ADLER REAL ESTATE

2014

Annual Report 2014

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Annual Report of

ADLER Real Estate Aktiengesellschaft

for the business year 2014

Key Financial Figures

in EUR '000			
Profit and loss key figures	**2014**	**2013**	**Change in %**
Gross rental income	83,882	17,839	370.2
Earnings from the sale of properties	2,386	635	275.7
Adjusted EBITDA	27,175	2,976	813.2
Balance sheet key figures			
Market value property portfolio	1,170,159	417,865	180.0
EPRA NAV	342,213,638	94,592,016	261.8
LTV in % *	68.7%	66.9%	2.7
EPRA NAV per share in EURO **	10.74	5.72	87.8
Non-financial key figures			
Number of rental units under management	25,559	7,797	227.8
thereof proprietary units	24,086	7,797	208.9
Number of units sold	1,217	16	7.506.3
thereof privatised units ***	837	n/a	n/a
thereof non-core units sold	380	16	2.275.0
Occupancy rate in % ****	87.2%	91.0%	-4.1
Monthly in-place rent in m² *****	5.02	5.14	-2.3
Number of employees (as at 31st Dec. 14)	102	20	410
Other key financials			
EBITDA	170,942	64,348	165.7
EBT	132,760	63,017	110.7
Consolidated net profit	111,571	46,876	138.0
Net cashflow from operating activities	16,749	11,934	40.3
Net cashflow from investing activities	-208,272	-94,199	121.1
Net cashflow from financing activities	217,688	88,076	147.2

* excluding convertible bonds

** based on the number of shares outstanding as at 31 December 2014

*** short financial year (six months 01 July 2014 to 31 December 2014)

**** proprietary rental units

***** in-place rent as at 31 December 2014

Key Property Portfolio Figures

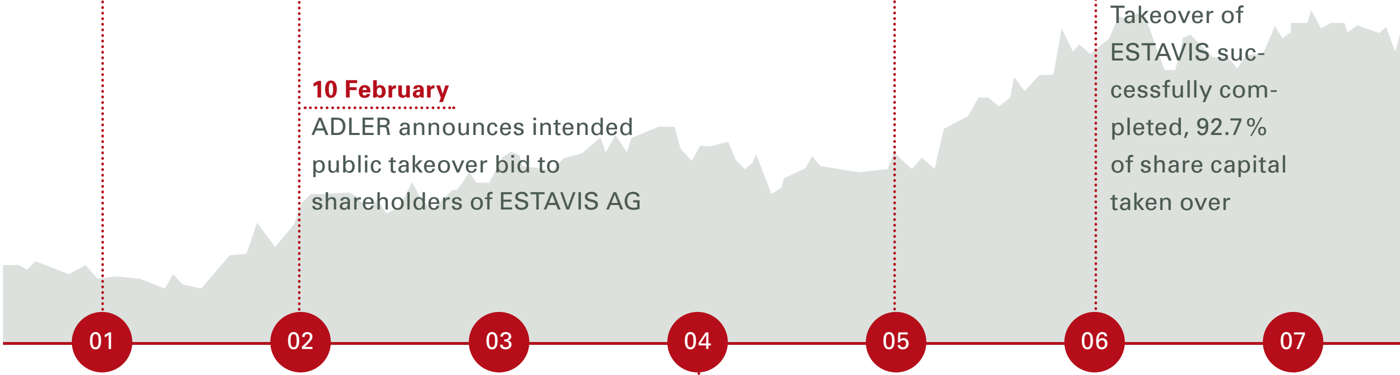
Federal State	Rental units	Total rental area in sqm	Proportion of total portfolio in % (sqm)	Average rent in EUR per sqm*	Occupancy rate in %	Market value in EUR
North Rhine-Westphalia	9,575	644,038	41.66	5.02	86.20	509,221
Saxony	4,633	288,191	18.64	4.60	85.58	185,767
Lower Saxony	3,055	188,063	12.17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

* Target rent as at 31 December 2014

** Excluding project development Erfurt, including non-current assets held for sale

Contents

ADLER Highlights 2014 until beginning of 2015



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

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

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

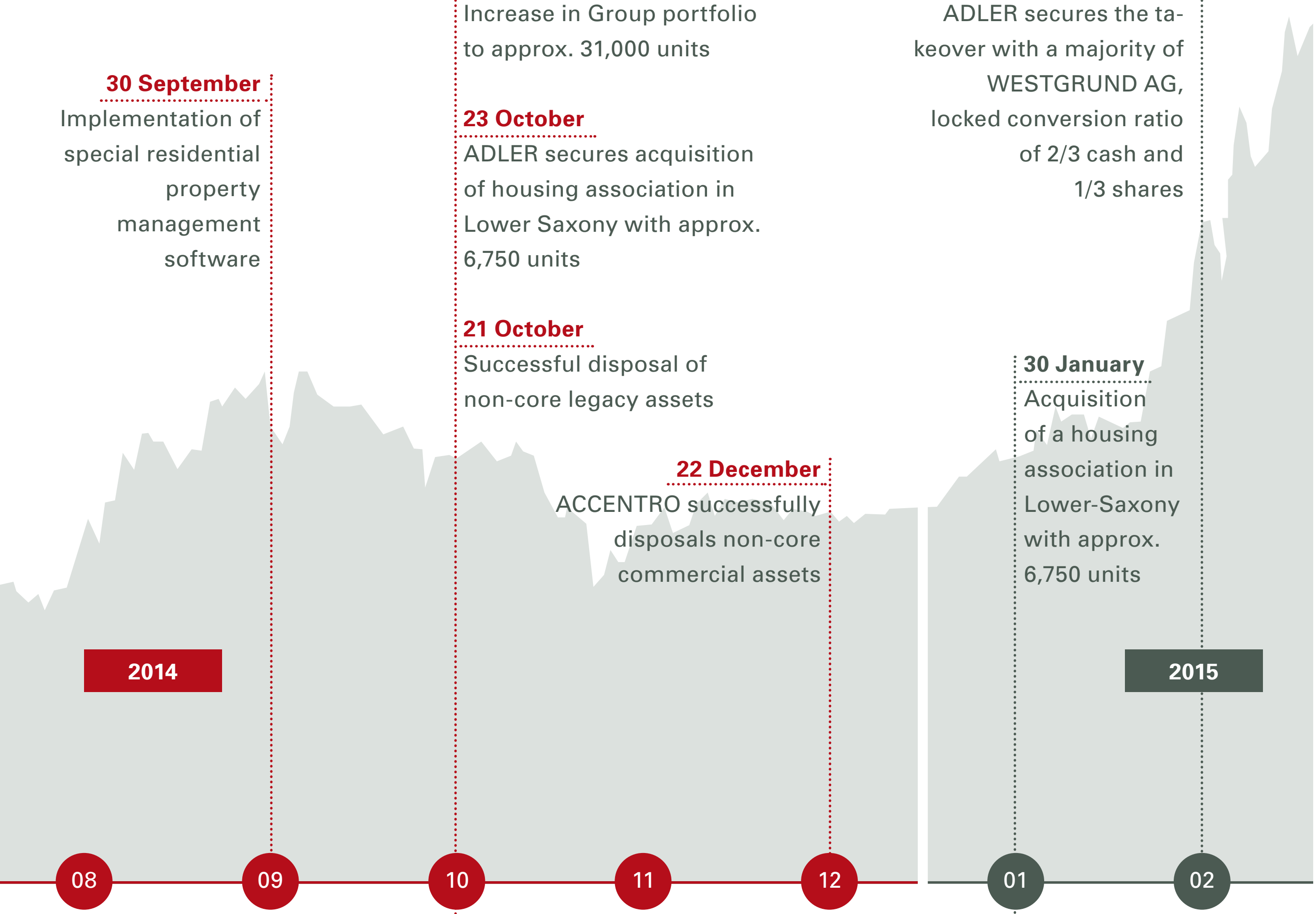
28 March
Corporate bond, EUR 50m

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

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

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

15 July
Corporate bond tap, EUR 50m



30 September
Implementation of special residential property management software

21 October
Successful disposal of non-core legacy assets

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

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

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

22 December
ACCENTRO successfully disposals non-core commercial assets

15 January
Corporate bond tap, EUR 30m

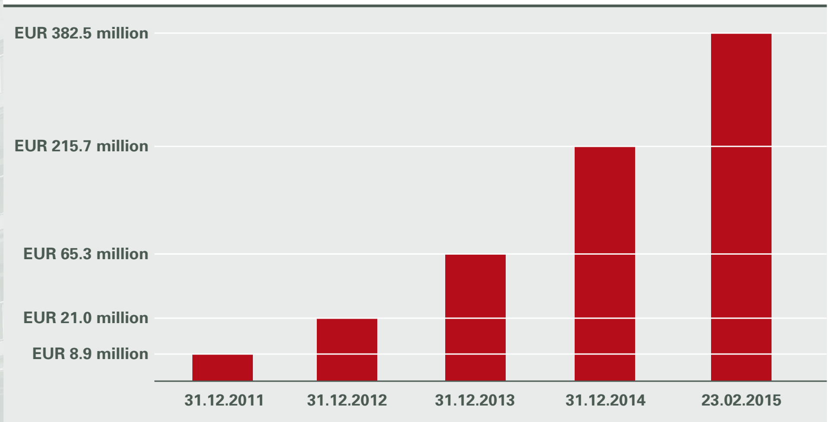
30 January
Acquisition of a housing association in Lower-Saxony with approx. 6,750 units

16 February
ADLER secures the ta-keover with a majority of WESTGRUND AG, locked conversion ratio of 2/3 cash and 1/3 shares

Building and Maintaining Value

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

Market capitalisation



Optimisation with Social Responsibility

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

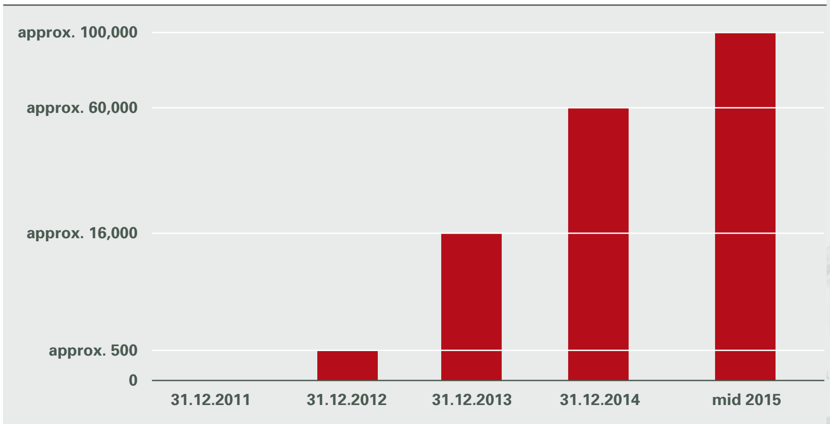
Selected portfolios are released for privatisation with a special focus on maintaining a balance between social responsibility and private initiative for capital investments and retirement planning.

ADLER Real Estate Apartments will have 100,000 tenants soon

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

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

Development of the number of tenants in ADLER apartments



Living with ADLER means a Secure Home

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

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

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

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

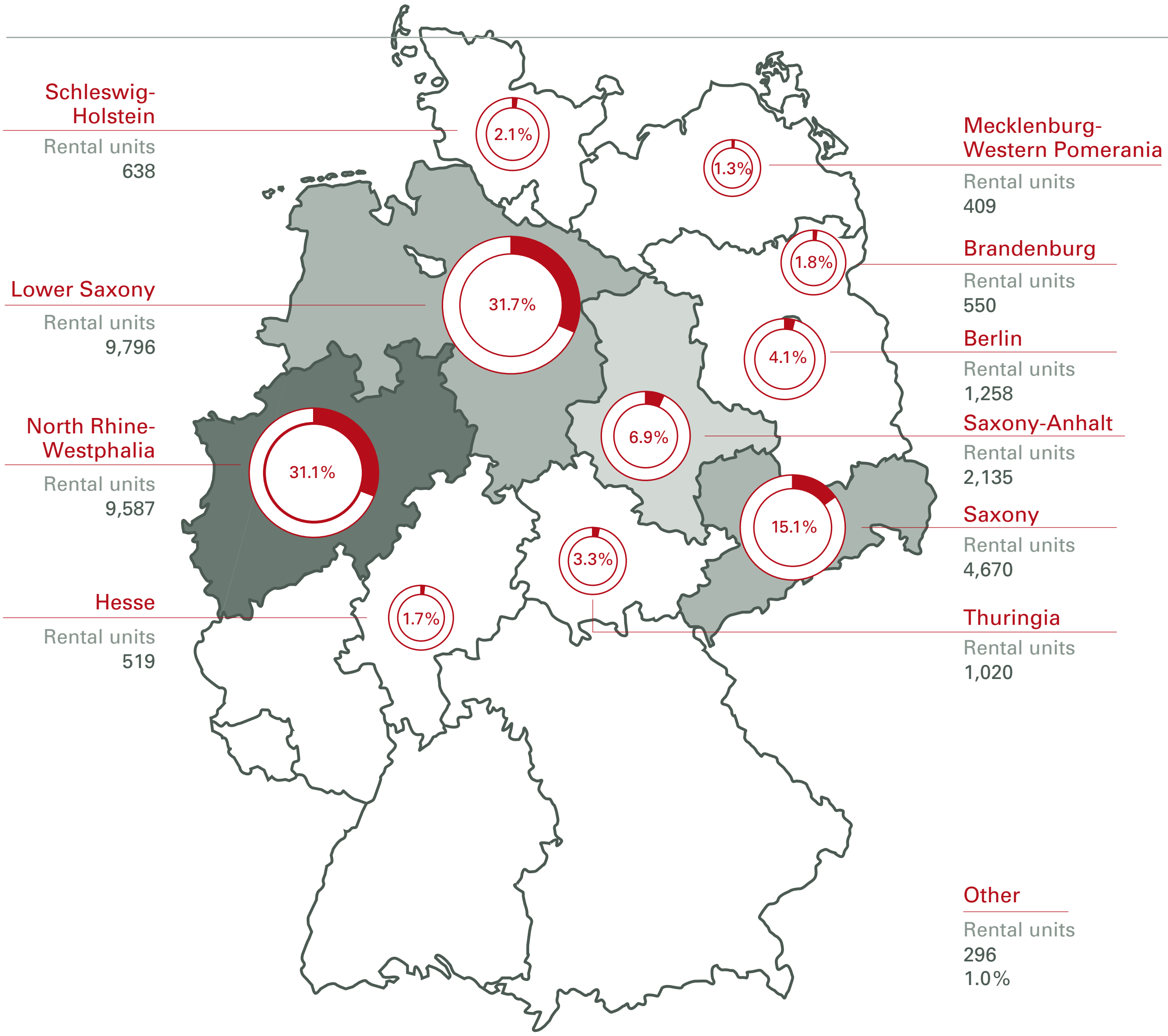
- Through its local partners, ADLER is already addressing the needs of the growing number of immigrants. In addition to suitable living space for families who are often large in number, advice is offered in dealing with public authorities and donations of toys, clothing and furniture as well as meals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

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

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

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

Distribution of the Portfolios in Germany



Data as of January 31, 2015

"In 2014, ADLER acquired residential real estate portfolios with a total of around 23,000 rental units."

Top Seven Residential Property Locations owned by ADLER Real Estate AG

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

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

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

1: Wilhelmshaven

403,028 m²
rental area

6,849
rental units

4.59 EUR
average rent/m²

92.4 %
occupancy rate

Data as of January 31, 2015

"Wilhelmshaven is going through a change and becoming a modern service and port service location."

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

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

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

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

2: Duisburg

261,491 m²
rental area

4,163
rental units

5.05 EUR
average rent/m²

93.2 %
occupancy rate

Data as of January 31, 2015

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

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

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

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

3: Helmstedt/Schöningen

126,544 m^2
rental area

2,177
rental units

4.83 EUR
average rent/m^2

86.6 %
occupancy rate

Data as of January 31, 2015

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


03


05

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

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

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

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

4: Leipzig/Halle(Saale)/Borna

83,135 m^2
rental area

1,437
rental units

4.45 EUR
average rent/m^2

81.2 %
occupancy rate

Data as of January 31, 2015

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


03


05

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

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

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

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

5: Berlin

79,104 m^2
rental area

1,258
rental units

5.30 EUR
average rent/m^2

98.8 %
occupancy rate

Data as of January 31, 2015

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


04

ADLER has 1,258 units in Berlin, the German capital. The majority holding in WESTGRUND will increase that number to an expected 3,200 units by mid-2015.

Since its rebirth as the capital of Germany, Berlin has become one of Europe's most important cities. The city benefits from its position as the political center of Germany, which has a knock-on effect on the media, culture and tourist industries, and all other areas of the economy. Berlin is growing; its population is expected to increase by a further 200,000 residents by the end of 2030. However, residential property in the city remains considerably lower-priced than in any other capital city in the industrialised world. While the average rent for an unheated flat in Berlin is a little more that EUR 6.00 per square meter, in Greater Paris (within the orbital motorway) the equivalent rent is approximately EUR 40.00. Demand for flats in the popular central areas of the German capital is very high, and supply is far from sufficient. Property prices and rents in Berlin are expected to continue to rise indefinitely.

"Berlin is growing. By 2030' the city will add another 200,000 residents which will foster its reputation of being an international hotspot"

6: Dortmund/Gelsenkirchen/Bochum

76,370 m²
rental area

1,117
rental units

4.43 EUR
average rent/m²

89.3 %
occupancy rate

Data as of January 31, 2015

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

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

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

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

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

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

7: Dresden/Meißen/Pirna

62,748 m^2
rental area

1,016
rental units

4.83 EUR
average rent/m^2

88.2 %
occupancy rate

Data as of January 31, 2015

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

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

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

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

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

The Residential Property Market in Germany

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

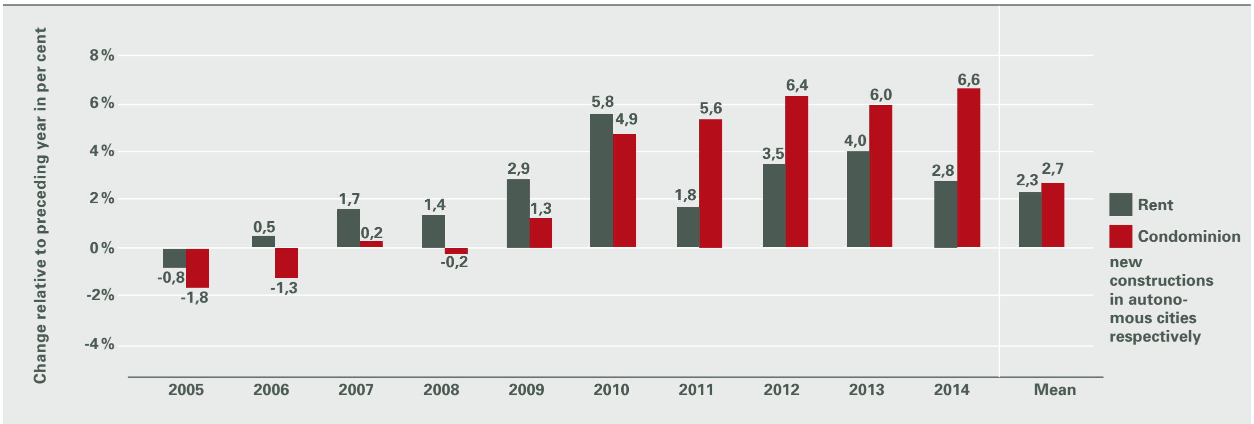
The German housing market as a whole, and the residential property market in particular, once again became significantly more expensive in 2014. According to 'bulwiengesa', one of the leading market research institutes in the real estate sector, we are seeing a continuation of the boom that has now lasted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

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

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

The rental increase in metropolitan areas has been much higher than average, widening the gap between the increase in rents in metropolitan area and in rural regions even further. According to bulwiengesa, average rents in metropolitan areas across Germany have increased by 3.4 per cent in existing buildings and by 3.8 per cent in new buildings.
The analysis institute Empirica confirms this trend, based on data obtained from advertisements offering rental units. Since the statistics were first gath-

Real Estate Price Index



Source: empirica-real estate price index IV/2014 ered in the first quarter of 2004, rents in new buildings have increased by 15.5 per cent across Germany. In urban municipalities the increase stood at 23.2 per cent and in rural districts 11.2 per cent, while the consumer price index rose by 17.8 per cent in the same period. This confirms the trend of price developments for residential rental units in metropolitan areas moving significantly above the rate of inflation, while living in rural areas has become cheaper after adjusting for inflation.

