 Trade Receivables

The TEUR 129 in current trade receivables are all receivable from third parties.

C.9 Other Current Assets

In TEUR	31.12.2008	31.12.2007
Accounts receivable from Arge "de Hoek"	0	376
Accounts receivable from MRT (Mountleigh Roland Ernst) B.V.	0	394
Currency futures	89	0
Other assets	105	389
Total	**194**	**1,159**

The accounts receivable from Arge "de Hoek" and MRT consist of loans to a project company in Schiphol, Holland in which ADLER AG holds an interest through this company. These loans have been reclassified as "other loans".

C.10 Tax Claims

Current tax claims consist primarily of claims based on overpayment of taxes.

C.11 Liquid Funds

Liquid funds comprise as follows:

In TEUR	31.12.2008	31.12.2007
Cash in banks	6,263	5,833

C.12 Capital Stock

The individual components of shareholders' equity and the change in shareholders' equity over 2008 are described in the Statement of Shareholders' Equity.

The capital stock of ADLER AG amounts to TEUR 15,000 and is divided into 15,000,000 no-par-value bearer shares.

On August 24, 2006, the General Meeting resolved to authorize the Management Board, with the consent of the Supervisory Board, to raise the company's capital stock by up to EUR 7,500,000 (authorized capital) through August 23, 2011, in exchange for cash and/or non-cash capital contributions, by issuing new bearer shares, either at once or in multiple stages. This authorization has not yet been exercised.

SHARE BUYBACK

On June 19, 2008, the General Meeting resolved to authorize the company to buy back its own shares comprising up to 10% of the company's existing capital stock through December 18, 2009, for the purposes which are admissible in accordance with § 71 (1) No. 8 of the Corporations Act. This authorization has not yet been exercised.

CONVERTIBLE BOND AND CREATION OF CONDITIONAL CAPITAL II

By resolution of the General Meeting of June 26, 2007, the Management Board is authorized, with the consent of the Supervisory Board, to issue warrant and/or convertible bonds made out to the bearer with an aggregate par value of up to EUR 100,000,000.00 and a term of no more than ten years through June 25, 2012, at once or in multiple stages, and to grant the holders of warrant and/or convertible bonds warrant and/or conversion rights for up to 6,500,000 new bearer shares in the company in accordance with the terms of the warrant or convertible bonds. This authorization has not yet been exercised.

On June 26, 2007, the General Meeting adopted a conditional increase in the capital stock by up to EUR 6,500,000.00 by issuing up to 6,500,000 bearer shares. This conditional capital increase serves exclusively to settle warrant and/or convertible bonds issued based on the General Meeting's authorization of June 26, 2007, through June 25, 2012. This authorization has not yet been exercised.

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

cominvest Asset Management GmbH of Frankfurt am Main, Germany, disclosed pursuant to § 21 (1) of the Securities Trading Act that its voting share in ADLER AG fell below the 3 % threshold on February 5, 2008, and is now 0.99 %.

Third Avenue Real Estate Opportunities Fund, L.P., of New York, USA, disclosed pursuant to § 21 (1) of the Securities Trading Act that its voting share in ADLER AG exceeded the 5 % threshold on February 7, 2008, and is now 5.31 %.

Earnings reserves consist of adjustments to the opening balance sheet in the course of the switch from the German Commercial Code to IFRS in financial year 2005 (first-time adoption).

C.13 Capital Reserve

The capital reserve originates from the capital increase on June 11, 2006. The amount in excess of the par value were transferred to the capital reserve, minus the cost of the capital increase in the amount of TEUR 1,610 (IAS 32.37). The expense for the executive stock option plan in financial year 2008, TEUR 74, was also transferred to the capital reserve.

C.14 Currency Translation Reserve

The exchange rate difference arising from the consolidation of Adler McKinney LLC, using the rate on the balance sheet date, in the amount of TEUR 101, was transferred to the reserve with no effect on profit and loss.

C.15 Pension Accruals

Pension accruals disclosed prior to December 31, 2008, were recognized and measured using the projected unit credit method. The disclosure includes pensions and vested rights known as at the balance sheet date as well as expected future increases in pensions and salaries. Actuarial gains and losses are recognized in the year of their accrual, with effect on profit and loss. The commitments consist exclusively of old commitments to departed employees and are financed entirely through provisions.

The following major actuarial assumptions were made:

In %	31.12.2008	31.12.2007
Discount rate	5.5	5.5
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

Since pension accruals relate only to old commitments to departed employees, a fluctuation of 0 % was assumed.

The change in pension accruals in 2007 and 2008 is described in the table below:

In TEUR	2008	2007
Jan. 1	798	901
Actuarial gain	–2	–110
Interest expense	42	39
Pensions disbursed	–32	–32
Dec. 31.	806	798

The pension accruals are consistent with defined benefit obligations (DBO) on each balance sheet date.

TEUR 32 of the pension accruals qualify as current liabilities. Expenses recognized in the income statement are as follows:

In TEUR	2008	2007
Actuarial gain	–2	–110
Interest expense	42	39
Pension expense/reversal of accrual on December 31	40	–71

The interest expense was recognized under net financial income, all other expenses were recognized in personnel expenses.

