ADLER REAL ESTATE

2014

Annual Report 2014

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

ADLER REAL ESTATE

Annual Report of

ADLER Real Estate Aktiengesellschaft

for business year 2014

Key Financial Figures

in EUR '000			
Profit and loss key figures	**2014**	**2013**	**Change in %**
Income from real estate management	83,882	17,839	370.2
Net income from the disposal of real estate	2,386	635	275.7
Adjusted EBITDA	27,175	2,976	813.2
Balance sheet key figures			
Market value property portfolio	1,170,159	417,865	180.0
EPRA NAV	342,213,638	94,592,016	261.8
LTV in % *	68,7%	66,9%	2.7
EPRA NAV per share in EURO **	10,74	5,72	87.8
Non-financial key figures			
Number of rental units under management	25,559	7,797	227.8
thereof proprietary units	24,086	7,797	208.9
Number of units sold	1,217	16	7.506.3
thereof privatised units ***	837	n/a	n/a
thereof non-core units sold	380	16	2.275.0
Occupancy rate in % ****	87,2%	91,0%	-4.1
Monthly in-place rent in €/m² *****	5,02	5,14	-2.3
Number of employees (as at 31st Dec. 14)	102	20	410
Other key financials			
EBITDA	170,942	64,348	165.7
EBT	132,760	63,017	110.7
Consolidated result	111,571	46,876	138.0
Cashflow from operating activities	16,749	11,934	40.3
Cashflow from investing activities	-208,272	-94,199	121.1
Cashflow from financing activities	217,688	88,076	147.2

* excluding convertible bonds
** based on the number of shares outstanding as at 31 December 2014
*** short financial year (six months 01 July 2014 to 31 December 2014)
**** proprietary rental units
***** in-place rent as at 31 December 2014

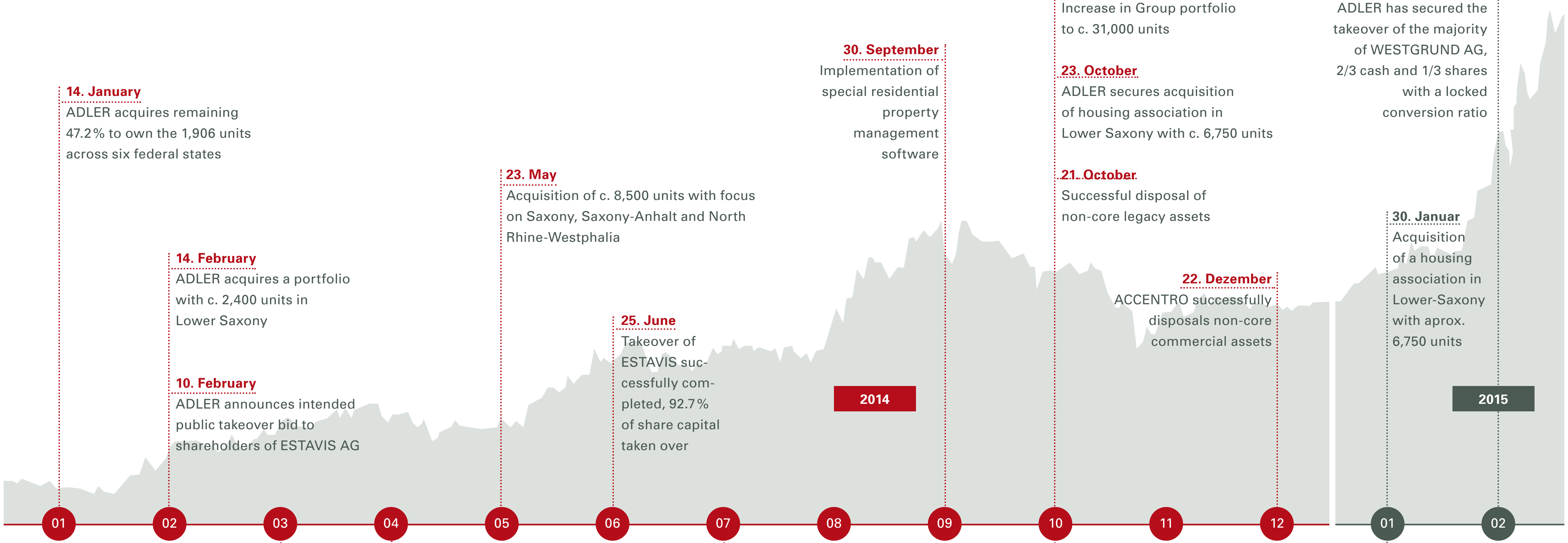
Key Property Portfolio Figures

Federal State	Rental units	Total rental area in sqm	Proportion of total portfolio in % (sqm)	Average rent in EUR per sqm*	Occupancy rate in %	Market value in EUR
North Rhine-Westphalia	9,575	644,038	41.66	5.02	86.20	509,221
Saxony	4,633	288,191	18.64	4.60	85.58	185,767
Lower Saxony	3,055	188,063	12.17	4.77	85.10	119,401
Saxony-Anhalt	2,133	122,550	7.93	4.69	86.52	76,821
Berlin	1,255	79,004	5.11	5.21	99.00	74,072
Thuringia**	1,019	51,796	3.35	5.20	94.35	37,499
Schleswig-Holstein	638	35,643	2.31	5.88	93.05	31,404
Brandenburg	550	42,680	2.76	4.97	91.02	39,371
Hesse	521	48,969	3.17	6.66	88.31	51,822
Mecklenburg-Western Pomerania	409	18,999	1.23	6.94	92.48	19,579
Bavaria	161	14,158	0.92	5.62	79.43	11,406
Baden-Wuerttemberg	69	5,733	0.37	8.01	87.32	10,170
Rhineland-Palatinate	68	5,946	0.38	5.04	74.80	3,976
Total	**24,086**	**1,545,768**	**100.00**	**5.02**	**87.24**	**1,170,509 €**

* Target rent as at 31 December 2014
** Excluding project development Erfurt, including non-current assets held for sale

Contents

ADLER Highlights 2014 until Start of 2015



14. January
ADLER acquires remaining 47.2% to own the 1,906 units across six federal states

10. February
ADLER announces intended public takeover bid to shareholders of ESTAVIS AG

14. February
ADLER acquires a portfolio with c. 2,400 units in Lower Saxony

28. March
Corporate bond, EUR 50m

22. April
Capital increase by payment in kind in the form of conversion against shares of ESTAVIS AG

23. May
Acquisition of c. 8,500 units with focus on Saxony, Saxony-Anhalt and North Rhine-Westphalia

25. June
Takeover of ESTAVIS successfully completed, 92.7% of share capital taken over

15. July
Corporate bond tap, EUR 50m

30. September
Implementation of special residential property management software

21. October
Successful disposal of non-core legacy assets

23. October
ADLER secures acquisition of housing association in Lower Saxony with c. 6,750 units

28. October
ADLER subsidiary acquires c. 4,300 residential units, Increase in Group portfolio to c. 31,000 units

29. October
Capital increase c. 10% of share capital, i.e. 2.85m new shares

22. Dezember
ACCENTRO successfully disposals non-core commercial assets

15. January
Corporate bond tap, EUR 30m

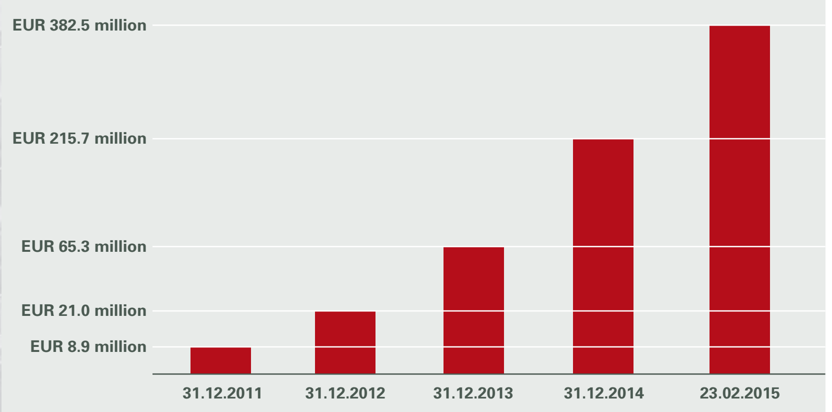
30. Januar
Acquisition of a housing association in Lower-Saxony with aprox. 6,750 units

16. February
ADLER has secured the takeover of the majority of WESTGRUND AG, 2/3 cash and 1/3 shares with a locked conversion ratio

Building and Maintaining Value

ADLER Real Estate AG has developed into one of the leading residential property management companies in a very short period of time. Just two and a half years after the strategic realignment, the company took over or secured majority interests in portfolios comprising approx. 31,000 rental units. The total property value reached a sum of EUR 1.071 billion by the end of 2014. Through its expertise and high level of professionalism, the company has convinced its shareholders and the capital market as a whole of its ability to make the right acquisition decisions and quickly build up an organisation that is able to successfully manage and develop the real estate portfolios that were taken over.

Market capitalisation



Optimisation with Social Responsibility

ADLER achieved a great deal in the financial year 2014. The number of residential units including those already secured through notarisation was nearly quadrupled. ADLER also expanded the portfolio optimisation business area by acquiring a majority interest in ACCENTRO Real Estate AG (formerly ESTAVIS AG), allowing it to grow into the largest German company in the field of residential property privatisation. ADLER views housing privatisation as an essential component of retirement planning in the medium to long term for an increasingly broad segment of the population.

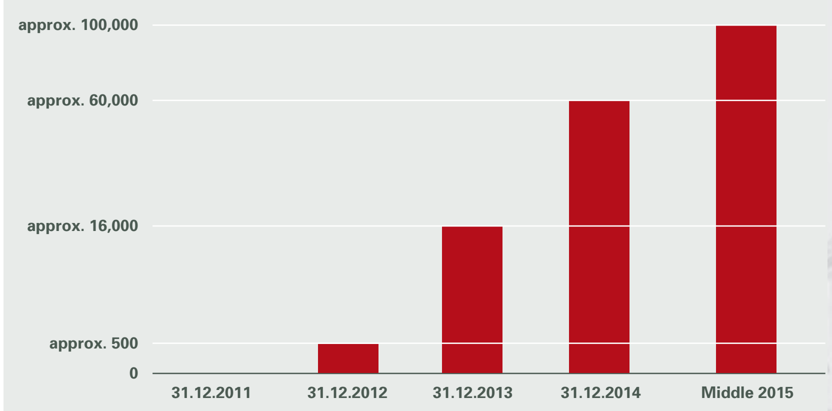
Selected portfolios are released for privatisation with a special focus on maintaining a balance between social responsibility and private initiative for capital investments and retirement planning.

Soon to be 100,000 Tenants in ADLER Real Estate Apartments

Rapid growth has led to a significant increase in responsibility towards the company's customers, namely its tenants. An estimated total of 60,000 tenants are living in ADLER apartments. With the confirmed majority takeover of WESTGRUND AG, this number will increase to over 100,000 tenants by the midpoint of 2015.

The apartments are administered by external property management companies as well as local management companies owned by the group, which possess extensive experience in housing management acquired over many years and a high level of technical expertise. Local partners are integrated into a central asset management system. For asset and property management, ADLER counts on the software solution "iX-Haus" developed by Nemetschek Crem Solutions GmbH & Co. KG which has already been implemented for parts of the portfolio in 2014. This represents an integrated asset and property management solution to support the rapidly growing management volume going forward. The software provides an overview of the overall situation in the various portfolios at all times. It also shows occupancy and rental income statuses and trends, as well as potential rental development, and supports investment controlling for the purposes of optimum portfolio management.

Development of the number of tenants in ADLER apartments



Living with ADLER means a Secure Home

The apartments of ADLER are mesnt fo be a refreat and a place to feel at home for the tenants. In its asset management activities, ADLER therefore pursues the goal of consistently modernising its residential complexes so that they meet the needs of the tenants. Energy efficiency upgrades are, gradually planned as well over time, giving tenants an added benefit of reductions in heating costs.

ADLER Real Estate AG meets the needs of the various tenant groups in different ways:

- To help them stay in their familiar surroundings for as long as possible, apartments are offered that provide older people with largely unrestricted, self-determined mobility and care in everyday life. Accessibility, lifts, handles and onsite support where applicable are important issues.

- Special concepts for single mothers are aimed at helping the affected women in day-to-day life. Well-renovated apartments, advice and support in dealing with public authorities, birth preparation classes and relationship issues are among the cornerstones of living-related services.

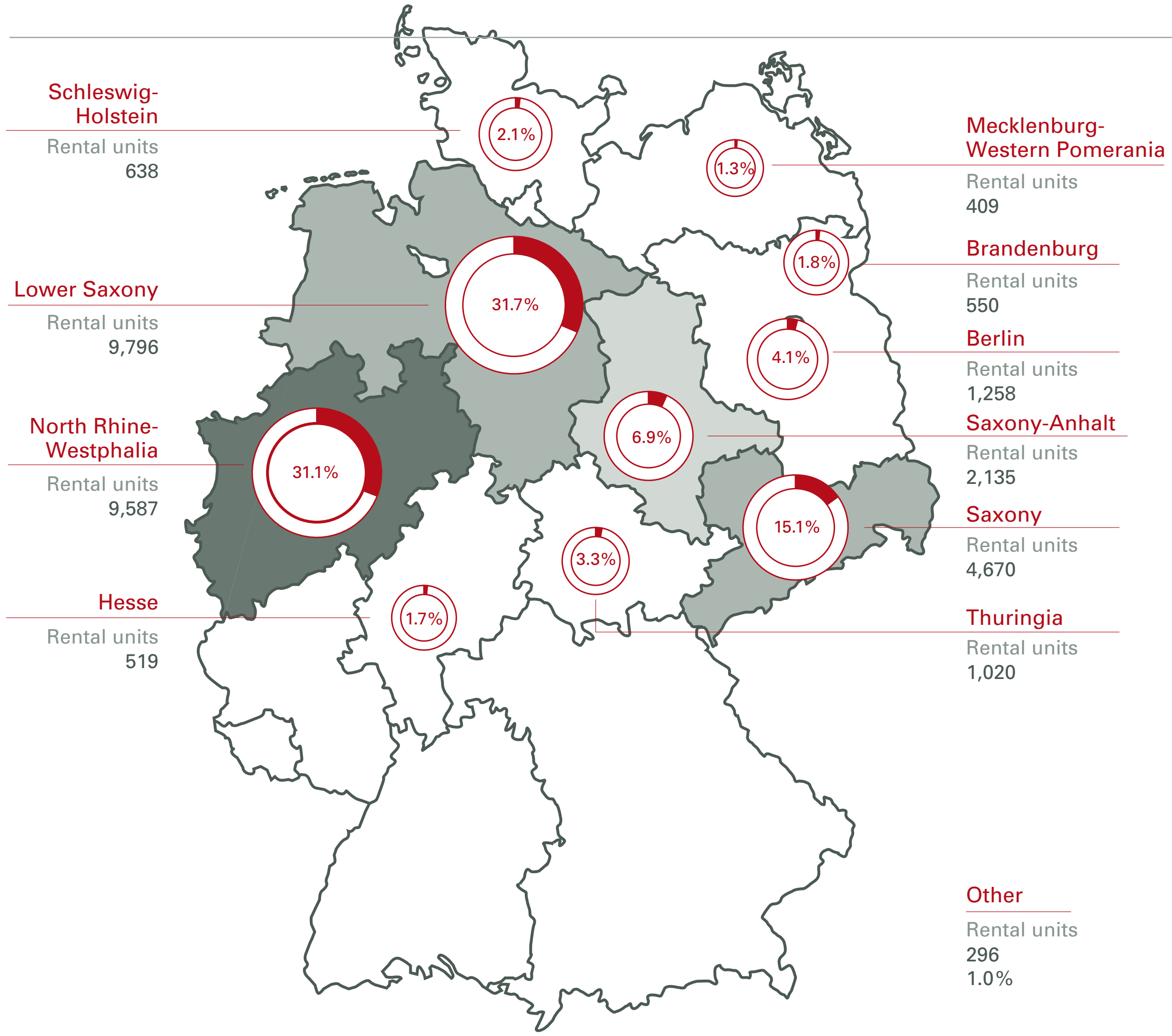
- Through its local partners, ADLER is already addressing the needs of the growing number of immigrants. In addition to suitable living space for families who are of-ten large in number, advice is offered in dealing with public authorities and dona-tions of toys, clothing and furniture as well as meals are frequently provided.

- The local ADLER partners work with companies which often require temporary accommodation for their employees (companies in the building industry, food service industry or tourism).

- Competitively priced living space, including furnished apartments, is offered for students in suitable centrally located residential complexes.

Building and maintaining value, living in a secure home, advice on vital issues – the strong growth of ADLER Real Estate AG will continue in 2015 based on these guiding principles.

Distribution of the Portfolios over Germany



Data as of January 31, 2015

"In business year 2014 residential real estate portfolios comprising a total of c. 23,000 rental units have been acquired"

Top Seven Residential Property Locations owned by ADLER Real Estate AG

ADLER Real Estate AG is focused on establishing and developing a substantial portfolio of residential properties in B-locations or on the outskirts of large metropolitan areas across Germany. In the financial year 2014, the company acquired or obtained residential portfolios including a total of approximately 23,000 rental units (acquisition to be completed in early 2015). As a result, since the end of January 2015, ADLER has approximately 31,000 rental units (of which approximately 870 are commercial properties). About half of its apartments are located in or around large metropolitan areas (Ruhr area, Berlin, Leipzig/Dresden).

Most of ADLER's apartments are located in the federal states of Lower Saxony (approximately 9,800 units), North Rhine-Westphalia (approximately 9,600), and Saxony (approximately 4,700). The secured majority holding in WESTGRUND AG, Berlin, will increase the portfolio of the new ADLER Group to include a total of 51,300 residential and commercial units. Along with the takeover of Wohnungsbaugesellschaft Jade mbH completed at the end of January 2015 (and still excluding WESTGRUND), that results in the top locations presented on the following pages.

	Location	Rental Units
1	Wilhelmshaven	6,849
2	Duisburg	4,163
3	Helmstedt/Schöningen	2,177
4	Leipzig/Halle (Saale)/Borna	1,437
5	Berlin	1,258
6	Dortmund/Gelsenkirchen/Bochum	1,117
7	Dresden/Meißen/Pirna	1,016

1: Wilhelmshaven

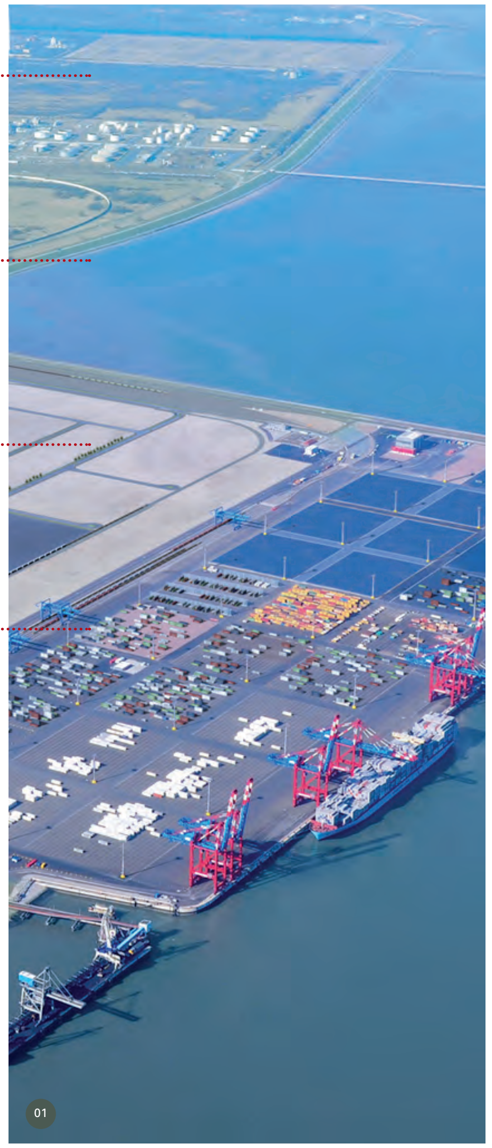
403,028 m²
rental area

6,849
rental units

4.59 EUR
average rent/m²

92.4 %
occupancy rate

Data as of January 31, 2015



01 JadeWeserPort – Germany‘s largest harbour project
02 Ölhafendamm
03 Norfolkstraße
04 Kolberger Straße
05 Albrechtstraße

"Wilhelmshaven is currently developing into a modern location for the provision of services especially for port related topics"

In October 2014, ADLER agreed the takeover of Wohnungsbaugesellschaft Jade mbH, including its property and facility management companies. The transaction was completed at the end of January 2015. Thts ensured ADLER a total of 6,849 units in Wilhelmshaven, including 60 commercial units. The occupancy rate is approximately 92 percent.

Wilhelmshaven is in the Bremen/Oldenburg metropolitan region and is situated on the Jade Bight. The city is dominated by the port industry and a major navy base and, after poor economic development over the last 20 years, is transforming into a modern hub for port and other services. After teething problems, JadeWeserPort, a new deep-water terminal, is expecting a significant increase in business in 2015. Its current handling capacity is 2.7 million TEU (twenty-foot equivalent units, the size of a standard container), and transshipments are expected to increase from just 67,000 TEU in 2014 to between 450,000 and 500,000 TEU in 2015. The Lower Saxony Ministry of Economic Affairs is even considering a further 100% increase in the capacity of the deep-water port by 2025.

That growth is driven by the constantly increasing size of container ships, which have capacities of 20,000 standard containers or more and lengths of up to 400 meters, and will lead to greater numbers of giant ships docking in Wilhelmshaven. That means JadeWeserPort will increasingly compete with the Port of Hamburg, even if the Elbe is adapted to accommodate such large ships. The development of the necessary land-side infrastructure and the increase in transshipments should drive progressive economic growth in Wilhelmshaven, creating new jobs and reversing the decrease in the town's population.

2: Duisburg

261,491 m^2
rental area

4,163
rental units

5.05 EUR
average rent/m^2

93.2 %
occupancy rate

Data as of January 31, 2015

ADLER has 4.163 units in the Rheinhausen district of Duisburg, 93 percent of which were rented at the end of 2014. The occupancy rate is significantly higher than the group average of approximately 87 percent. Duisburg is in the process of transforming from an industrial centre to a city focused on new technology and services. The city is located at the north-eastern edge of the Ruhr area. It is home to Europe's biggest river port and is the most important location in the European steel industry. However, it is also becoming a centre for international trade and logistics. Over the past few years, Duisburg has also established brand-new centres of competency in the areas of IT, telecommunications and microtechnology, material technology, personal services, environment and energy, and logistics, as well as increasing local tourism and its urban entertainment offering. With some 30,000 students, the University of Duisburg-Essen is also a source of fresh impetus with a focus on the future.

The changes in Duisburg has been ongoing for a number of years, leading to reduction in population and one of the highest unemployment rates in Germany. However, the number of people moving to the city has increased considerably, and has already led to the revision of older demographic forecasts. The influx of people into the city is also a key factor in the consistent development of residential rents.

01 Schwanentor Bridge in Duisburg
02 Beethovenstraße
03 Lortzingstraße
04 Brückenstraße
05 Mozartstraße

"Duisburg-Essen University with its approx. 30,000 students provides new, future-oriented inspirations"

3: Helmstedt/Schöningen

126,544 m²
rental area

2,177
rental units

4.83 EUR
average rent/m²

86.6 %
occupancy rate

Data as of January 31, 2015

ADLER has a total of 2,177 rental units in Helmstedt and Schöningen, which is located to the south of Helmstedt. The occupancy rate in Helmstedt is just less than 96 percent – one of the highest rates in the ADLER Group. The takeover included a large number of vacant apartments in Schöningen, which are gradually being renovated and modernised before being sold or rented easily.

Helmstedt is close to the Braunschweig/Wolfsburg region, which has strong economic development largely driven by the continued growth of the Volkswagen Group. The unemployment rate is below the federal average. Along with VW, economic development is determined by energy companies engaged in lignite mining and power generation.

Schöningen is working to build its reputation as the “town of spears” worldwide – excavations in the town uncovered 300,000-year-old spears, the oldest hunting weapons ever discovered. The town’s “Paläon” museum is part of an effort by the Lower Saxony state government to promote tourism in this once remote area on the former inner German border.

01 Schöningen: Wilhelm-Busch-Straße
02 Helmstedt: Raabestraße
03 Schöningen: Weinberg
04 Schöningen: Paläon – Museum Schöninger Speere
05 Schöningen: Clausfeld-Müller-Mühlenbeinstraße

“Due to their location, Helmstedt and Schöningen will benefit from the growing Volkswagen Group”

4: Leipzig/Halle(Saale)/Borna

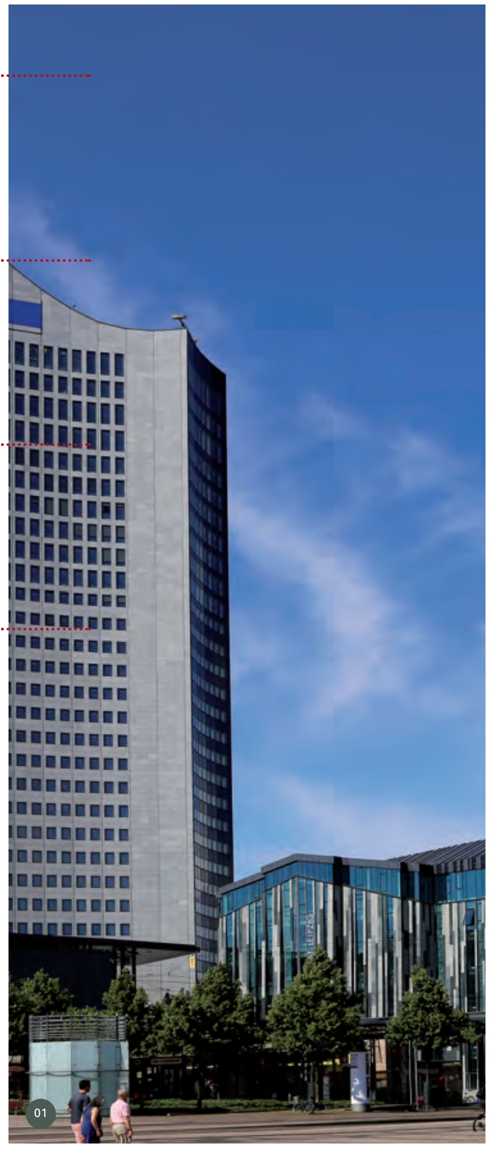
83,135 m²
rental area

1,437
rental units

4.45 EUR
average rent/m²

81.2 %
occupancy rate

Data as of January 31, 2015



01

02

03

04

05

01 Augustusplatz in Leipzig
02 Leipzig: An der Luppe
03 Halle: Carl-Zeiss-Straße
04 Halle: Wittenberger Straße
05 Borna: Magdeborner Straße

The greater Leipzig area, including Halle an der Saale to the north and Borna to the south, has one of the strongest economies in former East Germany. ADLER holds 1,437 rental units in the area, including 1,411 residential units.

Since the reunification, Leipzig has seen particularly intensive modernisation and has been able to revive its traditional role as a location for exhibitions and a centre for the automobile and electronics industries. A new exhibition centre with an airport and motorway has been developed in the city.The Leipzig book fair and the "Auto Mobil International" show are of particular international importance. Porsche and Siemens have also established new, modern locations in the area. Leipzig University, the second oldest German university, after Heidelberg, has just less than 30,000 students. The population of Leipzig is growing rapidly – in 2013 it increased by more than two percent. Optimistic forecasts estimate that the city's population will grow from its current level of 530,000 to 632,000 by 2030.

Borna, located to the south, approximately halfway between Leipzig and Chemnitz, is profiting from the strong economic development of the region. Its economy is dominated by the chemical and plastic, communication, control technology, service and retail industries. The Leipzig economic region, including Halle an der Saale, located to the north, is home to approximately one million people. The population of Halle decreased as a result of the reunification, but that trend has been reversed, with a slight increase since the end of the last decade.

"A completely new exhibition site with airport and autobahn secures the reputation of Leipzig as exhibition city"

5: Berlin

79,104 m²
rental area

1,258
rental units

5.30 EUR
average rent/m²

98.8 %
occupancy rate

Data as of January 31, 2015

ADLER has 1.258 units in the German capital, Berlin. The agreed majority holding in WESTGRUND will increase that number to an expected 3.200 units by mid-2015.

Since its rebirth as the capital of Germany, Berlin has become one of Europe's most important cities. The city benefits from its position as the political centre of Germany, which has a knock-on effect on the media, culture and tourist industries, and all other areas of the economy. Berlin is growing; its population is expected to increase by a further 200,000 residents by the end of 2030. However, residential property in the city remains considerably lower-priced than in any other capital city in the industrialised world. While the average rent for an unheated flat in Berlin is a little more that EUR 6.00 per square meter, in Greater Paris (within the orbital motorway) the equivalent rent is approximately EUR 40. Demand for flats in the popular central areas of the German capital is very high, and supply is far from sufficient. Property prices and rents in Berlin will continue to rise indefinitely.

01 The German Federal Chancellery
02 Uhlandstraße
02 Falkenberger Chausse
03 Sigismundstraße

"Berlin is growing. Until 2030 the city will gain another 200,000 residents which will foster the reputation of an international hotspot"

6: Dortmund/Gelsenkirchen/Bochum

76,370 m²
rental area

1,117
rental units

4.43 EUR
average rent/m²

89.3 %
occupancy rate

Data as of January 31, 2015

ADLER has a total of 1.117 rental units at the heart of the Ruhr area, including 786 in Dortmund alone.

The Ruhr area has been undergoing major changes for decades. The end of coal mining and the decline of the steel industry have led the region to look for new ways to grow. Dortmund is the biggest centre in the German micro systems technology industry, and is hosting home to 26 companies with around 1,700 employees in this rapidly developing sector, as well as the IVAM Microtechnology Network.

Also Gelsenkirchen focuses on future technologies as well as an increased services sector. The city could position itself as a so-called “solar city”, as companies for the development and production of this technology are located there. Bochum to date is home of nine colleges including the Ruhr University, being one of Germany’s largest universities with 40,000 students. This cluster for science and research causes positive spillover effects for the settlement of new companies.

The changes taking place in the aforementioned cities caused a significant deceleration of the demographic decline and lead to a stabilisation. Long-term forecasts predict only moderate declines and have however not yet recognised the significant increase in immigration.

01 Modern architecture in Dortmund
02 Gelsenkirchen: Devenstraße
03 Dortmund: Brechtstraße 4–18
04 Bochum: Frankenweg 27
05 Bochum: Frankenweg 50

“After decades of structural changes now innovative concepts ensure the leap across to the modern”

7: Dresden/Meißen/Pirna

62,748 m²
rental area

1,016
rental units

4.83 EUR
average rent/m²

88.2 %
occupancy rate

Data as of January 31, 2015

A total of 1.016 ADLER rental units are located in the Dresden metropolitan area.

The capital of Saxony – known as the Florence of the Elbe because of its baroque and Mediterranean architecture – is one of Germany's leading economic centres. It attracts increasing numbers of tourists each year and has excellent prospects for growth. After the reunification, significant investments in high technology and related research were made in Dresden and the surrounding region and the city rapidly became a leading location for the micro-electronics, nanotechnology, new materials and life science industries. That has led to increase of approximately 50% in the city's gross domestic product (GDP) since 1995. It reached the national average in 2009. Between 2000 and the end of 2014, the city's population increased by 13%, from 478,000 to more than 541,000. That figure is expected to increase to more than 585,000 by 2030.

Towns in the Dresden metropolitan area, including Pirna and Meissen – the latter known for porcelain manufacturing – have benefited from this positive development. There has been a significant positive trend in residential property prices since 2009.

01 Church of our Lady in Dredesn
02 Dresden: Hebbelplatz
03 Meißen: Gartenstraße
04 Meißen: Höroldstraße
05 Pirna: Varkausring

"Top location for high technology and home of the world-famous porcelain manufacture – this is where tradition and modern times meet"

The Residential Property Market in Germany

Are we facing a bubble in the markets?
Oversupply of rural apartments?
Immigration as hope or burden?

The German housing market as a whole, and the residential property market in particular, once again became significantly more expensive in 2014. According to 'bulwiengesa', one of the leading market research institutes in the real estate sector, we are seeing a continuation of the boom that has now lasted for more than ten years. Yet in view of the continuing upward trend, more attention is being given to conceivable risks, as their realisation could bring the boom to an end. These include the much-feared real estate price bubble and an increasing imbalance in market development between metropolitan regions and rural areas.

The 'bulwiengesa real estate index' has shown consistently positive developments in value for a decade so far. In fact, the most recent cross-segment plus of 4.0 percent represents both a 20-year high and the sharpest increase in the current real estate cycle since 2005.

As in the years before, urban residential property continues to be the main driving force for the real estate market. The annual growth rate in 2014 according to 'bulwiengesa' was 5.1 percent. Supported by the current low-interest environment, the high demand among private and institutional buyer groups is causing purchase prices (terraced houses plus 6.4 percent, newly constructed owner-occupied flats plus 5.4 percent) to increase more quickly than apartment rents. According to 'bulwiengesa', rents in new buildings have gone up by 3.2 percent and in existing buildings by 3.0 percent.

The rental increase in metropolitan areas has been much higher than average, widening the gap between the increase in rents in metropolitan area and in rural regions even further. According to bulwiengesa, average rents in metropolitan areas across Germany have increased by 3.4 percent in existing buildings and by 3.8 percent in new buildings.
The analysis institute Empirica confirms this trend, based on data obtained from advertisements offering rental units. Since the statistics were first gathered in the first quarter of 2004, rents in new buildings have increased by 15.5 percent across Germany. In urban municipalities the increase stood at 23.2 percent and in rural districts 11.2 percent, while the consumer price index rose by 17.8 percent in the same period. This confirms the trend of price developments for residential rental units in metropolitan areas moving significantly above the rate of inflation, while living in rural areas has become cheaper after adjusting for inflation.

Real Estate Price Index

Source: empirica-real estate price index IV/2014

Developments in the German residential property market are therefore affected by two major factors. Numerous experts and research departments of banks and real estate research institutes are examining the question of whether the significant increase in real estate prices and apartment rents means that a bubble may be forming. If a potential were to burst, this could trigger a capital market crisis similar to that of 2007, when the US real estate market collapsed after an extended boom. On the other hand, long-term forecasts predict a growing oversupply in the housing market, especially in rural regions, related to demographic trends in Germany and the gradual ageing of the population.

On the basis of current developments, it's impossible to say whether any of the two possible scenarios may come to fruition. The major increase in immigration speaks against population of the Federal Republic of Germany "dying off" in the long term and therefore against a possible growing oversupply of residential units. Immigration in 2014 is expected to be at its highest level since 1992. According to estimates by the Federal Statistical Office, nearly half a million more people immigrated than emigrated in 2014.

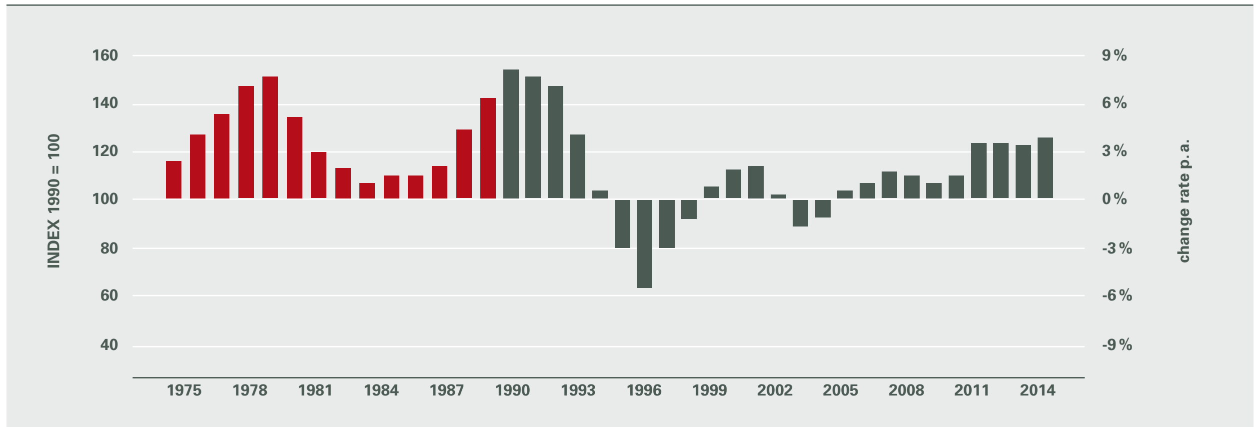
Some three-quarters of the immigrants came from EU countries. Economic researchers naturally have a difficult time predicting future trends when it comes to immigration. On the one hand, immigration from Poland – which has been the largest immigrant group since 1996 according to the Federal Statistical Office – could decrease in the future. On the other hand, the increase in immigrants from crisis regions could dominate the immigration situation. These include immigrants fleeing from civil war Syria, who may become one of the largest groups of immigrants into Germany in the future. Since demographic change intensifies the shortage of skilled workers in particular, there is cross-party political consensus that immigration should in fact be encouraged, if anything, in order to gain qualified young immigrants for the German employment market.