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

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

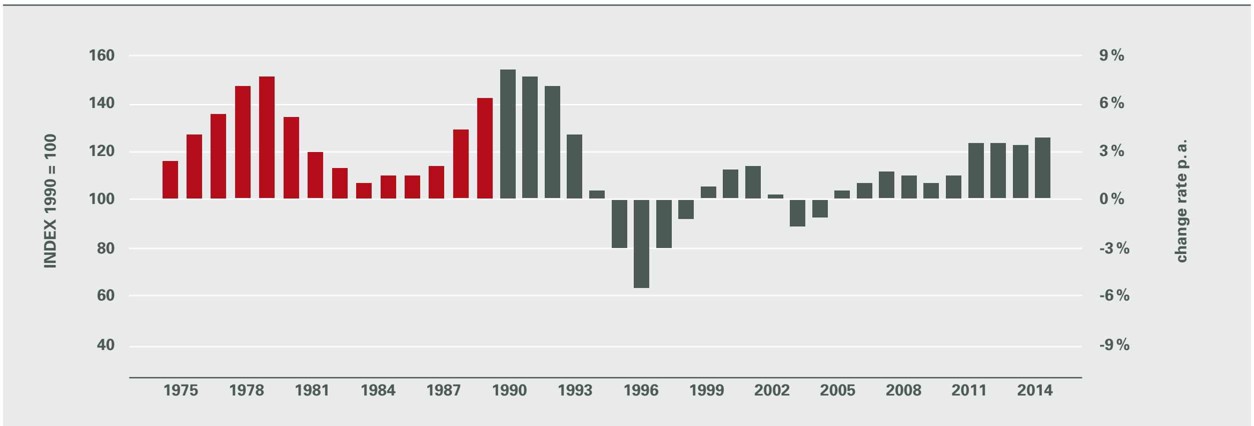
Some three-quarters of the immigrants came from EU countries. Economic researchers naturally have a difficult time predicting future trends when it comes to immigration. On the one hand, immigration from Poland – which has been the largest immigrant group since 1996 according to the Federal Statistical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

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

Are we heading for a bubble?

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

bulwiengesa – Real Estate Index for the whole of Germany *

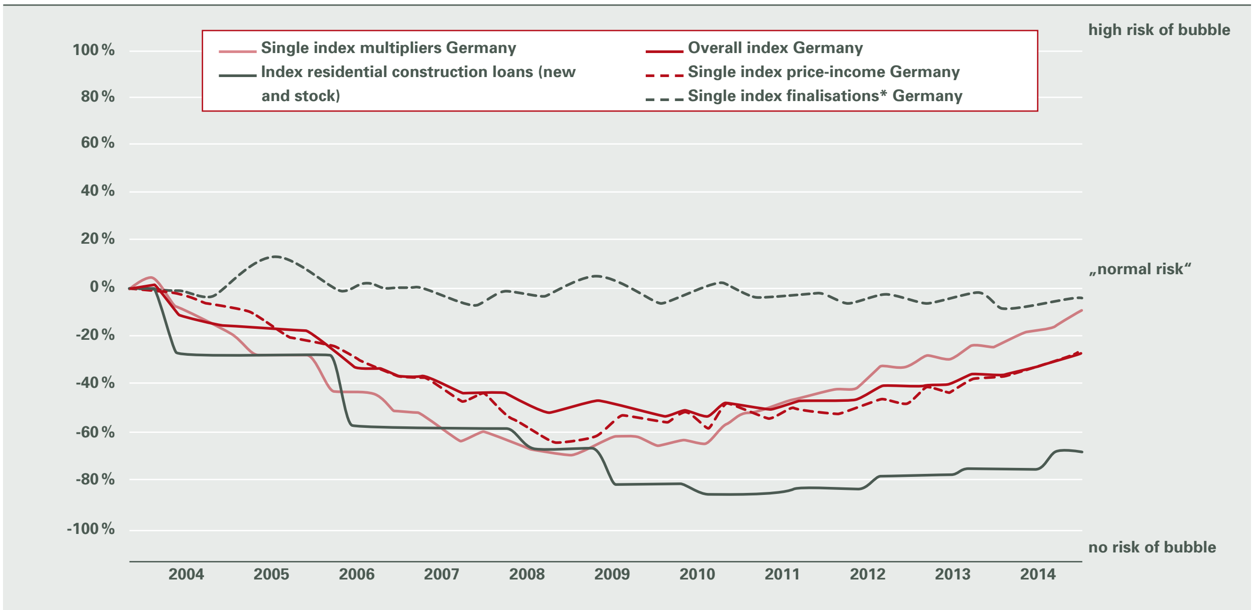


* until 1990 former West Germany, since 1990 whole of Germany

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

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

Bubble Development



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

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

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

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

Outlook

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

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

ADLER believes that the central factors promoting the demand for apartments will remain in effect over the medium term. The growth in living space consumption which has been ongoing for decades is a key factor. According to the Federal Institute for Population Research (Bundesinstitut für Bevölkerungsforschung - BIB), the consumption of living space per capita increased from 39 m^2 in the year 1998 to 45 m^2 in 2010. This growth is the result of higher living standards as well as the changing household structure. The rising number of single and two-person households in particular is responsible for the higher per capita consumption of living space. The ageing population has a corresponding effect as well. While people aged 18 years and up use an average of 30 m^2 of living space on average, the area for 65-year-olds increases to 55 m^2. Due to the growing number of older people and the increasing number of single person households, the growth in living space consumption is expected to continue for the time being. More and more older single women in particular, who statistically speaking outlive their husbands by a few years, ultimately live alone in an average living space of around 70 m^2.

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

The ADLER Share

Letter from the Management Board

Supervisory Board Report

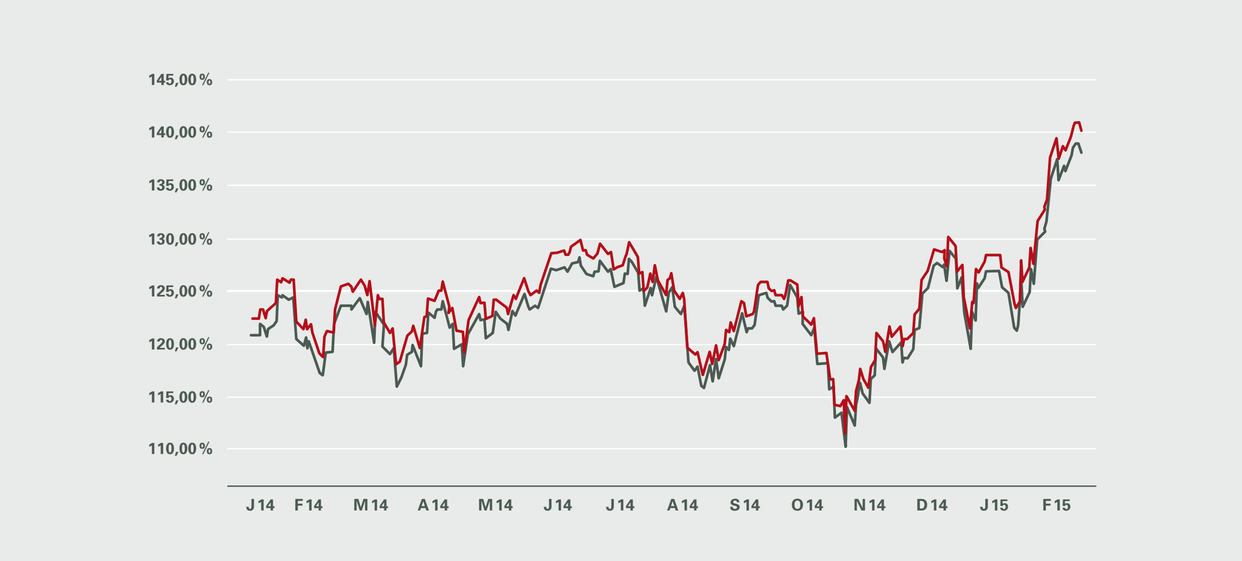
The ADLER Share

Stock Market Sentiment

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

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

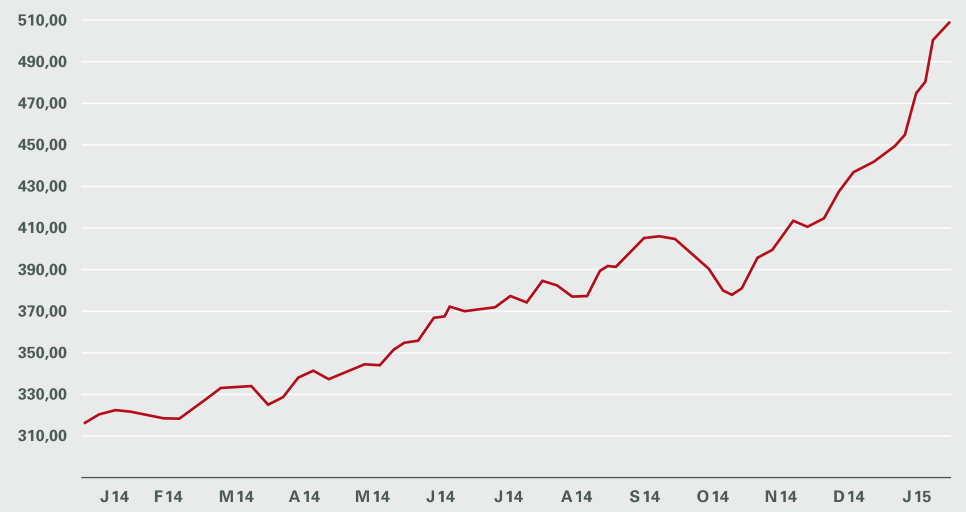
Performance of DAX und des CDAX since January 2014



Development of Real Estate Shares

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

E&G DIMAX (in points)



ADLER Share Price Development

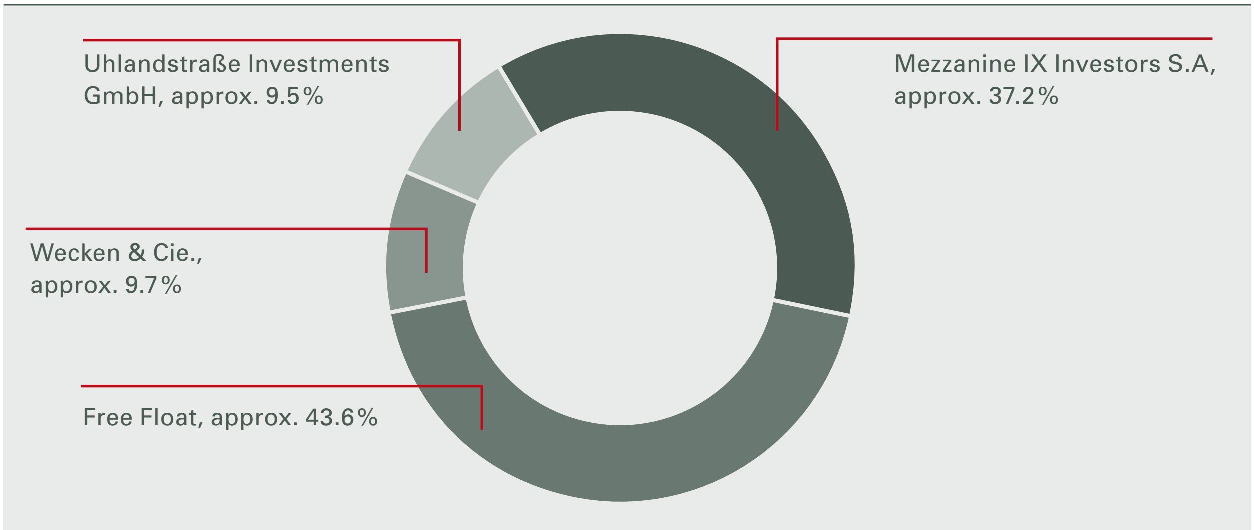
The ADLER share continued its sharp upward trend in 2014. Clearly the share market once again recognised the company's positive development, and especially the further increase in profitable growth during 2014. The share price nearly doubled in the course of the year from EUR 3.94 to EUR 7.44, peaking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

Performance of ADLER Real Estate AG Share

Shareholder Structure of ADLER Real Estate AG

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

Shareholder Structure as on December 31, 2014



Financial Communication

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

Letter from the Management Board

Dear Shareholders,
Dear Sir or Madam,

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

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

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

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

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

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

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

Best regards,

Axel Harloff
CEO

Supervisory Board Report

Dear Shareholders,
Dear Sir or Madam,

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

Changes in Board

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

Supervisory Board Meetings

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

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

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

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

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

Focus of Activities

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

German Corporate Governance Code (GCGC)

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

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

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

2014 Annual and Consolidated Financial Statements

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

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

2014 Report on Affiliated Companies

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

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

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

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

Members of the Supervisory Board

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

Hamburg, March 2015

Dr Dirk Hoffmann
Chairman of the Supervisory Board

Group Management Report 2014

Group Management Report

1. BASIC INFORMATION ON THE ADLER REAL ESTATE AG GROUP

1.1 Business Model

With around 24,100 residential and commercial units at the end of 2014, ADLER Real Estate AG is one of the ten largest listed German housing companies in terms of market capitalisation. The company's shares are admitted for trading on the Regulated Market of the Frankfurt Stock Exchange. The planned acquisition of WESTGRUND AG in 2015 means that ADLER is expected to have a portfolio of more than 50,000 apartments by mid-2015.

ADLER's activities are focused on building a portfolio of residential properties throughout Germany, portfolio management, as well as residential property optimisation and trading. A fast-growing company within the real estate industry, ADLER offers housing in almost every federal state of Germany. The apartments in ADLER's portfolio have an average size of 61 m² and two or three rooms. This means that they are ideally sized for the groups on the market with the strongest demand, namely younger or older people living alone, single parents with one or two children, immigrants, and people for whom their income bracket and the development of rental prices mean they can only afford smaller apartments.

ADLER has quickly developed into a highly efficient portfolio holder, with its rapid portfolio growth accompanied by the establishment of an organisational structure that reflects its core business of providing affordable housing. ADLER operates as a holder of residential property portfolios in a market dominated by four key mega-trends: the turnaround in energy policy at a political level, demographic change, the growth in the number of single-person households and the corresponding sharp rise in per capita consumption of residential space, and immigration.

ADLER's activities are broken down into two business areas or segments.

1.1.1 Rental

In the Portfolio segment, ADLER Real Estate AG concentrates on the establishment and expansion of a residential property portfolio throughout Germany. It primarily acquires equity interests in portfolios that are predominantly situated in secondary locations in German conurbations and that offer potential for sustainable value growth. The primary aim is to acquire majority interests in order to ensure that the company can exercise sufficient influence over the optimal management of the portfolios.

In addition to portfolio acquisition, the Group's strategy focuses on sustainable portfolio management with the aim of improving the utilisation of residential portfolios, i.e. reducing vacancy rates by implementing optimisation measures. To this end, ADLER plans investment programmes aimed at allowing it to improve the letting rates of apartments in the competition for tenants or continuously increase the existing rental income. This is also intended to free up potential for increasing value in the form of construction involving unutilised land, in-fill housing and development reserves or by implementing energy-saving renovation measures.

1.1.2 Trading

The Trading segment of the ADLER Group is primarily covered by the majority interest in the listed ACCENTRO Real Estate AG (formerly ESTAVIS AG). The Trading segment encompasses trading in residential properties and individual apartments. ACCENTRO markets suitable residential properties and individual apartments from the ADLER Group, as well as on behalf of third parties, in a targeted manner to owner-occupiers in Germany and abroad. ACCENTRO considers itself to be Germany's largest privatiser of apartments.

1.2 Objectives and Strategies

The objectives and the related strategies primarily relate to four areas of activity:

- Portfolio management
- Trading
- Financing
- Acquisition

1.2.1 Portfolio Management Strategy

In the area of portfolio management, ADLER seeks to achieve optimal company performance and core productivity. This takes the form of a transparent, end-to-end, closely networked organisation that is intended to enable the optimal letting and management of the residential portfolios. As part of active management, measures are continuously implemented to reduce vacancy rates, leverage potential for rental growth and systematically keep the portfolios in a high-quality condition through maintenance measures with a favourable cost/benefit ratio. Building modernisation, particularly in the form of energy-related renovation, allows corresponding measures to significantly increase the value of properties. This can allow higher rents to be realised or reduce operating costs, and particularly heating costs, which can account for up to a quarter of total rent, to the benefit of tenants.

Renovation and apartment modernisation measures can make vacant apartments more attractive for letting in competition with other providers, resulting in properties that are let quickly and well. Portfolio optimisation also involves the identification of properties with high vacancy rates and sub-optimal connections to the administrative centres and the sale of these properties at market prices. These targeted measures allow ADLER to improve the efficiency of its administration and increase the average letting rate within its portfolio as a whole.

1.2.2 Trading Strategy

The Trading segment of the ADLER Group encompasses trading in residential properties and individual apartments and is primarily covered by the majority interest in the listed ACCENTRO Real Estate AG. ACCENTRO markets suitable residential properties and individual apartments from the ADLER Group, as well as on behalf of third parties, in a targeted manner to owner-occupiers in Germany and abroad. In future, suitable portfolios will be selectively acquired and marketed as ACCENTRO seeks to primarily focus on this area. The first step was taken in 2014 with the sale of the commercial portfolio, which released funds for new acquisitions in this specialised area. ACCENTRO considers itself to be Germany’s largest privatiser of apartments. Low interest rates are leading to lively demand for owner-occupied properties among increasingly broader sections of the population, a fact that can benefit the Group’s privatisation business greatly. In light of the current interest rates, sales to existing tenants who are looking to avoid future rent increases as part of their old-age provision are also becoming increasingly interesting.

1.2.3 Financing Strategy

ADLER pursues different objectives in its financing activities. In addition to a balanced, long-term maturity and financing structure, business interests are focused on the optimisation of the average interest burden. This is achieved through the further development and optimisation of portfolios as well as additional value-added portfolio acquisitions. This includes the refinancing of existing financing arrangements at more favourable conditions. ADLER also pursues the objective of realising portfolio acquisition opportunities at any time and at short notice by quickly obtaining equity or debt capital.

1.2.4 Acquisition Strategy

In addition to the potential for organic growth resulting from the existing portfolio, ADLER is pressing ahead with its acquisition policy in order to establish itself on the market as a major residential portfolio holder. With a presence that now encompasses most of Germany and the growing awareness of the company, ADLER is gaining access to a wide range of opportunities to acquire additional residential property portfolios on the market.

ADLER is able to acquire portfolios flexibly and offer sellers a high degree of transaction security. It goes without saying that acquisition activities are conducted in accordance with defined criteria aimed at improving the overall portfolio.

1.3 ManagementSystem

1.3.1 Financial Management Indicators

ADLER Real Estate AG operates as a financial holding company that manages and controls property and facility management companies via the Group's management companies. A vital role is played by ADLER's central asset management, manages the respective property management companies locally, typically under the terms of service agreements. However, the Group also has its own property holding companies that perform property and facility management for residential portfolios using in-house capacities.

A software solution that has been largely implemented (iX-Haus) is already optimising portfolio management and supporting asset and property management in parts of the portfolio. The software solution also models property management and will ensure that an overview of the full situation in the various portfolios, development in terms of letting, rental income and potential for rental development can be obtained at all times in future, thereby allowing the necessary investments to be controlled. The transparent and seamless administration of the residential property portfolio and the respective management options not only form the basis for professional portfolio management, but also provide the foundations for integrating additional portfolios. The key performance indicator in the Portfolio segment is cash flow, which is influenced by occupancy rates, termination and new letting rates, basic net rents, management costs and debt servicing.

In the Trading segment, EBIT is used as a financial performance indicator for business management purposes. EBIT is primarily determined by the proceeds on the sale of properties, which depends on factors such as the number of reservations of owner-occupied apartments by potential buyers and the actual selling prices realised. The latter is recorded in terms of both the number of apartments and the sales volume.

ADLER also applies the standard industry performance indicators of net asset value, funds from operations and loan-to-value for the purposes of financial management. Further information can be found in 2. Economic report.

1.3.2 Non-financial Management Indicators

The professional expertise and commitment of employees and managers and customer satisfaction are key factors in ADLER AG's business development.

In the Portfolio segment, the occupancy rate is another key performance indicator. This developed from 91.0% at the end of 2013 to 87.2% at the end of 2014; this was due to the portfolios acquired, which had a lower average occupancy rate.

The company's reputation is another important non-financial performance indicator in the Trading segment. ACCENTRO AG has enjoyed success in the field of privatisation since 1999 and considers itself to be a market leader.

1.4 Employees

As the Group holding company, ADLER Real Estate AG does not have any employees other than the Management Board. The office organisation and operational tasks within the Group are largely performed via the wholly-owned subsidiary ADLER Real Estate Service GmbH, which had 41 employees at the end of December 2014. The employees of this company are deployed at the respective project companies flexibly and in line with their specialist capacities. Together with the employees of the property and other subsidiaries, ADLER had a total of 102 full-time and part-time employees at the end of the reporting period.

1.5 Research and Development

As a property group, ADLER Real Estate AG does not perform research and development in the conventional sense. However, the continuous analysis of market developments is necessary in order to estimate the future trends in terms of residential rents and the various housing markets in major conurbations, their peripheral locations or non-urban areas. The various developments in the construction industry and building services and the changing requirements of tenants and users also have to be observed and analysed. These analyses provide the company with continuous insight, allowing it to permanently scrutinise the economic efficiency of its business activities and prepare profitability calculations for new investments. As such, this insight represents an important foundation for the company's operating activities as a whole.

2. ECONOMIC REPORT

2.1 Macroeconomic and industry-specific Conditions

Following stagnation in the previous year, the German economy picked up pace considerably in 2014. According to the final calculations by the German Federal Statistical Office, gross domestic product (GDP) increased by just 0.1% in the previous year, whereas the growth rate for 2014 was 1.5%. The fourth quarter saw a particularly strong recovery in GDP development, thereby helping the German economy to overcome the stagnation that prevailed in the first half of the year. At 42.7 million, the number of people in employment reached a new high for the eighth year in succession. The upturn in employment has continued into the current year, with February 2015 seeing the lowest unemployment rate for 24 years.