C.16 Other Provisions and Accrued Liabilities
Other provisions and accrued liabilities changed as follows in financial year 2008:

In TEUR	Position 01.01.2008	Utilization	Reversal	Transfer	31.12.2008	Non-current
Provision for warranties	950	138	220	45	637	592
Obligations to remove contamination	1,023	0	0	0	1,023	0
Other	37	0	7	0	30	0
Total	**2,010**	**138**	**227**	**45**	**1,690**	**592**

The **provision for warranties** exists to cover statutory and contractual warranty obligations arising from the sale of real property. The provision was measured by estimating the cost of remedying possible defects. Utilization is possible insofar as recourse cannot be taken against subcontractors.

Obligations to remove contamination involve expenses necessary to decontaminate the soil for a real property disclosed under inventories.

Other provisions involve the risk of imminent litigation.

C.17 Financial Liabilities
A loan relationship was renegotiated through a loan agreement dated December 20, 2006, leading to disposal of the existing loan obligation and addition of the new loan obligation and debtor warrant (IAS 39.40). An adjustable rate of interest has been selected for the loan. The loan is classified as a non-current liability in view of the option to extend the loan. In the course of appraising the property, a remeasurement will be made of the debtor warrant which arose from the debt waiver announced by LBBW on December 30, 2006. The debtor warrant depends on the realizable sale price. On the balance sheet date, the loan had an outstanding principal of TEUR 3,875 and is to be amortized at 2% plus accrued interest.

This loan is secured by land charges at the expense of the hereditary building right on the real property in Frankfurt-Niederrad in the amount of TEUR 4,000, through assignment of the rent for the office building, by means of equitable assignment at first, and through a letter of support from ADLER for the consolidated subsidiary which owns the real property.

A subsidiary obtained a loan of TEUR 3,885 for the acquisition and development of a real property. The interest rate is 5.4% and the outstanding principal on the balance sheet date was TEUR 2,300. The loan is disclosed as a non-current liability in view of the possibility of prolongation.

The loan is secured by land charges against the real property in Moosburg, Am Mühlbachbogen, in the amount of TEUR 3,885, through the assignment of all current and future claims against the buyer, assignment of payment claims arising from the general contractor agreement which is yet to be concluded and a letter of support from ADLER for the consolidated subsidiary which owns the real property.

In TEUR	31.12.2008	31.12.2007
Accounts payable to banks	6,245	5,268
· thereof, non-current	6,176	5,188
· thereof, current	69	80

The increase in accounts payable to banks in the amount of TEUR 977 results from receipt of a new loan for a residential project minus amortization.

C.18 Tax Liabilities

Tax liabilities comprise accounts payable to the revenue service in the form of corporation tax, solidarity mark-up and trade tax relating to Fiscal Years 2007 and 2008, as well as EK 02 back taxes under the Annual Tax Act of 2008.

C.19 Trade Payables

In TEUR	31.12.2008	31.12.2007
Trade payables	944	475

All trade payables are current and payable to third parties.

C.20 Other Current Liabilities

Other current liabilities, in the amount of TEUR 812, consist primarily of accrued liabilities for outstanding accounts (TEUR 445), the negative market value of an interest hedging transaction (TEUR 267) and other (TEUR 100).

D Notes to the Consolidated Income Statement

D.1 Net Revenues

2008 net revenues came to TEUR 9,174 (previous year: TEUR 5,414) and consisted of proceeds from the sale of the Duisburg logistics center project, rent from leased parking spaces on the real properties in Frankfurt, Offenbach and Saarbrücken, rent for commercial and retail space in Grünstadt as well as asset management and property management fees.

Operating lease disclosures in accordance with IAS 17.56

	Reporting period: 2008	2009	2010–2013	Starting 2014
TEUR		Less than one year	1–5 years	More than 5 years
Amount of minimum lease payments at balance sheet date under non-cancellable operating leases	87	144	143	0

D.2 Net Change in Inventories

Negative changes in inventories were primarily attributable to the Duisburg logistics center project and the sale of that property, which was disclosed under inventories. Positive changes in inventories resulted from the capitalization of project development costs for other properties, particularly the Moosburg property.

D.3 Other Operating Income

Other operating income, in the amount of TEUR 1,629 (previous year: TEUR 10,504), comprises income from the reversal of accounts payable to banks (TEUR 456), income from the reversal of provisions (TEUR 220) and the derecognition of provision-like liabilities (TEUR 174). It also includes a write-up for a real property (TEUR 430) and TEUR 349 in other income. TEUR 89 of other income was generated by a currency hedging transaction.

D.4 Cost of Materials

Cost of materials consists primarily of project costs for the real properties in Moosburg, Duisburg and the other commercial and residential properties.

D.5 Personnel Expenses

In TEUR	2008	2007
Wages and salaries	1,791	1,513
Social security contributions	230	174
Total	**2,021**	**1,687**

The increase in personnel expenses over the previous year is attributable to the increase in the number of employees in 2008.

Under IAS 19.38, employer statutory annuity insurance contributions are classified as defined contribution plans. These expenses amounted to TEUR 96 in the reporting year (previous year: TEUR 73).

