
Q1 /// Interim Report for the first three months of 2017



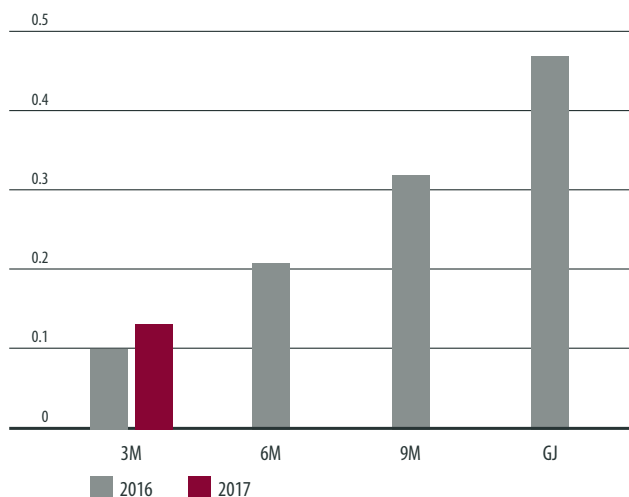
/// KEY FINANCIAL AND PROPERTY FIGURES

	Q1 2017	Q1 2016
Consolidated Statement of Income (in EUR millions)		
Net rental income	43.9	42.0
Earnings from property lettings	30.8	30.7
Earnings from the sale of properties	4.6	5.5
EBIT	32.5	33.0
Consolidated net profit	3.0	4.5
FFO I	7.9	5.7
FFO I per share in EUR ¹⁾	0.13	0.10
FFO II	9.4	8.9
FFO II per share in EUR ¹⁾	0.16	0.16
Consolidated Balance Sheet (in EUR millions)		
	31.03.2017	31.12.2016
Investment properties	2,474.4	2,442.0
EPRA NAV	1,055.0	1,069.9
EPRA NAV per share in EUR ¹⁾	18.09	18.35
LTV (%) ²⁾	57.7	61.3
Cashflow (in EUR millions)		
	Q1 2017	Q1 2016
Net cash flow from operating activities	-0.6	18.8
Net cash flow from investing activities	389.9	14.0
Net cash flow from financing activities	-321.1	-14.6
Employees		
	31.03.2017	31.12.2016
Number of employees	425	354
FTEs (Full-time-equivalents)	389	319

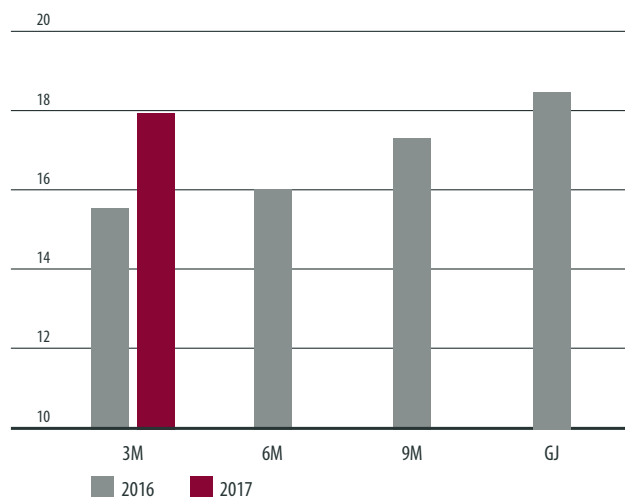
¹⁾ Based on the number of shares outstanding as at balance sheet date plus shares from assumed conversion of mandatory bond, which is considered as equity

²⁾ Excluding convertible bonds

FFO I/AKTIE in EUR

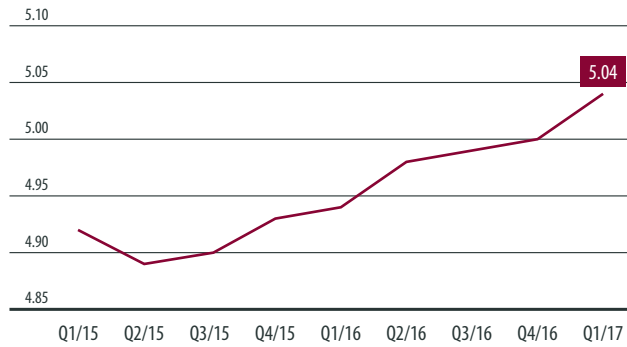


EPRA NAV/AKTIE in EUR

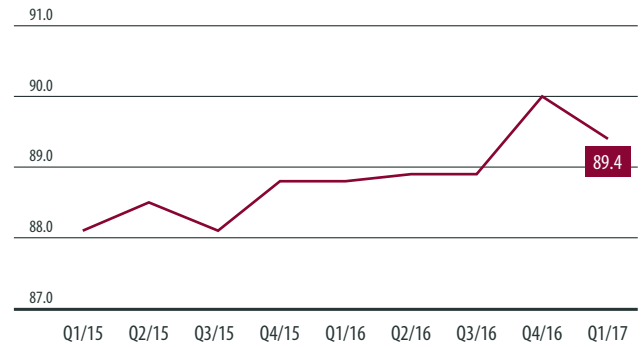


/// PROPERTY FIGURES

AVERAGE RENT in EUR/sqm/month

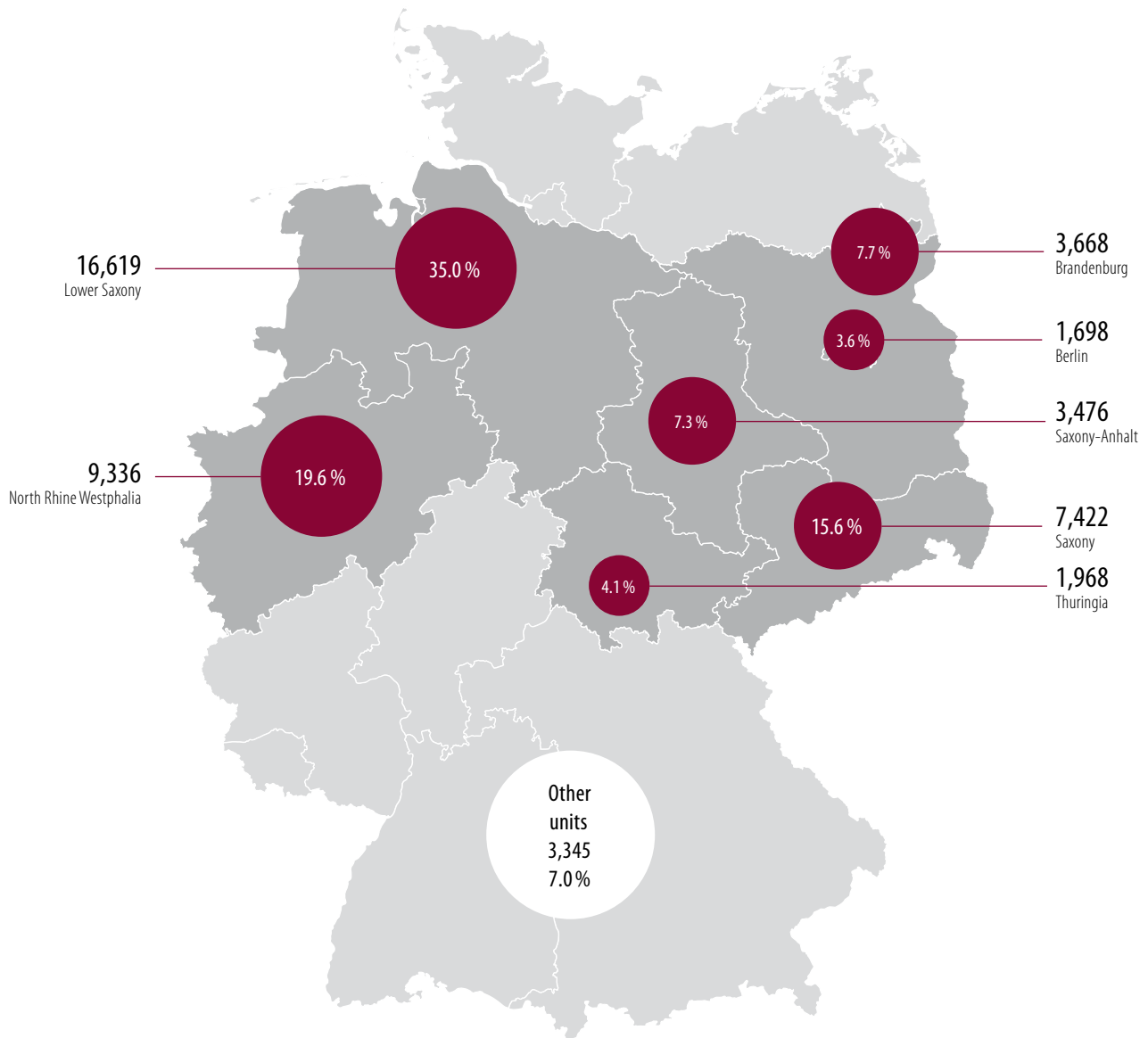


OCCUPANCY RATE in %



Rental units

as at 31.03.2017



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/// LETTER FROM THE MANAGEMENT BOARD

Dear Ladies and Gentlemen,

In the first quarter of 2017 we made progress in all areas of activity which have occupied us for some time now. First of all, we took our next step in terms of internalising the administration of our property holdings. At the beginning of the year, we took over the administration of a further total of more than 10,000 rental units previously administered on our behalf by external service providers. To this end, last year we worked to gradually develop and extend a proprietary organisation, structured it along regional lines and established a centralised accounting structure for rents and operating costs. We had to recognise, though, that a transition of this kind can hardly be implemented without “friction losses”. In January and February, our key operating figures were initially not satisfactory. By March, however, we had regained a positive lettings balance, i.e. the number of new tenants moving in exceeded the number of former tenants moving out.

In improving our key operating figures, we will be assisted by a new tenant retention instrument that we developed in the first quarter and will launch in part of our portfolio for the first time at the beginning of May – the ADLER Tenant App. This facilitates direct communications between landlords and tenants. If this new instrument works as expected, it should improve the quality of our relationship with our tenants. We are extremely confident that this will be the case. As a company, ADLER has, to date, largely been unknown to its tenants, with service providers alien to the Group acting as administrators and janitors. The administration and janitor services are now called ADLER Wohnen Service and ADLER Facility Management and the new app makes ADLER the exclusive contact partner. We have thus laid a further foundation for successfully offering all-round support services to our tenants. In future, not only will they know ADLER, but they will have specific and, we hope, positive associations with the name.

Alongside the goal of improving our operations, we also set ourselves the task of further reducing our liabilities and the resultant interest charge. Here, too, we have taken several steps forward. Thanks to the improvement in our liquidity due to the sale of conwert shares to Vonovia in January, we already bought back promissory notes of EUR 27 million on which we had previously paid interest of around 7.0 percent. Moreover, we called the 2014/2019 corporate bond and repaid this on 10 May. This bond had a volume of EUR 130 million and charged annual interest of 6.0 percent. Furthermore, the group company ACCENTRO called a bond of EUR 10 million with a term running until 2018. This bond, which previously charged interest at 9.25 percent, will be repaid on 26 June 2017. These two terminations will significantly reduce our future interest charge, a factor not yet reflected in our financial statements for the first quarter.

In parallel with the termination of the corporate bond, we stocked up our existing 2015/2010 corporate bond by EUR 150 million at an interest rate of 2.5 percent. This way, we not only secured favourable financing terms but also laid a foundation to pursue our third key target – further, continuous growth in our property holdings. We thus have funds at our disposal enabling us to react to market opportunities at short notice. We seized one such opportunity in the first quarter already, when we drew on proprietary funds to acquire a portfolio of 701 rental units in Osterholz-Scharmbeck and Schwanewede near Bremen. We intend to continue making comparable acquisitions, to which end we are reviewing various, mostly smaller-scale, property portfolios with a total volume of several thousand units.

We are convinced that moderate growth also provides our shareholders with a reasonable outlook for the future. We created value this way in the past and intend to do so in the future as well. To nevertheless enable our shareholders to benefit directly from our business performance, the Management and Supervisory Boards have agreed to propose for approval at the Annual General Meeting in June the issue of bonus shares from company funds at a ratio of 1:10 by converting a corresponding share of capital reserves.

