



Q2/2016



Interim Report
First Half-Year of 2016

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

About ADLER Real Estate AG

ADLER Real Estate AG is one of Germany's leading property companies and improving its performance metres. In recent years, the company has grown rapidly by making acquisitions. ADLER owns c. 50,000 residential units. These are mostly located in Saxony, lower Saxony, North Rhine Westfalia and Berlin and offer affordable homes to tenants with medium to low incomes. Most of this portfolio will be held and managed on a permanent basis. To this end, ADLER has established a professional, central asset management department and is also developing proprietary property management companies that should manage the entire portfolio by the end of 2017. This way, ADLER is set to become an integrated property group offering its tenants all relevant services from a single source.

Via a group company, ADLER is also active in the privatisation market, i.e. in converting rented apartments into freehold apartments. By selling suitable holdings, the company can draw on market opportunities to the benefit of its liquidity and earnings position.

By acquiring individual portfolios and stakes in companies, ADLER exploits economies of scale and synergies. These involve pooling external services in order to optimise costs and adjusting internal structures. During 2016, central administration structures previously distributed across several locations are to be pooled in Berlin. To harmonise the company's organisational and legal structures, its legal domicile is also being transferred to Berlin.

ADLER is committed to generating value growth in the interests of its shareholders. With its stable financing structures and its SDAX listing, the company has built up a strong reputation on the capital markets.

Key Financial and Property Figures

In EUR'000	01.01.2016	01.01.2015
	– 30.06.2016	– 30.06.2015
Consolidated Statement of Income		
Rental income	83,921	51,740
Earnings from property lettings	60,974	39,244
Earnings from the sale of properties	16,523	2,544
EBIT	83,810	97,089
Consolidated net profit	31,751	56,481
FFO I	11,969	6,285
FFO I per share in EUR ¹⁾	0.21	0.14
FFO II	27,427	32,913
FFO II per share in EUR ¹⁾	0.48	0.71
Consolidated balance sheet	30.06.2016	31.12.2015
Investment properties	2,306,136	2,270,187
EPRA NAV	908,551	879,457
EPRA NAV per share in EUR ¹⁾	16.01	15.51
LTV (%) ²⁾	67.0	68.0
Cash flow	01.01.2016	01.01.2015
	– 30.06.2016	– 30.06.2015
Net cash flow from operating activities	57,197	22,877
Net cash flow from investing activities	12,716	-262,562
Net cash flow from financing activities	-51,551	302,942
Mitarbeiter	30.06.2016	31.12.2015
Number of employees	305	268
FTE's (Full-time-equivalents)	281	246

¹⁾ based on the number of shares outstanding at the reporting date plus shares on assumed conversion of mandatory convertible bonds

²⁾ excluding convertible bonds

Non-financial key figures – Portfolio	30.06.2016	30.06.2015
Number of rental units under management	51,248	48,484
thereof proprietary units in existing portfolio	47,909	45,581
thereof proprietary units for privatisation	1,585	1,700
Number of units sold	1,090	1,443
thereof privatised units	407	196
thereof non-core units sold	683	1,247
Contractually secured additional rental units ¹⁾	948	3,504
Occupancy rate in % ²⁾	88.9	88.5
Monthly in-place rent ³⁾ in EUR/m ²	4.98	4.89

¹⁾ transfer of benefits and obligations still outstanding at the reporting date

²⁾ property rental units

³⁾ in-place rent as at 30 June 2016, respectively 30 June 2015

Key Property Figures – Portfolio

Federal State	Rental units	Proportion of total portfolio in %	Total rental area in m ²	Proportion of total portfolio in %	Average rent ¹⁾ in EUR per m ²	Occupancy rate in %
as at 30.06.2016						
Lower Saxony	16,579	34.6	1,027,172	34.0	4.84	90.6
North Rhine Westphalia	9,508	19.8	655,408	21.7	5.07	90.3
Saxony	7,568	15.8	471,889	15.6	4.69	85.4
Brandenburg	3,683	7.7	225,085	7.5	4.74	87.5
Saxony-Anhalt	3,468	7.2	197,686	6.5	4.65	84.9
Thuringia	1,968	4.1	109,528	3.6	5.43	79.9
Berlin	1,690	3.5	110,959	3.7	5.58	98.7
Mecklenburg-Western-Pomerania	1,507	3.1	83,437	2.8	5.06	88.4
Schleswig-Holstein	686	1.4	38,238	1.3	5.93	91.8
Rhineland-Palatinate	595	1.2	39,157	1.3	6.89	93.0
Hesse	408	0.9	40,237	1.3	6.93	87.3
Bavaria	161	0.3	14,158	0.5	5.68	84.0
Bremen	48	0.1	2,377	0.1	5.18	97.6
Baden-Wurttemberg	40	0.1	2,987	0.1	7.84	77.5
Total	47,909	100.0	3,018,318	100.0	4.98	88.9

¹⁾ contract rents as at 30 June 2016

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Letter from the Management Board

Dear Sirs,

In the second quarter of 2016, we took a number of decisions concerning organisational and structural measures that will permanently change our company. It has become apparent that, following the rapid growth in recent years, we now have to consolidate our company and realign its overall structure. We have now done that. One already visible aspect of these changes is that, together with my new colleague on the Management Board, Sven-Christian Frank, I am now writing to you for the first time as Chief Executive Officer. Axel Harloff, my former colleague on the Management Board, left the company at his own request in June. This step was officially reported at the time and announced by Mr. Harloff himself in the first-quarter report. I would like to take this opportunity to express our sincere thanks once again for his longstanding work to build up the company.

What is not yet visible, but will nevertheless represent a far-reaching change, and one that you, our shareholders, approved with a large majority at this year's Annual General Meeting, is the decision to relocate our company's legal domicile from Frankfurt to Berlin. After all, this will also involve changes in the geographical and organisational structure of our Group. It is planned to bring together and pool core central functions in Berlin in the course of the year, thus bringing the Group's legal structure in line with its organisational structure. ACCENTRO Real Estate AG, which we took over in 2014, and Westgrund AG, acquired in 2015, already have their respective headquarters and central administration functions in Berlin, and this was one of the factors to be accounted for in our decision. In Frankfurt, however, only a small number of employees and functions remained after the realignment four years ago which in addition have become less significant in the context of our new business model. We have therefore decided to discontinue all of our activities in Frankfurt. We intend to maintain our Hamburg location though, which previously acted as our operative headquarters, but we will limit our activities here to those functions that do not necessarily require close proximity to headquarters. Once these measures have been implemented, ADLER will no longer be spread and split up over numerous locations but will largely become one effective unit with its legal domicile and headquarters in Berlin.

In recent years, the target of generating growth was one of our top priorities. That was the right strategy. After all, in our sector size also brings economies of scale. It is, however, difficult to put these benefits to extensive use during periods of rapid growth, as the management's attention is largely absorbed by activities relating to the acquisition and financing of new portfolios or companies. But in 2016 we are focusing more closely on our operating business and especially on our costs. We aim to reduce our cost structures with a range of measures including integrating various IT systems, exploiting savings and synergies at our group companies, refinancing those parts of our debt capital that have comparatively high interest rates and numerous individual operating measures. In all, we expect to be able to save around EUR 11 million, although the full extent of these savings will only be realised in 2017.

If, as we have, a company grows rapidly by making acquisitions, then it automatically also acquires some portfolios in which not all of the holdings are 100 percent consistent with its own business model. It is then necessary to dispose of such properties. That is onerous, but is a natural part of the business. We have thoroughly reviewed our entire portfolio and identified around 4,600 units as "non-core", i.e. as not belonging to our core portfolio. Of these, we were able to dispose of 613 units by the middle of the year and the remaining units will be sold at the earliest opportunity. As these units involve holdings with above-average vacancy rates and below-average rents, their disposal simultaneously boosts the earnings power of the remaining portfolio.

The tasks of optimising the portfolio and managing the property holdings are performed by the Group's own Asset Management department. This is another area that we have reorganised. Previously, asset management formed part of the various companies that ADLER had taken over. Since midyear, however, asset management has been centrally pooled at the Group and has a uniform structure in which the responsibility of individual teams is distributed on a regional basis. This step has created a centralised structure out of decentralised components and replaced the previous parallel operations of different units with group-wide asset management from a single source.

We also intend to expand the Group's in-house property management, which currently looks after just over a quarter of the Group's residential properties. This measure can nevertheless only be implemented gradually and is expected to take until the end of 2017. By then, however, all of our property holdings should be managed by internal group employees. That will provide us with greater proximity to our customers and an improved understanding of local markets, as well as reducing the number of interfaces to external service providers. Once we have managed this, we will be an integrated Group able to offer tenants the whole range of services they expect from their landlord. We expect this to lead to greater customer satisfaction and a further reduction in tenant fluctuation rates, which after all always create costs and lead to periods of vacancy. Furthermore, we intend to enhance the performance of our rental business through an investment programme also adopted as part of the overall package of measures. In addition to regular maintenance measures, over the next 18 months we intend to renovate 1,500 currently vacant residential units in order to make them marketable once again. The funds of around EUR 15 million required for this measure will certainly be well invested. We will then not only generate additional rental income but also be relieved of the vacancy-related expenses we currently have to bear.

Shortly after the end of the first half, we secured the financial means to implement key parts of this programme by issuing a convertible bond with a placement volume of almost EUR 140 million. We aim to use nearly half of this sum to repay liabilities for which we previously had to pay comparatively high interest. This way, we are reducing our interest charge in absolute terms and also the weighted average cost of debt. We intend to use around one third of the new funds to make smaller-scale acquisitions and for the aforementioned investment programme. The rest of the funds will be available for general business purposes.

In summary, you can see that we made numerous changes in the second part of the half-year reporting period. These measures will be significant for the further development of our company. Beyond that, it should not be forgotten that we also posted a successful business performance for the first half of the year. The development in rental income and in FFO is well on target which had been set for significant growth as the income from those residential properties acquired in the course of the previous year is now fully reflected in the income statement for the first time. Key operating figures also improved, with the occupancy rate

and average rent increasing in line with expectations. What's more, our net asset value, which reflects the intrinsic value of our company and ultimately the value of your shares, also increased as a result.

Our performance in the first half of the year gives us reason to be confident that we will ultimately also achieve the targets already published for the current 2016 financial year, the most important of which are: raising our gross rental income by around 20 percent, increasing our FFO by more than 50 percent and improving our NAV by more than 10 percent.

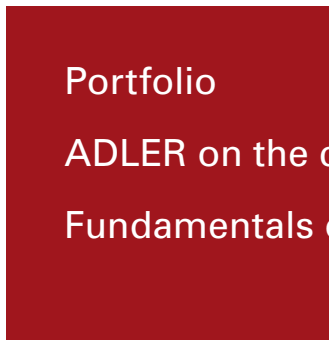
Yours faithfully,



Arndt Krien
CEO



Sven-Christian Frank
COO



Portfolio

ADLER on the capital market

Fundamentals of ADLER Real Estate AG Group



Portfolio

Active portfolio management

Numerous factors influence the development in the value of properties. Maintenance, renovation and modernisation work help preserve or improve a property's substance and residential value. Its attractiveness and value nevertheless also depend on external factors, such as socio-demographic trends, changes in demand and all kinds of infrastructure measures, as well as on political decisions, such as interventions in rent pricing, the tax treatment of properties and measures to promote new construction activity.

As a holder of residential property portfolios, ADLER Real Estate AG takes due account of all these factors when acquiring new portfolios, and also when reviewing its existing property holdings for portfolio management purposes. Individual properties are initially evaluated in terms of their inherent quality, i.e. to determine the volume of maintenance or renovation expenses required to ensure living quality consistent with market standards. External market and location factors are then accounted for as a second assessment criterion.

