ADLER REAL ESTATE

2013

Annual Report 2013

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ADLER REAL ESTATE

Annual Report of

ADLER Real Estate Aktiengesellschaft

for Business Year 2013

Key Financial Figures

In EUR '000

Consolidated result (IFRS)	**31. Dec. 2013**	**31. Dec. 2012**
		*adjusted**
Rental income including auxiliary costs	17,252	910
Fair value adjustments (write-ups)	59,613	1,072
Total operating income	78,241	5,850
EBITDA	70,910	1,090
EBIT	70,895	1,080
Consolidated result	46,876	518
Earnings per share in EUR	2.57	0.03
Earnings per share in EUR (diluted)	2.23	0.03
Headcount	20	10

Key Property Figures

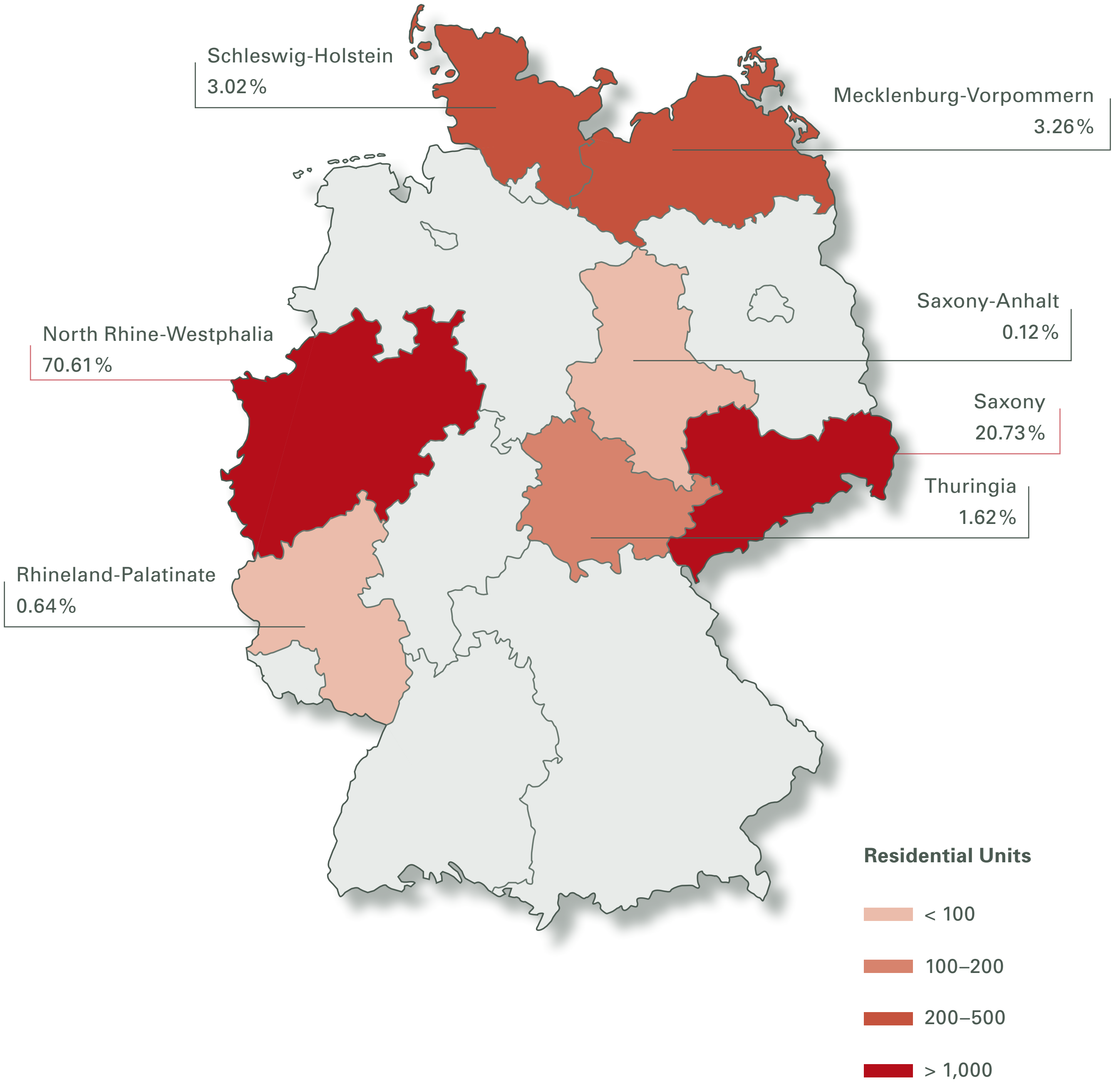
Bundesland	**Total rental area in m²**	**Rental units**	**Average rent in EUR per m²****	**Proportion of total portfolio in %**	**Market value in EUR**
North Rhine-Westphalia	347,982	5,383	5.16	70.61	308,638,000
Saxony	102,152	1,628	4.75	20.73	70,630,000
Mecklenburg-Vorpommern	16,066	365	6.97	3.26	18,170,000
Schleswig-Holstein	14,882	243	5.89	3.02	14,645,000
Thuringia	7,990	138	4.24	1.62	3,801,000
Rhineland-Palatinate	3,172	28	3.85	0.64	1,556,000
Saxony-Anhalt	604	12	4.76	0.12	425,000
Total	**492,848**	**7,797**	**5.14**	**100.00**	**417,865,000**

* Figures for 2012 have been adjusted on account of the application of IAS 19 (revised 2011).
(See Note 5.16 in the Notes to the Consolidated Financial Statements for details)

** Target rent as of 31 December 2013

All information on the real estate stated without consideration of ownership structures

Overview Residential Properties presented by Federal States



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Overview

ADLER Real Estate AG is a publicly traded real estate company which is focused on establishing and developing a strong and profitable real estate portfolio. At the centre of its activities is the acquisition and management of residential properties throughout Germany. Preferred acquisitions are residential real estate portfolios on the outskirts of large metropolitan areas that have long-term appreciation potential and where rental income can make a contribution to the success of the company as a whole. The operating strategy also includes active value creation, in

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other words the development of residential portfolio properties by means of expansion, renovation or modernisation, as well as the development of residential land and new residential properties either independently or as part of a partnership with other companies.

ADLER Real Estate AG was formed out of Frankfurter Adlerwerke, a company with a rich and storied history going back to the 19th century. The company's registered office is in Frankfurt am Main, and its headquarters, including its management board and the majority of its employees, are located in Hamburg.

In Frankfurt, ADLER Real Estate AG is represented by its fully owned subsidiary Münchener Baugesellschaft mbH, whose predecessor company, which was formed as far back as 1926, has a long and successful history in the development, construction and management of residential real estate.

Management Board Foreword

**Dear Shareholders,
Dear Sir or Madam,**

we can look back on an extremely eventful 2013, in which ADLER Real Estate AG has succeeded in developing into a major owner and operator of residential properties. After taking the first tentative steps in our realignment strategy in 2012, we made substantial progress in 2013 and invested in residential property portfolios encompassing more than 10,000 residential units dotted all around Germany.

The positive trend on the real estate markets and the trust vested in us by investors, stakeholders and yourselves as shareholders has been of great assistance to us in these efforts. The global economic climate may not quite be developing as we might like, and countries in southern Europe continue to suffer from the consequences of the financial crisis and their own mistakes, but central banks are sticking with their low-interest policies in an attempt to boost weak economic development and, at the same time, keep the debts of most countries from skyrocketing.

Continuously low interest rates are causing equity investors to look elsewhere for suitable alternative investments with better returns. Most prefer shares, which has fuelled the rising trend on stock markets, but there is also an interest in property, where the global price trend is rising. Aside from low-cost financing options, long-term factors in Germany such as increasing immigration, demographic development and the rising tendency for people to live alone are causing property prices to boom, particularly in metropolitan areas.

As an established property company with experienced employees, we are perfectly positioned to implement and roll out our new business model – the establishment and management of a growing residential property portfolio. We received countless interesting offers for the acquisition of or investment in residential property portfolios, and we have been successful in establishing holdings in very interesting residential property companies. Our primary focus is on the acquisition of properties situated in so-called “B locations” of Germany’s largest metropolitan areas, as these are the areas we consider to have huge potential for growth in terms of rental income and value appreciation.

However, this rapid expansion wouldn’t be possible if it wasn’t for the trust of our investors, stakeholders and shareholders. We have succeeded in implementing five different capital measures and raised roughly EUR 60 million through measures ranging from the placement of corporate bonds and convertible bonds to capital increases.

The funds we raised were used to build up ADLER’s portfolio of residential properties. Aside from experiencing major growth, the portfolios were also continuously reviewed. We wasted no time in quickly selling on a property if necessary in order to optimise the portfolio, realising substantial extraordinary income in the process. ADLER has been able to acquire portfolios with relatively good terms; in some cases the purchase price was substantially lower than the market value, meaning that valuation reports required in accordance with IFRS accounting standards led to the realisation of significant valuation reserves. Once again, positive development in terms of ADLER's earnings and value has been rewarded on the stock market. The price of ADLER shares tripled in 2013 alone.

In 2014, we will pursue our growth strategy without losing sight of the intermediate steps we have to take and the necessity of consolidation. In early February 2014, ADLER announced its intention to submit an offer for ESTAVIS AG to the Berlin-based company's shareholders. In this regard an extraordinary general meeting is due to be held on 22 April 2014 in which we will propose to shareholders a capital increase against contribution in kind. ESTAVIS AG owns roughly 2,100 apartments in Berlin, Leipzig and Chemnitz and recently announced the purchase of a further 4,300 residential units. ADLER is looking to take advantage of the increased exchange value of its own shares, while ESTAVIS shareholders are being given the opportunity to invest in the positive development of ADLER Real Estate AG. As a result, we will also be inviting ESTAVIS shareholders to the extraordinary general meeting and will be asking them to follow the lead of existing ADLER shareholders and put their faith in our company.

Moreover, we have also decided to place another corporate bond. With this private placement, we will mainly be targeting institutional investors, i.e. qualified investors that have already signalled their intention to make a significant investment. At this point, we would also like to express our thanks at the interest and trust in ADLER, which we intend to pay back through further growth and value appreciation across the board.

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

In the course of financial year 2013, the Supervisory Board underwent a personnel change. Supervisory Board member John Heikenfeld resigned effective at the close of the Annual General Meeting on 12 June 2013 and step down from the Supervisory Board at the same time. We thank him for his years of service to the company and constructive and trusting involvement. Pursuant to the motion filed with the Annual General Meeting, Thomas Katzuba von Urbisch, Monte Carlo/Monaco, lawyer and entrepreneur, was elected to replace Mr. Heikenfeld for the remainder of the term as a member of the Supervisory Board.

The term of office of Supervisory Board Vice Chairman Ralf Preyer, who had first been elected to serve the remainder of the term of Supervisory Board member Andreas Helwig, who retired in 2012, ended with the close of the Annual General Meeting on 12 June 2013. As petitioned to the Annual General Meeting, Mr. Preyer was reelected as Vice Chairman of the Supervisory Board in accordance with § 107 Para. 1 of the German Stock Corporation Act.

Following the end of the reporting period, Ralf Preyer resigned from his office on 31 January 2014 for professional reasons. We would like to extend our gratitude to him as well and thank him for the trusting and valuable working relationship. 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. Mr. Schmid's election to the Supervisory Board is to be proposed to the Annual General Meeting in 2014. Mr. Katzuba von Urbisch was appointed Vice Chairman in accordance with § 107, Para 1 of the German Stock Corporation Act.

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.

In the financial year 2013, a total of five Supervisory Board meetings were held, on 27 March, 11 June, 12 June, 19 September and 12 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 guidelines of the German Corporate Governance Code 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.

2013 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 2013, 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 12 June 2013.

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 26 March 2014, 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 26 March 2014, the Supervisory Board approved the annual financial statements which are hereby adopted in accordance with § 172 AktG as well as the consolidated financial statements. Due to ADLER Real Estate AG's issue of a further corporate bond with a volume of up to EUR 50 million immediately after the meeting on 26 March 2014 to review the accounts, the Supervisory Board approved by resolution of 28 March 2014 that the Management Board make a corresponding reference to this in the management report and the Group management report. The Supervisory Board endorsed the proposal of the Management Board for the distribution of profits.

2013 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 2014

Dr. Dirk Hoffmann
Chairman of the Supervisory Board

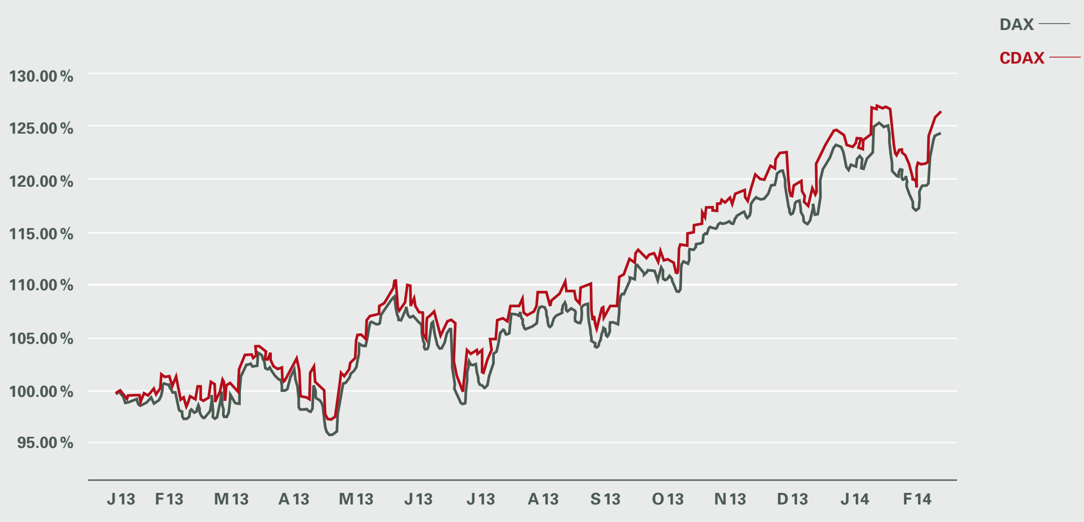
The ADLER Share

Share Market Sentiment

In 2013, the German share index continued its long-term upward trend, which began in the first quarter of 2009, the low point of the financial and economic crisis. The index rose by 22.8 percent to 9,589 points at the close. This development was also significantly bolstered by continued low interest rate policies maintained by the large reserve banks in the US and Europe. Only when US Federal Reserve Chairman Bernanke, who departed at the end of the year, hinted at a slight change of course, did share markets respond less than enthusiastically. However, as his successor Janet Yellen vowed to stick with the previous course, share markets picked up considerable momentum especially in the second half of the year with no signs of slowing until January of the following year.

Weakening emerging markets and especially the apparent slackening of extreme growth rates in the People's Republic of China could not stop the general trend either. For 2014, the markets expect European economies to recover and pick up steam following recent weak growth which also slowed down the German economy. Therefore, many banking and share market experts predict the German share market index to exceed the threshold of 10,000 points for the first time.

Performance of DAX and CDAX since January 2013



Development of Real Estate Shares

In 2013, German real estate shares did not move up at the same pace as the DAX. While the DIMAX, the index of German real estate shares, rose by 31 percent in the previous year – faster than the DAX – it only gained 5 percent in 2013. In particular, the insolvency of IVG Immobilien AG, formerly one of the heavyweights in the DIMAX, had a dampening effect on the index's performance. Nevertheless, real estate shares are seen by many investors as a good investment opportunity for taking advantage of rising real estate markets in Germany and much of Europe and North America.

E&G DIMAX (in points)

ADLER Share Price Development

In 2013, the price of ADLER shares went only in one direction. Carried by an immense and successful investment program, the company's performance met with a positive market response. Having started out at EUR 1.28, and after reaching an interim high of well over EUR 4.00, its share price had more than tripled by the time it finally settled at EUR 3.94 at year-end. Following interim consolidation, ADLER Real Estate AG's next big move – its bid to take over ESTAVIS AG – was rewarded by the markets with further gains. Likewise, the analysts of Close Brothers Seydler Bank AG continue to rate ADLER's shares a buy – with a price target of EUR 6.00.

Performance of ADLER Real Estate AG stock

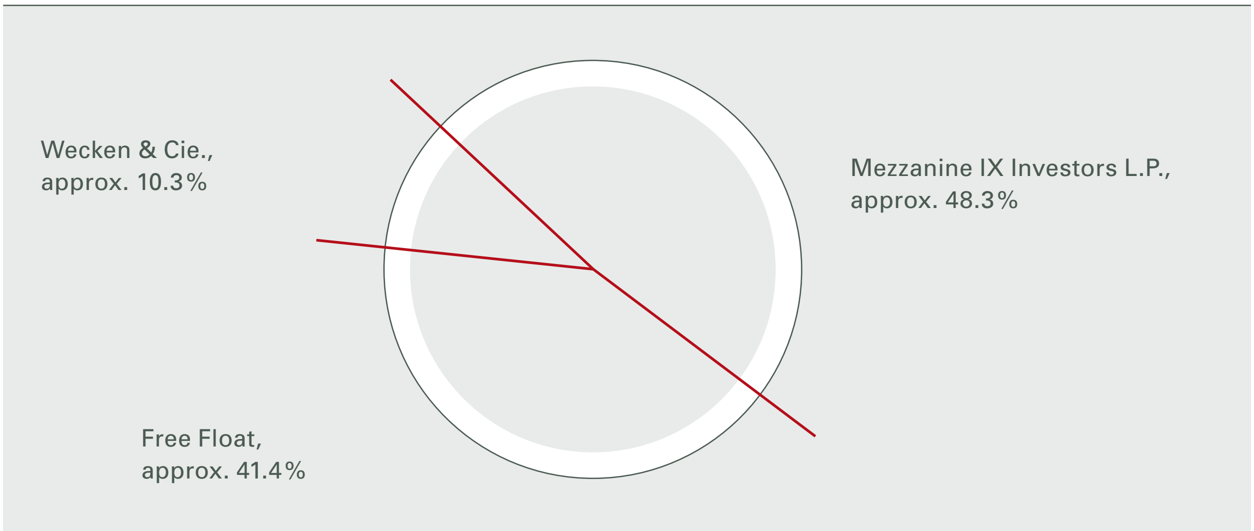
Shareholder Structure

For the first time since the end of 2009, the shareholder structure changed indirectly in May 2012 with the realignment towards a fast-growing residential property portfolio company. Mezzanine IX Investors L.P., ADLER's former majority shareholder, underwent a change in its shareholder structure. In September 2013, more changes resulted in the wake of a capital increase. The new Swiss shareholder Wecken & Cie. fully subscribed to the capital increase, acquiring a 10.3 percent share of ADLER's share capital, while the shares held by Mezzanine IX Investors L.P., now Mezzanine IX Investors S.A., dropped to around 48.3 percent, having relocated the company headquarters to Luxembourg. Since 27 June 2013, the shares held by Third Avenue Real Estate Opportunities Fund L.P. initially stood at approx. 4.7 percent and have since slipped to less than 3.0 percent as a result of the capital increase and sales, making them free-floating shares. At the end of the year, about 41.4 percent of the shares were in free float. The company has meanwhile reduced its own shares to zero as these shares were used as part of the purchase prices in portfolio acquisitions.