Yours faithfully,



Arndt Krienen
CEO



Sven-Christian Frank
COO



/// Portfolio
/// ADLER on the capital markets

/// PORTFOLIO

ADLER Real Estate AG pursues two business objectives – letting permanently held properties and trading with properties held for short periods specifically for this purpose. In the balance sheet, the properties permanently let out are recognised at fair value under “investment properties”, while the properties held for trading are recognised at cost under “inventories”. At the end of the first quarter of 2017, ADLER Real Estate AG held a total of 50,640 letting units, of which 2,407 units were held for trading and 48,233 units for permanent letting.

THE RENTAL PORTFOLIO

Focus on residential property

ADLER essentially sees itself as a provider of rented apartments. Consistent with this approach, these account for 47,144 units and thus 97.8 percent of the properties held for permanent letting. This being said, the overall portfolio also includes a small share of commercial units. In a certain sense, these can be considered a by-product as some of the inner-city residential properties also include shop or office space. There were 1,089 such units at the end of the first quarter of 2017, accounting for a 2.2 percent share of the portfolio of properties held for permanent letting.

Slight increase in property holdings in first quarter of 2017

The number of rental units held for permanent letting increased slightly in the first three months of 2017. A total of 108 units were sold in the course of streamlining the portfolio to remove units no longer viewed as forming part of the core portfolio. The acquisition in Q1 of 701 rental units of a housing portfolio in Osterholz-Scharmbeck and Schwanewede have strengthened the portfolio at the end of the first quarter. This acquisition shows that the ADLER Group has once again adopted a course of moderate growth in 2017.

Portfolio realignment	31.03.2017			31.12.2016
		Divestments	Additions	
Rental portfolio	48,233	108	701	47,640
– of which residential units	47,144	76	693	46,527
– of which commercial units	1,089	32	8	1,113
Units for privatisation	2,407	169	154	2,422

“Non-core” portfolio to be disposed of

ADLER Real Estate AG intends to dispose of holdings that are economically weak or no longer fit its business model. As at the reporting date, the company had specific intentions to sell a total of 2,752 rental units, corresponding to 5.8 percent of its existing portfolio. The following table presents the key performance data and average market values of the units in this portfolio, which is designated as the non-core portfolio, compared with the figures for the core portfolio (core properties).

“Core” and “Non-core” portfolio	Total ¹⁾	Core	Non core
Rental units	47,532	44,780	2,752
Ø rent/sqm/month in EUR	5.04	5.07	4.50
Occupancy rate in %	89.4	90.6	72.0
Market value/sqm in EUR	807	830	487
NRI-multiple	14.6	14.8	12.1

¹⁾ Excluding the 701 units acquired in Q1

Key performance data only partly improved

In the first quarter of 2017, the Group was able to improve its key performance data again. For the portfolio as a whole the average rent per square metre per month stood at EUR 5.04 at the end of the first quarter 2017 and thus EUR 0.10 higher than one year earlier. At the same time, the occupancy rate reached 89.4 percent, which also was better than at the same point in time in the prior year (88.8 percent). In comparison to the rate reached at the end of 2016, the occupancy rate decreased slightly, however. This was mainly due to the fact that, given the massive transition in tenant support services from external service providers to group-internal property and facility management, avoiding a certain volume of “friction losses” has not been possible. These were reflected above all in a temporary increase in the tenant turnover rate in January and February and thus in a slightly higher vacancy rate at the end of the quarter. By March, however, the Group had regained a positive net lettings balance, i.e. the number of new tenants moving in was higher than the number of existing tenants moving out. The Group’s key performance data was additionally held back by the first-time inclusion of new holdings in Erfurt. Following proprietary project development, ADLER included these in its rental portfolio – and thus began marketing them – at the end of last year. This portfolio has developed positively, but was only partly let out at the end of the first quarter.

The following table presents the changes for the core portfolio on a like-for-like basis, i.e. only for those properties that were in the portfolio both in the first quarter of 2016 and in the first quarter of 2017.

Rental portfolio (Core) Like-for-like (Q1 2017 to Q1 2016)	Residential and commercial units	Residential		Commercial		
		Change	Residential	Change	Commercial	Change
Units	44,261		43,357		904	
Ø rent/sqm/month in EUR	5.06	1.6%	5.02	1.7%	6.04	-0.1%
Occupancy rate (%)	91.0	0.6 PP	91.6	0.5 PP	78.8	1.0 PP

Fair value without substantial change in first quarter

The fair value of the portfolio calculated in accordance with IFRS amounted to EUR 2,474.4 million at the end of the first quarter of 2017 as compared to EUR 2,442.0 million at the end of last year. The increase was mainly due to the acquisition of a portfolio of 701 rental units near Bremen. ADLER expended EUR 10,0 million on maintenance and modernisation measures in the first quarter of 2017, and thus more than in the previous year (EUR 9,4 million). Of this total, EUR 5,6 million related to ongoing maintenance work and EUR 4,4 million to renovation and modernisation measures eligible for capitalisation (previous year: EUR 5,6 million and EUR 3,8 million, respectively).

Key focuses in north and west of Germany

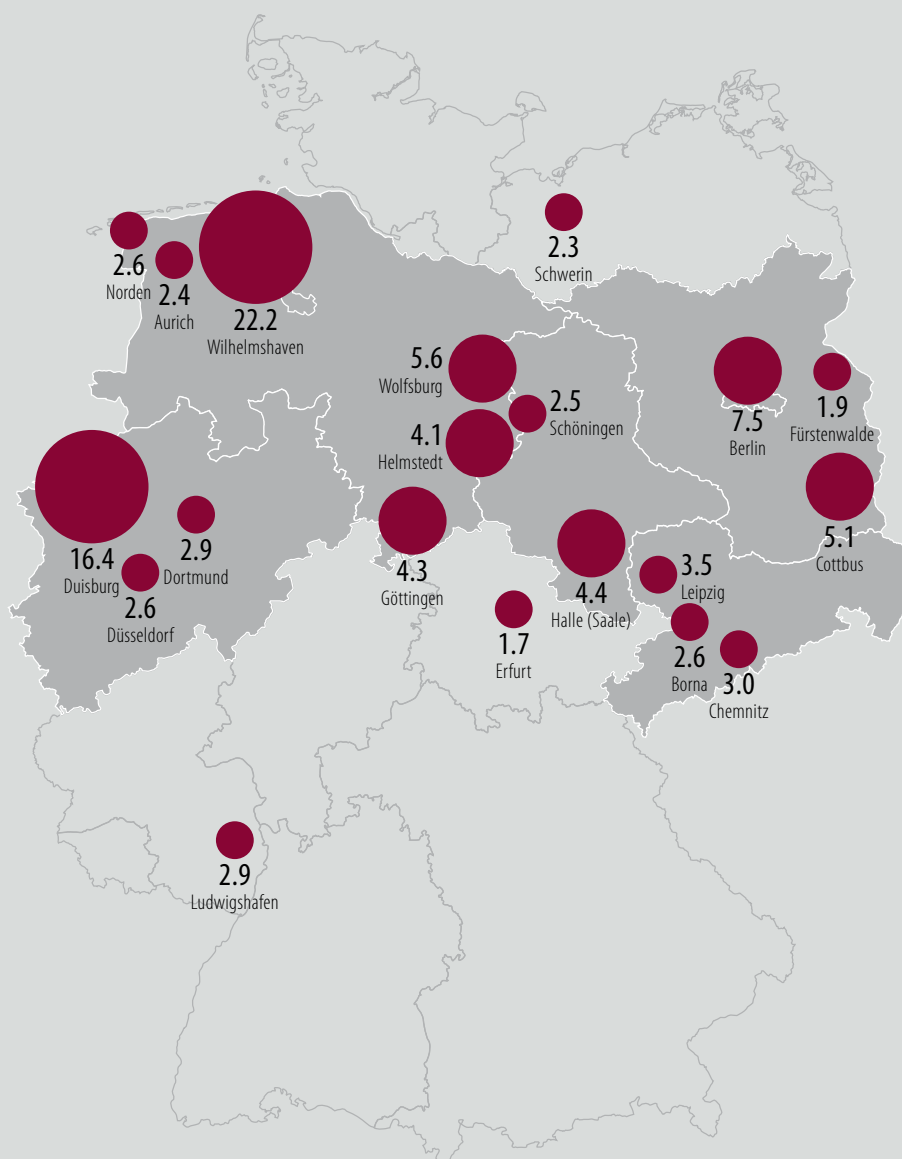
ADLER limits its business activities to Germany and most of its properties are located in the northern and western parts of the country. More than half of ADLER's properties are in the federal states of Lower Saxony (35.0 percent of the overall portfolio) and North Rhine-Westphalia (19.6 percent of the overall portfolio). More than 40 percent of ADLER's portfolio is located in the eastern part of the country, with key focuses here in Saxony (15.7 percent), Brandenburg (7.7 percent) and Saxony-Anhalt (7.3 percent).

ADLER mainly owns properties on the edges of conurbations. That is particularly apparent in North Rhine-Westphalia, where all of the company's properties are in the Ruhr, which still is Germany's largest industrial region. In Lower Saxony, the property holdings are mainly located in the Wolfsburg/Braunschweig/Helmstedt region, a traditionally strong region in economic terms, and in Wilhelmshaven, a region which is benefiting from the new deep water port and from what is the German Navy's largest base on the North Sea. In Saxony and Saxony-Anhalt, the properties are predominantly located in the catchment areas for Halle, Leipzig, Chemnitz and Dresden – cities which after German reunification initially lost their industry and part of their populations but which are now all benefiting from strong growth once more.

Property holdings on the edges of conurbations are typically characterised by higher vacancy rates, but also generate higher rent yields than properties in central or "A" locations. Peripheral locations benefit to a particularly marked extent from tight rental markets in city centres. When rents rise in desirable locations in the centre and no more affordable flats are available, then price-sensitive demand in particular automatically shifts to the surrounding areas.

Top 20 locations generate almost two thirds of rental income

The focus on metropolitan regions outlined above also means that the properties in ADLER's 10 most important towns and cities account for almost half of the company's total rental income while those in the top 20 locations generate almost two thirds of total rental income. Wilhelmshaven is the Group's most important location, with an annual basic net rent of EUR 22.2 million, followed by Duisburg with EUR 16.4 million, Berlin with EUR 7.5 million, Wolfsburg with EUR 5.6 million and Cottbus with EUR 5.1 million. ADLER does not play a significant role in the local housing markets in any of its top 20 locations apart from Wilhelmshaven, where almost one fifth of local housing belongs to the Group. This scale of dominance in a specific market is not automatically a disadvantage. That is apparent in the occupancy rate in Wilhelmshaven at the end of the first quarter of 2017, which at 91.9 percent was clearly ahead of the group average.



Location	Residential units	Ø rent/sqm/month in EUR	Occupancy rate in %
Wilhelmshaven	6,879	4.78	91.9
Duisburg	4,162	5.25	98.0
Cottbus	1,867	4.54	85.0
Berlin	1,698	5.61	98.1
Halle	1,656	4.49	86.7
Wolfsburg	1,300	5.42	97.0
Helmstedt	1,219	4.99	94.2
Leipzig	1,167	4.38	93.4
Goettingen	1,139	4.93	95.1
Chemnitz	972	4.78	78.9

Focus on small to medium-sized residential units

The residential portfolio at all of the locations where ADLER is present largely comprises small to medium-sized residential units. The apartments have an average size of slightly more than 60 square metres and are thus well aligned to address the needs of the company's target group, namely tenants with low to medium incomes. ADLER also sees this alignment as making economic sense. Its properties satisfy the trend observed for some time now towards an ongoing increase in the number of single-person households in Germany, and that despite a decline in the country's overall population. Not only that, the risk of tenants with low incomes defaulting on their rent payments is reduced as they can obtain support from social security providers if they are unable to settle their obligations from their own incomes. Furthermore, this category of affordable living space is now also in the sights of municipal and local councils on the lookout for permanent homes for refugees.