Another historical development is the "break-even" achieved by the German government, with the federal budget showing no new debt for the first time since 1969. The German economy also set a new record in terms of exports: at around EUR 285 billion, Germany reported the highest surplus of exports over imports anywhere in the world, outperforming the likes of China and Saudi Arabia. Global economic development was mixed once again in 2014, with the economic upturn in the USA and the United Kingdom offset by the sustained difficult situation in many southern European countries. Growth in China, the world's largest economy, slowed slightly. Major economies such as Brazil and Russia are set to enter a recession as a result of political crises in particular. Despite this, the situation for German exports is broadly favourable, with global production rising by 2.6% and global trade increasing by as much as 3.6% in 2014.

In addition to export performance, there are two other main reasons for the pronounced upturn in the German economy. Domestic demand was driven in particular by the mild weather, which gave the construction industry a significant boost. Consumer income and purchasing power also improved significantly over the course of the year. This was driven by falling oil prices as well as growth in wages and salaries. Net wages in Germany rose by 3.7% in 2014, particularly as a result of real wage growth.

The central banks continued their policy of low interest rates in 2014. The headline rate of the European Central Bank (ECB) was just 0.05% in February 2015, while near-zero interest rates are being seen on the capital markets. Many banks are imposing penalty charges on current account credit balances, which ultimately constitute negative interest rates. In early January 2015, the ECB decided to buy sovereign bonds with a total volume of EUR 1.3 trillion over a 16-month period between March 2015 and September 2016. This is intended to further boost investment in the economy and lift inflation, which is currently too low. The first effects of this measure were already observed on the German residential property market in January 2015, with prices for owner-occupied apartments increasing by 1.6 percentage points according to an appraisal by the Immobilienscout24.de property platform.

The stable economic development in Germany and the significant improvement in purchasing power represent the basis for solid development in the residential property market as a whole. The analysis institute bulwiengesa recorded further growth in residential rents in Germany in 2014. According to its property index, rents for newly constructed apartments increased by 3.2% in the past year, while rents for tenancy renewals rose by 3.0%. Residential rents in German conurbations saw the fastest growth rates, with demand continuing to outstrip supply. Residential property prices enjoyed even stronger growth. According to the Association of German Pfandbrief Banks, prices rose by 5% in 2014, the highest single-year increase in the past ten years.

2.2 Development of ADLER Real Estate AG

As part of its strategy, ADLER Real Estate AG took the opportunities that arose on the German residential property market in the 2014 financial year and recorded by far the largest investment volume in its history as a property company. Including the majority interest in Wohnungsbaugesellschaft Jade mbH, Wilhelmshaven, which was contractually secured in October and which holds around 6,750 rental units, the ADLER Group's residential portfolio almost quadrupled from around 7,800 units at the end of 2013 to around 30,800 at the end of January 2015. Without the acquisition in October, the portfolio amounted to 24,086 units at the end of the year under review. The average occupancy rate for ADLER's portfolio properties was 87.2% at the end of the year, down 3.8 percentage points on the figure of 91.0% at the end of 2013; this was due to acquisitions with a lower occupancy rate than the ADLER-wide average.

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

At the start of the financial year, ADLER completed the increase of its equity interest in three residential property portfolios in the six federal states of Schleswig-Holstein, Mecklenburg-Western Pomerania, Saxony, Thuringia, North Rhine-Westphalia and Rhineland-Palatinate from 50.05% to 94.85%. These portfolios contained a total of 1,876 rental units with total residential and usable space of 122,600 square metres. ADLER also added the equity interest in WBG GmbH, Helmstedt, that was agreed in the previous year to its books. WBG has a portfolio of 2,347 rental units in Lower Saxony, of which 1,219 are in Helmstedt itself and a further 1,128 are to the south of the town.

In late May, ADLER contractually secured its largest acquisition to date, which was subsequently completed in late June. ADLER acquired a near-full interest in eight property holding companies with a total of around 8,000 residential units and around 490 commercial units. The total value was around EUR 410 million.

As early as February 2014, ADLER announced a voluntary takeover bid for ACCENTRO Real Estate AG (formerly ESTAVIS AG), Berlin. The acquisition of what then represented 92.7% of the share capital of ACCENTRO was implemented at the end of June on the basis of an exchange offer of 14 ADLER shares to 25 ACCENTRO shares. The ADLER shares were created in the form of a non-cash capital increase with shareholders' pre emptive subscription rights disapplied that was approved by the Extraordinary General Meeting on 22 April 2014. As a result of this transaction, ADLER's share capital increased to EUR 28,779,614 (end of June 2014).

Late October 2014 saw the completion of the acquisition of an additional portfolio of around 4,300 units that ACCENTRO had already agreed in March, part of which is intended for privatisation. As part of the consolidation process, the ADLER Group took over ACCENTRO's activities in the area of residential property management, while ACCENTRO now focuses on residential privatisation.

In late October, ADLER also contractually agreed a majority interest in another large residential property portfolio consisting of 6,747 units (6,705 residential units, 42 commercial units). The acquisition involved a majority interest in Wohnungsbaugesellschaft Jade mbH in Wilhelmshaven on the North Sea coast of Lower Saxony state and its property and facility management subsidiaries. This transaction, which had a volume in excess of EUR 200 million, was completed in late January 2015.

In addition to the non-cash capital increase for the issue of new ADLER shares in exchange for ACCENTRO shares, ADLER implemented further major capitalisation measures in the year under review in order to finance the aforementioned transactions.

In late March 2014, another corporate bond with a volume of EUR 50 million was issued as part of a private placement with institutional investors. The bond has a coupon of 6.0% p.a., meaning that its conditions are more favourable than the corporate bond issued in March 2013. In July, this 2014/2019 bond was increased by a further EUR 50 million to EUR 100 million as part of a private placement with the same conditions.

A capital increase of around 10% was successfully implemented in late October. A total of 2.85 million new shares with existing shareholders' pre-emptive subscription rights disapplied were issued from authorised capital and placed with institutional investors in Germany and elsewhere in Europe. The placement price per share was EUR 7.40. The gross proceeds from the capital increase amounted to around EUR 21.09 million.

Portfolio Optimisation and Disposal of existing Holdings

In addition to the establishment of the residential portfolio and the financing of transactions, ADLER continuously worked on the optimisation of the portfolios acquired in the year under review and disposed of a large number of properties no longer forming part of its core business. The transaction volume for property disposals in 2014 as a whole totalled EUR 70.5 million. The proceeds from the transactions amounted to around EUR 28.3 million, which ADLER will use for its continued growth.

In the area of land sales, a total of 56 plots (two in Moosburg, 36 in Großbeeren, 18 in Dallgow-Döberitz) were sold in 2014. The project in Moosburg was fully wound up, while a total of 57 plots are still available for sale in Dallgow and Großbeeren, of which seven have already been notarised.

In McKinney, to the north of Dallas/Texas in the USA, ADLER and its partners entered into a development project for the construction of 334 apartments in 2008. This residential project was sold as planned following the completion of construction work. The sale of a plot of approximately 10,000 square metres in Offenbach was also concluded.

As part of the optimisation of the portfolios acquired, ADLER sold 217 rental units in the course of the year, consisting of 203 apartments and 14 commercial units predominantly in the Dresden area. The selling price exceeded the original actuarial market value at which the portfolios were included in ADLER's IFRS consolidated balance sheet. ACCENTRO enjoyed extremely encouraging performance. In the six-month 2014 short financial year (to the end of December), ACCENTRO privatised a total of 837 apartments. As of year-end 2014, ACCENTRO also disposed of its commercial property portfolio as scheduled, which had a volume of around EUR 28.6 million and no longer formed part of its core business.

In the year under review, ADLER also entered into an agreement on the disposal of a property in Frankfurt-Niederrad that will not come into force until 2015. The property in Niederrad consists of an office building with around 4,000 square metres of rental space and a development site with heritable building rights of around 10,000 square metres.

In addition to the remaining plots in Dallgow-Döberitz and Großbeeren, a further two undeveloped plots remain in ADLER's existing holdings and will continue to be held until they are ready for construction. In the case of the plot of around 108,000 square metres in Dresden-Trachau, there is still no firm position on the part of the city with regard to the preparation of a zoning plan. By contrast, the public administration is currently working on the development of a new land use plan for the plot of around 49,000 square metres in Späthstrasse in the Berlin district of Treptow-Köpenick. To leverage significant value enhancement potential, ADLER is planning to develop the plot in cooperation with a partner company as applicable.

ADLER still has one equity interest from the period prior to its reorientation that is scheduled for sale in the medium term. The Airport Center Luxembourg, in which ADLER holds an equity interest of 10%, had an unchanged occupancy rate of around 77% at the end of 2014. The disposal of the property will be taken into consideration once the utilisation rate has been increased further.

2.3 Results of Operations

The following figures show the development of ADLER AG. They were influenced to a large extent by the transactions discussed above.

In Mio. EUR	2014	2013
Gross rental income	83.88	17.84
– of which net rental income	56.05	6.22
Earnings from property lettings	32.07	7.62
Income from the sale of properties	56.82	1.97
Earnings from the sale of properties	2.39	0.63
Net income from fair value adjustments of investment properties	132.93	59.55
Adjusted EBITDA	27.17	2.98
EBIT	170.44	64.33
Financal expenses	41.10	8.56
Earnings before tax (EBT)	132.76	63.02
Consolidated net profit	111.57	46.88
Occupancy rate in %	87.2	91.0
Monthly in-place rent (EUR/square metre)	5.02	5.14
Property portfolio (number of rental units)	24,086	7,797

Income is broken down into the three segments as follows:

In Mio. EUR	Trading 2014	Rental 2014	Other 2014	Total 2014
Gross rental income and income from the sale of properties	15.36	115.22	10.12	140.70
of which				
Gross rental income	1.14	81.60	1.14	83.88
Income from disposals	12.76	33.58	8.98	55.32
Income from brokerage	1.47	0.04	0.00	1.50

Income from the remeasurement of investment property largely results from the fair value measurement of individual properties following their recognition as a result of portfolio acquisitions and is allocated to the Portfolio segment.

Other operating income of EUR 29.72 million contains goodwill from the first-time consolidation of WBG GmbH, Helmstedt, in accordance with IFRS 3 in the amount of EUR 24.65 million. This goodwill is primarily attributable to the measurement of the property held by this company as part of first-time consolidation and is also allocated to the Portfolio segment.

The adjusted EBITDA of EUR 27.17 million is calculated as EBIT adjusted for the income from the remeasurement of investment properties (EUR 132.93 million) and the income from the first-time consolidation of WBG GmbH (EUR 24.65 million) as well as additional non-recurring expenses (EUR 13.81 million). The non-recurring expenses relate in particular to the acquisitions conducted and adjustments in connection with the uniform Group-wide measurement of receivables from tenants.

EBIT is broken down across the individual segments as follows:

in EUR million	Trading 2014	Rental 2014	Other 2014	Total 2014
EBIT	0.42	169.78	0.24	170.44

Finance costs result from the direct financing of property portfolios as well as the issue of bonds and convertible bonds. They are broken down across the individual segments as follows:

in EUR million	Trading 2014	Rental 2014	Other 2014	Total 2014
Financial result	-1.17	-38.11	-0.23	-39.51

The tax expense of EUR 21.19 million (previous year: EUR 16.13 million) includes expenses for deferred taxes in the amount of EUR 20.17 million (previous year: EUR 16.10 million). These were primarily recogn ised due to differences between the fair value of investment property and their cost or tax carrying amount at Group level.

In the Trading segment, which has been recognised as a separate segment of ADLER AG since the acquisition of ACCENTRO AG in mid-2014, the income of EUR 15.36 million resulted primarily from property disposals in the amount of EUR 12.76 million. EBIT in this segment amounted to EUR 0.42 million, while earnings before taxes amounted to EUR 0.88 million.

Revenue in the Portfolio segment amounted to EUR 115.22 million. The increase as against the previous year is due in particular the acquisitions conducted in the 2014 financial year.

Maintenance and modernisation expenses, which ADLER does not capitalise but instead recognises in profit or loss, totalled EUR 14.51 million in the Portfolio segment. Value-enhancing measures were then identified as part of the measurement of investment property. Total maintenance and value-enhancing measures averaged EUR 15.57 p.a. per square metre of residential space. Management costs totalled EUR 37.17 million.

Segment EBIT amounted to EUR 169.79 million, while earnings before taxes totalled EUR 132.07 million.

Funds from Operations (FFO)

FFO I has established itself as the standard for shareholders and investors when it comes to determining the results of operations of real estate companies. In the case of ADLER, it describes the earnings strength of the Portfolio segment.

Consolidated earnings form the basis for EBITDA IFRS, i.e. earnings before interest, taxes, depreciation and amortisation and the additional elimination of net income from the remeasurement of property and net income from associates carried at equity. Adjusted EBITDA IFRS is calculated by eliminating non-recurring and extraordinary effects. The elimination of non-recurring and extraordinary effects includes income from the negative goodwill from the first-time consolidation of WBG GmbH in the amount of EUR 24.65 million and other non-recurring and extraordinary effects of EUR 13.81 million primarily relating to the issue of the loan, the capital increase, the portfolio acquisitions and the integration of ACCENTRO AG.

In the following reconciliation, interest expense FFO and current income taxes (excluding deferred taxes) are deducted from this adjusted EBITDA. Interest expense FFO represents interest expense adjusted for non-recurring effects. In the 2014 financial year, ADLER conducted investments to protect the intrinsic value of the properties in the portfolios acquired that were recognised in profit or loss in the amount of EUR 6.75 million. Expenses aimed at enhancing or maintaining the value of properties are taken into account in this FFO methodology as they are recognised separately from current operational earnings. The FFO I of EUR 1.11 million is calculated by also eliminating earnings before interest and taxes in the Trading segment and the other earnings not allocated to a specific segment.

In the next step, earnings before taxes in the Trading segment, other pre-tax earnings not allocated to a specific segment and net income from associates carried at equity are added to calculate FFO II (EUR 1.4 million). Unlike FFO I, FFO II shows the funds from operations not only from the Portfolio segment, but also from the Trading segment and other areas.

in EUR million	2014	2013
Consolidated net profit	**111.57**	**46.88**
Financial result	39.51	7.88
Income taxes	21.19	16.14
Depreciation and amortisation	0.50	0.02
Net income from fair value adjustments of investment properties	-132.93	-59.55
Net income from at-equity valued investment associates	-1.82	-6.56
EBITDA IFRS	**38.01**	**4.80**
Non-recurring and extraordinary items	-10.84	-1.82
Adjusted EBITDA	**27.17**	**2.98**
Interest expense FFO	-32.47	-7.77
Current income taxes	-0.48	0.00
Capitalisable maintenance	6.75	0.90
Earnings attributable to Trading/Other segment	-2.09	-0.63
FFO I	**-1.11**	**-4.53**
Earnings after interest attributable to Trading/Other segment	0.69	-0.54
Net income from at-equity valued investment associates	1.82	6.56
FFO II	**1.40**	**2.57**

ADLER's earnings development in the 2014 financial year was affected by a large number of non-recurring factors resulting from the acquisitions and capital market measures conducted. In addition, the period between the acquisition and financing date of the respective transactions and the recognition of the transfer of ownership in profit or loss was disadvantageous to ADLER. Portfolio management measures aimed at improving the management and utilisation of the residential portfolios acquired tend to only take effect with a certain delay, meaning that ADLER is also subject to higher costs following an acquisition and that the corresponding income is only recognised at a later date.

In light of this and the fact that ADLER acquired the majority of its portfolios during the year and ACCENTRO AG has only contributed to consolidated earnings since 1 July 2014, 2014 cannot be seen as indicative of the company's true earnings strength.

For the 2015 financial year, ADLER is anticipating FFO I of at least EUR 7 million purely on the basis of the property portfolio of 24,086 units at the end of the 2014 financial year plus the portfolio in Wilhelmshaven with 6,705 residential units and 42 commercial units that was acquired in late January 2015.

2.4 Financial Position

in EUR million	2014	2013
Net cash flow from operating activities	16.75	11.93
Net cash from investing activities	-208.27	-94.20
Net cash from financing activities	217.69	88.08
Change in cash and cash equivalents	26.17	5.81
Cash and cash equivalents at beginning of period	6.90	1.09
Cash and cash equivalents at end of period	33.06	6.90

Following the elimination of non-cash expenses and income and taking into account changes in working capital, the ADLER Group generated net cash from operating activities of EUR 16.75 million (previous year: EUR 11.93 million).

Net cash used in investing activities of EUR 208.27 million (previous year: EUR 94.20 million) primarily related to the acquisition of residential property and companies holding property portfolios.

Net cash from financing activities in the amount of EUR 217.69 million (previous year: EUR 88.08 million) is attributable to the following transactions:

In 2014, ADLER AG implemented a cash capital increase of 2,850,000 shares, resulting in net proceeds of EUR 19.41 million. ADLER AG also issued the 2014/2019 bond, which generated funds of EUR 100.00 million. Cash inflows also arose from the conclusion of additional borrowings totalling EUR 538.91 million, of which EUR 500.50 million related to promissory note loans. These were used to finance the property portfolios acquired. Interest and principal payments and the replacement of existing sources of financing resulted in a cash outflow of EUR 440.63 million.

Cash and cash equivalents correspond to the reported cash.

ADLER AG upheld the covenants forming part of its loan agreements.

Other assets also include restricted cash in the amount of EUR 13.68 million (previous year: EUR 0.15 million), some of which is earmarked for improving the property portfolio.

Other assets also include short-term investments in securities in the amount of EUR 18.00 million (previous year: EUR 0.00 million).

Cash and cash equivalents amounted to EUR 33.06 million at 31 December 2014. The ratio of cash and cash equivalents to total assets was 2.3% in the year under review after 1.5% in the previous year. The Group was able to meet its payment obligations at all times.

On 15 January 2015, the aforementioned 2014/2019 corporate bond with a volume of EUR 100 million was increased by a further EUR 30 million. The corporate bond has a term to 1 April 2019 and a coupon of 6.00% p.a. Interest is paid on a half-yearly basis.

In October of the year under review, ADLER contractually secured a majority interest in Wohnungsbaugesellschaft Jade mbH, Wilhelmshaven. The transaction was completed on 30 January 2015. Financing took the form of a promissory note loan with a volume of EUR 164.0 million, with the equity portion being financed from own funds.

Loan to Value (LTV)

As well as increasing the volume of investment property reported, ADLER's intensive acquisition activity has led to a higher level of financial liabilities. Excluding the convertible bonds, the ratio of net financial liabilities to assets adjusted for cash increased slightly in the year under review.

in EUR million	2014	2013
Liabilities from convertible bonds	33.94	18.40
Liabilities from bonds	144.78	35.57
Financial liabilities to banks	838.90	275.25
Cash and cash equivalents	-33.06	-6.90
Net financial liabilities	**984.56**	**322.33**
Assets adjusted for cash	**1,383.40**	**453.99**
LTV incl. convertible bond liabilities	71.2%	71.0%
LTV excl. convertible bond liabilities	68.7%	66.9%

2.5 Net Assets

The company's pronounced growth meant that the Group's total assets more than trebled, increasing by EUR 955.57 million to EUR 1,416.46 million.

At EUR 752.29 million, this increase was primarily attributable to investment property, which accounted for EUR 1,710.15 million or 82.6% of total assets. The growth in investment property is attributable to the additions of EUR 675.15 million, disposals and reclassifications totalling EUR 55.79 million and remeasurement gains of EUR 132.93 million.

Additional properties are reported in inventories and assets held for sale in the amount of EUR 89.62 million and EUR 6.13 million respectively. Properties held as inventories are carried at cost rather than fair value. The goodwill reported in non-current assets is attributable to the acquisition of ACCENTRO AG.

In addition to rent receivables of EUR 6.16 million, trade receivables primarily consist of purchase price receivables for the sale of property and property holding companies in the amount of EUR 20.97 million. As well as investments in securities (EUR 18.00 million) and advance purchase price payments (EUR 10.00 million), other current assets of EUR 56.28 million primarily consists of earmarked funds in the amount of EUR 13.68 million.

In addition to the consolidated earnings and the cash capital increase in October 2014, the increase in equity is attributable to the non-cash capital increase in June 2014 in connection with the acquisition of ACCENTRO AG. Conversions of convertible bonds also played a role to a lesser extent. Details can be found in the statement of changes in equity. Total equity amounted to EUR 311.21 million, of which EUR 291.40 million was attributable to the shareholders of ADLER AG and EUR 19.81 million to minority shareholders of the companies controlled by ADLER AG. The equity ratio amounted to 21.97% at the reporting date (previous year: 18.86%).

The transactions conducted also meant that debt nearly trebled. 91.47% or EUR 1,010.93 million of total debt was non-current in nature, with just 8.53% or EUR 94.32 million consisting of current debt. The main sources of debt finance are bonds, convertible bonds and loans from banks, which include promissory note loans initiated by these banks. These financing types accounted for EUR 1,017.62 million of the total debt of EUR 1,105.25 million. In addition, liabilities for deferred taxes were reported in non-current liabilities in the amount of EUR 39.08 million.

Net Asset Value (EPRA NAV)

ADLER calculates its net asset value (NAV) in accordance with the guidelines issued by the EPRA (European Public Real Estate Association). ADLER applies the equity attributable to ADLER's shareholders in calculating NAV. In the year under review, EPRA NAV increased by EUR 247.62 million to EUR 342.21 million.