D.6 Depreciation and Allowances

In TEUR	2008	2007
Depreciation on intangible assets (scheduled)	11	4
Depreciation on property, plant and equipment (scheduled)	65	124
Depreciation on property, plant and equipment (unscheduled)	96	0
Depreciation on inventories (unscheduled)	2,098	289
Amortization of loans (unscheduled)	2,709	0
Total	**4,979**	**417**

D.7 Other Operating Expenses

In TEUR	2008	2007
Administrative expenses	616	673
Legal and consulting expenses	361	440
Occupancy costs	197	283
Office and IT supplies	211	149
Accounting and auditing costs	186	349
Public relations	90	89
Allowances	0	38
Other	762	350
Total	**2,423**	**2,371**

D.8 Earnings from Companies Measured At-Equity

We refer to our statements under C5.

D.9 Net Financial Income

In TEUR	2008	2007
Interest income	346	579
Financing expense	632	508
Total	**–286**	**71**

The explanation for the decline in interest income from 2007 to 2008 is as follows: TEUR 193 came from interest on loans to subsidiaries and TEUR 153 from interest on fixed-interest accounts. Of the interest expense, TEUR 328 consists of non-current liabilities, TEUR 211 consists of the expense from an interest rate hedging transaction, TEUR 86 relates to the discounting of provisions and TEUR 7 to other interest expenses.

D.10 Taxes on Income

Taxes on consolidated pre-tax income deviates as follows from the theoretical tax rate which would result if the corporation tax rate of 32.275% were used:

In TEUR	2008	2007
Actual tax expense in previous years	18	185
Actual tax income in previous years	–114	–120
Actual tax expense for future years	0	34
Actual taxes, current year	122	10
Deferred taxes	–93	–453
Net tax expense	**–67**	**–343**
IFRS tax proceeds pre-tax earnings	–4,197	6,930
Expected tax expense (Group tax rate: 32.275%)	–1,377	2,703
Tax-free income	2,190	–2,668
Use of non-capitalized loss carryforwards	–860	–294
Other	90	–183
Taxes in current year	**43**	**–442**
Tax income and expense, past and future years	–110	99
Total taxes	**–67**	**–343**
Group tax rate	–1.05%	–6.38%

Deferred tax claims for temporary differences and tax loss carryforwards are only recognized if it is likely that the temporary difference or loss can be deducted from future taxable income. A total of TEUR 282 in deferred tax assets were disclosed in the reporting year and deducted from tax loss carryforwards.

D.11 Earnings per Share

Undiluted earnings per share is determined by dividing total earnings available to the shareholders of ADLER AG by the weighted average number of shares in circulation during the year.

	2008	2007
Consolidated earnings available to shareholders of ADLER AG, in TEUR	–4,197	7,406
Weighted average number of shares in circulation	15,000,000	15,000,000
Undiluted earnings per share, in EUR	–0.28	0.49

In financial year 2008, diluted earnings per share were **EUR –0.28 (2007: EUR 0.49)**.

Consolidated earnings are taken from the consolidated income statement. The number of shares is determined to the day, including the 5.0 million new shares created on July 27, 2006. The 200,000 stock options accepted on July 14, 2006, were also considered to the day for diluted earnings.

E Financial Instruments

E.1 Additional Disclosures for Financial Instruments

(A) ASSIGNMENT TO CATEGORIES

ADLER Group assigns financial instruments to categories as required by IFRS 7 using a method analogous to the one used for balance sheet items. The tables below show the conversion of book values for each IFRS 7 category (balance sheet items) to the IAS 39 categories on each balance sheet date.

31.12.2008	Total book value	Book value of financial instruments
In TEUR		
IFRS 7 categories – Assets		
Available-for-sale financial assets (AFS)	154	154
Trade receivables (LAR)	3,046	3,046
Other current assets (LAR)	129	129
Other current liabilities	194	185
Liquid funds (LAR)	6,263	6,263
IFRS 7 categories – Liabilities		
Financial liabilities (OL)	6,245	6,245
Trade payables (OL)	944	944
Other current liabilities (OL)	812	758
Aggregated by IAS 39 categories		
Loans and receivables (LAR)		9,623
Available-for-sale financial assets (AFS)		154
Financial assets at fair value through profit or loss (AAFV)		0
Financial liabilities at fair value through profit or loss (LAFV)		267
Financial liabilities measured at amortized cost (OL)		7,680

31.12.2007	Total book value	Book value of financial instruments
In TEUR		
IFRS 7 categories – Assets		
Available-for-sale financial assets (LAR, AFS)	156	156
Other lendings	5,011	5,011
Trade receivables (LAR)	306	306
Other current assets (LAR)	1,158	945
Liquid funds (LAR)	5,833	5,833
IFRS 7 categories – Liabilities		
Financial liabilities (OL)	5,268	5,268
Trade payables (OL)	475	475
Other current liabilities (OL)	960	913
Aggregated by IAS 39 categories		
Loans and receivables (LAR)		12,095
Available-for-sale financial assets (AFS)		156
Financial assets at fair value through profit and loss (AAFV)		0
Financial liabilities at fair value through profit and loss (LAFV)		56
Financial liabilities measured at amortized cost (OL)		6,600

Measurement of financial instruments under IAS 39				Fair value of financial instruments
Updated amortized cost	Amortized cost	Fair value independent of profit or loss	Fair value through profit or loss	
0	154	0	0	154
3,046	0	0	0	3,117
129	0	0	0	129
185	0	0	0	185
6,263	0	0	0	6,263
6,245	0	0	0	6,243
944	0	0	0	944
491	0	0	267	758
9,623	0	0	0	9,623
0	154	0	0	154
0	0	0	0	0
0	0	0	267	267
7,680	0	0	0	7,680

Measurement of financial instruments under IAS 39				Fair value of financial instruments
Updated amortized cost	Amortized cost	Fair value independent of profit or loss	Fair value through profit or loss	
0	156	0	0	156
5,011	0	0	0	5,161
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	156	0	0	156
0		0	0	0
0	0	0	56	56
6,600	0	0	0	6,463

(B) FAIR VALUE DISCLOSURES

The fair value of financial instruments traded in an active market is generally based on the market price as at the balance sheet date. The relevant market price for financial assets is the current bid price. The fair value of financial instruments which are not traded in an active market is determined using valuation models.