Size of apartment	Units	% of total units	Ø rent/sqm/month in EUR
< 45 sqm	6,428	13.8	5.75
> = 45 and < 60 sqm	15,741	33.9	4.91
> = 60 and < 75 sqm	16,445	35.4	4.96
> = 75 and < 90 sqm	6,022	13.0	4.93
> 90 sqm	1,815	3.9	4.80
Total	46,451¹⁾	100.0	5.00

¹⁾ Excluding the 701 units acquired in Q1

Customer orientation with in-house property and facility management

ADLER has set itself the target of offering its tenants virtually the whole range of residential services on an in-house basis, rather than via third-party service providers as was the case in the past. To establish maximum direct contact to its tenants, in 2016 ADLER pooled its in-house property management activities at the newly founded company ADLER Wohnen Service GmbH. This company has now built up a regional structure suitable for it to organise the management of all group properties. By the beginning of 2017, this was the case for just over half of the portfolio. By early 2018, all properties should be managed and supported by internal group employees.

The Group is taking a similar approach in its facility management, i.e. for tradesman and caretaker services at and in the properties. Here, too, ADLER intends to perform the predominant share of activities using in-house resources. To this end, ADLER Facility Management GmbH (previously: Arkadio Facility Management GmbH) has also developed a regional structure largely corresponding to its property management counterpart.

ADLER expects this evolution into an integrated property group to boost tenant satisfaction and reduce their turnover rates. This process should be assisted by the ADLER Tenant App, an innovative and thus far unique instrument in the sector which was launched at the beginning of May and is intended to facilitate communication with tenants and boost tenant retention rates.

Programme to reduce vacancies progressing on schedule

In mid-2016, ADLER initiated a programme to renovate 1,500 vacant residential units, most of which have long been vacant, in order to bring them back in line with market standards and thus reduce the vacancy rate. By the end of the first quarter of 2017, renovation work had been completed on a total of 515 apartments, while the relevant work had been commissioned for a further total of around 700 apartments. The project is thus absolutely on schedule. In most cases, renovation has involved replacing the flooring, completely renewing the bathrooms, redesigning the tiled sections in the kitchens, relaying electric cables and in some cases also replacing doors and windows. The work has been rounded off by giving the apartments a fresh coat of paint. Expenses of EUR 10,000 have been budgeted for each apartment. Based on experience to date, once the work has been completed it takes two to three months to find new tenants for the apartments. By the end of the first quarter of 2017, that was the case for 380 of the newly renovated apartments. The programme is to be fully implemented by the end of 2017.

THE TRADING PORTFOLIO

The trading business and privatisation of residential units are handled by the group company ACCENTRO Real Estate AG. At the end of the first quarter of 2017, 2,407 rental units earmarked for privatisation were recognised in the balance sheet, 15 units fewer than at the beginning of the year (2,422 units). ACCENTRO has already increased its portfolio again by acquiring 729 units in Berlin and Leipzig, although rights and obligations have not been transferred in the first quarter.

Most of the trading properties are located in Berlin, and thus in a market that has proven to be especially lucrative for the privatisation business in recent years and is also expected to maintain its dynamic performance.

/// ADLER ON THE CAPITAL MARKET

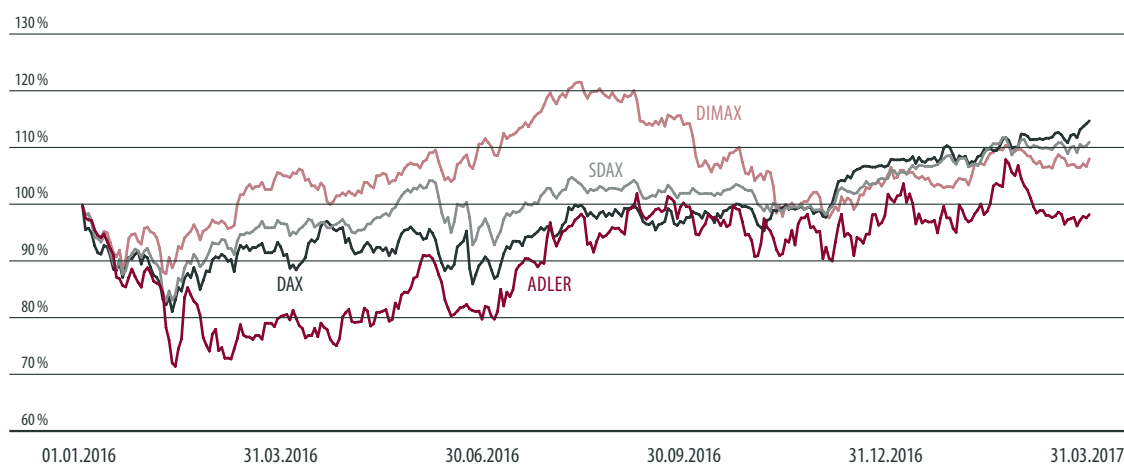
Real estate stocks with positive momentum

The German stock market performed positively in the first quarter of 2017. At just over 12,000 points, the DAX reached what was then its highest level ever at the end of the period under report. The SDAX, the index in which ADLER has been listed since June 2015, showed similar developments. At more than 10,000 points, this index also reached a historic high. Compared with the beginning of the year, the DAX rose by just under 6.0 percent, while the SDAX gained almost 5.5 percent.

Real estate stocks were once again in greater demand in the first quarter of 2017 than in the second half of 2016, when they came under comparatively severe pressure due to the expectation of higher interest rates. Solactive DIMAX, the index comprising Germany's main listed property companies, was more than 2.7 percent higher at the end of March than at the beginning of the year. Real estate stocks thus performed positively in the first quarter, but not as strongly as the overall market.

The same is true of ADLER's share. Having opened the year at just under EUR 14.50, the share price rose to EUR 15.35 in February, subsequently fell below EUR 14.00 and recovered to almost EUR 14.00 at the end of March. No direct connection was apparent between these developments and the news published by the company. Following the announcement of the company's strong results for 2016, the share mostly fluctuated between EUR 14 and EUR 15 in April.

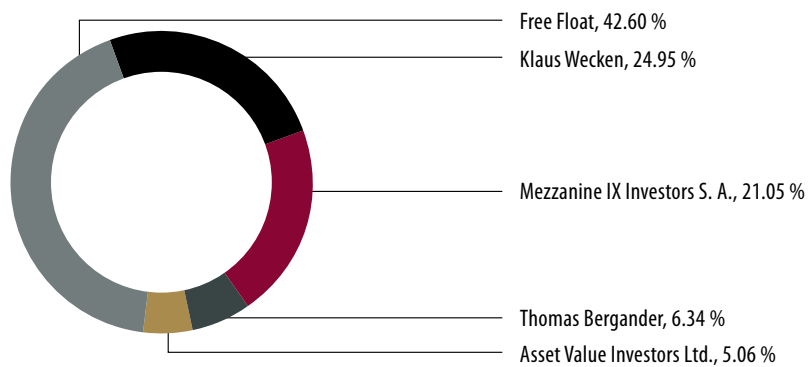
ADLER REAL ESTATE AG AKTIE, DAX, SDAX AND DIMAX SINCE JANUARY 2016 | JANUARY 2016 = 100



Number of shares increased by conversion of existing convertible bonds

As in the previous year, the increase in the number of shares in circulation in 2017 is solely attributable to the conversion of existing convertible bonds, all of which were “in the money”. The number of shares outstanding amounted to 47,702,374 at the beginning of 2017. By the end of the period under report, i.e. at the end of March 2017, this total had risen by 0.2 percent to 47,711,028 shares. The shareholder structure remained unchanged during the first quarter of 2017. Based on the notifications received by ADLER from shareholders when crossing the relevant thresholds, the shareholder structure as at 31 March 2017 was as follows:

SHAREHOLDER STRUCTURE AS AT 31 MARCH 2017





ADLER substantially improved its property management performance indicators in the first quarter of 2017 – with higher average rents and a higher occupancy rate.



/// Fundamentals of ADLER Real Estate AG Group

/// FUNDAMENTALS OF ADLER REAL ESTATE AG GROUP

BUSINESS MODEL

The business model of ADLER Real Estate AG comprises two fields of activity – Rental (investment properties) and Trading (inventory properties). The company's segment reporting is structured accordingly.

The Rental segment characterises the activities of the Group's central Asset Management department, which manages residential units held in the portfolio in technical and commercial terms. It performs these activities mostly under its own management. Where this is not the case, it manages third-party property management companies by way of service agreements. With ADLER Wohnen Service GmbH, which was founded in 2016, ADLER now has a company at which group-internal activities in the field of property management, including existing activities at Wohnungsbaugesellschaft JADE mbH in Wilhelmshaven and WBG GmbH in Helmstedt, are due to be pooled in the near future. ADLER intends to further expand this section of its value chain 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 which ADLER Real Estate AG owns 86.7 percent of the shares.

Rental

All activities related to the management of properties due to be retained in the portfolio on a permanent basis are pooled in the Rental segment. These relate almost exclusively to residential units. This portfolio has been built up over the past five 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 the aim of increasing rental income and reducing the vacancy rate. The properties are regularly valued by independent surveyors. With a portfolio of almost 50,000 units, ADLER is now one of Germany's top six listed property companies.

ADLER intends to further expand this portfolio by making additional acquisitions in the future. As in previous years, ADLER will be focusing its investments on residential property portfolios in "B" locations and on the edges of large conurbations, where rental yields are typically higher than in inner-city "A" locations. When suitable market opportunities arise, however, ADLER also supplements its portfolio by investing in so-called "A" cities, such as Berlin, in order to benefit from value growth in these markets. Either way, ADLER believes acquisitions only make sense when the properties promise to generate positive cash flows directly from acquisition onwards.

The apartments in ADLER's portfolio have an average size of around 60 square metres and have two or three main rooms. The average monthly rent amounts to EUR 5.04 per square metre. ADLER thus operates in a market segment focused on people earning mid to below-average wages. ADLER offers decent living quality at appropriate market prices to this target group. Demand for affordable living space is continuing to grow as the average age of the population is rising in conjunction with an increasing number of single-person households. Furthermore, people are moving to Germany from various parts of the EU as they see better employment prospects here, while others are coming to Germany as asylum seekers from further afield. Simultaneously, the supply of new housing in this segment remains low as construction prices are so high that it is not possible to generate attractive returns based on the existing level of rent. The recently introduced political measures aimed at promoting the development of new housing have so far had little impact in this respect.

In the balance sheet, rental properties are typically recognised as investment properties at their fair values, which in turn are determined by specialised independent valuation companies. Changes in property values are recognised through profit or loss in the income statement and also change the Group's net asset value (NAV).

Trading

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. 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.

Acting for the Trading segment, ACCENTRO regularly acquires residential properties that are suitable for privatisation. 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, when selecting properties 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 balance sheet, properties held for trading are recognised at cost as inventories. These items are typically not subject to value changes. Only when they are sold is the difference between the sale price and their respective carrying amount recognised through profit or loss in the income statement.

Targets and strategies

ADLER Real Estate AG bases its decisions on 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), of which ADLER is a member.

Strategy for the Rental segment

The value of the property portfolio portrayed in the Rental segment can mainly be increased by achieving the highest possible income from letting activities and ensuring that these results remain 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.

When the portfolios are extended by way of acquisitions, the earnings strength can be boosted by exploiting benefits 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 property management enhanced by grouping services at external service providers or by centralising and pooling tasks within the Group.

The key focus in optimising the existing portfolio involves identifying properties that are only able to make below-average contributions to the Group's overall income due to their location or their qualities. Once these are sold, this automatically increases the earnings strength of the remaining portfolio.

Rental portfolios are managed by the Asset Management department, which was reorganised in mid-2016 and provided with a centralised structure at the company's headquarters 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 building modernisation measures. High residential value makes the apartments attractive and thus easier to let out. It goes without saying that in its investment measures the Asset Management department always takes due account of the costs and benefits of individual measures. In addition to ongoing maintenance and modernisation measures, in 2016 the Group introduced a programme to renovate a total of around 1,500 previously unoccupied apartments and made a sum of around EUR 15 million available for this purpose. This programme should be completed by the end of 2017 and should help to reduce the existing vacancy rate and resultant costs.

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, in some cases draws on properties from within the portfolio of the ADLER Group and partly on properties specifically acquired for trading. ADLER intends to maintain a sufficiently large portfolio of properties earmarked for privatisation at all times in order to generate as consistent a stream of income as possible and thus not have to rely on opportunistic sales. For this reason, a large share of the income generated from the sale of properties is used to restock the supply of inventory properties and maintain these at a suitable level.

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) of between 50 percent and 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 repaying existing liabilities or refinancing existing facilities on more favourable terms, ADLER also aims to reduce its average interest charge.