Properties of good quality and located in attractive macro-environments form the core portfolio and generally generate a stable cash flow. Properties of low quality and located in unattractive macro-environments are classified as "non-core", i.e. are the first candidates for sale. The Asset Management department deals with all other properties in the ways appropriate to each case, such as increased marketing when the property is of good quality but its location factors are less favourable, or by investing in the property when the location factors are good, but the property itself is not.

Regular portfolio reviews are a prerequisite to ensure that the right measures are taken to preserve and enhance the value of the overall portfolio. Typically, this means that the portfolio is constantly changing. New property portfolios are added and parts of existing portfolios sold when from a portfolio management perspective there is no longer any prospect of generating an adequate return.

Slight reduction in residential portfolio in first half

Consistent with the above considerations, properties were also acquired and sold in the first half of 2016. Smaller portfolio acquisitions, particularly in Berlin, expanded the overall portfolio by 156 units. Conversely, ADLER sold 1,090 units, which included 683 of the total of around 4,600 units identified as "non-core".

Disposals in the Rental segment are to be viewed separately from activities in the Trading segment, which are mainly operated by the group company AC-CENTRO AG. Portfolios here are only held on a temporary basis and are from the very outset earmarked for sale at a later date. In the context of these privatisations, a total of 407 rental units/properties were sold from proprietary holdings and on behalf of third parties in the first half of 2016.

Mid of the year 2016 a total of 47,909 units have been classified as properties to be held on an ongoing basis. These properties are recognised under non-current assets. A total of 1,585 units are earmarked for sale.

Portfolio	30.06.2016	31.12.2015		
		Divest- ments	Additions	
Rental portfolio	47,909	683	374 ¹⁾	48,218
Of which residential units	46,801	661	364	47,098
Of which commercial units	1,108	22	10	1,120
Units for privatisation	1,585	407	58	1,934

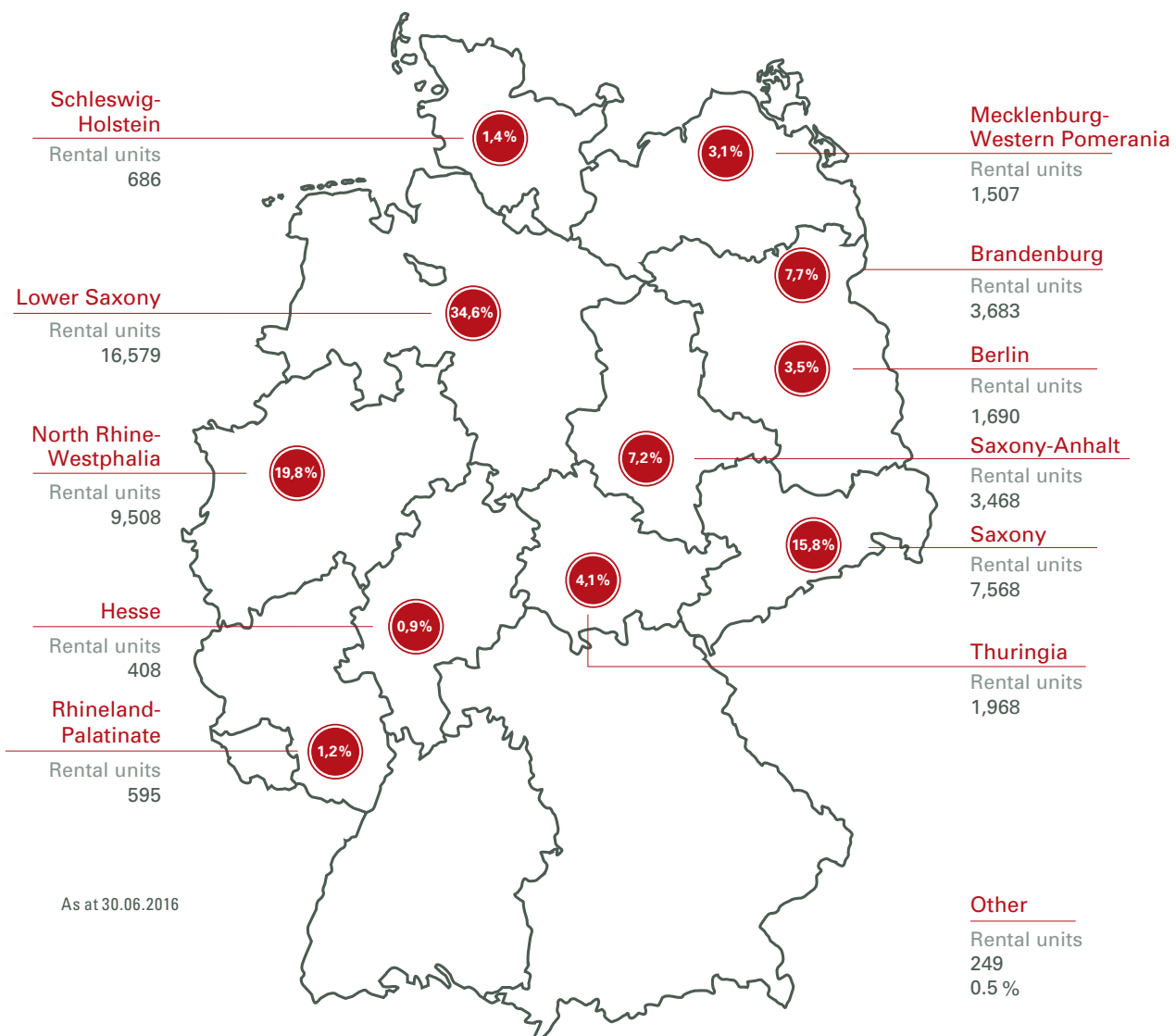
¹⁾ of which 156 units acquired, remaining units from own project development/rededication of use et al.

Focus on residential properties

ADLER sees itself as a provider of rental apartments. Consistent with this objective, the 46,801 rental units make up 97.7 percent of the properties not held for trading. The overall portfolio nevertheless also includes a small share of commercial units, mainly because some of the residential properties also include stores or offices. In mid-2016, the company held 1,108 such units, which thus accounted for a 2.3 percent share of its overall portfolio. Commercial lettings therefore only play a subordinate role in the overall business.

Clusters in north western Germany

The first six months brought only a slight change in the regional distribution of the company's property portfolio. ADLER continues to hold the largest share of its properties in Lower Saxony (34.6 percent of the overall portfolio) and in North Rhine-Westphalia (19.8 percent). The overall portfolio nevertheless remains widely distributed across Germany. ADLER believes that this diversification is appropriate from a risk perspective.

TOTAL RESIDENTIAL PROPERTY PORTFOLIO, DISTRIBUTION BY FEDERAL STATE

Rental units As at 30.06.2016	Residen- tial units	Commer- cial units	Residential and Commercial units	Proportion in %
Lower Saxony	16,454	125	16,579	34.6
North Rhine Westphalia	9,226	282	9,508	19.8
Saxony	7,334	234	7,568	15.8
Brandenburg	3,626	57	3,683	7.7
Saxony-Anhalt	3,356	112	3,468	7.2
Thuringia	1,938	30	1,968	4.1
Berlin	1,661	29	1,690	3.5
Mecklenburg-Western- Pomerania	1,476	31	1,507	3.1
Schleswig-Holstein	650	36	686	1.4
Rhineland-Palatinate	530	65	595	1.2
Hesse	339	69	408	0.9
Bavaria	132	29	161	0.3
Bremen	48	0	48	0.1
Baden-Wuerttemberg	31	9	40	0.1
Total	46,801	1,108	47,909	100

**Alignment towards
small to medium-sized
residential units**

The residential portfolio held by ADLER Real Estate AG largely comprises small to medium-sized residential units. The apartments have an average size of slightly more than 60 square meters. The portfolio is therefore aligned to the needs of the company's target group, namely tenants with medium to low incomes. ADLER also sees this alignment as economically expedient. Its properties meet the trend observed for some time now towards an ongoing increase in the number of single-person households in Germany, and in spite of the decline in the country's overall population. Moreover, the risk of tenants with low incomes defaulting on their rent payments is reduced as they can obtain support from social security providers in case they should be unable to settle their obligations from their own incomes. Not least, this category of affordable living space is now in the sights of municipal and local councils in their search of permanent homes for refugees. At midyear, a total of around 600 apartments from the overall portfolio were let to people who have come to Germany to seek asylum.

**Slight increase in average
rent in Rental portfolio**

As of the reporting date, ADLER generate an average rent of EUR 4.98 per square meter and month from the actual residential portfolio. In the middle of the previous year, the contractually agreed rent for the residential units let out amounted to EUR 4.89. Year-on-year, average rent therefore increased by EUR 0.09 per square meter and month, or by 1.8 percent.

Apartment size ¹⁾	Number of units	Percent of total portfolio	Rent/sqm/month in EUR
< 45 qm	6,524	13.9	5.65
>= 45 and < 60 qm	15,889	34.0	4.86
>= 60 and < 75 qm	16,507	35.3	4.89
>= 75 and < 90 qm	6,113	13.0	4.87
> 90 qm	1,768	3.8	4.81
Total residential	46,801	100	ø 4.93

¹⁾ disclosures refer exclusively to residential units let out

As of 30 June 2016, 90.0 percent of the residential units were let out. The occupancy rate therefore rose by 1.5 percent compared with the equivalent date in the previous year and by 1.2 percentage points compared with the end of 2015, with a corresponding reduction in vacancy rates. Expressed in absolute figures, this means that while 4,783 residential units were vacant at the beginning of the year, by the end of June this figure had been reduced to 4,703 units.

High occupancy rate

At 47,909, the number of residential and commercial units at the end of June 2016 was 0.6 percent lower than at the end of 2015. The market value of the portfolio calculated in accordance with IFRS nevertheless rose slightly by the middle of the year and amounted to EUR 2,306 million (31 December 2015: EUR 2,271 million). This value growth was chiefly due to rental adjustments already implemented or still expected. In many cases, these were linked to investment measures aimed at improving living quality, renovation work, refurbishments to enhance energy efficiency, or cosmetic repairs. ADLER spent a total of EUR 19.3 million on maintenance and modernisation work in the first half of 2016 (previous year: EUR 10.3 million).

Market value of Rental portfolio changes

The measures taken to maintain or enhance the value of properties are closely linked to the company's aim of increasing tenant satisfaction and thus keeping the tenant turnover rate as low as possible. To improve its direct contact with tenants, ADLER is taking targeted measures to expand its in-house property and facility management activities. At present, these tasks are mainly performed by the two group companies WBG GmbH in Helmstedt and Wohnungsbau-gesellschaft JADE mbH, Wilhelmshaven, and their subsidiaries. This makes it possible to communicate with customers easily, rather than having to deal with go-betweens. By the end of 2017, all of the Group's property and facility management activities should be performed by proprietary group companies.