Financial Communication

On 4 September 2013, ADLER Real Estate AG shares were admitted to trading in the Prime Standard on the Frankfurt Stock Exchange. With this move, the company has switched to the highest transparency level for listed companies and has expanded its financial communications accordingly. In addition to the regular preparation of quarterly reports in German and English, it participates in capital markets conferences, 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 learn more, please visit ADLER Real Estate AG's homepage at www.adler-ag.com where current corporate press releases and other information are published in a timely manner.

Shareholder Structure



The Residential Property Market in Germany

The German housing market was characterised by two broad developments after the last major turning point when the war ended and the country was rebuilt. Prices and rents rose steadily until about the mid-eighties. After a brief boom in the wake of the German reunification, rents and house prices were at best stable, while in many regions they even declined. Since the mid-noughties and especially after the financial crisis started to subside, rents and property prices are once again significantly on the rise. The factors that influence the housing market show that the cycle, which started seven years ago, is likely to continue for some time. Rents, house prices and the value of residential property will likely continue to rise in the medium term as a result.

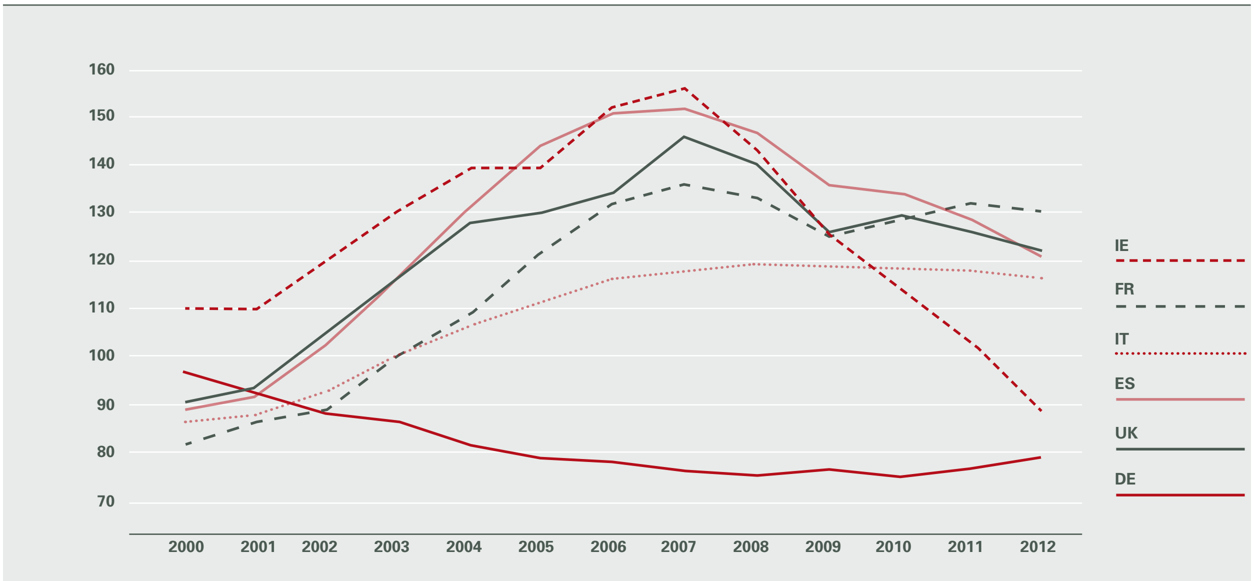
Development of Rents and House Prices

Rents and house prices in Germany steadily declined following the post-reunification boom at the beginning of the nineties. Prices in good and very good metropolitan residential areas were at best stable for many years.

Adjusted for inflation, prices and rents in the last 20 years have actually declined significantly, according to a joint study by the Hamburg Institute for Economic Research and the bank Hamburger Sparkasse. The study shows prices for flats in good locations in Frankfurt, for example, declined 24.6% between 1992 and 2012, while prices for flats in modest locations even fell by 39.6% in that period. Halfway through the first decade of the new millennium, prices were even lower.

The development of rents in relation to disposable income shows the extent to which the German housing market differs from other European markets. According to OECD studies, the costs for German residential tenants declined from 2000 to about 2008/2009. Still, the ratio is below the long-term average of 100. In France, Italy or the UK, however, the 2006 value still reached levels of up to 150. This means that tenants of flats in those countries have to spend twice as much of their income on rent each month than German residential tenants.

Real estate prices – House prices in relation to disposable income, long-term average = 100



Source: OECD, DB Research

The relatively low prices for residential property prices in Germany attracted the attention of international investors, particularly from the countries mentioned (France, Italy, UK), from around 2005, who started to significantly invest in German residential real estate. There were times when foreign investors, especially from the UK and Northern Europe, bought about half of all rental properties, i.e. residential apartment blocks as well as residential and commercial buildings.

One good example is the Hamburg rental property market, where the majority of investments between 2005 and 2008 were made by foreign investors. Never before and never again did so many rental properties change hands in Hamburg.

Since foreign investors made interest-oriented investments, they were looking for stable assets with relatively safe returns of around 5% per annum. However, there was an abrupt slump when the financial crisis hit following the collapse of US bank Lehman Brothers due to the fact that the investments were often highly leveraged. The example of how the Hamburg rental property market developed is comparable to developments of other major markets in Berlin, Frankfurt, Munich and Dusseldorf.

Investments in rental properties in Hamburg (number of contracts)

Source: Expert Committee of the Free and Hanseatic City of Hamburg, June 2013

A Divided Housing Market

From about the turn of the millennium, the development of the German housing market was no longer uniform. There was an increasing gap between the markets in cities and in the country, between urban areas and sparsely populated or developed regions, as well as between scenic regions that increasingly attract tourists and areas that aren't considered interesting and are less frequented due to the fact that they are not as well connected to the otherwise very good German infrastructure.

While prices in metropolitan or boom regions have been rising since the onset of the financial crisis at the latest, they have been declining in rural areas across the board. These regions have been experiencing the downside of the boom in metropolitan areas. The reasons are manifold:

- Rural regions gradually lose their appeal. Almost every small community used to be able to offer specially built industrial estates to business people at a tax advantage, but the EU has put a stop to this subsidy race. In addition, most communities lack the necessary means to encourage more businesses into the area.

- Companies that previously took advantage of the tax benefits are moving on, leaving behind vacant industrial parks. Overall, the number of jobs is decreasing.

- Retail business is also withdrawing from the pedestrian zones that were created in small and medium-sized cities during the sixties and seventies due to the fact that the sites there are too small to sell products to customers efficiently and at a reasonable price. Instead, customers are drawn to big shopping centres on the outskirts of metropolitan areas. The pedestrian zones in small towns are increasingly deserted, which renders them less attractive than they could be.

- Local authorities can hardly afford to invest in their own infrastructure and the once numerous cultural institutions.

- Young people are moving away to find work in urban areas or to pursue better training opportunities. Older people who can afford it are also moving to metropolitan areas to take advantage of the broader selection of medical and cultural options.

A substantial structural change is taking place in many rural areas. The “rural exodus” is expected to continue and cause depopulation in entire regions in Western Germany, similar to what has already been witnessed in many parts of Eastern Germany. The impact on the property market is dramatic. Someone wanting to buy a detached family house in the Weser Uplands, a hilly region in Lower Saxony, Hesse and North Rhine-Westphalia, now pays at most one tenth of what the same home would cost in the Munich metropolitan area. Rents for flats in some rural regions cost between only EUR 3 and EUR 4 per m^2. In some regions, landlords are trying to rent out flats for just EUR 1 per m^2, excluding heating costs to finance the operating costs. According to the Cologne Institute of Economic Research (IW), some German regions face the threat of high vacancy rates and plummeting property prices.

In contrast, the country’s major cities are expected to expand significantly, according to IW. The largest increase is forecast for the commuter belt around Munich, including Erding, Ebersberg, Dachau and Freising. Demand for housing in those areas could rise by up to 35.3% in those areas by 2030. Munich city has recorded the fifth strongest growth. Commuter belts around Hamburg and Berlin are also expected to grow significantly. Other growth areas include the Rhine River region from Cologne to Dusseldorf as well as the metropolitan areas of Frankfurt and Stuttgart and their surroundings.

Especially rural areas, villages and small towns in Eastern Germany would be losing out. According to IW, one-fifth of apartments in those regions could be obsolete by 2030. But also individual counties and cities in Lower Saxony and North Rhine-Westphalia could be facing major challenges. Rural regions in Saxony-Anhalt, Thuringia and Brandenburg would be hit the hardest.

Factors Influencing the Market

Housing markets in urban areas and the areas surrounding larger cities are developing contrary to markets in rural regions. Metropolitan areas are becoming the centre of attraction on account of the fact that employment opportunities are sufficient or increasing, and municipalities can offer a broad spectrum of cultural activities and health facilities. Most education and training centres, corporate headquarters and a comprehensive range of services are also based in metropolitan areas.

Demographic developments as well as changes in lifestyles and living arrangements particularly influence the development of the housing market:

- Higher levels of health and aged care services needed for an ageing population can increasingly only be provided in metropolitan areas. Many older people, in particularly those of the baby boomer generation who are gradually retiring, want suitable living arrangements, such as barrier-free living with an ample supply of services close by.

- Women today marry much later than in the past and therefore spend longer in one-person households. In addition, working life often demands higher mobility, causing an increasing number of "weekend marriages." Study and training times have increased. The duration of marriages has on average declined due to a rise in the divorce rate.

While 30% of the population still lived in a family household in 2000, this declined to 25% by 2010. Conversely, 40%of Germans lived in a one-person household in 2010, up from 31% in 2000. The increase in one-person households means that the number of households and housing demand remained stable even in cities with a slight decline in population (Source: BBSR, Housing and Property Markets in Germany 2011, January 2012).

This development is best exemplified by Hamburg's real estate market. According to the most recent microcensus (2010), about 497,000 people are by now living in single-person households. That equates to almost exactly half of all Hamburg households (983,000). The rising proportion of single-person households increases the per capita living space.

In addition, rising wealth also leads to higher average living space per occupant (Source: German Federal Statistical Office: construction and living microcensus additional survey 2010, supply and structure of housing units, living arrangements of households, Wiesbaden, 2012).

According to BBSR, important behavioural factors influencing demand for new houses remain home ownership and increasing use of residential space. Both factors are expected to rise until 2025, despite taking into account economic conditions like lower economic growth and purchasing power. The per capita living space of owner-occupied households is estimated to increase by around 4 m² to nearly 53 m² in Western Germany and to around 47 m² in Eastern Germany. The per capita living space of tenants is expected to rise by about 3 m² to 41 m² or 38 m², respectively (Source: BBSR, Housing and Property Markets in Germany 2011, January 2012). The number of required apartments or households will therefore continue to rise. BBSR estimates that the number will rise from 39.96 million homes at the end of 2011 to around 41.40 million by 2020 (German Federal Statistical Office).

The demographic situation and lifestyle patterns will unlikely change in the medium term, or, in the case of the ageing German population, can no longer be changed. This means that demand for housing in metropolitan areas should continue to increase over the next decade.

Increasing demand for residential property has prompted both private real estate developers as well as the public sector to promote the construction of new homes. According to the Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR), the number of building permits in 2008 increased from around 184,000 units in 2008 to nearly 214,000 units in 2011, (Source: BBSR, Housing and Property Markets in Germany 2011, January 2012). In 2012, German building authorities approved the construction of even more flats. According to the Federal Statistical Office, the number rose by 4.8% to 239,500 homes in 2012. Accordingly, the number of completed units is increasing. About 200,500 flats were built in Germany in 2012, according to the Federal Statistical Office.

The high level of growth in 2011 and 2012, which showed a double-digit rate in unit completion, will likely soften to an average of nearly 7% a year by 2016, according to the Ifo Institute of Economic Research. For the year 2016, the completion of around 246,000 flats in newly built residential buildings is forecast, representing an increase of over 80% from the low in 2009, where it was slightly less than 136,000 units. However, anticipated new constructions will unlikely be sufficient to meet demand. Theoretically, they could, but not when taking into account deconstructions and demolitions.

Outlook

In 2013, rents and prices for residential properties in German metropolitan areas have continued to rise. According to the Federal Statistical Office, rents have increased nationwide, meaning in urban as well as rural areas, by 1.3%. Research institute Empirica forecasts that rents will continue to rise significantly, especially in big cities. The institute estimates that rents will rise between 6% and 8% in Berlin and Munich, and between 2% and 4% in Hamburg and Frankfurt. The price development in the large cities and metropolitan areas has continued to gain traction. Thus, the impulse has spread from cities to the countryside and from the new buildings segment to the existing home market. In addition, the rental housing market, especially in the outskirts of cities and metropolitan areas, is reacting as people are looking for alternatives to high prices in growing parts of inner cities (Source: Deutsche Bundesbank, Monthly Report, February 2013, Vol. 65, No. 2, February 2013).

The future development will be shaped by macro factors. These are:

- Growing per capita demand for living space in line with the growing trend of solo living. This trend is especially going to influence markets in metropolitan areas.
- Continuing influx to urban centres. Only 15 million of Germany's population of 80 million are presently living in urban areas. Urban areas will continue to grow.
- The rural exodus will not stop as long as municipalities lack money and resources to provide their residents with infrastructure.
- There are not enough new buildings in urban areas. Additional living space is lacking.

In the next ten years, rents and prices in metropolitan areas are likely to increase by 50% to 100%. Only afterwards will prices – adjusted for inflation –return to the level seen at the beginning of the nineties following the post-reunification boom.

The Residential Properties of ADLER Real Estate AG

ADLER Real Estate AG focuses on the establishment and expansion of a substantial portfolio of residential properties located all across Germany. The company primarily acquires majority stakes in portfolios encompassing properties located in "B locations" or on the outskirts of German metropolitan areas. In financial year 2013, residential portfolios containing roughly 10,000 residential units were acquired or obtained (as at 31 December 2013: 7,797 residential units with a rental area of 492,848m², as at 28 February 2014: 10,142 rental units with a rental area of 629,344m²). Some 61%, or 6,124, of the rental units are situated in major cities in Germany with a population greater than 100,000. All other ADLER residential properties are located in the immediate vicinity of major metropolitan areas.

One area of focus for the portfolio is currently the state of North Rhine-Westphalia, which is Germany's most populous federal state with a population of 17.8 million. Some 5,000 rental units are located in major cities in North Rhine-Westphalia, with Duisburg home to the most units (4,140). Duisburg is situated in the north-west corner of the Ruhr valley on the banks of the Rhine, one of the busiest rivers in Europe, and is home to one of Europe's largest inland ports. The city is currently in a period of transition, shedding its industrial past and moving in the direction of a technology- and service-oriented society. Duisburg remains one of the most important centres of the European steel industry, but has a growing reputation as an international trade and logistics hub.

The population of Duisburg has been falling for a number of years and forecasts suggest the trend is slightly continuing. Duisburg also currently has one of the highest rates of unemployment in Germany. At the same time, the influx of people into the city has increased considerably and already meant that older demographic development forecasts have turned out to be incorrect. Over the last few years, Duisburg has seen the establishment of brand-new competency centres in the areas of IT, telecommunications, microtechnology, material technology, services, environment and energy and logistics as well as an upturn in local tourism and urban entertainment. With some 30,000 students, the University of Duisburg-Essen is also a source of fresh impetus with a focus on the future. The influx of people into the city is also a key factor in the development of residential rents. While rents for newer apartments (built after 1948) remained stable in the period between 2009 and 2013, the cost of renting highly sought-after older apartments rose by between 5 and 8.5% over the same period (comparison of rental costs in the city of Duisburg from 2009 – 2013).

After North Rhine-Westphalia, the second-largest German federal state when it comes to ADLER Real Estate AG residential properties is the state of Saxony and its metropolitan areas of Dresden, Leipzig and Chemnitz, with 1,628 units. The ever-expanding metropolitan area of Dresden is home to 1,085 units alone. Dresden, the capital of Saxony, is known as the "Florence of the Elbe" on account of its location and the beautiful architecture in the city centre. The city is one of Germany's leading business locations, attracts an ever-increasing number of tourists every year and has excellent prospects for further growth – success that is based on a courageous policy of targeted subsidisation and economic development.

Following the reunification of Germany, a great deal was invested in state-of-the-art technology and associated research. Within a short amount of time, Dresden turned into a top location for the microelectronics, nanotechnology, new materials and life sciences industries. A number of leading global companies now operate there, including Globalfoundries, GlaxoSmithKline Biologicals, VON ARDENNE and Novaled. This has caused the city's gross domestic product (GDP) to rise by 50% since 1995; it reached the national average in 2009. Between 2007 and 2011, Dresden's top 100 companies increased their revenues by almost 20% and the number of jobholders increased by some 17%. The city's portfolio of commercial property has experienced unabated growth since 2000. The current rate of employment in Dresden is as high as it was in 1990. The city's population increased from 478,000 in 2000 to over 525,000 by the end of 2012.

Towns in the metropolitan area of Dresden, such as Pirna and Meissen – the latter known for its porcelain manufacture –, have benefitted from this positive development. Residential property prices have risen sharply since 2009, with residential rents increasing by up to 12% in 2013 alone.

ADLER Real Estate AG administers another 560 residential units in the Baltic ports of Kiel, Luebeck and Rostock. Since the reunification, the regions on Germany's Baltic Sea coast have benefitted from the growth and development of the economy across the Baltic region. With its marine base, port, university, hospital and increasing popularity as a destination for tourists, Kiel – the capital of the state of Schleswig-Holstein – has experienced growing population numbers for years. What's more, according to the latest forecasts, this trend is likely to continue. Against this backdrop, the development of property prices and residential rents is stable to moderately positive.

Luebeck may be Germany's largest Baltic Sea port, home to Schleswig-Holstein's largest company Dräger and an increasingly attractive destination for tourists with its historic centre, but the city's university is relatively small and there is a distinct lack of economic impetus and willingness among companies with strong growth potential to establish a presence there. Demographic development is therefore stable at best, and is more likely to decrease than increase moving forward. Despite this, rents in the famous Hanseatic city are stable to marginally positive.