Accommodating immigrants further worsens the shortage of living space in the urban municipalities, i.e. in the metropolitan regions. Especially in already densely populated urban districts, there are no longer any government institutions and virtually no land in order to implement interim solutions if needed. Yet large cities as well as small towns have to accept immigrants according to firmly established allocation formulas that are intended to ensure that the cost of immigration is fairly shared across all of Germany. District towns and regions already suffering from a declining population view immigration as a great opportunity to once again generate economic growth. The plea by the mayor of Goslar to send the city more immigrants is one notable example. This is because Goslar, in the Harz region, is an area in Germany suffering from weak economic development. Therefore, the city's mayor wants to develop a "model region" for the integration of immigrants.

Are we heading for a bubble?

A study by the research department of Deutsche Bank warns of overheating and partly even the formation of a bubble in the German real estate market. This is based on the rapid price increases in recent years, which could continue in 2015 as well. Deutsche Bank Research expects the price of single-family dwellings and existing apartments across Germany to go up by 3 percent, with a 4 percent increase for newly constructed apartments. Possible risks for the German residential property market are all too clear: rising interest rates, a drop in immigration, an increase in speculative real estate investments and a tenant protection policy, which could make real estate increasingly less attractive as an asset class for investors.

bulwiengesa – Real Estate Index for the whole of Germany *

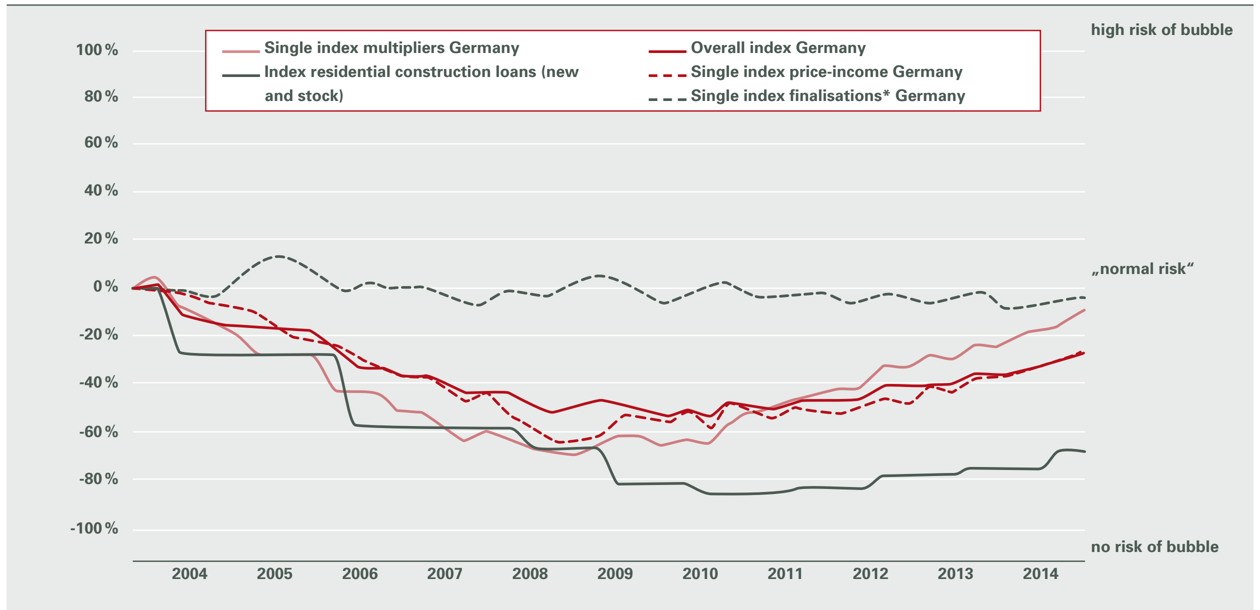


* until 1990 former West Germany, since 1990 whole of Germany

Over the medium term, the increase in real estate inheritance could constitute an additional risk since not all heirs want to hold their property, often preferring to sell it. Inheritance will increase over the medium term due to demographic trends. According to Deutsche Bank Research, real estate valued at around EUR 100 billion will be passed on until 2020. The misgivings of Deutsche Bank Research are not shared by 'bulwiengesa', whose data is also reviewed and used by the German Central Bank. In the long term, the residential property index calculated by bulwiengesa has not yet returned to the real level of 1994, in spite of strong growth since 2005.

The Empirica analysis institute, which has been collecting and evaluating the largest number of real estate advertisements in a database since 2004, has calculated a new "bubble index". This index states that there has been a risk of residential property markets overheating in 73 German administrative districts since the beginning of 2015. This only applied to 49 districts in 2014 and 18 districts three years ago. Yet the institute does not believe there is a risk of a bubble at a national level yet, since the index as a whole – and therefore the bubble risk – remains below the original 2004 level.

Bubble Development



ADLER believes that a number of other factors speak against overheating. This is because the most pronounced price increases and the highest prices were and are seen for luxury real estate in absolute prime locations of German metropolitan areas and select holiday regions, without buyers having to resort to a large proportion of external financing in order to cover the purchase price. Banks and savings banks are controlling real estate financing in the middle market segment by stipulating equity requirements and imposing regulations, thereby preventing excessive and/or speculative third-party financing.

Finally, there are no indications of an excess supply in the market even though new construction figures are going up. According to expert estimates in the spring report on the German real estate sector, around 270,000 apartments will be constructed in Germany during 2015. That would be almost twice as many compared to 2009, yet still significantly fewer compared to Germany's peak years for new construction (up to 600,000 new apartments).

In this context, Empirica reports that only three new apartments were constructed per 1,000 residents in

Germany during 2013. At the height of the real estate bubble in Spain by comparison, this number was nearly five times as high at 15.4 newly constructed apartments per 1,000 residents. According to Empirica, outstanding residential construction loans at that time amounted to 42 percent of the German gross domestic product, while this value was at 63 percent in Spain before the real estate bubble.

Outlook

Notwithstanding the fears described above, research institutes expect the upward trend in the German real estate market to continue in 2015. Ongoing positive general conditions such as low interest rates and high employment are expected to overcompensate for various geopolitical crises, for example in Ukraine and the Middle East. However, 'bulwiengesa' does expect the dynamic growth in the housing market to flatten and the price trend to slow, since the increase in new construction – especially in metropolitan regions – will tend to dampen the increase in rents. This is backed up by the forecast in the spring report on the real estate sector, which is published by the Zentraler Immobilien Ausschuss (ZIA) in conjunction with the GfK Institute, Immobilienscout24, bulwiengesa and Empirica. According to its own information, the ZIA speaks on behalf of 37,000 companies in the German real estate sector.

In addition to the increase in new construction, political intervention in the development of rental rates such as the law to slow rent increases could have an effect as well. Whether, when exactly and how the law will become effective could not yet be predicted by the time this annual report went to print.

ADLER believes that the central factors promoting the demand for apartments will remain in effect over the medium term. The growth in living space consumption which has been ongoing for decades is a key factor. According to the Federal Institute for Population Research (Bundesinstitut für Bevölkerungsforschung - BIB), the consumption of living space per capita increased from 39 m² in the year 1998 to 45 m² in 2010. This growth is the result of higher living standards as well as the changing household structure. The rising number of single and two-person households in particular is responsible for the higher per capita consumption of living space. The ageing population has a corresponding effect as well. While people aged 18 years and up use an average of 30 m² of living space on average, the area for 65-year-olds increases to 55 m². Due to the growing number of older people and the increasing number of single person households, the growth in living space consumption is expected to continue for the time being. More and more older single women in particular, who statistically speaking outlive their husbands by a few years, ultimately live alone in an average living space of around 70 m².

Since persons born in years with high birth rates in Germany (birth year between 1956 and 1964) are now gradually entering retirement age, ADLER believes an increase in the per capita demand for living space can be expected over the period of one generation.

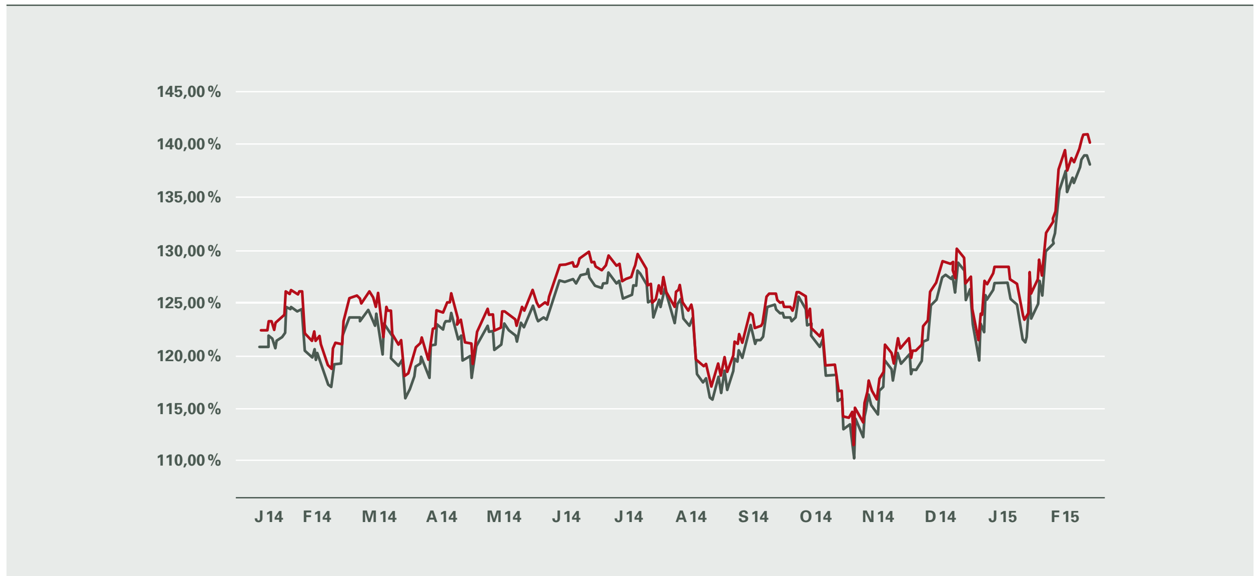
The ADLER Share

Stock Market Sentiment

A turbulent year for the share market ended with the German share index only up marginally by the end of 2014. After rising and falling throughout the year, the DAX ultimately gained by 2.65 percent – after a nearly 23 percent increase the year before. In the end, a horizontal market trend prevailed, with the index moving up and down within a range of 1,000 points. Thereby on 9 June 2014 the DAX exceeded 10,000 points for the first time in its history. Market activity was defined by numerous political crises, partly weak development in many countries of the Euro Zone and the outbreak of war in Ukraine early in the year.

European stock markets were and continue to be largely driven by the European Central Bank, which is indirectly powering the markets with its continued low-interest policy and by providing liquidity. In particular, this led to the strong start of the share markets in 2015. The ECB has decided to flood EUR 1.1 billion of liquidity into the markets until September 2016 by buying government bonds. Due to this dilution as well as the sluggish development in many countries, especially in southern Europe, the value of the Euro was and remains under pressure against other leading currencies.

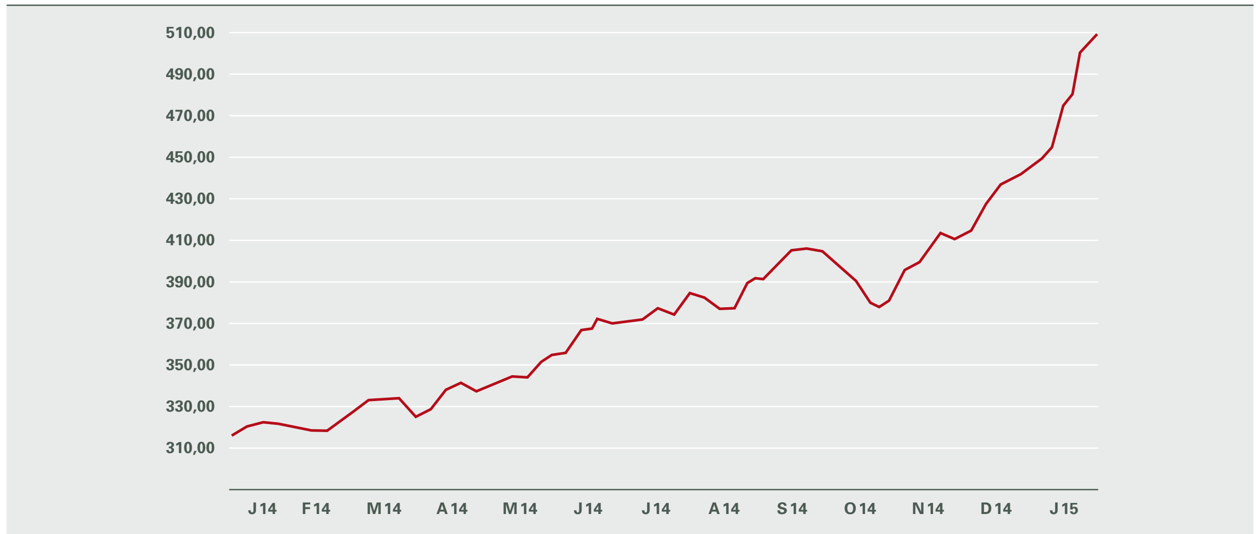
Performance of DAX und des CDAX since January 2014



Development of Real Estate Shares

After the restrained development in 2013, the run on real estate in 2014 had a significant impact on the development of listed German real estate companies. The DIMAX real estate index calculated by the Ellwanger & Geiger bank, which comprises 72 listed real estate equities, increased by more than 40 percent in the course of the year – outperforming the DAX by a considerable margin. The stock market therefore reflected the developments in the markets for investment properties in general and residential real estate in particular. Preliminary figures show that the real estate investment market has generated its highest sales since 2007, the year before the onset of the financial crisis. Demand for residential property as a capital investment (multi-family dwellings, residential complexes, portfolios) was even greater in 2014. The merger of Deutsche Annington AG and Gagfah AG into one of Europe's largest housing portfolio holders was a major boost. After the turn of the year, the DIMAX boom continued and even intensified.

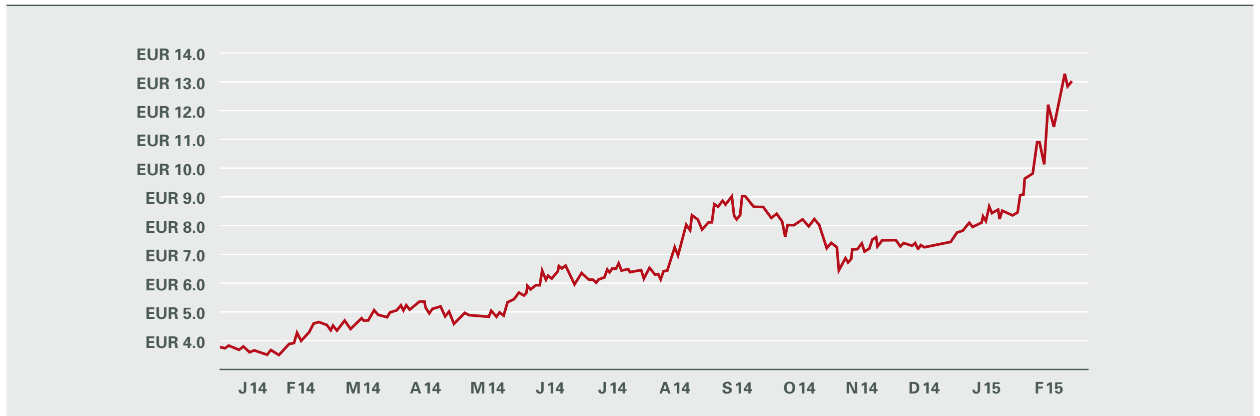
E&G DIMAX (in points)



ADLER Share Price Development

The ADLER share continued its sharp upward trend in 2014. Clearly the share market once again recognised the company's positive development, and especially the further increase in profitable growth during 2014. The share price nearly doubled in the course of the year from EUR 3.94 to EUR 7.44, peaking at times at almost EUR 9.00. Following interim consolidation related to the capital increase, the price of the ADLER share hit new highs in February 2015. Analysts at Oddo Seydler Bank AG continue to recommend buying the ADLER share – with a target price of EUR 12.00. Confirmation of the secured takeover of WESTGRUND AG in mid-February 2015 has already pushed the share price up to this predicted target. As a result, the markets immediately recognised the profitable growth of the ADLER Group enabled by this transaction.

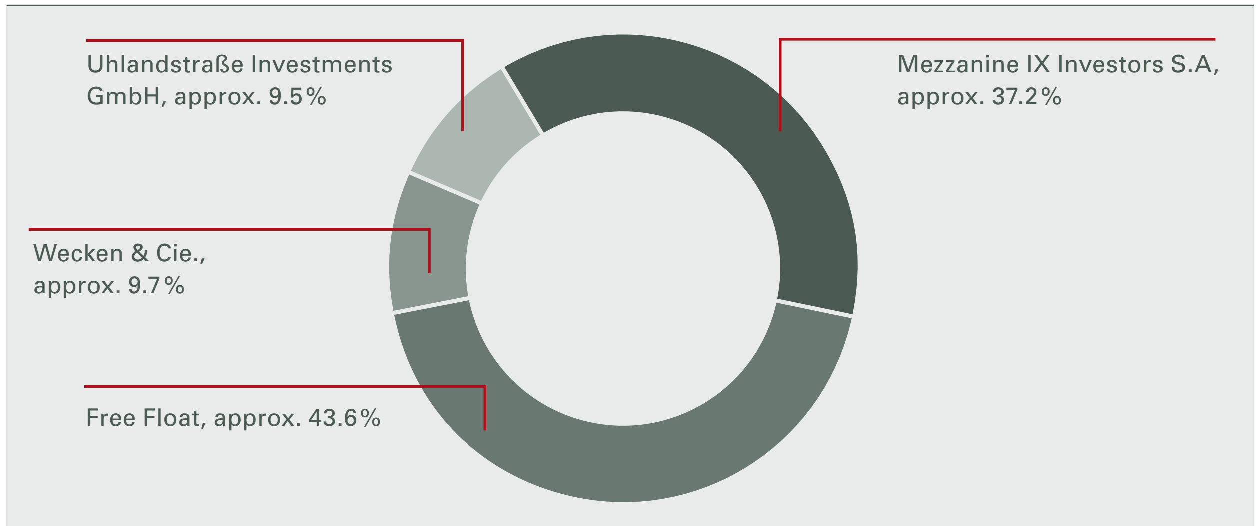
Performance of ADLER Real Estate AG Share



Shareholder Structure of ADLER Real Estate AG

The shareholder structure of ADLER Real Estate AG changed significantly in the course of 2014. This was due to various transactions and capital measures. The swap offer for the takeover of ACCENTRO Real Estate AG (formerly ESTAVIS AG) resulted in a major reshuffle in the shareholder structure midway through the year. With the issue of new ADLER shares in exchange for shares in what was at that time ESTAVIS, the capital stock increased to EUR 28,779,614, or 28,779,614 shares, on 30 June 2014. In October, ADLER increased the share capital by around 10 percent to EUR 31.42 million. In the following months until the end of December 2014, the share capital continued to increase to EUR 31,876,672, or 31,876,672 shares, after holders of the 2013/2017 and 2013/2018 convertible bonds exercised their conversion rights. Mezzanine IX. Investors S.A. remains the largest ADLER shareholder with a stake of 37.15 percent as at 31 December 2014. You will find the current figures on the homepage of ADLER Real Estate AG under www.adler-ag.com in the Investor Relations section. The shareholder structure on 31 December 2014 was as follows:

Shareholder Structure as on December 31, 2014



Financial Communication

ADLER Real Estate AG shares have been traded in the Prime Standard of the Frankfurt Stock Exchange since the beginning of September 2013. Therefore the company is at the highest transparency level for listed companies and continuously meets corresponding communication obligations. In addition to the regular preparation of quarterly reports in German and English, the company participates in capital market conferences as well as seeking and maintaining contacts with investors and their representatives. Thus the company has made itself more attractive to a wider and more international group of investors. To find out more, please visit ADLER Real Estate AG's homepage under www.adler-ag.com where current corporate press releases and other information are published in a timely manner.

Letter from the Management Board

Dear Shareholders,
Dear Sir or Madam,

Financial year 2014 was characterised by our greatest growth to date as a player in the residential real estate market. Including the acquisition that we did complete at the end of January 2015, our Group residential property portfolio quadrupled. Our key performance indicators – our balance sheet, our sales and our profits – also made similar leaps.

We have been able to capitalise on the current market climate and implement our ambitious growth programme in what is likely a unique environment for real estate investments. The capital markets situation, which continues to make refinancing (especially real estate refinancing) at historically inexpensive conditions possible, appears to be unique. And although the continued phase of low interest rates once again strengthened the run on property as a capital investment in 2014, we were able to secure a whole host of highly attractive portfolios featuring residential real estate in our target regions. We were able to acquire these portfolios at reasonable conditions, meaning that we focused in particular on seizing opportunities to purchase property packages. Since we are obliged to comply with international IFRS accounting standards, we have been able to show just how inexpensive these acquisitions were. That is because we were required to make a significant upward adjustment to our balance sheet after every completed transaction due to very positive fair value effects.

We were able to continue building on your trust and the trust of investors. Last year, we again had access to the necessary capital, without which we would not have been able to take such giant steps or gain the trust of those selling major portfolios. The stability of the markets and the trust that our investors and you – our shareholders – have placed in us are all the more remarkable in light of how the political landscape has changed in many parts of the world. It feels as if hardly a week went by without the media reporting on a new and terrible crisis – on wars, civil conflicts, epidemics or entire nations descending into economic turmoil.

I would especially like to thank our employees, without whom we would not have been able to make our tremendous growth a reality. Quadrupling our residential real estate portfolio ultimately also means having to integrate into our ranks a staff that considerably increased while expanding our corporate administrative activities to ensure that management has an adequate overview of business developments in our far-reaching portfolios at all times and is capable of properly running and positioning the Company.

We are now working on the further structural development and expansion of our organisation. Our goal is to be a modern, socially oriented residential real estate company that looks after the interests of its "customers": the residential tenants. Although we are naturally keen on exploring the potential for rent increases and taking advantage of the opportunities they offer by making meaningful investments, we aim to manage the acquired portfolios optimally while improving the rental ratio and the condition of the properties, thereby increasing tenant satisfaction.

We continue to place our faith in the local organisations. However, we also give them the support they need on a corporate level as well as portfolio management prospects. Our partners and affiliated companies have achieved a high level of service quality. As a result, third parties often take advantage of the services they offer. This also holds true in the new business field of residential real estate privatisation, in which ACCENTRO Real Estate AG (formerly ESTAVIS AG) – a listed company that leads the market in this segment in Germany – is active. In privatisation, we see a major opportunity to optimise our portfolios. And because few investments are sounder than no longer having to pay rent or a mortgage later in life, we are also able to offer many buyers an optimum retirement savings opportunity.
According to current opinion, 2015 will continue to present us with a very good environment for investing in and managing residential real estate. Demand for good, affordable housing remains undiminished, not only in urban areas, but also on the outskirts of cities, which is where a large part of our portfolios is located. We already took a significant step towards our goal of continued growth in February of this year with the contractually secured majority takeover of WESTGRUND AG in Berlin. Together with WESTGRUND, we will form a residential real estate company with around 51,300 residential units, making us one of the tenth largest listed German residential real estate companies in terms of the number of units.

We will work on continuing the efficient expansion of our organisation and will be capable of proving our ability to generate good income from property management activities following our major leaps forward.

Best regards,

Axel Harloff
CEO

Supervisory Board Report

Dear Shareholders,
Dear Sir or Madam,

Throughout the past financial year, the Supervisory Board of ADLER Real Estate AG has fulfilled its responsibilities under applicable laws and statutes, carrying out its tasks both at regular meetings as well as in meetings between individuals. The Supervisory Board has supported the Management Board in an advisory capacity and has monitored its activities. To that end, the Supervisory Board has drawn on management reports about the company's financial position and has adopted appropriate resolutions. The Supervisory Board has maintained regular communication with the Management Board beyond the scheduled meetings and has continually informed itself about current business developments. The Supervisory Board has been directly involved in all decisions of fundamental importance to the company.

Changes in Board

At the request of the company, the competent register court appointed Thilo Schmid, project controller, Blotzheim/France, as a new member of the Supervisory Board pursuant to § 104, Para 1 of the German Stock Corporation Act on 1 February 2014, following the resignation of Supervisory Board member Ralf Preyer.

Supervisory Board Meetings

The Management Board reports to the Supervisory Board in regular joint meetings. Written reports form the basis for the board meetings. With those reports, the Supervisory Board was informed about the overall situation of the company and its subsidiaries as well as individual matters of greater importance. The business outlook, current situation, profitability, liquidity of the company, its intended business strategy and other fundamental issues of corporate governance were also focal points of discussion along with the situation of the Group's subsidiaries.

There were a total of six Supervisory Board meetings in the financial year 2014, on 26 March, 9 May, 29 August, 15 October, 11 December and 23 December. The members of the Supervisory Board regularly attended its meetings.

Given that the company's Supervisory Board is composed of three members pursuant to the Articles of Association, no committees have been formed. All members of the Supervisory Board have brought their efforts to bear on all tasks associated with the Supervisory Board.

Accordingly, all matters brought to the attention of the Supervisory Board have been discussed and decided by the majority represented on the Supervisory Board. To this end, the Supervisory Board has approved all reportable transactions and measures following proper review.

In addition, the Management Board has informed the Supervisory Board in written quarterly reports on the progress and status of the business, the profitability and liquidity of the company, the business policy pursued and other fundamental issues of corporate planning.

Focus of Activities

In its periodic meetings, the Supervisory Board has mainly focused on the fundamental business policy, and in particular, the purchase and sale of properties owned by the company. To this end, the impact on the financial position and earnings has especially come under review. Controlling and liquidity planning have also been included along with risk management as central topics requiring the attention of the Supervisory Board. Furthermore, particular attention has also been devoted to portfolio acquisitions and their refinancing.

German Corporate Governance Code (GCGC)

Together with the Supervisory Board, the Management Board affirms that the GCGC contains internationally and nationally recognized standards for good and responsible corporate management which serve the management and supervision of German listed companies.

The Management Board and the Supervisory Board decided to implement the guidelines for ADLER Real Estate AG as early as financial year 2002, carrying them out with few exceptions. To the extent that the provisions of the German Corporate Governance Code in their respective valid form have not been followed, this has been explained in a Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act and permanently published in the respective valid version on the ADLER homepage under "Investor Relations".

The Declaration of Compliance will be published in the Federal Gazette and filed with the commercial register together with the annual financial statements, management report and other documents to be reported.

2014 Annual and Consolidated Financial Statements

The annual financial statements prepared by the Management Board of ADLER Real Estate AG and the consolidated financial statements, including the management report and Group management report for the financial year 2014, have been examined and certified with an unqualified audit opinion by the auditor Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hamburg, who was appointed by the Annual General Meeting on 09 May 2014.

The annual financial statements (HGB) along with the consolidated financial statements, (IFRS) including the management report and Group management report, the auditor's report on the annual financial statements as well as the consolidated financial statements have been submitted to the Supervisory Board for review along with the Management Board's proposal for the distribution of profits. At its meeting to review the accounts on 25 March 2015, the Supervisory Board had detailed discussions with the Management Board regarding the documents accompanying the financial statements and reports, particularly on questions pertaining to the evaluation of current and fixed assets. In that session, the auditor reported on the key findings of the audit and provided the Supervisory Board with additional information as needed. On the basis of its own examination of the annual financial statements, consolidated financial statements, management reports of the company and the Group, the Supervisory Board approved the audit results and raised no objections following the final results of its review. By resolution of 19 March 2015, the Supervisory Board approved the annual financial statements which are hereby adopted in accordance with § 172 AktG as well as the consolidated financial statements. The Supervisory Board endorsed the proposal of the Management Board for the distribution of profits.

2014 Report on Affiliated Companies

The report on relations with affiliated companies filed by the Management Board pursuant to § 312 AktG was examined and approved by the Supervisory Board. After concluding its review, the Supervisory Board raised no objections to the statement of the Executive Board at the end of its report in accordance with § 312 AktG.

The auditor raised no objections during his review of this report; the test result is consistent with the findings of the Supervisory Board. The auditing firm Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft issued an unqualified opinion.

“Based on our required examination and assessment, we confirm that

1. the factual information contained in this report is accurate,
2. the companies have not incurred unreasonably high costs for legal transactions listed in the report.”

Members of the Supervisory Board

In accordance with § 96 AktG, the Supervisory Board is composed of representatives of the shareholders.

Hamburg, March 2015

Dr. Dirk Hoffmann
Chairman of the Supervisory Board

Consolidated Management Report 2014

Consolidated Management Report

1. BASIS OF THE ADLER REAL ESTATE AG GROUP

1.1 Business Model

With a portfolio of around 24,100 residential and commercial units at the end of 2014, ADLER Real Estate AG ranks among the ten major listed German residential property companies, as measured by market capitalisation. The Company is listed on the Regulated Market of the German stock exchange. Through the imminent takeover of WESTGRUND AG in 2015, ADLER is anticipated to have a portfolio of more than 50,000 residential units by mid-2015.

ADLER's focus is on the expansion of its residential property portfolios across Germany, management of its portfolios, and optimisation and trading in residential property. As a rapidly growing business in the residential property sector, ADLER offers housing in almost every German state. The average size of the units in ADLER's portfolio is 61 m², with two or three rooms. This makes the units the ideal size for those groups in the market with the strongest demand, that is, single-person households of young or older people, single parents with one or two children, immigrants and income groups that can only afford smaller homes due to rental price movements.

Within a short time, ADLER has developed into a strong portfolio manager which has not only quickly established a major portfolio but also built up an organisation which is responsive to the core business of providing affordable housing. ADLER operates as a residential property portfolio manager in a market shaped by four significant mega-trends: the politically driven turnaround in energy policy, the „singleisation" of society and the associated rise in per capita living space required, and, lastly, immigration. ADLER's activities are organised into two business areas or segments:

1.1.1 Portfolio

In the portfolio segment, ADLER Real Estate AG concentrates on the establishment and expansion of a portfolio of residential real estate throughout Germany. Priority is given to the acquisition of investments in portfolios located primarily in B-locations in densely populated urban areas with sustainable value-enhancing potential. The priority is to acquire majority interests so as to be well placed to exercise sufficient influence for optimal management of the portfolios.

Along with the acquisition of portfolios, the Group's strategy also consists in sustainable portfolio management as well as the improved utilisation of capacity, i.e. reducing existing vacancy rates through optimisation measures. For this purpose, ADLER is planning capital expenditure programs aimed at gaining ground in the competitive market for tenants and increasing existing current rental income on a continuous basis. The intention is to use vacant plots of land, gaps between buildings or building reserves for construction projects and also renovation focussing on energy savings, to release potential for appreciation in value.

1.1.2 Trading

In the ADLER Group, activities in the trading segment are essentially covered by the Group's majority interest in listed company ACCENTRO Real Estate AG (formerly ESTAVIS AG). The trading segment comprises trade in residential real estate and single residential units. ACCENTRO carries out the selective marketing of suitable residential real estate and single residential units within the ADLER Group to owner occupiers and equity investors both in Germany and in other countries, and also acts on behalf of third parties. ACCENTRO sees itself as the largest German player in the business of privatising rental units.

1.2 Goals and Strategies

Our goals and associated strategies essentially relate to four active areas:

- portfolio management
- trading
- financing
- acquisition

1.2.1 Strategy for Portfolio Management Activities

In its portfolio management, ADLER aims to achieve optimal business performance and core productivity. This consists of a transparent, integrated and closely networked organisational structure aimed at enabling optimal occupancy and management of residential portfolios. Active management means measures are taken on an ongoing basis to reduce vacancy rates, exploit potential for increased rents and systematically keep portfolios in a high-quality state condition with cost-effective maintenance activities. Significant measures are implemented to improve value through building modernisation, above all in the context of renovation for energy efficiency. This enables rents to be increased on the one hand, and on the other hand operating costs to be reduced, in particular heating costs that can amount to up to one quarter of the entire rent, to the benefit of the tenants.

Vacant residential units can be made more attractive by renovation or refurbishment, meaning they can be rented quickly and well in the competitive tenancy market. Additionally, in the course of portfolio optimisation, properties with a high vacancy rate and less than ideal connections to administrative centres are selected and sold in line with the market. These targeted measures allow ADLER to achieve more efficient management and an increase in the average occupancy rate over the entire portfolio.

1.2.2 Strategy for Trading Activities

Trading activities of the ADLER Group constitute trade in residential real estate and single residential units, and are essentially covered by the majority interest in the listed company ACCENTRO Real Estate AG. ACCENTRO carries out the targeted marketing of suitable residential real estate and single residential units from the ADLER Group to owner occupiers and equity investors both in Germany and in other countries, and also acts on behalf of third parties. For this purpose, appropriate portfolios are acquired in a targeted fashion and brought to market. ACCENTRO will largely concentrate on this area in the future. A first step was already achieved in 2014 through the sale of the commercial portfolio, which in turn released funds that make new acquisitions in this specialised area possible. ACCENTRO sees itself as the largest German player in the business of privatising rental units. On the markets, low interest rates are leading to a lively demand for residential property from everbroader sections of society; the privatising business can profit considerably from this. At current interest rate levels, private ownership by existing tenants, who can avoid future rent increases in the context of retirement planning, is becoming increasingly interesting.

1.2.3 Financing Strategy

ADLER pursues a variety of goals in its financing. Along with a balanced and longterm maturity and financing structure, the optimisation of average interest charges is a focus of the business's interests. This is achieved by the further development and optimisation of portfolios and also by further value improving acquisition of portfolios. This also includes the refinancing of existing financing under more favourable conditions. In addition, ADLER aims to take advantage of opportunities for the acquisition of portfolios at any time and on short notice through swift borrowing of equity or debt capital.

1.2.4 Acquisition Strategy

Along with the potential for organic growth achieved thanks to its existing portfolio, ADLER is continuing its current acquisition policies in order to establish itself in the market as a significant holder of residential property portfolios. The status ADLER has already achieved throughout almost all of Germany as well as its growing profile have yielded a multitude of possibilities in the market for ADLER to acquire further portfolios with residential property.

ADLER is well situated to buy flexible portfolios and offer sellers good transaction security. Of course, in doing so the Company will adhere to established acquisition criteria, resulting in an improvement to the overall portfolio.

1.3 Management system

1.3.1 Financial Management Parameters

ADLER Real Estate AG operates as a financial holding company which manages and controls the property and facility management companies through the Group's own management companies. ADLER's central asset management is a key element of this, operating the respective property management companies locally, which are as a rule bound by service agreements. However, the Group also has its own residential property ownership companies which perform property and facility management for the residential property portfolios using their own resources.

A software solution (iX-Haus), which has largely been implemented, already ensures the optimisation of portfolio management in some areas of the portfolio and supports asset and property management. At the same time, the software solution is mapping real estate management. In the future it will secure a constant overview of the total situation in the various portfolios, trends in occupancy, rental returns and potential in rental trends, and hence allow the required investments to be managed. Transparent and seamless management of the residential property portfolio and also management options not only form the basis for professional portfolio management, but also provide the starting point for integrating further portfolios. The crucial performance indicator in the portfolio segment is cash flow, which is, and will be, influenced by the occupancy rate, rate of termination of leases and new rentals, net rent excluding heating costs, management costs and capital repayments.