Customer orientation with in-house property and facility management

ADLER on the capital market

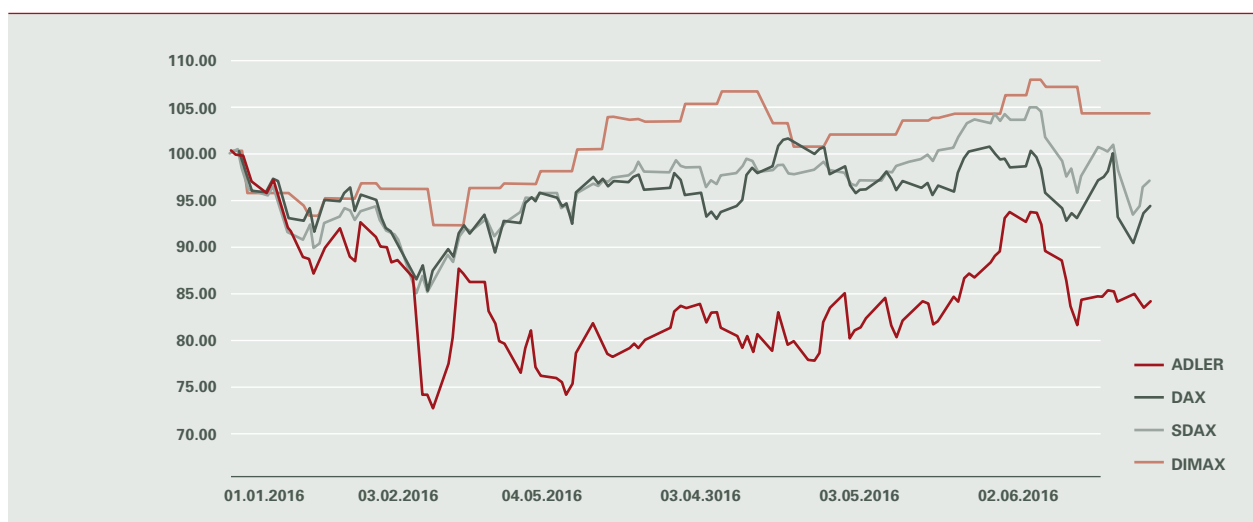
Real estate stocks outperform overall market

The German stock market did not move in any clear direction in the first half of the year. Both the DAX and the SDAX – the index in which ADLER has been listed for more than a year – fell substantially in the first two months of the year, made up for these losses by the end of May, and then lost ground once again in June. Particularly sharp losses were seen in the wake of the referendum in which a majority of the British people expressed their preference for “Brexit”, i.e. for the UK’s exit from the European Union. Over the first half of the year as a whole, both indices lost value, with the DAX falling around 6 percent, and thus even more sharply than the SDAX, which lost 2 percent of its value compared with the beginning of the year.

Real estate stocks, by contrast, were valued more highly in mid-2016 than at the beginning of the year. The E&G DIMAX index, which comprises the main publicly listed property companies in Germany, gained more than 9 percent in value in the first six months of the year. On average, real estate stocks therefore continued to perform positively. This value growth can be seen as a reflection of increasing demand for German real estate stocks now seen from foreign investors as well. Interest in real estate stocks has also been boosted by a market climate in which other forms of investment generate negative returns and in which property is therefore seen as comparatively stable in value.

ADLER’s shares were unable to maintain the value at which they began the year. At midyear, the company’s share price was more than 18 percent lower than compared to ADL share high point. Following the period of strong growth in recent years, it would appear that the capital markets are now seeking orientation to measure the company in accordance with its new business policy focusing temporarily on consolidation.

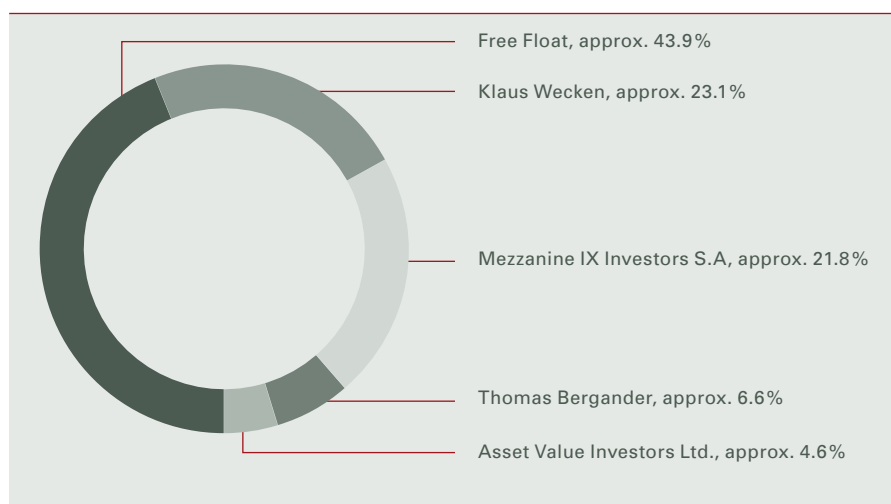
ADLER Real Estate AGshare, DAX, SDAX and DIMAX since January 2016 | January 2016 = 100



The volume of outstanding shares changed only slightly in the first half of the year, rising from 46,103,237 to 46,128,205 due to the conversion of existing convertible bonds. Based on the notifications ADLER received from shareholders, the shareholder structure as of 30 June 2016 was as follows:

**Number of shares
virtually unchanged**

Shareholder Structure on 30 Juni 2016



Fundamentals of ADLER Real Estate AG Group

BUSINESS MODEL The business model of ADLER Real Estate AG comprises two fields of activity – Rental and Trading. The company's segment reporting is structured accordingly.

The Rental segment portrays the activities of the Group's central Asset Management department, which administers residential units held in the portfolio in technical and commercial terms. It also manages individual property management companies on location by way of service agreements. ADLER nevertheless also maintains two companies that perform property and facility management for residential portfolios with their own capacities. ADLER intends to expand this section of the value chain in future and fully integrate it into the Group by the end of 2017.

The Trading segment is largely managed and directed by a standalone group company, ACCENTRO Real Estate AG.

In terms of its personnel structures, ADLER restricts itself – apart from its property management companies – to asset management and to central group functions such as controlling, accounting and financing. Correspondingly, the number of group employees is low and the company's structure lean.

Rental All activities relating to the management of properties due to be retained in the portfolio on a permanent basis are pooled in the Rental segment and relate almost exclusively to residential units. The portfolio has been built up over the past four years by acquiring individual portfolios or shares in property companies. It is regularly reviewed, adjusted in line with earnings and value considerations, and developed further. With a portfolio of around 50,000 units, ADLER is now one of Germany's five major publicly listed property companies. ADLER intends to expand this portfolio further through acquisitions.

As hitherto, ADLER focusses its investments on residential property portfolios in B locations and on the outskirts of large conurbations. When suitable market opportunities arise, however, ADLER also invests in so-called A cities such as Berlin in order to benefit from value growth in these markets. Either way, ADLER deems acquisitions worthwhile only when the properties promise to generate immediate positive cash flows.

The apartments in ADLER's portfolio have an average size of around 60 m² and have two or three main rooms. The average monthly rent amounts to EUR 4.98 per square meter. ADLER thus operates in a market segment focusing on people with medium to below-average incomes. ADLER offers decent living quality at appropriate market prices to this target group, which is growing due to prevalent demographic and socio-economic trends (ageing society, more single-person households) and will be further boosted by the high number of immigrants.

Operations in the Trading segment involve the purchase and sale of residential properties and individual apartments. At the ADLER Group, this segment is primarily covered by the majority interest in the listed company ACCENTRO Real Estate AG (formerly: ESTAVIS AG). ACCENTRO markets suitable residential properties and individual apartments from the ADLER Group and also on behalf of third parties to owner-occupiers and capital investors in Germany and abroad. According to its own assessment, ACCENTRO is Germany's largest privatiser of residential property.

Trading

Residential properties that are suitable for privatisation are regularly acquired for the Trading segment. As they are intended for sale, these properties are then only held for short periods. Given that the Trading segment accords priority to marketability factors, ACCENTRO does not automatically target the same locations as those favoured in the Rental business, but consciously also includes properties in A cities in its target portfolio.

In the interests of all stakeholders in the company, ADLER Real Estate AG bases its decisions on the target of sustainably increasing the company's value. All aspects of the corporate strategy are aligned towards this objective. The company's value is measured by reference to net asset value (NAV) as defined by the European Public Real Estate Association (EPRA).

Targets and strategies

The value of the property portfolio contained in the Rental segment can mainly be increased by achieving the highest possible income from letting activities and ensuring that this income remains stable over time. The objective of asset management is therefore to raise occupancy rates and rental income. Value growth can also be generated by expanding the existing portfolio and exploiting corresponding benefits of scale or by changing and optimising the existing portfolio in order to identify and sell those assets less likely to retain their value.

Strategy for the Rental segment

When the portfolios are extended by way of acquisitions, earnings power can be boosted by exploiting economies of scale, as certain fixed costs can then be distributed across a larger portfolio with a corresponding reduction in the absolute charge per individual unit. Costs can also be reduced and the efficiency of the property management enhanced by bundling services of external service providers or by centralising and pooling tasks within the Group. Once the Group has achieved a new dimension by making acquisitions, this also improves its access to the capital market and thus also its financing terms. The key focus in optimising the existing portfolio involves identifying those properties that are only able to make below-average contributions to the Group's overall income due to their location or their inherent qualities. Once these are sold, this automatically boosts the earnings power of the remaining portfolio.

As a general rule, the existing portfolios are managed by the Asset Management department, which was reorganised in mid-2016 and provided with a centralised structure at the company's location in Berlin. Asset Management takes measures to reduce vacancy rates, exploit opportunities to increase rents, and maintain or enhance the portfolio's rental capacity – for example by implementing maintenance or modernisation measures. High residential value makes the apartments attractive and thus easier to let out. It goes without saying that the Asset Management department always takes due account of the costs and benefits of individual measures.

**Strategy for the
Trading segment**

In its Trading segment, ADLER creates value by generating the highest possible return on its purchases and sales of residential properties and individual apartments. ACCENTRO Real Estate AG, the group subsidiary responsible for this business field, draws in some cases on properties from within the portfolio of the ADLER Group and partly on properties specifically acquired for trading. ADLER has built up a sufficiently large portfolio of properties earmarked for privatisation in order to generate as consistent a stream of income as possible and thus not to have to rely on opportunistic sales.

Financing strategy

Due to economic efficiency and risk considerations, ADLER believes that the appropriate ratio of equity to debt for financing its group activities is one that produces a loan-to-value (LTV) figure of below 60 percent. This automatically makes it necessary to finance future acquisitions at corresponding ratios. In terms of its debt financing, ADLER aims to achieve as homogenous a maturity structure as possible over time. By refinancing existing facilities on more favourable terms, ADLER also aims to reduce its weighted average cost of debt.

Economic success sometimes depends on the company's own speed of reaction. To be able to react to any market opportunities at short notice, ADLER has access to authorised and conditional capital, both of which approved by shareholders, that can be drawn on at any time to make acquisitions.

Acquisition strategy

To firmly establish itself as a major residential property player in Germany, ADLER aims to generate growth by making acquisitions in future as well. Size is not an end in itself, but rather a means to enhance profitability by drawing on economies of scale and efficiency gains.

New portfolios for the Rental segment should be consistent with the existing business model, or supplement it in a meaningful way. They should also be expected to generate positive cash flows immediately after acquisition. New portfolios for the Trading segment have to be suitable for resale or privatisation.

ADLER is able to take acquisition decisions at short notice and can offer sellers a high degree of transaction reliability.

Acquisition-driven growth is not at the top of the Group's list of priorities for 2016. In the current year, greater weight is being accorded to consolidating the acquisitions made in recent years, reorganising existing property portfolios and adapting the company's structures to its newly attained size.

The financial performance indicators used by ADLER are typical for the real estate sector: the net asset value (NAV) to indicate the company's value, funds from operations I (FFO I) to indicate cash flow-based operating earnings in the Rental segment, funds from operations II (FFO II) to indicate cash flow-based operating earnings in both segments and loan-to-value (LTV) to indicate financial stability.

In the Rental segment, greater priority is accorded to key figures based on the cash flow, as this corresponds to the target of generating sustainable inflows of cash from lettings. The Trading segment, by contrast, focuses more closely on earnings before interest and taxes (EBIT) and thus on its contribution to the Group's overall earnings.

Numerous non-financial performance indicators are regularly monitored within the Group's property management activities. This applies both to the Group's own property management and to the external service providers with which ADLER still expects to work together through to the end of 2017. Among others, these indicators include the occupancy rate, the number of contract termination notices received from tenants, the number of new rental agreements, compliance with time schedules for maintenance measures, the availability of property managers and so forth. Should actual figures deviate from budget figures for a longer period of time, corrective measures are devised.