The fair value of derivatives may be positive or negative. If no market value exists, fair value is determined using accepted valuation models. The fair value of interest rate swaps is determined as the present value of estimated future cash flows. In the case of derivatives, fair value is also determined by the relevant financial institutions.

To determine fair value for primary financial instruments, ADLER Group uses its own valuation models (e.g. the DCF method), using assumptions based on market conditions on the balance sheet date.

The IFRS 7 category available-for-sale financial assets: Includes TEUR 154 in shares in non-publicly traded companies (2007: TEUR 156) for which no reliable market value can be determined. The shares are measured at amortized cost. There are no plans to sell these shares in the near future.

In the case of trade payables and receivables and other current financial assets and liabilities, it is assumed that fair value is the nominal value minus allowances.

The fair value of other non-current accounts receivable maturing in more than one year is the present value of all payments associated with those assets with due regard for existing interest rate parameters, which reflect market- and partner-related changes in terms and expectations. The fair value of non-current financial liabilities disclosed in the Notes is determined by discounting contractually stipulated future cash flows at the current market interest rate (3.98%, previous year: 6.61%) given to ADLER Group for comparable financial instruments.

(C) NET INCOME FROM FINANCIAL INSTRUMENTS

Net income from financial instruments is shown in the table below, sorted by IAS 39 categories.

	Net result, 2008			Net result, 2007		
TEUR	**Interest**	**Gains/ Losses**	**Total**	**Interest**	**Gains/ Losses**	**Total**
Available-for-sale financial assets (AFS)	0	0	0	0	0	0
Loans and receivables (LAR)	346	–2,709	–2,363	576	–36	540
Financial instruments at fair value through profit and loss (AAFV/LAFV)	0	–211	–211	0	–56	–56
Financial liabilities measured at amortized cost (OL)	–328	456	128	–378	0	–378
Total	**18**	**–2,464**	**–2,446**	**198**	**–92**	**106**

Interest income and expenses arising from financial instruments represent part of the net income determination. Gains/losses consist of allowances on the loan to OPUS LP, for a loss of TEUR 2,709, income from the reversal of accounts payable to banks, representing a gain of TEUR 456, and the effects of fair value measurement.

No commission income or expenses accrued during these years from financial instruments other than financial instruments at fair value through profit or loss.

E.2 Risks and Risk Management

(A) PRINCIPLES OF RISK MANAGEMENT

Through its operations, ADLER Group is exposed to a variety of financial risks, including market risk (consisting of currency risk, interest rate risk and price risk), default risk and liquidity risk.

The Group's comprehensive risk management system focuses on the unforeseeability of developments in the financial markets and aims to minimize the impact of negative developments on the Group's financial position. The Group uses selected derivative instruments to hedge against certain risks.

Risk management is performed by the Group's central finance department in accordance with guidelines issued by the Management Board. The finance department identifies, evaluates and hedges against financial risks, in close consultation with the Group's operating units. The Management Board defines principles for interdivisional risk management, as well as guidelines for specific units, such as guidelines for handling currency risk, interest risk and credit risk, for the use of derivative and non-derivative instruments and for the investment of surplus liquidity.

(B) MARKET RISK

Market risks may result in fluctuating earnings, equity and cash flow. ADLER Group has developed a variety of strategies to mitigate or eliminate these risks, including the use of derivatives.

(i) Currency risk

Currency risk arises when future transactions, assets or debts are denominated in a currency other than the company's functional currency. ADLER Group's operations (real estate investments) are concentrated in the euro zone. All loans are in euros. Insofar as foreign-currency financing is obtained, the risk of exchange rate fluctuations is precluded through currency hedging transactions.

(ii) Interest rate risk

ADLER Group is exposed to interest rate risks almost exclusively within the euro zone. The interest rate risk is divided into market interest rate risk and cash flow interest rate risk.

Market interest rate risk, i.e. the risk that the fair value of a financial instrument will change due to changes in market interest rates, exists primarily for fixed-interest medium- and long-term accounts receivable and payable. However, since ADLER Group reports these instruments at updated acquisition cost, not fair value, this risk does not directly impact shareholders' equity or earnings. Market interest rate risk with a potential impact on earnings does exist for interest rate derivatives.

ADLER Group is exposed to a cash flow interest rate risk with a potential impact on earnings in connection with financial instruments which carry variable interest rates (loans, liquid funds, financial liabilities and interest rate derivatives). Since it is generally difficult to obtain long-term interest rate commitments for real estate projects, the cash flow interest rate risk relates particularly to the Group's adjustable-rate financial liabilities, which are constantly monitored and managed in light of planned and existing debt structure. Interest hedging transactions are executed when desirable for risk management purposes.