In the trading segment, the EBIT serves as a financial performance indicator for corporate management. A critical variable is the sales result of properties, with determining factors such as the number of existing reservations of owner-occupied residential units by potential buyers, as well as sales prices actually realised. The latter are recorded by the number of residential units as well as by turnover volumes.

In addition, ADLER uses in line with the industry standard the key indicators standard net asset value, funds from operation and loan to value as financial parameters. Please refer to 2, Economic Report, for further details.

1.3.2 Non-financial Management Indicators

The professional know-how and commitment of employees and management, and also customer satisfaction, represent central prerequisites for the business development of ADLER AG.

In the portfolio segment, the occupancy rate is a further essential indicator of performance. This moved from 91.0% at the end of 2013 to 87.2% at the end of 2014. This is due to additional portfolio acquisitions, which exhibited a lower average occupancy rate.

A further significant non-financial performance indicator in the trading segment is the Company's reputation. ACCENTRO AG has been successfully active in promoting private ownership since 1999, and, in it's own view, is a market leader.

1.4 Employees

As the Group holding company, ADLER Real Estate AG does not have any employees other than the Management Board. Administrative and operational functions within the Group are largely performed by wholly owned subsidiary ADLER Real Estate Service GmbH, which had 41 employees at the end of December 2014. The employees of that company are placed flexibly in the various project companies according to their skills. Together with staff in the real estate companies and other subsidiaries, ADLER employed 102 full- and part-time employees as at the reporting date.

1.5 Research and Development

As a real estate group, ADLER Real Estate AG does not pursue research and development in the usual sense. However, ongoing analyses of market developments are necessary in order to estimate the future movement of rents and the development of the various residential property prices in large urban areas, neighbouring regions or outside cities. Numerous developments in construction and building techniques, and also the changing needs of tenants and users, also need to be observed and analysed. Based on these analyses, the Company is constantly gaining important insights which can be used to continuously monitor the economic efficiency of operations and the profitability of new investments. These insights are thus a key foundation for all of the Company's operating activities.

2. ECONOMIC REPORT

2.1 Macroeconomic and sector-related Conditions

After sluggish development in the preceding year, the German economy has picked up pace considerably in 2014. After a growth rate in the previous year of a mere 0.1 per cent according to final calculations of the German Federal Statistical Office, in 2014 the gross domestic product (GDP) rose by 1.5 per cent. GDP made strong gains particularly in the fourth quarter, and thereby made a considerable contribution to overcoming the phase of stagnation in the first half of the year. The level of employment reached in 2014, at 42.7 million, was at a record high for the eighth successive year. The upward trend in employment has continued in the new year, with February 2015 recording the lowest unemployment rate in 24 years.

The socalled „Black Zero" is also an historic event, signifying the first time the federal budget has managed without new debts since 1969. Moreover, the German economy also recorded a peak figure in exports. In fact, Germany achieved the highest export surplus in the world, higher than China or Saudi Arabia, at around EUR 285 billion. Economic momentum once again developed variably across the world in 2014. The economic upturn in the US or Great Britain, for example, contrasted with continuing problematic developments in many southern European countries. Growth in China, the world's largest national economy, slowed slightly. Major national economies such as Brazil or Russia are facing a recession, primarily due to political crises. Nevertheless, the overall situation for German export is favourable: global production rose by 2.6 per cent in 2014, and world trade by 3.6 per cent.

The marked upwards trend in the German economy has two further significant causes, apart from strong exports. Mild weather conditions in Germany, in particular, had an effect, providing a significant boost to the building trade. Furthermore, consumer incomes and buying power improved considerably over the course of the year. The decline in oil prices as well as rising wages and salaries contributed to this. Net wages in Germany in 2014 rose by 3.7 per cent, primarily because of a rise in effective wages actually paid.

The central banks continued their low interest policies into 2014. The key interest rate of the European

Central Bank (ECB) was only 0.05 per cent in February 2015. Interest rates in the capital markets are trending towards zero. Many banks are charging so-called „deposit fees“, which amount to negative interest. At the start of 2015, the ECB resolved to purchase government bonds in a total volume of EUR 1.3 trillion, starting from March 2015 and spread over the coming 16 months to September 2016. The intention is once again to stimulate business's willingness to invest, and raise the excessively low inflation rate. The first effects were already visible in January 2015 on the German residential property market, where prices for owner-occupied housing rose by 1.6 percentage points, according to an analysis by the Immobilienscout24.de platform.

Stable economic development in Germany as well as significantly increasing buying power are forming the basis for solid development in the residential property market overall. Analysis institute bulwiengesa recorded a further increase in residential rents in Germany in 2014. According to its real estate index, rents for new residential units rose last year by 3.2 per cent, and by 3.0 per cent for releasing. Residential rents rose fastest in densely populated urban areas in Germany, where demand continues to outstrip supply. Residential property prices, which rose by 5 per cent in 2014 according to the Verband der Pfandbriefbanken (the association of German Pfandbrief banks), recorded an even stronger rise, thereby marking the highest increase in the last ten years.

2.2 Development of ADLER Real Estate AG

In line with its strategy, in the financial year 2014 ADLER Real Estate AG utilised the chances offered by the German residential property market and realised by far the largest investment volume in its history as a real estate company. Taking into account the majority interest contractually secured in October in Wohnungsbaugesellschaft Jade mbH in Wilhelmshaven, which holds around 6,750 rental units, the ADLER Group's residential portfolio was almost quadrupled from approx. 7,800 at the end of 2013 to around 30,800 by the end of January 2015. Not counting the acquisition in October, the portfolio reached 24,086 units by the end of the reporting year. The average occupancy rate of the ADLER property portfolio at year's end was 87.2 per cent, 3.8 percentage points lower than the figure of 91.0 per cent at the end of 2013, due to new acquisitions with an occupancy rate lower than ADLER's average.

The year under review was principally characterised by the following transactions:

At the start of the financial year, ADLER finalised the expansion of its interests from an initial 50.05 per cent to 94.85 per cent in three portfolios with residential real estate in the six German states of Schleswig-Holstein, Mecklenburg-Western Pomerania, Saxony, Thuringia, North Rhine-Westphalia and Rhineland-Palatinate. These portfolios contain a total of 1,876 rental units, with a total living and usable space of 122,600 square metres. Furthermore, ADLER was able to take onto its books the investment in WBG GmbH in Helmstedt agreed in the previous year. WBG maintains a portfolio of 2,347 rental units in Lower Saxony, of which 1,219 are located in Helmstedt and a further 1,128 south of Helmstedt.

At the end of May, ADLER secured the contract for its biggest acquisition to date, which it was then able to finalise at the end of June. ADLER acquired almost full interests in eight real estate companies which, in total, own around 8,000 residential units and around 490 commercial units. Their total value amounts to around EUR 410 million.

In February 2014, ADLER had already foreshadowed a voluntary public takeover offer for ACCENTRO Real Estate AG (formerly ESTAVIS AG) in Berlin. The takeover of what was at that time 92.7 per cent of the share capital in ACCENTRO succeeded on the basis of an exchange offer of 14 ADLER shares in return for 25 ACCENTRO shares at the end of June. The ADLER shares originated from a capital increase in return for contributions in kind, excluding preemptive rights, which had been authorised by the extraordinary general meeting on 22 April 2014. The registered share capital of ADLER rose through this transaction to EUR 28,779,614 (end of June 2014).

At the end of October 2014, the acquisition of a further portfolio with around 4,300 units was concluded, which had already been agreed by ACCENTRO in the preceding March, and of which part is intended for privatisation. As part of the consolidation, ADLER has assumed the duties of ACCENTRO in the Group in relation to residential management, while ACCENTRO is now focusing on privatisation of housing.

Also at the end of October ADLER reached contractual agreement about the acquisition of a majority interest in a further major residential property portfolio with 6,747 units (6,705 residential units and 42 commercial units). The purchase included the majority interest in Wohnungsbaugesellschaft Jade mbH in Wilhelmshaven on the North Sea in Lower Saxony and its subsidiaries, which are responsible for property and facility management. These transactions in an amount of over EUR 200 million were successfully concluded at the end of January 2015.

Along with the non-cash capital increase for the issue of new ADLER shares in exchange for ACCENTRO shares, ADLER implemented further significant capital measures in the year under review in order to finance the transactions described.

At the end of March 2014, a further corporate bond was issued in the amount of EUR 50 million as part of a private placement with institutional investors. The coupon for this bond is 6.0 per cent p.a., and is thus more favourable than the corporate bond in March 2013. In July, this corporate bond 2014/2019 was increased by a further EUR 50 million to EUR 100 million, once more by way of private placement and on the same conditions.

At the end of October, a capital increase of around 10 per cent was successfully carried out. A total of 2.85 million new shares were placed from authorised capital, excluding the preemptive right of the existing shareholders, with institutional investors in Germany and other European countries. The placement price per share was EUR 7.40. The gross proceeds of the issue from the capital increase amount to around EUR 21.09 million.

Portfolio optimisation and sale of existing portfolios

In addition to building up the Group's residential portfolio and financing the transactions, ADLER has worked on an ongoing basis to optimise portfolios it has taken over, and was additionally able to divest itself of a whole series of properties which no longer formed part of its core business. The transaction volume from the sale of real estate over the entire 2014 year totals around EUR 70.5 million. ADLER received around EUR 28.3 million in cash and cash equivalents from these transactions, which is being utilised for current growth.

In the area of land sale, a total of 56 plots of land (2 in Moosburg, 36 in Großbeeren, and 18 in Dallgow-Döberitz) were sold in 2014. The project in Moosburg was completely finalised, whereas in Dallgow and Großbeeren a total of 57 plots of land are still offered for sale, of which in turn seven have already been notarised.

Together with partners, ADLER had entered into a development project in 2008 for the construction of 334 homes in McKinney, north of Dallas/Texas in the US. After the completion of building works, this housing project was successfully sold according to plan. In addition, the sale of a plot of land of approx. 10,000 m² in Offenbach was concluded.

As part of the optimisation of acquired portfolios, during the year ADLER sold 217 rental units, of which 203 were residential and 14 were commercial units, primarily in the Dresden area. The sale price achieved exceeded the original market value originally determined in the expert appraisal, after the portfolios had been included in the ADLER's consolidated balance sheet in accordance with IFRS accounting principles. ACCENTRO's development was very pleasing. In its sixmonth, short financial year 2014 (to the end of December) ACCENTRO was able to privatise 837 homes. Furthermore, ACCENTRO divested itself of its commercial real estate portfolio at the end of 2014 according to plan. The portfolio comprised an amount of about EUR 28.6 million and was likewise no longer part of core business.

Lastly, and still within the reporting year 2014, ADLER concluded a contract for the sale of a property in Frankfurt-Niederrad, which will only take effect in 2015, however. The property in Niederrad comprises an office building with a rental area of around 4,000 m² and also a plot of land of around 10,000 m² with heritable building right, which can be developed. Along with the remaining properties in Dallgow-Döberitz and Großbeeren, two further vacant plots of land remain in the existing portfolio, with ADLER continuing to work towards making them ready for development. In the case of the area in Dresden-Trachau of circa 108,000 m², a firm position on the part of the city to the development of a zoning plan is still lacking. For the approximately 49,000 m² land plot in the Treptow-Köpenick district of Berlin, the local authorities are currently developing a land use plan. In order to exploit value-enhancing potential, ADLER plans to develop the area, possibly in cooperation with a partner company.

The Company still has one interest from the time before the realignment, which it plans to sell in the medium term. At Airport Center Luxembourg, in which ADLER holds a 10 per cent stake, the occupancy rate as at the end of 2014 was almost unchanged at roughly 77 per cent. A sale of the property could be considered once the occupancy rate is increased further.

2.3 Earnings Position

The following key figures reflect the development of ADLER AG. These key figures were predominantly influenced by the transactions, which were explained above.

In millions of euro	2014	2013
Income from the management of properties	83.88	17.84
– of which net rental income	56.05	6.22
Result from the management of properties	32.07	7.62
Income from the disposals	56.82	1.97
Result from the disposals	2.39	0.63
Result from the management of investment properties	132.93	59.55
Adjusted EBITDA	27.17	2.98
EBIT	170.44	64.33
Financing costs	41.10	8.56
Earnings before taxes	132.76	63.02
Consolidated net earnings	111.57	46.88
Rental ratio in %	87.2	91.0
Monthly actual rent (EUR per square metre)	5.02	5.14
Real estate portfolio (number of rental units)	24,086	7,797

Income according to the three segments is as follows:

In millions of euro	Trade 2014	Portfolio 2014	Other 2014	Total 2014
Income from the management of properties and from the sale of real estate	15.36	115.22	10.12	140.70
Of which:				
Letting (including operating costs)	1.14	81.60	1.14	83.88
Disposals	12.76	33.58	8.98	55.32
Brokerage	1.47	0.04	0.00	1.50

Income from the management of investment properties primarily results from the fair value measurements of the individual properties according to IAS 40, which is conducted after the property is purchased within the context of portfolio acquisitions and is classified in the portfolio segment.

Other operating income of EUR 29.72 million includes the difference arising from the initial consolidation of WBG GmbH, Helmstedt/Germany according to IFRS 3. This difference of EUR 24.65 million is primarily attributable to the valuation of the company's properties within the context of initial consolidation and is also classified in the portfolio segment.

Adjusted EBITDA of EUR 27.17 million results from EBITDA adjusted for the income from the valuation of investment properties (EUR 132.93 million) and the income related to the initial consolidation of WBG GmbH (EUR 24.65 million), as well as other one-off costs (EUR 13.81 million). One-off costs result from, in particular, expenses related to acquisitions conducted as well as adjustments in connection with the group-wide standard measurement of rent receivables.

EBIT is broken down among the segments as follows:

In millions of euro	Trade 2014	Portfolio 2014	Other 2014	Total 2014
EBIT	0.42	169.78	0.24	170.44

Financing costs result from the direct financing of real estate portfolios as well as from the issue of loans and convertible bonds, which are distributed among the segments as follows:

In millions of euro	Trade 2014	Portfolio 2014	Other 2014	Total 2014
Financial result	-1.17	-38.11	-0.23	-39.51

Tax expense of EUR 21.19 million (previous year: EUR 16.13 million) comprises deferred tax expenses of EUR 20.71 million (previous year: EUR 16.10 million), which were recognised primarily for the difference between the fair value of the investment properties and their costs in the Group or their tax carrying amounts.

In the trade segment, which has been a business unit of ADLER AG since the takeover of ACCENTRO AG in mid -2014, revenue of EUR 15.36 million was generated, EUR 12.76 million of which mainly resulted from disposals. EBIT in this segment amounted to EUR 0.42 million while earnings before taxes stood at EUR -0.88 million.

Revenue in the portfolio segment amounted to EUR 115.22 million. The year-on-year increase is particularly due to acquisitions conducted in the 2014 financial year.

Maintenance and modernisation measures that were not capitalised by ADLER but remained in the income statement amounted to EUR 14.51 million for the portfolio segment. Value-enhancing measures were covered within the context of the measurement of the investment properties. Total maintenance and value-enhancing measures amounted to an annual average of EUR 15.57 per square meter of living space. Management expenses amounted to EUR 37.17 million.

EBIT in this segment amounted to EUR 169.79 million; earnings before tax stood at EUR 132.07 million.

Funds from Operations (FFO)

FFO I has established itself as the standard for shareholders and investors when calculating the earnings situation of a real estate company. It defines the earnings potential of the portfolio segment.

Originating from Group earnings EBITDA IFRS is calculated. This is earnings before interest, taxes and amortisation as well as additional elimination of the result from the properties' assessment and the result from associated companies measured at equity. Adjusted for one-off and special effects the adjusted EBITDA IFRS, figure primarily comprised the negative difference of EUR 24.65 million related to the acquisition of WBG GmbH as well as other one-off and special effects amounting to EUR -13.81 million mainly in connection with the issue of a bond, the capital increase, the portfolio acquisitions and the integration of ACCENTRO AG.

From adjusted EBITDA subsequently interest cost FFO and current income tax expenses (excluding deferred taxes) are deducted. Interest cost FFO is interest cost adjusted for special factors. In the 2014 financial year, ADLER undertook measures in the acquired portfolios to preserve substance that amounted to EUR 6.75 million. Expenses related to enhancing value or preserving value are taken into account in the FFO method because they are to be considered separately from current operational earnings power. FFO I of EUR -1.11 million thereafter results from the further elimination of the earnings before taxes and interest of the trade segment and other income which is not assigned to a segment.

In order to calculate FFO II (EUR 1.4 million) in a further step earnings before taxes of the trade segment and other earnings before taxes not assigned to a segment as well as earnings from associated companies measured at equity are added. In contrast to FFO I, FFO II not only contains the funds from operations from the portfolio segment, but also the funds from operations from the trade segment as well as the other sectors.

In millions of euro	2014	2013
Consolidated net earnings	**111.57**	**46.88**
Financial result	39.51	7.88
Income taxes	21.19	16.14
Depreciation	0.50	0.02
Result of valuation of investment properties	-132.93	-59.55
Result of associated companies measured at equity	-1.82	-6.56
EBITDA IFRS	**38.01**	**4.80**
One-off and special effects	-10.84	-1.82
Adjusted EBITDA	**27.17**	**2.98**
Interest expense FFO	-32.47	-7.77
Current income tax	-0.48	0.00
Investments to preserve substance	6.75	0.90
Result before taxes and interest – trade/other segment	-2.09	-0.63
FFO I	**-1.11**	**-4.53**
Result before taxes and interest – trade/other segment	0.69	-0.54
Result from associated companies measured at equity	1.82	6.56
FFO II	**1.40**	**2.57**

The development of earnings at ADLER during the 2014 financial year was impacted by numerous special effects that resulted from the acquisitions and capital market measures. Further, the period of time between the acquisition and financing and the final transfer of property with effect on income negatively impacted ADLER. Based on experience, there are time delays that arise in connection with portfolio management measures undertaken to improve the management and utilisation of residential units, so that in this regard, ADLER does incur higher one-off costs after an acquisition, with income commencing to flow at a later date.

On this basis, and taking into consideration the fact that ADLER acquired the majority of its portfolio during the year, and that ACCENTRO AG first began to contribute to group earnings as at 1 July 2014, the 2014 financial year cannot be viewed as a reference year for the Company's true earnings power.

For the financial year 2015 ADLER expects the FFO I to amount to at least EUR 7 m based on the portfolio as at end 2014 of 24,086 rental units and including the acquisition of the portfolio in Wilhelmshaven comprising 6.705 residential and 42 commercial units.

2.4 Financial Position

In millions of euro	2014	2013
Net cash flow from current business activity	16.75	11.93
Net cash flow from investment activity	-208.27	-94.20
Net cash flow from financing activity	217.69	88.08
Change in cash and cash equivalents with effect on cash flow	26.17	5.81
Cash and cash equivalents at the start of the period	6.90	1.09
Cash and cash equivalents at the end of the period	33.06	6.90

After adjusting for non-cash expenses and income, and under consideration of the changes in working capital, the ADLER Group generated a total cash inflow of EUR 16.75 million from operating activities (previous year: EUR 11.93 million).

Cash outflow from investment activities of EUR 208.27 million (previous year: EUR 94.20 million) is primarily related to the acquisition of residential properties or from companies that hold property portfolios.

Cash inflow from financing activities of EUR 217.69 million (previous year: EUR 88.08 million) is attributable to the following circumstances:

ADLER AG conducted a cash capital increase of 2,850,000 shares, which generated net proceeds of EUR 19.41 million. ADLER AG also issued the 2014/2019 bond, which generated proceeds of EUR 100 million. Cash inflow also resulted from taking out additional financial credits totalling EUR 538.91 million, of which EUR 500.50 million resulted from bonded loans. These were used to finance acquired real estate portfolios. Cash outflow of EUR 440.63 million resulted from interest and scheduled loan payments as well as from the repayment of existing financing.

Financial resources correspond to cash and cash equivalents.

ADLER AG complied with all loan covenants. In addition, restricted cash and cash equivalents of EUR 13.68 million (previous year: EUR 0.15 million) are reported under Other assets. Part of this amount is intended for measures to improve the property portfolio.

Furthermore, Other assets include current investments in securities of EUR 18.00 million (previous year: EUR 0.00 million).

Cash and cash equivalents amounted to EUR 33.06 million as at 31 December 2014. The ratio between cash and cash equivalents and total assets increased year on year to 2.3% (previous year: 1.5%). The Group was able to meet their contractual payment obligations at all times.

The above-mentioned corporate bond 2014/2019 with a volume of EUR 100 million was increased once again on 15 January 2015 by EUR 30 million. The corporate bond has a term until 1 April 2019 and a coupon of 6.00 per cent p.a. Interest payments are semi-annual.

ADLER contractually secured the majority stake in the Wohnungsbaugesellschaft Jade mbH, Wilhelmshaven/Germany in October of the reporting year. The transaction was concluded on 30 January 2015. Financing took place via a bonded loan amounting to EUR 164.0 million. The share of equity capital was paid from own funds.

Loan to Value (LTV)

The strong acquisition activities of ADLER resulted in an increase in investment properties and also an expansion of liabilities related to financing. The ratio of net financial liabilities to assets adjusted for cash and cash equivalents increased slightly during the reporting year without taking convertible bonds into account.

In millions of euro	2014	2013
Convertible bonds	33.94	18.40
Bonds	144.78	35.57
Liabilities to banks	838.90	275.25
Cash and cash equivalents	-33.06	-6.90
Net financial liabilities	**984.56**	**322.33**
Assets adjusted for cash and cash equivalents	**1,383.40**	**453.99**
LTV including convertible bonds	71.2%	71.0%
LTV excluding convertible bonds	68.7%	66.9%

2.5 Liquidity Position

In the course of strong growth, consolidated total assets more than tripled, increasing by EUR 955.57 million to EUR 1,416.46 million.

The increase is primarily due to the investment properties at EUR 752.29 million, which constituted 82.6% of total assets with EUR 1,170.15 million. The increase in investment properties results from property additions amounting to EUR 675.15 million, disposals and reclassifications of EUR 55.79 million and valuation results of EUR 132.93 million.

Additional property with a value of EUR 89.62 million or EUR 6.13 million are reported under inventories or under non-current assets for sale, whereby property held in inventories are not measured at fair value but at cost. Goodwill reported under non-current assets results from the acquisition of ACCENTRO AG.

In addition to rent receivables of EUR 6.16 million, trade receivables mainly include purchase price receivables related to the sale of property or property holding companies of EUR 20.97 million.

In addition to short-term investments in securities (EUR 18.00 million) and advance payments on purchase prices (EUR 10.00 million), earmarked financial assets (EUR 13.68 million) are reported under other current assets (EUR 56.28 million).

In addition to the consolidated result and the cash capital increase in October 2014, the increase in equity is also due to the capital increase in June 2014 in connection with the takeover of ACCENTRO AG. The conversion of convertible bonds also contributed to this result to a lesser extent. Please refer to the statement of change in equity for details. Of total equity amounting to EUR 311.21 million, EUR 291.40 million is accounted for by ADLER AG's shareholders and EUR 19.81 million by minority share-holders of companies controlled by ADLER AG. The equity ratio amounted to 21.97% as at the balance sheet date (previous year: 18.86%).

Borrowing nearly tripled in connection with transactions conducted. This is comprised of long-term borrowings of EUR 1,010.93 million, or 91.47%, and current borrowings of EUR 94.32 million, or 8.53%. The main sources of external financing are bonds, convertible bonds and loans from banks, whereby they also considered part of bonded loans initiated by

them. EUR 1,017.62 million of total external borrowing (EUR 1,105.25 million) is accounted for by this type of financing. Furthermore, liabilities from deferred taxes of EUR 39.08 million are reported under non-current liabilities.

Net Asset Value (EPRA NAV)

ADLER calculates its net inventory value or net asset value (NAV) in accordance with the guidelines specified by the European Public Real Estate Association (EPRA). ADLER's calculation of the NAV is based on the ADLER shareholders' equity. The EPRA NAV increased by EUR 247.62 million to EUR 342.21 million.

With regard to existing shares issued as at the reporting date, the EPRA NAV per share amounted to EUR 10.74 and the diluted EPRA NAV per share stood at EUR 9.14.

In millions of euro	2014	2013
Equity	**311.21**	**86.95**
Minority interests	-19.81	-14.61
Equity of ADLER shareholders	**291.40**	**72.33**
Net liabilities for deferred taxes	39.08	15.57
Difference between market value and carrying amounts of real Estate held in inventories	10.75	5.33
Fair value of derivative financial instruments	0.98	1.36
EPRA NAV	**342.21**	**94.59**
Goodwill	-27.08	0.00
Adjusted NAV	**315.13**	**94.59**
Number of shares as at the reporting date	31,876,672	16,547,824
EPRA NAV per share	**10.74**	**5.72**
Number of shares as at the reporting date, diluted	39,370,528	24,500,000
EPRA NAV per share (diluted)	**9.14**	**4.61**

2.6 Overall view of business performance and position of the Group

Our assessment of the business performance and position of the Group is positive, based on the further acquisitions carried out, the further development of the existing property portfolio and the long-term finance secured. These factors have created the prerequisites for stable future development.

3. EVENTS AFTER REPORTING DATE

As stated earlier, ADLER entered into a contract in October of the year under review to secure the majority interest in the company Wohnungsbaugesellschaft Jade mbH in Wilhelmshaven. The purchase included not only the majority interest in the company, but also its subsidiaries, which are responsible for property and facilities management. The company has 6,705 residential units and 42 commercial units in its portfolio. The properties are in very solid condition, display almost no renovation backlog, and are located, for the most part, in good locations at Germany's largest naval site. Around two-thirds of the residential units were constructed in the 1930s and 1940s. The transaction was successfully concluded on 30 January 2015.

On 15 January 2015, ADLER successfully carried out a further top-up of EUR 30 million of the 2014/2019 corporate bond, which had been issued in April 2014 and topped up in July 2014 to a volume of EUR 100 million. This increase took the total to amount to EUR 130 million. This was a private placement to a small group of institutional investors. The issue price was 102 per cent. Net proceeds of the issue from the top-up are to be used mainly for the acquisition of further real estate portfolios and to finance continued growth. On 19 January 2015, the bonds issued in the course of the top-up were included in the ongoing listing of corporate bonds in the Open Market on the Frankfurt Stock Exchange, participating in the Prime Standard segment for corporate bonds. The corporate bond has a term to 1 April 2019 and a coupon of 6.00 per cent p.a. Interest payments are made semi-annually.

In February 2015, ADLER secured the takeover of a majority of WESTGRUND AG Berlin though irrevocable undertakings. On 16 February 2015, following the appropriate resolution by the Management and Supervisory Boards, ADLER announced that it would implement the takeover within the framework of a voluntary public takeover bid pursuant to the German Securities Acquisition and Takeover Act (WpÜG). Consequently, the shareholders of WESTGRUND will be offered a combination of cash components and new ADLER shares. Financing of the entire transaction is secured by bank commitments. Major shareholders of WESTGRUND, who together hold just over 50 per cent of the share capital in WESTGRUND, have made an irrevocable undertaking to accept the ADLER offer. The transaction is anticipated to be concluded by mid-2015.

Specifically, for every three shares of WESTGRUND AG, ADLER will offer WESTGRUND shareholders 0.565 new non-par value bearer shares in ADLER Real Estate AG, with a notional share in ADLER's share capital of EUR 1.00 respectively, and an additional cash payment in the amount of EUR 9.00. Based on the closing price on 13 February 2015, the offer equates to a price of around EUR 5.00 per WESTGRUND share. The new ADLER shares will rank for dividends from 1 January 2015, and will come from an increase in physical capital still to be resolved by the General Meeting. The consideration and also the specific conversion ratio are yet to be approved by the German Federal Finance Supervisory Authority (BaFin).

At the time the takeover was announced, WESTGRUND AG held approximately 17,000 residential units, mainly in Berlin/Brandenburg, Lower Saxony, Mecklenburg-Western Pomerania and Saxony. WESTGRUND additionally secured the takeover of a further 875 rental units and acquired a portfolio containing some 2,800 rental units at the end of 2014. ADLER and WESTGRUND have virtually congruent business models and strategies, and both pursue the goal of establishing a major residential property portfolio in Germany that is primarily located in B-locations and outlying locations of Germany's densely populated urban areas and that generates a positive cash flow after deduction of all current expenses. After the takeover, the expanded ADLER Group will hold a total of nearly 51,300 residential properties in Germany.

4. FORECAST REPORT

The overall environment for the residential property market in Germany continues to develop very positively. The resolutions of the European Central Bank concerning the massive purchase of government bonds, as well as the associated low-interest policies, mean a continuation in the medium term of the very favourable financing conditions for purchasing real estate. The low interest rates can help ADLER incrementally in structuring its financing advantageously. Furthermore, preparedness is growing on the part of national and international investors to make capital available to ADLER for further growth. The low interest rates on the markets are leading to lively demand for residential property from ever broader sectors of the population. ACCENTRO, ADLER's subsidiary focussing on the privatising business, is in a position to profit substantially from this.

Germany's economic climate is also continuing to pick up. The Kiel Institute for the World Economy anticipates an increase in GDP of 1.7 per cent for 2015, and 1.9 per cent for 2016. The fall in the oil price, rising real wages and falling unemployment are ensuring that buying power improves further, and are also opening up opportunities to achieve further increases in rental prices. The minimum wage, in particular, which has applied in Germany since the start of 2015, provides many tenants in ADLER's residential portfolios with higher incomes.

In view of this situation, real estate prices and rent could well continue to rise overall, even if rental increases in densely populated urban areas could be constrained via a "brake on rental prices" in isolated instances due to the new legislation. In the view of ratings agency Standard & Poor's (S&P), rents and real estate prices in Germany will continue to rise in 2015. According to S&P's assessment, the demand for housing should remain high, given that the German population has been growing since 2011, primarily due to increasing immigration, and the need for housing is increasing along with it.

ADLER has not observed any overheating in the markets, not even in those markets in which real estate prices have risen most vigorously in recent years. This is evidenced by the fact that buyers of high-priced residential real estate in the prime parts of densely populated areas are predominantly using their own funds. Outside the booming submarkets in which ADLER predominantly invests on the outskirts of congested areas, residential prices are increasing only at a slow, but continuous pace.

This is why ADLER perceives more major opportunities to build up its housing inventory through the acquisition of additional holdings in residential property portfolios. The company carries out negotiations to this end on an ongoing basis. In the new 2015 financial year, ADLER has also secured a further significant acquisition through the take-over of WESTGRUND.

The merger of the two companies, ADLER and WESTGRUND, anticipated to take place from mid-2015, will push ADLER into the top-ten stock-market-listed residential property companies in Germany in terms of market capitalisation. The new scale of operations, with a total portfolio of roughly 51,300 residential units, provides ADLER with the chance to take advantage of further economies of scale in management, optimisation and increases in value.

In the German states of Lower Saxony, North Rhine-Westphalia, Berlin, Brandenburg and Saxony particularly, this will make for significantly larger units for the growing Group, with residential portfolios that can be managed more effectively through asset management.

Furthermore, advantage can generally be taken of economies of scale in the areas of financing, property management, purchasing and portfolio management and also local services, which will allow for synergies. Tenants of both companies will profit from cost benefits and better tenant service. In total, ADLER estimates the potential synergies at around EUR 20 million, which can be made available over the next 3 years. In addition, ADLER subsidiary ACCENTRO can achieve high returns from the conversion to private ownership of the homes that WESTGRUND holds in Berlin Kreuzberg, in particular.

Together with WESTGRUND, ADLER as a listed company will achieve a significant new order of magnitude. The combined total assets of both companies are anticipated to amount to around EUR 2.7 billion, and the market capitalisation of the new Group on the stock exchange is expected to increase to over EUR 700 million. ADLER is thus likely to be included in the share index for small caps (SDAX) in 2015. This could well increase the interest of international investors in ADLER, and in turn increase the chances of acquiring further growth capital at favourable conditions.

In view of the above, further acquisitions of portfolios or the corresponding financing of further growth appear significantly more favourable than in the period when ADLER began to build up its portfolios. ADLER is accordingly maintaining its goal of further growth in 2015. ADLER is not ruling out the possibility that alongside WESTGRUND, with its circa 20,500 residential units in 2015, further portfolios with a few thousand residential units may be acquired.

This strong growth supports ADLER in the establishment and expansion of professional organisational structures, as well as the fusion and integration of the various companies and company division. Future earnings performance will depend on integration and the exploitation of substantial potential synergies. Furthermore, opportunities are to be taken to develop the residential portfolios, increase the occupancy rate and achieve potential rental increases.

The number of residential units acquired in the course of 2014 offers great possibilities in this regard. For example, due to the newly added portfolios in the Group, the occupancy rate has fallen to 87.2 per cent compared to the previous year: (2013: 91.0 per cent). ADLER can therefore improve the letting of the portfolios taken over relatively quickly by taking appropriate measures. For this reason, one of our goals in 2015 is to achieve a long-term improvement of the occupancy rate reduced due to the takeovers, taking it to over 90 per cent, which will have significant effects on revenues and income and also the value of the real estate. The average rent achieved from the residential units in all ADLER's portfolios will increase at the same time simply due to natural fluctuations in the market, and will lead to an increase in cash flow and improvement in value.

Further investments in the modernisation and renovation of residential units are being implemented in order to achieve this goal. For the entire portfolio of all residential units, an average investment per square metre of living space of EUR 10.50 is planned.

Another primary concern is the financing of the Group as a whole. The dynamic gearing ratio is to be improved and increased in line with the equity capital ratio. In the medium term, the goal is a Loan-to-Value (LTV) of under 60 per cent. There are also plans to increase both cash flow from ongoing business activities and distributable profit in the medium term. Following the takeover of WESTGRUND, according to our preliminary estimates the LTV is anticipated to be in the region of 67 per cent, and interest payment obligations on all liabilities of the ADLER Group are expected fall to 3.9 per cent, compared with 4.7 per cent as recently as the end of 2014.

Given rising real estate prices, the portfolio taken over at the end of January 2015 including around 6,750 residential units in Wilhelmshaven, and also the WESTGRUND takeover, will further increase the NAV per share .

Growing returns are also being achieved by the trading segment, which is represented by ADLER subsidiary ACCENTRO Real Estate AG (formerly ESTAVIS AG). ADLER can privatise housing portfolios which are not appropriate to the portfolio, or which can achieve disproportionate returns, through ACCENTRO. In addition ACCENTRO receives orders from third parties to privatise housing portfolios. In the year under review, ACCENTRO privatised a total of 1,029 residential units. Given high demand, sales results should be further improved in the new 2015 year. ADLER had initially forecast that it would take over the same number of residential units in 2014 as in 2013 (circa 7,700). In fact, that acquisition figure was more than doubled. Taken together with WESTGRUND, the residential property portfolio will double in 2015 to more than 50,000 residential units. Growth is to be structured just as profitably as in previous years so that the foundations for a significantly increasing operational result are laid.

The 2015 year will be the first reference year with which development will can be compared in future. This is because the acquisitions already implemented or secured have established a broad foundation for consolidation, development and improvement of existing portfolios. ADLER is planning a long-term rise in operational earnings through increases in rent and an improvement of the occupancy rate.

5. OTHER STATUTORY INFORMATION

5.1 Supplementary Information in accordance with § 289 Para. 4, § 315 Para. 4 of the German Commercial Code (HGB)

Share Capital

The fully paid up share capital of ADLER AG as of 31 December 2014 is EUR 31,876,672 (previous year: EUR 16,547,824.00), and is divided into 31,876,672 (previous year: 16,547,824) no-par bearer shares with equal voting rights. All shares confer the same rights. Each share confers a vote and accounts for a proportionate share of profits.

Restriction of voting rights and transfer of shares

Restrictions of voting rights or the transfer of shares have not been agreed.

Direct or indirect voting rights of more than 10 %

The Company has knowledge of the following direct or indirect interests of more than 10 % of voting rights as of the end of the 2014 year:

An interest held by Mezzanine IX Investors S.A., Luxembourg, Duchy of Luxembourg, in the amount of 8,800,000 voting rights. This equates to a 37,15 % share of the share capital on balance sheet date including consideration of 3,042,918 attributable voting rights.