Residential property prices in Rostock continue to rise. Following a substantial decline in the city's population after the reunification, population numbers have been steadily rising ever since 2002. Increasing tourism, port business, the city's university and consolidated shipbuilding and marine technology industries have contributed to the city's consolidation and are now the source of stability and moderate growth.

The investment in one particular residential property portfolio that was concluded in late 2013 but only became effective in 2014 concerns 2,347 residential units in the town of Helmstedt as well as an area just south of Helmstedt. Helmstedt is in the direct vicinity of the metropolitan area of Wolfsburg/Braunschweig. Braunschweig, some 40km away from Helmstedt, is the second-largest city in the state of Lower Saxony after the capital Hanover with a population of roughly 250,000. Wolfsburg, around 35km from Helmstedt, also has city status with a population of over 120,000; it is the location of the Volkswagen Group headquarters, which employs roughly 50,000 people in Wolfsburg alone. The rapidly growing automotive concern also maintains production sites in Braunschweig and in nearby Salzgitter. The entire metropolitan area is a major beneficiary from the growth of the VW Group; however, a number of other industries – particularly the IT and logistics industries – have set up shop there, making the area less dependent on the fluctuations of the automotive industry moving forward.

Management Report for Financial Year 2013

1. BASIS OF THE GROUP

ADLER Real Estate AG realigned itself in May 2012. The Company previously focused on the acquisition of undeveloped land, where the potential value is released during project development and in particular when it is ready for construction and can then be sold at a profit. Since its realignment, the Company is focusing on the construction and expansion of a significant residential portfolio throughout the whole of Germany. It mostly acquires interests in portfolios primarily in B-locations in major German congested urban areas with sustainable value-enhancing potential. It plans primarily to acquire majority interests which allow for optimal portfolio management.

Significant steps were taken in 2013 to expand the portfolio, as the required funds were secured through various capital measures in addition to bank loans to finance the acquisition of interests in residential portfolios. The aim is to enter portfolios which generate positive cash flows from the management of residential units after deducting all costs. The currently low interest rate environment is helping the Company to achieve this goal.

Besides the acquisition of portfolios, the Group's strategy is sustainable portfolio management as well as the optimisation of utilisation rates, thereby reducing vacancy rates to a minimum. For this purpose, ADLER is planning capital expenditure programmes aimed at gaining ground in the competitive market for tenants and increasing existing current rental income continuously. Building measures on free land plots, gaps between buildings and building reserves or extensive renovation should be used to release value-enhancing potential.

Financial year 2013 was marked by portfolio expansion. Plans to optimise portfolio management are currently underway and will be realised step-by-step in the current financial year with the aim of generating earnings growth in the years ahead.

The Group's internal and standardised planning and controlling system guarantees that resources are efficiently employed and monitored in accordance with the size of the Company.

Adjusted EBITDA (income before taxes, interest and depreciation/amortisation, adjusted for income from fair value adjustments s well as one-off and special effects) is the basis and key financial management parameter in this regard. The parameter provides an indication of the earnings power of the current real estate portfolio management.

The occupancy rate represents a key non-financial parameter. This shows the ratio of rented space to the total rental area.

2. ECONOMIC REPORT

Macroeconomic and Sector-related Conditions

The German economy was able to partly withstand the general sluggish trend of the European economy thanks to consumer confidence and sentiment. During the recession in large parts of Europe, particularly in southern Europe, Germany's gross domestic product (GDP) gained 0.4 percent according to the Federal Statistical Office. However, growth was still below the already modest growth of the previous year (plus 0.7 percent). Nonetheless, the second half of the year pointed to an upward trend.

The weak growth is largely due to the sharp slowdown in exports, particularly in Europe, which were up only 0.6 percent. The increase in demand in Germany, especially for consumer goods, supported growth. Domestic consumption was up 0.7 percent and contributed to GDP growth. The increase in consumption is attributable to the rising levels of employment. According to the Federal Statistical Office, Germany has reached a record level of employment at 41.8 million employees.

The financial situation has also eased considerably. The comparatively robust economy combined with record employment levels led to unprecedented inland revenue levels. The national budget was easily below the EU deficit ceiling; the drop against GDP only amounted to 0.1 percent.

Regardless of Germany's comparatively robust economic growth, the European Central Bank and the US Federal Reserve continued their low interest rate policy. The continued decline in inflation plus the unchanged debt crisis in many countries were the reasons for this course. The change in command at the US Fed at the beginning of the year ensures continuity in the interest rate policy as the new Chairwoman, Janet Yellen, will stick to her predecessor Bernanke's generally expansionary monetary policy.

A stable economic development combined with continued low interest rates were and are good conditions for real estate investments. In 2013, Germany registered a ten-year high in commercial residential investments at EUR 15.8 billion. According to an analysis by Jones Lang LaSalle, the already strong year in 2012 was exceeded by 40 percent. When limiting the valuation to residential property portfolio transactions, sales amounted to EUR 13.8 billion. This was largely the result of the takeover of GSW in Berlin by Deutsche Wohnen AG. This transaction alone involved 60,000 residential units with a volume of some EUR 3.3 billion.

Not only favourable interest rates, but expectations of continued growth in residential property markets led to this high investment volume. According to reports from Deutsche Bank Research, residential property prices climbed again sharply in 2013 by 5 percent, albeit not as much as in the previous year. Nonetheless, the upward trend seen since the end of the 2000's remains intact. Real estate in the major German cities again attracted a lot of interest. Residential property prices in these areas were even up as much as 10 percent in 2010. In its October 2013 report, Deutsche Bundesbank warned that real estate in attractive urban locations could be overvalued by as much as 20 percent compared to the fundamentally justified level, leading to the danger of this high price trend spreading to surrounding regions. Deutsche Bank Research does not share this concern as they point to the fact that house prices are still normalising after declining for 15 years. Furthermore, the price development in Germany is well behind international price cycles. Real estate in Germany remains affordable thanks to the increase in disposable income on both a historical and an international scale.

Development of ADLER Real Estate AG

In financial year 2013, ADLER Real Estate AG achieved huge progress towards achieving its goals swiftly and soundly as part of the Company's realignment initiated in the previous year. In 2013, ADLER registered its highest ever investment volume as a real estate company. At the end of the year, ADLER had investments in residential property portfolio consisting of 7,797 rental units. At the beginning of financial year 2014, another interest in a residential property portfolio was acquired involving 2,347 rental units. The new business model generated a widespread positive response and led to numerous acquisition opportunities for the Company. ADLER focused on investments in real estate portfolios which generate positive cash flow after deducting financing, management and maintenance costs. As planned, the investment focus was on B-locations and the outskirts of major cities throughout Germany where ADLER can invest at comparatively inexpensive conditions and which offer considerable value-enhancing potential owing to the rise in rents in urban areas.

ADLER was able to take these steps thanks to the large degree of trust shown by shareholders and investors. At a total of five capital measures, from the issue of a corporate bond, a convertible bond to a capital increase, the Company raised some EUR 60 million to help finance the large investments.

Extensive Financing Measures

The issue of a corporate bond was the first of the capital measures undertaken. On 18 March 2013, a bond issue with a coupon rate of 8.75 percent p.a., a five-year term and a volume of EUR 20 million was placed on the market without a problem. The strong demand, particularly from institutional investors, was exploited in April in order to increase the volume of the bond issue by EUR 15 million by means of a private placement. The high-interest funds were only used to finance the acquired interests in residential property portfolios to a small degree. At the end of the year, the average interest charge was 4.6 percent, as the favourable interest rates on financial markets were used for bank loans.

In June, ADLER issued five million convertible bonds with a total nominal amount of EUR 10 million. The issue amount per bond was EUR 2.00, equal to the nominal amount plus the initial conversion amount. The convertible bonds carry an annual interest rate of 6.0 percent. Shareholders were entitled, based on their statutory pre-emption rights, to purchase six bonds, with a nominal amount of EUR 2.00 each, for every seventeen shares they owned.

At the beginning of September 2013, ADLER raised its capital stock again. Partially utilising its existing authorised capital, 1.5 million new ordinary bearer shares were issued, each representing a share of EUR 1.00 of the capital stock, thus raising the capital stock by 10 percent, to EUR 16.5 million. The new shares were subscribed by an institutional investor. The issue price was EUR 2.40, higher than the share price on the date of issuance.

The fifth capital measure in 2013 was the issue of another convertible bond. On the basis of resolutions adopted by the shareholders at the extraordinary General Meeting on 15 October 2013, convertible bonds were issued on 25 October 2013 with a total nominal amount of up to EUR 11.25 million, divided into up to 3,000,000 bonds. The issue amount per bond was EUR 3.75, corresponding to the nominal amount plus the initial conversion price. The coupon rate is 6.0 percent p.a.

Considerable Portfolio Expansion

ADLER promptly invested the new funds in residential property portfolios which are suitable to refinance the financing costs as well as provide the Company with positive cash flows. Only two weeks after the issue of the corporate bond, the majority interest in two real estate portfolios comprising a total of 1,404 rental units with a total value of approximately EUR 50 million was acquired in a first step. The residential units of the acquired interest are primarily located in large urban areas of North-Rhine Westphalia, Saxony and Thuringia. The largest of the 87,100 m² residential space is situated in the greater Dresden area. Another cluster, with around 200 residential units, is located in the southern part of North Rhine-Westphalia, in the vicinity of Dortmund.

In May 2013, ADLER invested in a portfolio with an investment volume of approximately EUR 140 million, including the takeover of bank loans. The 2,238 rental units are mainly in Berlin, Dresden, Leipzig, North Rhine-Westphalia and Munich and include more than 156,000 m² of residential and commercial space.

At the beginning of June, the Company made its biggest acquisition of the year. ADLER acquired a majority interest in a residential property portfolio with a total investment volume of some EUR 207 million. It comprises 4,297 rental units, 4,048 of which are in Duisburg and 249 of which are in the North-Rhine Westphalian capital Düsseldorf. The total rental area is around 268,800 m².

After using the summer months to consolidate and in some cases to optimise the acquired interests, ADLER continued its expansion of portfolios in autumn. In October, the Company acquired a 50.05 percent share of three portfolios, which represent a total of 1,876 rental units and a combined residential and commercial space of 122,700 m². The total value of these portfolios is around EUR 111 million. The properties in these portfolios are divided over six German States: Schleswig-Holstein, Mecklenburg-Vorpommern, Saxony, Thuringia, North Rhine-Westphalia and Rhineland-Palatinate. The largest share of these residential units are directly located in large and medium-sized German cities. 365 housing units are in Rostock, 218 in the North-Rhine Westphalian capital Düsseldorf, 147 in the Saxony capital Dresden, 144 in Leipzig, 110 in the Schleswig-Holstein capital Kiel, 101 in Hagen and 85 in Lübeck.

Shortly before the end of the year, another transaction was completed, the last to date. An interest was acquired in a portfolio comprising 2,347 rental units in Lower Saxony, of which 1,219 were in Helmstedt and another 1,128 south of Helmstedt. The residential units are close to the urban and prosperous area of Brunswick/Wolfsburg, the result of the massive expansion of the Volkswagen Group. The transaction was concluded in the new financial year, meaning that it will not be recognised in the balance sheet until 2014.

While expanding the portfolio, ADLER also continuously reviewed it in 2013 and optimised it wherever and whenever necessary. In late August, ADLER sold 900 residential units of its portfolio consisting of 2,238 units. After taking over the remaining portfolio, ADLER sold a 51 percent interest to a joint venture partner. At the end of the year, the Company sold off the remaining 49 percent to this joint venture partner as it was unable to maintain a majority interest of the remaining portfolio. ADLER's strategy is to acquire a majority interest and to gain complete control in order to manage the portfolio independently and under its own authority with the aim of increasing its value.

The complete divestment of this portfolio of 2,238 residential units had a positive impact on the Company's earnings and liquidity position. The same applies to the swift sale of a residential and commercial building on Berlin's Rankestrasse, which was only acquired in summer 2012. The sale of the property already seemed to be advisable in spring 2013 in view of the sharp increase in value.

As part of its strategy to acquire a majority in order to be able to have maximum influence on the management of the portfolios, ADLER increased its share in the three portfolios acquired in October where it had previously only held a 50.05 percent share. The build-up of these interests was completed in the new financial year.

Disposal of Left-over Properties

ADLER continued to sell off its left-over properties from the time before the realignment as planned, despite the swift build-up of a considerable residential property portfolio. All land plots intended for the development of detached and semi-detached houses in Moosburg an der Isar were sold. The transfer of obligations for the remaining plots was completed at the beginning of 2014. Progress was achieved in the disposal of land for the development of residential property at the Company's locations in Dallgow-Döberitz in West Berlin and in Großbeeren in South Berlin. At nine lot sales in Dallgow-Döberitz, the Company almost achieved the previous year's figure while the number of lots sold in Großbeeren rose from 14 in 2012 to 21 in 2013.

ADLER is working towards getting two of three undeveloped left-over plots ready for construction. This applies to the area comprising 108,000 m² in Dresden-Trachau, for which a utilisation concept is being developed. For the approximately 49,000 m² land plot in the Treptow-Köpenick district of Berlin, the local authorities are currently developing a land use plan. In order to exploit value-enhancing potential, ADLER plans to develop the area, possibly in cooperation with a partner company. For the third undeveloped land plot, an area of approximately 10,000 m² in Offenbach that is currently being used as a parking area, a sales contract subject to precedent conditions was agreed already in 2012. However, those precedent conditions did not occur. Subsequently, negotiations with a new interested party were conducted which could be concluded in the first half of 2014.

ADLER has an office building with rental space of approximately 4,200 m² in the Herriotstrasse in Frankfurt Niederrad. The property also has undeveloped land, which is to be used for a residential project in conjunction with the City of Frankfurt. A preliminary decision had not been reached by the end of the reporting year, but is expected in the next few months. As soon as the preliminary decision is communicated, the Company plans to construct a residential complex with residential space of approximately 20,000 m² together with a joint venture partner.

The Company still has two interests from the time before the realignment which it plans to sell in the medium term. Considerable progress was made in the two investments in 2013 and they could be sold within the near future. Efforts made to improve the occupancy rate at the Airport Center Luxembourg, in which ADLER has a 10 percent interest, were successful. In 2013, the occupancy rate increased from 64 percent to 78 percent by the end of the year. As further increases in utilisation are possible, the Company and the majority shareholder can plan to sell it.

Huge progress has been made in the residential development in McKinney, Texas, USA, in which ADLER has a 30 percent interest. As of December 2013, 84 percent of the project was already complete. Owing to rising demand, the residential units will be able to be rented quickly after completion. Final construction work is currently underway and the targeted potential rent is therefore expected to be achieved quickly, with the planned sale of the complex to an end investor likely to be possible in 2015.

Financial, Earnings and Liquidity Position

The development of the financial, earnings and liquidity position of ADLER in the reporting year was clearly shaped by new extensive investments to build up a significant residential property portfolio. All key and performance figures are comparable to the previous year to a limited degree only. They all point to a strengthening of the balance sheet, sales, overall performance and results during the year.

a. Earnings position

The IFRS-based evaluation of the residential property portfolio in which ADLER had interests in the reporting year had a considerable impact on the overall picture. The portfolios are valued at fair value based on current expert reports. In the reporting year, this led to a considerable positive adjustment of the applied valuation. As a result, fair value measurements increased from EUR 0.97 million in the previous year to EUR 59.55 million. They accounted for the lion's share of operating income which totalled EUR 78.24 million (previous year: EUR 5.85 million). Sales development included in the overall performance reflects ADLER's growth. Revenues in the year under review increased to EUR 19.24 million (previous year: EUR 5.72 million) thanks to the share of rental income from consolidated portfolios. Rental income from left-over properties as well as the sale of residential properties is also included. Inventories in Moosburg an der Isar were nearly all sold at the end of the year. In Großbeeren in South Berlin and Dallgow-Döberitz in West Berlin, more land plots were sold compared to the year before.

The sharp increase in fair value shows that the portfolios ADLER acquired were valued low. A key figure indicates this. The average actual rent per square meter of living space (total of 7,797 rental units) which ADLER held at the reporting date is EUR 5.14. The Immonet real estate platform reveals an average rent of EUR 6.82 per square meter for the whole of Germany in February 2014, which is considerable higher (source: http://www.immowelt.de/immobilienpreise/deutschland/mietspiegel). Although the average rent for ADLER portfolios in not representative, rent increases in the acquired portfolios are not unlikely in the mid to long term in the various regional submarkets. Moreover, the acquisition of such portfolios usually comes at a package discount, while the resulting market opportunities can be exploited. The package discount arises from the faster turnaround time associated with the sale of an entire portfolio as opposed to selling properties individually as well as the subsequent savings in personnel, administration and transaction costs, which would arise in the event of an individual sale of the properties.

In addition to the special effects, ADLER was able to improve its operating income from real estate management in business year 2013. Accordingly, adjusted EBITDA increased considerably to EUR 4.67 million (previous year: EUR -2.31 million). The residential property portfolios acquired in 2013 registered an occupancy rate of around 91.3 percent at the end of the year.

The disposal of a portfolio acquired in May 2013 with a partner also had a considerable impact on the Group's comprehensive income. The portfolio originally comprised 2,183 residential units, 900 of which were sold at the end of August. The remaining portfolio was sold at the end of 2013. In the consolidated income statement, the disposal of this minority interest contributed income from the at equity investment of EUR 6.56 million.