As part of interest rate risk management, i.e. in order to reduce cash flow interest rate risk, the company executed an interest hedging transaction in 2007 (a TEUR 3,900 interest rate swap) which caps financing costs for the Group's debt. This swap was not classified as a cash flow hedge pursuant to IAS 39 and therefore fully affects profit and loss.

Under IFRS 7, interest rate risk must be described using a sensitivity analysis showing the impact of changes in market interest rates on interest income and expenses, and possibly other components of earnings and shareholders' equity. In the past two years, changes in interest rates affected ADLER Group's net interest income alone. The calculation is generally based on the position at the end of each year. Insofar as this position is not representative of the year as a whole, an adjustment is made accordingly.

Sensitivity analysis: interest rate risk	31.12.2008		31.12.2007	
In TEUR				
Adjustable variable: interest rate	+100 basis points	–100 basis points	+100 basis points	–100 basis points
Net interest income	+184	–150	+121	–199

The increased sensitivity of net interest income from 2007 to 2008 is attributable to the Group's participation in rising and falling interest rates through the swap hedge for the LBBW loan.

(iii) Market price risk

Market price risk is the risk of changes in the value of financial instruments due to fluctuating market prices. The Group has equities which are classified in the consolidated balance sheet as assets "available for sale." However, since the equities in question are shares in limited liability companies which are not publicly traded and which are valued at acquisition cost, the Group is not directly exposed to a price risk in this regard. Due to the nature of its operations, the Group is also not exposed to price risk with respect to the price of raw materials.

(C) DEFAULT RISK

Default risk is the risk that contracting partners will be unable to meet their contractual payment obligations. The maximum default risk is the book value of all original and derivative financial assets, plus guarantees.

Risk management is handled on the Group level for the entire Group. Rules are in place to ensure that transactions are only executed with partners who have demonstrated adequate payment practices in the past. Contracts for derivative financial instruments and other financial transactions are only concluded with top-rated institutions. The Group's policy is to limit credit risk in connection with any one institution. The Group does not have any significant credit risk concentrations.

The tables below show age structure analyses depicting the default risk for each category defined in IFRS 7.

Balance sheet date: December 31, 2008 TEUR	Book value financial instru-ments	Thereof, neither overdue nor impaired	Therefore, not impaired and overdue < 30 days	30–90 days	91–180 days	> 180 days
Available-for-sale financial assets	154	154	0	0	0	0
Other lendings	3,046	3,046	0	0	0	0
Trade receivables	129	129	0	0	0	0
Other current assets	185	185	0	0	0	0
Liquid funds	6,263	6,263	0	0	0	0
Total	**9,777**	**9,777**	**0**	**0**	**0**	**0**

Balance sheet date: December 31, 2007 TEUR	Book value financial instru-ments	Thereof, neither overdue nor impaired	Therefore, not impaired and overdue < 30 days	30–90 days	91–180 days	> 180 days
Available-for-sale financial assets	156	156	0	0	0	0
Other lendings	5,011	5,011	0	0	0	0
Trade receivables	305	305	0	0	0	0
Other current assets	1,158	1,158	0	0	0	0
Liquid funds	5,833	5,833	0	0	0	0
Total	**12,463**	**12,463**	**0**	**0**	**0**	**0**

For accounts receivable which are neither overdue nor impaired, there are no indications that the debtors will be unable to meet their payment obligations.

In the past two years, ADLER Group has had no financial assets which would actually be overdue or impaired if the contractual terms were not renegotiated.

In financial year 2008, no financial assets in the IFRS 7 category trade receivables were directly written off (2007: TEUR 38).

Impairments are measured on a case-by-case basis with due regard for quantitative and qualitative factors. The change in impairments over the past two years was as follows:

TEUR	Jan. 1	Transfer	Adjustment, previous year	Change in consolidated companies	Use	Derecog-nition	Reversal	31 Dec.
2008	32,653	0	202	0	0	99	0	32,756
2007	595	0	0	32,061	0	0	3	32,653

All of the impairments involved trade receivables which are overdue by more than 180 days.

No major cash flows (payment of interest and/or principal) resulted in the past two years from impaired receivables.

ADLER Group does not hold any collateral as security for default risks in connection with trade receivables and, during the past two years, no collateral was received which meets the criteria for recognition.

(D) LIQUIDITY RISK

Liquidity risk is the risk that the Group will experience cash shortages and have to refinance at higher rates as a result. For this reason, conservative cash management includes maintaining an adequate cash reserve, the availability of adequate financing through confirmed lines of credit and the ability to issue new shares. ADLER Group maintains a group-wide cash management system, the object of which is to ensure that the Group can make its payments at all times by maintaining adequate cash reserves and optimizing the internal cash pooling system

As at the balance sheet date, ADLER Group had TEUR 6,263 in liquid funds (previous year: TEUR 5,833).

The maturity analysis shown below indicates contractually stipulated (undiscounted) cash flows from primary financial liabilities and derivative financial instruments as at the relevant balance sheet date. The analyses include all financial instruments which existed as at the relevant balance sheet date. Estimates of new liabilities were not included. Adjustable-rate interest payments were included based on the spot rates in effect as at the relevant balance sheet date.