Non-financial performance indicators also play a major role upon the acquisition of new property portfolios. After all, the potential development in the value of a property also depends on factors such as changes in infrastructure, expected demographic developments and potential changes in regional labour markets. An awareness or assessment of these key figures is factored into all decisions concerning the acquisition of properties or property portfolios.

MANAGEMENT SYSTEM

Financial performance indicators

Non-financial performance indicators

EMPLOYEES As the group holding company, ADLER Real Estate AG has two Management Board members, but no proprietary employees. Operative tasks relating to asset management and central administration for the Group are mostly performed via the wholly-owned subsidiary ADLER Real Estate Service GmbH. Employees at this company are deployed to perform various tasks at the respective project companies on a flexible basis and in line with their individual skills. At the reporting date for the period under report, ADLER had a total of 305 full-time and part-time employees. Most of these worked on behalf of group companies operating in the fields of property and facility management.

RESEARCH AND DEVELOPMENT As a property group, ADLER Real Estate AG does not perform research and development in a traditional sense. Ongoing market analyses, however, are needed to assess future developments in housing markets. Here, ADLER draws on assessments compiled by estate agents' associations, federal authorities, specialist research institutes, and bank research departments, as well as on its own experience arising from letting properties in different locations. Moreover, the various developments in the construction sector and in building technology as well as any changes in regulatory requirements also have to be monitored and analysed. The insights gained from these analyses form an important basis for all of the company's operating activities.



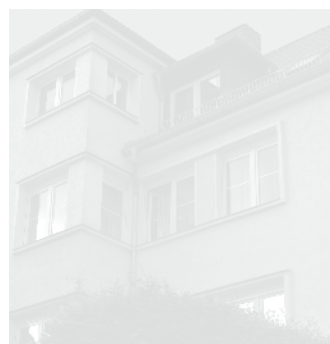
Economic report

Report on Risks and Opportunities

Report on events after the balance sheet date

Report on expected developments

Results from operations, Net assets, Financial position



Economic report

MACROECONOMIC AND SECTOR-SPECIFIC SETTINGS

The macroeconomic and sector-specific settings remained stable in the first six months of the current financial year and proved to be positive for the property sector. Based on the data and estimates available to date, German gross domestic product is growing at the expected rate of just over 1.5 percent. Due to the ongoing high level of employment, low inflation rate and the resultant increase in purchasing power among large sections of the population, private consumer spending has even shown slightly stronger growth. Interest rates remain persistently low and there are no signs of any turnaround in interest rate policy in the immediate future. The UK referendum on "Brexit" may have implications for the medium-term outlook, but has not yet had any immediate impact on current economic developments.

In a climate of low interest rates, property is one investment category that has remained in demand, even if transaction volumes in the current year are not expected to match the previous year's figure, which benefited from numerous takeovers. According to the Cost of Living Index, rents across Germany have risen at a stable rate of 1.1 percent in the year to date. As is always the case with averages, however, this figure conceals a variety of developments in individual regions, with differences between urban and rural areas, new and older housing, and different sizes of property.

ECONOMIC DEVELOPMENT OF THE GROUP

Following its successful steps to generate growth in previous years, in the first six months of the current financial year ADLER Real Estate AG concentrated on reorganising its group structures and adapting these to the new requirements arising in the wake of the acquisitions made. In line with the relocation of the company's headquarters, which was approved by the Annual General Meeting, the Group's most important central functions are also being pooled in Berlin.

At the same time a key focus lay on the operating business in the first half of the year. This is reflected not only in rising occupancy rates and a higher average rent but also in the decisions taken to centralise asset management and gradually insource the company's property management.

Although extensive acquisitions were not on the agenda, in March the company acquired a small portfolio with 156 units in good residential areas in Berlin. Overall, however, the number of residential units decreased in the first half of the year. This was due to the sale of 1,090 residential units in the course of disposing of historic holdings and portfolio streamlining measures.

In March, the Supervisory Board Chairman, Dr. Dirk Hoffmann, was elected to the Administrative Board of convert Immobilien Invest SE, in which ADLER holds a 22.4 percent stake. ADLER is thus now involved in the company's decision-making processes for the first time. ADLER expects this decision to enable the two companies to better exploit their scope of cooperation.

ACCENTRO, the group company focusing on the privatisation of residential properties, sold 407 apartments in the first half of the year, and thus significantly more than in the previous year (112 units). Over the same period, the company newly acquired 58 apartments in Berlin and thus partly restocked its holdings.

At the beginning of July, and thus shortly after the end of the period under report, the company successfully placed a convertible bond with a placement volume of EUR 137.9 million. This means that funds have been secured to finance part of the package of measures aimed at boosting the company's earnings power, such as the redemption of financing instruments with higher interest rates and the renovation of 1,500 residential units that are currently vacant and should thus be made marketable once again.

Report on Risks and Opportunities

ADLER Real Estate AG reported in detail on the risks and opportunities involved in its business activities in its 2015 Annual Report. The only material item to be added to this information is the fact that the convertible bond successfully placed after the end of the first half of the year has opened up the possibility of refinancing existing liabilities with higher interest rates and thus of reducing the future interest charge.

At the same time, the convertible bond offers financial security for all measures planned in connection with the structural and organisational change as well as for all of the investments planned for existing properties in order to increase the occupancy rate.

The decision in favour of "Brexit", i.e. the UK's exit from the European Union, by the British electorate involves a variety of risks mostly of a macroeconomic nature, some of which will nevertheless only materialise once it is clear whether

and on what terms this exit actually occurs. Should the uncertainty presently surrounding the future course of the British government result in interest rates remaining at their current low levels for longer than would have been the case without a referendum, then this would represent a thoroughly positive scenario for the property sector.

At the end of March, Dr. Dirk Hoffmann, Supervisory Board Chairman of ADLER Real Estate AG, was appointed to the Administrative Board of conwert Immobilien Invest SE, in which ADLER holds a 22.4 percent stake. The previous risk of ADLER, as its largest individual shareholder, being unable to influence the decisions of this company in its own interest has therefore decreased.

The management has not detected any risks to the company's continued existence, neither are any such risks discernible for the future.

Report on expected developments

The statements made concerning the expected development in key financial figures in the 2016 financial year are based on current planning at ADLER Real Estate AG. This planning covers all group companies.

FFO II guidance for 2016 increased

ADLER Real Estate AG expects the overall macroeconomic settings to remain favourable for companies operating in the property sector in 2016. Macroeconomic developments in Germany would appear to be robust, with most economic researchers still viewing GDP growth of between one and two percent as realistic. The spring survey issued by economic research institutes, i.e. the joint forecast of Germany's leading economic researchers, forecast growth of 1.6 percent. Private consumer spending is forecast to grow by around two percent, with the economic research institutes predicting growth of 2.1 percent in their spring survey.

At the same time, interest rates are expected to remain persistently low in 2016 as well. This gives reason to expect that property will continue to be in great demand as an investment category in Germany. As living space will remain scarce due to ongoing immigration and the long lead times involved in new construction projects, rents can also be expected to continue rising. The macroeconomic climate will therefore remain favourable for companies operating in the property sector, a situation that should also not be affected by the now likely forthcoming exit of the UK from the European Union.

Upon the publication of its annual financial statements at the end of April, ADLER issued an outlook for 2016 that provided for 20 percent growth in gross rental

income, an increase in FFO I of 55 percent, an increase in FFO II to more than EUR 45 million, an improvement in NAV by 10 percent and a reduction in LTV to around 65 percent. The company's business performance in the first six months affirms the management's decision to uphold this forecast with the exception of FFO II. The forecast of FFO II has been stepped up by roughly 20 percent to an amount of around EUR 55 million. The major reason for this upgrade: At the beginning of August, ACCENTRO Real Estate AG successfully sold a portfolio of 419 centrally located apartments in Berlin, thus generating an earnings contribution of around EUR 10 million after taxes. The proceeds from this deal had not been taken into account in the original forecast.

Report on events after the balance sheet date

After the end of the period under report, ADLER successfully placed a convertible bond with a placement volume of EUR 137.9 million, taking due account of the subscription rights of shareholders and the bearers of existing convertible bonds. This convertible bond has a five-year term, an initial conversion price of EUR 13.79, and an interest rate of 2.5 percent and was issued at 95 percent of the conversion price. ADLER intends to use the funds to refinance existing liabilities with higher interest rates, to acquire smaller-scale portfolios and for general business purposes.

Via its subsidiary MountainPeak Trading Limited, ADLER Real Estate AG concluded an option agreement with Petrus Advisors Investment Fnds L.P. in mid-July that entitles it until mid-September 2016 to acquire up to 6 million shares in conwert Immobilien Invest SE from Petrus Advisors. The agreed price is consistent with the share price at the time of the agreement being concluded. The transaction is subject to approval by the Austrian and German competition authorities. If the options are exercised, ADLER's stake in conwert may increase to up to 28.7 percent. In this case, the acquisition will be financed by a bank loan for which the indicative terms have already been agreed.

At the beginning of August, ACCENTRO Real Estate AG successfully sold a portfolio of 419 centrally located apartments in Berlin, thus generating an earnings contribution of around EUR 10 million after taxes. This transaction will provide the company with liquid funds of more than EUR 30 million, which are to be re-invested in the further development of the privatisation portfolio.

No other events that could materially impact on the earnings, asset or financial position of ADLER Real Estate AG occurred between the end of the period under report and the editorial deadline for this report.

Results from operations, net assets and financial position

RESULTS FROM OPERATIONS

ADLER Real Estate AG generates its revenues from two main activities – property management and property sales. Its business model is based on these activities, which are correspondingly reflected in the statement of comprehensive income and the segment report.

In EUR million	1. Half-year 2016	1. Half-year 2015
Gross rental income	130.8	80.9
of which net rental income	83.9	51.7
Expenses from property lettings	-69.8	-41.6
Earnings from property lettings	61.0	39.3
Income from the sale of properties	69.3	117.2
Expenses from the sale of properties	-52.8	-98.9
Earnings from the sale of properties	16.5	18.3
Personnel expenses	-8.9	-5.5
Other operating income	3.4	46.3
Other operating expenses	-13.4	-11.4
Income from measurement of investment properties	25.8	10.6
Depreciation and amortisation	-0.6	-0.5
Earnings before interest and taxes (EBIT)	83.8	97.1
Net income from at-equity valued investment associates	10.9	-0.4
Financial result	-48.6	-34.9
Earnings before taxes (EBT)	46.1	61.8
Consolidated net profit for first half	31.8	56.5

Income and earnings from property lettings rise by more than half

Gross rental income, predominantly comprising income from property lettings, reached EUR 130.8 million in the first half of 2016. This represents a year-on-year increase of 61.7 percent. This marked growth was mainly due to the expansion in property holdings as a result of the acquisitions made in the previous year.

Gross rental income nevertheless also benefited from the further improvement in our property management performance indicators. At the middle of 2016, the average rent per square metre per months amounted to EUR 4.98, EUR 0.09 higher than the previous year's equivalent figure.

Net of expenses from property lettings, which developed roughly in parallel with the volume of property holdings, earnings from property lettings totalled EUR 61.0 million in the first half of 2016 and rose by 55.2 percent compared with the previous year's period (EUR 39.3 million).

**Disposal of
non-core properties
initiated**

ADLER Real Estate AG generated earnings of EUR 16.5 million from the sale of properties in the first half of 2016. This figure thus fell only slightly of the equivalent figure for the previous year (EUR 18.3 million). These earnings resulted from the sale of a total of 1,090 properties, of which 407 units previously among inventory properties at the group subsidiary ACCENTRO. A total of 683 units were attributable to holdings identified as "non-core" at various of the Group's property companies. These units, which the ADLER Group intends to dispose of in the medium term, thus representing the extent to which the portfolio streamlining process has progressed.