ADLER has good access both to the market for secured bank lending and to the market for unsecured financing. This was apparent in mid-2016 once again, when the company successfully placed a convertible bond on the market. This two-pronged market access reduces the risks associated with obtaining debt capital and also contributes to reducing financing costs. Economic success sometimes depends on the company's own speed of reaction. To be able to react to any market opportunities on short notice, ADLER retains authorised and conditional capital, both of which are approved by shareholders, which 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 the future as well. Size is not an end in itself, but rather a way to enhance viability by drawing on benefits of scale and efficiency gains. New portfolios for the Rental segment should be consistent with the existing business model, or supplement it in a way that makes sense. They should also be expected to generate positive cash flows directly from acquisition onwards. However, larger scale portfolios are currently not on offer on the market. Even for smaller property portfolios the prices are unattractive from a buyer's perspective. In view of this situation, ADLER is also reviewing whether closer cooperation with project developers could harbour opportunities as the price differential between existing and new properties has noticeably reduced in some regions. ADLER nevertheless intends to further expand its property holdings in the years ahead by purchasing smaller portfolios, even if the resultant growth will not be as rapid as in 2014 and 2015.

New portfolios in the Trading segment have to be suitable for resale or privatisation, as in this segment ADLER aims for an average holding period of just a few years.

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

MANAGEMENT SYSTEM

Financial performance indicators

The financial performance indicators used by ADLER are: the net asset value (NAV) figure, typical for the sector, indicating 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 the Trading and Rental 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 is, by contrast, more closely focused on earnings before interest and taxes (EBIT) and thus on its contribution to the Group's overall earnings. Having said this, in its group forecast ADLER Real Estate AG does not provide any disclosures on the Group's expected EBIT, as this key figure is typically affected to a significant extent by non-cash-effective valuation items in the Rental portfolio that are difficult to predict. The earnings expectations for the Trading segment are therefore portrayed in the FFO II forecast.

Non-financial performance indicators

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 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 on an ongoing basis, then 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.

EMPLOYEES

As the group holding company, ADLER Real Estate AG has two Management Board members, but no proprietary employees. Operative tasks related to asset management and central administration for the Group are mostly performed via the whollyowned subsidiary ADLER Real Estate Service GmbH. Employees at this company are deployed to perform various tasks at the respective group companies on a flexible basis and in line with their individual specialisations. The predominant share of employees is employed at the divisions which are in charge of the property and facility management under the roof of the newly founded company ADLER Wohnen Service GmbH. Overall, at the reporting date for the period under report ADLER had a total of 425 full-time and part-time employees, 116 more than one year earlier. This growth was exclusively due to the expansion and internalisation of the Property Management and Facility Management departments.

RESEARCH AND DEVELOPMENT

As a property group, ADLER Real Estate AG does not perform any research and development in a traditional sense. Having said this, ongoing market checks are needed to assess future developments in housing markets. Here, ADLER draws on assessments compiled by estate agents' associations, federal authorities, specialist research institutes, prestigious valuation companies and bank research departments, as well as on its own experience of letting properties on location. Not only that, various developments in the construction sector and in building technology also have to be monitored and analysed, as do any changes in regulatory requirements. The insights gained from these analyses form an important basis for all of the company's operating activities. With the Tenant App, which was launched at the beginning of May, ADLER has also introduced an innovative instrument, one so far unique in the sector, to improve communications with tenants and boost tenant retention.



ADLER returned to a moderate growth course by acquiring a portfolio of 701 units in the first quarter of 2017.



/// Interim Group Management Report

/// Economic report

/// Report on risks and opportunities

/// Outlook

/// Report on events after the balance sheet date

/// Results from operations, net assets
and financial position

/// ECONOMIC REPORT

MACROECONOMIC AND SECTOR-SPECIFIC SETTINGS

The macroeconomic and sector-specific settings remained stable, and thus favourable for the property sector, in the first three months of the current financial year. Although no specific figures are yet available for the gross national product in the first quarter, in their joint forecast the leading economic research institutes still expect to see growth of 1.4 percent. At 1.6 percent, the inflation rate was higher than in the previous year, but still at a low level. Employment totals remain at historic highs, while interest rates, by contrast, are still at record lows.

For a company like ADLER Real Estate AG that operates in two business fields, property lettings and property trading, both the transaction market and the housing rental market are relevant. According to the consultancy CBRE, transactions worth EUR 3.2 billion were implemented in the transaction market for housing portfolios of 50 units upwards in the first quarter of 2017, significantly more than in the same period in the previous year (EUR 2.5 billion). The number of residential units thereby transferred decreased, but the average price per unit was significantly higher than the comparable figure for the previous year.

The climate in the housing rental market also remained stable in the first quarter of 2017. According to the Cost of Living Index, rents in Germany were 1.6 percent higher on a nationwide basis in March 2017 than in the same month in the previous year. Rents thus rose at the same rate as the overall cost of living. However, the average figure conceals variations between individual regions, urban and rural locations, new and existing housing and different apartment sizes. With its properties, ADLER Real Estate AG chiefly operates in "B" locations and on the periphery of conurbations. Locations like these typically benefit from sharp rent increases in the centre of such agglomerations. Increases of this sort have been seen in most towns in Germany. After all, tenants no longer able or willing to pay higher rents look for alternatives and are often prepared to accept living further from the centre of their town or city.

GROUP BUSINESS PERFORMANCE

Following its successful steps to generate growth in previous years, in 2016 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. These measures all serve the objective of developing ADLER into an integrated property group capable of offering all relevant services to tenants from a single source by the end of 2017. Consistent with this objective, at the beginning of the year, a further 10,000 residential units previously administered by external service providers were insourced to ADLER's own property and facility management services.

In mid-January 2017, ADLER Real Estate AG received EUR 422 million from the sale of its 26 percent stake in conwert Immobilien Invest SE to Vonovia SE in the context of the voluntary offer made by Vonovia to shareholders in conwert.

As previously announced, following receipt of the funds from the sale of its conwert shares in mid-January, ADLER Real Estate AG began to redeem higher-yielding liabilities. During the period under report, subordinate promissory note bonds with a nominal value of EUR 27.0 million were repaid. Furthermore, short-term loans with a total volume of EUR 199.4 million used to finance the acquisition of conwert shares were repaid directly upon the transaction.

In February, ADLER Real Estate AG acquired convertible bonds issued by group company ACCENTRO Real Estate AG with a value of EUR 12.3 million, with the target of keeping the share in that company stable even after the conversion rights have been exercised.

In March, ADLER Real Estate AG signed a purchase agreement to acquire a property portfolio with 693 residential and eight commercial units in Osterholz-Scharmbeck and Schwanewede. Located directly in the Bremen catchment area, these properties fit in with the objective of ADLER Real Estate AG of offering high-quality yet affordable living space on the periphery of conurbations. The portfolio, which generates a rental income of more than EUR 2 million a year, also represents an advantageous addition to the Group's existing holdings in northern Germany. This acquisition underlines ADLER's intention to expand the portfolio moderately once again following the year of consolidation in 2016.

The group company ACCENTRO Real Estate AG called its 2013/2018 bond at the end of March. This bond, which has a value of EUR 10 million and bears interest at 9.25 percent p.a., will be repaid on 26 June 2017 at 101.5 percent of the nominal amount plus interest accumulated and as yet unpaid as at the repayment date.

In April, i.e. after the end of the period under report, ADLER Real Estate AG executed a private placement to stock up its 2015/2020 bond by EUR 150 million at an interest rate of 2.5 percent. This way, ADLER has created additional financial scope enabling it to decide at short notice on the acquisition of smaller-scale portfolios on favourable terms. ADLER is

currently reviewing portfolios of this kind on a total scale of several thousand units.

At the same time, the 2014/2019 bond with a value of EUR 130 million and an interest rate of 6.0 percent was called and was repaid on 10 May 2017 at 101.5 percent of the nominal amount plus interest accumulated and as yet unpaid as at the repayment date. By taking this decision, ADLER has realised the intention previously communicated for some time now of repaying liabilities with higher interest rates as rapidly as possible and thus reducing its interest expenses and boosting its FFO.

/// REPORT ON RISKS AND OPPORTUNITIES

ADLER Real Estate AG reported in detail on the opportunities and risks involved in its business activities in its 2016 Annual Report. Since then, the overall situation of ADLER Real Estate has changed only in one aspect.

ADLER Real Estate AG is involved in a legal dispute in connection with the stake now sold in conwert Immobilien Invest SE. This dispute was triggered by the assessment reached by the Austrian Takeover Commission that ADLER had achieved a controlling stake in conwert by mutual agreement with other persons and had then illegitimately failed

to make a mandatory bid. The company had appealed against this assessment to the Supreme Court which, however, confirmed the contents of the assessment by the Takeovers Commission on 13 April, 2017. The company could therefore face a number of restitution proceedings. As far as can be seen, proceedings of this nature have not been conducted in Austria in the past. From a current perspective, neither the number nor the specific structure of such cases can be determined. ADLER Real Estate AG continues to refute the accusations raised against it by the Austrian Takeover Commission and is reviewing appropriate legal measures.

/// OUTLOOK

ADLER Real Estate AG also reported in detail on its expectations for the current financial year in its 2016 Annual Report. These forecasts have not changed since then. ADLER Real Estate AG continues to expect that the macroeconomic framework for companies operating in the property sector will remain favourable overall in 2017. By the end of the year, the occupancy rate should be around four percentage points higher than at the beginning of the year, while average rents should rise by 1 to 2 percent and net rental income should increase by more than 3 percent in 2017.

FFO I should rise to more than EUR 40 million in 2017, equivalent to an increase of around 50 percent, while FFO II should amount to around EUR 50 million.

The company's financial indicators will improve, in some cases significantly so, in 2017. Over the course of the year, LTV should decrease to around 55 percent – a target that has also not changed following the financing measures implemented in April, while average debt interest should decline to around 3.5 percent.

For its NAV, ADLER expects to see growth in a low double-digit percentage range in 2017.

/// REPORT ON EVENTS AFTER THE BALANCE SHEET DATE

In April, ADLER Real Estate AG executed a private placement to stock up its 2015/2020 bond by EUR 150 million at an interest rate of 2.5 percent. This way, ADLER has created additional financial scope enabling it to decide at short notice on the acquisition of smaller-scale portfolios on favourable terms. ADLER is currently reviewing portfolios of this kind on a total scale of several thousand units.

The 2014/2019 bond with a volume of EUR 130 million and an interest rate of 6.0 percent was terminated at the same time. This was repaid on 10 May 2017 at 101.5 percent of the nominal amount plus interest accumulated and as yet unpaid as at the repayment date. By taking this decision, ADLER has implemented the intention previously communicated for some

time now of repaying those liabilities with high interest rates as rapidly as possible and thus reducing its interest expenses and boosting its FFO.

With the invitation to the 2017 Annual General Meeting, the Management and Supervisory Boards proposed issuing bonus shares at a ratio of 1:10 to enable shareholders to participate in the company's successful growth in recent years.

At the beginning of May, ADLER introduced a Tenant App, an innovative instrument so far unique in the sector, which is intended to facilitate communication with tenants and boost tenant retention.

/// RESULTS FROM OPERATIONS, NET ASSETS AND FINANCIAL POSITION

RESULT 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 millions	Q1 2017	Q1 2016
Gross rental income	66.9	65.5
of which net rental income	43.9	42.0
Expenses from property lettings	-36.1	-34.8
Earnings from property lettings	30.8	30.7
Income from the sale of properties	27.4	21.6
Expenses from the sale of properties	-22.8	-16.1
Earnings from the sale of properties	4.6	5.5
Personnel expenses	-5.3	-4.3
Other operating income	2.3	1.5
Other operating expenses	-7.3	-5.0
Income from fair value adjustments of investment properties	7.7	4.8
Depreciation and amortisation	-0.3	-0.3
Earnings before interest and taxes (EBIT)	32.5	33.0
Net income from at-equity valued investment associates	0	0.6
Financial result	-24.3	-24.9
Earnings before taxes (EBT)	8.2	8.7
Consolidated net profit	3.0	4.5

Income and earnings from property lettings at previous year's level

Gross rental income, predominantly comprising income from property lettings, came to EUR 66.9 million in the first quarter of 2017 and was thus slightly higher than in the equivalent period in the previous year (EUR 65.5 million). At 48,233, the total number of rental units belonging to the ADLER Group at the end of the quarter was slightly higher than at the same point in the previous year (48,055 units). However, the acquisitions made in the first quarter did not yet contribute to income as the respective rights and obligations were only transferred at the end of the quarter.