Balance sheet date: December 31, 2008		**Payments**		
TEUR	**2009**	**2010**	**2011–2013**	**> 2013**
Financial liabilities	571	2,758	1,001	5,236
Trade payables	944	0	0	0
Other current liabilities	758	0	0	0
Total	**2,273**	**2,758**	**1,001**	**5,236**

Balance sheet date: 31 December 2007		**Payments**		
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
Total	**1,756**	**1,168**	**956**	**6,182**

(E) CAPITAL RISK MANAGEMENT

The Group's objectives with respect to capital management are to ensure the Group's ability to continue to operate and continue generating income for shareholders and providing services to other interested parties while preserving the optimal capital structure. In the interests of preserving or modifying capital structure, the Group will issue new sales as necessary or sell assets in order to pay off debts. In accordance with typical industry practice, the Group measures its capital strength using the debt ratio, or net debt divided by total capital. Net debt is comprised of total liabilities (including trade payables and other accounts payable disclosed in the consolidated balance sheet) minus cash and cash equivalents. Total capital is the shareholders' equity reported in the consolidated balance sheet plus net borrowings.

As at December 31, 2008, the debt ratio was 5.3%, up from 2% on December 31, 2007.

F Other Notes

F.1 Critical Accounting Estimates and Judgments

All estimates and judgments are routinely reassessed and are based on past experience and other factors, including expectations with respect to future events which appear reasonable under the circumstances.

The Group makes estimations and assumptions with regard to the future. Naturally, the estimates which are derived from these assumptions are very rarely precisely consistent with the conditions which actually materialize. The estimates and assumptions which involve a significant risk that the book values of assets and liabilities will have to be adjusted in the next financial year are explained below.

The most significant risks to the company's business may arise in connection with projects. The company therefore avails itself of the services of independent experts. Estimates are necessary in the projects business, particularly in connection with provisions for impairment of land with finished and unfinished buildings and allowances for accounts receivable. The company made these estimates based on the information and knowledge available as at the balance sheet date.

In order to recognize sufficient allowances for trade receivables, the value of each receivables portfolio was assessed. This assessment was essentially performed based on historical values, age structure and the status of accounts receivable in the process of reminders and collections.

With respect to active and passive litigation, provisions are set aside based on the estimation of the Management Board and the attorneys representing the Group companies, and assets are recognized if the criteria for recognition are met.

F.2 Liabilities

As at December 31, 2008, operating lease liabilities existed based on lease agreements and support agreements.

In TEUR	31.12.2008	31.12.2007
Lease liabilities		
· Maturing in less than one year	171	195
· Maturing between 1 and 5 years	434	463
Total	**605**	**658**
Support agreement liabilities		
· Maturing in less than one year	287	181
· Maturing between 1 and 5 years	24	32
Total	**311**	**213**

Liabilities arising from lease agreements resulted primarily from the lease of office space within the framework of non-cancellable operating leases. No purchase or extension options exist.

Real properties held as current assets are encumbered in the amount of TEUR 7,885 as security for liabilities.

F.3 Related Party Disclosures

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

The subsidiary Adler McKinney LLC of Texas, USA, has concluded an asset management agreement with Vanguard Property Management Inc., Georgia, USA, under which Vanguard Property Management Inc. will advise and represent the interests of Adler McKinney LLC in connection with its investment with Worthing Lake Forest LLC, Georgia, USA. For its services, Vanguard Property Management Inc. will receive compensation in the amount of USD 2,000 a month. USD 4,000 was paid to Vanguard Property Management Inc. in financial year 2008. The company is owned by Supervisory Board member John D. Heikenfeld, who also serves as its President.

As at December 31, 2008, the following major accounts receivable and payable existed to or from related companies or persons:

Accounts receivable from related companies

In TEUR	31.12.2008	31.12.2007
Arge "de Hoek" GbR, Cologne	46	376
MRT (Mountleigh Roland Ernst) B.V., Rotterdam, NL	574	394
Airport Center Luxembourg GmbH, Luxembourg, LUX	1,608	1,481
Opus LP Holdings S.à.r.l., Bertrange, LUX	3,526	3,530

The accounts receivable from Airport Center Luxembourg GmbH, MRT Mountleigh and OPUS LP S.à.r.l. consist of interest-bearing loans with a term of more than one year.

All aforementioned income, compensation for services and charges were settled using the arm's length principle.

Key management of ADLER AG includes the Supervisory and Management Boards. The remuneration of these persons was as follows:

In TEUR	2008	2007
Supervisory Board remuneration	34	91
Management Board salaries and other short-term benefits	357	317
Stock-based Management Board compensation	74	149
Total	**465**	**557**

At the General Meeting of April 21, 2006, the shareholders resolved, with a vote of 99.95%, to dispense with individualized disclosure of Management Board remuneration for financial years 2006–2010. No remuneration was paid in financial year 2008 to former Supervisory and Management Board members.

STOCK OPTION PLAN

The General Meeting first approved a stock option plan for the ADLER AG Management Board on April 21, 2006. The options entitle each holder to buy ADLER stock at a strike price of EUR 3.88 a share following expiration of the vesting period. The vesting period is two years for a third of the options, three years for another third and four years for the rest. Another prerequisite for exercise of the options is that the relative performance of the Company's shares between the issue date and the exercise date must be better than the performance of the MDAX over the same period. Performance is measured by taking the average closing prices of the stock or index in the last ten trading days prior to the issue date or exercise date. The stock options can only be exercised during a four-week period beginning on the fifth banking day following publication of the end-of-year financial statements or a Company quarterly report. The options have a maximum term of seven years.