The cost of materials increased to EUR 10.23 million (previous year: EUR 1.35 million). This includes the management of investment properties of EUR 9.32 million, management of other real estate of EUR 0.23 million as well as project costs for development and other costs amounting to EUR 0.69 million. Financing costs also increased to EUR 8.69 million. Deferred income tax due to the valuation of the properties also squeezed comprehensive income, leading to consolidated profit according to IFRS of EUR 46.88 million (previous year: EUR 0.52 million). Comprehensive income increased to EUR 46.88 million (previous year: EUR 0.42 million).

b. Liquidity position

The consolidated balance sheet gives a clear indication of the Company's massive expansion. Total assets increased to EUR 460.89 million (end of 2012: EUR 43.76 million). The value of the investment properties is the largest item on the balance sheet. At the balance sheet date, they amounted to a volume of EUR 417.86 million. Liabilities from bank loans and bonds on the other hand amounted to approximately EUR 329.23 million. Owing to the considerably improved results, equity increased to EUR 86.95 million (end of 2012: EUR 26.45 million). In addition to the results, the capital increase also had an impact, which expanded share capital to EUR 16.50 million and the capital reserve to EUR 13.13 million. In addition, 47,824 shares were converted from the convertible bond by the end of the year, which led to share capital of approximately EUR 16.55 million.

c. Financial position

The main priority of the financial strategy is to provide the necessary liquidity and financing for the operating business and the build-up of the portfolio at the best possible conditions. Liquidity inflows came mainly from the rental income in 2013 and the disposal of real estate and interests in real estate companies. Cash flows from operating activities increased significantly to EUR 10.91 million (previous year: EUR 0.45 million). At the balance sheet date, the Group's liquidity grew to EUR 5.87 million (previous year: EUR 1.08 million). The consolidated cash flow statement shows the Company's extensive investment activities. The cash outflows were dominated by the acquisition of interests in residential property portfolios and related investments amounting to EUR 92.46 million. On the other hand, the Group generated sufficient liquidity through various capital measures, as already mentioned, to finance the investments. The corporate bond led to cash inflows of EUR 35 million and the issue of the two convertible bonds generated EUR 21.25 million. The capital increase raised an additional EUR 3.60 million. In addition ADLER took on loans in the form of bank loans for EUR 32.04 million and third party loans amounting to EUR 5.04 million. Cash inflows were negatively impacted by costs for the issue of debt securities as well as interest payments incurred by bonds and loans.

Cash outflows from investments totalling EUR 94.20 million and cash inflows from financing activities of EUR 88.08 million and operating activities of EUR 10.91 million together with cash and cash equivalents of EUR 1.08 million at the beginning of the year resulted in cash and cash equivalents of EUR 5.87 million at the end of the year.

Employees

As the Group holding company, ADLER Real Estate AG does not have any employees other than the Management Board. Administrative and operational functions within the Group are largely performed by wholly-owned subsidiary ADLER Real Estate Service GmbH, which had 13 employees as of the end of the reporting year, who are placed flexibly in the various project companies according to their skills. ADLER Real Estate AG also has a total of 7 part-time and full-time employees in some of the real estate companies of the newly acquired residential property portfolios.

Research and Development

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

3. OTHER STATUTORY INFORMATION

Supplementary Information in Accordance with § 315 Para. 4 of the German Commercial Code (HGB)

Share Capital

The share capital of ADLER Real Estate AG totalled EUR 16,547,824.00 at the end of the reporting period and was divided into 16,547,824 no-par bearer shares with a notional value of EUR 1 per share.

ADLER Real Estate AG, Frankfurt am Main/Germany, announced in accordance with § 26 Para. 1 Sentence 2 of the German Securities Trading Act (WpHG), that its share of own shares had crossed below the thresholds of 5 percent and 3 percent of voting rights on 27 June 2013 and amounted to 0 percent (corresponding to 0 voting rights) on that date.

Purple Lion, LLC, Sandy Springs, GA/USA, informed us on 5 August 2013 in accordance with § 21 Para. 1 WpHG that its voting rights in ADLER Real Estate AG, Hamburg, Germany, had exceeded the thresholds of 3 percent and 5 percent on 2 May 2012 and amounted to 6.67 percent (corresponding to 1,000,000 voting rights) on that date.

Purple Lion, LLC, Sandy Springs, GA/USA, informed us on 5 August 2013 in accordance with § 21 Para. 1 WpHG that its voting rights had crossed below the thresholds of 5 percent and 3 percent on 22 July 2013 and amounted to 0 percent (corresponding to 0 voting rights) on that date.

John D. Heikenfeld, USA, informed us on 5 August 2013 in accordance with § 21 Para. 1 WpHG that his voting rights had crossed below the thresholds of 5 percent and 3 percent of voting rights on 22 July 2013 and amounted to 0 percent (corresponding to 0 voting rights) on that date.

Mezzanine IX Investors L.P., Atlanta/USA, informed us on 26 September 2013 in accordance with § 21 Para. 1 WpHG that its voting rights had crossed below the threshold of 50 percent of voting rights on 24 September 2013 and now stand at 48.48 percent (corresponding to 8,000,000 voting rights).

Wecken & Cie., Basel/Switzerland, informed us on 30 September 2013 in accordance with § 21 Para. 1 WpHG that its voting rights had exceeded the thresholds of 3 percent and 5 percent of voting rights on 24 September 2013 and amounted to 9.09 percent (corresponding to 1,500,000 voting rights) on that date.

Klaus Wecken, Switzerland, informed us on 1 October 2013 in accordance with § 21 Para. 1 WpHG that his voting rights in ADLER Real Estate AG, Frankfurt am Main, Germany, had exceeded the thresholds of 3 percent and 5 percent of voting rights on 24 September 2013 and amounted to 9.74 percent (corresponding to 1,607,095 voting rights) on that date. 9.09 percent of the voting rights (corresponding to 1,500,000 voting rights) are to be allocated to Mr Wecken by Wecken & Cie. in accordance with § 22 Para. 1 Sentence 1 Number 1 WpHG.

Wecken & Cie., Basel/Switzerland, informed us on 27 October 2013 in accordance with § 21 Para. 1 WpHG that its voting rights had exceeded the threshold of 10 percent of voting rights on 25 October 2013 and amounted to 10.30 percent (corresponding to 1,700,000 voting rights) on that date.

Klaus Wecken, Switzerland, informed us on 27 October 2013 in accordance with § 21 Para. 1 WpHG that his voting rights had exceeded the threshold of 10 percent of voting rights on 25 October 2013 and amounted to 10.30 percent (corresponding to 1,700,000 voting rights) on that date. 10.30 percent of the voting rights are to be allocated to Mr Wecken by Wecken & Cie. in accordance with § 22 Para. 1 Sentence 1 Number 1 WpHG.

Third Avenue Real Estate Opportunities Fund L.P., New York, NY/USA, informed us on 26 November 2013 in accordance with § 21 Para. 1 WpHG that its voting rights had crossed below the threshold of 3 percent of voting rights on 22 November 2013 and amounted to 2.94 percent (corresponding to 485,321 voting rights) on that date.

Third Avenue Management LLC, New York, NY/USA, informed us on 26 November 2013 in accordance with § 21 Para. 1 WpHG that its voting rights had crossed below the threshold of 3 percent of voting rights on 22 November 2013 and amounted to 2.94 percent (corresponding to 485,321 voting rights) on that date. 2.94 percent of the voting rights (corresponding to 485,321 voting rights) are to be allocated to the company in accordance with § 22 Para. 1 Sentence 1 Number 1 WpHG such as § 22 Para. 1 Sentence 1 Number 6 WpHG.

Third Avenue Real Estate Opportunities Management LLC, New York, NY/USA, informed us on 26 November 2013 in accordance with § 21 Para. 1 WpHG that its voting rights had crossed below the threshold of 3 percent of voting rights on 22 November 2013 and amounted to 2.94 percent (corresponding to 485,321 voting rights) on that date. 2.94 percent of the voting rights (corresponding to 485,321 voting rights) are to be allocated to the company in accordance with § 22 Para. 1 Sentence 1 Number 1 WpHG such as § 22 Para. 1 Sentence 1, Number 6 WpHG.

Mezzanine IX Investors L.P., Atlanta/USA, informed us on 2 January 2014 in accordance with § 21 Para. 1 WpHG that its voting rights in ADLER Real Estate AG, Hamburg, had crossed below the thresholds of 30 percent, 25 percent, 20 percent, 15 percent, 10 percent, 5 percent and 3 percent of voting rights on 31 December 2013 and amounted to 0 percent (corresponding to 0 voting rights) on that date.

Mezzanine IX Investors S.A., Luxemburg/Grand Duchy of Luxemburg, informed us on 2 January 2014 in accordance with § 21 Para. 1 WpHG that its voting rights in ADLER Real Estate AG, Hamburg, had exceeded the thresholds of 3 percent, 5 percent, 10 percent, 15 percent, 20 percent, 25 percent and 30 percent of voting rights on 31 December 2013 and amounted to 48.34 percent (corresponding to 8,000,000 voting rights) on that date.

Own Shares

In accordance with the General Meeting resolution of 27 August 2010, the Company is authorised to purchase own shares of up to 10 percent of the current share capital by 26 August 2015 for purposes allowed under § 71 Para. 1 Number 8 of the Stock Corporation Act (AktG).

As a result of this authorisation, ADLER AG acquired own shares in 2011 and 2012 and openly deducted 810,099 shares with a notional value of EUR 810,000 on 31 December 2012. In 2013, these own shares were sold as part of transactions.

Authorised Capital

AUTHORISED CAPITAL 2011/I

In accordance with the resolution of the General Meeting of 28 September 2011, the Management Board is authorised to increase the share capital by 27 September 2016, with the approval of the Supervisory Board, on one or more occasions by up to EUR 7,500,000 by issuing new bearer shares for cash and/or contributions in kind. Use was made of this authorisation for an amount totalling EUR 1,500,000 in 2013; the remaining authorised capital 2011/I amounted to EUR 6,000,000.

As ADLER AG is to be given the opportunity to serve warrants and convertible bonds also from the authorised capital, authorised capital 2011/I was revoked by resolution of the General Meeting of 15 October 2013 and new authorised capital was created (2013/II).

AUTHORISED CAPITAL 2013/II

In accordance with the General Meeting of 15 October 2013, the Management Board is authorised to increase the share capital by 14 October 2018, with the approval of the Supervisory Board, on one or more occasions by up to EUR 8,250,000 by issuing new bearer shares for cash and/or contributions in kind, whereby the subscription rights of shareholders can be excluded.

Contingent Capital

CONTINGENT CAPITAL 2006/I

The General Meeting of 21 April 2006 resolved to increase the Company's share capital by EUR 1,000,000 through the issue of new bearer shares. By resolution of the General Meeting of 12 June 2013, this contingent capital was reduced to EUR 200,000. The contingent capital increase served exclusively to fulfil warrant obligations, which could be exercised until 13 July 2013. For this reason, the contingent capital was revoked by the extraordinary General Meeting of 15 October 2013.

CONTINGENT CAPITAL 2012/II

By resolution of the General Meeting of 28 June 2012, the Management Board was authorised, with approval from the Supervisory Board, on one or more occasions until 27 June 2017, to issue new bearer warrants and/or convertible bonds in a total nominal amount of up to EUR 100,000,000 with a maturity of up to ten years and to grant holders of warrants and convertible bonds warrant and conversion rights for up to 6,500,000 new bearer shares of the Company in accordance with the terms of the warrants or convertible bonds.

For this reason, the General Meeting of 28 June 2012 resolved an increase of the share capital by up to EUR 6,500,000 through the issue of 6,500,000 bearer shares; the contingent capital increase serves exclusively to fulfil the warrant and bond obligations, which were granted by the General Meeting of 28 June 2012 by 27 June 2017.

By resolution of the General Meeting of 15 October 2013, the authorisation of the Management Board was amended so that warrant and convertible bond holders are granted warrant or conversion rights for up to 7,500,000 new bearer shares of the Company in accordance with the terms of the warrants or convertible bonds.

The contingent capital was therefore amended and increased by up to EUR 8,250,000 by the General Meeting on 15 October 2013.

The Management Board made use of this authorisation with approval from the Supervisory Board and issued two convertible bonds of EUR 10,000,000 and EUR 11,250,000. The holders of these convertible bonds were granted rights to new shares of ADLER AG with a pro-rata amount of share capital of EUR 8,000,000 in accordance with the terms of these bonds. Due to the exercise of conversion rights, the share capital increased by 47,824 shares by 31 December 2013. This accordingly reduced contingent capital 2012/I to EUR 7,952,176 as at 31 December 2013.

CONTINGENT CAPITAL 2013/III

By resolution of the General Meeting of 12 June 2013, this contingent capital was increased to EUR

800,000. The General Meeting revoked its decision of 12 June 2013 on 15 October 2013.

Other Information

The Supervisory Board comprises three members.

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

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

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

Basic Principles of the Remuneration System

Remuneration of the Management Board

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

Remuneration of the Supervisory Board

Remuneration of the Supervisory Board is governed by the Articles of Association and is determined by the General Meeting. The remuneration of the Supervisory Board consists of two components, annual, fixed remuneration and a variable component based on the annual results amounting to 1 percent of annual net profit. While the fixed component is paid in quarterly instalments, the variable component is payable after the General Meeting, which resolves on the discharge of the Supervisory Board. Moreover, the members of the Supervisory Board are reimbursed for expenses incurred in the performance of their duties in the proven amount. Insurance premiums for third-party liability insurance for the activities of the Supervisory Board are borne by the Company.

4. EVENTS AFTER THE BALANCE SHEET DATE

As mentioned at the beginning of this report, ADLER invested in three residential property portfolios in October with a 50.05 percent share comprising 1,876 rental units in six federal states. At the end of the reporting year ADLER secured to increase its share to 94.8 percent. The transaction was concluded in the new financial year.

The acquisition of a share in the residential property portfolio with 2,347 residential units in Helmstedt and south of Helmstedt will also come into effect in the new financial year. The positive effects will become evident in 2014.

On 10 February 2014, ADLER announced that it would present the shareholders of ESTAVIS AG, Berlin, with a takeover bid in order to gain a majority interest in the company. At the time of the announcement, ESTAVIS AG held residential property portfolios in Berlin, Leipzig and Chemnitz comprising some 2,100 residential units and holds an interest in a successfully operating company in residential privatisation. On 11 March 2014, the exchange ratio was set as follows: 25 ESTAVIS shares correspond to 14 ADLER shares. Each ESTAVIS AG shareholder is accordingly authorised to exchange 25 ESTAVIS AG shares for 14 new ADLER shares from the capital increase for contributions in kind. This yields an implied value of EUR 2.19 per ESTAVIS share at EUR 3.91 per ADLER share (according to the minimum price in accordance with § 31 Para. 1 of the Securities Acquisition and Takeover Act (WpÜG) and § 5 Para. 1 of the Offer Regulations of the Securities Acquisition and Takeover Act (WpÜG-AV)).

Against the sales-weighted three-month average of ESTAVIS AG shares for the period until and including 9 February 2014, which is also the minimum price in accordance with § 31 Para. 1 WpÜG, § 5 Para. 1 WpÜG-AV, this implies a premium of 8.41 percent. The underlying ADLER share price of EUR 3.91 also corresponds to the maximum price in accordance with the WpÜG-AV. On 22 April 2014, the extraordinary General Meeting of ADLER shall resolve on the respective capital increase for contributions in kind.

A takeover of the majority of ESTAVIS shares offers ADLER the opportunity of full consolidation. With ESTAVIS, ADLER would be taking another big step toward expansion, given that ESTAVIS announced on 10 March 2014 that it has acquired a portfolio of some 4,300 residential properties.

The only remaining event is the conclusion of financing agreements in February 2014. ADLER was able to use the currently favourable interest rates to borrow EUR 92 million with a fixed rate for ten years. With that, most of ADLER's current liabilities to banks (89 percent) are long-term and at low interest rates, meaning the Company is protected from interest rate fluctuation in the mid-term.

With the decision of principle taken by the Management Board and Supervisory Board on 28 March 2014, ADLER successfully placed another corporate bond with a volume of EUR 50 million. The bond placement was conducted purely as a private placement exclusively for qualified investors in Germany and certain other countries with the exception of the USA, Canada, Australia and Japan.

The new corporate bond of ADLER Real Estate has a term of five years and a coupon of 6.00 percent p.a. Interest payments are semi-annual. The net offering proceeds are to be used for ADLER's ongoing growth and mainly to finance the acquisition of residential real estate, residential real estate portfolios and interests in real estate companies.

5. RISK AND OPPORTUNITIES REPORT

Risk Management

In order to secure the Group's further development and growth, ADLER is constantly seeking new opportunities. Risks may have to be taken in order to take advantage of opportunities. To deal with risks on a professional basis it is necessary to recognise, assess and monitor all aspects. ADLER has implemented a central risk management system to identify, measure, manage and monitor all major risks concerning the Group.

The risk management system is tailored to the currently manageable size of the Company with flat hierarchies. Within this organisational structure, the Management Board is responsible for the early detection of risks. Furthermore a risk management report for the Supervisory Board is created.

Reporting is a key element of this system, which is constantly monitored and developed.

The reports focus on the key figures of occupancy and sales, cash flow, liquidity and balance sheet figures. Deviations or arising risks, which could potentially endanger the continued existence of the Company are thereby detected at an early stage and the necessary countermeasures taken. Moreover, the section of the Company handbook dedicated to risk management is updated whenever necessary.

Key Risks:

Market Risks

Until the realignment of the operating business, ADLER's core business was the acquisition of property, property development and its subsequent sale. Since it implemented its operational realignment in 2012, the property held in portfolios continues to be developed and sold. Since the beginning of reporting year 2013 at the latest, the focus of the Company's activities is on the acquisition of residential property portfolios and maintaining and optimising portfolios. ADLER can also generate additional economic success by liquidating the remaining property from the time before the realignment. However, liquidation depends on obtaining planning permission as a key step to increasing the value of land, which in turn is dependent on the public will (preparation of construction and/or land-use plans). Moreover, liquidation is subject to the development of real estate markets.

Economic developments and developments in employment, interest rates and inflation all have a huge impact on ADLER's core business of managing and maintaining real estate and increasing its portfolio. The factors also greatly affect selling and rental income. Social developments in various regions can also influence supply and demand and subsequently prices and rents. Immigration is also a social development as is the specific demand of real estate by an increasing number of people living alone or older people.

The German real estate market is furthermore characterised by cyclical fluctuation and intense competition. It is also subject to the legal and tax environment, local politics and the local authorities' working methods. In order to counteract market risks, the business environment and competitive situation are constantly monitored and analysed. This includes the general trends in terms of the demand for space and features as well as price and quality. Regional and product-specific diversification of projects as well as adapting them to ever changing conditions will reduce market fluctuation risks.

Market risks also arise in the rental market, particularly when the economy slumps, which leads to a stagnation or decline in rental income. A stagnant or receding economy also leads to an increase in unemployment, which curtails tenants' financial means. Moreover, a decline in disposable income, be it due to unemployment, higher taxes, tax adjustments or an increase in utility prices, could have an adverse effect on ADLER's business by way of lower new rentals, lower prices for new rentals and rising vacancy rates.

Price Change Risks

Until the realignment of its operating activities, ADLER generated most of its revenues through property sales.

ADLER's future business success depends on its ability to sell properties in its current portfolio at profitable conditions. It will also mainly depend on whether the Company can increase its residential property portfolio and manage, optimise, rent and sell it successfully.