Gross rental income nevertheless benefited from the further improvement achieved in our property management performance indicators. At the end of the first quarter of 2017,

the average contractually agreed rent per square metre per month amounted to EUR 5.04, EUR 0.10 higher than the figure for the equivalent quarter in the previous year (EUR 4.94). At 89.4 percent, the occupancy rate was also higher than one year earlier (88.8 percent). However, the occupancy rate decreased compared with the figure achieved by the end of the previous year. This was mainly due to the fact that, given the massive transition in tenant support services from external service providers to internal group property and facility management departments, it was not possible to avoid a certain degree of frictional losses. The Group's key performance data was additionally held back by the first-time inclusion of new holdings in Erfurt. Following proprietary project development, ADLER included these in its rental portfolio – and thus began marketing them – at the end of last year. This portfolio has developed positively, but was only partly let out at the end of the first quarter.

Expenses from property lettings comprise apportionable and unapportionable operating costs and maintenance expenses. On a full-year basis, ADLER expects these expense items to grow less rapidly overall than its gross rental income. This is because they include expenses for external property management service providers that should gradually be replaced by internal group services. This factor was not yet noticeable in the first quarter. At EUR 5.6 million, maintenance expenses were at the same level as in the previous year's quarter.

Net of expenses from property lettings, earnings from property lettings amounted to EUR 30.8 million in the first quarter of 2017. This key figure was at the same level as in the previous year's quarter (EUR 30.7 million).

Increase in income, but not earnings, from the sale of properties

ADLER Real Estate AG generated an income of EUR 27.4 million from the sale of properties in the first quarter of 2017, 26.9 percent higher than in the same quarter in the previous year. Expenses, largely corresponding to the carrying amounts of the units sold, nevertheless also increased significantly, as a result of which the remaining profit margin fell short of the equivalent previous year's figure. Earnings from the sale of properties came to EUR 4.6 million in the first three months of the current financial year, as against EUR 5.5 million in the first quarter of the previous year. These earnings were chiefly attributable to trading and privatisation activities at the group subsidiary ACCENTRO Real Estate AG.

Sales of non-core units – one of ADLER's strategic objectives since the beginning of 2015 and intended to increase the performance capacity of the overall portfolio – are not reflected in earnings to any significant extent as they were predominantly executed at the respective carrying amounts. A total of 108 units were sold from the non-core holdings identified at the Group. Such units are earmarked for sale as they no longer fit in with ADLER's business model.

Higher expenses offset by other income items and income from fair value adjustments of investment properties

The company's growth has automatically been accompanied by increases in most expense items. Part of this cost growth is nevertheless due to the withdrawal of tasks from external service providers in the context of the Group's realignment to become an integrated property group. These tasks have been assumed by internal group departments that have either been newly founded or had their personnel resources increased. As a result, the Group had a total of 425 employees at the end of the first quarter of 2017, 116 more than a year earlier. These employees mostly work at the subsidiaries dealing with property and facility management. The growth in the workforce is automatically reflected in personnel expenses, which reached EUR 5.3 million in the first quarter of 2017 (Q1 2016: EUR 4.3 million).

Other operating expenses amounted to EUR 7.3 million in the first quarter of 2017 (Q1 2016: EUR 5.0 million). This line item includes general administration expenses, office premise rents, IT expenses, legal and advisory expenses, impairments of receivables and public relations expenses. The increase in this item was mainly due to higher legal and consulting expenses incurred in connection with the sale of convert shares, the financing measures completed in April and the preparations now needed for the squeeze-out at Westgrund AG. No such activities occurred in the previous year's period. Furthermore, part of the increase is also due to the introduction of a uniform IT system landscape at the operating subsidiaries, a measure that became necessary upon the internalisation of property and facility management activities.

The increasing expenses were nearly fully offset by income from fair value adjustments of investment properties and by additional other income. Other operating income increased to EUR 2.3 million. In absolute terms, however, this item was only slightly higher than the previous year's figure (Q1 2016: EUR 1.5 million) in the first three months of the current financial year. The fair value measurement of investment properties generated an earnings contribution of EUR 7.7 million in the first quarter of 2017. This resulted from the revaluation of individual commercial units whose values had to be adjusted in line with changes in market circumstances. In the first three months of the previous year, unscheduled adhoc valuations led to an income of EUR 4.8 million.

EBIT close to previous year's figure

After the deduction of all non-financial expenses and income, earnings before interest and taxes (EBIT) for the first quarter of 2017 came to EUR 32.5 million and were thus close to the equivalent figure for the previous year (EUR 33.0 million).

Reduction in interest expenses

At minus EUR 24.3 million, the financial result for the first quarter of 2017 was slightly lower than the equivalent figure for the previous year's quarter (minus EUR 24.9 million). Due above all to the buyback of higher-interest promissory note bonds – around EUR 62 million in the third quarter of 2016 and EUR 30.0 million in the first quarter of 2017 – the company has managed to lower its interest charge. This reduction in interest expenses also benefited from ADLER Real Estate AG acquiring convertible bonds in the group company ACCENTRO Real Estate AG at a carrying amount of EUR 12.3 million. These bear interest at 6.25 percent.

This decrease in the financial result does not yet adequately reflect the efforts made to reduce the interest charge, as one-off expenses totalling EUR 3.5 million were incurred in the first quarter of 2017. Of these, EUR 2.0 million related to prepayment penalties due to the repayment of liabilities with higher interest rates prior to their respective maturities, while EUR 1.5 million resulted from the reversal of the reserves recognised in equity in the previous year for the shares held in convert. Furthermore, compared with the previous year's quarter, additional interest expenses resulted from the convertible bond issued by ADLER Real Estate AG in the third quarter of 2016 with a total nominal value of EUR 137.9 million and an interest rate of 2.5 percent.

Financial income increased slightly compared with the previous year.

Net of the financial result and income from investments accounted for using the equity method, which fell to zero following the sale of the convert shares, earnings before taxes (EBT) amounted to EUR 8.2 million in the first three months of 2017 (Q1 2016: EUR 8.7 million).

Income tax expenses came to EUR 5.2 million in the first quarter of 2017 (Q1 2016: EUR 4.2 million). Net of taxes, consolidated net profit for the period under report amounted to EUR 3.0 million (Q1 2016: EUR 4.5 million). Of consolidated net profit, EUR 1.5 million was attributable to shareholders in the parent company (Q1 2016: EUR 3.4 million).

Segment reporting

In its segment reporting, ADLER Real Estate AG distinguishes between its Rental and Trading 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, including the brokerage business on behalf of third parties. The “Other” column mainly comprises other group activities that do not constitute standalone segments. These mainly involve historic

holdings relating to development projects that have been sold off since the Group’s realignment or are still in the process of being sold off.

The allocation of income and earnings 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	
	Q1 2017	Q1 2016 ¹⁾	Q1 2017	Q1 2016 ¹⁾	Q1 2017	Q1 2016	Q1 2017	Q1 2016
In EUR millions								
Gross rental income and income from the sale of properties	20.8	20.5	73.5	66.0	0.0	0.6	94.3	87.1
of which gross rental income	1.9	1.8	64.9	63.6	0.0	0.1	66.9	65.5
of which income from disposals	18.5	18.5	8.6	2.4	0.0	0.5	27.1	21.3
of which income from brokerage	0.4	0.3	-	-	-	-	0.4	0.3
Change in the value of investment properties	-	-	7.7	4.8	-	-	7.7	4.8
Earnings before interest and taxes (EBIT)	4.8	5.7	27.9	27.2	-0.1	0.0	32.5	33.0
Income from investments accounted for using the at-equity method	-	-	-	0.6	-	-	-	0.6
Financial result	-1.6	-1.3	-22.7	-23.5	0.0	0.0	-24.3	-24.9
Earnings before taxes (EBT)	3.2	4.4	5.2	4.3	-0.1	0.0	8.2	8.7

¹⁾ Amended statement: please see comments under “Segment Reporting” in the notes for the group financial statements

Further increase in funds from operations (FFO)

As is customary in the real estate sector, to assess the profitability of its operating business ADLER Real Estate AG refers to funds from operations (FFO) as its major cash flow-based 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.

As is documented in the overview provided below, FFO is determined by first calculating earnings before interest, taxes, depreciation and amortisation, impairment losses and income from fair value adjustments of investment properties (EBITDA IFRS) and then adjusting this figure to exclude non-recurring

and extraordinary items. The adjustments made involve items that are of a non-period nature, recur irregularly, are untypical to operations or not cash-effective. These relate in particular to the optimisation of existing and development of new business fields and business processes, acquisition and integration expenses arising in the context of acquisitions, refinancing expenses and capital-related measures and further one-off items such as settlements and impairments of receivables. Interest expenses directly incurred in connection with the operating business are then deducted from this adjusted EBITDA figure (FFO interest charge), as are any earnings generated from the sale of properties and current income taxes. Any investments made to maintain the substance of the properties but which have not been capitalised are then added.

In EUR millions	Q1 2017	Q1 2016
Consolidated net profit	3.0	4.5
+ Financial result	24.3	24.9
+ Income taxes	5.2	4.2
+ Depreciation and amortisation	0.3	0.3
- Income from measurement of investment properties	7.7	4.8
- Income from investments accounted for using the at-equity method	0.0	0.6
EBITDA IFRS	25.1	28.4
+/- Non-recurring and extraordinary items	2.7	2.5
Adjusted EBITDA	27.8	31.0
- Interest expense FFO	18.1	19.9
- Current income taxes	0.2	0.2
+ Capitalisable maintenance measures	2.8	1.0
- Earnings before interest and taxes from the sale of properties	4.4	6.2
FFO I	7.9	5.7
+ Earnings after interest and taxes from the sale of properties	2.2	3.4
- Interest from investments accounted for using the at-equity method	0.2	0.8
+ Value change realised upon sale	-0.7	0.0
+ Liquidity-related income from investments accounted for using at-equity method	0.2	0.6
FFO II	9.4	8.9
Number of shares (basic) ¹⁾	58,317,088	56,709,297
FFO I per share (basic)	0.13	0.10
FFO II per share (basic)	0.16	0.16
Number of shares (diluted) ²⁾	64,051,744	64,051,744
FFO I per share (diluted)	0.12	0.09
FFO II per share (diluted)	0.15	0.14

¹⁾ 47,711,028 shares as at balance sheet date (previous year: 46,103,237) plus 10,606,060 shares from assumed conversion of mandatory convertible bonds (previous year: 10,606,060) which are considered as equity

²⁾ Plus 5,743,656 shares from assumed conversion of all other convertible bonds with entitlement to conversion (previous year: 7,342,447)

Non-recurring and extraordinary items are structured as follows:

Non-recurring and extraordinary items In EUR millions	Q1 2017	Q1 2016
Non-cash income/expenses and one-off payments	0.0	1.9
Costs of acquisition/integration	0.2	0.1
Optimisation of business model, structuring	2.5	0.5
Total of non-recurring and extraordinary items	2.7	2.5

The FFO interest charge is derived as follows:

Interest expense FFO In EUR millions	Q1 2017	Q1 2016
Interest income	0.7	0.3
Interest expenses	25.0	-25.2
Total interest income	-24.3	-24.9
Adjustments		
Interest expenses from the sale of properties	1.1	1.8
Prepayment compensation and provision costs	2.1	0.3
Effects of measurement of primary financial instruments	1.4	2.9
Other adjustments	1.6	0
Interest expenses FFO	-18.1	-19.9

Calculated this way, FFO I for the first quarter of 2017 amounted to EUR 7.9 million, more than EUR 2.2 million or 38.6 percent higher than the figure for the previous year's period (EUR 5.7 million). The FFO II figure is reported at EUR 9.4 million and thus also exceeds the equivalent figure for the previous year (EUR 8.9 million).

Calculated on an undiluted basis (shares issued plus shares arising from conversion of the mandatory convertible bond allocated to share capital), FFO I per share amounted to EUR 0.13 in the first quarter of 2017. On a diluted basis (shares issued plus shares arising from conversion of the mandatory convertible bond allocated to share capital plus shares from the assumed conversion of the other convertible bonds to the extent that they are already convertible), FFO I per share came to EUR 0.12.