Based on the number of shares outstanding at the reporting date, EPRA NAV per share amounted to EUR 10.74 and diluted EPRA NAV per share amounted to EUR 9.14.

in EUR million	2014	2013
Equity	**311.21**	**86.95**
Non-controlling interests	-19.81	-14.61
Equity attributable to ADLER shareholders	**291.40**	**72.33**
Deferred taxes	39.08	15.57
Revaluation of trading properties	10.75	5.33
Fair value of derivative financial instruments	0.98	1.36
EPRA NAV	**342.21**	**94.59**
Goodwill	-27.08	0.00
Adjusted NAV	**315.13**	**94.59**
Number of shares as at the reporting date	31,876,672	16,547,824
EPRA NAV per share	**10.74**	**5.72**
Number of shares as at the reporting date (diluted)	39,370,528	24,500,000
EPRA NAV per share (diluted)	**9.14**	**4.61**

2.6 Overall Assessment of the Course of Business and the Position of the Group

The course of business and the position of the Group is considered to be positive in light of the acquisitions made, the continued development of the existing property portfolios and the financing that has been secured for the long term. This has laid the foundations for stable future development.

3. REPORT ON POST-BALANCE SHEET DATE EVENTS

As mentioned above, ADLER contractually secured a majority interest in Wohnungsbaugesellschaft Jade mbH, Wilhelmshaven, in October of the year under review. The acquisition involved a majority interest in Wohnungsbaugesellschaft Jade mbH and its property and facility management subsidiaries. The company holds 6,705 residential and 42 commercial units. The properties are in a very solid condition, have almost no renovation backlog and are mostly situated in good locations in Germany's largest naval city. Around two-thirds of the apartments were constructed in the 1930s and 1940s. The transaction was completed on 30 January 2015.

On 15 January 2015, ADLER realised a further increase in the 2014/2019 bond that was issued in April 2014 and increased to EUR 100 million in July 2014, successfully expanding the volume by EUR 30 million to EUR 130 million. The placement took the form of a private placement to a selected group of institutional investors. The issue price was 102%. The net proceeds from the increase will mainly be used to acquire additional property portfolios and to finance the company's continued growth. On 19 January 2015, the debt instruments issued in connection with the increase were included in the current listing for the corporate bond on the Open Market of the Frankfurt Stock Exchange in the Prime Standard for corporate bonds. The corporate bond has a term to 1 April 2019 and a coupon of 6.00% p.a. Interest is paid on a half-yearly basis.

In February 2015, ADLER secured the acquisition of a majority interest in WESTGRUND AG, Berlin, by entering into corresponding irrevocable undertakings. On 16 February 2015, ADLER announced its intention to implement the acquisition as a voluntary public takeover bid in accordance with the German Securities Acquisition and Takeover Act (WpÜG) on the basis of a corresponding resolution by the Management Board and the Supervisory Board. The takeover bid involves offering the shareholders of WESTGRUND a combination of a cash component and new shares in ADLER. The financing for the entire transaction is secured by way of bank commitments. The major shareholders of WESTGRUND, which cumulatively hold just over 50% of the share capital, have entered into an irrevocable undertaking to accept the ADLER takeover bid. The transaction is expected to be concluded by mid-2015.

More specifically, ADLER will offer the shareholders of WESTGRUND 0.565 new no-par value bearer shares in ADLER Real Estate AG each with a notional interest in the share capital of ADLER of EUR 1.00 plus additional cash consideration of EUR 9.00 for every three shares in WESTGRUND AG. Based on the closing price on 13 February 2015, the takeover bid corresponds to around EUR 5.00 per WESTGRUND share. The new ADLER shares will participate in dividends from 1 January 2015 and will be issued from a non-cash capital increase that is to be resolved by the Annual General Meeting. The consideration and the specific exchange ratio are yet to be confirmed by the German Federal Financial Supervisory Authority (BaFin).

At the date on which the takeover bid was announced, WESTGRUND AG held a good 17,000 residential units primarily in Berlin/Brandenburg, Lower Saxony, Mecklenburg-West Pomerania and Saxony states. WESTGRUND also had contractual commitments for a further 875 rental units and had secured the acquisition of a portfolio of around 2,800 rental units at year-end 2014. The business models and strategies of ADLER and WESTGRUND are largely identical. The two companies pursue the objective of establishing a significant residential property portfolio in Germany with a particular focus on secondary and peripheral locations of German conurbations in order to generate a positive cash flow after deduction of all current costs. Following the acquisition, the ADLER Group will have a portfolio totalling around 51,300 residential properties in Germany.

4. REPORT ON EXPECTED DEVELOPMENTS

The conditions for the residential property markets in Germany are continuing to enjoy extremely positive development. The decision by the European Central Bank to implement a wide-ranging purchase programme for sovereign bonds and the related policy of low interest rates mean that the extremely favourable financing conditions for property acquisitions will remain in place in the medium term. The low interest rates can help ADLER to gradually improve its financing structures even further. National and international investors are also becoming increasingly willing to provide ADLER with capital for its further growth. Low interest rates are leading to lively demand for owner-occupied properties among increasingly broader sections of the population, a fact that can benefit the privatisation business of the ADLER subsidiary ACCENTRO greatly.

This is accompanied by a further improvement in the economic situation in Germany. The Kiel Institute for the World Economy is forecasting GDP growth of 1.7% in 2015 and 1.9% in 2016. The reduction in oil prices, the growth in real wages and the lower level of unemployment are leading to a further improvement in purchasing power, thereby opening up opportunities for implementing further rent increases in the markets. In particular, the minimum wage that was introduced at the start of 2015 means that many tenants in ADLER's existing properties will enjoy higher income levels.

In light of these factors, property prices and rents are likely to continue to increase on the whole, although the new rental cap legislation in Germany could curb rental growth in certain conurbations. The rating agency Standard & Poor's (S&P) believes that rents and property prices in Germany will see further growth in 2015. S&P expects demand for residential property to remain high as the German population has been growing since 2011 thanks to increased levels of immigration in particular, thereby leading to increased demand for housing.

In ADLER's view, even the real estate markets that have seen the strongest price growth in recent years are not yet overheating, as the buyers of high-end residential properties in prime urban locations are primarily using cash to make their purchases. Outside the booming sub-markets in peripheral locations in the conurbations where ADLER primarily makes its investments, apartments are only appreciating in value in small but steady and continuous increments.

As such, ADLER believes there is considerable additional potential in establishing residential holdings through its policy of continuing to acquire equity interests in residential property portfolios. The company is conducting corresponding negotiations on an ongoing basis. In the 2015 financial year, ADLER has also secured another major transaction with the acquisition of WESTGRUND.

The merger of ADLER and WESTGRUND that is planned for mid-2015 will make ADLER one of the ten largest listed German housing companies in terms of market capitalisation. This new magnitude, with a total portfolio of around 51,300 residential units, will give ADLER the opportunity to leverage additional economies of scale in terms of management, optimisation and value enhancement.

The growing Group will have significantly larger units in the states of Lower Saxony, North Rhine-Westphalia, Berlin, Brandenburg and Saxony in particular, with portfolios that will allow it to perform asset management even more effectively.

Economies of scale can also be generally leveraged in the areas of financing, management, procurement, portfolio management and housing-related services, thereby releasing synergies. Tenants of both companies will benefit in terms of costs and improved tenant care. ADLER estimates the total synergy potential at around EUR 20 million over the next three years. The ADLER subsidiary ACCENTRO can also generate substantial income from the privatisation of the residential units held by WESTGRUND in Berlin-Kreuzberg in particular.

Together with WESTGRUND, ADLER will reach a new and important magnitude as a listed company. The combined assets of the two companies are expected to total around EUR 2.7 billion, while the market capitalisation of the new Group on the stock exchange will be in excess of EUR 700 million. This means that ADLER is expected to be included in the SDAX small cap index in 2015, which will lead to increased interest in ADLER among international investors and hence improved opportunities for acquiring further growth capital at favourable conditions.

These developments mean that further portfolio acquisitions and the corresponding financing of further growth will be achievable at considerably better conditions than was the case when ADLER began establishing its portfolio. As such, ADLER is maintaining its growth target for 2015. In addition to WESTGRUND with around 20,500 apartments, it is possible that additional portfolios of several thousand apartments will be acquired in 2015.

This substantial growth will require ADLER to establish and expand professional organisational structures and to successfully combine and integrate the various companies and operations it acquires. Further earnings performance will depend on this integration and the extent to which the extensive synergy potential is leveraged. In addition, the company must realise the available opportunities for developing its residential portfolio, increasing its occupancy rate and implementing potential rent increases. The volume of residential units acquired in the course of 2014 offers considerable opportunities for doing so. The units newly acquired led to a year-on-year reduction in the Group-wide occupancy rate to just 87.2% (2013: 91.0%), meaning that ADLER will be able to improve the letting rate of its newly acquired properties relatively quickly by implementing appropriate measures. In 2015, ADLER will therefore seek to sustainably improve this reduced occupancy rate to over 90%, which will have a considerable impact on its revenue and earnings and the value of the properties. The average rent from the residential units in all of ADLER's portfolios will also increase due to general market factors as a result of natural fluctuation, thereby improving the company's cash flow and value development.

Additional investments in property modernisation and renovation are being conducted in order to achieve this objective. Across the company's entire portfolio, an average investment per square metre of residential space of EUR 10.50 is planned for 2015.

The financing of the Group as a whole will be another focal point in 2015. The debt-to-equity ratio will be improved, leading to an increase in the Group equity ratio. The aim is to achieve a loan-to-value (LTV) of below 60% in the medium term. The company also plans to increase its cash flow from operating activities and its distributable profit in the medium term. Based on preliminary estimates, the acquisition of WESTGRUND is expected to result in an LTV of around 67%, as well as reducing the interest service payments for all of the liabilities of the ADLER Group to an average of 3.9% compared with 4.7% at year-end 2014.

In light of the continued growth in property prices, the portfolio of around 6,750 residential units in Wilhelmshaven that was acquired in late January 2015 and the acquisition of WESTGRUND will lead to a further increase in NAV per share.

The Trading segment, which is represented by the subsidiary ACCENTRO Real Estate AG (formerly ESTAVIS AG), will also enjoy income growth. ACCENTRO will allow ADLER to privatise residential properties that do not fit into its portfolio or that offer the potential for above-average income. ACCENTRO also privatises residential properties on behalf of third parties. ACCENTRO sold a total of 1,029 apartments in the year under review. In light of the high level of demand, this sales volume is set to increase further in 2015. For 2014, ADLER had forecast a similar property acquisition rate as in 2013 (approx. 7,700 units). In reality, it acquired more than double this volume. Together with WESTGRUND, the housing portfolio will double to more than 50,000 residential units in 2015. The company aims to ensure that this growth is as profitable as in the previous years, thereby laying the foundations for a significant improvement in its operating result.

2015 will be the first year that can be applied as a point of reference for future development, with the acquisitions that have already been implemented or secured also constituting a broad basis for the consolidation, development and improvement of the existing portfolios. ADLER is planning to increase its operating income in the long term by realising rental growth and improving the occupancy rate.

5. ADDITIONAL STATUTORY DISCLOSURES

5.1 Supplementary Disclosures in Accordance with Sections 289 (4) and 315 (4) of the German Commercial Code (HGB)

Composition of Subscribed Capital

The fully paid-up share capital of ADLER AG amounted to EUR 31,876,672.00 at 31 December 2014 (previous year: EUR 16,547,824.00) and is divided into 31,876,672 (previous year: 16,547,824) no-par value bearer shares each with the same voting rights. All of the shares grant the bearers the same rights. Each share grants the bearer one vote and determines the bearer's interest in the company's net profit.

Restrictions relating to Voting Rights and Transfers of Shares

There are no restrictions relating to voting rights or the transfer of shares.

Direct or indirect Voting Rights exceeding 10 %

The company is aware of the following direct or indirect equity interests accounting for more than 10 % of the voting rights as of the end of 2014:

An equity interest held by Mezzanine IX Investors S.A., Luxembourg, Grand Duchy of Luxembourg, consisting of 8,800,000 voting rights. Taking into account the 3,042,918 attributable voting rights, this represents an interest in the subscribed capital of 37.15 % as of the reporting date.

The following notifications were submitted to ADLER after the reporting date:

On 20 February 2015, Mr. Klaus Wecken, Switzerland, informed the company in accordance with section 25 (1) of the German Securities Trading Act (WpHG) that his share of the voting rights of ADLER Real Estate AG, Frankfurt, Germany, exceeded the threshold of 10% on 16 February 2015 and amounted to 9.72 % (corresponding to 3,100,000 voting rights) in accordance with section 22 (1) sentence 1 WpHG and a further 4.13 % (corresponding to 1,318,052 voting rights) on the basis of instruments in accordance with section 25a WpHG at this date (of which 4.13 % or 1,318,052 voting rights were held indirectly). The instruments in accordance with section 25a WpHG consist of a call option that can only be exercised once the capital increase in connection with the WESTGRUND acquisition has been implemented. Chain of controlled companies: Wecken & Cie.

On 20 February 2015, Wecken & Cie, Basel, Switzerland, informed the company in accordance with section 25 (1) WpHG that its share of the voting rights of ADLER Real Estate AG, Frankfurt, Germany, exceeded the threshold of 10 % on 16 February 2015 and amounted to 9.72 % (corresponding to 3,100,000 voting rights) in accordance with sections 21, 22 WpHG and a further 4.13 % (corresponding to 1,318,052 voting rights) on the basis of instruments held in accordance with section 25a WpHG at this date. The instruments in accordance with section 25a WpHG consist of a call option that can only be exercised once the capital increase in connection with the WESTGRUND acquisition has been implemented. Chain of controlled companies: Wecken & Cie.

On 20 February 2015, Mr. Klaus Wecken, Switzerland, informed the company in accordance with section 21 (1) WpHG that his share of the voting rights of ADLER Real Estate AG, Frankfurt, Germany, exceeded the threshold of 10% on 17 February 2015 and amounted to 10.19 % (corresponding to 3,250,000 voting rights) at this date. 10.19 % of the voting rights (corresponding to 3,250,000 voting rights) are attributable to Mr. Wecken in accordance with section 22 (1) sentence 1 no. 1 WpHG.

On 20 February 2015, Wecken & Cie, Basel, Switzerland, informed the company in accordance with section 21 (1) WpHG that its share of the voting rights of ADLER Real Estate AG, Frankfurt, Germany, exceeded the threshold of 10 % on 17 February 2015 and amounted to 10.19 % (corresponding to 3,250,000 voting rights) at this date.

Shares with special Rights granting Powers of Control

There are no shares of the company with special rights granting powers of control.

Type of Voting Right Control when Employees hold an Interest in the Share Capital

In the same way as the other shareholders, employees with an interest in the share capital of ADLER AG exercise their rights of control in accordance with the statutory provisions and the Articles of Association. There is no indirect voting right control.

Authority of the Management Board to issue and buy back Shares

AUTHORISATION TO ACQUIRE TREASURY SHARES

By resolution of the Annual General Meeting on 27 August 2010, the company is authorised to acquire treasury shares totalling up to 10% of the current share capital of the company for the purposes set out in section 71 (1) no. 8 of the German Stock Corporation Act (AktG) in the period up to and including 26 August 2015.

The company did not hold any treasury shares in the 2014 financial year.

AUTHORISED CAPITAL 2013/II

By resolution of the Annual General Meeting on 15 October 2013, the Management Board was authorised, with the approval of the Supervisory Board, to increase the share capital of the company on one or more occasions by a total of up to EUR 8,250,000 in exchange for cash and/or non-cash contributions by issuing up to 8,250,000 new no-par value bearer shares with shareholders' pre-emptive subscription rights disapplied in the period up to and including 14 October 2018.

AUTHORISED CAPITAL 2014/I

By resolution of the Annual General Meeting on 9 May 2014, the Management Board was authorised, with the approval of the Supervisory Board, to increase the share capital of the company on one or more occasions by a total of up to EUR 3,600,000 in exchange for cash and/or non-cash contributions by issuing up to 3,600,000 new no-par value bearer shares with shareholders' pre-emptive subscription rights disapplied in the period up to and including 8 May 2019. Following partial utilisation, the remaining amount of this authorised capital at 31 December 2014 was EUR 750,000.

CONTINGENT CAPITAL 2012/II

By resolution of the Annual General Meeting on 28 June 2012, the Management Board was authorised, with the approval of the Supervisory Board, to issue bearer bonds with warrants and/or convertible bonds on one or more occasions with a total nominal amount of up to EUR 100,000,000.00 and a maximum term of ten years and to grant warrants or conversion rights to the holders of these bonds and/or convertible bonds for up to 6,500,000 new no-par value bearer shares of the company in accordance with the specific terms of the bonds with warrants and/or convertible bonds in the period up to and including 27 June 2017.

The Annual General Meeting on 28 June 2012 resolved a corresponding contingent increase in the share capital of up to EUR 6,500,000.00 through the issue of up to 6,500,000 no-par value bearer shares; the contingent capital increase may be used solely to service the bonds with warrants and/or convertible bonds granted in the period from 28 June 2012 to 27 June 2017 on the basis of the authorisation provided by the Annual General Meeting.

The Annual General Meeting on 15 October 2013 resolved to amend the authorisation provided to the Management Board in order to allow for warrants and/or conversion rights for a total of up to 8,250,000 new no-par value bearer shares of the company to be granted to the holders of bonds with warrants and/or convertible bonds in accordance with the specific terms of the bonds with warrants and/or convertible bonds.

The Annual General Meeting on 15 October 2013 amended the contingent capital accordingly, increasing it to up to EUR 8,250,000.

With the approval of the Supervisory Board, the Management Board exercised this authorisation in 2013 to issue two convertible bonds with a volume of EUR 10,000,000 (5,000,000 units) and EUR 11,250,000 (3,000.000 units) respectively. The holders/creditors of these convertible bonds were granted the right to receive up to 8,000,000 new shares of ADLER AG in accordance with the agreed conditions. As a result of the exercise of conversion rights, the share capital increased by 47,824 no-par value shares as of 31 December 2013. Contingent capital 2012/II therefore decreased to EUR 8,202,176 as at 31 December 2013. As a result of further conversions, the share capital increased by 458,320 no-par value shares as at 31

December 2014. Contingent capital 2012/II therefore decreased to EUR 7,743,856 as at 31 December 2014.

There were 7,493,856 outstanding convertible bonds at the reporting date.

Other Disclosures

In accordance with section 179 (1) AktG, amendments to the Articles of Association require a resolution by the Annual General Meeting that is passed by more than three-quarters of the share capital represented unless otherwise agreed in the Articles of Association.

Members of the Management Board are appointed and dismissed in accordance with sections 76 ff. AktG. The Supervisory Board appoints members of the Management Board for a maximum term of five years. Members may be re-elected or their term extended for a further five years. In addition, Article 7 of the Articles of Association states that the number of Management Board members is determined by the Supervisory Board and that the Management Board may consist of one or more people.

It should also be noted that an agreement has been concluded with the creditors of the corporate bonds and convertible bonds allowing them to demand early redemption at the terms set out in the conditions of the bonds in the event of a potential change of control as a result of a takeover bid. The convertible bonds may also be converted at an adjusted conversion price set out in the conditions of the bonds.

5.2 Principles of the Remuneration System:

Management Board Remuneration

The overall structure and amount of Management Board remuneration are determined by the Supervisory Board of ADLER AG and reviewed at regular intervals. Management Board remuneration is composed of a fixed annual salary that is paid in equal monthly instalments and non-cash benefits in the form of the provision of a company car and the reimbursement of health and long-term care insurance. The members of the Management Board are also reimbursed for documented expenses incurred in performing their duties. The insurance premiums for the liability insurance concluded for the activities of the Management Board members are borne by the company. In addition, the Management Board contracts provide for special annual remuneration (bonus) that is determined by the Supervisory Board on the basis of the economic situation of the company, the company's success in the past financial year and the contribution made by the respective Management Board members.

Supervisory Board Remuneration

The remuneration paid to the members of the Supervisory Board is set out in the Articles of Association and determined by the Annual General Meeting. Each Supervisory Board member receives annual remuneration of EUR 20,000 in addition to the reimbursement of their expenses. The Chairman receives EUR 45,000, while the Deputy Chairman receives EUR 30,000.

The insurance premiums for the liability insurance concluded for the activities of the Supervisory Board members are also borne by the company.

5.3 Corporate Governance Declaration in accordance with Section 289a HGB

The annual corporate governance declaration is published in the Investor Relations/Corporate Governance section of the company's website and can be found at the following URL:

http://adler-ag.com/adler-ag/contao-2.11.7/index.php/erklaerung-nach-289-a-hgb.html

5.4 Closing Statement by the Management Board on the dependentCompany Report

The dependent company report in accordance with section 312 AktG contains the following closing statement by the Management Board:

"Our company received adequate consideration for all of the transactions listed in the dependent company report and was not disadvantaged by the measures taken or not taken."

This assessment is based on the circumstances known to us at the time of the transactions requiring disclosure.

6. REPORT ON RISKS AND OPPORTUNITIES

6.1. Report on Opportunities

6.1.1 Macroeconomic and industry-specific Opportunities

The ADLER Group strengthened and expanded its market position considerably in the past financial year by acquiring additional portfolios in the Portfolio segment in order to meet the growing demand for affordable housing. Despite the forecast decline in the German population, the number of single-person and two-person households is expected to rise. While the number of households in western Germany will increase between now and 2030, a decline in the number of households is forecast for eastern Germany. As more than 70% of ADLER's portfolio properties are located in western Germany, this opens up the possibility of participating in this growth in demand.

6.1.2 Opportunities of Business Activities

Thanks to its acquisitions in the past financial year and at the start of 2015, ADLER has reached a critical mass that will allow it to conclude master agreements with national telecommunications and utilities providers in order to generate economies of scale compared with its regional competitors – including for the benefit of its tenants.

The acquisition of Wohnungsbaugesellschaft Jade mbH and its subsidiaries has opened up the possibility of utilising the latter's facility management services for ADLER's entire portfolio.