Financial Risks

ADLER is exposed to various financial risks as a result of its business activities. This includes market risks (foreign currency risk, interest risk, market price risk), default risks and liquidity risks.

The Group's overall risk management is focused on the unpredictability of financial markets and aims to minimise potential adverse effects on the Group's financial position. The Group would use selected derivative financial instruments, if required, in order to hedge against certain risks.

Risk management is conducted through the central finance department in accordance with the guidelines issued by the Management Board. The finance department identifies, evaluates and hedges financial risks in close cooperation with the Group's operating units. The Management Board also determines the principles for Group-wide risk management and issues guidelines for specific areas including the handling of foreign currency, interest and credit risks, the use of derivative and non-derivative financial instruments as well as the investment of liquidity surpluses.

Market risk: Markets risks can result in fluctuations in results, equity and cash flow. In order to limit or eliminate these risks, ADLER has developed various hedging strategies, which also involve the use of derivative financial instruments when required.

A foreign currency risk exists when future business transactions, capitalised assets or debts are denominated in a currency which is not the functional currency of the company. The ADLER Group's business activities are largely focused on the Euro Zone.

Interest rate risk: The Company is exposed to interest rate risks in the Euro Zone only. The interest rate risk is divided between the market value interest rate risk and the cash flow interest rate risk.

Fixed-income medium to long-term assets and liabilities always bear a market value interest rate risks, i.e. the potential change in the fair value of a financial instrument due to changes in market interest rates.

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

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

Default risk: The default risk emerges from the risk that the contractual partner fails to fulfil its payment obligations. The maximum default risk is reflected in the carrying amount of the original and derivative financial assets plus the issued financial guarantees.

There are regulations to ensure that transactions are only conducted with business partners who have demonstrated adequate payment practices in the past. Contracts for derivative financial instruments and financial transactions are only concluded with financial institutions with the highest credit ratings. The Group pursues a business policy which limits its credit risk with regard to the individual financial institutions. The Group does not face any significant concentration of potential credit risks.

Liquidity risk: Liquidity risks come in the form of potential financial constraints and a subsequent rise in financing costs. ADLER primarily generates its liquidity from net rents of acquired real estate portfolios and the sale of land which no longer belongs to the core business, meaning that a constant inflow of cash is not yet guaranteed, given the size of the existing portfolio. For this reason, conservative cash management includes maintaining an adequate cash reserve, the availability of adequate financing through confirmed lines of credit and the ability to issue securities at the market. ADLER maintains a Group-wide cash management system, the object of which is to ensure that the Group can fulfil its payment obligations at all times by maintaining adequate cash reserves and optimising internal liquidity pooling.

Operating Risks and Opportunities

Upon acquisition of real estate, the quality of the location and the development potential are evaluated. With regard to the residential property portfolio, the Group continuously monitors the economic environment in order to be able to detect any deterioration at an early stage and thereby prevent the related risks where possible. In order to prevent and identify defects, surveyors, architects and other external advisors are consulted to quickly remove the deficiencies through appropriate action or diminish their impact. If possible and economically acceptable, risks are limited or excluded through insurance.

The most promising economic opportunities arise from higher rental income than planned at constantly low interest rates. Both leads to higher selling prices for real estate as well as higher market values.

Overall, the Management Board does not see any risks to the Company as a going concern.

Specific Accounting-related Risks

Specific accounting-related risks can arise, for example, from the conclusion of unusual or complex transactions, particularly at the end of the financial year. Business transactions which are not conducted on a regular basis also entail latent risks. The discretion necessarily granted to employees for the recognition and valuation of assets and liabilities can also result in accounting-related risks. These risks are countered through timely and close cooperation with the controlling, finance and accounting departments and auditors.

Key Features of the Internal Control and Risk Management System

Definition and Elements of the Internal Control and Risk Management System

The internal control system of ADLER Real Estate AG comprises all principles, procedures and measures aimed at ensuring the efficiency, reliability and accuracy of accounting practices and compliance with the relevant legal requirements in order to convey a true and fair view of the Company's position. ADLER Real Estate AG's internal control system consists of an internal management and monitoring system.

The elements of ADLER Real Estate's internal monitoring system include process-integrated and process-independent monitoring measures. Besides manual process controls (e.g. the principle of dual control), automated IT process controls are a key element of process-integrated measures. Moreover, Group instructions and accounting rules determine how the respective regulations are to be applied within the ADLER Group.

As part of its business activities, ADLER Real Estate AG and the Group are exposed to numerous risks which could have a negative impact on the Company's development. The aim is to detect these risks as early as possible and successfully manage them. This is achieved through the existing risk management system, which identifies, analyses, manages and monitors potential risks. It is being constantly and systematically improved. It is therefore possible to implement measures in good time, minimise or prevent negative effects and reflect them in the accounting where appropriate. In this manner ADLER Real Estate AG ensures that a true and fair picture of the Company is conveyed. The Group differentiates between market risks, financial risks and technical risks.

In the period under review no risks were detected which could threaten the Company's existence or have any major impact on the financial, earnings and liquidity position of ADLER Real Estate AG and the ADLER Group.

The Supervisory Board, the Group auditor and other auditing bodies (e.g. tax auditors) are involved in the internal monitoring system of ADLER Real Estate AG with process-independent auditing activities. In particular the audit of the consolidated financial statements by the Group auditor and the audit of the respective individual financial statements form the key process-independent monitoring measures.

Use of IT Systems

Accounting transactions are recorded centrally as well as locally using the accounting systems of DATEV and SAP. Subsidiary accounting for real estate is recorded locally in certified software systems for property managers. The consolidated financial accounts are prepared using the Lucanet system.

Key Regulation and Controlling Activities for Ensuring Proper and Reliable Group Accounting

The Management Board is responsible for preparing the annual financial statements and the consolidated financial statements as well as the management report and the Group management report. This includes the implementation and maintenance of an accounting-related internal control and risk management system.

The regulation and controlling activities of ADLER Real Estate AG are aimed at ensuring the propriety and reliability of the accounting. A key aspect of this is the systematic separation of various functions within accounting-related processes such as administration, execution, billing and authorisation functions. All available means will continue to be employed in order to ensure the correct recognition, valuation and disclosure of assets and liabilities in the financial statements. The regulation and controlling activities are also aimed at providing reliable and comprehensible information based on the accounting records.

The organisational measures are designed to ensure that company- or Group-wide changes in business activities are recorded in accounting in a timely and appropriate manner. The internal control system ensures that changes in the economic or legal environment of ADLER Real Estate AG and the ADLER Group are duly reflected and that new or amended legal accounting requirements are applied.

For the preparation of the consolidated financial statements of the ADLER Group, the subsidiaries supplement their separate financial statements by entering additional information into the reporting packages and transferring them to a database-driven reporting tool. All figures and data are checked by ADLER Real Estate AG’s controlling department.

The specific controlling activities performed at Group level to ensure proper and reliable Group accounting include the analysis and, where applicable, the correction of the separate financial statements submitted by the Group companies. For this reason, the reporting tools and the Lucanet consolidation system have integrated control mechanisms and plausibility checks.

For Group accounting, the reporting packages of the subsidiaries are transferred to the Lucanet consolidation system, which is certified by independent auditors. This is where all consolidation entries of ADLER Real Estate AG are made and documented.

Overall Assessment of the Risk Situation

ADLER Real Estate AG counters all material risks through appropriate measures and effective controls. ADLER limits the risks to its portfolio of buildings through effective insurance policies. The appropriateness and quality of the insurance protection is constantly monitored and if necessary adjusted by an external team of experts. The Management Board currently sees no risks which the Company is not able to appropriately counter or which could threaten the Company as a going concern.

6. FORECAST REPORT

The conditions for the development of the real estate markets in Germany remain positive at the beginning of the new financial year. According to various reports, the German economy is expected to register stronger growth in 2014 compared to the two previous years. The interest rate development still appears to be favourable. Central banks are keeping to their low interest rate policy. ADLER Real Estate AG began the new financial year with a significantly larger residential property portfolio than in the previous year. In view of the steady rental income, which was according to plan at the time this report was being prepared, the Company generates sufficient income to cover all costs and even generates surplus liquidity. The general development in residential rents also points to a slight increase in B-locations of urban areas, which implies that ADLER’s income from its portfolio and its rental income are likely to remain stable or increase.

ADLER also sees further opportunities in the expansion of its residential portfolio through the furher acquisition of interests in residential property portfolios. The Company is constantly in negotiations in this regard. At the beginning of February 2014, ADLER Real Estate AG announced it had submitted a voluntary takeover bid to the shareholders of ESTAVIS AG, Berlin.

At the end of the reporting year 2013, ADLER already held portfolios comprising around 7,800 residential units. ADLER has therefore clearly exceeded its forecast from the previous year, where it planned to acquire portfolios comprising some 3,000 to 4,000 residential units. Due to the takeover of residential property portfolio investments in and around Helmstedt in early 2014, total portfolio holdings already amount to some 10,140 residential units. Should the takeover of ESTAVIS succeed, this will involve the addition of 2,100 residential units held by ESTAVIS at the end of 2013 plus another 4,300 which ESTAVIS AG has since acquired, as announced on 10 March 2014. The Company also clearly fulfilled its target of achieving positive results in 2013, as stated in the previous year's report.

Besides managing the taken over properties, ADLER will work towards renting vacant residential units through active rental management and thereby increase the occupancy rate of 91 percent achieved at the end of 2013. Various investment programmes will contribute to improving the residential offering as was already determined in the budgets for the takeover or participation in the portfolios. The measures will also help to increase the income from the residential property portfolio as well as its value.
In the new financial year, ADLER will continue its acquisition strategy, which depends on the portfolios available on the market fulfilling ADLER's acquisition criteria as well as the successful implementation of other capital measures. The aim is nonetheless the continued expansion of the portfolio on a similar scale as in 2013. The future development of results will depend on the successful execution of acquisitions. In view of the acquisitions conducted at the beginning of 2014 and in the event of the successful takeover of ESTAVIS AG, ADLER could achieve a significant increase in results based on continued fair value measurements. Adjusted EBITDA, which is primarily derived from the management of residential portfolio, is likely to see a sharp improvement on the back of the expansion of the real estate portfolio and increasing rental income.

Frankfurt am Main, 28 March 2014

Harloff

Axel Harloff
Management Board

Consolidated Balance Sheet

(IFRS) as at 31 December 2013

In EUR	Note	31.12.2013	31.12.2012
			*adjusted**
Assets		**460,887,915.29**	**43,764,644.05**
Non-current assets		**423,059,975.84**	**20,627,770.09**
Intangible assets	7.1	6,517.00	0.00
Property, plant and equipment	7.1	40,620.88	43,445.80
Investment properties	7.2	417,865,000.00	14,450,000.00
Loans to associated companies	7.3	1,135,610.22	1,579,410.22
Investments in associated companies	7.4	3,460,123.54	3,672,468.01
Deferred tax claims	7.5	552,104.20	882,446.06
Current assets		**37,827,939.45**	**23,136,873.96**
Inventories	7.6	18,848,052.78	19,559,156.33
Trade receivables	7.7	3,390,788.71	2,206,001.32
Income tax claims	7.7	19,254.86	13,468.71
Other current assets	7.7	9,696,321.44	273,770.61
Cash and cash equivalents	7.8	5,873,521.66	1,084,476.99

In EUR	Note	31.12.2013	31.12.2012
			*adjusted**
Equity and liabilities		**460,887,915.29**	**43,764,644.05**
Shareholders' equity		**86,945,292.35**	**26,449,220.20**
Capital stock	7.9	16,547,824.00	15,000,000.00
Own shares	7.9	0.00	–810,099.00
		16,547,824.00	14,189,901.00
Capital reserve	7.10	13,131,497.03	8,255,298.15
Earnings reserves	7.11	160,273.68	105,623.67
Currency translation reserve	7.12	–59,014.98	–10,830.99
Retained profit		42,554,317.36	3,791,273.55
Minority interests	7.13	14,610,395.26	117,954.82
Non-current liabilities		**340,947,837.89**	**10,557,336.47**
Pension reserves	7.14	724,200.00	826,013.00
Accounts payable for deferred taxes		15,570,068.85	366,410.40
Other provisions and accrued liabilities	7.15	65,489.11	70,345.81
Accounts payable from convertible bonds	7.16	18,381,947.50	0.00
Accounts payable from bonds	7.17	33,283,001.99	0.00
Financial liabilities to banks	7.18	271,567,080.46	9,294,567.26
Other non-current liabilities	7.19	1,356,049.98	0.00
Current liabilities		**32,994,785.05**	**6,758,087.38**
Other provisions and accrued liabilities	7.15	204,683.00	235,725.43
Income tax liabilities	7.20	411,813.74	351,353.61
Accounts payable from convertible bonds	7.16	16,097.97	0.00
Accounts payable from bonds	7.17	2,290,582.20	0.00
Financial liabilities to banks	7.18	3,686,624.31	4,975,587.82
Trade payables	7.20	5,953,023.41	723,766.31
Other current liabilities	7.20	20,431,960.42	471,654.21

* The previous year's figures were adjusted due to the implementation of IAS 19 (revised 2011). Please refer to note 5.16 for details.

Consolidated Statement of Income and Accumulated Earnings

for the period from 1 January to 31 December 2013

In EUR	Note	2013	2012
			*adjusted **
Revenues	8.1	19,235,498.53	5,719,430.46
Changes in inventories	8.2	–762,035.55	–3,137,507.50
Other operating income	8.3	154,596.45	2,195,943.22
Income from fair value adjustments to investment properties	8.4	59,613,109.11	1,071,728.39
Total operating income		**78,241,168.54**	**5,849,594.57**
Cost of materials	8.5	–10,234,011.42	–1,352,110.40
Personnel expenses	8.6	–1,188,698.80	–943,837.63
Depreciation and allowances	8.7	–15,160.89	–10,047.46
Other operating expenses	8.8	–2,403,297.54	–1,033,066.81
Expenses from fair value adjustments to investment properties	8.4	–67,374.36	–104,458.91
Net income from associated companies measured at equity	8.9	6,562,100.13	–1,325,661.23
Net operating income		**70,894,725.66**	**1,080,412.13**
Interest income	8.10	813,839.68	582,777.66
Financing costs	8.10	–8,691,865.07	–615,065.84
Earnings before taxes		**63,016,700.27**	**1,048,123.95**
Taxes on income	8.11	–16,140,671.49	–530,183.73
Consolidated result		**46,876,028.78**	**517,940.22**
Actuarial gains/losses before taxes	7.14	80,694.00	–100,000.00
Deferred taxes on actuarial gains/losses	7.14	–26,043.99	32,275.00
Gains/losses that cannot be reclassified		**54,650.01**	**–67,725.00**
Net income from currency translation	7.12	–48,184.00	–27,598.83
Gains/losses that can be reclassified		**–48,184.00**	**–27,598,83**
Net result		**46,882,494.79**	**422,616.39**
Of the consolidated result attributable to:			
Shareholders of the parent company		38,763,043.82	491,255.74
Minority interests		8,112,984.96	26,684.48
Of the net result attributable to:			
Shareholders of the parent company		38,769,509.83	395,931.91
Minority interests		8,112,984.96	26,684.48
Earnings per share, undiluted	8.12	2.57	0.03
Earnings per share, diluted	8.12	2.23	0.03

* The previous year's figures were adjusted due to the implementation of IAS 19 (revised 2011). Please refer to note 5.16 for details.

Consolidated Cash Flow Statement

(IFRS) for the period from 1 January to 31 December 2013

	In EUR	**2013**	**2012**
			*adjusted**
	Net operating income	70,894,726	1,080,412
+	Depreciation on fixed assets	15,161	10,047
–/+	Income/expenses with no effect on cash flow	–58,643,809	–1,639,238
–	Decrease in provisions and accrued liabilities	–172,230	–73,221
–/+	Increase/decrease in inventories, trade payables and other assets not attributable to financing activity	–174,217	1,333,547
–/+	Increase/decrease in trade payables and other liabilities not attributable to investment or financing activity	–997,416	–191
+	Interest payments received	11,697	16,183
+/–	Tax payments	–23,175	–274,457
=	**Net cash flow from current business activity**	**10,910,736**	**453,084**
–/+	Acquisition of investment properties, less net cash and cash equivalents acquired	–92,457,346	–1,149,303
–/+	Sale of investment properties, less net cash and cash equivalents sold	2,418,119	0
–	Payments made for investments in property, plant and equipment	–6,514	–17,592
–	Payments made for investments in investment properties	–396,822	–2,294,459
–	Payments made for short-term investments	–3,730,000	0
–	Payments made for investments in financial assets	–25,633	–72,294
=	**Net cash flow from investment activity**	**–94,198,195**	**–3,533,648**
–	Payments made for expenses relating to equity contributions	–62,821	0
+	Payments received from equity contributions	3,600,000	0
–	Payments made for the purchase of own shares	0	–1,022,485
+	Payments received from the issuance of convertible bonds	21,250,000	0
+	Payments received from the issuance of bonds	35,000,000	0
–	Payments made for the issuing costs of debt instruments	–2,995,024	0
+	Payments received from third-party loans	5,041,667	0
–	Interest payments made	–4,818,523	–374,826
+	Payments received from bank loans	32,037,896	2,200,012
–	Payments made for the repayment of bank loans	–976,691	–1,121,000
=	**Net cash flow from financing activity**	**88,076,504**	**–318,298**
	Transition to balance sheet		
	Cash and cash equivalents at start of period	**1,084,477**	**4,483,340**
	Net cash flow from operating business activity	10,910,736	453,084
	Net cash flow from investment activity	–94,198,195	–3,533,648
	Net cash flow from financing activity	88,076,504	–318,298
=	**Cash and cash equivalents at end of period**	**5,873,522**	**1,084,477**

* The previous year's figures were adjusted due to the implementation of IAS 19 (revised 2011). Please refer to note 5.16 for details.

Consolidated Statement of Changes in Equity

(IFRS) for business year 2013

in EUR '000	Subscribed capital	Own shares	Capital reserve
As at 1 January 2012	**15,000**	**-72**	**7,715**
Net result	0	0	0
Other result – reclassifiable	0	0	0
Other result – non-reclassifiable	0	0	0
Minority interests	0	0	0
Acquisition of own shares	0	–1,062	54
Issue of own shares	0	324	486
As at 31 December 2012, adjusted	**15,000**	**–810**	**8,255**
As at 1 January 2013, adjusted	**15,000**	**-810**	**8,255**
Net result	0	0	0
Other result – reclassifiable	0	0	0
Other result – non-reclassifiable	0	0	0
Minority interests	0	0	0
Capital increase	1,500	0	2,100
Issue of own shares	0	810	885
Convertible bond issue	0	0	1,962
Conversion of convertible bond	48	0	38
Cost of equity procurement (after income taxes)	0	0	–108
As at 31 December 2013	**16,548**	**0**	**13,132**

Figures for 2012 have been adjusted on account of the application of IAS 19 (revised 2011).
Please refer to note 5.16 in the Notes to the Consolidated Financial Statements for details.