After balance sheet date, the following was made know to us:

Mr Klaus Wecken, Switzerland notified us on 20.02.2015 in accordance with § 25 a Para. 1 of the WpHG that his share of voting rights in ADLER Real Estate AG, Frankfurt, Germany, exceeded the threshold of 10 % of voting rights on 16.02.2015, and that on that date 9.72 % (equating to 3,100,000 voting rights) were attributable to him pursuant to § 22 Para. 1 Clause 1 of the WpHG and a further 4.13 % (equating to 1,318,052 voting rights) on the basis of instruments under § 25a of the WpHG (of which 4.13 % or 1,318,052 voting rights were held indirectly). The instruments under § 25a of the WpHG consist of a call option, the exercise of which is only possible after the capital increase in the course of the WESTGRUND takeover. Chain of controlled companies: Wecken & Cie.

Wecken & Cie, Basel, Switzerland notified us on 20.02.2015 pursuant to § 25 a Para. 1 of the WpHG that its share of voting rights in ADLER Real Estate AG, Frankfurt, Germany on 16.02.2015 exceeded the threshold of 10 % of voting rights, and that on that date 9.72 % (equating to 3,100,000 voting rights) were attributable to it pursuant to § 21, 22 of the WpHG and a further 4.13 % (equating to 1,318,052 voting rights) on the basis of instruments under § 25a of the WpHG. The instruments under § 25a of the WpHG consist of a call option, the exercise of which is only possible after the capital increase in the course of the WESTGRUND takeover.

Mr Klaus Wecken, Switzerland, notified us on 20.02.2015 pursuant to § 21 Para. 1 of the WpHG that his share of voting rights in ADLER Real Estate AG, Frankfurt, Germany on 17.02.2015 exceeded the threshold of 10 % of voting rights, and that on that date 10.19 % (equating to 3,250,000 voting rights) were attributable to him. 10.19 % of voting rights (equating to 3,250,000 voting rights) are attributable to Mr Wecken pursuant to with § 22 Para. 1 clause 1, no. 1 of the WpHG.

Wecken & Cie, Basel, Switzerland, notified us on 20.02.2015 pursuant to § 21 Para. 1 of the WpHG that its share of voting rights in ADLER Real Estate AG, Frankfurt, Germany on 17.02.2015 exceeded the threshold of 10% of voting rights, and amounted on that date to 10.19% (equating to 3,250,000 voting rights).

Shares with special rights conferring controlling powers

Shares of the Company with special rights that confer controlling powers do not exist.

Nature of voting right control in participating interests of employees

Employees who hold interests in the capital of ADLER AG exercise their control rights as do other shareholders in accordance with the statutory provisions and articles of association. There is no indirect control of voting rights.

Powers of the management board to issue and buy back shares

AUTHORISATION TO BUY TREASURY SHARES

The resolution of the General Meeting on 27 August 2010 authorised the Company to buy treasury shares up to a total of 10% of the current share capital of the Company until 26 August 2015 for the purposes permitted under § 71 Para. 1 No. 8 of the German Stock Corporation Act (AktG).

Treasury shares did not exist in the 2014 financial year.

AUTHORISED CAPITAL 2013/II

By resolution of the General Meeting on 15 October 2013, the Management Board was authorised to increase the share capital of the Company once or several times with the consent of the Supervisory Board by a total of up to EUR 8,250,000 in return for cash investments and/or physical investment through the issue of up to 8,250,000 new non-par bearer shares, with the option of excluding shareholders' preemptive rights until 14 October 2018.

AUTHORISED CAPITAL 2014/I

By resolution of the General Meeting on 09 May 2014, the Management Board was authorised to increase the share capital of the Company with the consent of the Supervisory Board once or several times by a total of up to EUR 3,600,000 through the issue of a total of up to 3,600,000 new non-par bearer shares in return for cash investments and/or physical investments, with the option of excluding shareholders' preemptive rights until 08 May 2019. After partial utilisation, this authorised capital still totals EUR 750,000 as of 31 December 2014.

CONDITIONAL CAPITAL 2012/II

The management board was authorised by resolution of the General Meeting on 28 June 2012 to issue once or several times, with the consent of the Supervisory Board until 27 June 2017, bearer warrants and/or convertible bonds in the total notional amount of up to EUR 100,000,000.00 with a maximum term of ten years and confer on the holders of warrants or convertible bonds rights to up to 6,500,000 new non-par bearer shares of the Company, subject to the detailed provisions of the warrants or convertible bond terms and conditions.

For this purpose, the General Meeting on 28 June 2012 resolved a conditional increase of the share capital of up to EUR 6,500,000.00 non-par value bearer shares; the conditional capital increase serves purely for the purpose of redemption of warrants or convertible bonds, which were granted until 27 June 2017 on the basis of authorisation by the General Meeting on 28 June 2012.

By resolution of the General Meeting at 15 October 2013, the authorisation of the Supervisory Board was amended to the effect that the holders of warrants or convertible bonds were to be granted a total of up to 8,250,000 new non-par bearer shares of the Company, subject to the detailed provisions of the warrants or convertible bond terms and conditions..

The conditional capital was accordingly amended in the General Meeting on 15 October 2013, and conditionally increased to up to EUR 8,250,000.

The Management Board made use of this authorisation with the consent of the Supervisory Board in 2013, and issued two convertible bonds of EUR 10,000,000 (5,000,000 bonds) and EUR 11,250,000 (3,000,000 bonds) respectively. The holders or creditors of these convertible bonds were granted rights to new shares in ADLER AG of up to 8,000,000 shares subject to the established terms and conditions. Due to the exercise of conversion rights, by 31 December 2013 share capital increased to 47,824 shares. The conditional capital 2012/II was thereby reduced to EUR 8,202,176 as of 31 December. Consequent upon further conversion, the registered share capital increased by 31 December 2014 by 458,320 no-par shares. The conditional capital 2012/II was thereby reduced to EUR 7,743,856 as of 31 December 2014. As of balance sheet date, convertible bonds in the total amount of 7,493,856 exist.

Other disclosures

According to § 179 Para. 1 AktG, amendments of the Articles of Association require a resolution by the General Meeting, which in turn requires a three-quarter majority of the share capital represented in voting, unless otherwise specified by the Articles of Association.

Management Board members are appointed and dismissed in accordance with §§ 76 et seq. AktG. Management Board members are appointed by the Supervisory Board for a maximum term of five years. A member may be appointed for another term of office, or the term can be extended for another five years. In addition, Section 7 of the Articles of Association states that the number of Management Board members is to be determined by the Supervisory Board, and the Management Board must consist of one or more persons.

Moreover it should be pointed out that it was agreed with corporate bond and convertible bond holders that in the event of a change of control through a takeover offer, bond holders can demand early repayment on the terms of the bonds. Convertible bonds can be converted at the adjusted conversion price determined in the bond terms. Conversion of convertible bonds at an adjusted conversion price named in the bond terms is also possible.

5.2 Basic Principles of the Remuneration System

Remuneration of the Management Board

The overall structure and level of the remuneration of the Management Board is determined by the Supervisory Board of ADLER AG and reviewed at regular intervals. The remuneration of the Management Board consists of a fixed annual salary, which is paid in monthly instalments, and non-cash benefits from the provision of company cars, and reimbursement of health and care insurance. Moreover, the Management Board is reimbursed for expenses incurred in the performance of their duties to a proven amount. Insurance premiums for third-party liability insurance for the activities of the Management Board are borne by the Company. A voluntary bonus can also be paid, which is determined by the Supervisory Board. The Supervisory Board determines the bonus based on the economic situation of the Company, its performance over the past financial year and also the performance contribution of the Management Board.

Remuneration of the Supervisory Board

Remuneration of the Supervisory Board is governed by the Articles of Association and is determined by the General Meeting. Each member of the Supervisory Board receives annual remuneration of EUR 20,000 as well as the reimbursement of his expenses. The chairman receives EUR 45,000 and his vice chairman receives EUR 30,000.

Furthermore, insurance premiums for third-party liability insurance for the activities of the Supervisory Board are borne by the Company.

5.3 Declaration on Corporate Governance under § 289a of the HGB

The declaration on corporate governance is published annually on the Company's web site in the Investor Relations / Corporate Governance section, and can be retrieved from the following URL: http://adler-ag.com/adler-ag/contao-2.11.7/index.php/erklaerung-nach-289-a-hgb.html

5.4 Final Declaration of the Management Board on the Report on Affiliated Companies

The report on relations of the Management Board to affiliated companies pursuant to § 312 of the AktG contains the following final declaration of the Management Board:

"Our Company received a commensurate consideration for every legal transaction listed in the report on relations with affiliated companies. Our Company is not disadvantaged by the measures listed which have been implemented or abstained from."

This assessment is based on the circumstances that were known to us at the time of the matters on which we are obliged to report.

6. OPPORTUNITIES AND RISK REPORT

6.1. Opportunities report

6.1.1 General economic and industry-related Opportunities

The ADLER Group has decisively strengthened and expanded its market position during the past financial year by acquiring additional portfolios in the building stock segment that cater to the increasing demand for reasonably priced living space. Despite the forecast of a decrease in Germany's population, an increase in one and two-person households is anticipated. While the number of households will increase in the former West German states until 2030, a decline is expected in the east of Germany. For ADLER, which holds 70% of its portfolios in the former West German states, this offers an opportunity to participate in this rising demand.

6.2.1 Opportunities in the Operating Activities

As a result of its acquisitions in the past financial year and at the beginning of 2015, ADLER has grown to a size that allows it to enter into master agreements with national service providers in the areas of telecommunications and utilities, securing cost benefits for the company in comparison with regional competitors – also to the advantage of our tenants.

With the takeover of housing association Wohnungsbaugesellschaft JADE mbH and its subsidiaries, the opportunity is now available to use the association's facility management for all of ADLER's portfolios.

6.1.3 Financial Opportunities

A further general drop in interest rates on the capital market is regarded as unlikely, but the opportunity nevertheless presents itself for ADLER to improve and optimise its own capital structure and to reduce its financing costs essentially by refinancing higher-yield bonds. As a result of its previous acquisitions and company mergers, ADLER has grown to a size that is interesting for the financial market.

6.1.4 Opportunities from the planned Merger with WESTGRUND AG

On 16 February 2015, ADLER notified the shareholders of WESTGRUND AG that it intended to submit a voluntary public takeover bid and to acquire a majority holding in the company. The takeover would propel ADLER into the top ten of the listed housing companies in the industry and provide it with the opportunity to expand the group of shareholders on the basis of the increased market attraction and thus to pursue further growth.

A further opportunity will result from a more efficient use of IT and administration systems as well as significant purchasing advantages as a result of a greater negotiable purchasing volume.

6.2 Risk Report

6.2.1 Risk Management

ADLER is constantly seeking new opportunities. Risks may have to be taken in order to take advantage of opportunities.

The rapid growth of the ADLER Group in 2014, which is continuing in the current 2015 financial year, was mainly resulted of the adjustment and further development of the Group-wide risk management system (including a compliance management system) and the adjustment of the organisation.

ADLER adjusted its Group-wide risk management system and its organisation to the new structure and size of the Group especially following the acquisition of the Magnus III property portfolio and the takeover of the majority of shares in ACCENTRO AG and in particular against the background of the property-specific aspects. The implementation phase is about to be concluded.

Risk management encompasses all organisational regulations and activities designed to implement the risk management process systematically and regularly throughout the Group. It also includes the support of the system through suitable instruments and methods that aim to ensure the long-term existence of the company, open up room for manoeuvre, achieve planned secondary targets and especially reduce risk and capital costs.

In addition to fulfilling the organisational obligations of the Management Board (section 91(2) of the Aktiengesetz (AktG – German Companies Act – Introduction of a Monitoring System), the objectives of the Group-wide risk management system are primarily to ensure the sustainable existence of ADLER, to map scenarios and future developments as well as their implications for the corporate and risk objectives, to monitor compliance with the corporate strategy from the risk perspective and to manage this through suitable and necessary measures as well as to optimise and monitor the risk-return ratio.

The risk strategy is derived by the ADLER Management Board from the corporate strategy and defines the general risk targets and the measures to achieve them. The risk strategy is specified in more detail by the risk targets in order to produce a suitable risk-opportunity ratio and to ensure the risk-bearing capacity of the Group. The risk strategy is embodied in the principles of risk policy and ensured by the risk management process.

The Group-wide risk management organisation consists of a risk management system and a monitoring system. The risk management system is managed by the Management Board and the management teams of the Group companies or by specially appointed risk officers. They define the risk policy, risk strategy and risk targets. The risk management system covers all the companies belonging to the ADLER Group that are incorporated in the consolidated financial statements (scope of consolidation).

The risk management system includes the following elements:

- Central risk and compliance management unit
- Audit function (internal and external)
- Clear risk and compliance responsibilities (risk owners), which conduc t a regular or ad hoc risk inventory and assessment every quarter and respond where necessary to existing risks by implementing preventive measures (risk management and controlling).

The risk officers of the operating functional units (Supervisory Board, Management Board, Executive Committee, Management Board staff, Service, Portfolio and Privatisation) identify, assess, control and manage risks and conduct the regular or ad hoc risk reporting. In the 2014 financial year, reporting was conducted in particular on property-specific risks through risk reports as part of the asset management reporting.

In addition, financial risks were reported as part of the monthly reporting by ADLER controlling.

In future, the risk management processes will be monitored using separate internal and external reviews.

Important elements of the operational risk management process are primarily:

- risk identification and analysis
- early warning system
- risk assessment (qualitative risk measurement using a scoring model in order to quantify risks)
- risk communication (reporting, risk reports)
- risk management
- risk control.

An extensive risk catalogue and a 'risk map' show all significant risks and compliance risks to which ADLER is or could be exposed.

6.2.2 Presentation of the Individual Risks

The ADLER Group is exposed to a large number of different risks which can have an adverse impact individually or collectively on the financial position, cash flow and results of operations as well as on the further economic performance of the Group. In addition to the general risks that apply for all companies, the risks faced by the ADLER Group include in particular the property-specific risks as well as the financial risks that are related to the financing of the property portfolios. With the dynamic development of the ADLER Group, which is reflected in the acquisition of several property portfolios in the 2014 financial year and in the takeover of the majority of shares in ACCENTRO AG, the risks related to the takeover of properties and real estate companies also have to be noted. These integration and takeover risks are explained separately.

(1) General economic and industry-related Risks (Market Risks)

Following the change of strategy in 2012, the ADLER Group generates its revenues primarily through the letting of residential properties in Germany and therefore pursues a strategy of holding and expanding its portfolio of residential portfolios. In addition, the sale of developed properties and project developments are undertaken to a minor extent. Through a majority holding in ACCENTRO, which was acquired in 2014, proceeds from privatisations are also generated through the sale of the company's own and third-party properties. Economic risks and risks in the property sector thus exert a direct impact.

On account of the location of the properties in Germany, a deterioration of the general economic conditions prevailing in Germany, for example in connection with the rise in unemployment, may lead to a decline in demand for residential properties and have an effect on the letting and price levels in this respect. Increased unemployment or a lack of funds (poverty in old age) can additionally influence the creditworthiness of potential and current tenants (housing stock) and purchasers (privatisation) of properties. Moreover, the demand for property is influenced by economic developments, the inflation rate, the extent of the national debt and the trends in interest rates in Germany. A high level of interest rates would make property investments difficult, as borrowing costs rise. For ADLER, moreover, an increase in interest rates would mean that property financing would become more expensive.

The risk from economic developments is the risk of a change for the worse in the general economic situation at a national level. This applies to all sectors. Both the current economic situation and the future prospects for economic development play a role in the assessment of the risk. Changes in the economy influence a large number of risk factors that are relevant for the property industry, such as the property markets, the financial markets and the running costs of the properties (as a result of general price levels). In the medium term, socio-demographic developments are also affected, which can in turn lead to changes in the (regional) economic situation. The economic performance can be influenced to a limited extent by policy. The situation in new lets and in occupancy rates at properties held by ADLER could deteriorate as a result of the decline in net disposable income and have a negative impact on the business performance in this respect.

The property market risk refers to the risk resulting from changes in the relevant property sub-sector. Distinguishing criteria here include regional location, type of use, purchase or rental, new construction or existing building and other factors. Changes result from a change on the supply or demand side, which can affect the floor area or the quality of the floor area. The property market risk is one of the core risks in the property sector, as it has a key impact on the trends in rental income and in the value of the properties. Significant influences in relation to the property markets include economic and socio-demographic developments, general political, tax and legal conditions as well as the location of the properties. The price change risk for properties is another risk that has an impact on the successful management of the existing stock of residential properties and on property sales.

The capital market risk refers to the risk of financial losses on account of changes in market prices. These changes are influenced to a significant degree by the risk assessment of the market participants, which can be measured by determining volatility. Volatility is defined as the standard deviation of the changes in the parameters under observation (e.g. share prices) and is frequently used to measure risk. High volatility is reflected in high risk aversion among the market players and is evidence of the nervousness and anxiety. In times of high volatility on the share market, market access to equity or loan capital becomes more difficult or the required capital returns increase.

As part of the efforts to counter the market risks, the business environment and the competitive situation are constantly monitored and analysed. This includes the general trends in terms of the demand for space and facilities as well as price and quality. Regional and product-specific diversification of projects as well as their adaptation to the ever-changing conditions reduce the risks of market fluctuations.

(2) Strategic Risks

Strategic risks result from strategy formulations and signify that the consequences of actions deviate negatively from the expected value. The macroeconomic environment and business processes can be mentioned as causes of risks here. Extensive strategic risk management and the early identification of risks enable ADLER's strategic risks to be managed.

(3) Financial Risks

The ADLER Group sees itself increasingly exposed to financial risks as a result of the increase in volume of various types of financing in the context of its strong growth. In order to meet the increased requirements, ADLER has strengthened the personnel in the 'Financing' area, is setting up a Group-wide treasury system and is focusing on its risk management more strongly in the area of financial risks. The financial risks primarily include the financial market risk (consisting of the interest rate risk and the market price risk), the default risk in the area of (rent) receivables and other trade accounts receivable and the liquidity risk. The financing risk related to the ongoing takeover of WESTGRUND AG can be mentioned here.

The primary objective is to maintain the ADLER Group's payment and capital servicing ability. In addition, the refinancing risk of the ADLER Group can also be listed as an important financial risk. This comprises the risk that refinancing cannot be obtained or can only be obtained at too great an expense after the existing loan agreements and fixed interest periods as well as the bonds and convertible bonds expire.

ADLER focuses especially on the following financial risks as key risks in this respect:

- FINANCIAL COVENANTS

To fulfil the financial covenants imposed by several financial institutions, ADLER has defined numerous key indicators in the update risk management system and furnished these with a risk buffer of 10%. The financial covenants are monitored on a regular and on an ad hoc basis. As part of the previous bank reporting, the financial institutions were informed of the financial covenants. In future, the internal controls will be implemented through the risk assessment.

- MARKET RISK

Market risks can produce fluctuations in results, equity and cash flow. The ADLER Group has developed a variety of hedging strategies, which can also involve the use of derivative financial instruments, as countermeasures to limit these risks.

- INTEREST RATE RISK

The ADLER Group is exposed to interest rate risks only in the Euro Zone. The risks are divided here into the market value interest rate risk and the cash flow interest rate risk. Fixed-income medium and long-term assets and liabilities always bear a market value interest rate risk, i.e. the potential change in the fair value of financial instruments due to changes in market interest rates.

ADLER finances its business operations through equity and debt. The interest rates for (real estate) loans are currently very low in Germany. A general rise in interest rates would therefore lead to an increase in ADLER's financing costs, thereby reducing the profitability of the real estate. Moreover, a rise in interest rates could make the disposal of land included in current assets difficult, as buyers would face higher financing costs.

- MARKET PRICE RISK

Market price risks involve changes in the value of financial instruments due to fluctuations in market prices. As this concerns non-listed shares in private limited companies, which are valued at cost, the Group does not run any direct price risk for its equity investments.

- DEFAULT RISK

The default risk emerges from the risk that the contractual partner fails to fulfil its payment obligations. The maximum default risk is reflected in the carrying amount of the original and derivative financial assets plus the issued financial guarantees. There are regulations to ensure that transactions are conducted only with business partners who have demonstrated adequate payment practices in the past. Contracts for derivative financial instruments and financial transactions are concluded only with financial institutions with the highest credit ratings. The Group pursues a business policy which limits its credit risk with regard to the individual financial institutions. The Group does not face any significant concentrations of potential credit risks.

- LIQUIDITY RISK

Liquidity risks come in the form of potential financial constraints and a subsequent rise in refinancing costs. ADLER primarily generates its liquidity from the net rents of acquired real estate portfolios and the sale of land which no longer belongs to the core business, meaning that a constant inflow of cash is not yet guaranteed given the size of the existing portfolios.

For this reason, conservative cash management (in future: Group-wide treasury) includes the maintenance of an adequate cash reserve, the availability of adequate financing through confirmed lines of credit and the ability to issue securities on the market. To manage liquidity, ADLER maintains a Group-wide cash management system (treasury), the object of which is to ensure that the Group can fulfil its payment obligations at all times by maintaining adequate cash reserves and optimising internal liquidity pooling.

(4) Financing Risk

The current portfolio structure of the residential properties and the intended takeover of WESTGRUND AG, Berlin, announced on 16 February 2015 lead to a financing risk. A restrictive lending policy on the part of banks or a negative trend on the capital market (reduction in investment volume) would exert a significant influence on ADLER's business performance. For this reason, ADLER is working together with several financial institutions and private investors in order to counter this risk. In addition, the company makes use of various possibilities for financing on the capital market.

(5) Risks when purchasing Real Estate (investment Risk)

The economic success of the ADLER Group is critically dependent on the selection and the acquisition of suitable real estate for its own portfolio of rented residential properties and for the sale of residences to owner-occupiers or capital investors (privatisation through ACCENTRO AG). The investment risk therefore includes the risk that structural, legal, commercial and other encumbrances on the properties to be purchased are incorrectly evaluated and/or not identified. Moreover, the assumptions in relation to the earnings potential of the real estate could subsequently prove to be incorrect in full or in part. Assumed location benefits of the residential properties could also turn out to be miscalculated.

These purchasing risks are countered by an indepth audit of the properties in question. Due diligence audits are performed to establish expected renovation, maintenance and modernisation requirements, which are compared with expected capital servicing calculations.

(6) Property and project-specific Risks (economic performance Risks)

Property risks are risks that result at the level of the individual property or portfolio or on account of the location of the real estate. For properties, failures to carry out maintenance, damage to buildings, inadequate fire protection and damage caused by tenants can be mentioned here. In addition, risks can emerge from legacy issues relating to ground conditions or from hazardous substances in construction materials as well as breaches of construction regulations and requirements. At the portfolio level, risks affecting the ability to let a property can result from a concentration of existing properties that require increased expenditure on maintenance and renovation for example. Project-specific risks can arise for example as a result of changes to land use plans, the imposition of stricter conditions or the rejection of building permit applications.

(7) Risks in the Sale of Real Estate (Disinvestment, Sales and Marketing Risk)

ADLER is primarily geared towards the portfolio maintenance and development of residential properties, but opportunities to dispose of real estate and parts of property portfolio nevertheless arise. Sales and marketing risks can also arise within the framework of the privatisation conducted through ACCENTRO AG.

Conceivable risks emerge for example as a result of the purchase of a real estate portfolio in which properties are also acquired that are not connected or can be connected only with difficulty to ADLER management infrastructure (asset, property and facility management). Exploiting the economies of scale available within the ADLER Group would then be very complicated and could lead to a property becoming unprofitable as a result of excessive running costs. When the portfolio is streamlined, risks could arise as a result of sales restrictions, for example in the portfolio financing, or public law requirements or funding obligations. A further elementary risk is a sale 'below value' in emergencies (sudden need for liquidity).

Risks can also emerge from the breach of reporting requirements, incorrect information, guarantees and events triggering statutory liability (especially in the case of contaminated sites). In this respect, risks can also materialise after real estate has been sold in the form of claims for damages.

(8) Information Technology (IT) Risks

The ADLER Group has essentially outsourced its IT applications to external service providers. The IT risks here are that the service providers do not guarantee an error and failure-free supply of the IT services at all, or do not guarantee them properly or free of disruptions or guarantee them with significant disruptions until there is a total failure. To counter this risk, ADLER has bound the external IT service provides through functional operating, maintenance and administration contracts, compliance with which is permanently monitored through monthly reporting.

(9) Company-specific Risks

Significant company-specific risks are, for example, management and organisation risks, information risks, compliance risks, personnel risks and legal risks.

- MANAGEMENT AND ORGANISATION RISKS

These risks comprise in particular the corporate strategy, the management functions in accordance with the organisation chart of the ADLER Group (Management Board staff, service, building stock, privatisation), the organisation, the corporate culture and the image of ADLER and finally the risk of a lack of employee motivation.

Furthermore, the quality of the corporate governance also determines the success of the business operations and thus of the individual properties. For example, the level of rental income, the (non-recoverable) operating expenses and the financing conditions are also influenced by the quality of the management.

The cause of this risk can be found in the individual operating management processes, and it results for example from deficits in monitoring, scheduling, communication, the definition of interfaces and the deployment of personnel and resources as well as in a lack of documentation.

ADLER counteracts this risk by ensuring the continuous professional development for executive officers.

- COMPLIANCE RISKS

Compliance risks arise primarily as a result of breaches by the management, executive officers and employees who fail to observe laws and/or internal guidelines and inflict damage on ADLER as a result.

ADLER has further developed the compliance management system as part of the risk management system and adjusted it accordingly to the size and complexity of the ADLER Group. Its implementation will be concluded in the near future.

ADLER uses the compliance management system pursuant to IDW PS 980 and ISO 19600 as the basis for an appropriate risk assessment. In this process, risks have to be identified, documented and subsequently assessed technically and in terms of their probability of occurrence by the compliance officers. To implement the responsibilities, ADLER relies on the functional divisions: Supervisory Board, Management Board, Executive Committee, Management Board staff, service, Portfolio Management and privatisation. In addition, the compliance risks in the areas of investment, disinvestment, money laundering, data protection and general operating risks are managed. Specific risks can emerge in each of these sub-sectors.

The compliance risks will be counteracted in future by a compliance management system that is partially integrated in the risk management system. The core elements of the compliance management system are the compliance culture, targets, organisation, risks and programme as well as their regulation through the handling of compliance breaches and compliance communication.

The compliance management system is implemented using the compliance guideline, compliance training and compliance audits as well as quarterly compliance reports to ADLER's executive bodies. A central compliance unit has been set up for this purpose.

- PERSONNEL RISKS

The employees of the ADLER Group play a crucial role in its economic success. They provide their knowledge, their abilities and their skills in the service of the Group. The risks in the area of human resources are many and varied in nature. Risks can be distinguished in the recruitment process, the ongoing employment relationship and when employees leave the company. In light of ADLER's rapid growth, the risks of attracting adequate personnel, maintaining employment relationships and ensuring a balanced personnel structure should be mentioned here.

ADLER counters these risks with both non-monetary and financial incentives.

- LEGAL RISKS

Legal risks can arise above all in the fields of capital market law, company law and property law. ADLER has strengthened its staff appropriately in order to cope with legal matters and to avoid legal risks. Legal risks can lead to financial losses. They arise for example from the failure to comply with legal regulations and to implement new or amended laws. There is additionally a risk of losses incurred from a failure to coordinate the business processes with a contractual partner or resulting from prejudicial formulations, contents or conditions. When entering into asset management, property management and facility management contracts, particular attention is to be paid to ensuring service content that is comprehensive, but that avoids overlaps. In other respects, there is generally a risk when entering into contracts of using invalid clauses and of becoming exposed to higher costs as a result (e.g. transfer of the liability risk).

Public law risks are regulations, laws and conditions relating to the ownership and management of real estate. These can include the protection of historical monuments, the climate and environment protection or for example rent control proposals, where additional obligations and expenses can be incurred by the property owner.

Risks can result of completed or future mergers. To counter these risks, the Management Board commissions on a case-by-case basis all the necessary analyses and expert reports in order to procure a comprehensive picture of the target company and to obtain the information that it requires for a decision. The lower house of the German parliament approved the introduction of the 'Mietpreisbremse', a cap on residential rent increases, on 5 March 2015. This means that, where a housing market is tight, the new rent following a change of tenant may not be set more than 10 per cent higher than the level that is usual for the neighbourhood. The adoption of this bill and its subsequent implementation by the Federal states and municipalities create the risk of a limited potential for increasing rents in new lets.

(10) General Acquisition and Integration Risks

- RISKS RELATED TO THE INTEGRATION OF ACCENTRO AG

ADLER completed the acquisition of the majority of shares in ACCENTRO Real Estate AG in the middle of the financial year. Two listed real estate companies were merged as part of the takeover process. The integration process is still in progress and is expected to last until the end of the 2015 financial year. General acquisition and integration risks are possible, and some have occurred.

However, ADLER also expects significant synergy effects and cost savings. Nevertheless, it cannot be ruled out that certain effects will only emerge later or will not fulfil expectations. The structural realignment and the change of name have already been implemented. The extensive portfolios acquired within the framework of the takeover require processes to be realigned and the administration, management and internal structures to be partly reorganised.

Deviations from the original assumptions can occur in these areas, which may result in a failure to achieve the objectives of the acquisition or lead to increased risks.

- RISKS RELATED TO THE TAKEOVER OF WOHNUNGSBAUGESELLSCHAFT JADE MBH, WILHELMSHAVEN

Approximately 6,750 rental units were acquired on 31 January 2015 in connection with the acquisition of the companie Wohnungsbaugesellschaft JADE mbH, Wilhelmshaven, including two subsidiaries. Around 100 employees were also taken over as part of the share deal. Despite diligent research prior to the acquisition, general acquisition and integration risks also arise here. The integration is expected to last for two years and will tie up considerable financial and human resources. The merger of the workforces of the two companies and also of the corporate cultures is necessary for a successful integration. Beyond that, the IT systems and common processes for the integrated group have been set up, but not yet implemented.

- RISKS RELATED TO THE TAKEOVER OF WESTGRUND AG, BERLIN

On 16 February 2015, ADLER announced its decision to submit a takeover offer to the shareholders of WESTGRUND AG, Berlin. The takeover is still in a very early phase. The takeover would make ADLER one of the ten major listed German residential Property companies, as measured by market capitalisation.

Negative effects on the contractual and legal position of one of the two groups may emerge as a result of the takeover and integration.

Furthermore, corporation and trade tax loss carry-forwards existing at WESTGRUND AG may cease to apply either in full or in part as a consequence of the acquisition of equity by ADLER.

ADLER expects a variety of synergy effects and economies of scale following the takeover of WESTGRUND AG. It cannot rule out the possibility, however, that the expected synergies and economies of scale will prove to be less significant than expected. Moreover, the costs of the takeover and integration could turn out higher than expected. The real estate portfolio of WESTGRUND AG could additionally develop in deviation from the original assumptions in ADLER's assessment.

6.2.3 Risk Concentrations

A significant proportion of ADLER's properties are located in Lower Saxony (primarily in Wilhelmshaven and Helmstedt) and in North Rhine-Westphalia (the Rhine-Ruhr metropolitan region). The Group's economic performance is therefore dependent to a considerable degree on the development of the property market in these greater metropolitan areas.

6.2.4 Other external risk Influences

ADLER currently has approximately 31,000 rental units. Following the planned takeover of WESTGRUND AG, Berlin, this figure will jump to over 50,000 residential units. There are general influences that cannot be foreseen and are also difficult to control. From ADLER's perspective, these include changes in the general political conditions, social influences and risks such as acts of terrorism and natural disasters. Risks of this kind could have a direct or indirect impact on the residential portfolios of the ADLER Group and exert a negative influence on its economic situation.

6.2.5 Overall Assessment of the Risk Situation of the ADLER Group

The ADLER Group is exposed to a wide variety of risks that require constant monitoring. The overall assessment of the risk situation of the Group that results from the compilation of the risks described

above based on effect and probability leads ADLER to the appraisal that the risks taken individually or as a whole are such that they do not threaten the company as a going concern. ADLER is convinced that it can overcome the challenges resulting from the risks mentioned above also in the future.

ADLER has responded to the heightened risk resulting from the growth of the Group by continuing to develop its risk management and monitoring system.

Frankfurt am Main, 18 March 2015

Harloff

Axel Harloff
Management Board

Consolidated Balance Sheet

(IFRS) as at 31 December 2014

In EUR '000	Note	31.12.2014	31.12.2013
			*adjusted**
Assets		**1,416,459**	**460,888**
Non-current assets		**1,203,649**	**423,060**
Goodwill	8.1	27,081	0
Intangible assets	8.1	1,727	7
Property, plant and equipment	8.2	494	41
Investment properties	8.3	1,170,159	417,865
Loans to associated companies	8.4	907	1,136
Investments in associated companies	8.5	1,123	3,460
Other financial investments	8.7	1,175	0
Deferred tax assets	8.6	983	552
Current assets		**206,681**	**37,828**
Inventories	8.8	89,617	18,848
Trade receivables	8.9	27,547	3,391
Income tax receivables	8.9	173	19
Other current assets	8.9	56,283	8,675
Cash and cash equivalents	8.10	33,060	6,895
Non-current assets held for sale	8.11	**6,129**	**0**

* The previous year's figures have been adjusted due to classification changes.

In EUR '000	Note	31.12.2014	31.12.2013
			*adjusted**
Equity and liabilities		**1,416,459**	**460,888**
Shareholders' equity		**311,211**	**86,945**
Capital stock	8.12	31,877	16,548
Capital reserve	8.13	108,078	13,131
Retained earnings	8.14	–349	160
Currency translation reserve	8.15	20	-59
Retained profit		151,775	42,554
Shareholders' equity attributable to the shareholders of the parent company		291,401	72,334
Minority interests	8.16	19,810	14,610
Non-current liabilities		**1,010,927**	**340,948**
Pension provisions	8.17	4,281	724
Deferred tax liabilities	8.6	39,083	15,570
Other provisions and accrued liabilities	8.18	802	65
Accounts payable from convertible bonds	8.19	33,894	18,382
Accounts payable from bonds	8.20	140,804	33,283
Financial liabilities to banks	8.21	791,087	271,567
Other non-current liabilities	8.22	977	1,356
Current liabilities		**94,321**	**32,995**
Other provisions and accrued liabilities	8.18	482	205
Income tax liabilities	8.23	3,213	412
Accounts payable from convertible bonds	8.19	43	16
Accounts payable from bonds	8.20	3,978	2,291
Financial liabilities to banks	8.21	47,810	3,687
Trade payables	8.23	21,123	7,898
Other current liabilities	8.23	17,673	18,487

* The previous year's figures have been adjusted due to classification changes.

Consolidated Statement of Income and Accumulated Earnings

(IFRS) for the period from 1 January to 31 December 2014

In EUR '000	Note	2014	2013
			*adjusted**
Income from real estate management	9.1	83,882	17,839
Expenses from real estate management	9.2	-51,809	-10,217
Net income from real estate management		**32,073**	**7,622**
Income from the disposal of real estate	9.3	56,821	1,970
Expenses from disposed real estate	9.4	-54,435	-1,335
Net income from the disposal of real estate		**2,386**	**635**
Personnel expenses	9.5	-5,024	-1,166
Other operating income	9.6	29,718	132
Other operating expenses	9.7	-21,145	-2,421
Income from fair value adjustments to investment properties	9.8	132,934	59,546
Depreciation and allowances	9.9	-497	-15
Earnings before interest and tax (EBIT)		**170,445**	**64,333**
Interest income	9.10	1,579	685
Interest costs	9.11	-41,088	-8,563
Net income from associated companies measured using the equity method	9.12	1,824	6,562
Earnings before tax (EBT)		**132,760**	**63,017**
Taxes on income	9.13	-21,189	-16,141
Consolidated result		**111,571**	**46,876**
Actuarial gains/losses before taxes	8.17	-792	81
Deferred taxes on actuarial gains/losses	8.17	282	-26
Reclassifiable gains/losses		**-510**	**55**
OCI SWAP – reclassifiable –	10.1	-20	0
Deferred taxes OCI – reclassifiable –	10.1	-4	0
OCI own bonds – reclassifiable –	10.1	32	0
Gains/losses from currency translation	8.15	79	-48
Reclassifiable gains/losses		**87**	**-48**
Net result		**111,148**	**46,883**
Of the consolidated result attributable to:			
Shareholders of the parent company		109,220	38,763
Minority interests		2,351	8,113
Of the net result attributable to:			
Shareholders of the parent company		108,797	38,770
Minority interests		2,351	8,113
Earnings per share, undiluted in EUR	9.14	4.65	2.57
Earnings per share, diluted in EUR	9.14	3.57	2.23

* The previous year's figures have been adjusted due to classification changes.