6.1.3 Financial Opportunities

Although a further decline in the general interest rate on the capital markets seems unlikely, ADLER has the opportunity to improve and optimise its own capital structure and reduce its financing costs primarily by refinancing bonds with higher interest rates. Thanks to the acquisitions and business combinations it has conducted, ADLER has reached a critical mass that makes it particularly interesting for the capital markets.

6.1.4 Opportunities arising from the planned Merger with WESTGRUND AG

On 16 February 2015, ADLER announced its intention to submit a voluntary public takeover bid to the shareholders of WESTGRUND AG with a view to acquiring a majority interest in WESTGRUND AG. This acquisition would make ADLER one of the top ten listed housing companies within the industry, and the resulting increase in its market attractiveness would give it the opportunity to expand its shareholder base and hence generate additional growth.

Additional opportunities result from the more effective use of IT and administration and the substantial procurement benefits arising from the greater procurement volumes that can now be negotiated.

6.2 Risk Report

6.2.1 Risk Management

ADLER continuously examines the opportunities that arise. Leveraging these opportunities sometimes involves entering into risks.

The rapid growth in the ADLER Group in 2014 and the current financial year accounted for the adjustment and further development of the Group-wide risk management system (including a compliance management system) and the adjustment of the organisation. Following the acquisition of the Magnus III property portfolio and a majority interest in ACCENTRO AG in particular, ADLER adjusted its Group-wide risk management system and its organisation to reflect the new structure and size of the Group, especially with regard to property-specific aspects. The implementation phase is almost complete.

Risk management encompasses all organisational provisions and activities aimed at the systematic, regular, company-wide implementation of the risk management process. It also includes support for this process in the form of appropriate instruments and methods with the aim of safeguarding the long-term existence of the company, developing scope for action, achieving the planned corporate objectives and, in particular, reducing risk and capital costs.

The aims of the Group-wide risk management system are the fulfilment of the organisational obligation of the Management Board (section 91 (2) AktG – introduction of a monitoring system) and, in particular, the safeguarding of ADLER's long-term existence, the mapping of scenarios, future development and its implications for the corporate and risk objectives, the monitoring of compliance with the corporate strategy from a risk perspective and controlling in the form of appropriate or necessary measures, and the optimisation and monitoring of the risk/reward ratio.

The risk strategy is derived by ADLER's Management Board on the basis of the corporate strategy and prescribes the general risk objectives and the measures for their achievement. The risk strategy is described in greater detail by the risk objectives in order to realise an appropriate risk/reward ratio and to ensure the Group's risk-bearing capacity. The risk strategy is embodied in the principles of the risk policy and secured by way of the risk management process.

The Group-wide risk management organisation consists of a risk management system and a monitoring system. The risk management system is managed by the Management Board and the management teams of the Group companies or specially nominated risk officers. They define the risk policy, the risk strategy and the risk objectives. The risk management system encompasses all of the ADLER Group companies that are included in the consolidated financial statements (basis of consolidation).

The risk management system consists of the following elements:

- Central risk and compliance management unit
- Internal Audit function (internal and external)
- Clear risk and compliance officers (risk owners) who perform regular or event-driven risk inventories and assessments at quarterly intervals and respond to existing risks with preventive measures as required (risk management and controlling).

The risk owners in the operational functional units (Supervisory Board, Management Board, Executive Committee, Office of the Management Board, Service, Portfolio and Privatisation) perform risk identification, assessment, controlling and management and regular or event-driven risk reporting (risk processes). In the 2014 financial year, monthly risk reporting as part of asset management reporting focused in particular on property-specific risks. Monthly reporting by the ADLER risk controlling team also focused on financial risks.

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

The main elements of the operational risk management process are

- Risk identification and analysis
- Early warning system
- Risk assessment (qualitative risk measurement based on a scoring model to quantify risks)
- Risk communication (reporting, risk reports)
- Risk management
- Risk controlling

A comprehensive risk catalogue and a risk map identify all of the material risks and compliance risks to which ADLER is or could be exposed.

6.2.2 Presentation of individual Risks

The ADLER Group is exposed to a range of different risks that could have an adverse effect on the net assets, financial position and results of operation and the continued economic development of the Group, either individually or in combination. The risks to which the ADLER Group is exposed encompass general risks that apply to all companies and, in particular, property-specific risks and financial risks relating to the financing of the Group's property portfolios. The dynamic development of the ADLER Group, which is reflected in the acquisition of several property portfolios in the 2014 financial year as well as the acquisition of a majority interest in ACCENTRO AG, is accompanied by risks in connection with the acquisition of properties and property companies. These integration and acquisition risks are discussed separately.

(1) Macroeconomic and industry-specific Risks (Market Risks)

Following the change in its strategy in 2012, the ADLER Group primarily generates revenue from letting residential property in Germany, meaning that it pursues a strategy of holding and expanding residential property portfolios. It also sells developed land and performs project development activities to a lesser extent. Following the acquisition of a majority interest in ACCENTRO in 2014, the Group also generates privatisation income from the sale of its own and third-party properties, meaning it is directly exposed to economic risks and risks associated with the real estate industry.

As the company's properties are situated in Germany, a deterioration in the prevailing economic conditions in Germany, e.g. in connection with a rise in unemployment, could lead to lower demand for housing and hence have an adverse effect on rents and prices. Increased unemployment or a lack of funds (poverty in old age) could also have an impact on the creditworthiness of the potential and current tenants (portfolio) or buyers (privatisation) of properties. Demand for property is also affected by economic development, inflation, the level of government debt and interest rate development in Germany. A high interest rate would impede property investments as the cost of debt finance would be higher. An increase in the interest rate would also make ADLER's property financing more expensive.

The risk of economic development takes the form of the risk of a negative change in the general economic situation at a national level and across all industries. Risk assessment takes into account the current economic situation as well as the outlook in terms of economic development. Changes in economic development can affect a wide range of relevant risk factors for the real estate industry, such as the property markets, the financial markets, or property management costs (via the general price level). This also has a sociodemographic impact in the medium term, which in turn leads to a change in the (regional) economic situation. Economic development can be influenced at a political level to a limited extent. The reduction in available net income could have an adverse effect on new lettings and the occupancy rate of the properties held by ADLER, and hence on the Group's course of business.

Property market risk describes the risk of changes in the relevant property sub-market. Distinguishing criteria include the region, the type of use, purchase or rental, newly constructed or existing properties, and other factors. Changes can result from a change on the demand or supply side affecting the available space or the quality of the available space. Property market risk is one of the central risks in the real estate industry, as it has a material impact on the development of rental income and the value of properties. Key factors relating to the real estate markets include economic and sociodemographic developments, political and legal conditions and property location. Property price risk is another risk affecting the successful management of the residential property portfolio and the sale of properties.

Capital market risk describes the risk of financial loss as a result of a change in market prices. Changes in market prices result in particular from the risk assessment of the market participants, which can be measured on the basis of volatility. Volatility is defined as the standard deviation of changes in the observed parameters (e.g. share prices) and is frequently applied as a measure of risk. A high level of volatility indicates risk aversion, nervousness and fear among market participants. In times of high volatility on the stock markets, access to equity or debt capital becomes more difficult or the required return on capital is higher.

To counteract market risks, the business environment and the competitive situation are permanently observed and analysed. This includes general trends in terms of demand for space and features, as well as price and quality. The risk of market fluctuations is reduced through the regional and product-based diversification of projects and their adjustment to reflect changes in conditions.

(2) Strategic Risks

Strategic risks result from strategy formulations and mean that there is a negative deviation between the expected and actual consequences of actions. Risk causes include the macroeconomic environment and the company's processes. Extensive strategic risk management and early risk disclosure make it possible to control the strategic risks to which ADLER is exposed.

(3) Financial Risks

The ADLER Group is exposed to increased financial risk as a result of the growth in the volume of various types of financing that is accompanying its pronounced growth. To meet these heightened requirements, ADLER has made new appointments in the area of financing, is establishing a Group-wide treasury system and is increasingly also focusing its risk management activities on the area of financial risk. In particular, financial risk encompasses financial market risk (consisting of interest rate risk and market price risk), counterparty default risk in the area of (rental) receivables and other trade receivables, and liquidity risk. Financing risk is a factor with regard to the current acquisition of WESTGRUND AG.

The overriding objective is to maintain the ADLER Group's ability to meet its payment and capital service obligations. Another major financial risk is the ADLER Group's refinancing risk. This describes the risk that ADLER will be unable to conclude refinancing after its existing loan agreements, fixed interest periods and the issued bonds and convertible bonds expire, or that it will only be able to do so at conditions that are too expensive.

Accordingly, ADLER focuses in particular on the following material financial risks:

- FINANCIAL COVENANTS

In order to ensure that it complies with the financial covenants that are required by many banks, ADLER has defined various covenants in its updated risk management system and applies a risk buffer of 10%. The financial covenants are monitored regularly and on an event-driven basis. The banks have been informed about the financial covenants as part of the Group's existing bank reporting. In future, internal control will take place as part of risk assessment.

- MARKET RISK

Market risks can give rise to fluctuations in earnings, equity and cash flows. As a countermeasure to these risks, the ADLER Group has developed various hedging strategies, some of which involve the use of derivative financial instruments.

- INTEREST RATE RISK

The ADLER Group is subject to interest rate risk solely in the euro zone. Interest rate risk is divided into market value interest rate risk and cash flow interest rate risk. Market value interest rate risk, i.e. the potential change in the fair value of a financial instrument due to changes in market interest rates, applies to fixed-income medium-term and long-term receivables and liabilities.

ADLER uses debt and equity capital to finance its business activities. The interest rates for (property) loans in Germany are currently at an extremely low level. Accordingly, a general rise in interest rates would increase ADLER's financing costs and hence reduce the profitability of its properties. An increase in interest rates could also make it more difficult to sell the properties held as current assets as buyers would be exposed to higher financing costs.

- MARKET PRICE RISK

Market price risk describes changes in the value of a financial instrument due to fluctuations in market prices. As the equity interests held by the Group are unlisted shares in GmbHs (limited liability companies under German law) that are carried at cost, the Group is not exposed to a direct market price risk.

- COUNTERPARTY DEFAULT RISK

Counterparty default risk describes the risk that contractual partners will be unable to meet their contractual payment obligations. The maximum default risk is the carrying amounts of the primary and derivative financial assets and the financial guarantees issued. Rules for action are in place to ensure that transactions are only conducted with counterparties that have displayed adequate payment behaviour in the past. Contracts for derivative financial instruments and financial transactions are only concluded with banks with excellent credit ratings. The Group pursues a business policy that seeks to limit the concentration of credit risk with individual banks. There are no significant concentrations with respect to potential credit risks within the Group.

- LIQUIDITY RISK

Liquidity risk relates to potential financial bottlenecks and a resulting increase in refinancing costs. ADLER primarily generates its cash inflows from the net rents for the acquired property portfolios and the sale of properties that no longer form part of its core business. As such, the size of the existing portfolios means that a constant cash flow is not yet guaranteed. For this reason, cautious liquidity management (in future: Group-wide treasury) includes maintaining a sufficient reserve of cash and cash equivalents, the ability to obtain financing in the form of an adequate volume of approved credit facilities, and the ability to issue instruments on the market. Liquidity management at the ADLER Group is performed via Group-wide cash management (treasury). The aim of liquidity management is to ensure that the Group is able to meet its payment obligations at all times by maintaining a sufficient volume of liquidity reserves and optimising intragroup cash pooling.

(4) Financing Risks

The current expansion of the residential property portfolio and the planned acquisition of WESTGRUND AG, Berlin, that was announced on 16 February 2015 mean that the Group is exposed to financing risks. A more restrictive lending policy on the part of the banks or negative developments on the capital markets (reduction in the investment volume) would have a significant negative impact on ADLER's business development. For this reason, ADLER cooperates with numerous banks and private investors in order to counteract this risk. The Group also uses various financing options on the capital markets.

(5) Property Acquisition Risks (Investment Risks)

The economic success of the ADLER Group depends to a large extent on the selection and acquisition of suitable properties for its portfolio of rented apartments or for sale to owner-occupiers or investors (privatisation via ACCENTRO AG). Accordingly, investment risk encompasses the risk that construction, legal, economic or other burdens affecting the properties to be acquired may be incorrectly assessed and/or not recognised. Assumptions relating to the earnings potential of the properties may subsequently prove to be partially or wholly incorrect. Assumptions concerning the location benefits of the apartments may also prove to be inaccurate. These acquisition risks are countered by way of the detailed examination of the properties concerned. Due diligence is performed in order to identify the expected renovation, maintenance and modernisation requirements and compare them with the expected capital service calculations, for example.

(6) Property-specific and project-specific Risks (Economic Performance Risks)

Property risks are the risks arising at the level of the individual properties or the property portfolio or due to the location of the properties. In particular, property-specific factors include maintenance failures, structural damage, insufficient fire protection and damage caused by tenants. Risks may also arise due to site contamination including the soil composition or due to hazardous substances in the construction materials and as a result of breaches of construction law requirements and conditions. At a portfolio level, lettability may be adversely affected by the risk of a concentration of portfolio properties requiring substantial maintenance and renovation costs, for example. Project-specific risks may arise from changes to zoning plans or more stringent requirements or the withholding of planning permission.

(7) Property Disposal Risks (Divestment, Selling and Marketing Risks)

Although ADLER primarily focuses on holding and establishing residential property portfolios, there are opportunities for it to sell properties or parts of its property portfolios. Privatisation via ACCENTRO AG may also give rise to selling and marketing risks.

For example, the acquisition of a property portfolio may involve potential risks if the portfolio includes properties with a difficult connection or no connection to ADLER's relevant management infrastructure (asset, property and facility management). This would make it extremely difficult to leverage economies of scale within the ADLER Group and could lead to unprofitability due to high management costs. Portfolio streamlining could be subject to risks due to restrictions on sale, e.g. as a result of portfolio financing or public law requirements, the conditions attached of funding, etc. A further fundamental risk is the sale of properties at below their actual value in emergency situations (e.g. a sudden liquidity requirement).

Risks may also arise from breaches of information requirements, misstatements, guarantees and statutory liability issues (particularly relating to site contamination). In this case, risks may also arise following the sale of a property in the form of claims for damages.

(8) Information Technology (IT) Risks

The ADLER Group has largely outsourced its IT applications to external service providers. As such, IT risks primarily relate to the risk that these providers will be unable to guarantee the provision of error-free, disruption-free IT services at all, on time, without disruption, or with significant disruptions up to and including complete failure. To counteract this risk, ADLER has concluded functional operating, maintenance and administrative agreements with its external IT service providers. Compliance is permanently monitored as part of monthly

(9) Company-specific Risks

Material company-specific risks include management and organisational risks, information risks, compliance risks, personnel risks, and legal risks.

- MANAGEMENT AND ORGANISATIONAL RISKS

In particular, these risks encompass the company's strategy, the management functions as set out in the ADLER Group's organisational chart (Office of the Management Board, Service, Portfolio, Privatisation), ADLER's organisation, corporate culture and image, and the risk of insufficient employee motivation.

The quality of the company's management is also a decisive factor in the success of its business activities, and hence of the individual properties. For example, the level of rental income, (non-allocable) management costs and financing conditions are also influenced by the quality of management.

This risk originates from the individual operational management processes and may result from inadequate monitoring, scheduling, communication, definition of interfaces, deployment of staff and resources or missing documentation, among other things.

ADLER counteracts this risk by providing advanced training for its managers.

- COMPLIANCE RISKS

Compliance risks primarily result from violations by management, senior employees and other employees who fail to comply with legislation and/or internal guidelines, resulting in damage to ADLER.

As part of its risk management system, ADLER has developed its compliance management system further in order to reflect the size and complexity of the ADLER Group. Implementation will be completed in the near future.

ADLER applies the IDW PS 980 and ISO 19600 standards to its compliance management system in order to ensure adequate risk assessment. These standards require that risks are identified, documented, and evaluated by the compliance officers in terms of their content and likelihood of occurrence. The implementation of the corresponding responsibilities is based on ADLER's functional areas: Supervisory Board, Management Board, Executive Committee, Office of the Management Board, Service, Portfolio and Privatisation. Compliance risks are also managed in the areas of investment, divestment, money laundering, data protection, and general operating risks. Specific risks may arise in each of these individual areas.

In future, compliance risks will be counteracted using a compliance management system that is partially integrated into the risk management system. The core elements of the compliance management system are the compliance culture, the compliance objectives, the compliance organisation, compliance risks, the compliance programme, and the provisions on dealing with compliance violations and compliance communication.

The compliance management system is implemented by way of the compliance guideline, compliance training, compliance audits and quarterly compliance reporting to the management bodies. A central compliance office has been established for this purpose.

- PERSONNEL RISKS

The ADLER Group's employees play an important role in its economic success. They provide their knowledge, skills and expertise on behalf of the Group. Personnel risks are varied. A distinction is made between risks arising when employees are appointed, during their current employment relationship and when they leave the company. As part of its rapid growth, ADLER is exposed in particular to the risk of adequate recruitment, maintaining employment relationships and ensuring a balanced personnel structure.

ADLER counteracts these risks with financial and non-monetary incentives.

- LEGAL RISKS

Legal risks may arise in the areas of capital market law, company law and real estate law in particular. ADLER has made appointments to strengthen its workforce in the area of legal matters and in order to avoid legal risks.

Legal risks can lead to financial losses. They may arise from a failure to comply with legal provisions or a failure to implement new or amended legislation, for example.

There is also a risk of loss due to the inadequate or non-existent reconciliation of business processes with a contractual partner or wording, content or conditions that are disadvantageous to the Group. When concluding asset management, property management and facility management agreements, particular attention should be paid to ensuring that the content of the agreed performance is complete and does not overlap. There is also a general risk of using ineffective clauses when concluding an agreement, thereby incurring increased costs as a result (e.g. transfer of liability risk).

Public law risks relate to provisions, legislation and conditions concerning property ownership and management. This may involve listed buildings, climate and environmental protection or, for example, plans aimed at capping rent, which could lead to additional obligations and costs for the property owner.

Past or future business combinations could result in risks. To counteract these risks, the Management Board commissions all of the analyses and expert reports that are required on a case-by-case basis to ensure that it has a comprehensive overview of the target company and the information it requires to make a decision. On 5 March 2015, the lower house of the German Parliament approved the proposed legislation on the rental cap. This means that, when a new tenancy is concluded in a strained housing market, the new rent may not be more than 10% above the level that is typical for the respective area. The adoption of this draft legislation and its subsequent implementation at the level of the federal states and municipalities is accompanied by the risk of limited potential for rental growth when concluding new tenancy agreements.

(10) General Acquisition and Integration Risks

- RISKS RELATING TO THE INTEGRATION OF ACCENTRO AG

ADLER completed the acquisition of a majority interest in ACCENTRO Real Estate AG midway through the year. The takeover process involved the merger of two listed real estate stock corporations. The integration process is still underway and is expected to last until the end of the 2015 financial year. General acquisition and integration risks are conceivable and have occurred in some cases. However, ADLER also expects to enjoy considerable synergy effects and cost savings. Despite this, there is a possibility that certain effects will not occur to the forecast extent or within the expected timeframe. The restructuring and the change of name have already been implemented. The extensive portfolios taken over as part of the acquisition require adjustments to processes and the partial reorganisation of administration, management and internal structures. These aspects may deviate from the original assumptions and lead to a failure to achieve the acquisition targets or to heightened risk.

- RISKS RELATING TO THE ACQUISITION OF WOHNUNGSBAUGESELLSCHAFT JADE MBH, WILHELMSHAVEN

In connection with the acquisition of Wohnungsbaugesellschaft JADE mbH, Wilhelmshaven, and two subsidiaries, around 6,750 rental units were acquired with effect from 31 January 2015. Under the terms of the share deal, the acquirer also took over around 100 employees. Despite careful research prior to the acquisition, this transaction is also subject to general acquisition and integration risks. Integration is expected to take two years and will tie up significant personnel and financial resources. Successful integration requires the combination of the workforces of the two companies and their corporate cultures. In addition, IT systems and joint processes for the integrated group have been designed but not yet implemented.

- RISKS RELATING TO THE ACQUISITION OF WESTGRUND AG, BERLIN

On 16 February 2015, ADLER announced its decision to submit a takeover bid to the shareholders of WESTGRUND AG, Berlin. The acquisition process is still in a very early phase. The acquisition will make ADLER one of the ten largest listed German housing companies in terms of market capitalisation.

The acquisition and integration could have negative consequences for the contractual and legal position of one of the two groups, for example.

In addition, existing corporation tax and trade tax loss carryforwards at WESTGRUND AG may partially or fully expire as a result of the acquisition by ADLER.

ADLER expects the acquisition of WESTGRUND AG to result in various synergy effects and economies of scale. ADLER cannot rule out the possibility that the expected synergies and economies of scale will not be as extensive as forecast. Similarly, the acquisition and integration costs may be higher than anticipated. The development of WESTGRUND AG's property portfolio could also deviate from the original valuation conducted by ADLER.

6.2.3 Risk Concentration

A large proportion of ADLER's properties are located in Lower Saxony (mainly in Wilhelmshaven and Helmstedt) and North Rhine-Westphalia (Rhine-Ruhr metropolitan region). As such, economic development depends to a large extent on the development of the property market in these conurbations.

6.2.4 Other external Risk Factors

ADLER currently has around 31,000 rental units. Following the planned acquisition of WESTGRUND AG, Berlin, this will increase to over 50,000 residential units. There are general influences that are unforeseeable and largely uncontrollable. ADLER defines these as including changes in political conditions, social factors, and risks such as acts of terrorism and natural disasters. Risks of this nature could have a direct or indirect impact on the ADLER Group's residential portfolio, and hence adversely affect ADLER's economic situation.