Retained profit	Currency translation reserve	Net profit/ lost	Capital and reserves attributable to the shareholders of the parent company	Minority interests	Total equity
173	**17**	**3,300**	**26,133**	**0**	**26,133**
0	0	491	491	27	518
0	–27	0	–27	0	–27
–68	0	0	–68	0	–68
0	0	0	0	91	91
0	0	0	–1,008	0	–1,008
0	0	0	810	0	810
105	**–10**	**3,791**	**26,331**	**118**	**26,449**

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	3,600	0	3,600
0	0	0	1,695	0	1,695
0	0	0	1,962	0	1,962
0	0	0	86	0	86
0	0	0	–108	0	–108
160	**–59**	**42,554**	**72,335**	**14,610**	**86,945**

Notes to the Consolidated Financial Statements for Financial Year 2013

1 GENERAL INFORMATION

ADLER Real Estate Aktiengesellschaft (hereinafter also referred to as: ADLER AG) as the Group's parent company is headquartered at Herriotstrasse 5, Frankfurt am Main, Germany. The Company is registered in the Commercial Register of Frankfurt am Main District Court under register number HRB 7287. The financial year is equal to the calendar year. The Company's administrative address is Alstertor 17, Hamburg, Germany.

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

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

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 26 March 2014, subject to approval by the Supervisory Board.

2 BASIS OF ACCOUNTING

2.1 Principles of Preparing Financial Statements

The consolidated financial statements of ADLER AG as at 31 December 2013 were prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS), as required to be applied in the European Union (EU). The provisions of § 315a Para. 1 of the German Commercial Code (HGB) were also applied. The requirements of the applied standards have been fulfilled and allow the presentation of the actual situation with regard to the financial, earnings and liquidity position.

The financial years of the parent company, the subsidiaries and the associates that are all headquartered in the Federal Republic of Germany – apart from the three investments in the US, Luxembourg and the Netherlands – equal the calendar year.

The consolidated statement of income and accumulated earning was prepared in accordance with the total cost format.

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

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

The consolidated financial statements have been prepared based on historic costs. This does not apply to investment properties, available-for-sale financial assets, individual assets and derivative financial instruments, all of which are measured at fair value.

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

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

2.2 Accounting Standards Applicable for the First Time in Financial Year 2013

The Group applied the following new and revised IFRS and standards in financial year 2013:

Standard/Interpretation	Effective date	Date of EU endorsement
Amendments to standards:		
IAS 1: "Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income"	1 July 2012	6 June 2012
IAS 12: "Income Taxes: Deferred Taxes – Recovery of Underlying Assets"	1 January 2013	29 December 2012
IAS 19: "Employee Benefits (revised 2011)"	1 January 2013	6 June 2012
IFRS 7: "Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities"	1 January 2013	29 December 2012
IASB's Annual Improvement Project 2009–2011	1 January 2013	28 March 2013
New standards:		
IFRS 13: "Fair Value Measurement"	1 January 2013	29 December 2012

Please refer to note 5.16 for details on the effects resulting from the initial application of IAS 19 (revised 2011).

IFRS 13: Fair Value Measurement

New IFRS 13 includes uniform provisions pertaining to the measurement of fair value as well as the required note disclosures on the measurement of fair value that only have a negligible effect on the assets reported in the balance sheet. The new standard results in more extensive note disclosures.

Amendment to IAS 1: Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income

The amendments require a classification of items presented in other comprehensive income into items that might subsequently be reclassified (recycled) to the income statement and items that will not. The deferred taxes related to this item must also be classified. ADLER AG adjusted other comprehensive income accordingly.

Amendment to IAS 12: Income Taxes: Deferred Taxes – Recovery of Underlying Assets

Measurement of deferred taxes depends on whether the carrying amount of an asset is recovered through use or sale. The amendment to IAS 12 gives rise to a mandatory exemption for investment property. The amended IAS 12 means that there is a rebuttable presumption that the tax rate resulting from a disposal will be applied.

As a result, the tax rate applied by ADLER AG in the year under review – as in previous years – comprised corporation tax plus the solidarity surcharge as well as a flat-rate trade tax.

IASB's Annual Improvement Project 2009–2011

In June 2011, the IASB issued a draft of its fourth annual collective standard for making necessary amendments to five standards. These amendments are intended to eliminate ambiguities in existing IFRS. Unless stated otherwise, the proposed amendments will be prospectively applicable as at 1 January 2013. Clarifications were made to the following areas: requirements regarding voluntary comparative information (IAS 1), classification of servicing equipment as inventories or as property, plant and equipment (IAS 16), income tax implications of distributions to holders of equity instruments and of transaction costs of equity transactions (IAS 32 and IAS 12), disclosure of segment information in interim reports (IAS 34).

With the exception of extended note disclosures, the new accounting standards have no material effect on the Group's financial, earnings and liquidity position.

2.3 Accounting Standards that have been Approved by the IASB but not yet been Applied

The following new accounting amendments approved by the IASB, but largely not yet adopted by the EU, were not taken into account in financial year 2013 as there was no obligation to do so:

Standard/Interpretation	Effective date	Date of EU endorsement
IFRS 10: "Consolidated Financial Statements"	1 January 2014	29 December 2012
IFRS 11: "Joint Arrangements"	1 January 2014	29 December 2012
IFRS 12: "Disclosures of Interests in Other Entities"	1 January 2014	29 December 2012
Amendment to IFRS 10, IFRS 11 and IFRS 12: "Consolidated Financial Statements", "Joint Arrangements" and "Disclosure of Interests in Other Entities": transitional guidelines	1 January 2014	5 April 2013
IAS 27: "Separate Financial Statements (revised)"	1 January 2014	29 December 2012
IAS 28: "Investments in Associates and Joint Ventures (revised)"	1 January 2014	29 December 2012
Amendment to IAS 32: "Financial Instruments – Presentation – Offsetting Financial Assets and Financial Liabilities"	1 January 2014	29 December 2012
Amendment to IFRS 10, IFRS 12 and IAS 27: "Separate Financial Statements – Exception to Consolidation Requirements for Investment Entities"	1 January 2014	20 November 2013
Amendment to IAS 36: "Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets"	1 January 2014	19 December 2013
Amendment to IAS 39: "Novation of Derivatives"	1 January 2014	19 December 2013
Amendment to IAS 19: "Employee Benefits: Employee Contributions"	1 July 2014	open
IASB's Annual Improvement Project 2010–2012	1 July 2014	open
IASB's Annual Improvement Project 2011–2013	1 July 2014	open
IFRS 9: "Financial Instruments – Classification and Measurement of Financial Assets"	open	open

IFRS 10 "Consolidated Financial Statements"

IFRS 10 introduces a single definition for the concept of control for all entities, thus creating a standard basis for determining whether a parent-subsidiary relationship exists and should be included in the scope of consolidation. The standard contains comprehensive guidance for determining whether control exists. It completely replaces SIC-12 "Consolidation – Special Purpose Entities" and partly replaces IAS 27 "Consolidated and Separate Financial Statements". The application of this standard has no material effect for the Group.

IFRS 11 "Joint Arrangements"

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

IFRS 12 "Disclosure of Interests in Other Entities"

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

Amendment to IFRS 10, IFRS 11 and IFRS 12: "Consolidated Financial Statements", "Joint Arrangements" and "Disclosure of Interests in Other Entities": transitional guidelines

This amendment permits easement for the initial application of IFRS 10, IFRS 11 and IFRS 12.

IAS 27 "Separate Financial Statements" (revised)

Following the new IFRS 10, the amended IAS 27 now only includes provisions relevant when separate financial statements according to IFRS are presented.

IAS 28 "Investments in Associates and Joint Ventures" (revised)

The amended IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

Amendment to IAS 32: "Financial Instruments – Presentation – Offsetting Financial Assets and Financial Liabilities"

The IASB issued an amendment to the guidance on the application included in IAS 32 "Financial Instruments: Presentation" so as to clarify some of the requirements for the offsetting of financial assets and financial liabilities in the balance sheet. In principle, the amendments have no effect on the current offsetting model.

The amended requirements demand more extended information; the scope of the quantitative information in particular has been extended. In addition to financial instruments offset in the balance sheet pursuant to IAS 32, the new note disclosures also affect financial instruments that are only subject to certain settlement agreements, irrespective of whether they are in fact offset in the balance sheet.

Amendment to IFRS 10, IFRS 12 and IAS 27: "Investment Companies"

An entity must meet three criteria and possess four additional typical characteristics in order to be deemed an investment company. An investment company does not consolidate its subsidiaries unless the subsidiary only renders services for investment activities. Pursuant to IFRS 9 (and IAS 39), an investment company measures its subsidiaries at fair value through profit or loss. The parent company of an investment company, which does not met the criteria of an investment company, must consolidate the investment company and its subsidiaries. The fair value measurements conducted by subsidiaries can therefore not be retained. The Group does not expect the application of this standard to have a material effect.

Amendment to IAS 36 "Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets"

The adoption of IFRS 13 "Fair Value Measurement" resulted in a subsequent amendment to IAS 36 so that disclosures need to be made regarding impaired assets. Disclosures have to be made for all cash-generating units if they contain a substantial portion of goodwill, regardless of whether they are impaired or not. With the amendment now made to IAS 36, this requirement is restricted only to those cases where there is an actual impairment in the current period. Furthermore, the amendments clarify the disclosure requirements in the event that an asset is impaired and the recoverable amount has been determined on the basis of its fair value less disposal costs. The amendment to the standard is likely to lead to expanded note disclosures.

Amendment to IAS 39: Novation of Derivatives

In response to the new derivative trading rules under the European Market Infrastructure Regulation (EMIR) introduced due to the tougher regulation of the derivatives market worldwide, the IASB issued narrow scope amendments to IFRS 9 and IAS 39 on the recognition of financial instruments. Previously, novation to a central counterparty required the discontinuation of hedging relationships if a derivative was the hedging instrument. The amendment provides for the continuation of the original hedging relationship subject to certain conditions and should help avoid ineffectiveness for cash flow hedges. Novation to a counterparty must happen as a consequence of laws or regulations. In addition, any changes to the contract terms must be limited to those areas that are required for the novation. Following the novation, the central counterparty must become the new counterparty to each of the parties to the derivative. The Group does not expect the amendment to have a material effect on its financial, earnings and liquidity position.

Amendment to IAS 19: Defined Benefit Plans: Employee Contributions

The amendment is intended to provide relief by allowing entities to deduct employee or third-party contributions to defined benefit plans in the period in which service is rendered. If the employee contributions are independent of the number of years of service, they can be recognised as a reduction of the service cost in the period in which the service is rendered. Otherwise, the employee contributions are attributed to the years of service in accordance with the plan's benefit formula.

IASB's Annual Improvement Project 2010–2012

In December 2013, the IASB issued a draft of its annual collective standard for making necessary amendments to four standards. These amendments are intended to eliminate ambiguities in existing IFRS. Clarifications were made to the following areas: requirements regarding share-based payment (IFRS 2), business combinations (IFRS 3), segment reporting (IFRS 8), fair value measurement (IFRS 13), property, plant and equipment and intangible assets (IAS 16 and IAS 38) as well as related party disclosures (IAS 24).

IASB's Annual Improvement Project 2011–2013

In December 2013, the IASB issued a draft of its annual collective standard for making necessary amendments to four standards. These amendments are intended to eliminate ambiguities in existing IFRS. Unless stated otherwise, the proposed amendments will be prospectively applicable as at 1 January 2014. Clarifications were made to the following areas: initial adoption of IFRS (IFRS 1), business combinations (IFRS 3), fair value measurement (IFRS 13) as well as investment property (IAS 40).

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

IFRS 9 shall completely replace previous IAS 39 "Financial Assets: Classification and Measurement". The published version of IFRS 9 no longer includes an effective date, as certain phases of the project are still awaiting completion. In November 2013, the IASB tentatively decided that the mandatory effective date of IFRS 9 would be no earlier than 1 January 2017.

Due to the postponement of the effective date to 1 January 2017 at the earliest and the fact that adoption of the standard by the EU has not yet been recommended, the Group has not yet performed an in-depth evaluation of the potential effects of IFRS 9.

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

3 CONSOLIDATION PRINCIPLES

3.1 Subsidiaries

Subsidiaries are all companies (including special purpose entities), whose financial and operating policies are controlled by ADLER AG; regularly accompanied by a majority of voting rights of more than 50%. When assessing whether there is control or not, the existence and effects of potential voting rights that are currently exercised or are convertible, are taken into account.

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

All material subsidiaries are included in the consolidated financial statements (see note 4. Scope of Consolidation and List of Shareholdings). If shares in subsidiaries are considered to be of subordinate significant from a Group perspective, they are reported as available-for-sale financial assets.

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

The shares in the net assets of subsidiaries that are not attributable to ADLER AG are shown as a separate component of equity under non-controlling interests. The effects of purchase accounting recognised directly in the income statement are also included in calculating the share in the consolidated result attributable to minorities. Minority 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 real estate (asset deal). The cost of the real estate company is allocated to the individual identifiable assets and liabilities based on fair values. The acquisition of real estate companies therefore does not result in positive or negative goodwill from capital consolidation.

The following companies were fully consolidated – pursuant to IFRS 3 – for the first time in the consolidated financial statements as at 31 December 2013:

- MBG Erste Vermögensverwaltungs GmbH
- Magnus zweite Immobilienbesitz und Verwaltungs GmbH

These companies were both founded in 2013.

3.2 Associates

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

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

A 49 percent interest in an associate acquired in 2013, MBG Portfoliogesellschaft GmbH, was disposed of effective 31 December 2013 as ADLER AG will only focus long-term on investments that can be managed autonomously and optimised by a majority interest. MBG Portfoliogesellschaft held a 94.9 percent interest in Alemory 39. Grundstücks GmbH (previously: arsago wohnen IX GmbH), which had a real estate portfolio containing approximately 1,300 residential units as at the date of sale.

There were no other changes to the scope of associates.

3.3 Real Estate Companies

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

The following real estate portfolios were acquired in 2013 via real estate companies:

- The "Magnus" portfolio with Magnus Immobilienbesitz und Verwaltungs GmbH as the interim holding company and WBR Wohnungsbau Rheinhausen GmbH as the real estate company. ADLER AG holds a 100 percent interest in Magnus Immobilienbesitz und Verwaltungs GmbH via a subsidiary; in turn, Magnus Immobilienbesitz und Verwaltungs GmbH holds a 94.9 percent interest in WBR Wohnungsbau Rheinhausen GmbH. WBR Wohnungsbau Rheinhausen GmbH has 4,291 residential and 6 commercial units with a total area of 268,826 m².

- The "Cato" with MBG Zweite Vermögensverwaltungsgesellschaft mbH as the interim holding company and Cato Immobilienbesitz und -verwaltungs GmbH as the real estate company. ADLER AG holds a 100 percent interest in MBG Zweite Vermögensverwaltungsgesellschaft mbH via a subsidiary; in turn, MBG Zweite Vermögensverwaltungsgesellschaft mbH holds a 74.9 percent interest in Cato Immobilienbesitz und -verwaltungs GmbH. Cato Immobilienbesitz und -verwaltungs GmbH has 1,201 residential and 6 commercial units with a total area of 72,226 m².

- The "SIG RE" portfolio with S.I.G RE B.V. as the interim holding company and Resident Baltic GmbH, Resident Sachsen P&K GmbH and Resident West GmbH as the real estate companies. As at the reporting date, ADLER AG held a 52.8 percent interest in S.I.G RE B.V. via a subsidiary; in turn, S.I.G RE B.V. holds a 94.8 percent interest in the real estate companies. This portfolio includes 1,743 residential and 133 commercial units with a total area of 122,678 m².

- The "Schwelm" portfolio with MBG Schwelm GmbH as the real estate company. This portfolio includes 197 residential units with total space of approximately 14,893 m².

The underlying purchase prices for the real estate in this real estate portfolio total EUR 350,585,000. These are offset by assumed bank liabilities of EUR 204,288,000 and other assets and liabilities of net EUR -50,308,000.

One real estate company acquired in the previous year, RS 23 Berlin – Objektverwaltungs GmbH, in which ADLER AG held a 94 percent interest, was disposed of in the reporting year. The sales price amounted to EUR 2,463,000.

4 SCOPE OF CONSOLIDATION AND LIST OF SHAREHOLDINGS

Including the parent company, the scope of consolidation includes a total of 22 fully-consolidated companies (previous year: 20).

Pursuant to the explanations given above, a total of eight (previous year: three) real estate companies and three (previous year: zero) interim holding companies were included in the consolidated financial statements.

Two (previous year: two) associates are recognised at equity. Three (previous year: three) associates recognised at equity are not included for reasons of materiality.