Valuation of the options was performed using a Monte Carlo simulation, which is an admissible valuation method pursuant to IFRS 2. In a Monte Carlo simulation, future stock performance is simulated and the value of the options is defined as the expected distribution amount once the options are exercised, assuming nominal distribution of returns. The following parameters apply for the valuation:

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

The volatility of the stock was measured based on performance over the last six months since direct measurement over a comparable historical period would not be a reliable indicator of future volatility in view of the Company's history. This volatility is consistent with the volatility of comparable companies when measured over a period of three years.

By resolution of the Supervisory Board on June 27, 2006, the members of the Management Board were given 100,000 stock options each. The options were accepted on July 14, 2006.

The fair value of the two-year options is EUR 1.30, the three-year options have a fair value of EUR 1.50 and the four-year options have a fair value of EUR 1.66. An expense of TEUR 74 was incurred in financial year 2008 in this regard.

F.4 Auditor Fees

A total fee of TEUR 189 was paid in 2008 to the auditor (2007: TEUR 96), including TEUR 116 for auditing the end-of-year financial statements, TEUR 47 for other audit services and TEUR 26 for other services.

F.5 Employees

The average number of employees was as follows:

	2008	2007
Management Board members	2	2
Permanent employees	20	17
Total	**22**	**19**

F.6 Segment Reporting

Reporting by segment was dispensed with since the Group's individual segments did not meet the size thresholds of IAS 14, and the Group therefore operates exclusively as a real estate project developer in Germany.

F.7 Notes to the Consolidated Cash Flow Statement

Cash and cash equivalents represent total liquid funds. Cash flow is divided into current business activity, investment activity and financing activity. Cash flow from current business activity was determined using the indirect method.

After adjusting for income and expenses with no effect on cash flow, write-ups in income and inventories from the reversal of provisions and changes in working capital, ADLER Group had a net cash flow from current business activity of TEUR 1,885 (previous year: TEUR –4,847).

The negative cash flow from investment activity (TEUR –2,443; previous year: positive cash flow, TEUR 3,730) was marked by outflows in connection with the investments in DB Immobilien GmbH and in the McKinney project.

The positive cash flow from financing activity was due primarily to receipt of the loan for the Moosburg project.

Cash and cash equivalents increased by TEUR 430.

F.8 Events After the Balance Sheet Date

No events requiring disclosure took place after the balance sheet date.

F.9 Share Ownership List

Share ownership indicates ownership of direct or indirect shares in the consolidated companies. The shareholders’ equity and earnings of the consolidated companies are disclosed in accordance with the accounting rules of the German Commercial Code.

Company	Capital stock %	Registered office	Subscribed capital 31.12.2008 TEUR	Shareholders' equity 31.12.2008 TEUR
1. Affiliated Companies				
ADLER Real Estate AG		Frankfurt	15,000	29,226
ADLER Real Estate Service GmbH	100	Hamburg	1,500	2,699
Verwaltungsgesellschaft Adler Real Estate mbH	100	Hamburg	26	319
Erste ADLER Real Estate GmbH & Co. KG[2]	100	Hamburg	52	52
Dritte ADLER Real Estate GmbH & Co. KG[2]	100	Hamburg	52	52
Fünfte ADLER Real Estate GmbH & Co. KG[2]	100	Hamburg	52	52
Achte ADLER Real Estate GmbH & Co. KG[2]	100	Hamburg	52	52
Zehnte ADLER Real Estate GmbH & Co. KG[2]	100	Hamburg	52	52
Adler Real Estate Properties GmbH & Co. KG[2]	100	Hamburg	200	200
Siebte Verwaltungsgesellschaft Adler Real Estate mbH	100	Hamburg	30	1,127
Adler Projekt Homburg GmbH	100	Hamburg	25	69
Adler Real Estate Hotel GmbH	100	Hamburg	25	11
MÜBAU Real Estate GmbH	100	Hamburg	517	706
Münchener Baugesellschaft mbH	100	Hamburg	500	5,224
MBG Bayern GmbH	100	Hamburg	25	17
MBG Dallgow GmbH & Co. KG[2]	100	Hamburg	100	100
MBG Großbeeren GmbH & Co. KG[2]	100	Hamburg	100	100
MBG Trachau GmbH & Co. KG[2]	100	Hamburg	100	100
MBG Moosburg GmbH & Co. KG[2]	100	Hamburg	740	740
ADLER Lux S.à.r.l.	100	Luxembourg	12	–235
ADLER Real Estate Projekt Saarbrücken GmbH	100	Hamburg	25	25
Adler Mc Kinney LLC	100	Texas/USA	1,591	1,585
Adler US Real Estate GmbH	100	Hamburg	25	1,615
2. Investments (working groups)				
Arge "de Hoek" GbR[1]	50	Cologne	0	2,659
Airport Center Luxembourg GmbH	10	Luxembourg	375	–21,411
DB Immobilien GmbH	29	Heidelberg	2,755	500
Worthing Lake Forest LLC	30	Texas/USA	3,782	0

[1] Annual Financial Statement as at December, 31, 2007.

[2] This company exercises the exemption option pursuant to § 264 b of the Commercial Code with respect to disclosure requirements.