6.2.5 Summary of the ADLER Group's Risk Situation

The ADLER Group is exposed to a wide range of risks requiring permanent monitoring. The overall risk situation of the Group based on the summary of the risks described and their impact and probability of occurrence leads ADLER to believe that the continued existence of the Group is not endangered either by individual risks or by the risk situation as a whole. ADLER is confident that it will continue to successfully deal with the challenges arising from the aforementioned risks in future.

ADLER has responded to the increased risk resulting from its growth by further developing its risk management and monitoring system.

Frankfurt am Main, 18 March 2015

Harloff

Axel Harloff
Management Board

Consolidated Balance Sheet

(IFRS) as at 31 December 2014

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

* The previous year's figures have been restated for changes in classificatior

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

* The previous year's figures have been restated for changes in classification.

Consolidated Statement of Comprehensive Income

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

In EUR '000	Note	2014	2013
			*restated**
Gross rental income	9.1	83,882	17,839
Expenses from property lettings	9.2	-51,809	-10,217
Earnings from property lettings		**32,073**	**7,622**
Income from the sale of properties	9.3	56,821	1,970
Expenses from the sale of properties	9.4	-54,435	-1,335
Earnings from the sale of properties		**2,386**	**635**
Personnel expenses	9.5	-5,024	-1,166
Other operating income	9.6	29,718	132
Other operating expenses	9.7	-21,145	-2,421
Income from fair value adjustments of investment properties	9.8	132,934	59,546
Depreciation and amortisation	9.9	-497	-15
Earnings before interest and tax (EBIT)		**170,445**	**64,333**
Financial income	9.10	1,579	685
Financial costs	9.11	-41,088	-8,563
Net income from at-equity valued investment associates	9.12	1,824	6,562
Earnings before tax (EBT)		**132,760**	**63,017**
Income taxes	9.13	-21,189	-16,141
Consolidated net profit		**111,571**	**46,876**
Actuarial gains/losses before taxes	8.17	-792	81
Deferred taxes on actuarial gains/losses	8.17	282	-26
OCI gains/losses not reclassifiable into profit or loss		**-510**	**55**
OCI SWAP – reclassifiable –	10.1	-20	0
Deferred taxes OCI – reclassifiable –	10.1	-4	0
OCI own bonds – reclassifiable –	10.1	32	0
Gains/losses from currency translation	8.15	79	-48
OCI gains/losses not reclassifiable into profit or loss		**87**	**-48**
Total comprehensive income for the year		**111,148**	**46,883**
Profit attributable to:			
Owners of the parent company		109,220	38,763
Non-controlling interests		2,351	8,113
Total comprehensive income attributable to:			
Owners of the parent company		108,797	38,770
Non-controlling interests		2,351	8,113
Earnings per share, basic (EUR)	9.14	4.65	2.57
Earnings per share, diluted (EUR)	9.14	3.57	2.23

* The previous year's figures have been restated for changes in classification.

Consolidated Statement of Cash Flows

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

	In EUR '000	2014	2013
			*restated**
	Earnings before interest and taxes (EBIT)	170,444	64,333
+	Depreciation and allowances	497	15
–/+	Net income from at-equity valued investment associates	1,824	6,562
–/+	Net income from fair value adjustments of investment properties	-132,934	-59,546
–/+	Non-cash income/expenses	-21,359	902
–	Decrease in provisions and accrued liabilities	-3,746	-172
–/+	Increase/decrease in inventories, trade receivables and other assets not attributable to financing activities	9,280	848
–/+	Increase/decrease in trade payables and other liabilities not attributable to investment or financing activity	-6,205	-997
+	Interest received	435	12
+/–	Tax payments	-1,487	-23
=	**Net cash flow from operating activities**	**16,749**	**11,934**
–	Acquisition of subsidiaries, net of cash acquired	-59,412	-92,457
–	Purchase of investment properties	-120,216	-397
+	Disposal of investment properties, net of cash disposed of	0	2,418
–	Purchase of property, plant and equipment	-149	-7
–	Payments into short-term deposits	-28,495	-3,730
–	Purchase of financial assets	0	-26
=	**Net cash flows from investing activities**	**-208,272**	**-94,199**
+	Proceeds from equity contributions	21,090	3,600
–	Payments for expenses relating to issue of share capital	-1,682	-63
+	Proceeds from issue of convertible bonds	0	21,250
+	Proceeds from issue of bonds	100,000	35,000
+	Proceeds from third-party loans	0	5,042
-	Payment of expenses relating to the issue of debt instruments	-4,223	-2,995
–	Interest payments	-35,520	-4,819
+	Proceeds from bank loans	538,908	32,038
–	Repayment of bank loans	-400,885	-977
=	**Net cash flows from financing activities**	**217,688**	**88,076**
	Reconciliation to Consolidated Balance Sheet		
	Cash and cash equivalents at beginning of period	**6,895**	**1,084**
	Net cash flow from operating activities	16,749	11,934
	Net cash flow from investing activities	-208,272	-94,199
	Net cash flow from financing activities	217,688	88,076
=	**Cash and cash equivalents at end of period**	**33,060**	**6,895**

* The previous year's figures have been restated for changes in classification.

Consolidated Statement of Changes in Equity

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

In EUR '000	Capital stock	Treasury shares	Capital reserves
As at 1 January 2013 (restated)	**15,000**	**-810**	**8,255**
Consolidated net profit for the year	0	0	0
Other comprehensive income – reclassifiable	0	0	0
Other comprehensive income – non-reclassifiable	0	0	0
Change in scope of consolidation	0	0	0
Increase/decrease in shareholding with no change in status	0	0	0
Capital increase	1,500	0	1,992
Issue of treasury shares	0	810	885
Issue of convertible bonds	0	0	1,962
Conversion of convertible bonds	48	0	38
As at 31 December 2013	**16,548**	**0**	**13,132**
As at 1 January 2014	**16,548**	**0**	**13,132**
Consolidated net profit for the year	0	0	0
Other comprehensive income – reclassifiable	0	0	0
Other comprehensive income – non-reclassifiable	0	0	0
Change in scope of consolidation	0	0	0
Increase/decrease in shareholding with no change in status	0	0	12,062
Capital increase	14,871	0	82,207
Issue of treasury shares	0	0	0
Issue of convertible bonds	0	0	0
Conversion of convertible bonds	458	0	678
As at 31 December 2014	**31,877**	**0**	**108,078**

Retained earnings	Currency translation reserve	Net retained profit	Equity attributable to the owners of the parent company	Non-controlling interests	Total equity
105	**-10**	**3,791**	**26,331**	**118**	**26,449**
0	0	38,763	38,763	8,113	46,876
0	-49	0	-49	0	-49
55	0	0	55	0	55
0	0	0	0	6,379	6,379
0	0	0	0	0	0
0	0	0	3,492	0	3,492
0	0	0	1,695	0	1,695
0	0	0	1,962	0	1,962
0	0	0	86	0	86
160	**-59**	**42,554**	**72,335**	**14,610**	**86,945**
160	**-59**	**42,554**	**72,335**	**14,610**	**86,945**
0	0	109,220	109,220	2,351	111,571
0	79	8	87	0	87
-509	0	0	-509	0	-509
0	0	0	0	7,388	7,388
0	0	-7	12,055	-7,652	4,403
0	0	0	97,078	0	97,078
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	1,136	3,113	4,249
-349	**20**	**151,775**	**291,401**	**19,810**	**311,211**

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

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

ADLER AG is a publicly traded real estate company focused on developing a strong and profitable real estate portfolio. Its activities are centred on acquiring and managing residential properties throughout Germany.

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

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

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

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

2. ACCOUNTING POLICIES

2.1 Basis of Preparation

The consolidated financial statements of ADLER AG as at 31 December 2014 were prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS), as required to be applied in the European Union (EU). The provisions of Section 315a, Para. 1 of the German Commercial Code (HGB) were also applied. The requirements of the applied standards have been fulfilled and the financial statements present a true and fair view of the Company's net assets, financial position and financial performance.

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

The financial statements of the subsidiaries are prepared using uniform accounting policies.

The consolidated statement of comprehensive income was prepared in accordance with the nature of expense method. The revenues and cost of materials reported in the income statement were retrospectively broken down in further detail so as to adapt to the structures customary for real estate companies and to achieve greater transparency with regard to the ADLER Group's sources of income and earnings.

The consolidated financial statements are prepared in thousands of euros (EUR '000), the euro being the functional currency of the parent company.

Since amounts are given in thousands of euros (EUR '000), rounding differences can occur.

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

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

Preparing the consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. Areas subject to a higher degree of judgment and complexity or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in note 6.

The financial statements comply with statutory provisions and, with the following exceptions resulting from new and revised standards, were prepared using policies unchanged from the previous year.

2.2 Accounting Standards First Applicable in Financial Year 2014

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

Standard/Interpretation	Effective date	Date of EU endorsement
Amendments to standards:		
IAS 27: Separate Financial Statements	01/01/14	11/12/12
IAS 28: Investments in Associates and Joint Ventures	01/01/14	11/12/12
IAS 32: Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	01/01/14	13/12/12
IFRS 10, IFRS 12 and IAS 27: Separate Financial Statements – Exception to Consolidation Requirements for Investment Entities	01/01/14	20/11/13
IFRS 10, IFRS 11 and IFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transitional Guidelines	01/01/14	04/04/13
IAS 36: Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets	01/01/14	19/12/13
IAS 39: Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting	01/01/14	19/12/13
New standards:		
IFRS 10: Consolidated Financial Statements	01/01/14	11/12/12
IFRS 11: Joint Arrangements	01/01/14	11/12/12
IFRS 12: Disclosures of Interests in Other Entities	01/01/14	11/12/12

IFRS 10 “Consolidated Financial Statements”

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

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

IFRS 11 “Joint Arrangements”

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

IFRS 12 “Disclosure of Interests in Other Entities”

IFRS 12 combines in one standard all disclosure requirements for interests in other entities, including interests in subsidiaries, associates, joint arrangements and structured entities. The new standard replaces the previous disclosure requirements in IAS 27, IAS 28, IAS 31 and SIC-12. The initial application of IFRS 12 extends the disclosures required in the notes.

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

2.3 Accounting Standards Approved by the IASB but not yet Applied

The following new or revised standards approved by the IASB, but largely not yet adopted by the EU, were not applied in financial year 2014, as there was no obligation to do so:

Standard/Interpretation	Effective date	Date of EU endorsement
Amendments to standards:		
IAS 1: Disclosures	01/01/16	open
IAS 27: Equity Method in Single Financial Statements	01/01/16	open
IAS 16 and 41: Agriculture, Bearer Plants	01/01/16	open
IAS 16 and 38: Clarification of Acceptable Methods of Depreciation and Amortisation	01/01/16	open
IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	01/01/16	open
IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	01/01/16	open
IFRS 10, 12 and IAS 28: Applying the Consolidation Exception	01/01/16	open
IAS 19: Employee Benefits – Employee Contributions	01/07/14	17/12/14
Improvements to IFRS 2010-2012: Amendments to IFRS 2, 3, 8, 13 and IAS 16, 24, 38	01/07/14	17/12/14
Improvements to IFRS 2011-2013: Amendments to IFRS 1, 3, 13 and IAS 40	01/01/16 (EU)	18/12/14
Improvements to IFRS 2012-2014: Amendments to IFRS 5, 7, 19 and IAS 34	01/01/16	open
New standards:		
IFRS 9: Financial Instruments – Classification and Measurement of Financial Assets	01/01/18	open
IFRS 14: Regulatory Deferral Accounts	01/01/16	open
IFRS 15: Revenue from Contracts with Customers	01/01/17	open
IFRIC 21: Levies	01/07/14 (EU)	13/06/14

IFRS 9 "Financial Instruments – Classification and Measurement of Financial Assets"

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

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

IFRS 15 "Revenue from Contracts with Customers"

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

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

The current assessment is that the above standards and interpretations have no material effect on the consolidated financial statements

3. BASIS OF CONSOLIDATION

3.1 Subsidiaries

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

Subsidiaries are fully consolidated starting on the date when control was transferred to the parent company. They are deconsoliated from the date when control ends.

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

In the case of company acquisitions, an assessment is made (see 6. Significant Discretionary Decisions, Estimates and Assumptions) as to whether the acquisition is a business combination pursuant to IFRS 3 or merely the acquisition of a group of assets and liabilities without having the quality of a company.

Company acquisitions within the meaning of IFRS 3 are reported using the acquisition method. The acquisition method requires the cost of the company to be allocated to the fair value of individually identifiable assets, debts and contingent liabilities acquired. Any surplus between the consideration given and the net assets is recognised as goodwill, and negative goodwill is recognised through profit or loss. Acquisition-related costs are recognised as expenses.

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

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

Intragroup receivables, liabilities and results are eliminated for the purposes of consolidating income, expenditure, assets and liabilities for the consolidated financial statements. Expenses and income resulting from the intragroup transfer of assets are also eliminated. The accounting policies applied by the subsidiaries are used on a Group-wide basis.

3.2 Joint Arrangements

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

Joint ventures are companies whose financial and business policies the Group can control either directly or indirectly, in conjunction with one or more third parties. Interests in joint ventures are accounted for using the equity method.

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

3.3 Associated Companies

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

Gains and losses from transactions between Group companies and associates are eliminated based on the Group's share in the associates.

Gains and losses from transactions between associates are not eliminated.

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

There were no other changes to the scope of associates.

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

4.1 Investments in Subsidiaries

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

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

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

The following companies were disposed of in the financial year:

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

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

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

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

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

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

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

Five (previous year: two) associates and one (previous year: zero) joint venture are accounted for using the equity method. Two (previous year: three) associates are not accounted for using the equity method for reasons of materiality.

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

No.	Company	Headquarters
	Companies fully consolidated pursuant to IFRS 3	
1	ADLER Real Estate AG (parent company)	Frankfurt / Germany
2	ADLER Real Estate Service GmbH	Hamburg / Germany
3	Verwaltungsgesellschaft ADLER Real Estate mbH	Hamburg / Germany
4	Verwaltungsgesellschaft Erste ADLER RE mbH	Hamburg / Germany
5	Erste ADLER Real Estate GmbH & Co. KG	Hamburg / Germany
6	Dritte ADLER Real Estate GmbH & Co. KG	Hamburg / Germany
7	Achte ADLER Real Estate GmbH & Co. KG	Hamburg / Germany
8	Adler Real Estate Properties GmbH & Co. KG	Hamburg / Germany
9	Adler Projekt Homburg GmbH	Hamburg / Germany
10	MÜBAU Real Estate GmbH	Hamburg / Germany
11	ADLER Lux SarL	Luxembourg / Grand Duchy of Luxembourg
12	Adler US Real Estate GmbH	Hamburg / Germany
13	Adler McKinney LLC	McKinney / USA
14	Münchener Baugesellschaft mbH	Hamburg / Germany
15	MBG Beteiligungsgesellschaft mbH & Co. KG	Hamburg / Germany
16	MBG Dallgow GmbH & Co. KG	Hamburg / Germany
17	MBG Großbeeren GmbH & Co. KG	Hamburg / Germany
18	MBG Trachau GmbH & Co. KG	Hamburg / Germany
19	MBG Moosburg GmbH & Co. KG	Hamburg / Germany
20	MBG Wohnbau Verwaltungsgesellschaft mbH	Hamburg / Germany
21	MBG Erste Vermögensverwaltungs GmbH	Hamburg / Germany
22	Magnus zweite Immobilienbesitz und Verwaltungs GmbH	Hamburg / Germany
23	Energy AcquiCo I GmbH	Hamburg / Germany
24	Magnus Dritte Immobilienbesitz und Verwaltungs GmbH	Hamburg / Germany
25	Magnus Vierte Immobilienbesitz und Verwaltungs GmbH	Hamburg / Germany
26	Magnus Fünfte Immobilienbesitz und Verwaltungs GmbH	Hamburg / Germany
27	WBG GmbH	Helmstedt / Germany
28	WER 1. Wohnungsbaugesellschaft Erfurt Rieth GmbH	Berlin / Germany
29	WER 2. Wohnungsbaugesellschaft Erfurt Rieth GmbH	Berlin / Germany
30	ACCENTRO REAL ESTATE AG	Berlin / Germany
31	Accentro GmbH	Berlin / Germany
32	Estavis Grundstücksgesellschaft mbH	Berlin / Germany
33	ESTAVIS Sachsen Verwaltungsgesellschaft mbH	Berlin / Germany

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

	Equity interest in %	Held by No.	Business activity
			Holding company
	100.0	1	Service company
	100.0	1	General partner
	100.0	5	General partner
1)	100.0	1	Project development
1)	100.0	1	Project development
1)	100.0	1	Project development
1)	100.0	1	Project development
	100.0	1	None
	100.0	1	None
	100.0	1	None
	100.0	1	Intermediate holding company
	100.0	12	Intermediate holding company
	100.0	1	Intermediate holding company
1)	94.9	14	Intermediate holding company
1)	100.0	14	Project development
1)	100.0	14	Project development
1)	100.0	14	Project development
	100.0	14	Project development
	100.0	14	Intermediate holding company
	100.0	14	Intermediate holding company
	100.0	14	Intermediate holding company
	100.0	22	Intermediate holding company
	100.0	14	Intermediate holding company
	100.0	14	Intermediate holding company
	100.0	14	Intermediate holding company
	94.0	23	Portfolio management
	94.9	14	Project development
	94.9	14	Project development
	87.8	1	Holding company
	100.0	30	Trading
	100.0	30	Portfolio management
	100.0	30	Intermediate holding company

No.	Company	Headquarters
	Associated companies fully consolidated pursuant to IFRS 3	
34	ESTAVIS 5. Wohnen GmbH	Berlin / Germany
35	ESTAVIS 6. Wohnen GmbH	Berlin / Germany
36	ESTAVIS 7. Wohnen GmbH	Berlin / Germany
37	ESTAVIS 8. Wohnen GmbH	Berlin / Germany
38	ESTAVIS 9. Wohnen GmbH	Berlin / Germany
39	ESTAVIS Vermögensverwaltungs GmbH	Berlin / Germany
40	ESTAVIS Zweite Sachsen Wohnen GmbH & Co. KG	Berlin / Germany
41	RELDA 36. Wohnen GmbH	Berlin / Germany
42	Estavis 37. Wohnen GmbH & Co. KG	Berlin / Germany
43	RELDA 38. Wohnen GmbH	Berlin / Germany
44	RELDA 39. Wohnen GmbH	Berlin / Germany
45	Estavis 43. Wohnen GmbH & Co. KG	Berlin / Germany
46	RELDA 45. Wohnen GmbH	Berlin / Germany
47	RELDA Bernbau Wohnen Verwaltungs GmbH	Berlin / Germany
48	ESTAVIS Filmfabrik GmbH & Co. KG	Berlin / Germany
49	ESTAVIS Friedrichshöhe GmbH	Berlin / Germany
50	ESTAVIS Wohneigentum GmbH	Berlin / Germany
51	ESTAVIS Beteiligungs GmbH & Co. KG	Berlin / Germany
52	SIAG Dritte Wohnen GmbH & Co. KG	Berlin / Germany
53	J2P Service GmbH	Berlin / Germany
54	J2P Real Estate AG	Berlin / Germany
55	Zweite Sachsen Wohnbauten GmbH & Co. KG	Leipzig / Germany
56	ESTAVIS Berlin Hohenschönhausen GmbH	Berlin / Germany
57	Magnus-Relda Holding Vier GmbH	Berlin / Germany
58	Cato Immobilienbesitz und -verwaltungs GmbH	Hamburg / Germany
59	Magnus Immobilienbesitz und Verwaltungs GmbH	Hamburg / Germany
60	WBR Wohnungsbau Rheinhausen GmbH	Hamburg / Germany
61	S.I.G. RE B.V.	Rotterdam / The Netherlands

Equity interest in %	Held by No.	Business activity
100.0	30	Trading
100.0	57	Portfolio management
100.0	57	Portfolio management
100.0	57	Portfolio management
100.0	57	Portfolio management
100.0	30	Portfolio management
100.0	30	Portfolio management
100.0	57	Portfolio management
100.0	30	Portfolio management
100.0	57	Portfolio management
100.0	57	Portfolio management
100.0	30	Portfolio management
100.0	57	Portfolio management
94.0	30	Portfolio management
100.0	30	Trading
100.0	30	Trading
94.0	30	Trading
6.0	51	
100.0	30	Portfolio management
100.0	51	Portfolio management
100.0	54	Service company
80.0	14	Portfolio management
94.9	30	Portfolio management
5.1	51	
94.0	30	Portfolio management
6.0	51	
100.0	30	Holding company
94.9	22	Portfolio management
100.0	14	Intermediate holding company
94.9	59	Portfolio management
100.0	21	Intermediate holding company

No.	Company	Headquarters
	Associated companies fully consolidated pursuant to IFRS 3	
62	Resident Baltic GmbH	Berlin / Germany
63	Resident Sachsen P&K GmbH	Berlin / Germany
64	Resident West GmbH	Berlin / Germany
65	MBG Schwelm GmbH	Hamburg / Germany
66	MBG Lüdenscheid GmbH	Hamburg / Germany
67	MBG Dorsten GmbH & Co. KG	Hamburg / Germany
68	Alana Properties S.à.rl.	Luxembourg / Grand Duchy of Luxembourg
69	ARAMIS PROPERTIES S.à.r.l.	Luxembourg / Grand Duchy of Luxembourg
70	REO-Real Estate Opportunities GmbH	Hamburg / Germany
71	ROSLYN PROPERTIES S.à.r.l.	Luxembourg / Grand Duchy of Luxembourg
72	Rostock Verwaltungs GmbH	Hamburg / Germany
73	SEPAT PROPERTIES S.à.r.l.	Luxembourg / Grand Duchy of Luxembourg
74	WALLACE PROPERTIES S.à.r.l.	Luxembourg / Grand Duchy of Luxembourg
75	Zweite REO-Real Estate Opportunities GmbH	Hamburg / Germany
76	Phoenix F1 Neubrandenburgstrasse GmbH	Erlangen / Germany
77	Uhlandstraße 79 Immobilien GmbH	Berlin / Germany
	Companies consolidated using the equity method	
78	Airport Center Luxembourg GmbH	Luxembourg / Grand Duchy of Luxembourg
79	Worthing Lake Forest Investors LLC	Atlanta / USA
80	Wohneigentum Berlin GbR (Joint Venture)	Berlin / Germany
81	SIAG Sechzehnte Wohnen GmbH & Co. KG	Berlin / Germany
82	GG Erlabrunn Verwaltungs UG	Aue / Germany
83	Malplaquetstr. 23 Grundstücksverwaltungsgesellschaft mbH	Berlin / Germany
	Companies not consolidated at equity for reasons of materiality	
84	MRT (Mountleigh Roland Ernst) B.V.	Rotterdam / The Netherlands
85	Stovago B.V.	Rotterdam / The Netherlands

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

	Equity interest in %	Held by No.	Business activity
	94.8	61	Portfolio management
	94.8	61	Portfolio management
	94.8	61	Portfolio management
	94.9	22	Portfolio management
	94.9	14	Portfolio management
	5.1	15	
1)	94.0	22	Portfolio management
	6.0	14	
	94.4	24	Portfolio management
	94.8	24	Portfolio management
	94.9	24	Portfolio management
	94.8	24	Portfolio management
	94.0	24	Portfolio management
	94.8	24	Portfolio management
	94.8	24	Portfolio management
	94.9	24	Portfolio management
	94.9	30	Trading
	50 + 1 vote	30	Trading
	10.0	1	Portfolio management
	30.0	13	Project development
	33.3	50	Trading
	50.0	51	Portfolio management
	50.0	54	Portfolio management
	50.0	50	Trading
	50.0	1	None
	50.0	1	None

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

4.2 Business Combinations

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

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

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

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

ACCENTRO Real Estate AG with its subsidiaries (ACCENTRO subgroup)

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

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

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

The cost comprises the following acquired assets and liabilities, valued at estimated market values as follows:

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

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

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

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

The gross sum of the trade receivables acquired amounted to EUR 4,838 thousand. This amount was impaired by EUR 1,805 thousand; the fair value of the acquired trade receivables therefore amounts to EUR 3,033 thousand.