The shareholdings of ADLER AG as at 31 December 2013 were as follows:

No.	Company	Headquarters	Share-holding in %	Held by No.
	Associates fully consolidated pursuant to IFRS 3			
1	ADLER Real Estate AG (parent company)	Frankfurt/Germany		
2	ADLER Real Estate Service GmbH	Hamburg/Germany	100.0	1
3	Verwaltungsgesellschaft ADLER Real Estate mbH	Hamburg/Germany	100.0	1
4	Verwaltungsgesellschaft Erste ADLER RE mbH	Hamburg/Germany	100.0	5
5	Erste ADLER Real Estate GmbH & Co. KG 1)	Hamburg/Germany	100.0	1
6	Dritte ADLER Real Estate GmbH & Co. KG 1)	Hamburg/Germany	100.0	1
7	Achte ADLER Real Estate GmbH & Co. KG 1)	Hamburg/Germany	100.0	1
8	Adler Real Estate Properties GmbH & Co. KG 1)	Hamburg/Germany	100.0	1
9	Adler Projekt Homburg GmbH	Hamburg/Germany	100.0	1
10	MÜBAU Real Estate GmbH	Hamburg/Germany	100.0	1
11	ADLER Lux SarL	Luxembourg/Grand Duchy of Luxembourg	100.0	1
12	Adler US Real Estate GmbH	Hamburg/Germany	100.0	1
13	Adler McKinney LLC	McKinney/USA	100.0	12
14	Münchener Baugesellschaft mbH	Hamburg/Germany	100.0	1
15	MBG Beteiligungsgesellschaft mbH & Co. KG 1)	Hamburg/Germany	94.9	14
16	MBG Dallgow GmbH & Co. KG 1)	Hamburg/Germany	100.0	14
17	MBG Großbeeren GmbH & Co. KG 1)	Hamburg/Germany	100.0	14
18	MBG Trachau GmbH & Co. KG 1)	Hamburg/Germany	100.0	14
19	MBG Moosburg GmbH & Co. KG 1)	Hamburg/Germany	100.0	14
20	MBG Wohnbau Verwaltungsgesellschaft mbH	Hamburg/Germany	100.0	14
21	MBG Erste Vermögensverwaltungs GmbH	Hamburg/Germany	100.0	14
22	Magnus zweite Immobilienbesitz und Verwaltungs GmbH	Hamburg/Germany	100.0	14

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

No.	Company	Headquarters	Share-holding in %	Held by No.
	Associates consolidated pursuant to note 3.3			
23	MBG Zweite Vermögensverwaltungs GmbH	Hamburg/Germany	100.0	14
24	Cato Immobilienbesitz und -verwaltungs GmbH	Hamburg/Germany	74.9	23
25	Magnus Immobilienbesitz und Verwaltungs GmbH	Hamburg/Germany	100.0	14
26	WBR Wohnungsbau Rheinhausen GmbH	Hamburg/Germany	94.9	25
27	S.I.G. RE B.V.	Amsterdam/The Netherlands	52.8	21
28	Resident Baltic GmbH	Berlin/Germany	94.8	27
29	Resident Sachsen P&K GmbH	Berlin/Germany	94.8	27
30	Resident West GmbH	Berlin/Germany	94.8	27
31	MBG Schwelm GmbH	Hamburg/Germany	94.9	14
32	MBG Lüdenscheid GmbH	Hamburg/Germany	94.9	14
			5.1	15
33	MBG Dorsten GmbH & Co. KG [1)]	Hamburg/Germany	100.0	14
	Associates consolidated at equity			
34	Airport Center Luxembourg GmbH	Luxembourg/Grand Duchy of Luxembourg	10.0	1
35	Worthing Lake Forest Investors LLC	Atlanta/USA	30.0	13
	Companies not consolidated at equity for reasons of materiality			
36	MRT (Mountleigh Roland Ernst) B.V.	Rotterdam/The Netherlands	50.0	1
37	Stovago B.V.	Rotterdam/The Netherlands	50.0	1
38	DB Immobilien GmbH	Heidelberg/Germany	29.0	1

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

The companies not included in the consolidated financial statements for reasons of materiality are classified as assets held for sale. The carrying amount of the shareholdings as at 31 December 2013 amounted to EUR 0,000 (previous year: EUR 0,000) and therefore corresponds to fair value.

5 SEPARATE RECOGNITION AND MEASUREMENT PRINCIPLES

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 should be tested for possible impairment as soon as there are indications of impairment. Impairments of intangible assets are recognised in profit or loss within the depreciation and amortisation of intangible assets.

Property, plant and equipment is recognised at cost, less cumulative scheduled depreciation and cumulative impairment losses. Costs include expenses directly attributable to the acquisition. Repairs and maintenance are recognised in profit or loss in the statement of comprehensive income in which they are incurred.

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

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

5.2 Investment Properties

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

Upon acquisition, investment properties are valued at cost including ancillary purchase costs. In subsequent reporting periods, investment properties are reported at fair value.

The fair value of the real estate corresponds to the price at which the real estate could be exchanged between knowledgeable, willing parties in an arm's length transaction. Fair value reflects market conditions at balance sheet date and takes account of existing leases and appropriate and representative estimates of future leases and rental income.

The fair values of investment properties are determined on the basis of expert opinion prepared by external experts based on current market data and using internationally recognised valuation methods. The discounted cash flow and the income capitalisation methods are used pursuant to the German Property Valuation Ordinance (ImmoWertV); please also refer to our disclosures on valuation methods under note 7.2.

Changes to fair value are reported as a separate item in the consolidated statement of income and accumulated earning.

When an investment property is sold, it is valued at its selling price at the disposal date and the difference between the previous carrying amount in the income statement is reported in the income/expenses from fair value adjustment to investment properties item.

5.3 Impairment of Assets

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

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.

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.

Assets at Fair Value through Profit or Loss

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

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

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

Loans and Receivables

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

Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method and less impairment losses. The effective interest method is only applied if the receivable has a maturity of more than twelve months. An impairment is recorded when there are objective and substantial indication that the amounts due are not fully recoverable. The age structure of the assets forms the basis of this method.

Impairment is measured in terms of the difference between the carrying amount of the receivable and the net present value of the estimated future cash flows from this receivable, discounted using the effective interest rate. The impairment loss is recognised through profit or loss as other operating expenses.

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

Available for Sale Assets

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

5.5 Derivative Financial Instruments and Hedges

The Group only uses interest rate hedges.

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

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

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

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

5.6 Inventories

Real estate acquired exclusively with a view to subsequent disposal in the near future or for development and resale are reported as inventories. Inventories are carried at the lower of cost or net realisable value. The costs reported at ADLER AG under inventories include costs for project development, as well as raw materials, consumables and supplies if required, direct personnel costs, other direct costs and general costs directly attributable to the project. The net realisable value is comprised of the estimated selling price less estimated costs incurred until completion and the estimated required disposal costs.

5.7 Cash and Cash Equivalents

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

5.8 Shareholders' Equity

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

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

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

5.9 Pension Reserves

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

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

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

5.10 Other Provisions and Accrued Liabilities

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

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

5.11 Liabilities

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

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

5.12 Taxes

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

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

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

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

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

5.13 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.

5.14 Income Recognition

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

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

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

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

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

5.15 Currency Translation

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

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

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

5.16 Changes in Recognition and Measurement Methods

As at 31 December 2013, ADLER AG applied IAS 19 (revised 2011) retrospectively for the first time in accordance with the transitional provisions. The following changes have no or no material impact on the consolidated financial statements:

- Replacing interest rate expenses and expected proceeds from plan assets with a net interest amount
- Immediate recognition through profit or loss of the non-vested past service cost when incurred

In previous years, ADLER AG recognised actuarial gains and losses immediately in profit or loss. This is no longer possible pursuant to IAS 19 (revised 2011). Actuarial gains and losses are now recognised in other comprehensive income. The effects of this are shown in the following tables.

EUR '000 Balance sheet items	31 Dec. 2012 reported	Adjustment	31 Dec. 2012 adjusted
Earnings reserve	173	–68	105
Retained profit	3,724	68	3,792
Comprehensive income	**2012**		**2012**
Other operating expenses	1,133	–100	1,033
Income taxes	498	32	530
Consolidated result	450	68	518
Other comprehensive income	–28	–68	–96
Comprehensive income	422	0	422

6 SIGNIFICANT DISCRETIONARY DECISIONS, ESTIMATES AND ASSUMPTIONS

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

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

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

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

- In addition, estimates were made regarding the net disposal prices of real estate held for sale. Here, ADLER AG also relies on the results of independent experts commissioned for this purpose.

- Deferred taxes: On the basis of current planning, the Management Board 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 available at the time of preparing the financial statements was taken into account.

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

- A decision had to be made as to whether to assign real estate to property, plant and equipment, inventories, or investment properties.

- For the addition of real estate companies, a decision had to be made whether this constitutes the acquisition of business operations. This was not the case for the acquisition of any real estate companies in the reporting period.

7 NOTES TO THE CONSOLIDATED BALANCE SHEET

7.1 Intangible Assets and Property, Plant and Equipment

EUR '000		Property, plant and equipment		
	Intangible assets	External facilities	Office furniture and equipment	Total
Acquisition/production costs				
As at 1 January 2012	34	4	145	149
Additions (+)	0	0	18	18
Reclassifications (+)	0	0	0	0
Disposals (–)	0	0	–19	–19
As at 31 December 2012	**34**	**4**	**144**	**148**
Depreciation and amortisation				
As at 1 January 2012	34	2	112	114
Additions (+)	0	1	9	10
Disposals (–)	0	0	–19	–19
As at 31 December 2012	**34**	**3**	**102**	**105**
Carrying amounts 1 January 2012	0	2	33	35
Carrying amounts 31 December 2012	**0**	**1**	**42**	**43**

EUR '000		Property, plant and equipment		
	Intangible assets	External facilities	Office furniture and equipment	Total
Acquisition/production costs				
As at 1 January 2013	34	4	144	148
Additions (+)	8	0	9	9
Reclassifications (+)	0	0	2	2
Disposals (–)	0	0	0	0
As at 31 December 2013	**42**	**4**	**155**	**159**
Depreciation and amortisation				
As at 1 January 2013	34	3	102	105
Additions (+)	1	0	14	14
Disposals (–)	0	0	0	0
As at 31 December 2013	**35**	**3**	**116**	**119**
Carrying amounts 1 January 2013	0	1	42	43
Carrying amounts 31 December 2013	**7**	**1**	**39**	**40**

7.2 Investment Properties

	EUR '000
Acquisition/production costs	
As at 1 January 2012	725
Additions through acquisition (+)	12,922
Additions after acquisition (+)	0
Disposals (–)	0
As at 31 December 2012	**13,647**
Changes in value	
As at 1 January 2012	–165
Fair value increases (+)	1,072
Fair value decreases (–)	–104
Disposals (–)	0
As at 31 December 2012	**803**
Carrying amounts 1 January 2012	**560**
Carrying amounts 31 December 2012	**14.450**
Acquisition/production costs	
As at 1 January 2013	13,647
Additions through acquisition (+)	350,585
Additions after acquisition (+)	454
Disposals (–)	–6,048
As at 31 December 2013	**358,638**
Carrying amounts 1 January 2013	
Carrying amounts 31 December 2013	803
Fair Value Werterhöhungen (+)	59.613
Fair Value Wertminderungen (–)	–67
Abgänge (–)	–1.122
Stand 31.12.2013	**59.227**
Carrying amounts 1 January 2013	**14.450**
Carrying amounts 31 December 2013	**417.865**

The additions in the reporting year are due to the acquisition of the following real estate portfolios: “Cato”, “Magnus”, “SIG RE” and “Schwelm”. The disposals are due to the sale of the residential and commercial building at Rankestrasse 23 in Berlin, which was acquired in 2012.

Valuation gains of EUR 59,613 thousand (previous year: EUR 1,072 thousand) and valuation losses of EUR 67 thousand (previous year: EUR 104 thousand) were realised in 2013. Due to these gains and losses, the net valuation result was EUR 59,546 thousand (previous year: EUR 968 thousand).

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

Investment Properties		**EUR '000**
	2013	**2012**
Rental income	16,788	427
Operating expenses (maintenance, building management, property taxes, etc.)	9,316	198
Gross profit	**7,472**	**229**

Investment properties with carrying amounts of EUR 417,865 thousand (previous year: EUR 14,450 thousand) are encumbered with mortgages as collateral for liabilities to financial institutions.

The fair value of individual real estate or individual real estate portfolios is determined on the basis of discounted future cash flows using the DCF method or the income capitalisation method.

According to the DCF method, the future expected cash flows from a property are discounted to the valuation date. The cash flows from the respective property are determined for this purpose in a detailed planning period. They equal the net balance of expected incoming and outgoing payments. While the incoming payments are generally composed of net rents, the outgoing payments (gross) consist mainly of the operating costs that are borne by the owner. The cash flows for each period are discounted to the valuation date using a property-specific discount rate in line with the market. This results in the fair value of the cash flows for the respective period. A potential discounted residual value (terminal value) for the property being valued is predicted for the end of the detailed planning period. This reflects the price most likely to be realised at the end of the detailed planning period. Here, the discounted cash flows are capitalised as a perpetuity at what is known as the exit rate. In 2013, this falls within a range of 4.7 percent to 5.3 percent, depending on the property. The sum of the discounted cash flows and discounted potential residual value is the gross value of the property being valued. Of this gross capital value, market-specific transaction costs of a potential buyer are deducted at between 7.85 percent and 8.15 percent for measurement at the net capital value.

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

Valuation parameters	Unit	Average	Range
Discount rate	%	5.04	4.7 – 5.3
Maintenance costs	EUR/m²	6.76	6.46 – 7.10
General and administrative expenses	per rental unit/year	240.00	240.00
Residential unit renovation costs	EUR/vacancy	41.67	30.00 – 55.00
Stabilised vacancy rate	%	2.70	2.0 – 3.7
Cost increase	%	1.68	1.68
Valuation results			
Actual rent multiplier		14.63	13.90 – 15.00
Market value per m²	EUR/m²	919.33	809.00 – 1,609.00

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

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

	2013		2012	
	Average	Range	Average	Range
Property-specific interest rate in %	5.0	3.5 – 5.25	5.0	3.5 – 5.5
Remaining useful life in years	40	30 – 50	40	25 – 45
Maintenance costs EUR/m²	10	7 – 15	12	12
Administrative costs in % of gross profit	5	3 – 8	6.5	5 – 9.8

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

The market value fluctuation of the real estate portfolios is relatively low due to the stable market for residential properties. The chosen interest rate was identified as a material value driver influenced by the market. With a 0.5 percent reduction in the discount rate, the fair value of the investment properties would increase by EUR 38.1 million (9.12 percent). Increasing the interest rate by 0.5 percent decreases the fair value of the real estate by EUR 31.6 million (7.57 percent).

7.3 Loans to Associates

	EUR '000
Acquisition costs	
As at 1 January 2012	5,733
Additions (+)	493
Disposals (–)	0
As at 31 December 2012	**6,226**
Depreciation and amortisation	
As at 1 January 2012	3,176
Additions (+)	1,471
Disposals (–)	0
As at 31 December 2012	**4,647**
Carrying amounts 1 January 2012	**2,557**
Carrying amounts 31 December 2012	**1,579**
Acquisition costs	
As at 1 January 2013	6,226
Additions (+)	477
Disposals (–)	0
As at 31 December 2013	**6,703**
Depreciation and amortisation	
As at 1 January 2013	4,647
Additions (+)	920
Disposals (–)	0
As at 31 December 2013	**5,567**
Carrying amounts 1 January 2013	**1,579**
Carrying amounts 31 December 2013	**1,136**

Loans include a loan of EUR 3,447 thousand (previous year: EUR 3,145 thousand) to Airport Center Luxembourg GmbH. Cumulative at equity losses of EUR 2,311 thousand (previous year: EUR 1,566 thousand) were deducted from this loan, EUR 745 thousand thereof in the reporting year (previous year: EUR 1,313 thousand).

The loans also include fully adjusted receivables from other associates.

7.4 Shares in Associates

	EUR '000
Acquisition costs	
As at 1 January 2012	4,653
Additions (+)	0
Disposals (–)	0
Currency translation effects	–73
As at 31 December 2012	**4,580**
Share of gains (+) and losses (–)	
As at 1 January 2012	–895
Gains (+)	0
Losses (–)	0
Currency translation	–12
As at 31 December 2012	**–907**
Carrying amounts 1 January 2012	**3,758**
Carrying amounts 31 December 2012	**3,673**
Acquisition costs	
As at 1 January 2013	4,580
Additions (+)	9,029
Disposals (–)	–9,029
Currency translation effects	–161
As at 31 December 2013	**4,419**
Share of gains (+) and losses (–)	
As at 1 January 2013	–907
Gains (+)	0
Losses (–)	–54
Currency translation	2
As at 31 December 2013	**–959**
Carrying amounts 1 January 2013	**3,673**
Carrying amounts 31 December 2013	**3,460**

The following financial information is available for the associates as at 31 December 2013:

Financial information of the associates	Airport Center Luxembourg GmbH[2]		Worthing Lake Forest Investors LLC[2]		DB Immobilien GmbH[1]	
In EUR '000	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Assets	31,618	32,857	24,761	10,423	k.a.	k.a.
Liabilities	75,518	72,324	15,397	653	k.a.	k.a.
Revenues	831	937	34	0	k.a.	k.a.
Earnings	–4,432	–4,827	–179	–13	k.a.	k.a.

Financial information of the associates	MRT BV[2]		Stovago[2]	
In EUR '000	**2013**	**2012**	**2013**	**2012**
Assets	0	0	0	0
Liabilities	5,605	5,106	–3,438	–2,942
Revenues	0	0	0	0
Earnings	-2	-5	-5	-4

1) There is no information available for DB Immobilien GmbH for 2012 and 2013.

2) Compiled according to local accounting methods.

ADLER AG holds 10 percent of the shares in Airport Center Luxembourg GmbH. However, since ADLER AG appoints a director, it has significant influence over the company so that the shares are recognised at equity.

The pro-rata losses for the associates included at equity were fully recorded in 2013. There are no cumulative unrecorded losses.

7.5 Deferred Taxes

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

In EUR '000	2013	2012
Tax loss carryforwards (including interest carried forward)	6,274	833
Valuation of investment properties (deferred tax assets)	52	50
Valuation of interest rate swaps (deferred tax assets)	437	0
Valuation of pension provisions (deferred tax assets)	33	0
Valuation of investment properties (deferred tax liabilities)	–19,719	–366
Valuation of bonds (deferred tax liabilities)	–554	0
Valuation of convertible bonds (deferred tax liabilities)	–293	0
Accrual of financing costs (deferred tax liabilities)	–1,248	0
Total deferred tax assets	6,796	883
Total deferred tax liabilities	–21,814	–366
Offsetting	–6,244	0
	6,244	0
Reported deferred tax assets	**552**	**883**
Reported deferred tax liabilities	**–15,570**	**–366**

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 (minimum balance sheet value equal to the deferred tax liabilities). The loss carryforwards exist exclusively in Germany and therefore do not expire on principle. For this reason, the disclosure of maturity structures for the loss carryforwards that are not capitalised is omitted.

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 carryforwards of around EUR 6.2 million (previous year: around EUR 1.6 million) and trade tax loss carryforwards of around EUR 8.1 million (previous year: around EUR 3.1 million) since their realisation is not sufficiently certain.

7.6 Inventories

In EUR ‘000	2013	2012
Acquisition costs		
Balance as at 1 January	27,098	30,909
Additions (+)	624	235
Disposals (–)	–1,335	–4,046
Balance as at 31 December	**26,387**	**27,098**
Impairments		
Balance as at 1 January	7,539	8,859
Additions (+)	0	0
Write-ups (–)	0	–647
Disposals (–)	0	–673
Balance as at 31 December	**7,539**	**7,539**
Carrying amounts 1 January	19,559	22,050
Carrying amounts 31 December	**18,848**	**19,559**

The inventories break down into the following real estate projects:

Berlin	Späthstraße
Dallgow-Döberitz	Triftstraße etc.
Dresden	Alttrachau
Frankfurt a. M.	Herriotstraße
Großbeeren	Trebbiner Straße etc.
Moosburg	Burgermühlstraße
Offenbach	Strahlenberger Straße

The carrying amount of inventories recognised at net realisable value is EUR 12,794 thousand (previous year: EUR 12,743 thousand).