Consolidated Cash Flow Statement

(IFRS) for the period from 1 January to 31 December 2014

	In EUR '000	2014	2013
			*adjusted**
	Earnings before interest and taxes (EBIT)	170,444	64,333
+	Depreciation and allowances	497	15
–/+	Net income from associated companies measured using the equity method	1,824	6,562
–/+	Result with no effect on cash from fair value adjustments to investment properties	-132,934	-59,546
–/+	Income/expenses with no effect on cash	-21,359	902
–	Decrease in provisions and accrued liabilities	-3,746	-172
–/+	Increase/decrease in inventories, trade receivables and other assets not attributable to financing activities	9,280	848
–/+	Increase/decrease in trade payables and other liabilities not attributable to investment or financing activity	-6,205	-997
+	Interest payments received	435	12
+/–	Tax payments	-1,487	-23
=	**Net cash flows from operating activities**	**16,749**	**11,934**
–	Acquisition of affiliated companies, less net cash and cash equivalents acquired	-59,412	-92,457
–	Payments made for investments in investment properties	-120,216	-397
+	Sale of investment properties, less net cash and cash equivalents sold	0	2,418
–	Payments made for investments in property, plant and equipment	-149	-7
–	Payments made for short-term investments	-28,495	-3,730
–	Payments made for investments in financial assets	0	-26
=	**Net cash flows from investing activities**	**-208,272**	**-94,199**
+	Payments received from equity contributions	21,090	3,600
–	Other changes in shareholders' equity with no effect on cash	-1,682	-63
+	Payments received from the issuance of convertible bonds	0	21,250
+	Payments received from the issuance of bonds	100,000	35,000
+	Payments received from third-party loans	0	5,042
–	Payments made for expenses relating to the issuance of debentures	-4,223	-2,995
–	Interest payments made	-35,520	-4,819
+	Payments received from bank loans	538,908	32,038
–	Payments made for the repayment of bank loans	-400,885	-977
=	**Net cash flows from financing activities**	**217,688**	**88,076**
	Transition to balance sheet		
	Cash and cash equivalents at beginning of period	**6,895**	**1,084**
	Net cash flows from operating activities	16,749	11,934
	Net cash flows from investing activities	-208,272	-94,199
	Net cash flows from financing activities	217,688	88,076
=	**Cash and cash equivalents at end of period**	**33,060**	**6,895**

* The previous year's figures have been adjusted due to classification changes.

Consolidated Statement of Changes in Equity

(IFRS) for the period from 1 January to 31 December 2014

In EUR '000	Subscribed capital	Treasury shares	Capital reserve	Retained earnings	Currency translation reserve	Net profit/ loss	Capital and reserves attributable to the shareholders of the parent company	Minority interests	Total equity
As at 1 January 2013 (adjusted)	**15,000**	**-810**	**8,255**	**105**	**-10**	**3,791**	**26,331**	**118**	**26,449**
Net result	0	0	0	0	0	38,763	38,763	8,113	46,876
Other result – reclassifiable	0	0	0	0	-49	0	-49	0	-49
Other result – non-reclassifiable	0	0	0	55	0	0	55	0	55
Change in scope of consolidation	0	0	0	0	0	0	0	6,379	6,379
Share increase in portfolios without change in status	0	0	0	0	0	0	0	0	0
Capital increase	1,500	0	1,992	0	0	0	3,492	0	3,492
Issue of treasury shares	0	810	885	0	0	0	1,695	0	1,695
Issue of convertible bonds	0	0	1,962	0	0	0	1,962	0	1,962
Conversion of convertible bonds	48	0	38	0	0	0	86	0	86
As at 31 December 2013	**16,548**	**0**	**13,132**	**160**	**-59**	**42,554**	**72,335**	**14,610**	**86,945**
As at 1 January 2014	**16,548**	**0**	**13,132**	**160**	**-59**	**42,554**	**72,335**	**14,610**	**86,945**
Net result	0	0	0	0	0	109,220	109,220	2,351	111,571
Other result – reclassifiable	0	0	0	0	79	8	87	0	87
Other result – non-reclassifiable	0	0	0	-509	0	0	-509	0	-509
Change in the scope of consolidation	0	0	0	0	0	0	0	7,388	7,388
Share increase/decrease without change in status	0	0	12,062	0	0	-7	12,055	-7,652	4,403
Capital increase	14,871	0	82,207	0	0	0	97,078	0	97,078
Issue of treasury shares	0	0	0	0	0	0	0	0	0
Issue of convertible bonds	0	0	0	0	0	0	0	0	0
Conversion of convertible bonds	458	0	678	0	0	0	1,136	3,113	4,249
As at 31 December 2014	**31,877**	**0**	**108,078**	**-349**	**20**	**151,775**	**291,401**	**19,810**	**311,211**

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

ADLER Real Estate Aktiengesellschaft (hereinafter also referred to as: ADLER AG) as the Group's parent company is headquartered at Herriotstrasse 5, Frankfurt am Main, Germany. The Company is registered in the Commercial Register of Frankfurt am Main District Court under register number HRB 7287. The financial year is equal to the calendar year. The Company's administrative address is Gänsemarkt 50, Hamburg, Germany.

ADLER AG is a publicly traded real estate company which is focused on developing a strong and profitable real estate portfolio. At the centre of its activities is the acquisition and management of residential properties throughout Germany.

The goal of ADLER Real Estate's activities is to invest in residential properties with the potential for sustained appreciation and whose current income contributes to the Company's overall success. The Company's operational strategy also includes actively creating added value, i.e. developing existing residential properties through improvements, structural alterations and renovations, as well as developing residential construction sites and new residential properties for its own account, either alone or together with partners.

Real estate trading has also been one of ADLER AG's core business activities since the inclusion of ACCENTRO Real Estate AG (formerly: ESTAVIS AG), Berlin, Germany, in the ADLER AG Group.

ADLER AG is listed in the regulated market (Prime Standard) of the Frankfurt am Main stock exchange.

The Management Board approved the publication of the consolidated financial statements and the Group management report on 18 March 2015, subject to approval by the Supervisory Board.

2. BASIS OF ACCOUNTING

2.1 Principles of Preparing Financial Statements

The consolidated financial statements of ADLER AG as at 31 December 2014 were prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS), as required to be applied in the European Union (EU). The provisions of § 315a Para. 1 of the German Commercial Code (HGB) were also applied. The requirements of the applied standards have been fulfilled and allow the presentation of the actual situation with regard to the financial, earnings and liquidity position.

The financial years of the parent company, the subsidiaries and the associates equal the calendar year. ACCENTRO Real Estate AG (hereinafter "ACCENTRO AG") and its subsidiaries, which were all included in the financial statements for the first time in 2014, had a deviating financial year ending on 30 June. This was changed in the reporting year, with their financing years now also ending on 31 December. These companies had abbreviated financial years for the period from 1 July to 31 December 2014.

The financial statements of the subsidiaries are prepared using uniform recognition and measurement methods.

The consolidated statement of income and accumulated earnings was prepared in accordance with the total cost format. The revenues and cost of materials reported in the income statement were retrospectively broken down in detail so as to adjust these in line with the structures customary for real estate companies and to achieve a higher level of transparency with regard to the ADLER Group's sources of income and earnings.

The consolidated financial statements are prepared in thousands of euros (EUR '000), the parent company's functional currency. Since amounts are given in thousands of euros (EUR '000), rounding differences can occur.

Intragroup transactions and items as well as unrealised gains and losses from transactions between Group companies are eliminated. Deferred tax assets and liabilities are recognised as required by IAS 12 for temporary differences arising on consolidation.

The consolidated financial statements have been prepared based on the going concern assumption and historic costs. This does not apply to investment properties, available-for-sale financial assets, individual assets and liabilities as well as derivative financial instruments, all of which are measured at fair value. Furthermore, non-current assets available for sale are valued at selling price.

The preparation of consolidated financial statements in accordance with IFRS partly requires that critical estimates have to be made with respect to balance sheet reporting and evaluation. Areas subject to a higher degree of judgement and complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 6.

Measurement is consistent with statutory provisions and, with the following exceptions resulting from new and revised standards, was performed in accordance with principles which were unchanged as against the previous year.

2.2 Accounting Standards Applicable for the First Time in Financial Year 2014

The Group applied the following new and revised IFRS and standards in financial year 2014:

Standard/Interpretation	Effective date	Date of EU endorsement
Amendments to standards:		
IAS 27: Separate Financial Statements	01.01.14	11.12.12
IAS 28: Investments in Associates and Joint Ventures	01.01.14	11.12.12
IAS 32: Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	01.01.14	13.12.12
IFRS 10, IFRS 12 and IAS 27: Separate Financial Statements – Exception to Consolidation Requirements for Investment Entities	01.01.14	20.11.13
IFRS 10, IFRS 11 and IFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transitional Guidelines	01.01.14	04.04.13
IAS 36: Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets	01.01.14	19.12.13
IAS 39: Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting	01.01.14	19.12.13
New standards:		
IFRS 10: Consolidated Financial Statements	01.01.14	11.12.12
IFRS 11: Joint Arrangements	01.01.14	11.12.12
IFRS 12: Disclosures of Interests in Other Entities	01.01.14	11.12.12

IFRS 10 "Consolidated Financial Statements"

IFRS 10 introduces a single definition for the concept of control for all entities, thus creating a standard basis for determining whether a parent-subsidiary relationship exists and should be included in the scope of consolidation. The standard contains comprehensive guidance for determining whether control exists. It completely replaces SIC-12 "Consolidation – Special Purpose Entities" and partly replaces IAS 27 "Consolidated and Separate Financial Statements".

The Group reviewed its investments and other companies to determine whether the application of IFRS 10 resulted in a change in consolidation requirements. The amended accounting regulations did not result in any changes to the scope of consolidation.

IFRS 11 "Joint Arrangements"

IFRS 11 prescribes the accounting for circumstances in which an entity exercises joint control of a joint venture or joint operation. Joint ventures may only be accounted for using the equity method. The proportionate method previously permitted as an alternative will be eliminated. The new standard replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". The application of this standard has no material effect for the Group.

IFRS 12 "Disclosure of Interests in Other Entities"

IFRS 12 combines in one standard all disclosure requirements for interests in other entities, including interests in subsidiaries, associates, joint arrangements and structured entities. The new standard replaces the previous disclosure requirements in IAS 27, IAS 28, IAS 31 and SIC-12. Note disclosures will have to be extended slightly within the scope of the initial application of IFRS 12.

With the exception of more extensive note disclosures, the initial application of the above-mentioned IFRS did not result in any other material changes in financial year 2014.

2.3 Accounting Standards that have been approved by the IASB but not yet been applied

The following new accounting amendments approved by the IASB, but largely not yet adopted by the EU, were not taken into account in financial year 2014 as there was no obligation to do so:

Standard/Interpretation	Effective date	Date of EU endorsement
Amendments to standards:		
IAS 1: Disclosures	01.01.16	open
IAS 27: Equity Method in Single Financial Statements	01.01.16	open
IAS 16 and 41: Agriculture, Bearer Plants	01.01.16	open
IAS 16 and 38: Clarification of Acceptable Methods of Depreciation and Amortisation	01.01.16	open
IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	01.01.16	open
IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	01.01.16	open
IFRS 10, 12 and IAS 28: Applying the Consolidation Exception	01.01.16	open
IAS 19: Employee Benefits - Employee Contributions	01.07.14	17.12.14
Improvements to IFRS 2010-2012: Amendments to IFRS 2, 3, 8, 13 and IAS 16, 24, 38	01.07.14	17.12.14
Improvements to IFRS 2011-2013: Amendments to IFRS 1, 3, 13 and IAS 40	01.01.16 (EU)	18.12.14
Improvements to IFRS 2012-2014: Amendments to IFRS 5, 7, 19 and IAS 34	01.01.16	open
New standards:		
IFRS 9: Financial Instruments – Classification and Measurement of Financial Assets	01.01.18	open
IFRS 14: Regulatory Deferral Accounts	01.01.16	open
IFRS 15: Revenue from Contracts with Customers	01.01.17	open
IFRIC 21: Levies	01.07.14 (EU)	13.06.14

IFRS 9 “Financial Instruments – Classification and Measurement of Financial Assets”

IFRS 9 shall completely replace previous IAS 39 “Financial Assets: Classification and Measurement”. The published version of IFRS 9 no longer includes an effective date, as certain phases of the project are still awaiting completion. In February 2014, the IASB tentatively decided that the mandatory effective date of IFRS 9 would be no earlier than 1 January 2018.

Due to the postponement of the effective date to 1 January 2018 at the earliest and the fact that adoption of the standard by the EU has not yet been recommended, the Group has not yet performed an in-depth evaluation of the potential effects of IFRS 9.

IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 will replace existing standards IAS 18 “Revenue” and IAS 11 “Construction Contracts” as well as interpretations IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfer of Assets from Customers” and SIC 31 “Revenue – Barter Transactions Involving Advertising Services”.

The standard provides for a five-step model, which is used to determine when and to what extent revenue from contracts with customers need to be recognised. The required note disclosures are also extended. Due to the effective date of 1 January 2017, the Group has not yet performed an in-depth evaluation of the potential effects of IFRS 9. With the exception of the extended note disclosures, the Group does not expect any material impact on its figures.

According to current estimates, the above standards and interpretations have no material effect on the consolidated financial statements.

3. CONSOLIDATION PRINCIPLES

3.1 Subsidiaries

Subsidiaries are all companies (including special purpose entities) controlled by ADLER AG. The Group assumes control over a company when it is exposed to fluctuating yields or has a right to these and its control over the company means that it has the ability to influence yields. It is generally the case that control goes hand in hand with a majority of voting rights of more than 50 per cent. When assessing whether there is control or not, the existence and effects of potential voting rights that are currently exercised or are convertible, are taken into account.

Subsidiaries are fully consolidated as from the date when control was transferred to the parent company. They are deconsolidated as from the date the control ends.

All material subsidiaries are included in the consolidated financial statements (see note 4.1. Investments in Subsidiaries). If shares in subsidiaries are considered to be of subordinate significance from a Group perspective, they are reported as available-for-sale f inancial assets.

In the case of company acquisitions, an assessment is made (see 6. Significant Discretionary Decisions, Estimates and Assumptions) when the acquisition is a business combination pursuant to IFRS 3 or nothing more than the acquisition of a group of assets and liabilities without having the quality of a company.

Company acquisitions within the meaning of IFRS 3 are reported using the purchase method. The cost of the company acquisition is measured as the fair value of the individually identifiable assets given, debts and contingent liabilities incurred or assumed at the date of exchange. Any unallocated amount is recognised as goodwill, and negative goodwill is recognised through profit or loss. Acquisition-related costs are recognised as expenses.

The shares in the net assets of subsidiaries that are not attributable to ADLER AG are shown as a separate component of equity under non-controlling interests. The effects of purchase accounting recognised directly in the income statement are also included in calculating the share in the consolidated result attributable to non-controlling interests. Non-controlling interests in partnerships are reported under other liabilities.

The acquisition of real estate companies that do not constitute business operations within the meaning of IFRS 3 are reported as a direct acquisition of a unit, in particular of real estate (asset deal). The cost of the real estate company is allocated to the individual identifiable assets and liabilities based on fair values. The acquisition of real estate companies therefore does not result in positive or negative goodwill from capital consolidation.

Intergroup receivables, liabilities and results are eliminated for the purposes of the consolidated financial statements within the scope of the consolidation of liabilities and/or expenses and income. Expenses and income resulting from the intragroup transfer of assets are also eliminated. The recognition and measurement methods used by the subsidiaries are used on a Group-wide basis.

3.2 Joint Arrangements

Joint arrangements are when two or more partners undertake an economic activity that is subject to joint control. Joint control exists when the partners must work together to manage the relevant activities of the joint arrangement and decisions require the unanimous consent of all partners. Such joint arrangements are joint ventures when the partners exercising joint control have rights and obligations to the arrangement’s net assets. The arrangement is a joint operation when the partners have direct rights to the assets and/or have obligations for the liabilities allocable to the joint arrangement. A joint venture generally exists in the event that a joint arrangement is embodied by a legally independent partnership or incorporated company with corporate assets with the result being that ADLER AG and its interests in the company in question means that it only has a pro rata right to the company’s net assets. In the event of joint arrangements in the form of a company under German civil law (such as associations) where a separate asset and financial structure does not yet exist on account of the legal form of one of the partners, a determination must be made on the basis of contractual provisions and the purpose of the joint arrangement whether the company in question is a joint venture or a joint operation. The joint arrangement is considered to be a joint venture if neither the legal form nor the contractual provisions or other facts or circumstances indicate that ADLER AG has direct rights to the assets and/or obligations for the liabilities of the joint arrangement.

Joint ventures are companies whose financial and business policies the Group can control either directly or indirectly, in conjunction with a third party. Interests in joint ventures are recognised at equity.

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

3.3 Associates

Investments over which ADLER AG exerts significant influence – as a rule resulting from shareholdings between 20 per cent and 50 per cent – are generally measured using the equity method. For those investments measured at equity, the costs are increased or decreased annually by the change in shareholders’ equity attributable to the Group. Any goodwill arising from the initial inclusion of companies at equity is accounted for in the same way as goodwill relating to fully consolidated companies.

Gains and losses from transactions between Group companies and associates are eliminated in accordance with the share in the associate. Gains and losses from transactions between associates are not eliminated.

The acquisition of ACCENTRO AG added a further three associates to ADLER AG's consolidated financial statements as at 31 December 2014.

There were no other changes to the scope of associates.

4. SCOPE OF CONSOLIDATION, BUSINESS COMBINATIONS AND REAL ESTATE COMPANIES

4.1 Investments in Subsidiaries

Including the parent company, the scope of consolidation includes a total of 77 fully-consolidated companies (previous year: 33).

Most of the changes to the scope of consolidation as at 31 December 2014 result from the acquisitions of ACCENTRO AG and its subsidiaries, WBG GmbH and a further eight companies, which also enabled the acquisition of a further real estate portfolio ("Magnus III"). The scope of consolidation developed as follows:

Number	2014	2013
As at 01/01	33	23
Additions	53	11
Disposals	9	1
As at 31/12	77	33

The following companies were disposed of in the financial year:

- Glockenhofcenter Objektgesellschaft mbH (formerly: SIAG Fünfundzwanzigste Wohnen GmbH & Co. KG)
- Hanse-Center Objektgesellschaft mbH (formerly: SIAG Neunundzwanzigste Wohnen GmbH & Co. KG)
- SIAG Achtundzwanzigste Wohnen GmbH & Co. KG
- Erste SIBA Wohnen GmbH

A commercial real estate portfolio consisting of eight properties with total space of approximately 41,742 m² was sold effective 22 December 2014 in connection with the disposal of Hanse-Center Objektgesellschaft mbH and Glockenhofcenter Objektgesellschaft mbH. The disposal resulted in deconsolidation proceeds of EUR 134 thousand.

Two properties in Neubrandenburg with total space of 9,197 m² were sold together with the sale of all shares in SIAG Achtundzwanzigste Wohnen GmbH & Co. KG. Consolidated net earnings rose by EUR 116 thousand, due to the deconsolidation of the company.

The disposal of Erste SIBA Wohnen GmbH, which did not have any active business operations, served to streamline the Group structure. The deconsolidation led to a EUR 4 thousand drop in consolidated net earnings.

The following companies were integrated into and/or merged with their respective parent companies in the financial year to simplify the Group structure:

- MBG Zweite Vermögensverwaltungs GmbH
- SIAG Fünfte Wohnen GmbH & Co. KG
- ESTAVIS 32. Wohnen GmbH & Co. KG
- ESTAVIS 35. Wohnen GmbH & Co. KG
- ESTAVIS 46. Wohnen GmbH & Co. KG

All Group companies operate in Germany, regardless of where they are headquartered. The Group does not own any real estate outside Germany.

Five (previous year: two) associates and one (previous year: zero) joint venture are recognised at equity. Two (previous year: three) associates recognised at equity are not included for reasons of materiality.

The shareholdings – which also correspond to voting rights – of ADLER AG as at 31 December 2014 were as follows:

No.	Company	Headquarters		Equity interest in %	Held by No.	Businessactivity
	Associates fully consolidated pursuant to IFRS 3					
1	ADLER Real Estate AG (parent company)	Frankfurt / Germany				Holding company
2	ADLER Real Estate Service GmbH	Hamburg / Germany		100.0	1	Service company
3	Verwaltungsgesellschaft ADLER Real Estate mbH	Hamburg / Germany		100.0	1	General partner
4	Verwaltungsgesellschaft Erste ADLER RE mbH	Hamburg / Germany		100.0	5	General partner
5	Erste ADLER Real Estate GmbH & Co. KG	Hamburg / Germany	1)	100.0	1	Project development
6	Dritte ADLER Real Estate GmbH & Co. KG	Hamburg / Germany	1)	100.0	1	Project development
7	Achte ADLER Real Estate GmbH & Co. KG	Hamburg / Germany	1)	100.0	1	Project development
8	Adler Real Estate Properties GmbH & Co. KG	Hamburg / Germany	1)	100.0	1	Project development
9	Adler Projekt Homburg GmbH	Hamburg / Germany		100.0	1	None
10	MÜBAU Real Estate GmbH	Hamburg / Germany		100.0	1	None
11	ADLER Lux SarL	Luxembourg / Grand Duchy of Luxembourg		100.0	1	None
12	Adler US Real Estate GmbH	Hamburg / Germany		100.0	1	Intermediate holding company
13	Adler McKinney LLC	McKinney / USA		100.0	12	Intermediate holding company
14	Münchener Baugesellschaft mbH	Hamburg / Germany		100.0	1	Intermediate holding company
15	MBG Beteiligungsgesellschaft mbH & Co. KG	Hamburg / Germany	1)	94.9	14	Intermediate holding company
16	MBG Dallgow GmbH & Co. KG	Hamburg / Germany	1)	100.0	14	Project development
17	MBG Großbeeren GmbH & Co. KG	Hamburg / Germany	1)	100.0	14	Project development
18	MBG Trachau GmbH & Co. KG	Hamburg / Germany	1)	100.0	14	Project development
19	MBG Moosburg GmbH & Co. KG	Hamburg / Germany		100.0	14	Project development
20	MBG Wohnbau Verwaltungsgesellschaft mbH	Hamburg / Germany		100.0	14	Intermediate holding company
21	MBG Erste Vermögensverwaltungs GmbH	Hamburg / Germany		100.0	14	Intermediate holding company
22	Magnus zweite Immobilienbesitz und Verwaltungs GmbH	Hamburg / Germany		100.0	14	Intermediate holding company
23	Energy AcquiCo I GmbH	Hamburg / Germany		100.0	22	Intermediate holding company
24	Magnus Dritte Immobilienbesitz und Verwaltungs GmbH	Hamburg / Germany		100.0	14	Intermediate holding company
25	Magnus Vierte Immobilienbesitz und Verwaltungs GmbH	Hamburg / Germany		100.0	14	Intermediate holding company
26	Magnus Fünfte Immobilienbesitz und Verwaltungs GmbH	Hamburg / Germany		100.0	14	Intermediate holding company
27	WBG GmbH	Helmstedt / Germany		94.0	23	Portfolio management
28	WER 1. Wohnungsbaugesellschaft Erfurt Rieth GmbH	Berlin / Germany		94.9	14	Project development
29	WER 2. Wohnungsbaugesellschaft Erfurt Rieth GmbH	Berlin / Germany		94.9	14	Project development
30	ACCENTRO REAL ESTATE AG	Berlin / Germany		87.8	1	Holding company
31	Accentro GmbH	Berlin / Germany		100.0	30	Trading
32	Estavis Grundstücksgesellschaft mbH	Berlin / Germany		100.0	30	Portfolio management
33	ESTAVIS Sachsen Verwaltungsgesellschaft mbH	Berlin / Germany		100.0	30	Intermediate holding company

1) The Company intends to utilise the exemption option under § 264 b HGB with regard to disclosure requirements.

No.	Company	Headquarters	Equity interest in %	Held by No.	Businessactivity
	Associates fully consolidated pursuant to IFRS 3				
34	ESTAVIS 5. Wohnen GmbH	Berlin / Germany	100.0	30	Trading
35	ESTAVIS 6. Wohnen GmbH	Berlin / Germany	100.0	57	Portfolio management
36	ESTAVIS 7. Wohnen GmbH	Berlin / Germany	100.0	57	Portfolio management
37	ESTAVIS 8. Wohnen GmbH	Berlin / Germany	100.0	57	Portfolio management
38	ESTAVIS 9. Wohnen GmbH	Berlin / Germany	100.0	57	Portfolio management
39	ESTAVIS Vermögensverwaltungs GmbH	Berlin / Germany	100.0	30	Portfolio management
40	ESTAVIS Zweite Sachsen Wohnen GmbH & Co. KG	Berlin / Germany	100.0	30	Portfolio management
41	RELDA 36. Wohnen GmbH	Berlin / Germany	100.0	57	Portfolio management
42	Estavis 37. Wohnen GmbH & Co. KG	Berlin / Germany	100.0	30	Portfolio management
43	RELDA 38. Wohnen GmbH	Berlin / Germany	100.0	57	Portfolio management
44	RELDA 39. Wohnen GmbH	Berlin / Germany	100.0	57	Portfolio management
45	Estavis 43. Wohnen GmbH & Co. KG	Berlin / Germany	100.0	30	Portfolio management
46	RELDA 45. Wohnen GmbH	Berlin / Germany	100.0	57	Portfolio management
47	RELDA Bernbau Wohnen Verwaltungs GmbH	Berlin / Germany	94.0	30	Portfolio management
48	ESTAVIS Filmfabrik GmbH & Co. KG	Berlin / Germany	100.0	30	Trading
49	ESTAVIS Friedrichshöhe GmbH	Berlin / Germany	100.0	30	Trading
50	ESTAVIS Wohneigentum GmbH	Berlin / Germany	100.0	30	Trading
			6.0	51	
51	ESTAVIS Beteiligungs GmbH & Co. KG	Berlin / Germany	94.0	30	Portfolio management
52	SIAG Dritte Wohnen GmbH & Co. KG	Berlin / Germany	100.0	51	Portfolio management
53	J2P Service GmbH	Berlin / Germany	100.0	54	Service company
54	J2P Real Estate AG	Berlin / Germany	80.0	14	Portfolio management
55	Zweite Sachsen Wohnbauten GmbH & Co. KG	Leipzig / Germany	94.9	30	Portfolio management
			5.1	51	
56	ESTAVIS Berlin Hohenschönhausen GmbH	Berlin / Germany	94.0	30	Portfolio management
			6.0	51	
57	Magnus-Relda Holding Vier GmbH	Berlin / Germany	100.0	30	Portfolio management
58	Cato Immobilienbesitz und -verwaltungs GmbH	Hamburg / Germany	94.9	22	Portfolio management
59	Magnus Immobilienbesitz und Verwaltungs GmbH	Hamburg / Germany	100.0	14	Intermediate holding company
60	WBR Wohnungsbau Rheinhausen GmbH	Hamburg / Germany	94.9	59	Portfolio management
61	S.I.G. RE B.V.	Rotterdam / The Netherlands	100.0	21	Intermediate holding company

No.	Company	Headquarters		Equity interest in %	Held by No.	Businessactivity
	Associates fully consolidated pursuant to IFRS 3					
62	Resident Baltic GmbH	Berlin / Germany		94.8	61	Portfolio management
63	Resident Sachsen P&K GmbH	Berlin / Germany		94.8	61	Portfolio management
64	Resident West GmbH	Berlin / Germany		94.8	61	Portfolio management
65	MBG Schwelm GmbH	Hamburg / Germany		94.9	22	Portfolio management
66	MBG Lüdenscheid GmbH	Hamburg / Germany		94.9	14	Portfolio management
				5.1	15	
67	MBG Dorsten GmbH & Co. KG	Hamburg / Germany	1)	94.0	22	Portfolio management
				6.0	14	
68	Alana Properties S.à.rl.	Luxembourg / Grand Duchy of Luxembourg		94.4	24	Portfolio management
69	ARAMIS PROPERTIES S.à.r.l.	Luxembourg / Grand Duchy of Luxembourg		94.8	24	Portfolio management
70	REO-Real Estate Opportunities GmbH	Hamburg / Germany		94.9	24	Portfolio management
71	ROSLYN PROPERTIES S.à.r.l.	Luxembourg / Grand Duchy of Luxembourg		94.8	24	Portfolio management
72	Rostock Verwaltungs GmbH	Hamburg / Germany		94.0	24	Portfolio management
73	SEPAT PROPERTIES S.à.r.l.	Luxembourg / Grand Duchy of Luxembourg		94.8	24	Portfolio management
74	WALLACE PROPERTIES S.à.r.l.	Luxembourg / Grand Duchy of Luxembourg		94.8	24	Portfolio management
75	Zweite REO-Real Estate Opportunities GmbH	Hamburg / Germany		94.9	24	Portfolio management
76	Phoenix F1 Neubrandenburgstrasse GmbH	Erlangen / Germany		94.9	30	Trading
77	Uhlandstraße 79 Immobilien GmbH	Berlin / Germany		50 + 1 vote	30	Trading
	Companies consolidated at equity					
78	Airport Center Luxembourg GmbH	Luxembourg / Grand Duchy of Luxembourg		10.0	1	Portfolio management
79	Worthing Lake Forest Investors LLC	Atlanta / USA		30.0	13	Project development
80	Wohneigentum Berlin GbR (Joint Venture)	Berlin / Germany		33.3	50	Trading
81	SIAG Sechzehnte Wohnen GmbH & Co. KG	Berlin / Germany		50.0	51	Portfolio management
82	GG Erlabrunn Verwaltungs UG	Aue / Germany		50.0	54	Portfolio management
83	Malplaquetstr. 23 Grundstücksverwaltungsgesellschaft mbH	Berlin / Germany		50.0	50	Trading
	Companies not consolidated at equity for reasons of materiality					
84	MRT (Mountleigh Roland Ernst) B.V.	Rotterdam / The Netherlands		50.0	1	None
85	Stovago B.V.	Rotterdam / The Netherlands		50.0	1	None

The companies not consolidated at equity for reasons of materiality are classified as assets held for sale. The carrying amount of the shareholdings as at 31 December 2014 amounted to EUR 0 thousand (previous year: EUR 0 thousand) and therefore corresponds to fair value.

1) The Company intends to utilise the exemption option under § 264 b HGB with regard to disclosure requirements.

4.2 Business Combinations

The following shelf companies were acquired in 2014 and were fully consolidated pursuant to IFRS 3 without any major impact for the first time in the consolidated financial statements as at 31 December 2014:

- Magnus Dritte Immobilienbesitz und Verwaltungs GmbH
- Magnus Vierte Immobilienbesitz und Verwaltungs GmbH
- Magnus Fünfte Immobilienbesitz und Verwaltungs GmbH
- Magnus-Relda Holding Vier GmbH

The following acquired companies were fully consolidated – pursuant to IFRS 3 – for the first time in the consolidated financial statements as at 31 December 2014:

- ACCENTRO AG with its subsidiaries (ACCENTRO subgroup)
- Energy AcquiCo I GmbH with its subsidiary WBG GmbH
- WER 1. Wohnungsgesellschaft Erfurt Rieth GmbH and WER 2. Wohnungsgesellschaft Erfurt Rieth GmbH

ACCENTRO Real Estate AG with its subsidiaries (ACCENTRO subgroup)

ADLER AG submitted a voluntary takeover bid to the shareholders of ACCENTRO AG at the end of April 2014 and offered them the option of exchanging their shares for new shares of ADLER AG. The exchange of 25 ACCENTRO AG shares for 14 ADLER AG shares was successfully completed on 24 June 2014. The offer was accepted by 92.71 per cent of ACCENTRO AG's shareholders. The company was consolidated for the first time as at 30 June 2014 on the basis of the non-controlling interests held at this time.

ACCENTRO AG is based in Berlin and focuses on the management of residential portfolios and the trading of residential real estate within the scope of residential privatisation. At the time of acquisition, ACCENTRO AG managed 2,425 residential units and 174 commercial units.

Acquisition costs in the amount of EUR 77,412 thousand were incurred in connection with this group and the purchase of 92.71 per cent of the shares. These costs are a result of the fair value of the shares of ADLER AG (EUR 6.44 per share), which were issued in exchange for ACCENTRO AG shares (12,020,528 ADLER AG shares) as at the date of the exchange, 24 June 2014. The company was consolidated for the first time as at 30 June 2014.

The cost can be allocated to the acquired assets and liabilities valued at estimated market values as follows:

	EUR '000
Investment property	156,141
Goodwill	27,081
Other non-current assets	18,072
Current assets	45,793
Cash and cash equivalents	6,439
Assets acquired	**253,526**
Non-controlling interests acquired	**-418**
Non-current liabilities	-90,894
Current liabilities	-80,409
Liabilities acquired	**-171,303**
Net assets at 100%	**81,805**
Non-controlling interests	-4,393
Cost	**77,412**

Goodwill is mainly attributable to inseparable values such as expected synergy effects from integration as well as strategic advantages from the leading market positions of the acquired group and was allocated entirely to the Trading segment.

Goodwill increased from EUR 17,570 thousand as at 30 June 2014 to EUR 27,081 thousand, due to the continuation of the preliminary purchase price allocation and the preliminary revaluation of ACCENTRO AG. This was offset by the EUR 11,295 thousand reduction in intangible assets uncovered within the scope of the purchase price allocation as against 30 June 2014. Correspondingly, corrections were made to deferred taxes as well as other immaterial adjustments.

Other non-current assets primarily comprise prepayments made by ACCENTRO at the time of acquisition (EUR 14,199 thousand) in connection with the already contracted acquisition of a real estate portfolio. Within the scope of the purchase price allocation, ACCENTRO AG's existing network of brokers was valued at EUR 1,412 thousand; this amount is also included in the other non-current assets item.

The gross sum of the acquired trade receivables amounted to EUR 4,838 thousand. Valuation allowances of EUR 1,805 thousand are recognised on this amount; the fair value of the acquired trade receivables therefore amounts to EUR 3,033 thousand.

The option granted in IFRS 3.19 of measuring the non-controlling interests with the proportionate share of net assets excluding goodwill of EUR 54,724 thousand was utilised when valuing non-controlling interests, thereby resulting in a lower valuation.

The transaction costs arising with this business combination effected by means of an exchange of shares (EUR 867 thousand) were recognised in the capital reserve without affecting profit or loss.

Had ACCENTRO AG and its subsidiaries already been fully consolidated from 1 January 2014, the included revenues – consisting of the income from the sale of shelf real estate and investment properties, from real estate management as well as other services – would have amounted to EUR 34,857 thousand and annual net profit to EUR 3,785 thousand. Revenue generated from the time of the company's inclusion in the consolidated financial statements amounts to EUR 23,010 thousand, while annual net profit amounts to EUR 7,070 thousand.

Energy AcquiCo I GmbH with its subsidiary WBG GmbH

ADLER AG acquired 100 per cent of the shares in Energy AcquiCo I GmbH (AcquiCo I) in 2014; AcquiCo I in turn holds 94 per cent of the shares in real estate company WBG GmbH (WBG). Both companies have been fully consolidated since 1 February 2014. WBG is a housing society in Helmstedt, which has a real estate portfolio of 2,347 rental units, most of which are in Helmstedt and the surrounding areas.

At the time of initial consolidation, the market values of the acquired assets and liabilities break down as follows:

	EUR '000
Investment property	82,755
Other non-current assets	106
Current assets	2,315
Cash and cash equivalents	3,630
Assets acquired	**88,806**
Non-current liabilities	-24,638
Current liabilities	-8,919
Liabilities acquired	**-33,557**
Net assets at 100%	**55,249**
Non-controlling interests	-3,286
Negative goodwill	-24,649
Cost	**27,314**

This business combination resulted in transaction costs of EUR 623 thousand, which were recognised in profit or loss.