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

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

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

Energy AcquiCo I GmbH with its subsidiary WBG GmbH

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4.3 Real Estate Companies

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

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

- The "Magnus III" portfolio with Magnus Dritte Immobilienbesitz und Verwaltungs GmbH as the interim holding company, in which ADLER AG holds 100 per cent of the shares via a subsidiary. Magnus Dritte Immobilienbesitz- und Verwaltungs GmbH acquired shares in the following real estate companies: Alana Properties S.à.r.l. (94.4 per cent), ARAMIS PROPERTIES S.à.r.l. (94.81 per cent), ROSLYN PROPERTIES S.à.r.l. (94.81 per cent), SEPAT PROPERTIES S.à.r.l (94.81 per cent), WALLACE PROPERTIES S.à.r.l. (94.81 per cent), REO-Real Estate Opportunities S.à.r.l. (94.9 per cent), Zweite

REO-Real Estate Opportunities GmbH (94.9 per cent) and Rostock Verwaltungs GmbH (94.0 per cent). This portfolio includes some 8,000 residential and approximately 490 commercial units spread across Germany, with total space of 560,000 m².

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

In addition, the following portfolios were acquired for privatisation purposes

- ACCENTRO AG acquired 94.9% of the Phoenix F1 portfolio in October per cent. The portfolio consists of 294 apartments in two condominiums in Berlin-Hohenschönhausen. The apartments relate exclusively to the trading segment.

- A 50% shareholding and an additional vote were acquired in a property with 33 residential units in Berlin. The total area is 2,563 m². The property relates exclusively to the trading segment.

The "Kleine Sonja" subportfolio was sold in 2014 within the scope of an asset deal. The subportfolio consists of 203 residential and 14 commercial units. The transaction was concluded in 2014.

5. SPECIFIC ACCOUNTING POLICIES

5.1 Intangible Assets and Property, Plant and Equipment

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

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

Property, plant and equipment is recognised at cost, less cumulative scheduled depreciation and cumulative impairment losses. Cost includes expenses directly attributable to the acquisition. Subsequent acquisition or production costs are only capitalised if it is likely that future economic benefits will flow to the Company. Repairs and maintenance are expensed in the statement of comprehensive income in the period in which they are incurred.

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

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

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

5.2 Investment Properties

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

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

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

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

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

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

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

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

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

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

If real estate is acquired for trading purposes and allocated to inventories accordingly, they are reclassified to investment properties if it becomes clear that that the entity no longer intends to sell and plans to retain the real estate in its portfolio for a longer period of time and the purpose of the real estate is to generate long-term rental income and appreciation in value.

5.3 Impairment of Assets

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

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

Write-ups can only be made up to amortised cost. No write-ups are considered for goodwill.

5.4 Financial Assets

Financial assets are divided into the following categories:

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

The ADLER Group has no held-to-maturity financial assets.

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

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

Financial Assets Measured at Fair Value through Profit or Loss

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

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

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

Loans and Receivables

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

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

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

If a receivable is no longer collectible, it is offset against the impairment loss account for trade receivables. Subsequent payments for previously derecognised amounts are recognised through profit or loss as other operating income.

Available-for-Sale Assets

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

5.5 Derivative Financial Instruments and Hedges

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

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

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

Changes in the fair values of derivatives in a hedging relationship are recognised depending on the nature of the hedge.

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

5.6 Inventories

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

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

5.7 Cash and Cash Equivalents

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

5.8 Non-current Assets Held for Sale

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

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

5.9 Equity

Debt and equity instruments are classified as financial liabilities or equity on the basis of the economic substance of the contractual arrangements. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded in the amount of the issue proceeds less directly attributable issuance costs.

Issuance costs are costs that would not have arisen had it not been for the issue of the equity instrument. Such costs are accounted for as a deduction from equity excluding all related income tax benefits, and offset directly against the capital reserves.

The components of a hybrid instrument (convertible bond) issued by the Group are reported separately as a financial liability and an equity instrument according to the economic substance of the agreement. At the time of issue, the fair value of the debt component is determined on the basis of the market interest rate applicable to a comparable non-convertible instrument. This amount is carried as a financial liability at amortised cost of purchase using the effective interest method until settlement upon conversion or maturity of the instrument. The equity component is calculated by subtracting the value of the debt component from the fair value of the entire instrument.

The resultant value, less the impact on income tax, is recognised under equity and is not subject to subsequent measurement.

5.10 Pension Provisions

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

The amount recognised corresponds to the net present value of the defined benefit obligation (DBO).

ADLER AG also pays contributions to state pension schemes in accordance with statutory provisions. The current payments from these defined contribution obligations are reported within personnel expenses as social security contributions.

5.11 Other Provisions

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

The Company carries a provision for onerous contracts if the expected benefit from the contractual claim is lower than the unavoidable costs of fulfilling the contractual obligation.

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

5.12 Liabilities

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

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

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

The fair value of the financial liabilities is determined on the basis of the input factors using the three-step measurement hierarchy.

5.13 Taxes

Current tax assets and liabilities are recognised at the amount expected to be paid to (recovered from) the taxation authorities based on the tax rates and tax laws that have been enacted as at the balance sheet date.

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

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

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

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

Deferred tax assets and liabilities are offset against each other if the Group has a recoverable right to offset the current tax assets against current tax liabilities and if they apply to the income taxes of the same taxable entity levied by the same tax authority.

5.14 Leases

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

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

5.15 Income Recognition

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

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

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

Revenues from the rendering of services are recognised in the financial year in which the services are rendered. Services rendered over more than one period are recognised in proportion to the services already rendered against the total services to be rendered.

Interest income is realised on a pro rata basis, taking into account the remaining claim and the effective interest rate over the remaining term.

5.16 Currency Translation

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

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

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

5.17 Residual Interests and Dividend Distribution

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

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

5.18 Cash Flow Statement

The cash flow statement presents the development of the Group's payment flows in the financial year. The cash flow statement is presented in the consolidated financial statements using the indirect method, with consolidated earnings adjusted for items with and without an effect on cash flow. The cash flow statement presents cash flows from operating activities, investing activities and financing activities.

5.19 Changes in Accounting Policies

Classification on the statement of comprehensive income has been completely revised. The management believes that this adjustment to classification in the statement of comprehensive income, which brings it into line with the current business model of ADLER AG and standard practice within the sector, will provide more reliable and relevant information.

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

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

6. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

In applying the accounting policies, management made the following estimates that have a material impact on the figures in the consolidated financial statements:

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

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

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

- The recoverability of rent receivables is also shaped by estimates. Assumptions are made regarding the ability to collect outstanding receivables in the trading segment based on the distribution of how long receivables have been outstanding. Based on experience, the probability that receivables older than three months will be uncollectible is assumed to be in the range of 25 per cent to 100 per cent, so that an impairment is recorded for this group. For rent receivables from the portfolio segment, receivables from resident tenants were impaired by 40 per cent and receivables from tenants no longer in the property by 90 per cent.

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

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

In applying the accounting policies, the Management Board made the following judgments that have a material impact on the figures in the consolidated financial statements:

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

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

- All these processes were taken over and indications were present with the acquisition of ACCENTRO AG, WBG GmbH, WER 1. Wohnungsgesellschaft Erfurt Rieth GmbH and WER 2. Wohnungsgesellschaft Erfurt Rieth GmbH, meaning that these acquisitions are accounted for as business combinations within the meaning of IFRS 3 in 2014.

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

7. SEGMENT REPORTING

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

1. Portfolio: includes investment properties and real estate inventory not intended for sale as individual properties.

2. Trading: The purchase and sale of real estate, as a rule with the sale of individual properties to private investors. The brokerage business in the privatisation segment is allocated to the business area as well.

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

Segment reporting follows the internal reporting structure to the Management Board of ADLER AG, the highest management body within the meaning of IFRS, within the trade and portfolio business areas (management approach). The Group only trades in real estate that is located in Germany. Geographical segmentation is not performed for that reason.

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

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

Adler Group in EUR ‘000	**Trading 2014**	**Rental 2014**	**Other 2014**	**Group 2014**
Gross rental income and income from the sale of properties	15,361	115,223	10,119	140,703
thereof:				
Gross rental income	1,138	81,601	1,143	83,882
Income from disposals	12,758	33,583	8,976	55,317
Income from brokerage	1,465	39	0	1,504
Net income from fair value adjustments of investment properties	0	132,934	0	132,934
EBIT	**416**	**169,789**	**239**	**170,444**
Net income from at-equity valued investment associates	124	-514	2,214	1,824
Financial result	**-1,168**	**-38,109**	**-232**	**-39,509**
Earnings before taxes (EBT)	**-876**	**132,070**	**1,565**	**132,759**

In the trading segment, which has been an ADLER AG business area since the takeover of ACCENTRO AG in mid-2014, proceeds of EUR 15,361 thousand were generated, mainly from income from disposals of EUR 12,758 thousand. EBIT for this segment was EUR 416 thousand, the earnings before taxes EUR -876 thousand. Income in the rental segment totaled EUR 115,223 thousand.

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

Depreciation and amortisation of property, plant and equipment and intangible assets as well as the Net income from fair value adjustments of investment properties breaks down into the segments as follows:

Adler Group in EUR '000	Trading 2014	Rental 2014	Group 2014
Depreciation of property, plant and equipment	-19	-102	-121
Amortisation of intangible assets	-257	-119	-376
Net income from fair value adjustments of investment properties	0	132,934	132,934

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

Segment assets, liabilities and investments break down as follows:

Adler Group in EUR '000	Trading 2014	Rental 2014	Other 2014	Consolidation 2014	Group 2014
Assets per segment	142,703	1,353,862	19,073	-100,302	1,415,336
Net income from at-equity valued investment associates	947	124	52	0	1,123
Total segmental assets	**143,650**	**1,353,986**	**19,125**	**0**	**1,416,459**
Segment liabilities	**87,557**	**1,099,962**	**18,031**	**-100,302**	**1,105,248**
Segment investments	**61,816**	**613,331**	**0**	**0**	**675,147**

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

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

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

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

8. NOTES TO THE CONSOLIDATED BALANCE SHEET

8.1 Goodwill, Intangible Assets

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

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

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

The realisable value of the segment for the purpose of impairment testing was determined by calculating the segment's value in use. The calculation is based on predicted cash flows, and these in turn are derived from the five-year plan approved by the Management Board. Detailed planning will carried out for this period, in which the Management Board calculated the budgeted cash flow on the basis of past positive developments in the privatisation business and the favourable expectations in regards to future market development. This is based on the predicted movement in sold and brokered residential units, and – given the rising curve in the trading segment – an anticipated increase in the contribution to profit per residential unit.

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

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

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

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

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

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

8.2 Property, Plant and Equipment

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

8.3 Investment Properties

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

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

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

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

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

in EUR ‘000	2014	2013
Gross rental income	81,601	16,788
Expenses from property lettings	50,112	9,316
Earnings from property lettings	**31,489**	**7,472**

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

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

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

For the properties and real estate portfolios of ACCENTRO AG, the Management Board performed a market and/or property-specific review to determine whether the expert opinions with the measurement date of 30 April 2014 can be used for preparing the consolidated financial statements as at 31 December 2014. Since there have not been any material changes to the properties that would require remeasurement and the general market situation also has not changed, the properties were not remeasured as at 31 December 2014.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8.4 Loans to Associates

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

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

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

8.5 Investments in Associated Companies

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

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

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

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

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

1) Information taken from last published financial statements

2) Prepared in accordance with local accounting standards

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

The pro-rata gains or losses for the associates accounted for at equity were fully recognised in 2014. There are no cumulative unrecorded losses.

8.6 Deferred Taxes

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

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

Deferred tax assets for tax loss carryforwards are recognised at the amount at which the corresponding tax benefits are likely to be realised through future taxable income (recognised at least at the value of the deferred tax liabilities). The loss carryforwards exist exclusively in Germany and therefore do not expire. For this reason, maturity structures are not disclosed for the loss carryforwards.

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

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

8.7 Other Financial Investments

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

8.8 Inventories

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

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

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

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

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

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

Real estate held as inventories with a carrying amount totaling EUR 47,455 thousand (previous year: EUR 6,053 thousand) is expected to be sold after more than twelve months.

8.9 Trade Receivables, Income Tax Claims and Other Current Assets

Current trade receivables break down as follows:

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

Since rent always has to be paid in advance, the rent receivables are mainly overdue. A flat rate provision of 40 per cent has therefore been recognised on receivables from existing tenants and a provision of 90 per cent for receivables from tenants who have moved out of the property was recognised.

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

If the Company receives indications that receivables are not collectable, they are written off.

Trade receivables on the reporting date break down as follows:

			Carrying amount	Carrying amount
	written down			
in EUR '000	Gross amount	Write-down		neither written down nor overdue at the reporting date
Receivables from company disposals and sale of land	461	-274	187	19,239
rent receivables	26,054	-19,893	6,161	0
Other trade receivables	33,157	-33,048	109	0
As at 31/12/2014	59,672	-53,215	6,457	19,239

These data have not been collected for the previous year due to the significantly lower volume of trade receivables. Collecting the data retrospectively would have entailed unreasonably high costs, and was therefore not carried out.

The movement in trade receivables write-offs was as follows:

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

he income tax claims mainly consist of receivables from income tax overpayments.

						Carrying amount	Carrying amount
not written down							
up to 30 days	between 31 and 60 days	between 61 and 90 days	between 91 and 180 days	between 181 and 360 days	more than 360 days	overdue at the reporting date	
488	161	408	422	263	109	1,851	21,277
0	0	0	0	0	0	0	6,161
0	0	0	0	0	0	0	109
488	161	408	422	263	109	1,851	27,547

Other current assets break down as follows:

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

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

Restricted cash comprises restricted bank balances that may only be used for maintenance and bank balances with usage restrictions that are designated solely for the redemption of certain short-term financial liabilities or for maintenance.

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

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

8.10 Cash and Cash Equivalents

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

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

8.11 Non-current Assets held for Sale

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

8.12 Capital Stock

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

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

The number of shares outstanding is as follows:

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

TREASURY SHARES

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

There were no treasury shares in financial year 2014.

AUTHORISED CAPITAL 2013/II

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

AUTHORISED CAPITAL 2014/I

By resolution of the General Meeting on 9 May 2014, the Management Board was authorised to increase the capital stock of the Company one or more times up to 8 May 2019 with the consent of the Supervisory Board by a total of up to EUR 3,600,000 in exchange for cash or non-cash contributions, by issuing up to

3,600,000 new bearer shares with the option of excluding shareholder preemptive subscription rights. After partial utilisation, EUR 750,000 of this authorised capital remains on 31 December 2014.

CONDITIONAL CAPITAL 2012/ II

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

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

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

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

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

8.13 Capital reserves

The capital reserves mainly comprises premiums on the capital increases in the current year and previous years, offset against the costs of the capital increase. Furthermore, the capital reserves includes the difference between the nominal value of the treasury shares and the acquisition or issue price of the shares as well as the equity component of the convertible bonds that were issued, after the deduction of the applicable transaction costs and income tax effects. Premiums on the acquisition of shares with no change in status are also recorded in capital reserves.

Please refer to the consolidated statement of changes in equity for the movements in the capital reserves.

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

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

8.14 Retained Earnings

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

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

8.15 Currency Translation Reserve

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

8.16 Non-controlling Interests

This item is composed of equity and share of the profit or loss of the subsidiaries and real estate companies which is held by shareholders outside the Group. The consolidated net profit attributable to the owners of the parent company is calculated as the difference between the consolidated net profit before non-controlling interests and the non-controlling interests reported on the income statement.

Non-controlling interests were as follows in financial year 2014:

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

The non-controlling interests from initial consolidations are also shown under 4.2 "Business Combinations". Furthermore, the movement in non-controlling interests is shown in the statement of changes in equity.

The tables that follow list the relevant financial information of each subsidiary with material non-controlling interests for the Group. Pre-consolidation figures are given:

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

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

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

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

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

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

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

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

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

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

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

8.17 Pension Provisions

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

Significant actuarial assumptions are as follows:

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

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

The pension provisions were as follows:

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

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

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

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

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

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

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

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

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

8.18 Other Provisions

Other provisions were as follows in 2014 and 2013:

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

in EUR '000	As at 01.01.13	Additions through acquisition	Utilisation	Reversal	Addition	As at 31.12.13	Non-current
Provisions for warranties	306	0	-32	-17	13	270	65
Total	**306**	**0**	**-32**	**-17**	**13**	**270**	**65**

The provision for warranties covers statutory and contractual warranty obligations from real estate sales. This provision was recognised as a lump sum estimate for possible expenses incurred to remedy defects that cannot be passed on. Utilisation is possible in cases where there is no recourse against subcontractors.

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

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

8.19 Accounts payable from Convertible Bond

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

ADLER AG issued the 5,000,000 convertible bonds (convertible bond 2013/2017) in June 2013 at a nominal value of EUR 2.00 each for a total of EUR 10,000 thousand with an interest rate of 6 per cent and a maturity date of 30 June 2017. ADLER AG grants bondholders the right to convert each bond into bearer shares of ADLER AG during the exercise period with an amount of EUR 1.00 of capital stock per share on the issue date. The conversion price subject to possible adjustments is EUR 2.00.

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

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

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

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

8.20 Bond Liabilities

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

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

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

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

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

8.21 Financial Liabilities

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

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

The financial liabilities to banks are collateralised by real estate liens. Surrender of rental income and bank deposits, and letters of subordination also serve as collateral.

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

The financial liabilities are secured by assets as follows:

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

8.22 Other Non-current Liabilities

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

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

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

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

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

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

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

8.23 Trade Payables, Income Tax Liabilities and Other Current Liabilities

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

The other current liabilities are composed as follows:

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

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

The prepayments received on real estate held as inventories apply to sales where benefits and obligations have not yet transferred.

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

9. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME

9.1 Income from Rental Business

Gross rental income is composed as follows:

in EUR '000	2014	2013
Net rental income	56,053	11,025
Income from recoverable expenses	26,743	6,223
Other income from property lettings	1,086	591
Total	**83,882**	**17,839**

9.2 Expenses from Property Lettings

Expenses from property lettings are composed as follows:

in EUR '000	2014	2013
Recoverable and non-recoverable operating expenses	36,719	7,970
Maintenance	14,641	2,165
Other expenses from property lettings	450	82
Total	**51,810**	**10,217**

9.3 Income from the Sale of Properties

Income from the Sale of properties is composed as follows:

in EUR '000	2014	2013
Income from the sale of properties held in inventories	40,718	1,970
Income from the sale of investment properties	14,600	0
Income from brokerage	1,504	0
Total	**56,822**	**1,970**

9.4 Expenses from the Sale of Properties

Expenses from the sale of properties are composed as follows:

in EUR '000	2014	2013
Carrying amount of inventory properties disposed of	37,262	1,335
Carrying amount of investment properties disposed of	14,446	0
Costs of sales	1,724	0
Services purchased for brokerage income	1,003	0
Total	**54,435**	**1,335**

9.5 Personnel Expenses

Personnel expenses include the following items:

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

9.6 Other Operating Income

Other operating income is composed as follows:

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

Other operating income primarily relates to the negative goodwill (EUR 24,649 thousand) calculated from the acquisition of Energy AcquiCo I GmbH including its subsidiary WBG GmbH, which is an extraordinary item immediately recognised in profit and loss. We refer to the explanations under note 4.2.