These figures do not include further sales of 948 non-core units that are contractually secured but for which the risks and rewards had not yet been transferred at midyear.

At EUR 25.8 million, income from the measurement of investment properties in the first half of 2016 was significantly higher than the equivalent previous year's figure (EUR 10.6 million). This measurement gain reflects the improved utilisation rates and slight increase in average rents, as well as measures taken to maintain the value of the properties, which amounted to EUR 19.3 million in the first half of the year (previous year: EUR 10.3 million).

**Higher income from
measurement of proper-
ties, lower other operating
income, growth-related
increase in operating ex-
penses**

At EUR 3.4 million, the other operating income reported for the first half of 2016 was substantially lower than in the previous year. In 2015, this item had reached EUR 46.3 million due to a non-recurring item. Upon the acquisition of Wohnungsbaugesellschaft JADE mbH, goodwill of EUR 42.3 million was identified and directly recognised through profit or loss, whereas no comparable income was generated in 2016.

The various expense items have increased due to the company's growth triggered by its takeovers of Wohnungsbaugesellschaft JADE mbH in February and Westgrund AG at the end of June 2015. Personnel expenses for the first six months of the current financial year came to EUR 8.9 million (previous year: EUR 5.5 million), while other operating expenses amounted to EUR 13.4 million (previous year: EUR 11.4 million).

Significant growth in adjusted EBITDA

After the deduction of all non-financial expenses, earnings before interest and taxes (EBIT) for the first six months of the current financial year came to EUR 83.8 million in the first six months. The equivalent figure for the previous year was significantly higher at EUR 97.1 million. This reduction was mainly due to the non-recurring, non-cash earnings item already referred to in connection with the JADE acquisition, which massively boosted earnings in the previous year. A comparison of the earnings figures for the two periods adjusted for non-recurring and extraordinary items therefore shows a different picture (please see FFO table): adjusted EBITDA for the first half of 2016 amounted to EUR 65.1 million and thus significantly exceeded the previous year's figure (EUR 49.2 million).

Financial result changes in line with Group's growth

At minus EUR 48.6 million, the financial result for the first half of 2016 was substantially lower than the equivalent figure for the previous year (EUR 34.9 million). This was due on the one hand to the fact that the takeover of Westgrund AG automatically involved assuming that company's liabilities and associated interest obligations. The other reason for the increase in interest expenses was that in the first half of 2016 ADLER incurred the interest charge on all the liabilities taken up during the previous year. In the previous year, these expenses had only been incurred on a prorated basis or, in the case of new financing facilities taken up in the second half of the year, not at all.

ADLER received a substantial, non-operating earnings contribution from the shareholding it has held since August 2015 in the Austrian company convert Immobilien Invest SE. The value growth in this shareholding is reflected in the liquidity related income from investments accounted for using the equity method, which totalled EUR 10.9 million in the first half of the year.

Net of the financial result and income from investments accounted for using the equity method, earnings before taxes (EBT) for the first half of the year amounted to EUR 46.1 million (previous year: EUR 61.8 million).

Income tax expenses amounted to EUR 14.3 million in the first six months of the current financial year. The year-on-year increase was mainly due to deferred taxes on measurement gains in the second quarter and the increase in taxable profits at the ACCENTRO AG subsidiary. Net of taxes, consolidated net profit for the first half amounted to EUR 31.8 million (previous year: EUR 56.5 million).

Segment reporting

In its segment reporting, ADLER Real Estate AG distinguishes between its Rental, Trading and Other segments. All business transactions executed in connection with the letting of investment properties are pooled in the Rental segment. The Trading segment includes all activities in connection with the purchase and sale of properties, include the brokerage business on behalf of third parties. The Other segment mainly comprises historic holdings at ADLER that are to be disposed of following the Group's realignment. The allocation of income and earn-

ings from the operating business to the Rental and Trading segments largely corresponds to the equivalent line items in the consolidated income statement. Furthermore, the allocation of the various expense items and the financial result to segments is presented in the following table:

ADLER Group	Trading		Rental		Other		Group	
In EUR million	6M	6M	6M	6M	6M	6M	6M	6M
	2016	2015	2016	2015¹⁾	2016	2015	2016	2015¹⁾
Gross rental income and income from the sale of properties	53.1	14.5	145.5	182.8	1.5	0.8	200.1	198.1
of which gross rental income	3.4	2.3	126.6	78.3	0.8	0.2	130.8	80.9
of which income from disposals	48.9	10.8	18.9	104.5	0.7	0.6	68.5	115.9
of which income from brokerage	0.8	1.3	–	–	–	–	0.8	1.3
Change in the value of investment properties	–	–	25.8	10.6	–	–	25.8	10.6
Earnings before interest and taxes (EBIT)	16.6	0.5	67.4	96.3	-0.1	0.3	83.8	97.1
Income from investments accounted for using the at-equity method	0.4	–	10.5	-0.5	–	–	10.9	-0.5
Financial result	-1.4	-1.2	-47.3	-33.6	–	–	-48.7	-34.9
Earnings before taxes (EBT)	15.1	-0.8	31.0	62.4	-0.1	0.1	46.1	61.8

¹⁾Amended statement: please see comments under "Basis of preparation"

As is customary in the property sector, to assess the profitability of its operating business ADLER Real Estate refers to funds from operations (FFO) as its major cash flow-based key figure. FFO I presents the performance capacity of the property letting business. FFO II additionally presents the results of trading with and sales of properties.

Significant increase in funds from operations (FFO)

As is documented in the overview provided below, FFO is determined by first calculating earnings before interest, taxes, depreciation and amortisation (EBIT-DA) and then adjusting this figure to exclude non-recurring and extraordinary items. Interest expenses directly incurred in connection with the operating business are then deducted from this adjusted EBITDA figure, as are any earnings generated from the sale of properties and current income taxes. Any investments made to maintain the substance of the properties (capitalisable maintenance) are then added.

Calculated this way, FFO I for the first half of 2016 amounted to EUR 12.0 million and thus almost doubled compared with the previous year's figure. At EUR 27.4 million, FFO II more or less matched the equivalent figure for the previous year's period. For the first half of the year, FFO I corresponded to EUR 0.21 per basic share and to EUR 0.19 per diluted share.

In EUR million	1. Half-year 2016	1. Half-year 2015
Consolidated net profit	31.7	56.5
+ financial result	48.7	34.9
+ income taxes	14.3	5.3
+ depreciation and amortisation	0.6	0.5
- income from measurement of investment properties	25.8	10.6
- income from investments accounted for using the at-equity method	10.9	-0.4
EBITDA IFRS	58.5	87.0
Non-recurring and extraordinary items	6.6	-37.8
Adjusted EBITDA	65.1	49.2
- Interest expense FFO	40.2	26.3
- Current income taxes	0.6	0.4
+ Capitalisable maintenance	4.0	2.3
- Earnings before interest and taxes from the sale of properties	16.4	18.6
FFO I	12.0	6.3
+ Earnings after interest and taxes from the sale of properties	10.1	18.6
- Interest from investments accounted for using the at-equity method	2.0	–
+ Value change realised upon sale	–	8.5
+ Liquidity related income from investments accounted for using the at-equity method	7.4	-0.4
FFO II	27.4	32.9
Number of shares (basic) ¹⁾	56,734,265	46,075,315
FFO I per share (basic)	0.21	0.14
FFO II per share (basic)	0.48	0.71
Number of shares, diluted ²⁾	64,051,743	53,445,683
FFO I per share (diluted)	0.19	0.12
FFO II per share (diluted)	0.43	0.62

¹⁾ 46,128,205 shares as of balance sheet date (previous year: 46,075,315) plus 10,606,060 shares from assumed conversion of mandatory convertible bond (previous year: 10,606,060)

²⁾ Plus 7,317,479 shares from assumed conversion of other convertible bonds (previous year: 7,342,447)

NET ASSETS

For the first half of the year, FFO I corresponded to EUR 0.21 per basic share and to EUR 0.19 per diluted share.

Slight increase in total assets in first half of year

As of 30 June 2016, ADLER Real Estate AG had total assets of EUR 3,126.7 million,

In EUR million	30.06.2016	as % of total assets	31.12.2015	as % of total assets
Non-current assets	2,796.8	89.4	2,758.9	89.7
of which investment properties	2,306.1	73.8	2,270.2	73.8
Current assets	308.6	9.9	297.3	9.7
of which cash and cash equivalents	67.9	2.2	49.5	1.6
Non-current assets held for sale	21.3	0.7	20.1	0.7
Assets	3,126.7	100.0	3,076.2	100.0
Equity	809.6	25.9	777.9	25.3
of which capital stock	46.1	1.5	46.1	1.5
of which capital reserve	449.4	14.4	449.4	14.6
of which net retained profit	252.5	8.1	223.9	7.3
Non-current liabilities	2,002.7	64.1	1,980.4	64.4
of which liabilities from convertible bonds	34.6	1.1	35.0	1.1
of which liabilities from bonds	507.4	16.2	481.6	15.7
of which financial liabilities to banks	1,353.7	43.3	1,368.1	44.5
Current liabilities	309.1	9.9	303.5	9.9
of which financial liabilities to banks	249.9	8.0	248.5	8.1
Liabilities held for sale	5.3	0.2	14.4	0.5
Equity and liabilities	3,126.7	100.0	3,076.2	100.0

corresponding to an increase of 1.6 percent compared with the balance sheet date at the end of 2015, at which time all of the acquisitions made in the previous year were already fully consolidated.

Further increase in market value of property holdings

On the asset side of the balance sheet, the investment properties line item has increased further in value since the beginning of the year. The number of residential and commercial units has decreased slightly in the course of the year, but the market value of the remaining property holdings nevertheless increased. At midyear, the value of ADLER's property holdings amounted to EUR 2,306.1 million, equivalent to growth of 1.6 percent during the first half of the year.

Rise in equity ratio

Current assets showed slightly higher growth of 3.8 percent. This was driven above all by the significant improvement in cash and cash equivalents since the beginning of the year.

Equity totalled EUR 809.6 million at the middle of the year, corresponding to an increase of 4.1 percent compared with the end of the previous year. This increase was chiefly attributable to net retained profit. The equity ratio amounted to 25.9 percent at the middle of the year and has thus improved by 0.6 percentage points in the year to date.

There were no acquisitions requiring larger volumes of financial funds in the first half of 2016. As a result, the volume of outstanding financial liabilities, both non-current and current, changed only slightly.

Cash and cash equivalents totalled EUR 67.9 million at the middle of the year, EUR 18.4 million higher than at the beginning of the year.

Further improvement in loan to value (LTV)

Net financial liabilities amounted to EUR 2,084.8 million at the end of June 2016 and thus remained virtually unchanged on the figure at the end of the previous year.