The negative difference calculated of EUR 24,649 thousand was recognised immediately in profit or losses under other operating income. This negative goodwill is primarily due to the fair value of WBG GmbH's investment properties exceeding the purchase price; the fair value results from an attractive purchase offer and a portfolio discount. These measurements were supported by appraisals from independent experts.

The purchase price was increased slightly retrospectively in the fourth quarter of 2014, resulting in a reduction in the negative difference as against that reported in the interim financial statements as at 30 September 2014.

Non-controlling interests were valued at their proportionate share of the net assets of WBG, which amounted to EUR 54,764 thousand at the time of initial consolidation.

Had WBG GmbH already been fully consolidated from 1 January 2014, the included revenues from real estate management would have amounted to EUR 9,243 thousand and annual net loss to EUR 306 thousand. Revenue from real estate management generated from the time of the company's inclusion in the consolidated financial statements amounts to EUR 8,603 thousand, while annual net loss amounts to EUR 599 thousand.

WER 1. Wohnungsgesellschaft Erfurt Rieth GmbH and WER 2. Wohnungsgesellschaft Erfurt Rieth GmbH

An ADLER AG subsidiary acquired 94.9 per cent of the shares in both of the above companies on 19 March 2014. The companies had each concluded purchase contracts for a land plot in Erfurt in 2013; two empty and unrenovated apartment buildings are situated on each of the land plots. Benefits/encumbrances were transferred on 1 May 2014. The properties are to be renovated and then rented out. ADLER AG classifies these properties as investment properties.

At the time of initial consolidation, the market values of the acquired assets and liabilities break down as follows:

	EUR '000
Investment properties	1,285
Cash and cash equivalents	25
Assets acquired	**1,310**
Non-current liabilities	-408
Current liabilities	-2
Liabilities acquired	**-410**
Net assets at 100%	**900**
Non-controlling interests	-46
Cost for 94.9 %	**854**

These business combinations resulted in transaction costs of EUR 48 thousand, which were recognised in profit or loss.

Non-controlling interests were valued at their proportionate share of the net assets of the respective companies, which amounted to EUR 450 thousand each at the time of initial consolidation.

Had the companies already been fully consolidated from 1 January 2014, the included annual net loss would have amounted to EUR 316 thousand. The annual net loss generated from the time of the company's inclusion in the consolidated financial statements amounts to EUR 315 thousand.

4.3 Real Estate Companies

As explained in note 3.1, the acquisition of real estate companies that do not constitute business operations within the meaning of IFRS 3 are reported as direct acquisition of real estate; the cost of the real estate company is allocated to the individual assets and liabilities on the basis of their fair values.

The following real estate portfolios were acquired in 2014 via real estate companies and will be used to manage the portfolio:

- The "Magnus III" portfolio with Magnus Dritte Immobilienbesitz und Verwaltungs GmbH as the interim holding company, in which ADLER AG holds 100 per cent of the shares via a subsidiary. Magnus Dritte Immobilienbesitz- und Verwaltungs GmbH acquired shares in the following real estate companies: Alana Properties S.à.r.l. (94.4 per cent), ARAMIS PROPERTIES S.à.r.l. (94.81 per cent), ROSLYN PROPERTIES S.à.r.l. (94.81 per cent), SEPAT PROPERTIES S.à.r.l (94.81 per cent), WALLACE PROPERTIES S.à.r.l. (94.81 per cent), REO-Real Estate Opportunities S.à.r.l. (94.9 per cent), Zweite REO-Real Estate Opportunities GmbH (94.9 per cent) and Rostock Verwaltungs GmbH (94.0 per cent). This portfolio includes some 8,000 residential and approximately 490 commercial units spread across Germany, with total space of 560,000 m².

- The "Raven" portfolio, which was acquired effective 1 November 2014 via five ACCENTRO AG subsidiaries. This portfolio consists of approximately 4,300 residential units in Bavaria, Berlin, North Rhine-Westphalia, Saxony and Saxony-Anhalt. The total area is around 284,000 m². Approximately 3,400 units will be retained for the long term, while the remaining 900 or so units will be sold individually.

In addition, the following portfolios were acquired for privatisation purposes

- ACCENTRO AG acquired the Phoenix F1 portfolio in October within the scope of acquiring 94.9 per cent of the shares. The portfolio consists of 294 apartments in two apartment communities in Berlin-Hohenschönhausen. The apartments relate exclusively to the Trading segment.

- A property with 33 residential units was acquired in Berlin within the scope of acquiring 50 per cent of shares and an additional vote. The total area is 2,563 m2. The property relates exclusively to the Trading segment.

The "Kleine Sonja" subportfolio was sold in 2014 within the scope of an asset deal. The subportfolio consists of 2013 residential and 14 commercial units. The transaction was concluded in 2014.

5. SEPARATE RECOGNITION AND MEASUREMENT PRINCIPLES

5.1 Intangible Assets and Property, Plant and Equipment

Separately purchased intangible assets are initially recognised at cost. Follow-ing initial recognition, intangible assets with finite useful lives are amortised using the straightline method over their estimated useful lives, generally over three to five years, and should be tested for possible impairment as soon as there are indications of impairment. Impairments of intangible assets are recognised in profit or loss within the depreciation and amortisation of intangible assets.

Intangible assets with indefinite useful lives, which include goodwill in particular, are not subject to scheduled amortisation. They are tested for impairment at least annually either on the basis of the individual asset or at the level of the cash-generating unit. An impairment test is also carried out if impairment events have taken place.

Property, plant and equipment is recognised at cost, less cumulative scheduled depreciation and cumulative impairment losses. Costs include expenses directly attributable to the acquisition. Subsequent acquisition or production costs are only capitalised if it is likely that the Company will gain an economic benefit from it in the future. Repairs and maintenance are recognised in profit or loss in the statement of comprehensive income in which they are incurred.

Property, plant and equipment is depreciated using the straight-line method over the estimated useful lives, usually between three and 20 years (office equipment) or six to 13 years (vehicle fleet and external facilities). The depreciation methods and useful lives are reviewed and, if necessary, adjusted at every balance sheet date. The carrying amount of the property, plant and equipment is tested for impairment as soon as there are indications that the carrying amount exceeds the recoverable amount.

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

Gains and losses from the disposal of assets are calculated as the difference between the sales income and carrying amount and recognised through profit or loss.

5.2 Investment Properties

Investment properties include all real estate held long term for the purpose of generating rental income and increasing value. In contrast to investment properties, inventories constitute assets which are held for sale in the normal course of business, which are in the process of construction for such sale or which are used in the course of the production of products and/or the rendering of services. Therefore, real estate held as available for sale during normal business operations or which is being developed or is to be developed with the intention of being sold do not fall within the application of IAS 40. Such real estate should be reported under inventories (IAS 40.9(a)) and falls within the application of IAS 2.

Upon acquisition, investment properties are valued at cost including ancillary purchase costs. In subsequent reporting periods, investment properties are reported at fair value. The valuation results are presented in the consolidated statement of income and accumulated earnings under "Result from the valuation of investment properties".

The fair value of real estate is the price that would be received for the sale of an asset between knowledgeable, willing parties in an arm's length transaction or, in the case of the transfer of a liability, the price that would be paid. The fair value implies in principle the sale of an asset. It equates to the (theoretical) price to be paid to the seller in a (hypothetical) sale of real estate on the valuation date. Benefit or value maximisation is considered, provided it is technically possible, legally permissible and financially viable.

The fair value can be determined by applying the market-based approach, the cost-based approach or the income-based approach. In this process, as many observable, market-based input factors as possible are used and the use of non-observable input factors kept to a minimum.

IFRS 13 requires that investment properties be classified at fair value and that the sources of the input factors used in determining the fair value be cited.

Classification takes place using the following three-step measurement hierarchy:

- Step 1: Non-adjusted, quoted prices on active markets for identical assets and liabilities, on the condition that the reporting entity has access to these active markets on the valuation date
- Step 2: Directly or indirectly observable input factors that are not attributable to step 1
- Step 3: Non-observable input factors

In the consolidated financial statements, investment properties are not dealt with actively, rather are valued using input factors that are based on non-observable market data (step 3).

The fair values of investment properties are determined on the basis of expert opinion prepared by external experts based on current market data and using internationally recognised valuation methods. The discounted cash flow and the income capitalisation methods are used pursuant to the German Property Valuation Ordinance (ImmoWertV); please also refer to our disclo-sures on valuation methods under note 8.3.

Investment properties are derecognised when they are sold or unused over a sustained period of time and no future economic benefit is expected from their disposal. Gains or losses from sale or discontinuation are recognised in the year of sale or discontinuation. Gains or losses are the difference between the sale price and the carrying amount less any costs of sale.

If real estate is acquired for trading purposes and allocated to inventories accordingly, they are reclassified to investment properties if it becomes clear that the entity is distancing itself from its intention to sell and plans to retain the real estate in its portfolio for a longer period of time and the purpose of the real estate is to generate long-term rental income and value increases.

5.3 Impairment of Assets

Intangible assets with indefinite useful lives or that are not ready for use, as well as goodwill are not subject to scheduled amortisation; they are tested for impairment annually. Assets subject to scheduled depreciation/amortisation are tested for impairment if events and/or changes in circumstances indicate that the carrying amount may no longer be recoverable. An impairment loss is recognised for the amount by which the carrying amount exceeds the recoverable amount. The recoverable is the higher of the asset's fair value less disposal costs and the value in use. For the impairment test, the assets are aggregated at the lowest level for which cash flows can be separately identified (cash-generating units). Goodwill is reviewed at the level of the segment it is allocated to.

The Group's key cash-generating units relate to real estate and investments in real estate; investment properties are already recognised at fair value meaning that no additional impairment testing needs to be conducted.

Write-ups are made at amortised cost at the most. No write-ups are considered for goodwill.

5.4 Financial Assets

Financial assets are divided into the following categories:

- Assets at fair value through profit or loss – aafv
- Held to maturity – HTM
- Loans and receivables – LaR
- Available for sale – AfS

The ADLER Group has no held to maturity financial assets.

The classification depends on the purpose for which the financial asset was acquired. Management determines the classification for each financial asset on initial recognition and reviews this at every reporting date.

Financial assets can generally only be reclassified if certain conditions are met; no such reclassifications were made in the reporting year.

Financial Assets Measured at Fair Value through Profit or Loss

This category has two sub-categories: financial assets that have been classified as held for trading (hft) from the inception and those that have been classified as "fair value through profit or loss" (fair value option). A financial asset is allocated to the aafv category if acquired principally for the purpose of selling in the short term or if designated as such by management.

Such financial assets are carried under non-current assets to the extent that management does not intend to sell these within twelve months of the balance sheet date.

These are accounted for at fair value taking into account transaction costs. They are derecognised when the rights to payments from the investment expire or are transferred and the Group has transferred substantially all the risks and rewards of ownership. After initial recognition, the assets are measured at fair value, with gains and losses, including any interest rate and dividend income, recognised in profit or loss under other operating income.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group directly provides money, goods or services to a debtor without any intention of trading these receivables. They are included under current assets if their maturity does not exceed twelve months after the balance sheet date. The latter are reported as non-current assets. Loans and receivables are included in the balance sheet under trade receivables, other loans, other current assets and cash and cash equivalents.

Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method and less impairment losses. The effective interest method is only applied if the receivable has a maturity of more than twelve months. An impairment is recorded when there are objective and substantial indications that the amounts due are not fully recoverable. The age structure of the assets forms the basis of this method. Lease receivables are adjusted by 40 per cent provided they exist against tenants still occupying the leased real estate. Lease receivables in the case of tenants who have moved out are adjusted by 90 per cent.

Impairment is measured in terms of the difference between the carrying amount of the receivable and the net present value of the estimated future cash flows from this receivable, discounted using the effective interest rate. The impairment loss is recognised through profit or loss as other operating expenses. If the reasons for an impairment loss no longer apply in full or in part, the receivables are written up through profit or loss at amortised cost at the most.

If a receivable cannot be collected in full, it is offset against the impairment loss account for trade receivables. Subsequent payments for previously derecognised amounts are recognised through profit or loss as other operating income.

Available for Sale Assets

Available for sale assets that primarily include investments are determined as being available for sale and not allocated to another category. After initial recognition, the asset is measured at fair value – provided this can be reliably measured; gains and losses are recognised directly in other comprehensive income and reported in a separate reserve in equity. If fair value cannot be measured reliably, they are recognised at historical cost. When the asset is sold or in the event that an impairment is determined, the amount previously recognised in shareholder's equity is recognised in the income statement. Impairment losses are reversed if the reasons for the previous impairment loss cease to exist. They are recognised directly in shareholder's equity according to the approach taken with the previous impairment losses.

5.5 Derivative Financial Instruments and Hedges

The Group only uses interest rate hedges (cash flow hedges).

All derivative financial instruments are first recognised on the trading day and are initially measured at fair value. The market values of the derivative financial instruments are calculated using standard market valuation methods, taking into account the market data available on the valuation date.

Changes in the fair values of derivatives that are not in a hedging relationship are recognised in the income statement.

Changes in the fair values of derivatives in a hedging relationship are recognised depending on the way in which they are secured.

Unrealised gains and losses in the amount of the hedge-effective portion in a cash flow hedge is initially recognised in other comprehensive income; they are reclassified to the income statement at the same time as the underlying transaction is presented in the income statement. The hedge-ineffective portion of the changes in fair value are directly included in the interest result.

5.6 Inventories

Real estate acquired exclusively with a view to subsequent disposal in the normal course of business or for development and resale are reported as inventories. Other inventories such as heating oil stores are also reported under this item.

Inventories are valued at acquisition cost or production cost at the time of addition. In the subsequent valuation, inventories are carried at the lower of cost or net realisable value. The costs reported at ADLER AG under inventories include costs for project development, as well as raw materials, consumables and supplies if required, direct personnel costs, other direct costs and general costs directly attributable to the project. The net realisable value is comprised of the estimated selling price less estimated costs incurred until completion and the estimated required disposal costs.

5.7 Cash and Cash Equivalents

Cash and cash equivalents comprise cash, demand deposits and other highly liquid financial assets with an initial term of no more than six months.

5.8 Non-current Assets Held for Sale

A non-current asset or a group of non-current assets is classified as held for sale if the associated carrying value is to be predominantly generated through a sale transaction and not through continued usage, the asset is able to be sold immediately and the sale is considered highly probably. The assets are valued at the lower of previous carrying value and fair value, less disposal costs. These assets or groups of assets, as well as the associated debts, are reported separately in the balance sheet.

Investment properties are classified as held for sale if ADLER AG makes a decision to sell the respective real estate, the real estate can be sold immediately and the sale can be expected to be completed within a period of one year from this date.

5.9 Equity

Borrowing and equity capital instruments are classified as financial liabilities or shareholder's equity on the basis of the underlying substance of the contractual arrangements. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the issue process less directly attributable equity transaction costs.

Equity transaction costs are costs which would not have arisen had it not been for the issue of the equity instrument. Such equity transaction costs are, less all related income tax benefits, accounted for as a deduction of shareholder's equity and offset against the capital reserves and recognised directly in shareholder's equity.

The components of a combined instrument (convertible bond) issued by the Group are stated separately in accordance with the economic content of the agreement as a financial liability and shareholder's equity. At the time of issue, the fair value of the borrowings component is determined on the basis of the market interest rate applicable to a comparable nonconvertible instrument. This amount is carried as a financial liability on the basis of the amortised cost of purchase using the effective interest method up until the time of fulfilment, i.e. when the instrument is converted or becomes due. The equity capital component is calculated by subtracting the value of the borrowing component from the fair value of the entire instrument. The resultant value, less the impact on income tax, is recognised as part of shareholder's equity and is not subject to any subsequent valuations.

5.10 Pension Provisions

Reserves for pensions and similar obligations are measured by external actuaries using the projected unit credit method for defined benefit plans. Past service costs are reported in personnel expenses, while the interest portion of the increase in the reserve is recognised in the financial result. Just like deferred tax, actuarial gains and losses are reported in other comprehensive income.

The amount shown on the balance sheet corresponds to the net present value of the defined benefit obligation (DBO).

ADLER AG also pays contributions to state pension schemes as a result of legal provisions. The current payments from these defined benefit obligations are reported within personnel expenses as social security contributions.

5.11 Other Provisions

Other provisions and accrued liabilities, which originated in the past and where their maturity or amount are uncertain, are formed for legal or de facto obligations to third parties when it is probable that the fulfilment of the obligation will result in an outflow of Group resources and when they can be reliably estimated.

The Company carries a provision for loss-making transactions if the expected benefit from the contractual claim is lower than the unavoidable costs of fulfilling the contractual obligation.

The valuation is made on the basis of the best estimate of the extent of the obligation as at the balance sheet date. Non-current provisions and accrued liabilities are carried at the amount required to settle the respective obligation, discounted to the balance sheet.

5.12 Liabilities

On initial recognition, loan liabilities and other liabilities are recognised at fair value less transaction costs. After initial recognition, liabilities are measured at amortised costs using the effective interest method.

Financial liabilities are derecognised when they are redeemed, i.e. when the obligations stipulated in the contract have been settled, set aside, or have expired. Liabilities are classified as current liabilities if the Group does not have an unconditional right to defer the repayment of the liability to a time later than twelve months after the balance sheet date.

Within the scope of determining the fair value, expected future cash flows are discounted on the basis of market interest rates with matching maturities. Individual characteristics of the financial instruments subject to valuation are considered through standard credit rating spreads and liquidity spreads.

The fair value of the financial liabilities is determined on the basis of the input factors from steps 1, 2 and 3.

5.13 Taxes

Actual tax refund claims and liabilities are recognised at the amount expected to be paid to (recovered from) the taxation authorities using the tax rates and tax laws that have been enacted as at the balance sheet date.

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

The exception pursuant to IAS 12.15b was applied to acquisitions from real estate companies that were included in the consolidated financial statements as acquisitions of groups of assets and liabilities and not within the scope of IFRS 3. If Group acquisition costs exceed tax carrying values, deferred taxes are only recognised on the difference between the fair values and the acquisition costs in the Group.

In the case of investment properties, the presumption that the carrying amount of the investment properties will be generated through their sale is not rebutted.

The tax rates used to calculate deferred taxes were determined on the basis of currently valid statutory provisions. German Group companies use a corporation tax rate of 15.00 per cent, a solidarity surcharge of 5.50 per cent and a trade tax rate of 16.45 per cent. Deferred tax claims for temporary differences and for tax loss carryforwards are recognised to the probable extent that the temporary difference can be offset against future taxable net profit.

Deferred tax receivables and deferred tax liabilities are offset against each other, if the Group has a recoverable right to offset the actual tax refunds against actual tax liabilities and if they apply to the income taxes of the same tax subject levied by the same tax authority.

5.14 Leases

Economic ownership of the leased property is allocated to the lessee insofar as the risks and rewards arising from the leased asset in question are predominantly attributable to the lessee (financial lease). Leases in which a substantial proportion of all risks and rewards incidental to ownership of an asset remain with the lessor are classified as operating leases. Payments received in connection with an operating lease are recognised in the income statement on a straight-line basis over the term of the lease.

The Group is the lessor when property is leased. These leases are operating leases.

5.15 Income Recognition

Income is recognised to the extent that it is probable that economic benefits will flow to the Group and the income can be reliably measured.

Rental income is recognised on an accrual basis in accordance with the terms of the underlying contracts.

Income from the sale of real estate is recognised when the risks and opportunities arising from ownership of the real estate have passed to the buyer (transfer of ownership rights, benefits and obligations arising from the real estate). When disposing of real estate companies, this date regularly corresponds to the completion of the transfer of shares.

Revenues from the rendering of services are recognised in the financial year in which the services are rendered. Services rendered within two periods are recognised in the same proportion as exists between the services already rendered and the total services to be rendered.

Interest income is realised proportional to time, taking into account the remaining claim and the effective interest rate over the remaining term.

5.16 Currency Translation

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

Foreign currency transactions are translated into the respective Group company's functional currency at the exchange rate prevailing at the time of the transaction. Monetary foreign-currency items are subsequently translated at the applicable reporting date exchange rate. The currency translation differences resulting from settlement of foreign currency transaction and from the translation of monetary foreign-currency items as at the reporting date are recognised through profit or loss in other operating expenses or income.

The functional currency of the foreign companies is the respective national currency as the foreign companies conduct their business independently from a financial, economic and organisational point of view. At the end of the year, the assets and liabilities of foreign companies are translated into euros at the exchange rate as at the reporting date; expenses and income are translated into euros at the average rate for the year. Components of shareholder's equity are translated at the historical exchange rates prevailing at the respective dates of their initial consolidation. The differences relative to the translation as at the reporting date are recognised in "currency translation reserve" in shareholder's equity.

5.17 Residual Interests and Dividend Distribution

In its consolidated financial statements, ADLER AG includes subsidiaries that have the legal form of a partnership in which minority interests exist. Pursuant to IAS 32, the shareholder position of these minority interests is to be recognised as debt in the consolidated financial statements due to the statutory, non-excludable right of termination. The debt is valued at the time of origin at the net present value of the shareholder's settlement entitlement. This is usually the amount of the shareholder's capital contribution. The liability is then carried forward in accordance with the Company's earnings before changes in the liability are recognised in earnings. The change to the liability is recognised in profit or loss unless it is due to contributions or withdrawals. If the carryforward results in a claim against the shareholder, it is deferred until the carryforward equates to a liability against the shareholder again.

For stock corporations (Kapitalgesellschaften) that are part of the Group, liabilities for dividends to shareholders are only reported in the period of the resolution by the annual shareholders' meeting on the appropriation of profits.

5.18 Cash Flow Statement

The cash flow statement presents the development of the Group's payment flows in the financial year. The cash flow statement is presented in the consolidated financial statements using the indirect method, with consolidated net earnings adjusted for items with no effect on cash flow and items with an effect on cash flow. The cash flow statement presents cash flow from operating activities, from investment activities and from financing activities.

5.19 Changes in Recognition and Measurement Methods

The classification of the statement of income and accumulated earnings has been completely revised. The management believes that this adjustment to classification methods in the statement of income and accumulated earnings, which has been carried out in view of the current business model of ADLER AG and general industry practices. The previous year's figures have been adjusted accordingly.

Moreover, deferred liabilities for outstanding invoices have, since 31 December 2014, been reported under trade payables. The previous year's figures have been adjusted accordingly and an amount of EUR 1,945 thousand reclassified from other liabilities to trade payables.

In addition, the capital service account is now reported under cash and cash equivalents, in contrast to the previous year. The previous year's figures have been adjusted accordingly and an amount of EUR 1,022 thousand reclassified from other assets to cash and cash equivalents.

6. SIGNIFICANT DISCRETIONARY DECISIONS, ESTIMATES AND ASSUMPTIONS

In the course of preparing the consolidated financial statements, the Company makes assessments and assumptions about expected future developments based on circumstances as at the reporting date. Naturally, the resulting estimates will rarely correspond to the subsequent actual circumstances. In this case, the assumptions and the carrying amounts of the affected assets or liabilities are adjusted prospectively as required.

Assumptions and estimates are reviewed continuously and are based on empirical values and other factors, including expectations regarding future events that appear reasonable under the given circumstances.

In the application of the recognition and measurement methods, the Management Board made the following estimates that have a material impact on the amounts in the consolidated financial statements:

- In the course of impairment tests for goodwill assigned to the trading segment, a range of estimates is possible – especially in regards to the revenues that can be generated in the future and the trade margins that can be realised. The selling prices and sales volumes underlying these values are incorporated in five-year planning on the basis of expected market development and empirical values. Payment surpluses determined in this process are discounted to their present value under consideration of equity and borrowing costs as well as a risk premium in line with the market. The figure that best reflects the market value based on various scenarios and under consideration of all known input factors is reported in the consolidated financial statements.

- Market values of the investment properties are based on the results of independent experts commissioned for this purpose. These assessments are based on the discounted future cash flows determined according to the discounted cash flow or the income capitalisation methods. For the purpose of measurement, the appraisers have to estimate factors such as future rental income, vacancies, renovations and the interest rates to apply in the calculations, which have a direct impact on the fair value of the income properties. Transaction costs of the magnitude expected by ADLER AG are also taken into account.

- In addition, estimates were made regarding the net disposal prices of real estate held for sale. On the one hand, ADLER AG also relies on the results of independent experts commissiones for this purpose. On the other hand, estimating the attractiveness of micro-locations and the purchasing power trend form the basis for setting selling prices. The range of selling prices is determined according to the location of the respective property. Prices and therefore the carrying value on the balance sheet are reviewed regularly to determine if they are reasonable and adjusted as required.

- The recoverability of receivables from rental income is also shaped by estimates<. Assumptions are made regarding the ability to collect outstanding receivables in the trading segment based on the age distribution of the open receivables. Based on empirical values, the probability that receivables older than three months will be uncollectible is assumed to be in the range of 25 per cent to 100 per cent, so that an impairment is recorded for this share. For rent receivables from the portfolio segment, receivables from resident tenants were impaired by 40 per cent and receivables from tenants who have moved out by 90 per cent.

- Deferred taxes: On the basis of current planning, the Management Board decides to what extent future loss carry-forwards can be utilised. This is based on the expected taxable income of the respective company.

- For other provisions, various assumptions have to be made regarding the probability of occurrence and the utilisation amount. All information that was known at the time of preparing the financial statements was taken into account.

In the application of the recognition and measurement methods, the Management Board made the following discretionary decisions that have a material impact on the amounts in the consolidated financial statements:

- In regards to real estate held by the Group, the Management Board has to decide on each reporting date whether these assets are held as long-term rental properties, as investments or for disposal. Depending on this decision, the real estate is reported under investment properties, inventories or non-current assets held for disposal.

- For the addition of real estate companies, a decision had to be made whether this constitutes the acquisition of business operations. When business operations are taken over in addition to assets and liabilities (integrated group of activities), this constitutes a business combination. For example, the business processes of asset and property management, receivables management and accounting are considered an integrated group of activities. Another key indication that a business operation has been taken over is when the personnel of the acquired company is retained as well.

- All of these processes were taken over with the acquisition of ACCENTRO AG, WBG GmbH, WER 1. Wohnungsgesellschaft Erfurt Rieth GmbH and WER 2. Wohnungsgesellschaft Erfurt Rieth GmbH, which means the indications apply and these acquisitions are reported as business combinations in terms of IFRS 3 in 2014.

- When financial instruments are first recognised, a decision needs to be made regarding the measurement category to which they will be allocated: measured at fair value through profit or loss, loans and receivables, assets held to maturity and financial assets available for sale.

7. SEGMENT REPORTING

Since the takeover of ACCENTRO AG, the ADLER Group is organised into the following business areas:

1. Portfolio: Includes investment properties and real estate inventory not intended for sale as individual apartments.
2. Trading: The purchase and sale of real estate, as a rule with the sale of individual apartments to private investors. The brokerage business in the apartment privatisation segment is allocated to the business area as well.

The “Other” column contains the Group‘s remaining activities which do not constitute a separate segment. This mainly consists of the remaining ADLER AG properties in old portfolios already disposed of or that are still being disposed of.

Segment reporting follows internal reporting to the Management Board of ADLER AG as upper management in terms of IFRS, which is based on the trade and portfolio business areas (management approach). The Group only trades in real estate that is located in Germany. Geographical segmentation is not performed for that reason.

Since interest income is of such low importance, company management controls the segments on the basis of the financial result which constitutes the net balance of interest income and interest expenses.

Income and EBIT are allocated to the three segments as follows:

Adler Group in EUR ‘000	**Trade 2014**	**Portfolio 2014**	**Other 2014**	**Group 2014**
Income from property management and effects from the disposal of properties	15,361	115,223	10,119	140,703
thereof:				
Rent	1,138	81,601	1,143	83,882
Sales	12,758	33,583	8,976	55,317
Conveyance	1,465	39	0	1,504
Change in the fair value of investment properties	0	132,934	0	132,934
EBIT	**416**	**169,789**	**239**	**170,444**
Result of investments accounted for using the equity method	124	-514	2,214	1,824
Financial result	**-1,168**	**-38,109**	**-232**	**-39,509**
Earnings before taxes	**-876**	**132,070**	**1,565**	**132,759**

In the trading segment, which has been an ADLER AG business area since the takeover of ACCENTRO AG in mid-2014, proceeds of EUR 15,361 thousand were generated, mainly from sales at EUR 12,758 thousand. EBIT for this segment was EUR 416 thousand, the result before taxes EUR -876 thousand. Sales in the segment totalled EUR 115,223 thousand.

Proceeds from the measurement of investment properties are largely the result of estimating the value of specific properties at fair value according to IAS 40 after these properties were acquired in portfolios. These are allocated to the portfolio segment. Financing expenses result on the one hand from the direct financing of real estate portfolios and, on the other hand, from issuing bonds and convertible bonds. These mainly apply to the portfolio segment.

Depreciation and amortisation of property, plant and equipment and intangible assets as well as the change in the value of investment properties breaks down into the segments as follows:

Adler Group in EUR '000	Trade 2014	Portfolio 2014	Group 2014
Depreciation and amortization of property	-19	-102	-121
Depreciation and amortization of intangible assets	-257	-119	-376
Change in the fair value of investment properties	0	132,934	132,934

The preceding table does not contain information for the previous year as ADLER AG has only consisted of two separate segments since the takeover of ACCENTRO AG in June 2014. Since ACCENTRO AG is only included in the consolidated financial statements of ADLER AG since 30 June 2014, so that the trading segment was first established in the ADLER Group on 1 July 2014, the expenses and income as well as the investments for the trading segment that are disclosed cover the period from 1 July to 31 December 2014.

Segment assets, liabilities and investments break down as follows:

Adler Group in EUR '000	Trade 2014	Portfolio 2014	Other 2014	Consolidation 2014	Group 2014
Assets per segment	142,703	1,353,862	19,073	-100,302	1,415,336
Investments accounted for using the equity method	947	124	52	0	1,123
Total segmental assets	**143,650**	**1,353,986**	**19,125**	**0**	**1,416,459**
Segment liabilities	**87,557**	**1,099,962**	**18,031**	**-100,302**	**1,105,248**
Segment investments	**61,816**	**613,331**	**0**	**0**	**675,147**

Segment assets mainly comprise property, plant and equipment, investment properties, inventories as well as receivables from third parties and the other segment. Goodwill is assigned to the Trading segment.

Debt consolidation within the Group between the reportable segments and the "Other" column is reported in the "Consolidation" column.

Segment liabilities mainly comprise financial liabilities, operating liabilities and liabilities to the "Others" segment.

Segment investments include additions to property, plant and equipment as well as intangible assets and investment properties.

8. NOTES TO THE CONSOLIDATED BALANCE SHEET

8.1 Goodwill, Intangible Assets

in EUR '000	Goodwill	Customer relationships and similar assets	Other intangible assets	Total
Cost				
As at 01/01/2013	0	0	34	34
Additions from acquisitions (+)	0	0	0	0
Additions (+)	0	0	8	8
Reclassifications (+)	0	0	0	0
Disposals (-)	0	0	0	0
As at 31/12/2013	**0**	**0**	**42**	**42**
Amortisation				
As at 01/01/2013	0	0	34	34
Additions from acquisitions (+)	0	0	1	1
Additions (+)	0	0	0	0
Disposals (-)	0	0	0	0
As at 31/12/2013	**0**	**0**	**35**	**35**
Carrying amounts 01/01/2013	0	0	0	0
Carrying amounts 31/12/2013	**0**	**0**	**7**	**7**

in EUR '000	Goodwill	Customer relationships and similar assets	Other intangible assets	Total
Cost				
As at 01/01/2014	0	0	42	42
Additions from acquisitions (+)	27,081	1,412	149	1,561
Additions (+)	0	0	535	535
Reclassifications (+)	0	0	0	0
Disposals (-)	0	0	0	0
As at 31/12/2014	**27,081**	**1,412**	**726**	**2,138**
Amortisation				
As at 01/01/2014	0	0	35	35
Additions from acquisitions (+)	0	0	0	0
Additions (+)	0	235	141	376
Disposals (-)	0	0	0	0
As at 31/12/2014	**0**	**235**	**176**	**411**
Carrying amounts 01/01/2014	0	0	7	7
Carrying amounts 31/12/2014	**27,081**	**1,177**	**550**	**1,727**

Goodwill of EUR 27,081 thousand is allocated to the trading segment and results from the acquisition of ACCENTRO AG in June 2014.

The realisable value of the segment for the purpose of impairment testing was determined by calculating the segment's value in use. The calculation is based on predicted cash flows, and these in turn are derived from the five-year plan approved by the Management Board. In the detailed planning phase, the Management Board calculated the budgeted cash flow on the basis of past positive developments in the privatisation business and the favourable expectations in regards to future market development. This is based on a forecast of sold and brokered residential units. With an assumed rising learning curve in the trading segment, the contribution margin per residential unit is expected to increase.

Goodwill was subjected to an impairment test on the reporting date as at 31 December 2014, with the following results:

in EUR '000	
CGU carrying amount	40,236
CGU value in use	48,682
Excess	**8,446**

The budgeted cash flows from the five-year plan were discounted at the weighted average cost of capital of 9.18 per cent. This after-tax interest rate (pre-tax interest rate: 13.14 per cent) reflects the specific risks of the trading segment compared to the market portfolio. To account for the risks of future market development, an additional growth deduction of 1.3 per cent is applied for cash flows following the five-year period.

The sum of the discounted cash flows results in a value in use of EUR 48,682 thousand, which is EUR 8,446 thousand higher than the carrying amount.

When a discount rate of 10.18 per cent is applied, the result is marginally lower and still exceeds the carrying amount. Therefore, the goodwill of EUR 27,081 thousand does not need to be written down based on the impairment test. The disclosure of sensitivities is omitted since the value that was determined is so much higher than the carrying amount.

The customer value and similar rights that were reported also result from the purchase price allocation as part of the initial consolidation of ACCENTRO AG, relate to the network of brokers, and are being written off over a period of three years.

8.2 Property, Plant and Equipment

in EUR '000	2014	2013
Cost		
As at 01/01	159	148
Additions through acquisition (+)	1,112	0
Additions (+)	288	9
Reclassifications (+)	0	2
Disposals (-)	-180	0
As at 31/12	**1,379**	**159**
Changes in value		
As at 01/01	119	105
Additions through acquisition (+)	713	0
Additions (+)	121	14
Disposals (-)	-68	0
As at 31/12	**885**	**119**
Carrying amounts 01/01	40	43
Carrying amounts 31/12	**494**	**40**

8.3 Investment Properties

in EUR '000	2014	2013
Carrying amounts 01/01	**417,865**	**14,450**
Cost at acquisition date	537,871	350,585
Additions after acquisition (+)	137,276	454
Fair value increases (+)	139,190	59,613
Fair value decreases (-)	-6,257	-67
Reclassifications (+/-)	-6,128	0
Disposals (-)	-49,658	-7,170
Carrying amounts 31/12	**1,170,159**	**417,865**

Investment properties are encumbered by land charges as collateral for liabilities to banks.

Additions during the year under review are mainly due to the acquisition of ACCENTRO AG and WBG as well as real estate portfolios “Magnus III” and “Raven”. The disposals are due to the sale of smaller partial portfolios and individual units.

Valuation gains of EUR 139,190 thousand (previous year: EUR 59,613 thousand) and valuation losses of EUR 6,257 thousand (previous year: EUR 67 thousand) were realised in financial year 2014. Due to these gains and losses, the net valuation result was EUR 132,933 thousand (previous year: EUR 59,546 thousand).

The income statement contains the following material amounts for investment properties:

in EUR '000	2014	2013
Income from real estate management	81,601	16,788
Expenses from real estate management	50,112	9,316
Gross profit	**31,489**	**7,472**

The fair value (level 3 of fair value measurement on the basis of measurement models) of individual properties or individual real estate portfolios is determined on the basis of discounted future cash flows using the DCF method or the gross rental method.