9.7 Other Operating Expenses

Other operating expenses are comprised as follows:

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

Legal and consulting fees primarily comprise consulting fees relating to capital market transactions and strategic consultancy services. Ancillary costs for the acquisition of Wohnungsbaugesellschaft JADE mbH of EUR 1,043 thousand are also recognised here.

Write-down of receivables primarily relates to provisions for rent receivables from ongoing rental contracts (40 per cent) and terminated rental contracts (90 per cent).

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

9.8 Increase in the Value of Investment Properties

This item is made up of the gains and losses on the fair value adjustments of investment properties as at the reporting date. Please see the explanations under note 8.3.

9.9 Depreciation and Amortisation

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

9.10 Finance Income

Finance income is composed as follows:

in EUR '000	2014	2013
Interest on loans to associates	612	551
Interest on loans to third parties	399	129
Income from current securities	450	0
Other	118	5
Total	**1,579**	**685**

9.11 Financial Expenses

Financial expenses are composed as follows:

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

9.12 Net Income from at-equity valued Investment Associates

This item consists of the pro-rata gains/losses from associates consolidated using the equity method. Please refer to our comments under note 8.5. This primarily involves the pro-rata gain of Worthing Lake Forest Investors LLC of EUR 2,372 thousand.

Profit for Worthing Lake Forest Investors LLC recognised using the equity method was determined according to US GAAP, while gains/losses for the other companies consolidated at equity have been converted from national accounting standards to IFRS.

9.13 Income Taxes

Income taxes are is comprised as follows:

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

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

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

9.14 Earnings per Share

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

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

10. INFORMATION ON FINANCIAL INSTRUMENTS

10.1 Additional Information on Financial Instruments

(A) CLASSIFICATION

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

31.12.2014 In EUR '000	Category according to IAS 39
Assets	
Loans to associates	Lar
Investments in associates	Afs
Other financial investments	Afs
Trade receivables	Lar
Other current assets	Lar, Afs
Cash and cash equivalents	Lar
Equity and liabilities	
Financial liabilities to banks and (convertible) bonds	FLAC
Trade payables	FLAC
Other liabilities	FLAC, Lafv, LafvOCI
of which aggregated by IAS 39 categories	
Loans and receivables	Lar
Available-for-sale financial assets	Afs
Financial liabilities at fair value through profit or loss	Lafv
Financial liabilities at fair value through other comprehensive income	LafvOCI
Financial liabilities carried at cost	270

Total carrying amount	Carrying amount of financial instruments	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Fair value for comparative purposes
907	907	907			851
1,123	0		0		0
1,175	1,175		1,175		1,175
27,547	27,547	27,547			27,547
56,283	53,265	35,606	17,659		53,265
33,060	33,060	33,060			33,060
1,017,616	1,017,616	1,017,616			1,132,981
21,123	21,123	21,123			21,123
18,650	16,322	14,956	977	389	16,322
	97,120	97,120			97,064
	18,834		18,834		18,834
	389			389	389
	977		977		977
	1,053,695	1,053,695			1,169,060

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

31.12.2013 In EUR '000	Category according to IAS 39
Assets	
Other loans	Lar
Trade receivables	Lar
Other current assets	Lar, Aafv
Cash and cash equivalents	Lar
Equity and liabilities	
Financial liabilities to banks and (convertible) bonds	FLAC
Trade payables	FLAC
Other liabilities	FLAC
of which aggregated by IAS 39 categories	
Loans and receivables	Lar
Financial liabilities at fair value through profit or loss	Lafv
Financial liabilities carried at cost	FLAC

Total carrying amount	Carrying amount of financial instruments	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Fair value for comparative purposes
1,136	1,136	1,136			1,019
3,391	3,391	3,391			3,391
8,675	8,565	8,422		143	8,565
6,895	6,895	6,895			6,895
329,226	329,226	329,226			329,226
7,898	7,898	7,898			7,898
19,843	19,628	18,272	1,356		19,628
	19,987	19,844		143	19,870
	356,752	355,396	1,356		356,752

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

(B) FAIR VALUE DISCLOSURES

Financial instruments measured at fair value can be classified and assigned to levels according to the significance of the factors and information used for their measurement. The classification of a financial instrument is performed according to the significance of the input factors for its overall measurement, taking the lowest level that is relevant or significant overall. The valuation levels are broken down hierarchically based on their input factors:

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

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

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

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

(C) NET RESULT FROM FINANCIAL INSTRUMENTS

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

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

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

Finance income and finance expenses are shown in the respective items of the consolidated income statement. All other expenses and income are included in the items other operating expenses or other operating income.

10.2 Financial Risk Management and Disclosures Pursuant to IFRS 7

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

(A) INTEREST-RATE RISK

ADLER Group is exposed to interest rate risk almost exclusively in the eurozone.

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

The interest rate risk on all of the Group's current and non-current financial liabilities is determined by way of a sensitivity analysis, which takes into account the fixed-interest periods. In addition to these interest rate scenarios for the valuation of investment property, two interest rate scenarios were reflected in loans. In terms of the outstanding financial liabilities and bonds as at 31 December, a 0.5 per cent higher/lower rate of interest on loans would have led to the following increase/decline in interest expenses:

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

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

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

(B) DEFAULT RISK

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

Default risk is managed at the Group level for the entire Group. Rules exist to ensure that transactions are only concluded with business partners who have demonstrated an adequate ability to pay in the past. Trade receivables are owed by a large number of customers (tenants). As early as the tenant selection process, emphasis is placed on a sound credit history. There are no significant concentrations of credit risk in the Group.

(C) LIQUIDITY RISK

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

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

For the bonds and convertible bonds issued in 2014, the agreed credit terms can lead to a liquidity risk in case of failure to comply. In the event of a violation of the credit terms, e.g. if there is a change in control, these bonds and convertible bonds can be terminated and redeemed early.

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

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

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

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

(D) FINANCING RISK

The Group depends on the granting of loans or capital increases for further acquisitions. When loans run out, they also need to be extended and/or refinanced. In all cases, there is a risk that the loans cannot be extended or that, if extended, the terms will have changed.

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

Credit terms and conditions are also agreed for convertible bonds which can lead to a liquidity risk if they are not met. If certain terms and conditions are not complied with, these convertible bonds and corporate bonds can be cancelled and redeemed early.

11. CAPITAL RISK MANAGEMENT

The Group manages its capital with the objective of maximising the earnings of shareholders by optimising the ratio of equity to debt. This ensures that all Group companies can continue to operate as going concerns. Consolidated equity on the balance sheet (excluding non-controlling interests) is used as the key indicator for capital management.

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

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

The equity ratio at year-end is as follows:

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

The increase in the equity ratio despite the substantial increase in total assets is largely related to the net profit of EUR 111,148 thousand generated and the capital increases through both cash and non-cash contributions in 2014.

12. OTHER DISCLOSURES

12.1 Minimum Lease Payments from Operating Lease Agreements

Disclosures on operating leases pursuant to IAS 17.56 in EUR '000	2013 comparative period	2014 reporting period	2015 up to 1 year	2016 to 2019 1 to 5 years	from 2020 more than 5 years
Total future minimum lease payments under non-cancellable operating leases as the lessor	11,042	61,956	21,771	0	0

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

12.2 Other Financial Obligations and Contingent Liabilities

Significant financial obligations on the reporting date are as follows:

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

Obligations from rental and lease contracts primarily result from renting office space under non-cancellable operating leases. There are no purchase options or extension options beyond the fixed lease term.

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

In October 2014, a purchase agreement for the acquisition of a 94.9 per cent interest in Wohnungsbaugesellschaft JADE mbH, Wilhelmshaven, (WBG JADE) was concluded to expand the residential real estate portfolio. WBG Jade in turn owns 100 per cent of the shares in two other companies and has a portfolio of around 6,705 residential and 42 commercial units. This purchase agreement led to purchase price obligations of around EUR 79.6 million and the assumption of loan receivables plus accrued interest of EUR 21.5 million. The transfer of benefits and obligations and first-time consolidation will occur as of 31 January 2015.

The breakdown of the purchase price according to assets and liabilities acquired is preliminary, as the acquisition price has not yet been finalised.

The preliminary acquisition costs can be allocated to the assets and liabilities acquired and measured according to estimated market values as follows:

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

The gross value of acquired trade receivables amounted to EUR 1,765 thousand. Write-downs of EUR 1,297 thousand have been recognised, which means that the fair value of assets and liabilities acquired amounts to EUR 468 thousand.

For the measurement of non-controlling interest, the option under IFRS 3.19 was exercised to value the non-controlling interests based on the relevant share in net assets of EUR 128,479 thousand.

The negative goodwill of EUR 42,291 thousand is primarily due to the fair value of WBG Jade's investment properties exceeding the purchase price, resulting from an attractive purchase offer and a portfolio discount. These measurements were supported by appraisals from independent experts.

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

12.3 Related Parties

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

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

There is no control agreement between the two companies.

Related parties of ADLER AG under IAS 24 are:

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

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

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

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

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

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

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

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

Taurecon also provided companies in the ADLER Group with consulting services in financial year 2014 in the amount of EUR 537 thousand.

A subsidiary of ADLER AG acquired 94 per cent of the shares of Rostock Verwaltungs GmbH for EUR 423 thousand and loan receivables of Pruß GmbH from Rostock Verwaltungs GmbH of EUR 1,548 thousand at nominal value in 2014. Rostock Verwaltungs GmbH is a real estate company with a real estate portfolio of 282 rental units.

According to the nofications we have received pursuant to the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG), Pruß GmbH is a shareholder of ADLER AG.

As at the reporting date, the following key receivables from and liabilities to related parties existed.

ADLER AG has a current loan receivable of EUR 2,486 thousand including interest claims from associate MRT (Mountleigh Roland Ernst B.V.).

ADLER AG also has a loan receivable of EUR 443 thousand including interest claims from associate Stovago B.V.

ADLER AG has a loan receivable of EUR 3,447 thousand including interest claims from associate Airport Center Luxembourg GmbH.

ADLER AG has a current liability of EUR 273 thousand with associate SIAG Sechzehnte Wohnen GmbH & Co. KG via a subsidary. This amount results from clearing between the companies.

An indirect subsidiary of ADLER AG is the personally liable shareholder of the joint venture Wohneigentum Berlin GbR. This results in liability for the liabilities of the GbR of EUR 9,147 thousand.

in EUR '000	2014	2013
Nominal values:		
Airport Center Luxembourg GmbH	3,447	3,145
MRT (Mountleigh Roland Ernst B.V.)	2,486	2,467
Stovago B.V.	443	306
Malplaquetstraße 23. Grundstücksverwaltungsgesellschaft mbH	419	430
SIAG Sechzehnte Wohnen GmbH & Co. KG	273	273
DB Immobilien GmbH	0	308
Total	**7,068**	**6,929**

The ADLER AG has a receivable from the associate Malplaquetstr. 23 Grundstücksverwaltungsgesellschaft mbH via a subsidiary. The receivable relates to a loan of EUR 419 thousand plus accrued interest. The loan receivables including the interest claims against MRT (Mountleigh Roland Ernst) B.V. and Stovago B.V. are fully adjusted. Transactions with associates had no significant impact on net profit.

All transactions, income, charges for services and cost allocations described above were conducted on an arm's length basis.

The Supervisory Board and Management Board hold the key management positions in ADLER AG. Remuneration for these persons is composed as follows:

At the General Meeting on 28 September 2011, the shareholders resolved with 99.95 per cent of the votes to omit the individual disclosure of Management Board remuneration by fixed and performance-based components for 2011 through 2016.

in EUR '000	2014	2013
Supervisory Board remuneration	93	34
Management Board remuneration	286	215

12.4 Audit Fees

The total audit fees for the financial year are as follows:

in EUR '000	2014	2013
Audit of financial statements	494	121
Other assurance services	44	53
Other services	59	30
Total	**597**	**204**

12.5 Employees

The average number of employees was as follows:

in EUR '000	2014	2013
Management Board members	1	1
Full-time employees	75	16
Total	**76**	**17**

12.6 Notes to the Consolidated Statement of Cash Flows

Financial resources correspond to cash and cash equivalents.

In addition, restricted cash and cash equivalents of EUR 13,675 thousand (previous year: EUR 145 thousand) are reported under other assets.

Cash flows are classified under operating activities, investment (divestment) activities and financing activities. The indirect measurement method was chosen to present the cash flows from operating activities.

After adjusting for non-cash expenses and income, and taking into account changes in working capital, the ADLER Group generated a net cash inflow of EUR 16,749 thousand from operating activities (previous year: EUR 11,934 thousand).

Cash outflows for investment activities of EUR 208,272 thousand (previous year: EUR 94,199 thousand) were due primarily to the acquisition of the ACCENTRO AG and Magnus III residential property portfolios.

ADLER AG conducted a capital increase of 2,850,000 shares at an issue price of EUR 7.40 per share in October 2014, which generated gross proceeds of EUR 21,090 thousand. In addition, ADLER AG issued bond 2014/2019 for EUR 100,000 thousand.

Promissory note loans of EUR 500,500 thousand with a term of 10 years were issued to finance or refinance real estate portfolios. Including other borrowings, net cash inflow amounted to EUR 538,908 thousand.

Some of the funds raised are used to repay existing financing loans. Scheduled repayments and redemptions in connection with the sale of real estate and real estate portfolios were also carried out. This resulted in net cash outflow of EUR 400,885 thousand.

Cash and cash equivalents increased by EUR 26,165 thousand in total.

12.7 Management Board and Supervisory Board

The Management Board of ADLER Real Estate Aktiengesellschaft, Frankfurt am Main, Germany, consists of Axel Harloff, business administration graduate (Dipl.-Kaufmann), Hamburg, Germany.

Members of the Supervisory Board are:

- Dr Dirk Hoffmann, Berlin, lawyer and banker, Chairman
- Thomas Katzuba von Urbisch, Monte Carlo/Monaco, lawyer and entrepreneur, Deputy Chairman
- Thilo Schmid, project controller, Blotzheim, France (from 1 February 2014)
- Ralf Preyer, Dubai/UAE, business administration graduate, (resigned as Member of the Supervisory Board as of 31 January 2014, Deputy Chairman up to 31 January 2014)

The following members of the Supervisory Board and Management Board of ADLER Real Estate Aktiengesellschaft, Frankfurt am Main, Germany, had the following additional supervisory board mandates and memberships in other governing bodies in accordance with § 125 Para. 1, Sentence 5 of the German Stock Corporations Act (Aktiengesetz – AktG):

Dr Dirk Hoffmann
- Squadra Immobilien GmbH & Co. KGaA, Frankfurt am Main, Germany (Chairman of the Supervisory Board)
- DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main, Germany (Deputy Chairman of the Supervisory Board)
- Dexia Kommunalbank Deutschland AG, Berlin, Germany (member of the Supervisory Board)
- Bremer Kreditbank AG, Bremen (Deputy Chairman of the Supervisory Board)
- ACCENTRO Real Estate AG, Berlin (Deputy Chairman of the Supervisory Board since 1 September 2014)

Thilo Schmid
- Talentory AG, Zurich, Switzerland (member of the Board of Directors)
- Jedox AG, Freiburg, Germany (Chairman of the Supervisory Board)

Ralf Preyer
- PPP Land Investment AG, Vienna, Austria (member of the Supervisory Board)

Axel Harloff
- ACCENTRO Real Estate AG, Berlin (Deputy Chairman of the Supervisory Board since 1 September 2014)

Thomas Katzuba von Urbisch was not a member of other governing bodies in accordance with § 125 Para. 1 Sentence 5 AktG.

12.8 Events after the Balance Sheet Date

On 16 February 2015, the Management Board and Supervisory Board of ADLER AG resolved, pursuant to § 10 of the German Securities Aquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetzes – WpÜG), to submit a voluntary public takeover bid to all shareholders of WESTGRUND AG, Berlin to acquire their bearer shares in WESTGRUND AG.

Several large shareholders have irrevocably agreed (through irrevocable undertakings) to accept the proposal of ADLER AG; these obligations account for just over 50 per cent of the share capital of WESTGRUND AG.

ADLER AG has announced that that it will offer the shareholders of WESTGRUND AG a combination of cash components and new ADLER shares. ADLER AG will offer the shareholders of WESTGRUND AG 0.565 new bearer shares of ADLER AG with a notional value of EUR 1.00 and an additional cash amount of EUR 9.00 per three shares of WESTGRUND AG. Based on the closing price of 13 February 2015, the offer corresponds to a price of around EUR 5.00 per WESTGRUND share. The new ADLER shares will be entitled to dividends as of 1 January 2015 and be derived from a capital increase yet to be resolved by the Annual General Meeting.

The financing of the entire transaction is secured. The cash component will amount to a maximum of EUR 240 million and vary according to the quota of tendered shares. Liquidity is ensured through financing commitments from banks.

The Management of ADLER AG expects the offer document to be approved by BaFin (the German Federal Financial Supervisory Authority) in April 2015 and that the tender period can start at the beginning of May. With the entry of the capital increase in the Commercial Register in Frankfurt, the property will be transferred to ADLER AG and the share exchange and payment can be conducted at the beginning of July 2015.

On 15 January 2015, the above-mentioned 2014/2019 bond for EUR 100 million was increased again by EUR 30 million by private placement. The corporate bond has a term through 1 April 2019 and a coupon of 6.00 per cent p.a. The issue price was 102 per cent. Interest payments are semi-annual.

In October 2014, ADLER AG had secured a majority interest in Wohnungsbaugesellschaft Jade mbH in Wilhelmshaven by contract. The transaction was concluded on 30 January 2015. It was financed via a promissory note loan of EUR 164.0 million and the equity share was generated from the proceeds of the previously mentioned bond. The company has 6,705 residential and 42 commercial units.

12.9 Declaration of Compliance with the German Corporate Governance Code

The declaration of Compliance of ADLER AG was last issued by the Management Board in February 2015. It is permanently available to shareholders at:

http://www.adler-ag.com/adler-ag/contao-2.11.7/index.php/entsprechenserklaerung.html

The declaration of Compliance of ACCENTRO AG was last issued by the Company's Management Board in September 2014. It is permanently available to shareholders at:

http://www.accentro.ag/investor-relations/corporate-governance/entsprechenserklarung.html

Frankfurt am Main, 18 March 2015

Axel Harloff

Affirmation by the Legal Representative

"To the best of my knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, financial position, and results of operations of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group."

Frankfurt am Main/Germany, 18 March 2015

Axel Harloff

Auditor's Report

We have audited the consolidated financial statements of Adler Real Estate Aktiengesellschaft, Frankfurt am Main, consisting of the balance sheet, statement of income and accumulated earnings, statement of shareholders' equity, cash flow statement and notes, as well as the consolidated management report for the financial year from 1 January to 31 December 2014. Preparation of the consolidated financial statements and consolidated management report in accordance with IFRS as those standards are applied in the EU, as well as the applicable provisions of commercial law in accordance with § 315a (1) of the Commercial Code, is the responsibility of the legal representatives of the company. Our task is to submit an assessment of the consolidated financial statements and consolidated management report based on our audit.

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

Our audit did not lead to any objections.

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

Hamburg, 18 March 2015

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Jens Lingthaler
Wirtschaftsprüfer

Dirk Heide
Wirtschaftsprüfer

At a glance

Supervisory Board	
Dr Dirk Hoffmann	Chairman, Berlin/Germany
Thomas Katzuba von Urbisch	Vice Chairman, Monte Carlo/Monaco
Thilo Schmid	Blotzheim/France
Management Board	
Axel Harloff	Hamburg/Germany
Company Facts	
Registered Office Location	Frankfurt am Main, Germany, Registration No. AG Frankfurt HRB 7287
Business Address	ADLER Real Estate Aktiengesellschaft Gänsemarkt 50 20354 Hamburg/Germany Phone: +49 (0) 40/29 81 30–0 E-Mail: info@adler-ag.com
Website	www.adler-ag.com
Public Relations	german communications dbk ag Milchstraße 6b 20148 Hamburg/Germany Phone: +49 (0) 40/46 88 33–0 Fax.: +49 (0) 40/46 88 33–40 E-Mail: contact@german-communications.com
Investor Relations	Hillermann Consulting Poststraße 14–16 20354 Hamburg/Germany Phone: +49 (0) 40/32 02 79 10 Fax.: +49 (0) 40/32 02 79 114 E-Mail: office@hillermann-consulting.de
Subscribed Capital	EUR 31.876.672*
Classification	31.876.672* non-par shares
Arithmetical Value	EUR 1 per share
Voting detail	1 vote per share
Stock Details	31,876,672 non-par shares as at December 31, 2014 WKN 500 800 ISIN DE0005008007
	Ticker Symbol ADL Reuters ADLG.DE
Designated Sponsor	ODDO SEYDLER BANK AG
Stock Exchanges	Xetra, Frankfurt am Main
Indices	CDAX, DIMAX
Fiscal Year	Calendar year

* as at December 31, 2014

ADLER REAL ESTATE

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