The ratio of net financial liabilities to total assets (loan to value), with both figures adjusted to exclude cash and cash equivalents, amounted to 68.2 percent at the middle of the year, 0.9 percentage points lower than at the beginning of the year. Assuming that the convertible bonds outstanding at the middle of the year

In EUR million	30.06.2016	31.12.2015
Convertible bonds	34.6	35.6
+ Bonds	514.5	489.9
+ Financial liabilities to banks	1,603.6	1,616.6
- Cash and cash equivalents	67.9	49.5
= Net financial liabilities	2,084.8	2,092.6
Assets¹⁾	3,058.9	3,026.7
LTV including convertible bonds (%)	68.2	69.1
LTV excluding convertible bonds (%)	67.0	68.0

¹⁾ excluding cash and cash equivalents

are converted into shares – which is highly likely given the premium now already achievable – LTV would amount to 67.0 percent, 1.0 percentage point lower than at the end of 2015. **Increase in net asset value**

ADLER refers to net asset value (NAV) as its key group management figure and calculates this in accordance with the guidelines issued by the European Public Real Estate Association (EPRA). At the middle of the year, NAV reached EUR

In EUR million	30.06.2016	31.12.2015
Equity	809.6	777.9
Non-controlling interests	-62.5	-58.6
Equity attributable to ADLER shareholders	747.1	719.4
Deferred tax liabilities	123.4	114.8
Differences between fair values and carrying amounts of inventory properties	31.8	40.6
Fair value of derivative financial instruments	9.2	7.0
Deferred taxes for derivative financial instruments	-3.0	-2.3
EPRA NAV	908.6	879.5
Number of shares, basic ¹⁾	56,734,265	56,709,297
EPRA NAV per share (EUR)	16.01	15.51
Number of shares, diluted ²⁾	64,051,744	64,051,744
EPRA NAV per share (EUR) diluted	14.50	14.05

¹⁾ 46,128,205 shares as of balance sheet date (previous year: 46,103,237) plus 10,606,060 shares from assumed conversion of mandatory convertible bond (previous year: 10,606,060)

²⁾ Plus 7,317,479 shares from assumed conversion of other convertible bonds (previous year: 7,342,447)

FINANCIAL POSITION

In EUR million	1. Half-year 2016	1. Half-year 2015
Cash flow from operating activities	57.2	22.9
Cash flow from investing activities	12.7	-262.6
Cash flow from financing activities	-51.6	302.9
Cash-effective change in cash and cash equivalents	18.4	63.3
Cash and cash equivalents at beginning of period	49.5	33.1
Cash and cash equivalents at end of period	67.9	96.3

908.6 million and was thus 3.3 percent higher than at the end of 2015. NAV per share came to EUR 16.01. ADLER bases its calculation of NAV on the equity attributable to shareholders in the parent company.

All properties acquired in 2015 contributed to the Group's earnings and cash flow in the first half of 2016. In the first half of the previous year, the properties at Wohnungsbaugesellschaft JADE mbH only contributed to the Group's earnings and cash flow on a time-apportioned basis. In view of this, the cash flow from operating activities increased substantially. At EUR 57.2 million, this key figure was more than twice as high in the first six months of the current financial year than in the equivalent period in the previous year.

The cash flow from investing activities was also positive. The inflow of funds from disposals of property holdings and privatisation covered the liquidity requirements for the acquisition of new properties and for investments in existing holdings.

Financing activities resulted in an outflow of funds amounting to EUR 51.6 million. This was the extent by which interest payments and repayments of existing financing facilities exceeded the funds received from taking up new liabilities. At the end of the period under report, the ADLER Group had financial funds (cash and cash equivalents) of EUR 67.9 million.

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



Group interim financial statement as at 30 June 2016



Consolidated Balance Sheet

(IFRS) as at 30 June 2016

In EUR '000	30.06.2016	31.12.2015
Assets	3,126,718	3,076,246
Non-current assets	2,796,823	2,758,878
Goodwill	130,552	130,552
Intangible assets	1,093	1,358
Property, plant and equipment	1,341	1,269
Investment Properties	2,306,136	2,270,187
Investments in associated companies	355,906	353,343
Other financial investments	1,254	1,230
Other non-current assets	160	473
Deferred tax claims	382	465
Current assets	308,628	297,252
Inventories	140,541	159,654
Trade receivables	19,027	16,309
Income tax claims	238	243
Other current assets	80,958	71,544
Cash and cash equivalents	67,864	49,502
Non-current assets held for sale	21,267	20,117

In EUR '000	30.06.2016	31.12.2015
Equity and liabilities	3,126,718	3,076,246
Shareholders' equity	809,620	777,921
Capital stock	46,128	46,103
Capital reserve	449,385	449,360
Retained earnings	-968	-88
Currency translation reserve	88	92
Net retained profit	252,393	223,890
Equity attributable to owners of the parent company	747,026	719,357
Non-controlling interests	62,594	58,563
Non-current liabilities	2,002,743	1,980,375
Pension reserves	4,158	4,268
Deferred tax liabilities	78,755	70,139
Other provisions	1,237	756
Liabilities from convertible bonds	34,576	34,982
Liabilities from bonds	507,391	481,599
Financial liabilities to banks	1,353,691	1,368,125
Other non-current liabilities	22,936	20,507
Current liabilities	309,055	303,529
Other provisions	2,309	2,688
Income tax liabilities	10,414	5,406
Liabilities from convertible bonds	0	623
Liabilities from bonds	7,137	8,265
Financial liabilities to banks	249,865	248,524
Trade payables	18,661	20,174
Other current liabilities	20,669	17,849
Assets and Liabilities held for sale	5,300	14,421

Consolidated Statement of Comprehensive Income

(IFRS) for the period from 1 January to 30 June 2016

In EUR '000	First half year 2016	First half year 2015*	Second quarter 2016	Second quarter 2015*
Gross rental income	130,809	80,855	65,330	40,677
Expenses from property lettings	-69,835	-41,610	-35,086	-18,951
Earnings from property lettings	60,974	39,245	30,244	21,725
Income from the sale of properties	69,333	117,195	47,700	108,961
Expenses from the sale of properties	-52,810	-98,861	-36,685	-90,902
Earnings from the sale of properties	16,523	18,334	11,015	18,059
Personnel expenses	-8,931	-5,492	-4,616	-3,177
Other operating income	3,401	46,304	1,856	2,234
Other operating expenses	-13,420	-11,426	-8,383	-6,935
Income from fair value adjustments of investment properties	25,846	10,581	21,035	5,012
Depreciation and amortisation	-583	-457	-305	-244
Earnings before interest and tax (EBIT)	83,810	97,089	50,846	36,674
Financial income	757	903	427	491
Financial costs	-49,445	-35,755	-24,238	-20,971
Net income from at-equity valued investment associates	10,930	-440	10,290	-354
Earnings before taxes (EBT)	46,052	61,797	37,325	15,840
Income taxes	-14,301	-5,316	-10,054	-2,263
Consolidated net profit	31,751	56,481	27,271	13,577
OCI SWAP – reclassifiable –	259	224	141	139
Deferred taxes OCI – reclassifiable –	-84	-72	-46	-45
Gains/losses from currency translation	-5	57	-1	-17
Change in value of interests in companies accounted for using the at-equity method	-1,056	0	-1,344	0
OCI gains/losses reclassifiable into profit or loss	-886	209	-1,250	77
Total comprehensive income	30,865	56,690	26,021	13,654
Profit attributable to:				
Owners of the parent company	28,503	53,648	25,074	10,887
Non-controlling interests	3,248	2,833	2,197	2,690
Total comprehensive income attributable to:				
Owners of the parent company	27,617	53,857	23,824	10,964
Non-controlling interests	3,248	2,833	2,197	2,690
Earnings per share, basic (EUR)	0.50	1.66	0.44	0.32
Earnings per share, diluted (EUR)	0.45	1.37	0.39	0.27

* Amended statement: please see comments under "Basis of preparation"

Consolidated Statement of Cash Flows

(IFRS) for the period from 1 January to 30 June 2016

In EUR '000	01.01.2016 – 30.06.2016*	01.01.2015 – 30.06.2015*
Earnings before interest and taxes (EBIT)	83,810	97,089
+ Depreciation and amortisation	583	457
–/+ Net income from fair value adjustments of investment properties	-25,846	-10,583
–/+ Non-cash income/expenses	-879	-58,093
–/+ Changes in provisions and accrued liabilities	-8	-1,976
Increase/decrease in inventories, trade receivables and other		
–/+ assets not attributable to financing activities	-21,886	2,409
–/+ Increase/decrease in trade payables and other liabilities not attributable to investment or financing activity	-4,408	-6,535
–/+ Interest received	37	369
+ Dividends received	7,406	0
+/- Tax payments	-602	-250
= Operating cash flow before de-/reinvestment into the trading portfolio	38,207	22,887
–/+ Increase/decrease in inventories (commercial properties)	18,990	0
= Net cash flow from operating activities	57,197	22,887
- Acquisition of subsidiaries, net of cash acquired	-1,225	-281,414
+ Disposal of subsidiaries, net of cash disposed	0	54,614
- Purchase of investment properties	-17,610	-17,487
+ Disposal of Investment properties, net of cash disposed	20,215	0
- Purchase of property, plant and equipment	-306	-256
+ Disposal of property, plant and equipment	342	0
- Payments into short-term deposits	0	-18,019
+ Payments from short-term deposits	11,300	0
= Net cash flows from investing activities	12,716	-262,562
- Costs of issuing equity	0	-338
+ Proceeds from issue of bonds	23,652	294,828
- Payments from issuing debt	-14	-12,183
- Interest payments	-45,047	-28,919
+ Proceeds from bank loans	19,675	181,806
- Repayment of bank loans	-49,817	-132,252
= Net cash flows from financing activities	-51,551	302,942
Reconciliation to Consolidated Balance Sheet		
Cash and cash equivalents at beginning of periods	49,502	33,060
Net cash flow from operating activities	57,197	22,887
Net cash flow from investing activities	12,716	-262,562
Net cash flow from financing activities	-51,551	302,942
= Cash and cash equivalents at end of periods	67,864	96,327

* The classification has been adapted: Net income from at-equity not stated separately

Consolidated Statement of Changes in Equity

(IFRS) for the period from 1 January to 30 June 2016

In EUR '000	Subscribed capital	Capital reserve
As at January 1, 2015	31,877	108,078
Net result	0	0
Other result – reclassifiable	0	0
Change in scope of consolidation	0	0
Capital increase	14,075	168,890
Conversion of convertible bond	123	200
As at June 30, 2015	46,075	277,168
As at January 1, 2016	46,103	449,360
Net result	0	0
Other result – reclassifiable	0	0
Change in scope of consolidation	0	0
Conversion of convertible bond	25	25
As at June 30, 2016	46,128	449,385

Retained profit	Currency translation reserve	Net profit/ loss	Capital and reserves attributable to the shareholders of the parent company	Minority interests	Total equity
-349	20	151,775	291,401	19,810	311,211
0	0	53,648	53,648	2,833	56,481
152	57	0	209	0	209
0	0	0	0	29,175	29,175
0	0	0	182,965	0	182,965
0	0	0	323	0	323
-197	77	205,423	528,547	51,818	580,365
-88	92	223,891	719,358	58,562	777,921
0	0	28,503	28,503	3,248	31,751
-881	-5	0	-886	0	-886
0	0	0	0	154	154
0	0	0	50	630	680
-969	87	252,394	747,025	62,594	809,620





Selected notes to the interim consolidated financial statements (IFRS)



Selected notes to the interim consolidated financial statements (IFRS)

GENERAL INFORMATION ADLER Real Estate Aktiengesellschaft (hereinafter “ADLER”) is the parent company of the Group and has its legal domicile at Herriotstrasse 5, Frankfurt am Main, Germany. The company is entered in the Commercial Register of Frankfurt am Main District Court under HRB 7287. Its financial year is the calendar year. The company’s trading address is Gänsemarkt 50, Hamburg, Germany.

ADLER is publicly listed property company focusing on establishing and expanding a substantial and profitable property portfolio. Its activities centre on the acquisition and management of residential properties throughout Germany.

ADLER’s activities have the objective of investing in residential properties that offer sustainable potential for value appreciation and whose current income contributes to the company’s overall success. The company’s operating strategy also includes active value creation, i.e. improving its existing residential property portfolios by means of expansion, conversion or modernisation measures.

Furthermore, ADLER’s core activities also include trading with residential properties and individual apartments. Within the ADLER Group, trading activities are largely covered by the Group’s majority interest in the listed company ACCENTRO Real Estate AG.