All affiliated companies are fully consolidated.

Except for Arge "de Hoek" all investment ventures were consolidated at equity.

F.10 The Management and Supervisory Boards

The Management Board of ADLER Real Estate Aktiengesellschaft, Hamburg, comprises the following members:

- 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 total Supervisory Board remuneration in financial year 2008 was TEUR 34 (year before: TEUR 91).

The following members of the Supervisory and Management Boards of ADLER Real Estate Aktiengesellschaft, Frankfurt am Main, served on Supervisory Boards and other executive bodies in other companies in terms of § 125 (1) Sentence 3 of the Corporations Act:

Mr. Peter Pahlke:

- Heidenreich & Harbeck Aktiengesellschaft, Mölln (Chairman)

Ms. Barbara Yaltrak, Mr. Axel Harloff, Mr. Andreas Helwig and Mr. John D. Heikenfeld did not serve in other executive bodies in terms of § 125 (1) Sentence 3 of the Corporations Act.

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

The annual declaration of compliance in accordance with § 161 of the Corporations Act has been issued by the Management Board and made available to shareholders by publication on the Company's website.

RESPONSIBILITY STATEMENT

We hereby affirm that, to the best of our knowledge and in accordance with the applicable accounting principles, the consolidated financial statements convey a true and fair view of the Group's financial, earnings and liquidity position and the consolidated management report presents a true and fair view of the course of business, including the company's earnings and position, as well as describing the major risks and opportunities of future development.

Frankfurt am Main, March 27, 2009

Barbara Yaltrak Axel Harloff

Auditor's Report

We have audited the consolidated financial statements of Adler Real Estate Aktiengesellschaft, Frankfurt am Main, consisting of the balance sheet, income statement, statement of shareholders' equity, cash flow statement and Notes, as well as the consolidated management report, for the financial year from January 1 to December 31, 2008. Preparation of the consolidated financial statements and consolidated management report in accordance with IFRS as those standards are applied in the EU, as well as the applicable provisions of commercial law in accordance with § 315 a (1) of the Commercial Code, is the responsibility of the Management Board. Our task is to submit an assessment of the consolidated financial statements and consolidated management report based on our audit.

We have conducted our audit of the consolidated financial statements in accordance with § 317 of the Commercial Code observing the German generally accepted auditing principles established by the German Institute of Independent Auditors (IDW). Accordingly, the audit is to be planned and executed in such a manner that inaccuracies and violations with a substantial impact on the representation in the consolidated financial statements, observing generally accepted accounting principles, and the view of the company's financial, earnings and liquidity position conveyed by the consolidated management report are identified with adequate certainty. In defining the audit actions, consideration was given to information as to the company's business activities, the economic and legal environment of the company and expectations as to potential errors. In the course of the audit, the effectiveness of accounting-related internal controlling systems and documentation for information given in the consolidated financial statements and consolidated management report were assessed, largely based on random spot checks. The audit included an assessment of the financial statements of the companies included in the consolidated financial statements, the definition of consolidated companies, accounting and consolidation principles applied by the Group, the essential estimations by the Management Board and an evaluation of the overall representation in the consolidated financial statements and consolidated management report. We believe that our audit forms a sufficiently secure basis for our assessment.

Our audit did not lead to any objections.

In our assessment, based on the information obtained during the audit, the consolidated financial statements are in compliance with IFRS, as applied in the EU, as well as the applicable provisions of commercial law in accordance with § 315 a (1) of the Commercial Code, and convey a true and fair view of the Group's financial, earnings and liquidity position. The consolidated management report is consistent with the consolidated financial statements and generally gives an accurate presentation of the Group's position and accurately represents the opportunities and risks of future development.

Hamburg, March 27, 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Richard Müllner)	(ppa. Alexander Fernis)
Auditor	Auditor

At a Glance

Supervisory Board	
Peter Pahlke	Chairman, Heikendorf
Andreas Helwig	Deputy Chairman, Hamburg
John D. Heikenfeld	Atlanta/Georgia, USA
Board of Management	
Axel Harloff	Hamburg
Barbara Yaltrak	Seevetal
Company Facts	
Registered Office Location	Frankfurt am Main, Registration No. HRB 7287
Administrative Address	ADLER Real Estate Aktiengesellschaft Neuer Wall 77 20354 Hamburg Germany Tel.: +49-40-2981-300 Fax: +49-40-2981-3099 E-mail: info@adler-ag.de
Website	www.adler-ag.de
Investor Relations	german communications dbk ag Alsterufer 34 20354 Hamburg Germany Tel.: +49-40-4688-330 Fax: +49-40-478-180 E-mail: contact@german-communications.com
Subscribed Capital	EUR 15 million.
Classification	15 million non-par shares
Arithmetical Value	EUR 1 per share
Voting Details	1 vote per share
Stock Details	15 million non-par shares SIN 500 800 ISIN DE0005008007
	Ticker Symbol ADL Reuters ADLG.DE
Designated Sponsors	Close Brothers Seydler Bank AG, Uni Credit/Bayerische Hypo- und Vereinsbank AG (until April 18, 2009)
Stock Exchanges	Xetra, Frankfurt am Main, Berlin-Bremen, Düsseldorf, Hamburg, Munich
Indices	CDAX, DIMAX
Fiscal Year	Calendar year