NET ASSETS

In EUR millions	31.03.2017	as percentage of total assets	31.12.2016	as percentage of total assets
Non-current assets	2,610.1	83.4	2,577.6	75.1
of which investments properties	2,474.4	79.0	2,442.0	71.2
Current assets	502.2	16.0	418.2	12.2
of which inventories	237.9	7.6	227.1	6.6
of which cash and cash equivalents investments	192.0	6.1	123.9	3.6
Non-current assets held for sale	18.4	0.6	434.7	12.7
Assets	3,130.7	100.0	3,430.5	100.0
Equity	895.8	28.6	914.2	26.6
of which capital stock	47.7	1.5	47.7	1.4
of which capital reserve	329.2	10.5	352.1	10.3
of which net retained profit	447.3	14.3	445.7	13.0
Non-current liabilities	2,030.2	64.8	2,111.2	61.5
of which liabilities from convertible bonds	132.1	4.2	143.9	4.2
of which liabilities from bonds	500.2	16.0	509.5	14.9
of which financial liabilities to banks	1,248.5	39.9	1,312.5	38.3
Current liabilities	196.6	6.3	397.5	11.6
of which financial liabilities to banks	120.9	3.9	320.3	9.3
Liabilities held for sale	8.1	0.3	7.6	0.2
Equity and liabilities	3,130.7	100.0	3,430.5	100.0

Both the balance sheet total (total assets) and the balance sheet structure changed significantly in the first quarter of 2017 due to the sale of the shares held in conwert Immobilien Invest SE and the acquisition of the portfolio of 701 rental units close to Bremen. As at 31 December 2016, ADLER Real Estate AG reported assets of EUR 3,430.5 million. Three months later, on 31 March 2017, this figure was 8.7 percent lower (EUR 3,130.7 million). Above all, this is because the proceeds from the sale of the conwert shares were partly used to repay current liabilities of around EUR 199.7 million and non-current liabilities of EUR 30.0 million.

Acquisition-driven expansion in investment properties

Investment properties had a market value of EUR 2,474.4 million at the end of the first quarter of 2017, 1.3 percent higher than at the end of the previous year (EUR 2,442.0 million). This growth was chiefly driven by the acquisition of the property portfolio of 701 rental units close to Bremen. The revaluation of existing property holdings contributed EUR 7.7 million in the first quarter.

Investment properties accounted for 79.0 percent of total assets at the end of the first quarter of 2017.

Following the sale of the shareholding of around 26 percent in conwert Immobilien Invest SE, non-current assets held for sale – the second-largest item on the asset side of the balance sheet at the end of the previous year – have now been virtually annulled. At the end of 2016, this item amounted to EUR 434.7 million but by the end of the first quarter of 2017 it only included assets of EUR 18.4 million.

Properties held for trading have been recognised under inventories at an amount of EUR 237.9 million at the end of the first three months. This corresponds to an increase of 4.8 percent compared with the balance at the end of the previous year (EUR 227.1 million). ACCENTRO, the group company operating in the trading and privatisation business, sold a total of 169 units from its holdings in the first quarter and acquired 154 units with correspondingly higher fair values. ACCENTRO also acquired further units whose rights and obligations had not yet been transferred as at the balance sheet date. Inventory properties are measured at cost, which usually falls significantly short of the respective market value.

The three aforementioned items cover all of the properties holdings at ADLER Real Estate AG and together account for 87.2 percent of the company's total assets.

Solid liquidity resources

Current assets amounted to EUR 502.2 million at the end of the first quarter of 2017. The increase compared with the end of the previous year was partly due to the growth in inventory properties referred to above. To a greater extent, however, this increase resulted from cash and cash equivalents which, due above all to the sale of the conwert shares, rose from EUR 123.9 million to EUR 192.0 million. ADLER does not intend to retain those cash and cash equivalents exceeding its working capital requirements on a permanent basis. The funds are rather to be used to repay liabilities with higher interest rates or to acquire additional property portfolios.

Equity decreases, equity ratio increases

Due to the liabilities already redeemed, the financing structure of ADLER Real Estate AG moved towards a higher share of equity in the first quarter of 2017. The equity ratio came to 28.6 percent and was thus 2.0 percentage points higher than at the end of the previous year (26.6 percent).

Equity decreased from EUR 914.2 million to EUR 895.8 million in the period under report. This was due to the EUR 22.8 million charge on the capital reserve. This item resulted from the acquisition of convertible bonds in the group company ACCENTRO, a transaction serving to stabilise the prorated shareholding in ACCENTRO and reduce liabilities with higher interest rates.

Reduction in non-current liabilities

Non-current liabilities amounted to EUR 2,030.2 million as at 31 March 2017, EUR 81.0 million lower than at the end of the previous year (EUR 2,111.2 million). In addition to scheduled repayments, higher-interest promissory note bonds of EUR 30.0 million were also repaid in the first quarter. Bond liabilities decreased due to the termination of a bond with a nominal value of EUR 10 million at the group company ACCENTRO, which was reclassified to current liabilities following its termination. Liabilities for convertible bonds also decreased due to the buyback of corresponding papers at ACCENTRO.

Of non-current liabilities, a sum of EUR 1,248.5 million – and thus the major share – involves secured liabilities to banks. Corporate bonds result in capital market liabilities of EUR 500.2 million, while convertible bonds account for EUR 132.1 million.

Current liabilities amounted to EUR 196.6 million at the end of the first quarter of 2017, EUR 200.9 million lower than at the end of the previous year (EUR 397.5 million). Above all, this reduction reflects the repayment of liabilities of EUR 199.7 million that had served to finance the acquisition of conwert shares and were repaid following the sale of these shares.

Net financial liabilities amounted to EUR 1,829.1 million at the end of the first three months of the current financial year and thus decreased substantially compared with the end of the previous year (EUR 2,172.1 million).

Loan to value (LTV) approaches target value

The ratio of financial liabilities to total assets (loan to value), with both figures adjusted to exclude cash and cash equivalents, amounted to 62.2 percent at the end of the period under report, 3.5 percentage points lower than at the beginning of the year (65.7 percent). Assuming that the convertible bonds outstanding at the reporting date are converted into

shares, LTV would amount to 57.7 percent, 3.6 percentage points lower than at the end of 2016.

ADLER thus made substantial progress in the first three months of the current financial year alone towards reaching the target it has set itself for 2017 of reducing LTV to 55 percent.

In EUR millions	31.03.2017	31.12.2016
Convertible bonds	132.8	145.4
+ Bonds	518.9	517.7
+ Financial liabilities to banks	1,369.5	1,632.8
- Cash and cash equivalents	192.0	123.9
= Net financial liabilities	1,829.1	2,172.1
Assets¹⁾	2,938.7	3,306.6
LTV including convertible bonds in %	62.2	65.7
LTV excluding convertible bonds in %	57.7	61.3

¹⁾ Adjusted for cash

Despite extensive debt repayments, it was not possible to further reduce the weighted average cost of debt (WACD) for all of the ADLER Group's liabilities in the first quarter. This was mainly because the current liabilities redeemed in the period under report had comparatively low interest rates. WACD amounted to 3.78 percent at the end of the first quarter, compared with 3.69 percent at the end of 2016. ADLER

is nevertheless upholding its objective of reducing its WACD to 3.45 percent by the end of the year by reducing higher-interest liabilities. After the end of the quarter under report, for example, the 2014/2019 corporate bond, which charged interest at 6.0 percent, was terminated and already repaid on 10 May.

No further increase in net asset value (EPRA NAV) in first quarter

ADLER Real Estate AG 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 end of the first quarter of 2017, NAV reached EUR 1,055.0 million. Due to the aforementioned negative factor impacting on equity, NAV was 1.4 percent lower than at the end of 2016 (EUR 1,069.9 million). For the year as a whole, ADLER expects NAV to increase in a low double-digit percentage range, an increase that still

appears realistic given the revaluations of properties due in the course of the year.

Based on the total number of existing shares in circulation at the balance sheet date plus the shares resulting from the assumed conversion of the mandatory convertible bond counted as equity, undiluted EPRA NAV per share amounted to EUR 18.09 at the end of the first quarter of 2017.

Diluted EPRA NAV per share amounted to EUR 16.70. ADLER Real Estate AG bases its NAV calculation on the equity attributable to shareholders in the parent company.

In EUR millions	31.03.2017	31.12.2016
Equity	895.8	914.2
Non-controlling interests	-72.4	-71.0
Equity attributable to ADLER shareholders	823.4	843.2
Deferred tax liabilities	173.4	169.5
Difference between fair values and carrying amounts of inventory properties	53.5	52.1
Fair value of derivative financial instruments	6.6	7.4
Deferred taxes for derivative financial instruments	-2.0	-2.2
EPRA NAV	1,055.0	1,069.9
Number of shares, basic ¹⁾	58,317,088	58,308,434
EPRA NAV per share in EUR	18.09	18.35
Number of shares, diluted ²⁾	64,051,744	64,051,744
EPRA NAV per share (diluted) in EUR	16.70	16.93

¹⁾ 47,711,028 shares as at balance sheet date (previous year: 47,702,374) plus 10,606,060 shares from assumed conversion of mandatory bond (previous year: 10,606,060)

²⁾ Plus 5,734,656 shares from assumed conversion (if possible) of other convertible bonds (previous year: 5,743,310)

FINANCIAL POSITION

In EUR millions	Q1 2017	Q1 2016
Cash flow from operating activities	-0.6	18.8
Cash flow from investing activities	389.8	14.0
Cash flow from financing activities	-321.1	-14.6
Cash-effective change in cash and cash equivalents	68.1	18.2
Cash and cash equivalents at beginning of period	123.9	49.5
Cash and cash equivalents at end of period	192.0	67.7

At EUR -0.6 million, the cash flow from operating activities in the first three months of the current financial year fell short of the previous year's equivalent figure (EUR 18.8 million). This development was influenced in particular by the increase in trading properties at ACCENTRO (outgoing payments of EUR 11.1 million), which contrasted with the reduction in property holdings in the previous year's period (incoming payments of EUR 6.0 million). At EUR 10.5 million, by contrast, the operating cash flow before divestments/reinvestments was only slightly lower than in the previous year (EUR 12.8 million). The difference here was due in particular to tax payments of EUR 2.6 million made in the first three months of the 2017 financial year.

The cash flow from investing activities led to an overall inflow of funds of EUR 389.8 million in the first quarter of 2017. An amount of EUR 416.3 million was attributable to the sale of the shares held in conwert Immobilien Invest SE. This item was countered by an outflow of funds of EUR 28.5 million for the acquisition of a portfolio close to Bremen and investments of EUR 5.4 million in existing holdings, part of which related to the programme aimed at reducing vacancy rates.


Financing activities resulted in an overall outflow of funds amounting to EUR -321.1 million in the first quarter of 2017. This was the extent by which funds were channelled into interest payments and repayments of existing financing facilities. Repayments particularly included current liabilities of EUR 199.7 million which had served to finance the acquisition of the conwert shares and non-current promissory note bond liabilities of EUR 30.0 million.

As at 31 March 2017, the ADLER Group had financial funds (cash and cash equivalents) of EUR 192.0 million.


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

OVERALL SUMMARY OF BUSINESS PERFORMANCE AND POSITION OF GROUP

Given the further development of existing property portfolios, the successful initiation of the Group's realignment, the ongoing improvement in its financing structure and the financing facilities secured on a long-term basis, the business performance and position of the Group are assessed as positive. A foundation has therefore been laid for a stable performance in the future.



ADLER made progress in its financial consolidation in the first quarter of 2017 and reduced its LTV by 3.6 percentage points to 57.7 percent.