BASIS OF ACCOUNTING **Basis of preparation**

The interim consolidated financial statements as of 30 June 2016 have been prepared in accordance with International Financial Reporting Standards (IFRS) as requiring mandatory application in the European Union. The consolidated financial statements, comprising the consolidated balance sheet, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statements and selected note disclosures, also take particular account of the requirements of IAS 34 “Interim Financial Reporting”.

In accordance with IAS 34.41, greater reference is made to estimates and assumptions when preparing the interim consolidated financial statements than is the case for annual reporting. No changes in estimates with material implications for the Group’s net assets, financial position and results of operations arose in the interim reporting period.

The interim consolidated financial statements have been prepared in euros (EUR), the functional currency of the Group. Unless otherwise indicated, all figures presented in euros have been rounded up or down to the nearest thousand euros (EUR 000s). Statement of thousand euro amounts may result in

discrepancies due to rounding up or down. Figures in brackets generally refer to the previous year.

Further information about the accounting policies can be found in the consolidated financial statements as of 31 December 2015, which form the basis for these interim consolidated financial statements.

The other operating income, income from the sale of properties and expenses from the sale of properties recognised in the income statement for the previous year's period have been retrospectively adjusted. In the previous year's period, other operating income included net income of EUR 15,790k from the sale of three property companies. To enhance the comparability of investment property sales, this income from deconsolidation has been presented on a non-net basis as income from the sale of properties (EUR 93,688k) and expenses from the sale of properties (EUR 77,898k). Other operating income has correspondingly reduced by EUR 15,790k. This amendment in the statement of these items did not have any influence on consolidated net profit or comprehensive income for the previous year.

Accounting standards applicable for the first time in the 2016 financial year

The following amendments to standards required mandatory application for the first time in the 2016 financial year and have not had any material implications for ADLER's consolidated financial statements:

- Amendments to IAS 1: "Disclosure Initiative"
- Improvements and additions to IAS 16 and IAS 38: "Clarification of Acceptable Methods of Depreciation and Amortisation"
- Improvements and additions to select IFRSs 2012-2014
- Amendments to IFRS 11: "Accounting for Acquisitions of Interests in Joint Operations"

Furthermore, several other amendments were introduced to standards that are basically not relevant for ADLER's consolidated financial statements:

- Amendments to IAS 27: "Equity Method in Separate Financial Statements"
- Amendments to IAS 16 and IAS 41: "Bearer Plants"

Subsidiaries are included in the consolidated financial statements in accordance with the requirements of IFRS 10. Subsidiaries are all entities that are controlled by the Group. The Group controls an entity when it has direct or indirect decision-making powers over the respective group company in the form of voting or other rights, participates in the positive and negative varia-

BASIS OF CONSOLIDATION

ble returns from the group company and can influence these returns due to its decision-making powers. These criteria have to be cumulatively fulfilled.

Subsidiaries are included in the consolidated financial statements (full consolidation) from the date on which the Group gains control. They are deconsolidated from the date on which control ceases.

Companies over which the Group can exercise significant influence are recognised as associates using the equity method in accordance with IAS 28. Significant influence is presumed when a Group company directly or indirectly holds no less than 20 percent but no more than 50 percent of the voting rights.

Further information about consolidation principles can be found in the comments in the "Basis of consolidation" section of the 2015 Annual Report (Page 77 onwards).

**SCOPE OF CONSOLIDATION
AND BUSINESS
COMBINATIONS**

Including the parent company, the scope of consolidation includes a total of 129 companies (31 December 2015: 122) that are fully consolidated and a further six companies that are recognised at equity.

Eight companies were newly included in the scope of consolidation and one company sold in the period under report. Via the interim holding company Magnus Neunte Immobilienbesitz und Verwaltungs GmbH, which is wholly owned by ADLER, shares were acquired in the following property companies:

- Zweite CM Real Estate GmbH (94.9 percent)
- Dritte CM Real Estate GmbH (94.9 percent)
- Vierte CM Real Estate GmbH (94.9 percent)

The companies acquired do not constitute business operations as defined in IFRS 3 and have been presented as direct acquisitions of the respective properties, with the costs of acquiring the property companies allocated to the individually identifiable assets and liabilities based on their fair values. Via these property companies, ADLER also acquired investment properties of EUR 10,811k.

The five further companies added result from acquisitions of three companies for the privatisation business and two newly founded companies. No business operations were taken over.

The ADLER Group is organised in the following segments:

SEGMENT REPORTING

- 1. Rental:** this segment chiefly comprises investment properties.
- 2. Trading:** purchases and sales of properties, in which individual apartments are generally sold to private investors, and the brokerage business associated with the privatisation of residential properties, are allocated to this segment.

Other Group activities that do not constitute standalone segments are pooled in the "Other" column.

Segment reporting based on the Rental and Trading segments is consistent with the internal reporting system to ADLER's Management Board, which is the top management body pursuant to IFRS (management approach).

Income and EBIT for the six-month period from 1 January 2016 to 30 June 2016 and for the previous year's comparative period are broken down across the segments as follows:

ADLER Group	Trading		Rental		Other		Group	
In EUR '000 – 6 Month	2016	2015	2016	2015	2016	2015	2016	2015
Gross rental income and income from the sale of properties	53,095	14,465	145,524	182,791*	1,523	794	200,142	198,050*
thereof:								
Gross rental income	3,351	2,335	126,637	78,315	821	205	130,809	80,855
Income from sales	48,947	10,817	18,887	104,476*	702	589	68,536	115,882*
Income from brokerage	797	1,313	0	0	0	0	797	1,313
Change in the value of investment property	0	0	25,846	10,581	0	0	25,846	10,581
EBIT	16,550	490	67,385	96,327	-125	271	83,810	97,088
Income from investment accounted for using the equity method	389	15	10,541	-455	0	0	10,930	-440
Financial result	-1,412	-1,240	-47,270	-33,566	-6	-46	-48,688	-34,852
Earnings before taxes (EBT)	15,138	-766	31,043	62,435	-130	128	46,051	61,797

* Amended statement: please see comments under "Basis of preparation"

The Trading segment generated income of EUR 53,095k in the first six months, of which EUR 48,947k (EUR 10,817k) resulted from sales. EBIT in this segment amounted to EUR 16,550k (EUR 490k) and earnings before taxes came to EUR 15,138k (EUR -766k). The marked growth in income and EBIT in the Trading segment was chiefly due to the increase in sales of inventory properties. Revenues in the Rental segment amounted to EUR 145,524k (EUR 182,791k). The previous year's figure includes revenues of EUR 93,688k from the sale of property companies. There were no corresponding transactions in the period under report. Rental income increased significantly from EUR 78,315k to EUR 126,637k and mainly benefited from the WESTGRUND business acquired in June 2015. Six-month EBIT in the Rental segment amounted to EUR 67,385k (EUR 96,327k), while earnings before taxes came to EUR 31,043k (EUR 62,435k). Of the higher EBIT and earnings before taxes figures for the previous year's period, an amount of EUR 42,291k resulted from the one-off collection of goodwill upon the initial consolidation of JADE.

Income and EBIT for the second quarter from 1 April 2016 to 30 June 2016 and for the comparative period in the previous year are broken down across the segments as follows:

ADLER Group In EUR '000 – 3 Month	Trading		Rental		Other		Group	
	2016	2015	2016	2015	2016	2015	2016	2015
Gross rental income and income from the sale of properties	32,575	10,025	79,509	139,203*	946	409	113,030	149,637*
thereof:								
Gross rental income	1,600	1,178	63,005	39,414	725	84	65,330	40,676
Income from sales	30,477	8,105	16,504	99,789*	221	325	47,202	108,219*
Income from brokerage	498	742	0	0	0	0	498	742
Change in the value of investment property	0	0	21,035	5,012	0	0	21,035	5,012
EBIT	10,347	463	40,654	35,886	-155	325	50,846	36,674
Income from investments accounted for using the at-equity method	389	15	9,901	-369	0	0	10,290	-354
Financial result	-515	-642	-23,299	-19,828	3	-10	-23,811	-20,480
Earnings before taxes (EBT)	9,832	-195	27,642	15,816	-151	220	37,323	15,841

* Amended statement: please see comments under "Basis of preparation"

Segment assets, segment liabilities and segment investments were structured as follows as of 30 June 2016:

ADLER Group	Trading	Rental	Other	Consolidation	Group
In EUR '000 as of 30.06.2016					
Segment assets	196,959	2,577,243	8,162	-11,552	2,770,812
Investments accounted for using the at-equity method	1,696	354,210	0	0	355,906
Total segment assets	198,655	2,931,453	8,162	-11,552	3,126,178
Segment liabilities	-115,094	2,435,869	7,875	-11,552	2,317,098
Segment investments	12,631	28,321	0	0	40,952

Segment assets, segment liabilities and segment investments were structured as follows as of 31 December 2015:

ADLER Group	Trading	Rental	Other	Consolidation	Group
In EUR '000 as of 31.12.2015					
Segment assets	197,689	2,527,020	12,148	-13,954	2,722,903
Investments accounted for using the at-equity method	1,593	351,750	0	0	353,343
Total segment assets	199,282	2,878,770	12,148	-13,954	3,076,246
Segment liabilities	126,811	2,173,810	11,658	-13,954	2,298,325
Segment investments	102,409	1,441,253	0	0	1,543,662

Investment properties

The carrying amount of investment properties amounted to EUR 2,306,136k at the balance sheet date (31 December 2015: EUR 2,270,187k). This increase was chiefly due to the acquisitions of EUR 28,321k made in the period under report and measurement results of EUR 25,846k. These items were opposed by disposals, including IFRS 5 reclassifications, amounting to EUR 18,218k.

SELECTED NOTES ON THE CONSOLIDATED BALANCE SHEET

Cash and cash equivalents

Cash and cash equivalents amounted to EUR 67,864k at the balance sheet date, as against EUR 49,502k at the end of the previous year. An amount of EUR 10,784k is subject to restraints on disposal (EUR 8,669k).

Non-current assets held for sale

Non-current assets held for sale include apartments and apartment buildings for which notarial purchase contracts are available at the balance sheet date.

Of the non-current assets held for sale of EUR 20,117k reported as of 31 December 2015, assets of EUR 14,304k were already sold at fair value in the period under report. This did not have any impact on earnings. Moreover, further non-current assets of EUR 15,454k were reclassified as held for sale.

Shareholders' equity

The capital stock of ADLER AG amounted to EUR 46,128k as of 30 June 2016 (previous year: EUR 46,103k) and is divided into 46,128,205 no-par ordinary shares (31 December 2015: 46,103,237) with one voting right per share.

Further details can be found in the consolidated statement of changes in equity.

Liabilities for convertible bonds

Liabilities for convertible bonds were structured as follows at the balance sheet date:

In EUR '000	30.06.2016	31.12.2015
2013/2017 convertible bond	8,908	8,810
2013/2018 convertible bond	9,280	9,138
2015/2018 mandatory convertible bond	2,032	2,470
ACCENTRO AG 2014/2019 convertible bond	14,356	14,584
WESTGRUND AG 2014/2016 convertible bond	–	604
Total	34,575	35,606
– of which non-current	34,575	34,983
– of which current	–	623

Liabilities for bonds

Liabilities for bonds were structured as follows at the balance sheet date:

In EUR '000	30.06.2016	31.12.2015
2013/2018 bond	34,129	35,447
2014/2019 bond	129,488	105,421
2015/2020 bond	339,922	338,366
ACCENTRO AG 2013/2018 bond	10,989	10,628
Total	514,528	489,862
– of which non-current	507,391	481,599
– of which current	7,137	8,263

The increase of EUR 24,067k in the 2014/2019 bond was mainly due to the further placement of proprietary bonds that had been bought back on the market in the previous year.