Determining the measurement methods and procedures for the Group and coordinating the process is the responsibility of the Management Board. Measurement is performed by external experts based on data on the measurement date, largely provided by asset management at ADLER AG. This process ensures that real estate can be measured in line with market conditions and in reference to the reporting date. The fair value changes compared to the previous year are checked for plausibility by bookkeeping and asset management. The measurement results are then discussed with the Management Board.

According to the DCF method, future expected cash flows from a property are discounted to the valuation date. Cash flows from the respective property are determined for this purpose in a detailed planning period (ten years). They equal the net balance of expected incoming and outgoing payments. While the incoming payments are generally composed of net rents, the outgoing payments (gross) consist mainly of the operating costs that are borne by the owner. Cash flows for each period are discounted at a property-specific discount rate in line with market conditions, to the measurement dates of 30 April 2014 for individual properties or individual real estate portfolios of ACCENTRO AG and 31 December 2014 for individual properties or individual real estate portfolios of ADLER AG.

For the properties and real estate portfolios of ACCENTRO AG, the Management Board performed a market and/or property-specific review to determine whether the expert opinions with the measurement date of 30 April 2014 can be used for preparing the consolidated financial statements as at 31 December 2014. Since there have not been any material changes to the properties that would require remeasurement and the general market situation also has not changed, there was no need to repeat the measurement as at 31 December 2014.

This results in the fair value of the cash flows for the respective period. A potential discounted residual value (terminal value) for the property being valued is predicted for the end of the detailed planning period. This reflects the price most likely to be realised at the end of the detailed planning period. Here, the discounted cash flows are capitalised as a perpetuity at what is known as the exit rate. In 2014 this falls in a range of 2.8 per cent to 8.0 per cent, depending on the property. The sum of the discounted cash flows and discounted potential residual value is the gross value of the property being valued. Of this gross capital value, market-specific transaction costs of a potential buyer are deducted at 7.44 per cent to 10.5 per cent for measurement at the net capital value.

The following overview shows the significant assumptions and results used in determining the fair value of investment properties in the course of the valuation using the DCF method:

Valuation parameters	Unit	Average	Range
Discount rate	%	6.00	4.7 – 6.4
Maintenance costs	EUR/m²	8.73	6.66 – 10.97
Administrative expenses	per rental unit/year	252.86	236.00 – 280.00
Valuation results			
Actual rent multiplier		13.94	11.74 – 15.24
Market value per m²	EUR / m²	761.93	470.95 – 1.291.64

Measurement in the previous year was based on the following parameters:

Valuation parameters	Unit	Average	Range
Discount rate	%	5.04	4.7 – 5.3
Maintenance costs	EUR/m²	6.76	6.46 – 7.10
Administrative expenses	per rental unit/year	240.00	240.00
Valuation results			
Actual rent multiplier		14.63	13.90 – 15.00
Market value per m²	EUR / m²	919.33	809.00 – 1.609.00

Various parameters were used to determine the discount rate. The discount rate is comprised of the base rate and a risk premium. This risk premium consists of an interest rate for the relevant sub-segment, the type of use and the quality. These assessments are made on the basis of information from current market data and official documents, and information from the expert committee. Therefore the risk premium varies from one property to the next.

Other properties are valued using the income capitalisation approach under consideration of the German Property Valuation Ordinance (ImmoWertV). Here, the fair value of investment properties is determined based on income and expenses, and discounted using a risk-adjusted discount rate specific to the property.

The land value is determined separately from the market value of the property.

The following overview shows the significant assumptions and results used in determining the fair value of investment properties in the course of the valuation using the income capitalisation approach:

	2014		2013	
	Average	Range	Average	Range
Property-specific interest rate in %	5.4	4.15 – 5.90	5.0	3.5 – 5.25
Remaining useful life in years	45	29 – 50	40	30 – 50
Maintenance costs EUR/m²	8.8	8.00 – 12.20	10	7 – 15
Administrative costs in % of gross profit	5.4	4.41 – 7.91	5	3 – 8

The fair values determined using the income capitalisation approach correspond to net values, meaning transaction costs did not have to be deducted.

Unusual, special cases are not taken into account in the specified ranges. The assumptions used for the measurement of existing properties are made by the independent appraiser based on many years of professional experience. The expert opinions commissioned in the Group are subject to the rules of the RICS (Royal Institution of Chartered Surveyors).

The market value fluctuation of the real estate portfolios is relatively low due to the stable market for residential properties. The chosen interest rate and underlying market rents were identified as material value drivers influenced by the market. In the following, the effects of possible fluctuations in these parameters are represented separately. Interactions between the parameters are possible but cannot be quantified due to the complexity of the relationships.

	Capitalisation rate		Market rent	
	-0.5 %	+0.5 %	-10 %	+10 %
Changes in value				
in EUR '000	113,299	-95,704	-153,313	146,972
in %	9.7	-8.2	-13.1	12.6

8.4 Loans to Associates

in EUR '000	2014	2013
Cost		
As at 01/01	6,703	6,226
Additions (+)	513	477
Reclassifications (-)	0	0
Disposals (-)	-346	0
As at 31/12	**6,870**	**6,703**
Depreciation and amortisation		
As at 01/01	5,567	4,647
Additions (+)	742	920
Reclassifications (-)	0	0
Disposals (-)	-346	0
As at 31/12	**5,963**	**5,567**
Carrying amounts 01/01	1,136	1,579
Carrying amounts 31/12	**907**	**1,136**

Loans include a loan of EUR 3,766 thousand (previous year: EUR 3,447 thousand) to Airport Center Luxembourg GmbH. Cumulative losses recognized using the equity method in the amount of EUR 2,860 thousand (previous year: EUR 2,311 thousand) were deducted from this loan, thereof EUR 548 thousand in the year under review (previous year: EUR 745 thousand).

The loans also include fully adjusted receivables from another associated company.

8.5 Investments in Associated Companies

in EUR '000	2014	2013
Carrying amounts 01/01	**3,460**	**3,673**
Additions	948	9,029
Disposals	-5,109	-15,645
Currency translation effects	0	-159
Share of gains and losses	1,824	6,562
Carrying amounts 31/12	**1,123**	**3,460**

The following financial information is available for associated companies as at 31 December 2014:

Financial information on associated companies	Airport Center Luxembourg GmbH[1) 2)]		Worthing Lake Forest Investors LLC[1) 2)]	
in EUR '000	2014	2013	2014	2013
Assets	30,956	31,618	109	24,761
Liabilities	79,261	75,518	0	15,397
Revenue	943	831	1,586	34
Earnings	-4,406	-4,432	7,203	-179

Financial information on associated companies	MRT BV[1) 2)]		Stovago[1) 2)]		GG Erlabrunn UG[1) 2)]	
in EUR '000	2014	2013	2014	2013	2014	2013
Assets	0	0	0	0	n/a	1,355
Liabilities	6,044	5,605	3,728	3,438	n/a	1,344
Revenue	0	0	0	0	n/a	274
Earnings	-2	-2	-10	-5	n/a	200

Financial information on associated companies	Malplaquetstr. 23 Grundstücks GmbH[1) 2)]		SIAG 16. Wohnen GmbH & Co. KG[1) 2)]		Wohneigentum Berlin GbR[1) 2)]	
in EUR '000	2014	2013	2014	2013	2014	2013
Assets	1,931	2,609	373	158	13,677	n/a
Liabilities	1,879	2,811	0	158	9,174	n/a
Revenue	1,112	271	0	0	6,479	n/a
Earnings	80	-126	0	-2	574	n/a

1) Information taken from last published financial statements

2) Prepared in accordance with local accounting standards

ADLER AG holds 10 per cent of the shares in Airport Center Luxembourg GmbH. However, as ADLER AG appoints a managing director, it has significant influence over the company so that the shares are recognised using the equity method.

The pro-rata gains for the associated companies included at equity were fully recorded in 2014. There are no cumulative unrecorded losses.

8.6 Deferred Taxes

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

in EUR '000	2014	2013
Tax loss carryforwards (including interest carried forward)	16,917	6,274
Valuation of investment properties (deferred tax assets)	1,724	52
Valuation of interest rate swaps (deferred tax assets)	315	437
Valuation of pension provisions (deferred tax assets)	415	33
Valuation of investment properties (deferred tax liabilities)	-50,239	-19,719
Valuation of bonds (deferred tax liabilities)	-1,639	-554
Valuation of convertible bonds (deferred tax liabilities)	-225	-293
Accrual of financing costs (deferred tax liabilities)	-5,176	-1,248
Other	-192	0
Total deferred tax assets	19,371	6,796
Total deferred tax liabilities	-57,471	-21,814
Offsetting	-18,388	-6,244
	18,388	6,244
Reported deferred tax assets	**983**	**552**
Reported deferred tax liabilities	**-39,083**	**-15,570**

Deferred tax assets for tax loss carry-forwards are recognised at the amount at which the corresponding tax benefits are likely to be realised through future taxable income (minimum balance sheet value equal to the deferred tax liabilities). The loss carry-forwards exist exclusively in Germany and therefore do not expire. For this reason, the maturity structures for the loss carry-forwards that are not capitalised are not disclosed.

Most of the deferred tax assets and liabilities have a remaining term of more than one year.

No deferred tax assets were recognised on corporate tax loss carry-forwards of around EUR 20.4 million (previous year: around EUR 6.2 million) and corporate tax loss carry-forwards of around EUR 22.4 million (previous year: around EUR 8.1 million) since their realisation is not sufficiently certain.

8.7 Other Financial Investments

Other financial investments include a 5.1 per cent participation in CITEC Immo Deutschland GmbH, which is held by ACCENTRO AG. The carrying amount of EUR 1,175 thousand equals the cost. Proceeds of EUR 18 thousand were realised on this in financial year 2014.

8.8 Inventories

Inventories include real estate acquired for disposal in the amount of EUR 89,602 thousand (previous year: EUR 18,848 thousand) and other inventories of EUR 15 thousand (previous year: EUR 0 thousand). Real estate inventory was as follows:

in EUR '000	2014	2013
Cost		
As at 01/01	26,387	27,098
Additions (+)	89,527	624
Disposals (-)	-19,925	-1,335
As at 31/12	**95,989**	**26,387**
Impairments		
As at 1/01	7,539	7,539
Additions (+)	0	0
Write-ups (-)	-686	0
Disposals (-)	-466	0
As at 31/12	**6,387**	**7,539**
Carrying amounts 01/01	18,848	19,559
Carrying amounts 31/12	**89,602**	**18,848**

The ADLER Group's inventories mainly comprise real estate acquired for sale. Inventories are measured at the lower of cost and the fair value less costs to sell. Costs include the purchase price of the real estate plus incidental costs that can be allocated directly, such as broker's fees, tax on the purchase of real estate, notary fees and the cost of land register entries. The cost of renovations that constitute a major improvement to the property are capitalised. An asset's fair value less costs to sell equals the estimated recoverable proceeds in the ordinary course of business less the estimated costs up to completion and estimated selling expenses that will be incurred.

The write-up of EUR 686 thousand is due to the sale of real estate held in inventory, in which the the agreement to sell was already concluded before the reporting date.

The carrying amount of inventories recognised at net realisable value is EUR 7,850 thousand (previous year: EUR 12,794 thousand).

The carrying amount of inventories pledged as security for liabilities is EUR 84,704 thousand (previous year: EUR 6,794 thousand).

Shelf real estate with a carrying amount totalling EUR 47,455 thousand (previous year: EUR 6,053 thousand) will likely be sold after more than twelve months.

8.9 Trade Receivables, Income Tax Receivables and Other Current Assets

Current trade receivables break down as follows:

in EUR '000	2014	2013
Receivables from company disposals and sale of land	21,277	1,316
Rent receivables	6,161	1,346
Other	109	729
Total	**27,547**	**3,391**

Since rent always has to be paid in advance, the lease receivables are mainly overdue. This is why a specific provision at a flat rate of 40 per cent for existing tenants and 90 per cent for tenants who have moved out was recognised per receivable.

The receivables from company sales are purchase price receivables for companies sold in the fourth quarter at the ACCENTRO AG subgroup.

If the Company receives indications of uncollectability, the receivables are derecognised.

Trade receivables on the reporting date break down as follows:

			Carrying amount	Carrying amount							Carrying amount	Carrying amount
	impaired				not impaired							
in EUR '000	Gross amount	Write-down		neither impaired nor overdue at the reporting date	up to 30 days	between 31 and 60 days	between 61 and 90 days	between 91 and 180 days	between 181 and 360 days	more than 360 days	overdue at the reporting date	
Receivables from company disposals and sale of land	461	-274	187	19,239	488	161	408	422	263	109	1,851	21,277
Lease receivables	26,054	-19,893	6,161	0	0	0	0	0	0	0	0	6,161
Other trade receivables	33,157	-33,048	109	0	0	0	0	0	0	0	0	109
As at 31/12/2014	59,672	-53,215	6,457	19,239	488	161	408	422	263	109	1,851	27,547

These data have not been collected for the previous year due to the significantly lower volume of trade receivables. Since the subsequent collection of the data would cause unreasonably high costs, this was omitted.

Value adjustments made on trade receivables developed as follows:

in EUR '000	2014	2013
As at 01/01	**34,172**	**32,834**
Additions through acquisition	16,769	1,335
Additions (impairment)	2,685	3
Utilisation	-411	0
As at 31/12	**53,215**	**34,172**

The income tax assets mainly consist of receivables from income tax overpayments.

Other current assets break down as follows:

in EUR '000	2014	2013
Current securities	18,002	0
Earmarked financial assets	13,675	145
Advance payments for equity investments	10,000	0
Short-term loans to third parties	3,619	4,543
Notary escrow account	3,250	0
Sales tax receivables	2,564	0
Advance payment of financing costs	1,140	0
Receivable due to purchase price reduction	708	0
Purchase price claim	0	3,000
Other current assets	3,325	987
Total	**56,283**	**8,675**

The short-term investments in securities are for the temporary utilisation of excess liquidity.

Earmarked financial assets comprise restricted bank balances that may only be used for maintenance and bank balances with usage restrictions that are designated solely for the redemption of certain short-term financial debts or for maintenance.

Prepayments made on investments relate to the acquisition of WBG JADE. Please see the explanations under note 12.2.

The value of the other current assets has been adjusted in the amount of EUR 660 thousand (previous year: EUR 0 thousand). All items under other current assets are short-term in nature, since they mainly result from contractual relationships that will be settled within one year.

8.10 Cash and Cash Equivalents

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

Because they are earmarked, bank balances of EUR 13,675 thousand (previous year: EUR 145 thousand) were reported under other current assets in the reporting year.

8.11 Non-current Assets held for Sale

Non-current assets held for sale include apartments and multi-family homes valued at EUR 6,129 thousand (previous year: EUR 0 thousand) for which notarial purchase contracts are already on hand on the reporting date.

8.12 Capital Stock

The fully paid up capital stock of ADLER AG as of 31 December 2014 is EUR 31,876,672 (previous year: EUR 16,547,824) and is divided into 31,876,672 (previous year: 16,547,824) no-par bearer shares with equal voting rights.

Of the capital increase of up to EUR 13,535,983 that was resolved on 22 April 2014, EUR 12,020,528 was realised. Furthermore, the capital stock by resolution of the Supervisory Board on 29 October 2014 was increased by EUR 2,850,000 through the partial utilisation of existing approved capital 2014/I, to a total of EUR 31,418,352. Further increases in capital stock of EUR 458,320 are due to the exercising of conversion rights on the convertible bonds.

The number of shares outstanding is as follows:

Numbers	2014	2013
01/01	16,547,824	14,189,901
Issue of new shares	2,850,000	1,500,000
Conversion of convertible bonds	458,320	47,824
Non-cash capital increase to acquire Accentro Real Estate AG	12,020,528	0
Issue of treasury shares	0	810,099
Total	**31,876,672**	**16,547,824**

TREASURY SHARES

By resolution of the General Meeting on 27 August 2010, the Company is authorised to purchase treasury shares until 26 August 2015 totalling up to 10 per cent of the Company's capital stock at the time for the purposes approved according to § 71 (1) Number 8 AktG.

There were no treasury shares in financial year 2014.

AUTHORISED CAPITAL 2013/II

By resolution of the General Meeting on 15 October 2013, the Management Board was authorised to increase the capital stock of the Company one or more times until 14 October 2018 with the consent of the Supervisory Board by a total of up to EUR 8,250,000 in exchange for cash contributions or contributions in kind, by issuing up to 8,250,000 new bearer shares with the option of excluding shareholder subscription rights.

AUTHORISED CAPITAL 2014/I

By resolution of the General Meeting on 9 May 2014, the Management Board was authorised to increase the capital stock of the Company one or more times until 8 May 2019 with the consent of the Supervisory Board by a total of up to EUR 3,600,000 in exchange for cash contributions or contributions in kind, by issuing up to 3,600,000 new bearer shares with the option of excluding shareholder subscription rights. After partial utilisation, EUR 750,000 of this authorised capital remains on 31 December 2014.

CONDITIONAL CAPITAL 2012/II

By resolution of the General Meeting on 28 June 2012, the Management Board with the consent of the Supervisory Board was authorised to issue bearer option bonds and/or convertible bonds one or more times until 27 June 2017, with a total nominal value of up to EUR 100,000,000.00 and a term of no more than ten years, and to grant the holders of option bonds or convertible bonds option or conversion rights for up to 6,500,000 new bearer shares of the Company subject to the detailed provisions of the option bond or convertible bond terms and conditions.

For this purpose, the General Meeting on 28 June 2012 approved a conditional increase of capital stock by up to EUR 6,500,000.00 by issuing up to 6,500,000 bearer shares; the conditional capital increase serves exclusively to redeem option bonds or convertible bonds granted based on the authorisation of the General Meeting from 28 June 2012 until 27 June 2017.

By resolution of the General Meeting on 15 October 2013, the authorisation of the Management Board was amended so that the holders of options or convertible bonds are granted option or conversion rights for a total of up to 8,250,000 new bearer shares of the Company subject to the detailed provisions of the option or convertible bond terms and conditions.

Accordingly, the conditional capital was amended by the General Meeting on 15 October 2013 and conditionally increased to up to EUR 8,250,000.

The Management Board with the consent of the Supervisory Board utilised this authorisation in 2013 and issued two convertible bonds of EUR 10,000,000 (5,000,000 bonds) and EUR 11,250,000 (3,000,000 bonds). Rights were granted to the holders/creditors of these convertible bonds for up to 8,000,000 new ADLER AG shares. Conversion rights were exercised, increasing the capital stock by 47,824 bearer shares until 31 December 2013. The conditional capital 2012/II decreased to EUR 8,202,176 as at 31 December 2013 as a result. In the course of further conversions, the capital stock increased by another 458,320 bearer shares until 31 December 2014. The conditional capital 2012/II was decreased to EUR 7,743,856 as at 31 December 2014 as a result.

8.13 Capital Reserve

The capital reserve is primarily due to premiums on the capital increases in the current year and previous years, offset against the costs of the capital increase. Furthermore, the capital reserve includes the difference between the computed nominal value of the treasury shares and the acquisition or issue price of said shares as well as the equity component of the convertible bonds that were issued, after the deduction of the applicable transaction costs and income tax effects. Differences from the acquisition of shares are recorded in the capital reserve with no change in status.

Please refer to the consolidated statement of changes in equity for the development of the capital reserve.

In the current year, equity capital procurement costs of EUR 1,682 thousand (previous year: EUR 160 thousand) after the deduction of the associated income tax benefits of EUR 275 thousand (previous year: EUR 52 thousand) were recognised in the capital reserve without affecting profit or loss. The costs are mainly comprised of fees for the issuing bank as well as legal and consulting fees.

EUR 12,062 thousand (previous year: EUR 0 thousand) of the increase in the capital reserve is due to share increases with no change in status.

8.14 Retained Earnings

Retained earnings include the adjustments in the opening balance sheet due to the conversion from the German Commercial Code (HGB) to the International Financial Reporting Standards (IFRS) in 2005 (first-time adoption) and the effects of changes to recognition and measurement methods according to IAS 8.

Actuarial gains and losses from the measurement of pension provisions in the amount of EUR -509 thousand (previous year: EUR 55 thousand) after offsetting with the resulting taxes are also included in retained earnings.

8.15 Currency Translation Reserve

The difference between the exchange rate from the initial consolidation and subsequent consolidations of Adler McKinney LLC at the closing rate for the consolidated balance sheet in the amount of EUR 20 thousand (previous year: EUR -59 thousand) was recorded in the currency translation reserve without affecting profit or loss. The change in the currency translation reserve is due solely to the subsequent consolidation of Adler McKinney LLC.

8.16 Minority Interests

This item is composed of equity held by shareholders outside the Group as well as the profit or loss of the subsidiaries and real estate companies. The consolidated net earnings attributable to the shareholders of the parent company are calculated as the difference between the consolidated net earnings before minority interests and the minority interests reported on the income statement.

Minority interests were as follows in financial year 2014:

in EUR '000	2014	2013
ACCENTRO AG subgroup	8,594	0
WBR Wohnungsbau Rheinhausen GmbH	5,933	5,657
WBG GmbH	3,190	0
S.I.G. RE B.V. subgroup	508	5,322
Other	1,585	3,631
Carrying amounts 31/12	**19,810**	**14,610**

The minority interests from the initial consolidation are also shown under 4.2 "Business Combinations". Furthermore, the development of minority interests is shown in the statement of changes in equity.

The tables that follow list the relevant financial information of each subsidiary with minority interests that are not material for the Group. Pre-consolidation amounts are reported:

Combined balance sheets	WBR Wohnungsbau Rheinhausen GmbH		WBG GmbH	ACCENTRO AG subgroup
in EUR '000	2014	2013	2014	2014
Current assets	8,496	6,072	1,012	124,103
Current liabilities	4,807	3,366	1,188	60,646
Net	**3,689**	**2,706**	**-176**	**63,457**
Investment properties	247,430	247,823	83,633	257,861
Non-current assets	37,938	34,787	2,419	20,231
Non-current liabilities	173,437	174,089	31,211	255,698
Net	**111,931**	**108,521**	**54,841**	**22,394**
Net assets	**115,620**	**111,227**	**54,665**	**85,851**

Combined statement of comprehensive income	WBR Wohnungsbau Rheinhausen GmbH		WBG GmbH	ACCENTRO AG subgroup
in EUR '000	2014	2013	2014	2014
Revenue	23,615	12,525	8,603	23,010
Net profit/loss for the year	**5,416**	**30,215**	**24,796**	**7,070**
Other comprehensive income	0	0	-440	0
Net result	**5,416**	**30,215**	**24,356**	**7,070**
Profit or loss attributable to non-controlling interests	276	1,540	9	-64
Dividend payments to non-controlling interests	0	0	0	0

Combined cash flow statement	WBR Wohnungsbau Rheinhausen GmbH		WBG GmbH	ACCENTRO AG subgroup
in EUR '000	2014	2013	2014	2014
Cash flow from operating activities	7,792	5,168	770	-59,432
Cash flow from investing activities	0	0	0	-115,498
Cash flow from financing activities	-8,405	-4,503	-1,635	176,273
Change in cash and cash equivalents	**-613**	**665**	**-865**	**1,343**

Comparative figures for the previous year were only reported for WBR Wohnungsbau Rheinhausen GmbH. The remaining companies shown were not yet included in the consolidated financial statements of ADLER AG in the previous year.

Two majority investments were increased further in financial year 2014. There were no other transactions with non-controlling shareholders.

On the one hand, the investment in Cato Immobilienbesitz und –verwaltungs GmbH was increased by 20 per cent to 94.9 per cent for a purchase price of EUR 3,061 thousand.

On the other hand, the investment in S.I.G. RE B.V. was increased from 52.8 per cent to 100 per cent. S.I.G. RE B.V. in turn holds 94.8 per cent in three real estate companies. Receivables of the former shareholder were also acquired in this context.

The overall effects of the transactions on equity are as follows.

	in EUR '000
Carrying amount of non-controlling interests acquired	7,653
Carrying amount of acquired receivables from former shareholder	13,378
Total	**21,031**
Purchase price (incl. ancillary costs)	8,969
Appropriation to capital reserves	**12,062**

Minority interests declined by EUR 7,653 thousand in connection with various transactions.

Furthermore, ACCENTRO AG's 80 per cent participation in J2P Real Estate AG was acquired from Münchener Baugesellschaft in the financial year. Because the non-controlling shareholders have a put option that can be exercised at any time, the equity of EUR 397 thousand allocated to them has been remeasured and is reported under current liabilities (EUR 389 thousand).

8.17 Pension Provisions

The projected unit credit method was used for the recognition and measurement of pension provisions as at 31 December 2014. Pensions and pension entitlements known on the reporting date as well as future expected increases in pensions and salaries were taken into account.

Significant actuarial assumptions are as follows:

in per cent	2014	2013
Discount rate	1.90% and 2.00%	3.50%
Future salary increases	0.00% and 2.50%	0.00%
Future pension increases	1.50% and 1.75%	1.50%
Best-estimate actuarial assumptions	2005G mortality tables by Dr. Klaus Heubeck	2005G mortality tables by Dr. Klaus Heubeck

As the pension provisions of ADLER Real Estate Service GmbH consist solely of prior commitments to employees who have left the Company (vested and current benefits), the turnover rate is 0 per cent (previous year: 0 per cent). A standard fluctuation rate is used when measuring the pension provisions of WBG GmbH.

The pension provisions were as follows:

in EUR '000	2014	2013
Pension provisions at 01/01	**724**	**826**
Actuarial gains/losses	792	-81
Acquisitions	3,843	0
Acquisition of plan assets	-986	0
Interest expense	125	30
Pension payments	-190	-36
Addition	44	0
Reversal	0	-15
Change in plan assets at 31/12 excl. interest income	-72	0
Pension provisions at 31/12	**4,280**	**724**

The acquisitions of pension provisions and plan assets relate to WBG GmbH. Plan assets were as follows:

in EUR '000	2014
01/01 Plan assets	**0**
Acquisitions	986
Interest income from plan assets	15
Contributions to plan assets	95
Pension payments from plan assets	-23
Actuarial losses	0
31/12 Plan assets	**1,073**

Actuarial losses of EUR 792 thousand (previous year: gains of EUR 81 thousand) (disregarding deferred taxes) were recorded in other comprehensive income in 2014.

Sensitivity analysis:
An increase or decrease in the key actuarial assumptions would have the following effect on the DBO as at 31 December 2014, keeping all other assumptions constant:

in EUR '000		2014
Pension Provisions	Increase of 0.4 %	-289
	Decrease of 0.5 %	401

Of the pension provisions, an amount of EUR 194 thousand (previous year: EUR 40 thousand) is due within a year. This amount is reported uniformly with the remaining pension obligations under non-current liabilities.

As the commitments mainly apply to employees who have left the Company and no new commitments are being made, an annual payout of approximately EUR 200 thousand is expected for future years as well.

According to IAS 19.38, the employer's contributions to statutory pension insurance have to be classified as defined contribution pension plans. Employer's contributions to statutory pension insurance were EUR 243 thousand in 2014 (previous year: EUR 66 thousand).

8.18 Other Provisions

Other provisions were as follows in 2014 and 2013:

in EUR '000	As at 01.01.14	Additions through acquisition	Utilisa-tion	Rever-sal	Additi-on	As at 31.12.14	Non-current
Provisions for personnel obligations	0	587	-138	-11	39	477	477
Provisions for warranties	270	10	-47	-106	37	164	0
Miscellaneous other provisions	0	899	-827	-45	615	642	325
Total	**270**	**1,496**	**-1,012**	**-162**	**691**	**1,283**	**802**

in EUR '000	As at 01.01.13	Additions through acquisition	Utilisa-tion	Rever-sal	Additi-on	As at 31.12.13	Non-current
Provisions for warranties	306	0	-32	-17	13	270	65
Total	**306**	**0**	**-32**	**-17**	**13**	**270**	**65**

The provision for warranties covers statutory and contractual warranty obligations from real estate sales. This provision was recognised as a flat-rate estimate for possible costs for the rectification of defects that cannot be passed on. Utilisation is possible in cases where there is no recourse against subcontractors.

Provisions for personnel obligations mainly include the provision for pre-retirement obligations acquired within the scope of the acquisition of WBG.

in EUR '000	2014	2013
ADLER AG Convertible bond 2013/2017	8,673	8,849
ADLER AG Convertible bond 2013/2018	9,161	9,549
ACCENTRO AG convertible bond 2014/2019	15,204	0
ACCENTRO AG convertible bond 2012/2017	899	0
Total	**33,937**	**18,398**
- of which non-current	33,894	18,382
- of which current	43	16

8.19 Accounts payable from Convertible Bond

Compared to alternative financing, the issue of ADLER AG convertible bonds in financial year 2013 resulted in an interest advantage of EUR 1,896 thousand after deducting pro-rata transaction costs and deferred taxes. This interest advantage (the equity component) was recognised in the capital reserve. To the extent that conversion has not yet taken place on the reporting date, the borrowing capital component of the convertible bonds after the deduction of pro-rata transaction costs and deferred taxes is reported under non-current liabilities. Current liabilities include the interest claims of the creditors on the reporting date.

ADLER AG issued the 5,000,000 convertible bonds 2013/2017 in June 2013 at a nominal value of EUR 2.00 each for a total of EUR 10.000 thousand with an interest rate of 6 per cent and a maturity date of 30 June 2017. ADLER AG grants each bondholder the right to convert each bond into bearer shares of ADLER AG during the exercise period with an amount of EUR 1.00 of capital stock per share on the issue date. The conversion price subject to possible adjustments is EUR 2.00.

ADLER AG issued the 3,000,000 convertible bonds 2013/2018 in December 2013 at a nominal value of EUR 3.75 each for a total of EUR 11,250 thousand with an interest rate of 6 per cent and a maturity date of 27 December 2018. ADLER AG grants each bondholder the right to convert each bond into bearer shares of ADLER AG during the exercise period with an amount of EUR 1.00 of capital stock per share on the issue date. The conversion price subject to possible adjustments is EUR 3.75.

A total of 458,320 convertible bonds from previous issues were converted in financial year 2014 (previous year: 47,824).

On 5 May 2014, ACCENTRO AG issued 6,000,000 convertible bonds with a nominal value of EUR 2.50 (convertible bond 2014/19). The original nominal value of the bearer bonds amounted to EUR 15,000 thousand. The convertible bond carries an interest rate of 6.25 per cent and has a term until 27 March 2019. A total of 600,000 bonds were repurchased as at 31 December 2014, and 4,094 bonds were converted into shares.

ACCENTRO Real Estate AG's convertible bond 2012/17 has a term until 25 June 2017. Issued on 25 June 2012, the 3,579,838 convertible bonds with a nominal value of EUR 2.40 carry an interest rate of 7.75 per cent. The nominal value of the convertible bonds was EUR 8,592 thousand. By 31 December 2014, a total of 432,348 bonds had been repurchased and 2,866,750 bonds had been converted.

8.20 Accounts Payable from Bonds

ADLER AG issued a bearer bond of EUR 35,000 thousand with an interest rate of 8.75 per cent in March 2013. This bond has a term of five years and a maturity date of 3 April 2018.

ADLER AG issued a bearer bond of EUR 100,000 thousand with an interest rate of 6.00 per cent in April 2014. This bond has a term of five years and a maturity date of 1 April 2019.

Furthermore, the liabilities from bonds include a corporate bond of ACCENTRO AG placed in November 2013 with a five-year term and a volume of EUR 10,000 thousand. It bears interest at 9.25 per cent. The term of the bond is until 14 November 2018.

The nominal value of the bond less transaction costs and deferred taxes, which are expensed proportionally according to the effective interest method, is reported under non-current liabilities.

Current liabilities include the interest claims of the creditors from this bond as at the reporting date.

8.21 Financial Liabilities

Non-current liabilities to financial institutions include liabilities related to the acquisition and financing of investment properties and real estate reported under inventories. Current liabilities to financial institutions include current interest payable and redemption payments due within one year. Most of the liabilities for financing the investment properties are medium to long term with fixed interest rates. Loans at variable interest rates are largely hedged with financial derivatives.

The increase in bank liabilities is related to company acquisitions and the acquisition of real estate portfolios in 2014.

The liabilities to banks are collateralised by mortgage liens. Additional collateral is composed of the assignment of rental income, bank balances and letters of subordination.

In the course of borrowing and in credit agreements that were assumed as part of acquisitions, the Company has, in some cases, been obligated to comply with financial covenants imposed by the financial institutions providing the financing. These encompass requirements common for the industry in regards to loan-to-mortgage lending value, interest and capital coverage and a minimum investment amount. Failure to comply with financial covenants may lead to termination or the mandatory deposit of additional security.

The financial liabilities are secured by assets as follows:

in EUR '000	2014	2013
Investment properties	1,170,159	417,865
Real estate in inventories	82,922	6,794
Deposits with banks	19,110	3,323
Restricted assets	13,675	145
Rent receivables	6,161	1,351

8.22 Other Non-current Liabilities

The other non-current liabilities consist exclusively of the negative market values of derivative financial instruments (interest rate hedging contracts).

	2014		2013	
in EUR '000	Nominal volume	Market value	Nominal volume	Market value
Interest rate hedging contracts	33,488	-977	45,518	-1,356

The interest rate hedging contracts were acquired in the course of purchasing property companies and were first recognised on the balance sheet on 31 December 2013. The change in the market value of the interest rate hedging contracts mainly resulted from the reduced nominal volume of the interest rate hedging contracts, which arose from the partial repayment of the derivative and/or the underlying transaction.

In determining the market value of derivative financial instruments, the opposing development in the value of the underlying transactions is not taken into account. Therefore, they do not represent the amounts that the Company would realise from the underlying and hedging transactions under current market conditions if both positions were liquidated immediately. There are no significant credit risks since the hedging transactions were concluded with the banks providing financing.

The remaining terms of the derivative financial instruments are distributed as follows:

in EUR '000	2014	2013
0 to 1 year	873	1,000
1 to 2 years	32,616	1,000
2 to 3 years	0	43,518
Total	33,488	45,518

Please refer to note 10.2 for more information on derivative financial instruments.

8.23 Trade Payables, Income Tax Liabilities and Other Current Liabilities

The total trade payables of EUR 21,123 thousand (previous year: EUR 7,898 thousand) are current and owing to third parties. Trade payables include heating and operating costs of EUR 1,277 thousand that have not yet been settled (previous year: EUR 1,744 thousand). This item also includes maintenance measures that have not yet been invoiced as well as consultancy services.

The other current liabilities are composed as follows:

in EUR '000	2014	2013
Purchase price liabilities	6,500	0
Advance payments received for inventory properties	2,843	0
Deferred rental income	2,328	0
Security deposits received	2,157	128
Personnel obligations	830	104
Short-term loans	0	11,511
Vendor notes	0	5,000
Other current liabilities	3,015	1,744
Total	**17,673**	**18,487**

The purchase price liabilities relate to a claim asserted by the seller for the payment of the remainder of the purchase price from the final purchase price calculated for the acquisition of the Magnus III real estate portfolio.

The prepayments received on shelf real estate apply to disposals where benefits and obligations were not transferred.

Deferred rental income mainly applies to rent payments from welfare authorities for the month of January in the following financial year.

9. NOTES TO THE STATEMENT OF INCOME AND ACCUMULATED EARNINGS

9.1 Income from Real Estate Management

Income from real estate management is composed as follows:

in EUR '000	2014	2013
Net income	56,053	11,025
Income from oncharged operating costs	26,743	6,223
Other income from property management	1,086	591
Total	**83,882**	**17,839**

9.2 Expenses from Real Estate Management

Expenses from real estate management are composed as follows:

in EUR '000	2014	2013
Apportionable and non-apportionable operating costs	36,719	7,970
Maintenance	14,641	2,165
Other property management expenses	450	82
Total	**51,810**	**10,217**

9.3 Income from the Disposal of Real Estate

Income from the disposal of real estate is composed as follows:

in EUR '000	2014	2013
Income from the disposal of inventory properties	40,718	1,970
Income from the disposal of investment properties	14,600	0
Brokerage revenue	1,504	0
Total	**56,822**	**1,970**

9.4 Expenses from disposed Real Estate

Expenses from disposaed of real estate are composed as follows:

in EUR '000	2014	2013
Carrying amount of disposed inventory properties disposed of	37,262	1,335
Carrying amount of disposed investment properties disposed of	14,446	0
Costs of disposal	1,724	0
Purchased services for brokerage revenue	1,003	0
Total	**54,435**	**1,335**

9.5 Personnel Expenses

Personnel expenses include the following items:

in EUR '000	2014	2013
Wages, salaries and other benefits	4,588	1,022
Social security contributions	428	141
Old age pension expenses	8	3
Total	**5,024**	**1,166**

9.6 Other Operating Income

Other operating income is composed as follows:

in EUR '000	2014	2013
Negative goodwill	24,649	0
Income from the reversal of provisions and liabilities that are provisions by nature	1,729	38
Write-up of land	686	0
Insurance compensation	558	14
Other	2,096	80
Total	**29,718**	**132**

Other operating income primarily relates to the negative difference (EUR 24,649 thousand) calculated from the acquisition of Energy AcquiCo I GmbH including its subsidiary WBG GmbH, which was already recognised in profit and loss as a one-off effect. We refer to the explanations under note 4.2.