*/// Group interim financial
statement as at
31 March 2017*

/// CONSOLIDATED BALANCE SHEET

(IFRS) as at 31 March 2017

In EUR '000	31.03.2017	31.12.2016
Assets	3,130,709	3,430,477
Non-current assets	2,610,135	2,577,578
Goodwill	130,552	130,552
Intangible assets	461	583
Property, plant and equipment	2,869	3,434
Investment properties	2,474,356	2,441,988
Investments in associated companies	324	497
Other financial investments	206	69
Other non-current assets	275	48
Deferred tax assets	1,092	408
Current assets	502,197	418,211
Inventories	237,979	227,057
Trade receivables	13,960	11,749
Income tax receivables	1,586	1,407
Other current assets	56,651	54,086
Cash and cash equivalents	192,021	123,911
Non-current assets held for sale	18,377	434,688

In EUR '000	31.03.2017	31.12.2016
Equity and liabilities	3,130,709	3,430,477
Shareholders' equity	895,842	914,222
Capital stock	47,711	47,702
Capital reserve	329,235	352,105
Retained earnings	-921	-2,510
Currency translation reserve	92	90
Net retained profit	447,310	445,786
Equity attributable to owners of the parent company	823,427	843,174
Non-controlling interests	72,415	71,048
Non-current liabilities	2,030,234	2,111,222
Pension reserves	4,882	4,954
Deferred tax liabilities	117,751	113,142
Other provisions	1,872	1,622
Liabilities from convertible bonds	132,111	143,870
Liabilities from bonds	500,213	509,454
Financial liabilities to banks	1,248,527	1,312,502
Other non-current liabilities	24,877	25,677
Current liabilities	196,552	397,482
Other provisions	2,945	3,926
Income tax liabilities	11,522	13,969
Liabilities from convertible bonds	681	1,554
Liabilities from bonds	18,670	8,281
Financial liabilities to banks	120,941	320,328
Trade payables	22,541	22,492
Other current liabilities	19,253	26,931
Liabilities held for sale	8,081	7,553

/// CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(IFRS) for the period from 1 January to 31 March 2017

In EUR '000	3M 2017	3M 2016
Gross rental income	66,869	65,479
Expenses from property lettings	-36,117	-34,749
Earnings from property lettings	30,753	30,730
Income from the sale of properties	27,460	21,633
Expenses from the sale of properties	-22,828	-16,125
Earnings from the sale of properties	4,632	5,508
Personnel expenses	-5,279	-4,315
Other operating income	2,286	1,545
Other operating expenses	-7,302	-5,037
Income from fair value adjustments of investment properties	7,677	4,811
Depreciation and amortisation	-261	-278
Earnings before interest and tax (EBIT)	32,505	32,964
Financial income	698	330
Financial costs	-24,991	-25,207
Net income from at-equity valued investment associates	0	640
Earnings before taxes (EBT)	8,211	8,727
Income taxes	-5,173	-4,247
Consolidated net profit	3,038	4,480
OCI SWAP – reclassifiable	0	118
Deferred taxes OCI – reclassifiable	0	-38
Gains/losses from currency translation	2	-4
Change in value of interests in companies accounted for under at equity	1,589	288
OCI gains/losses reclassifiable into profit or loss	1,592	364
Total comprehensive income	4,630	4,844
Profit attributable to:		
Owners of the parent company	1,525	3,429
Non-controlling interests	1,513	1,051
Total comprehensive income attributable to:		
Owners of the parent company	3,117	3,793
Non-controlling interests	1,513	1,051
Earnings per share, basic (EUR)	0.03	0.06
Earnings per share, diluted (EUR)	0.03	0.06

/// CONSOLIDATED STATEMENT OF CASH FLOWS

(IFRS) for the period from 1 January to 31 March 2017

In EUR '000	3M 2017	3M 2016 ¹⁾
Earnings before interest and taxes (EBIT)	32,505	32,964
+ Depreciation and amortisation	261	278
-/+ Net income from fair value adjustments of investment properties	-7,677	-4,811
-/+ Non-cash income/expenses	1,327	1,129
-/+ Changes in provisions and accrued liabilities	-803	137
-/+ Increase/decrease in inventories, trade receivables and other assets not attributable to investment or financing activities	-956	-5,313
-/+ Increase/decrease in trade payables and other liabilities not attributable to investment or financing activities	-12,132	-11,492
+ Interest received	440	2
+ Dividends received	173	0
+/- Tax payments	-2,632	-83
= Operating cash flow before de-/reinvestment into the trading portfolio	10,506	12,811
-/+ Increase/decrease in inventories (commercial properties)	-11,128	6,000
= Net cash flow from operating activities	-622	18,811
- Acquisition of subsidiaries, net of cash acquired	-488	0
- Purchase of investment properties	-33,855	-7,459
+ Disposal of investment properties, net of cash disposed	8,247	21,641
- Purchase of property, plant and equipment	-176	-152
+ Disposal of property, plant and equipment	8	0
+ Proceeds from deinvestments of financial assets less costs to sell	416,260	0
- Investments in financial assets	-137	0
= Net cash flows from investing activities	389,859	14,030
+ Proceeds from issue of bonds	0	13,930
- Payments for acquisition of convertible bonds	-35,127	0
- Payments from issuing debt	0	-14
- Interest payments	-23,276	-15,400
+ Proceeds from bank loans	16,878	7,730
- Repayment of bank loans	-279,602	-20,848
= Net cash flows from financing activities	-321,127	-14,602
Reconciliation to consolidated balance sheet		
Cash and cash equivalents at beginning of periods	123,911	49,502
Net cash flow from operating activities	-622	18,811
Net cash flow from investing activities	389,859	14,030
Net cash flow from financing activities	-321,127	-14,602
= Cash and cash equivalents at end of periods	192,021	67,741


¹⁾ 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 31 March 2017

In EUR '000	Subscribed capital	Capital reserve
As at 1 January 2016	46,103	449,360
Net result	0	0
Other result – reclassifiable	0	0
Change in scope of consolidation	0	0
Conversion of convertible bonds	0	0
As at 31 March 2016	46,103	449,360
As at 1 January 2017	47,702	352,105
Net result	0	0
Other result – reclassifiable	0	0
Change in scope of consolidation	0	0
Increase/decrease in shareholding with no change in status	0	0
Acquisition of convertible bonds	0	-22,883
Conversion of convertible bonds	9	13
As at 31 March 2017	47,711	329,235

Retained profit	Currency translation reserve	Net profit/loss	Capital and reserves attributable to the shareholders of the parent company	Minority interests	Total equity
-88	92	223,891	719,358	58,562	777,921
0	0	3,429	3,429	1,051	4,480
368	-3	0	365	0	365
0	0	0	0	0	0
0	0	0	0	80	80
280	89	227,320	723,152	59,693	782,846
-2,510	90	445,786	843,173	71,048	914,222
0	0	1,525	1,525	1,513	3,038
1,589	2	0	1,591	0	1,591
0	0	0	0	-2	-2
0	0	0	0	-488	-488
0	0	0	-22,883	0	-22,833
0	0	0	22	343	365
-921	92	447,310	823,427	72,415	895,842



ADLER's group-internal property and facility management took over the administration of a further 10,000 rental units in proprietary portfolios in the first quarter of 2017.



/// Selected notes on the group interim
financial statements in accordance with IFRS
as at March 2017

/// SELECTED NOTES TO THE 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 Joachimsthaler Strasse 34, Berlin, Germany. The company is entered in the Commercial Register of Charlottenburg District Court under HRB 180360. Its financial year is the calendar year.

ADLER is a publicly listed real estate company focusing on establishing and developing a substantial and profitable property portfolio. Its activities are centred on the acquisition and management of residential properties throughout Germany.

ADLER’s activities have the objective of investing in residential properties which 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 (hereinafter “ACCENTRO”).

BASIS OF ACCOUNTING

Basis of preparation

The interim consolidated financial statements as at 31 March 2017 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. ADLER has adjusted the valuation of its investment properties to changes in the market environment. No other 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 thousands). Statements 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 at 31 December 2016, which form the basis for these interim consolidated financial statements.

Accounting standards applicable for the first time in the 2017 financial year

To date, there have been no amendments to standards or interpretations requiring first-time mandatory application in the EU in the 2017 financial year.

No premature application has been made of new standards and interpretations only requiring mandatory application from 1 January 2018.

BASIS OF CONSOLIDATION

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 variable 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 “Consolidation principles” section of the 2016 Annual Report.

SCOPE OF CONSOLIDATION AND BUSINESS COMBINATIONS

Including the parent company, the scope of consolidation includes a total of 128 companies (31 December 2016: 127) which are fully consolidated and a further five companies that are recognised at equity.

Three companies were newly included in the scope of consolidation in the period under report. Two companies were merged into other companies within the scope of consolidation.

The new additions result from the founding of three new companies for the privatisation business. Following the exit of one shareholder in each case, MBG Moosburg GmbH & Co. KG and Dritte ADLER Real Estate GmbH & Co. KG were each merged into the respective remaining shareholder within the scope of consolidation.

These measures did not have any material implications for the Group's net assets, financial position or results of operations.

SEGMENT REPORTING

The ADLER Group is organised into the following segments:

1. Rental: This segment chiefly comprises investment properties. It also includes a small number of inventory properties not allocated to the Trading segment.
2. Trading: This segment includes purchases and sales of properties, in which individual apartments are generally sold to private investors. The brokerage business associated with the privatisation of residential properties is also allocated to this segment. As the properties are temporarily owned by the company, alongside income from the sale of properties, a low volume of gross rental income is also reported in this segment.

Other Group activities that do not constitute standalone segments are pooled in the "Other" column. These mainly relate to historic holdings at ADLER that have already been or are in the process of being sold.

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). As the Group only trades in properties that are located in Germany, no geographical segmentation has been performed.

In the course of the strategic alignment of ACCENTRO, this subsidiary has focused on the Trading segment. Segment reporting was correspondingly adjusted in the fourth quarter of 2016. This particularly involves a higher share of ACCENTRO's personnel and financial expenses being allocated to the Trading segment. The previous year's comparative earnings figures have been correspondingly adjusted.

Income and EBIT for the period from 1 January 2017 to 31 March 2017 and for the previous year's comparative period are broken down across the segments as follows:

ADLER Group In EUR 000s – 3 months	Trading		Rental		Other		Group	
	2017	2016 ¹⁾	2017	2016 ¹⁾	2017	2016	2017	2016
Gross rental income and income from the sale of properties	20,790	20,520	73,492	66,015	47	577	94,329	87,112
thereof gross rental income	1,943	1,751	64,879	63,632	47	96	66,869	65,479
thereof income from sales	18,495	18,470	8,613	2,383	0	481	27,108	21,334
thereof income from brokerage	352	299	0	0	0	0	352	299
Change in the value of investment property	0	0	7,677	4,811	0	0	7,677	4,811
EBIT	4,753	5,748	27,883	27,186	-131	30	32,505	32,964
Income from investments accounted for using the equity method	0	0	0	640	0	0	0	640
Financial result	-1,584	-1,343	-22,715	-23,525	6	-9	-24,293	-24,877
Earnings before taxes (EBT)	3,169	4,404	5,166	4,303	-124	21	8,211	8,728

¹⁾ Amended statement

The Trading segment generated an income of EUR 20,790k in the first three months, of which EUR 18,495k (EUR 18,470k) resulted from sales. EBIT in this segment amounted to EUR 4,753k (EUR 5,748k) and earnings before taxes came to EUR 3,169k (EUR 4,404k).

Revenues in the Rental segment amounted to EUR 73,492k (EUR 66,015k). Gross rental income increased from EUR 63,632k to EUR 64,879k. Changes in the value of investment properties amounted to EUR 7,677k (EUR 4,811k) in the first three months of the year. Three-month EBIT in the Rental segment amounted to EUR 27,883k (EUR 27,186k), while earnings before taxes came to EUR 5,166k (EUR 4,303k).

The EBIT and Earnings before taxes were negatively affected by one-off items in the first three months; this particularly relates to the Rental segment. Personnel expenses rose overall by EUR 965k compared with the first three months of 2016. This is due to the fact that in the course of ADLER's realignment as an integrated real estate group, tasks have been removed from third-party service providers and taken over by departments within the Group that have either been newly created or whose personnel resources have been boosted. The total increase in other operating expenses by EUR 2,266k to EUR 7,302k was mainly due to legal and advisory costs incurred in connection with the redemption of financial liabilities and the announced squeeze-out at WESTGRUND AG (hereinafter "WESTGRUND"), as well as to the introduction of a uniform group-wide IT system landscape that was necessary to facilitate the internalisation of property and facility management activities. The redemption of financial liabilities with higher interest rates resulted in financial expenses of EUR 1,968k for prepayment penalties. The reversal of reserves recognised in equity resulting from the assignment of convert shares led to financial expenses of EUR 1,589k.