Gross rental income

SELECTED NOTES ON THE STATEMENT OF COMPREHENSIVE INCOME

Gross rental income is structured as follows:

In EUR '000	30.06.2016	30.06.2015
Net rental income	83,922	51,740
Income from recoverable expenses	45,409	28,272
Other income from property management	1,478	843
Total	130,809	80,855

The development in net rental income and in income from recoverable expenses in the period under report is attributable to the impact of the new business acquired. Of the increase in net rental income, an amount of EUR 31,336k relates to WESTGRUND, which has only been included in the scope of consolidation since June 2015.

Expenses from property lettings

Expenses from property lettings are broken down as follows:

In EUR '000	30.06.2016	30.06.2015
Apportionable and non-apportionable operating costs	57,251	35,352
Maintenance	12,214	6,193
Other property management expenses	370	65
Total	69,835	41,610

Of the increase in operating costs, an amount of EUR 24,163k relates to WESTGRUND, which has only been included in the scope of consolidation since June 2015.

Income from the sale of properties

Income from the sale of properties is structured as follows:

In EUR '000	30.06.2016	30.06.2015*
Income from the sale of inventory properties	49,648	11,423
Income from the sale of investment properties	18,888	104,459
Brokerage revenue	797	1,313
Total	69,333	117,195

* Amended statement: please see comments under "Basis of preparation"

Out of the income from the sale of inventory properties, an amount of EUR 48,947k relates to ACCENTRO AG, which significantly increased its sales in the period under report compared with the previous year (EUR 10,834k). The income from the sale of investment properties in the previous year includes income of EUR 93,688k from the sale of property companies. No transactions on this scale were performed in the period under report.

Expenses from the sale of properties

Expenses from the sale of properties are structured as follows:

In EUR '000	30.06.2016	30.06.2015*
Retirement of inventory properties	32,448	9,595
Retirement of investment properties	18,629	87,636
Sale-related costs	1,216	793
Services procured for brokerage revenue	517	837
Total	52,810	98,861

* Amended statement: please see comments under "Basis of preparation"

Of the retirement of inventory properties, an amount of EUR 31,784k relates to disposals at ACCENTRO AG (previous year: EUR 9,286k).

Other operating income

Out of the other operating income amounted to EUR 3,401k (previous year: EUR 46,304k). In the previous year's period, negative goodwill from the initial consolidation of Wohnungsbaugesellschaft JADE mbH was included in other operating income as a non-recurring item of EUR 42,291k.

Income from the measurement of investment properties

Income from the measurement of investment properties amounted to EUR 25,846k (EUR 10,581k) and comprises income of EUR 30,686k from fair value adjustments (EUR 24,488k) and expenses of EUR 4,840k for fair value adjustments (EUR 13,907k).

Financial costs

Financial costs are structured as follows:

In EUR '000	30.06.2016	30.06.2015
Interest expenses for bank loans	28,699	21,795
Interest expenses for bonds	15,594	10,551
Interest expenses for convertible bonds	871	818
Other	4,281	2,591
Total	49,445	35,755

Of the increase in interest expenses for bank loans, an amount of EUR 7,853k is attributable to the acquisition of WESTGRUND, which has only been included in the scope of consolidation since June 2015. The increase in interest expenses for bonds is mainly due to the 2015/2020 bond, of which EUR 300,000k was only issued in April 2015, and which was stocked up by a further EUR 50,000k in October 2015.

Income from associates measured at equity

Out of the income from associates measured at equity, an amount of EUR 10,930k comprises ADLER's share of earnings at conwert Immobilien Invest SE, which has been included as an associate in the company's consolidated financial statements since August 2015. The Annual General Meeting of conwert held in June 2016 approved the distribution of a dividend of EUR 0.35 per share. For the Group, this resulted in a prorated dividend of EUR 7,406k, which was collected in the period under report and deducted from the carrying amount without any impact on earnings.

The shareholding in conwert developed as follows as of the balance sheet date:

In EUR '000	30.06.2016	30.06.2015
Carrying amount at beginning of period	351,725	352,493
At-equity income ¹⁾	10,930	-768
Other income allocable to the Group ¹⁾	-1,056	–
Dividend collected	-7,406	–
Carrying amount at balance sheet date	354,193	351,725

¹⁾ includes estimates to the extent that no published financial information is available as of the balance sheet date

DISCLOSURES ON FINANCIAL INSTRUMENTS AND FAIR VALUE DISCLOSURES

The classification of financial instruments required in accordance with IFRS 7 was unchanged compared with 31 December 2015. There were no reclassifications within the categories of financial instruments or the fair value hierarchy levels in the period under report.

The allocation of assets and liabilities measured at fair value in accordance with the input factors of the respective measurement method was unchanged compared with 31 December 2015. Investment properties are still allocated to Level 3 in the fair value hierarchy.

Related party disclosures**OTHER
DISCLOSURES**

There were no material changes in related parties compared with the information provided as of 31 December 2015.

Financial risk management

The material risks monitored and managed by the Group's financial risk management include interest rate, default, liquidity and financing risks. There have been no material changes in these risks since 31 December 2015. A detailed description of these risks can be found in the notes to the consolidated financial statements as of 31 December 2015.

Events after the balance sheet date

Upon the expiry of the subscription period on 15 July 2016, ADLER Real Estate AG successfully placed 10 million convertible bonds (2016/2021) with a 5-year term. The initial conversion price, corresponding to the nominal value of the bonds, was set at EUR 13.79 per bond, while the interest rate amounts to 2.5 percent per annum. The net issue proceeds of around EUR 137.9 million (based on the nominal value) are to be used to refinance existing loans and bonds with comparatively high interest rates, to finance future property acquisitions, to modernise the company's proprietary property portfolio and for general business-related purposes.

Via its subsidiary MountainPeak Trading Limited, ADLER Real Estate AG concluded an option agreement with Petrus Advisors Investment Fnds L.P. in mid-July that entitles it until mid-September 2016 to acquire up to 6 million shares in conwert Immobilien Invest SE from Petrus Advisors. The agreed price is consistent with the share price at the time of the agreement being concluded. The transaction is subject to approval by the Austrian and German competition authorities. If the options are exercised, ADLER's stake in conwert may increase to up to 28.7 percent. In this case, the acquisition will be financed by a bank loan for which the indicative terms have already been agreed.

Affirmation by the Legal Representatives

Erklärung gemäß § 37y Nr. 1 WpHG

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

Frankfurt am Main, 12 August 2016



Arndt Krien
Vorstand



Sven-Christian Frank
Vorstand

Legal Remarks

This report contains future-oriented statements that reflect the current management views of ADLER Real Estate AG regarding future events. Every statement in this report that reflects intentions, assumptions, expectations or predictions, as well as the assumptions on which they are based, constitutes such a future-oriented statement. These statements are based on plans, estimates and forecasts currently available to the management of ADLER Real Estate AG. Therefore, they only apply to the day on which they are made. By their nature, future-oriented statements are subject to risks and uncertainty factors, and the actual developments can deviate considerably from the future-oriented statements or the events implicitly expressed in them. ADLER Real Estate AG is not obligated, nor does it intend, to update such statements in view of new information or future events.

Glossary

EBIT

Earnings before Interest and Tax

Consolidated earnings before interest and tax – indicator of result of operations, also includes measurement gains/losses for investment property and profits generated from real estate disposals.

EBITDA

Earnings before Interest, Tax, Depreciation and Amortisation

Defined as operating earnings (earnings before interest and taxes) plus depreciation and amortisation, or as earnings before interest, taxes, depreciation and amortisation. This key figure is unaudited. Potential investors should note that EBITDA is not a uniformly applied or standardised key figure and that its calculation may vary widely from company to company. Taken alone, EBITDA therefore does not necessarily provide a basis for comparison with other companies.

Adjusted EBITDA

EBITDA adjusted to exclude the result of measurement of investment property, the result of associates measured at equity and one-off and non-recurring items – indicator of operating earnings excluding measurement and special items.

FFO I

Funds from Operations I

Adjusted EBITDA less interest charge for FFO, current taxes on income, investments to maintain substance and earnings before interest and taxes in the Trading and Other Activities segment – indicator of cash flow-based operating earnings excluding disposals.

FFO II

Funds from Operations II

FFO I plus earnings from disposals of investment property – indicator of cash flow-based operating earnings including disposals.

EPRA

European Public Real Estate Association

Association of publicly listed real estate companies, after which the EPRA Index is named

EPRA – NAV

Net asset value based on EPRA definition

Equity allocable to shareholders adjusted to exclude deferred taxes, value differences between fair values and carrying amounts of real estate and present value of derivative financial instruments – indicator of company value

LTV

Loan-to-value

Ratio of net financial liabilities (liabilities to banks less cash and cash equivalents) to total assets less cash and cash equivalents – indicator of financial stability

Swap

Designation for financial derivatives (financial instruments) based on a payment flow swap transaction between two parties. An interest swap designates a swap transaction in which two parties undertake to periodically swap interest payments over a previously agreed period

Dilution of shares

Reduction in the value of a share resulting from new shares being issued in a capital increase executed without subscription rights

WACD

Weighted average cost of debt

Weighted average cost of interest paid on debt – measurement of current interest charge on debt financing

At a glance

Supervisory Board

Dr. Dirk Hoffmann	Chairman of the Supervisory Board
Thomas Katzuba von Urbisch	Vice-Chairman of the Supervisory Board
Thilo Schmid	Member of the Supervisory Board

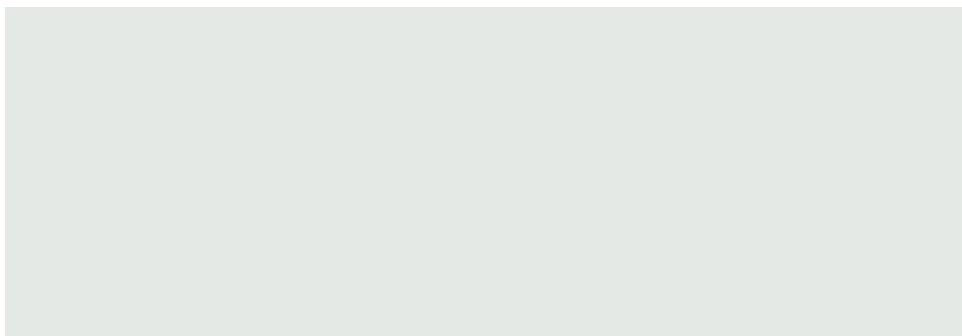
Management Board

Arndt Krien	Chairman of the Management Board (member of the Management Board since 1 January 2016)
Sven-Christian Frank	Member of the Management Board (since 9 June 2016)
Axel Harloff	Chairman of the Management Board (until 9 June 2016)

Company Facts

Registered Office Location	Frankfurt am Main, AG Frankfurt HRB 7287
Business Address	ADLER Real Estate Aktiengesellschaft Gänsemarkt 50 20354 Hamburg Telephone: +49 (0) 40/29 81 30-0 E-Mail: info@adler-ag.com
Website	www.adler-ag.com
Investor Relations/ Public Relations	ADLER Real Estate Aktiengesellschaft Dr. Rolf-Dieter Grass Joachimsthaler Straße 34 10719 Berlin Telephone: +49 (30) 2000914-29 E-Mail: r.grass@adler-ag.com
Subscribed Capital	EUR 46.128.205*
Classification	46.128.205* Stückaktien o.N.
Arithmetical Value	EUR 1 per share
Voting Detail	1 vote per share
Stock Details	SIN 500 800 ISIN DE0005008007 Ticket Symbol ADL Reuters ADLG.DE
Designated Sponsor	ODDO SEYDLER BANK AG HSBC Trinkaus & Burkhardt AG
Stock Exchanges	Xetra, Frankfurt am Main
Indices	SDAX, CDAX, FTSE EPRA/NAREIT Global Real Estate Index, GPR General Index, DIMAX
Fiscal Year	Calendar year

*as at: 30. June 2016



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