9.7 Other Operating Expenses

Other operating expenses are comprised as follows:

in EUR '000	2014	2013
Legal and consulting expenses	6,534	651
Write-downs of receivables	5,146	127
General and administrative expenses	2,316	380
Purchased services	1,085	197
Office and IT expenses	724	87
Cost of premises	608	116
Public relations	572	129
Miscellaneous other expenses	4,160	734
Total	**21,145**	**2,421**

Legal and consulting fees primarily comprise consulting fees relating to capital market transactions and strategic consulting services. Acquisition-related costs for the acquisition of Wohnungsbaugesellschaft JADE mbH of EUR 1,043 thousand were also recognised.

Value adjustments on losses of receivables primarily relate to value adjustments for rent receivables from existing rental contracts (40 per cent) and terminated rental contracts (90 per cent).

General and administrative expenses consist mainly of expenditure for asset management services for the acquired real estate companies.

9.8 Income from Fair Value Adjustments to Investment Properties

These items include the gains and losses on the fair value adjustments of investment properties on the reporting date. Please see the explanations under note 8.3.

9.9 Depreciation and Allowances

Amortisation and depreciation pertain to unscheduled amortisation of intangible assets and depreciation of property, plant and equipment in the amount of EUR 497 thousand (previous year: EUR 15 thousand).

9.10 Interest Income

Interest income is composed as follows:

in EUR '000	2014	2013
Loan interest, associated companies	612	551
Loan interest, third parties	399	129
Income from current securities	450	0
Other	118	5
Total	**1,579**	**685**

9.11 Interest Costs

Interest costs are composed as follows:

in EUR '000	2014	2013
Interest on bank loans	28,992	5,319
Bond interest	8,757	2,415
Convertible bond interest	1,809	439
Other	1,530	389
Total	**41,088**	**8,562**

9.12 Net income from associated companies measured using the equity method

This item consists of the pro-rata gains/losses from associates consolidated using the equity method. Please refer to our explanations under note 8.54. This primarily involves the pro-rata gain of Worthing Lake Forest Investors LLC of EUR 2,372 thousand.

Income for Worthing Lake Forest Investors LLC recognised using the equity method was determined according to US GAAP, while income for the other companies recognised using the equity method was based on the result converted to IFRS in accordance with national accounting principles.

9.13 Taxes on Income

Taxes on income are comprised as follows:

in EUR '000	2014	2013
Current income tax expense	470	127
Income tax expense (income) from other accounting periods	6	-51
Actual income tax expense	**476**	**76**
Deferred tax expense (income), loss carry-forwards	-10,644	-5,508
Deferred tax expense (income), temporary differences	31,357	21,573
Deferred taxes	**20,713**	**16,065**
Total	**21,189**	**16,141**

The tax on the Group's profit before income tax deviates from the theoretical tax rate, which is derived by applying the consolidated tax rate of 32.275 per cent (previous year: 32.275 per cent), as follows:

in EUR '000	2014	2013
Earnings before taxes	132,759	63,017
Expected income tax (32.275%)	42,848	20,339
Reconciliation due to tax effects:		
Income taxes, previous years	6	-45
Derecognition of deferred tax assets, previous years	2	30
Other tax-exempt income	-23,895	0
Different tax rates	424	0
Utilisation of loss carry-forwards not capitalised as deferred taxes	-1,229	-3
Sales proceeds exempt from taxes	-357	-2,257
Non-deductible expenses	668	566
Unrecognised deferred tax assets on losses	2,643	2,414
Deferred taxes on loss carry-forwards acquired	-2,637	-5,178
Trade tax additions	1,975	0
Other	741	275
Total	**21,189**	**16,141**

9.14 Earnings per S,hare

Earnings per share reflect the proportion of earnings generated in a period that are attributable to one share. Here, consolidated profit is divided by the weighted number of shares outstanding. A dilution of this indicator results from what are known as "potential shares" (e.g. from convertible bonds). Earnings per share are as follows:

in EUR '000	2014	2013
Consolidated net earnings (in EUR '000)	**111,570**	**46,876**
Consolidated net earnings without non-controlling interests	109,219	38,763
Interest expenses including deferred taxes on convertible bonds	1,225	297
Consolidated net earnings without non-controlling interests (diluted)	110,444	39,060
Number of shares (in '000)		
Weighted number of shares issued	23,486	15,066
Effect of the conversion of convertible bonds	7,494	2,476
Weighted number of shares (diluted)	30,980	17,542
Earnings per share (in EUR)		
Basic earnings per share	4.65	2.57
Diluted earnings per share	3.57	2.23

10. INFORMATION ON FINANCIAL INSTRUMENTS

10.1 Additional Information on Financial Instruments

(A) CLASSIFICATION

Financial instruments in the ADLER Group are classified according to IFRS 7 based on the respective balance sheet items. The tables below show the reconciliation of the carrying amounts for each IFRS 7 class (balance sheet item) and the measurement categories of IAS 39 on the respective reporting dates.

31.12.2014 In EUR '000	Category according to IAS 39	Total carrying amount	Carrying amount of financial instruments	Amortised cost	Fair value taken directly to equity	Fair value through profit or loss	Fair value for comparative purposes
Assets							
Loans to associated companies	Lar	907	907	907			851
Investments in associated companies	Afs	1,123	0		0		0
Other financial investments	Afs	1,175	1,175		1,175		1,175
Trade receivables	Lar	27,547	27,547	27,547			27,547
Other current assets	Lar, Afs	56,283	53,265	35,606	17,659		53,265
Cash and cash equivalents	Lar	33,060	33,060	33,060			33,060
Equity and liabilities							
Financial liabilities to banks and (convertible) bonds	FLAC	1,017,616	1,017,616	1,017,616			1,132,981
Trade payables	FLAC	21,123	21,123	21,123			21,123
Other liabilities	FLAC, Lafv, LafvOCI	18,650	16,322	14,956	977	389	16,322
of which aggregated by IAS 39 categories							
Loans and receivables	Lar		97,120	97,120			97,064
Available-for-sale financial assets	Afs		18,834		18,834		18,834
Financial liabilities at fair value through profit or loss	Lafv		389			389	389
Financial liabilities at fair value through profit or loss	LafvOCI		977		977		977
Financial liabilities carried at cost	270		1,053,695	1,053,695			1,169,060

Abbreviations	IFRS 7 categories
Lar	Loans and receivables
Aafv	Financial assets at fair value through profit or loss
Afs	Available-for-sale financial assets
FLAC	Financial liabilities measured at amortised cost
Lafv	Financial liabilities at fair value through profit or loss
LafvOCI	Financial liabilities at fair value through other comprehensive income

31.12.2013 In EUR '000	Category according to IAS 39	Total carrying amount	Carrying amount of financial instruments	Amortised cost	Fair value taken directly to equity	Fair value through profit or loss	Fair value for comparative purposes
Assets							
Other loans	Lar	1,136	1,136	1,136			1,019
Trade receivables	Lar	3,391	3,391	3,391			3,391
Other current assets	Lar, Aafv	8,675	8,565	8,422		143	8,565
Cash and cash equivalents	Lar	6,895	6,895	6,895			6,895
Equity and liabilities							
Financial liabilities to banks and (convertible) bonds	FLAC	329,226	329,226	329,226			329,226
Trade payables	FLAC	7,898	7,898	7,898			7,898
Other liabilities	FLAC	19,843	19,628	18,272	1,356		19,628
of which aggregated by IAS 39 categories							
Loans and receivables	Lar		19,987	19,844		143	19,870
Financial liabilities at fair value through profit or loss	Lafv						
Financial liabilities carried at cost	FLAC		356,752	355,396	1,356		356,752

Abbreviations	IFRS 7 categories
Lar	Loans and receivables
Aafv	Financial assets at fair value through profit or loss
Afs	Available-for-sale financial assets
FLAC	Financial liabilities measured at amortised cost
Lafv	Financial liabilities at fair value through profit or loss
LafvOCI	Financial liabilities at fair value through other comprehensive income

(B) FAIR VALUE DISCLOSURES

Financial instruments measured at fair value can be classified and assigned to levels according to the significance of the factors and information for their measurement. The classification of a financial instrument is performed ac-cording to the significance of its input factors for its overall measurement, choosing the lowest level that is relevant or significant for overall

- Level 1: Prices listed for identical assets or liabilities on active markets (adopted unchanged)
- Level 2: Input factors that are not prices considered in Level 1, but that can be observed directly or indirectly for the asset or liability (e.g. in deriving prices)
- Level 3: Factors not based on observable market data for the measurement of the asset or liability (non-observable input factors)

		Overview of the calculation methods used to determine fair values		
31.12.2014 in EUR '000	**Carrying amount**	**of which Level 1**	**of which Level 2**	**of which Level 3**
Assets				
Investment properties	**1,170,159**			**1,170,159**
Shares in associates: classified as AfS	0		0	
Other financial assets: classified as AfS	1,175			1,175
Other current assets: classified as AfS	17,633	833		16,800
Non-current assets held for sale	6,129		6,129	
Equity and liabilities				
Derivative financial liabilities: cash flow hedges	977		977	
Purchase price liabilities from put options granted	389			389

Trade receivables and other current assets as well as cash and cash equivalents have short terms. Therefore, their carrying amounts on the reporting date are virtually equal to their fair values. This applies correspondingly to liabilities to financial institutions, trade payables and other current liabilities.

The fair value of the non-current liabilities to financial institutions and the other non-current liabilities is determined by discounting future cash flows. Discounting is performed on the basis of a market interest rate for the same term and risk. The fair value of liabilities from bonds and convertible bonds are based on the rates as at 31 December 2014.

(C) NET RESULT FROM FINANCIAL INSTRUMENTS

The following table shows the net result from financial instruments by meas-urement category according to IAS 39:

in EUR '000	Category according to IAS 39	Interest	Net Result 2014 Gains/ losses	Total	Interest	Net Result 2014 Gains/ losses	Total
Loans and receivables	Lar	1,036	-5,182	-4,146	814	-302	512
Financial assets measured at fair value through profit or loss	Aafv	0	0	0	0	-8	-8
Financial assets at fair value through equity	Afs	449	-6	443	0	0	
Financial liabilities at fair value through profit or loss	Lafv	0	9	9	0	0	0
Financial liabilities carried at cost (ol)	FLAC	-40,708	0	-40,708	-8,477	0	-8,477
Total		**-39,223**	**-5,179**	**-44,402**	**-7,663**	**-310**	**-7,973**

Interest income and expenses from financial instruments are part of the net result. The gains and losses result from impairments and write-ups.

Interest income and interest expenses are shown in the respective items of the consolidated income statement. All other expenses and income are in-cluded in the items other operating expenses or other operating income.

10.2 Financial Risk Management and Disclosures According to IFRS 7

Significant risks that are monitored and managed by the Group's financial risk management system include interest rate risk, default risk, liquidity risk and financing risk.

(A) INTEREST -CHANGE RISK

ADLER Group is practically exposed to interest rate risks in the Euro Zone only.

Interest rate risk arises with the conclusion of credit facilities which bear variable interest as part of a possible follow-up financing or in the event of a significant change in capital market conditions. This means that interest rate changes can lead to higher interest payments to a limited extent. However, ADLER AG primarily finances itself with financial debt that bears interest at fixed rates, and liabilities with a longer-term fixed interest rate. For this reason, the Group generally pursues a risk-averse financing policy.

The interest risk for all Group current and non-current financial liabilities is established taking in a sensitivity analysis which takes into account fixed-interest periods. Analogue to these interest rate scenarios for the valuation of investment property, two interest rate scenarios were reflected in loans. In terms of the outstanding financial liabilities and bonds as of 21 December 2014, a 0.5 per cent higher/lower rate of loan interest would have led to the following increase/decline in interest expenses:

Interest rate risk sensitivity analysis in EUR '000	31.12.2014		31.12.2013	
Change in interest rate	+ 50 bp	- 50 bp	+ 50 bp	- 50 bp
Effect on interest expense	297	-297	30	-30

Taking into account the present interest sensitivities, interest rate risk is estimated to be moderate given the low impact on carrying amounts and income as well as the currently favourable capital market conditions.

Further reduce the interest rate risk, ADLER AG uses interest rate hedging instruments in the form of swaps (see note 8.22). Had interest rates been 100 basis points higher/lower on 31 December 2014, the fair values (EUR -977 thousand; previous year EUR -1,356 thousand) of the derivatives would have changed by EUR -660 thousand (previous year: EUR -1,408 thousand) or EUR +660 thousand (previous year: EUR +1,408 thousand).

(B) DEFAULT RISK KO

The default risk is the risk of contractual partners failing to meet their contractual payment obligations. The maximum default risk is reflected by the carrying amounts of the primary and derivative financial assets.

It is managed at the Group level for the entire Group. Rules of conduct exist to ensure that transactions are only concluded with business partners who have demonstrated adequate payment practices in the past. Trade receivables are mainly owed by a large number of customers (tenants). Emphasis is placed on a sound credit history even in the tenant selection process. There are no significant concentrations of credit risk in the Group.

(C) LIQUIDITY RISK

The responsibility for liquidity risk management rests with the Management Board, which has developed a suitable concept for managing short-, medium- and long-term financing and liquidity requirements. The Group manages liquidity risks by continuously monitoring the expected and actual cash flows and reconciling the maturities of financial assets and liabilities. Liquidity management aims to ensure the ability to pay at all times by maintaining adequate liquidity reserves and an optimal liquidity balance within the Group.

In credit agreements assumed in the course of company acquisitions, the Group has in some cases obligated itself to comply with contractually established financial covenants. These are related among other things to generating cash flows from operations at the level of the real estate companies. Asset management for these portfolios is geared towards compliance with the financial covenants.

For the bonds and convertible bonds issued in 2014, the agreed credit terms can lead to a liquidity risk in case of failure to comply. In case of a violation of the credit terms, e.g. if there is a change in control, these bonds and con-vertible bonds can be cancelled with early redemption.

The ADLER Group has cash and cash equivalents of EUR 33,060 thousand on the reporting date (previous year: EUR 6,895 thousand). In addition, restricted cash and cash equivalents of EUR 13,675 thousand (previous year: EUR 145 thousand) are reported under other assets.

The following liquidity analyses show the contractually agreed (undiscounted) cash flows of the primary financial liabilities and the derivative financial instruments, including the interest payments on the respective reporting date. All financial instruments held on the respective reporting date were included in the analyses. Planned payments for future new liabilities were not considered. Variable interest payments were determined based on the corresponding spot rates on the respective reporting date. In regards to cash outflows for convertible bonds, it was assumed that there will be no conversion.

31.12.2014 in EUR '000	Cash outflows 2015	2016	2017	2018	2019	> 2019
Liabilities to banks	75,542	104,416	39,989	104,462	35,171	775,015
Liabilities from bonds	10,497	9,990	9,985	52,603	102,975	0
Liabilities from convertible bonds	2,861	2,025	11,164	11,929	14,132	0
Trade payables	21,123	0	0	0	0	0
Other liabilities	15,345	0	0	0	0	0
Total	**125,368**	**116,431**	**61,138**	**168,994**	**152,278**	**775,015**

31.12.2013 in EUR '000	Cash outflows 2013	2014	2015	2016	2017	> 2018
Liabilities to banks	14,425	14,403	14,479	14,343	14,215	402,076
Liabilities from bonds	3,046	3,063	3,070	3,056	38,079	0
Liabilities from convertible bonds	1,275	1,275	1,275	10,973	11,925	0
Trade payables	7,898	0	0	0	0	0
Other liabilities	18,272	0	0	0	0	0
Total	**44,916**	**18,741**	**18,824**	**28,372**	**64,219**	**402,076**

(D) FINANCING RISK

The Group depends on the granting of loans or capital increases for further acquisitions. Moreover, when loans run out, these need to be extended and/or refinanced. In all cases, there is a risk that an extension cannot be obtained or only at different terms.

Within the Group, there are also credit agreements totalling around EUR 969.0 million (previous year: EUR 210.1 million) with financial covenants im-posed by the banks. Depending on the real estate provided as collateral, a capital coverage ratio between 101 per cent and 130 per cent, an interest coverage ratio of 1.05 to 2.30 and a loan-to-value of between 65 per cent and 83 per cent or loan-to-value (LTMLV) of not more than 80 per cent must be achieved. Individual credit agreements include a minimum amount of maintenance work or rental in-come. Provided the contractually agreed maintenance measures are not carried out, a cash amount corresponding to the maintenance work not carried out is withheld on restricted accounts. Various sanctions of the lenders may apply if the financial covenants are violated, including the cancellation of the loans.

Credit terms are also agreed for convertible bonds which can lead to a liquidity risk if they become effective. In certain credit terms become effective, these convertible bonds and corporate bonds can be cancelled with early redemption.

11. CAPITAL RISK MANAGEMENT

The Group manages its capital with the objective of maximising the earnings of shareholders by optimising the ratio of equity to borrowings. The operation of all Group companies as going concerns is assured. Consolidated equity on the balance sheet (before minority interests) is used as the key indicator for capital management.

As a stock corporation, the Company is subject to the minimum capital requirements according to German Stock Corporation Act (AktG). In addition, the Group is subject to the usual industry-specific minimum capital requirements of the credit services sector, especially for the financing of specific real estate projects. These minimum capital requirements are monitored con-tinuously and were met in the year under review as well as in the previous year.

Risk management reviews the Group's capital structure on a quarterly basis. Accounting ratios are calculated and forecast for the purpose of meeting the requirements of the credit services sector for debt capital requirements and complying with the financial covenants under numerous loan agreements.

The equity ratio at year-end is as follows:

in EUR '000	2014	2013
Equity (before non-controlling interests)	291,401	72,335
Total assets	1,416,459	460,889
Equity ratio (%)	**20.6 %**	**15.7 %**

The increase in the equity ratio is largely related to the generated net profit of EUR 111,148 thousand and the increase in capital and physical capital in 2014 despite the substantial increase in total assets.

12. OTHER DISCLOSURES

12.1 Minimum Lease Payments from Operating Lease Agreements

Disclosures on operating leases pursuant to IAS 17.56

in EUR '000	2013 comparative period	2014 reporting period	2015 up to 1 year	2016 to 2019 1 to 5 years	from 2020 more than 5 years
Total future minimum lease payments based on operating leases that cannot be cancelled as the lessorr	11,042	61,956	21,771	0	0

Claims to minimum lease payments on long-term operating leases generally result from leasing commercial real estate. In the residential property segment, lease contracts are generally subject to the three-month statutory term of notice. There are no other claims to minimum lease payments. The minimum lease payments include rental income excluding appropriable operating costs from investment properties only.

12.2 Other Financial Obligations and Contingent Liabilities

Significant financial obligations on the reporting date are as follows:

in EUR '000	2014	2013
Rental and lease obligations		
Due within one year	883	203
Due between 1 and 5 years	2,574	465
Due in more than 5 years	2,298	0
	5,755	668
Management contracts, support agreements		
Due within one year	4,843	1,136
Due between 1 and 5 years	6,920	4,186
Due in more than 5 years	5,112	4,522
	16,874	9,844
Total	**22,629**	**10,512**

Obligations from rental and lease contracts primarily result from renting office space under operating leases that cannot be cancelled. There are no purchase options or extension options beyond the fixed lease term.

The possible breach of financial covenants defined in credit agreements may, at the discretion of the creditor, lead to an additional deposit of cash and cash equivalents, the unscheduled repayment of the loans in question until the financial covenants are met or to the cancellation of the loans, among other things.

In October 2014, a purchase agreement for the acquisition of a 94.9 per cent interest in Wohnungsbaugesellschaft JADE mbH, Wilhelmshaven, (WBG JADE) was concluded to expand the residential real estate portfolio. WBG Jade in turn owns 100 per cent of the shares in two other companies and has a portfolio of around 6,750 residential and 42 commercial units. This purchase agreement led to purchase price obligations of around EUR 79.6 million and the assumption of loan receivables plus accrued interest of EUR 21.5 million. The transfer of benefits and obligations and first-time consolidation will occur as of 31 January 2015.

The breakdown of the purchase price according to acquired assets and liabilities is preliminary as the acquisition price has not yet been finalised. The preliminary acquisition costs can be allocated to the acquired assets and liabilities and measured according to estimated market values as follows:

	in EUR '000
Investment property	249,108
Other non-current assets	227
Current assets	11,405
Cash and cash equivalents	4,012
Assets acquired	**264,752**
Non-current liabilities	-8,751
Current liabilities	-127,522
Liabilities acquired	**-136,273**
Net assets at 100%	**128,479**
Non-controlling interests	-6,552
Negative goodwill	-42,291
Cost	**79,636**

The gross value of acquired trade receivables amounted to EUR 1,765 thousand. Allowances of EUR 1,297 thousand were recognised, which means that the fair value of acquired assets and liabilities amounts to EUR 468 thousand.

For the valuation of non-controlling interest the option under IFRS 3.19 was exercised to value the non-controlling interests according to net assets of EUR 128,479 thousand.

This negative goodwill difference of EUR 43,291 is primarily due to the fair value of WBG Jade's investment properties, which exceeds the purchase price, resulting from an attractive purchase offer and a portfolio discount. These measurements were supported by appraisals from independent experts.

Transactions cost of EUR 1,043 thousand were incurred and recognised in profit and loss in connection with the merger.

12.3 Related Parties

Mezzanine IX Investors S.A., Luxembourg, Grand-Duchy of Luxembourg, notified the Company on 24 June 2014 that it holds more than 8,800,000 of the votes in ADLER AG. Compared to the total votes of 31,876,672 as of 31 December 2014, the share of votes of Mezzanine IX Investors S.A. including 3,042,918 assigned votes amounts to 37.15 per cent.

Given its quorum presence majority at the last Annual General Meeting in 2014, a relationship of dependency with Mezzanine IX Investors S.A., Luxembourg could exist.

There is no control agreement between the two companies.

Related parties of ADLER AG according to IAS 24:

- Associates and non-consolidated subsidiaries of ADLER AG
- Members of the Supervisory Board and Management Board as well as managerial employees and their immediate family members, both at ADLER AG and in companies on which these persons have at least a significant influence.

Significant transactions between the Group and the related parties were as follows:

A member of the Company's Supervisory Board is the general manager of Deutsche Land- und Jagdimmobilien GmbH (DLJ), which holds a minority interest in twenty one ADLER AG real estate companies.

ADLER AG granted Deutsche Land- und Jagdimmobilien GmbH (hereinafter referred to as "DLJ") a loan which is valued at EUR 265 thousand including accrued interest on 31 December 2014.

In addition, subsidiaries of ADLER AG granted loans to DLJ with the following volumes as of 31 December 2014 (incl. interest claims)

- Münchner Baugesellschaft mbH (EUR 48 thousand)
- Magnus Zweite Immobilienbesitz und Verwaltungs GmbH (EUR 3,260 thousand)
- Magnus Dritte Immobilienbesitz und Verwaltungs GmbH (EUR 28 thousand)

Magnus Immobilienbesitz und Verwaltungs GmbH also granted DLJ a loand of EUR 17 thousand in the reporting year 2014. It was repaid during the year.

The interest in Hanse-Center Objektgesellschaft mbH and Glockenhofcenter Objektgesellschaft mbH were sold to Alpine Real Estate Invest GmbH at 94.9 per cent and to Taurecon Real Estate Consulting GmbH (Taurecon) at 5.1 per cent on 22 December 2014. At the time of the acquisition Mr Thomas Bergander was managing director of Taurecon Real Estate Consulting GmbH. As of 31 August 2014 Thomas Bergander was a member of the Supervisory Board of ACCENTRO AG, a subsidiary of ADLER AG, and is therefore indirectly also a shareholder of ADLER AG.

Taurecon also provided companies in the ADLER Group with consulting services in financial year 2014. Taurecon billed the companies for EUR 537 thousand.

A subsidiary of ADLER AG acquired 94 per cent of the shares of Rostock Verwaltungs GmbH for EUR 423 thousand and loan receivables of Pruß GmbH from Rostock Verwaltungs GmbH of EUR 1,548 at nominal value in 2014. Rostock Verwaltungs GmbH is real estate company with real estate portfolio of 282 rental units.

According to the WpHG nofications we have received, Pruß GmbH is a shareholder of ADLER AG.

As of the reporting date, the following key receivables from and liabilities to related parties existed.

ADLER AG has a current loan including interest claims of EUR 2,486 thousand to the associated investment in MRT (Mountleigh Roland Ernst B.V.).

ADLER AG also has a loan to the associated investment Stovago B.V. including interest claims of EUR 443 thousand.

ADLER AG has a loan including interest claims of EUR 3,447 thousand to the associated investment Airport Center Luxembourg GmbH.

ADLER AG has a current loan liability of EUR 273 thousand to the associated investment in SIAG Sechzehnte Wohnen GmbH & Co. KG via a subsidary. This amount results from settlement transactions between the companies.

An indirect subsidiary of ADLER AG is the personally liable shareholder of the Joint Venture Wohneigentum Berlin GbR. This results in liability for the liabilities of the GbR of EUR 9,147 thousand.

Die ADLER AG has a receivalbe from the associate Malplaquetstr. 23 Grundstücksverwaltungsgesellschaft mbH via a subsidiary. The receivable stems from a loan of EUR 419 thousand plus accrued interest. The loan receivables including the interest claims against MRT (Mountleigh Roland Ernst) B.V. and Stovago B.V. are fully adjusted. There were no key

in EUR '000	2014	2013
Nominal values:		
Airport Center Luxembourg GmbH	3,447	3,145
MRT (Mountleigh Roland Ernst B.V.)	2,486	2,467
Stovago B.V.	443	306
Malplaquetstraße 23. Grundstücksverwaltungsgesellschaft mbH	419	430
SIAG Sechzehnte Wohnen GmbH & Co. KG	273	273
DB Immobilien GmbH	0	308
Total	**7,068**	**6,929**

implications on net profit due to transactions with associates.

All legal transactions, income, the provision of services and allocations described above were conducted at arm's length.

The Supervisory Board and Management Board hold the key management positions in ADLER AG. Remuneration for these persons is composed as follows:

At the General Meeting on 28 September 2011, the shareholders resolved with 99.95 per cent of the votes to omit the individual disclosure of Management Board remuneration by fixed and performance-based components for 2011 through 2016.

in EUR '000	2014	2013
Supervisory Board remuneration	93	34
Management Board remuneration	286	215

12.4 Audit Fees

The total audit fees for the financial year are calculated as follows:

in EUR '000	2014	2013
Audit of financial statements	494	121
Other assurance services	44	53
Other services	59	30
Total	**597**	**204**

12.5 Employees

The average number of employees are as the follows:

in EUR '000	2014	2013
Management Board members	1	1
Full-time employees	75	16
Total	**76**	**17**

12.6 Notes to the Consolidated Cash Flow Statement

Financial resources correspond to cash and cash equivalents.

In addition, restricted cash and cash equivalents of EUR 13,675 thousand (previous year: EUR 145 thousand) are reported under other assets.

Cash flows are classified according to operating activities, investment (divestment) activities and financing activities. The indirect measurement method was chosen to present the cash flows from operating activities.

After adjusting for non-cash expenses and income, and under consideration of the changes in working capital, the ADLER Group generated a total cash inflow of EUR 16,749 thousand from operating activities (previous year: EUR 11,934 thousand).

Cash outflows for investment activities of EUR 208,272 thousand (previous year: EUR 94,199 thousand) were due primarily to the acquisition of the ACCENTRO AG and Magnus III-Portfolio residential property portfolios.

ADLER AG conducted a capital increase of 2,850,000 share at an issue price of EUR 7.40 per share in October 2014, which generated gross issue proceeds of EUR 21,090 thousand. In addition, ADLER AG issued a bond 2014/2019 for EUR 100,000 thousand.

Promissory note loans of EUR 500,500 thousand were issued with the term of 10 years to finance or refinance real estate portfolios. In addition to other borrowings, net cash flow amounted to EUR 538,908 thousand.

The raised funds are partly used to repay existing financing loans. Scheduled repayments and redemptions relating to the disposal of real estate and real estate portfolios were also carried out. This resulted in total payments of EUR 400,885 thousand.

Total financial resources increased by EUR 26,165 thousand.

12.7 Management Board and Supervisory Board

The Management Board of ADLER Real Estate Aktiengesellschaft, Frankfurt am Main, Germany, consists of Axel Harloff, business administration graduate (Dipl.-Kaufmann), Hamburg, Germany.

Members of the Supervisory Board:

- Dr. Dirk Hoffmann, Berlin, lawyer and banker, Chairman
- Thomas Katzuba von Urbisch, Monte Carlo/Monaco, lawyer and entrepreneur, Deputy Chairman
- Thilo Schmid, project controller, Blotzheim, France (effective from 1 February 2014)
- Ralf Preyer, Dubai/UAE, business administration graduate, (resignation as Member of the Supervisory Board as of 31 January 2014, until then Deputy Chairman)

The following members of the Supervisory Board and Management Board of ADLER Real Estate Aktiengesellschaft, Frankfurt am Main, Germany, had the following additional supervisory board mandates and memberships in other governing bodies according to § 125 Para. 1 Sentence 5 AktG:

Dr. Dirk Hoffmann

- Squadra Immobilien GmbH & Co. KGaA, Frankfurt am Main, Germany (Chairman of the Supervisory Board)
- DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main, Germany (Deputy Chairman of the Supervisory Board)
- Dexia Kommunalbank Deutschland AG, Berlin, Germany (member of the Supervisory Board)
- Bremer Kreditbank AG, Bremen (Deputy Chairman of the Supervisory Board)
- ACCENTRO Real Estate AG, Berlin (Deputy Chairman of the Supervisory Board since 1 September 2014)

Thilo Schmid
- Talentory AG, Zurich, Switzerland (member of the Advisory Board)
- Jedox AG, Freiburg, Germany (Chairman of the Supervisory Board)

Ralf Preyer
- PPP Land Investment AG, Vienna, Austria (member of the Supervisory Board)

Axel Harloff
- ACCENTRO Real Estate AG, Berlin (Deputy Chairman of the Supervisory Board since 1 September 2014)

Thomas Katzuba von Urbisch was not a member of other governing bodies according to § 125 Para. 1 Sentence 5 AktG.

12.8 Events after the Balance Sheet Date

On 16 February 2015, the Management Board and Supervisory Board of ADLER AG resolved according to § 10 of the Securities Aquisition and Takeover Act (WpÜG) to submit a voluntary public takeover bid to all shareholders of WESTGRUND AG, Berlin to acquire their bearer shares in WESTGRUND AG.

Several large shareholders have irrevocably agreed (through irrevocable undertakings), to accept the proposal of ADLER AG; these obligation account for just over 50 per cent of the share capital of WESTGRUND AG.

ADLER AG has announced that that it will offer the shareholders of WESTGRUND AG a combination for cash components and new ADLER shares. ADLER AG will offer the shareholders of WESTGRUND AG 0,565 new bearer shares of ADLER AG with a notional value of EUR 1.00 and an additional cash amount of EUR 9.00 for three shares of WESTGRUND AG. Based on the closing price of 13 February 2015, the offer corresponds to a price of around EUR 5.00 per WESTGRUND share. The new ADLER shares will be entitled to dividends as of 1 January 2015 and stem from a capital increase to be resolved by the Annual General Meeting.

The financing of the entire transaction is secured. The cash component will amount to maximum EUR 240 million and vary according to the quota of tendered shares. Liquidity is ensured through the banks' financing commitments.

The Management of ADLER AG expects the offer document to be approved by BaFin (the German Federal Financial Supervisory Authority) in April 2015 and that the tender period can begin at the beginning of May. With the entry of the capital increase in the Commercial Register in Frankfurt, the property will be transferred to ADLER AG and the share exchange and payment can be conducted at the beginning of July 2015.

On 15 January 2015, another increase in the above-mentioned bond 2014/2019 of EUR 100 million was carried out for EUR 30 million as part of a private placement. The corporate bond has a term until 1 April 2019 and has a coupon of 6.00 per cent p.a. The issue price was 102 per cent. Interest payments are semi-annual.

In October 2014, ADLER AG acquired the majority interest in Wohnungsbaugesellschaft Jade mbH in Wilhelmshaven by contract. The transaction was concluded on 30 January 2015. It was financed via a promissory note loan of EUR 164.0 million and the equity share was generated from the proceeds of the previously mentioned bond. The company has 6,705 residential and 42 commercial units.

12.9 Declaration of Conformity with the German Corporate Governance Code

The declaration of conformity of ADLER AG was last issued by the Management Board in February 2015. It is permanently available to shareholders at:

http://www.adler-ag.com/adler-ag/contao-2.11.7/index.php/entsprechenserklaerung.html

The declaration of conformity of ACCENTRO AG was last issued by the Company's Management Board in September 2014. It is permanently available to shareholders at:

http://www.accentro.ag/investor-relations/corporate-governance/entsprechenserklarung.html

Frankfurt am Main, 18 March 2015

Axel Harloff

Affirmation by the Legal Representative

“To the best of my knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, financial position, and results of operations of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.“

Frankfurt am Main/Germany, 18 March 2015

Harloff

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, statement of income and accumulated earnings, statement of shareholders‘ equity, cash flow statement and notes, as well as the consolidated management report for the financial year from 1 January to 31 December 2014. 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 § 315a (1) of the Commercial Code, is the responsibility of the legal representatives of the company. 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 legal representatives 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 § 315a (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, 18 March 2015

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Jens Lingthaler
Wirtschaftsprüfer

Dirk Heide
Wirtschaftsprüfer

At a glance

Supervisory Board	
Dr. Dirk Hoffmann	Chairman, Berlin/Germany
Thomas Katzuba von Urbisch	Vice Chairman, Monte Carlo/Monaco
Thilo Schmid	Blotzheim/France
Management Board	
Axel Harloff	Hamburg/Germany
Company Facts	
Registered Office Location	Frankfurt am Main, Germany, Registration No. AG Frankfurt HRB 7287
Business Address	ADLER Real Estate Aktiengesellschaft Gänsemarkt 50 20354 Hamburg/Germany Phone: +49 (0) 40/29 81 30–0 E-Mail: info@adler-ag.com
Website	www.adler-ag.com
Public Relations	german communications dbk ag Milchstraße 6b 20148 Hamburg/Germany Phone: +49 (0) 40/46 88 33–0 Fax.: +49 (0) 40/46 88 33–40 E-Mail: contact@german-communications.com
Investor Relations	Hillermann Consulting Poststraße 14–16 20354 Hamburg/Germany Phone: +49 (0) 40/32 02 79 10 Fax.: +49 (0) 40/32 02 79 114 E-Mail: office@hillermann-consulting.de
Subscribed Capital	EUR 31.876.672*
Classification	31.876.672* non-par shares
Arithmetical Value	EUR 1 per share
Voting detail	1 vote per share
Stock Details	31,876,672 non-par shares as at December 31, 2014 WKN 500 800 ISIN DE0005008007
	Ticker Symbol ADL Reuters ADLG.DE
Designated Sponsor	Oddo Seydler Bank AG
Stock Exchanges	Xetra, Frankfurt am Main
Indices	CDAX, DIMAX
Fiscal Year	Calendar year

* as at December 31, 2014

ADLER REAL ESTATE

Aktiengesellschaft
Frankfurt am Main

Business Address
Gänsemarkt 50
20354 Hamburg
Germany
Phone: +49 (40) 29 81 30 – 0
Fax: +49 (40) 29 81 30 – 99
E-Mail: info@adler-ag.com
www.adler-ag.com