Segment assets, segment liabilities and segment investments were structured as follows as at 31 March 2017:

ADLER Group In EUR 000s as at 31 March 2017	Trading	Rental	Other	Consolidation	Group
Segment assets	300,305	2,845,068	9,831	-24,819	3,130,385
Investments accounted for using the equity method	298	26	0	0	324
Total segment assets	300,603	2,845,094	9,831	-24,819	3,130,709
Segment liabilities	161,567	2,087,880	10,239	-24,819	2,234,867
Segment investments	5,080	33,855	0	0	38,935

Segment assets, segment liabilities and segment investments were structured as follows as at 31 December 2016:

ADLER Group In EUR 000s as at 31 December 2016	Trading	Rental	Other	Consolidation	Group
Segment assets	290,198	3,157,181	7,681	-25,080	3,429,980
Investments accounted for using the equity method	472	25	0	0	497
Total segment assets	290,670	3,157,206	7,681	-25,080	3,430,477
Segment liabilities	160,068	2,374,046	7,223	-25,080	2,516,257
Segment investments	96,075	133,154	0	0	229,229

SELECTED NOTES ON THE CONSOLIDATED BALANCE SHEET

Investment properties

The carrying amount of investment properties amounted to EUR 2,474,356k as at the balance sheet date (31 December 2016: EUR 2,441,988k). This increase was chiefly due to EUR 28,500k being used for the acquisition as at 31 March 2017 of a real estate portfolio with 693 residential and eight commercial units in Osterholz-Scharmbeck and Schwanewede and measurement results of EUR 7,677k. These items were opposed by disposals, including IFRS 5 reclassifications, amounting to EUR 8,494k.

Inventories

Inventories include EUR 233,033k for properties acquired for sale (31 December 2016: EUR 219,523k), EUR 4,906k for advance payments (31 December 2016: EUR 7,486k) and EUR 41k for other inventories (31 December 2016: EUR 49k). The increase in inventory properties acquired for sale was mainly due to the acquisition by ACCENTRO for privatisation. This development was countered by retirements resulting from disposals of inventory properties at ACCENTRO.

Cash and cash equivalents

Cash and cash equivalents amounted to EUR 192,021k at the balance sheet date, as against EUR 123,911k at the end of the previous year. A sum of EUR 15,655k is subject to restraints on disposal (EUR 13,370k).

Non-current assets held for sale

With the approval of the Supervisory Board, in the 2016 financial year ADLER's Management Board decided to tender all of the shareholding in conwert Immobilien Invest SE ("conwert") held via ADLER's subsidiary MountainPeak Trading Ltd. ("MountainPeak") for the takeover bid addressed to conwert's shareholders on 5 September 2016 by Vonovia SE ("Vonovia"). Due to the tender commitment agreement with Vonovia, the shares were recognised as non-current assets held for sale for the first time in the 2016 financial year.

In December 2016, the ADLER Group tendered its shareholding of around 26 percent in conwert within the framework of the voluntary takeover bid successfully addressed by Vonovia to shareholders in conwert. With Vonovia's approval, it selected the option of cash consideration. In January 2017, the consideration was received for the assignment of the conwert shares within the voluntary takeover bid addressed by Vonovia to conwert's shareholders.

The shares were measured at the lower of their carrying amount and their fair value less costs to sell. As at 31 December 2016, fair value less costs to sell as based on the consideration offered in Vonovia's voluntary takeover bid was lower than the previous carrying amount. As a result, an impairment loss was recognised.

Apart from the reversal of the reserves recognised in equity for the conwert shares, the retirement of the shares at a carrying amount of EUR 416,260k has therefore not impacted on earnings in the 2017 financial year. The reversal of the reserves recognised in equity for the conwert shares led to expenses of EUR 1,589k, which have been recognised in the financial result in line with the impairment loss recognised in the previous year.

The other non-current assets held for sale include properties recognised at a value of EUR 18,377k (31 December 2016: EUR 18,428k), for which notarial purchase contracts were available at the balance sheet date. Liabilities relating to the properties sold have accordingly been reported as liabilities held for sale. The disposal of the non-current assets reported as held for sale in the previous year did not have any material impact on earnings, as the assets were already measured at fair value. This corresponded to the sale price for the properties less related expenses.

Shareholders' equity

The capital stock of ADLER AG amounted to EUR 47,711k as at 31 March 2017 (31 December 2016: EUR 47,702k) and is divided into 47,711,028 no-par ordinary shares (31 December 2016: 47,702,374) with one voting right per share.

The capital reserve decreased by EUR 22,883k, which corresponded to the capital share for the acquisition of convertible bonds in ACCENTRO.

ADLER further increased its shareholding in WESTGRUND without this resulting in any change of status.

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 as at the balance sheet date:

In EUR 000s	31.03.2017	31.12.2016
2013/2017 convertible bond	9,077	9,009
2013/2018 convertible bond	4,063	4,036
2015/2018 mandatory convertible bond	1,379	1,594
2016/2021 convertible bond	117,079	116,897
ACCENTRO AG 2014/2019 convertible bond	1,194	13,888
Total	132,792	145.424
thereof non-current	132,111	143,870
thereof current	681	1,554

The reduction in the liabilities for the ACCENTRO AG 2014/2019 convertible bond mainly resulted from the acquisition by ADLER of bonds with a nominal value of EUR 11,858k.

To the extent that they have not yet been converted as at the balance sheet date, the debt capital components of the convertible bonds have been recognised less prorated transaction costs and deferred taxes under non-current liabilities. Current bond liabilities involve the interest claims of the bondholders as at the balance sheet date.

Liabilities for bonds

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

In EUR 000s	31.03.2017	31.12.2016
2013/2018 bond	33,691	35,884
2014/2019 bond	128,009	129,761
2015/2020 bond	346,569	341,747
ACCENTRO AG 2013/2018 bond	10,614	10,443
Total	518,883	517,735
thereof non-current	500,213	509,454
thereof current	18,670	8,281

ACCENTRO has decided to prematurely repay its 2013/2018 bond. This bond, which has a total nominal volume of EUR 10 million, will be fully repaid on 26 June 2017 at a price of 101.5 percent plus interest accumulated on the nominal amount as at the repayment date. The bond liabilities have therefore been recognised under current liabilities as at the balance sheet date.

The nominal amounts of the bonds have been recognised less transaction costs and deferred taxes under non-current liabilities. These amounts are expensed on a time-apportioned basis using the effective interest method. The interest claims of the bondholders as at the balance sheet date have been recognised under current liabilities.

Financial liabilities to banks

Non-current financial liabilities to banks amounted to EUR 1,248,527k as at the balance sheet date (31 December 2016: EUR 1,312,502k). Of the reduction compared with the end of the previous year, EUR 29,782k was due to unscheduled repayments of promissory note bonds with higher interest rates.

Current financial liabilities to banks amounted to EUR 120,941k as at the balance sheet date (31 December 2016: EUR 320,328k). The reduction compared with the end of the previous year was mainly due to repayment of the loan to finance the acquisition of convert shares (EUR 199,707k including interest).

SELECTED NOTES ON THE STATEMENT OF COMPREHENSIVE INCOME

Gross rental income

Gross rental income is structured as follows:

In EUR 000s	3M 2017	3M 2016
Net rental income	43,916	42,036
Income from recoverable expenses	22,443	22,435
Other income from property management	510	1,008
Total	66,869	65,479

Expenses from property lettings

Expenses from property lettings are broken down as follows:

In EUR 000s	3M 2017	3M 2016
Apportionable and non-apportionable operating costs	30,232	28,928
Maintenance	5,615	5,653
Other property management expenses	269	168
Total	36,117	34,749

Income from the sale of properties

Income from the sale of properties is structured as follows:

In EUR 000s	3M 2017	3M 2016
Income from the sale of inventory properties	18,495	18,951
Income from the sale of investment properties	8,613	2,383
Brokerage revenue	352	299
Total	27,460	21,633

Income from the sale of inventory properties relates exclusively to disposals at ACCENTRO AG (previous year: EUR 18,470k).

Expenses from the sale of properties

Expenses from the sale of properties are structured as follows:

In EUR 000s	3M 2017	3M 2016
Retirement of inventory properties	13,660	13,339
Retirement of investment properties	8,332	2,109
Sales-related costs	618	496
Services procured for brokerage revenue	218	181
Total	22,828	16,125

Retirements of inventory properties relate exclusively to disposals at ACCENTRO AG (previous year: EUR 12,864k).

Income from the measurement of investment properties

Income from the measurement of investment properties amounted to EUR 7,677k (EUR 4,811k) and comprises an income of EUR 7,760k from fair value adjustments (EUR 4,849k) and expenses of EUR 83k for fair value adjustments (EUR 38k).

Financial costs

Financial costs are structured as follows:

In EUR 000s	3M 2017	3M 2016
Interest expenses for bank loans	11,192	14,245
Interest expenses for bonds	8,034	7,822
Interest expenses for convertible bonds	2,225	429
Other	3,540	2,711
Total	24,991	25,207

Other financial costs include a sum of EUR 1,968k for prepayment penalties in connection with repayments of financial liabilities with higher interest rates and a sum of EUR 1,589k for the reversal of the reserves recognised in equity for the convert shares. Reference is made in this respect to the comments under “Non-current assets held for sale”. In the previous year, other financial costs mainly related to interest swap expenses.

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 2016. 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 2016. Investment properties are still allocated to Level 3 in the fair value hierarchy.

OTHER DISCLOSURES

Related party disclosures

There have been no material changes in related parties compared with the information provided on 31 December 2016.

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 2016. A detailed description of these risks can be found in the notes to the consolidated financial statements as at 31 December 2016.

Events after the balance sheet date

In April 2017, the Supreme Court of the Republic of Austria confirmed the decisions taken by the Austrian Takeover Commission on 22 November 2016 in respect of ADLER's former shareholding in conwert. ADLER continues to reject the charges brought by the Takeover Commission and is reviewing further legal options.

In April 2017, ADLER successfully stocked up its 2015/2020 bond (EUR 350 million; 4.75 percent) by a sum of EUR 150 million at an issue price of 104.4 percent (equivalent to interest of around 2.5 percent). The net proceeds from the issue are mainly to be used to finance the acquisition of real estate portfolios, refinance liabilities with higher interest rates and for general company-related purposes.

In this regard, ADLER also decided to terminate the 2014/2019 bond (EUR 130 million; 6.0 percent) and to repay this prematurely on 10 May 2017 at 101.5 percent of the nominal amount of the bonds, plus (exclusively) the interest accumulated and not yet paid as at the repayment date.

With the invitation to the 2017 Annual General Meeting, the Management and Supervisory Boards proposed issuing bonus shares at a ratio of 1:10 to enable shareholders to participate in the company's successful growth in recent years.

Other than the above, no material events have occurred since the balance sheet date.

/// AFFIRMATION BY THE LEGAL REPRESENTATIVES

Statements Pursuant to § 37y No. 1 of the Securities Trading Act

“We hereby affirm to the best of our knowledge, pursuant to the applicable accounting principles for interim financial reporting, with due regard for the requirements of § 37w of the Securities Trading Act, that these 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.”

Berlin, 15 May 2017



Arndt Krienen
CEO



Sven-Christian Frank
COO

/// LEGAL REMARK

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 – an indicator of the 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, associates measured at equity results and one-off and non-recurring items – an 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 – an indicator of cash flow-based operating earnings excluding disposals.

FFO II

Funds from Operations II

FFO I plus earnings from disposals of investment property – an 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

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 – an 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 – an 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 – a 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 Krienen	Chairman of the Management Board
Sven-Christian Frank	Member of the Management Board
Company Facts	
Legal domicile	Berlin Charlottenburg, Berlin HRB 180360 B
Address	ADLER Real Estate Aktiengesellschaft Joachimsthaler Straße 34 10719 Berlin Phone: +49 30 398018 – 10 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 Phone: +49 30 2000914 – 29 E-Mail: r.grass@adler-ag.com
Capital stock	EUR 47,711,028 ¹⁾
Classification	47,711,028 ¹⁾ no-par value shares.
Arithmetical value	EUR 1 per share
Voting right	1 vote per share
Identification	WKN 500 800 ISIN DE0005008007 Ticker symbol ADL Reuters ADLG.DE
Designated sponsors	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
Financial year	Calendar year

¹⁾ As at 30 September 2016



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