The respective floor space index, the appropriate property-specific interest rate, the corresponding standard land values, construction defects and maintenance costs as well as tenancy agreements where applicable were used to calculate the market values.

The carrying amount of inventories pledged as collateral for liabilities is EUR 6,794 thousand (previous year: EUR 6,743 thousand).

7.7 Trade Receivables, Income Tax Claims and Other Current Assets

Current **trade receivables** break down as follows:

In EUR '000	2013	2012
Lease receivables	1,346	271
Receivables from property sales	1,316	1,251
Other	729	684
Total	**3,391**	**2,206**

Since rent always has to be paid in advance, the lease receivables are mainly overdue. This is why a 25 percent flat-rate individual loan loss provision was recognised per receivable.

Receivables from property sales include a receivable of EUR 1,260 thousand that is overdue but not impaired. Withdrawing from the contract is considered possible so that ADLER AG would not incur a loss.

If there are indications that a receivable is not collectible, it is written off.

The **income tax claims** mainly consist of receivables from income tax overpayments.

Other current assets break down as follows:

In EUR '000	2013	2012
Short-term loans to third parties	4,543	110
Purchase price claim	3,000	0
Earmarked financial assets	1,166	0
Receivables from insurers	298	0
Market value cap	143	0
Security deposits received	63	35
Accruals	48	50
Other current assets	437	79
Total	**9,696**	**274**

The purchase price claim is a receivable from the sale of an investment. This receivable will be settled in the short term.

7.8 Cash and Cash Equivalents

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

Since they are earmarked, bank balances of EUR 1,166 thousand (previous year: EUR 0 thousand) were reported under other current assets in the reporting year.

7.9 Share Capital

The fully paid-up share capital of ADLER AG as at 31 December 2013 amounted to EUR 16,547,824 (previous year: EUR 15,000,000.00) and is divided into 16,547,824 (previous year: 15,000,000) no-par bearer shares with equal voting rights.

By resolution of the Management Board with the approval of the Supervisory Board on 6 September 2013, the share capital was increased to 16,500,000 shares by issuing 1,500,000 new shares under partial utilisation of the existing approved capital. The share capital was also increased through the issue of 47,824 shares due to the exercising of conversion rights on the convertible bonds.

The number of shares outstanding is as follows:

Number	2013	2012
1 January	14,189,901	14,927,597
Issue of new shares	1,500,000	0
Conversion of convertible bonds	47,824	0
Acquisition of own shares	0	–1,061,696
Issue of own shares	810,099	324,000
Total	**16,547,824**	**14,189,901**

Own shares

By resolution of the General Meeting on 27 August 2010, the Company is authorised to purchase own shares until 26 August 2015 totalling up to 10 percent of the Company's share capital at the time for the purposes approved according to § 71 Para. 1 Number 8 of the German Stock Corporation Act (AktG).

Under this authorisation, ADLER AG acquired own shares in 2011 and 2012 and, on 31 December 2012, openly deducted 810,099 shares with a notional value of EUR 810,099.00 from subscribed capital. These own shares were issued again in 2013.

Authorised capital 2011/I

By resolution of the General Meeting on 28 September 2011, the Management Board was authorised to increase the share capital of the Company until 27 September 2016 with the consent of the Supervisory Board in exchange for cash contributions or contributions in kind, by issuing new bearer shares on one or more occasions but limited to a total increase of EUR 7,500,000. This authorisation was utilised in 2013 in the amount of EUR 1,500,000 so that the remaining authorised capital 2011/I was then EUR 6,000,000.

Since ADLER AG is to have the option of also redeeming option bonds and convertible bonds from the authorised capital, authorised capital 2011/I was revoked and new authorised capital (2013/II) was created by resolution of the General Meeting on 15 October 2013.

Authorised capital 2013/II

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

Conditional capital 2006/I

By resolution of the General Meeting on 21 April 2006, the share capital was conditionally increased by EUR 1,000,000.00 by issuing new bearer shares. By resolution of the General Meeting on 12 June 2013, this conditional capital was decreased to EUR 200,000. The conditional capital increase was intended exclusively for redeeming options that could be exercised until 13 July 2013. This conditional capital was therefore revoked by the extraordinary General Meeting on 15 October 2013.

Conditional capital 2012/II

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

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

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

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

The Management Board, with the consent of the Supervisory Board, utilised this authorisation in 2013 and released two convertible bond issues of EUR 10,000,000 (5,000,000 bonds) and EUR 11,250,000 (3,000,000 bonds). The holders or creditors for these convertible bonds were granted rights for up to 8,000,000 new shares of ADLER AG according to the established terms and conditions. Since conversion rights were exercised, the share capital was increased by 47,824 shares until 31 December 2013. The conditional capital 2012/II was decreased to EUR 8,202,176 as at 31 December 2013 as a result.

Conditional capital 2013/III

By resolution of the General Meeting on 12 June 2013, the share capital was conditionally increased by EUR 800,000. By resolution of the General Meeting on 15 October 2013, the resolution of 12 June 2013 was revoked.

7.10 Capital Reserve

The capital reserve is primarily due to premiums on the capital increases in the current year and previous years, offset against the costs of the capital increase. Furthermore, the capital reserve includes the difference between the computed nominal value of the own shares and the acquisition or issue price of said shares as well as the equity component of the convertible bonds that were issued, after the deduction of the applicable transaction costs and income tax effects.

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

In the current year, equity capital procurement costs of EUR 160 thousand (previous year: EUR 0 thousand) after the deduction of the associated income tax benefits of EUR 52 thousand (previous year: EUR 0 thousand) were recognised in the capital reserve without affecting profit or loss.

7.11 Retained Earnings

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

Actuarial gains and losses from the measurement of pension provisions are also included in retained earnings.

7.12 Currency Translation Reserve

The difference in the exchange rate from the first-time consolidation and subsequent consolidations of Adler McKinney LLC on the closing date for the consolidated balance sheet in the amount of EUR 59 thousand (previous year: EUR 11 thousand) was recorded in the currency translation reserve without affecting profit or loss. The change in the currency translation reserve is due solely to the subsequent consolidation of Adler McKinney LLC.

7.13 Minority Interests

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

7.14 Pension Provisions

The projected unit credit method was used for the recognition and measurement of pension provisions as at 31 December 2013. Pensions and pension entitlements known on the reporting date as well as future expected increases in pensions and salaries were taken into account. All pension commitments are prior commitments to employees who have left the Company and are financed exclusively by provisions. The present value of the defined benefit obligations as at the reporting date is EUR 62 thousand (previous year: EUR 57 thousand).

Significant actuarial assumptions are as follows:

In %	31 December 2013	31 December 2012
Discount rate	3.5	3.8
Future salary increases	0	0
Future pension increases	1.5	1.5
Best-estimate actuarial assumptions	2005G mortality tables by Dr. Klaus Heubeck	2005G mortality tables by Dr. Klaus Heubeck

Since the pension provisions consist solely of prior commitments to employees who have left the Company (vested and current benefits), the turnover rate is 0 percent (previous year: 0 percent).

Pension provisions developed as follows:

In EUR '000	2013	2012
Pension provisions on 1 January	826	818
Actuarial gains/losses	–81	100
Interest expense	30	42
Pension payments	–36	–134
Release	–15	0
Pension provisions on 31 December	724	826

Actuarial gains of EUR 81 thousand (disregarding deferred taxes) were recorded in other comprehensive income in 2013.

Of the pension provisions, an amount of EUR 40 thousand (previous year: EUR 36 thousand) is due within one year. This amount is reported uniformly with the remaining pension obligations under non-current liabilities.

Since the commitments apply exclusively to employees who have left the Company and no new commitments are being made, an annual payout of EUR 40 thousand is expected for future years as well. The payout amount is expected to increase by EUR 3 thousand in 2015.

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 66 thousand in 2013 (previous year: EUR 41 thousand).

7.15 Other Provisions

Other provisions developed as follows in 2012 and 2013:

In EUR '000	As at 01.01.13	Utilisation	Release	Addition	As at 31.12.13	Non-current
Provisions for warranties	306	32	17	13	270	65
Total	**306**	**32**	**17**	**13**	**270**	**65**

In EUR '000	As at 01.01.12	Utilisation	Release	Addition	As at 31.12.12	Non-current
Provisions for warranties	340	50	4	20	306	70
Obligation for the remediation of legacy contamination	1,309	0	1,309	0	0	0
Other	5	0	5	0	0	0
Total	**1,654**	**50**	**1,318**	**20**	**306**	**70**

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

7.16 Convertible Bond Liabilities

In EUR '000	2013	2012
Convertible bond 2013/2017	8,849	0
Convertible bond 2013/2018	9,549	0
Total	**18,398**	**0**
– of which non-current	18,382	0
– of which current	16	0

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

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

ADLER AG issued the 3,000,000 convertible bonds 2013/2018 in December 2013 at a nominal value of EUR 3.75 each for a total of EUR 11.250 thousand with an interest rate of 6 percent and a maturity date of 27 December 2018. ADLER AG grants each bondholder the right to convert each bond into bearer shares of ADLER AG during the exercise period with an amount of EUR 1.00 of capital stock per share on the issue date. The conversion price subject to possible adjustments is EUR 3.75.

A total of 47,824 convertible bonds from the 2013/2017 bond issue were converted in 2013

7.17 Bond Liabilities

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

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

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

7.18 Financial Liabilities

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

The increase in liabilities to financial institutions is related to the acquisition of real estate portfolios in 2013.

The liabilities to financial institutions are secured by mortgages totalling EUR 310,542 thousand (previous year: EUR 20,277 thousand). Additional collateral is composed of the assignment of rental income, bank balances and letters of subordination.

In the course of borrowing and in credit agreements that were assumed as part of acquisitions, the Company has in some cases obligated itself to comply with financial covenants imposed by the financial institutions providing the financing. Failure to comply with financial covenants may lead to termination or the mandatory deposit of additional security. All financial covenants with one exception were met on 31 December 2013.

The financial liabilities are secured by assets as follows:

In EUR '000	2013	2012
Investment properties	417,865	14,450
Real estate in inventories	6,794	6,743
Deposits with financial institutions	2,301	165
Restricted assets	1,166	0
Rent receivables	1,351	238

7.19 Other Non-current Liabilities

In EUR '000	2013		2012	
	Nominal volume	Market value	Nominal volume	Market value
Interest rate hedging contracts	45,518	–1,356	0	0

The interest rate hedging contracts were acquired in the course of purchasing property companies and were first recognised on the balance sheet as at 31 December 2013.

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

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

In EUR '000	2013	2012
0 to 1 year	1,000	0
1 to 2 years	1,000	0
2 to 3 years	1,000	0
3 to 4 years	1,000	0
4 to 5 years	1,000	0
Over 5 years	40,518	0
Total	**45,518**	**0**

Please refer to note 9.2 for more information on derivative financial instruments.

7.20 Trade Payables, Income Tax Liabilities and Other Current Liabilities

The total **trade payables** of EUR 5,953 thousand (previous year: EUR 724 thousand) are current and owing to third parties. Trade payables include heating and operating costs of EUR 1,742 thousand that have not been settled yet (previous year: EUR 105 thousand).

Liabilities to tax authorities for corporate tax, the solidarity surcharge and trade tax are reported under **income tax liabilities**.

Other current liabilities are composed as follows:

In EUR '000	2013	2012
Short-term loans	11,511	0
Vendor notes	5,000	0
Outstanding invoices	1,783	190
Loans from third parties	579	0
Personnel obligations	98	72
Sales tax liabilities	156	54
Security deposits received	128	49
Other current liabilities	1,177	106
Total	**20,432**	**471**

The short-term loans are mainly composed of the loans of a minority shareholder to finance three real estate companies.

The vendor notes were issued in the course of acquiring a real estate portfolio.

8 NOTES TO THE STATEMENT OF INCOME AND ACCUMULATED EARNINGS

8.1 Revenues

In EUR '000	2013	2012
Rental income including incidental costs from investment properties	16,788	427
Proceeds from the sale of real estate held in inventories	1,970	4,769
Rental income and incidental costs from real estate held in inventories	464	483
Other	14	40
Total	**19,235**	**5,719**

8.2 Changes in Inventories

Decreases in inventories are related primarily to the sale of residential building lots. Inventories were increased as a result of the capitalisation of project development costs for the remaining land.

8.3 Other Operating Income

Other operating income is composed as follows:

In EUR '000	2013	2012
Proceeds from the release of provisions and liabilities that are provisions by nature	52	1,351
Income from other accounting periods	30	0
Benefits in kind	23	0
Insurance recoveries	14	0
Write-up of real estate in inventories	0	647
Other	36	198
Total	**155**	**2,196**

Proceeds of EUR 1,351 thousand from the release of provisions in 2012 were due to the release of a provision in the amount of EUR 1,309 thousand related to the sale of two land parcels.

8.4 Income and Expenses from Fair Value Adjustments to Investment Properties

These items include the gains and losses on the fair value measurement of investment properties on the reporting date. Please see the explanations under note 7.2.

8.5 Cost of Materials

The cost of materials is composed as follows:

In EUR '000	2013	2012
Management of investment properties	9,316	198
Management of other real estate	230	262
Project costs for development, other	688	892
Total	**10,234**	**1,352**

8.6 Personnel expenses

Personnel expenses include the following items:

In EUR '000	2013	2012
Wages, salaries and bonuses	1,013	685
Social security contributions	141	94
Old age pension expenses	3	134
Other	32	31
Total	**1,189**	**944**

8.7 Amortisation, Depreciation and Impairments

Amortisation, depreciation and impairments consists of scheduled amortisation of intangible assets and depreciation of property, plant and equipment in the amount of EUR 15 thousand (previous year: EUR 10 thousand).

8.8 Other Operating Expenses

Other operating expenses break down as follows:

In EUR '000	2013	2012
Legal and consulting fees	590	370
General and administrative expenses	439	241
Expenses from other accounting periods	161	0
Costs of preparing the financial statements and auditing	154	62
Public relations	141	66
Cost of premises	114	88
Currency translation losses	113	46
Office and IT expenses	87	71
Value adjustment and losses on receivables	127	12
Other	477	77
Total	**2,403**	**1,033**

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

8.9 Result of Associates Valued at Equity

This item consists of the pro-rata gains/losses from associates consolidated at equity. Please refer to our explanations under note 7.4. The item is composed of the pro-rata results of Worthing Lake Forest Investors LLC, Airport Center Luxembourg GmbH and, in particular, the result of valuing a minority interest in a real estate company acquired and then disposed of again in 2013. The income from selling this investment is reported in the result of companies accounted for at equity.

The result for Worthing Lake Forest Investors LLC was determined according to US GAAP, while the result for Airport Center Luxembourg GmbH is based on the result converted to IFRS in accordance with national accounting principles. In the latter case, the real estate on the balance sheet was treated as an investment property recognised at fair value.

8.10 Financial Result

In EUR '000	2013	2012
Interest income:		
Loan interest, associates	551	421
Loan interest, third parties	129	0
Interest rate hedging transactions	0	114
Other	134	48
	814	**583**
Financing expenses:		
Interest on bank loans	5,319	0
Bond interest	2,415	0
Convertible bond interest	439	311
Loan interest, third parties	298	0
Impairment of financial assets	175	158
Compounding of provisions	32	43
Interest expenses on taxes	0	63
Other	14	40
	8,692	**615**

8.11 Income Taxes

In EUR '000	2013	2012
Current income tax expense	127	325
Income tax expense (income) from other accounting periods	–51	266
Actual income tax expense	**76**	**591**
Derecognition of deferred tax assets, previous years	0	187
Deferred tax expense (income), loss carryforwards	–5,508	–611
Deferred tax expense (income), temporary differences	21,573	331
Deferred taxes	**16,065**	**-93**
Total	**16,141**	**498**

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

In EUR '000	2013	2012
Profit before income taxes	63,017	948
Expected income tax (32.275 percent)	20,339	306
Reconciliation through tax effects:		
Income taxes, previous years	–45	266
Derecognition of deferred tax assets, previous years	30	187
Utilisation of loss carryforwards not capitalised as deferred taxes	-3	–735
Sales proceeds exempt from taxes	–2,257	0
Non-deductible expenses	566	470
Unrecognised deferred tax assets on losses	2,414	0
Deferred taxes on loss carryforwards acquired	–5,178	0
Other	275	4
Total	**16,141**	**498**

8.12 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. A dilution of this indicator results from what are known as "potential shares" (e.g. from convertible bonds).

The earnings per share are as follows:

	2013	2012
Consolidated net earnings (in EUR '000)	**46,876**	**518**
Consolidated net earnings without minorities	38,763	491
Interest expenses including deferred taxes on convertible bonds	297	0
Consolidated net earnings without minorities (diluted)	39,060	491
Number of shares (in thousands)		
Weighted number of shares issued	15,066	14,342
Effect of the conversion of convertible bonds	2,476	0
Weighted number of shares (diluted)	17,542	14,342
Earnings per share (in EUR)		
Undiluted earnings per share	2.57	0.03
Diluted earnings per share	2.23	0.03

9 INFORMATION ON FINANCIAL INSTRUMENTS

9.1 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 December 2013

In EUR '000	Category according to IAS 39	Carrying amount total
Assets		
Other loans	Lar	1,136
Trade receivables	Lar	3,391
Other current assets	Lar, Aafv	9,696
Cash and cash equivalents	Lar	5,874
Equity and liabilities		
Financial liabilities to financial institutions and (convertible) bonds	FLAC	329,226
Trade payables	FLAC	5,953
Other liabilities	FLAC	21,788
of which aggregated by IAS 39 categories		
Loans and receivables	Lar	
Financial liabilities at fair value through profit or loss	Lafv	
Financial assets valued at cost	FLAC	

Carrying amount of financial instruments	Amortised cost	Fair value without affecting profit or loss	Fair value through profit or loss	Fair value as comparative information
1,136	1,136	0	0	1,019
3,391	3,391	0	0	3,391
9,586	9,443	0	143	9,586
5,874	5,874	0	0	5,874
329,226	329,226	0	0	329,226
5,953	5,953	0	0	5,953
21,573	20,217	1,356	0	21,573
19,987	19,844	0	143	19,870
0	0	0	0	0
356,752	355,396	1,356	0	356,752

31 December 2012

In EUR '000	Category according to IAS 39	Carrying amount total
Assets		
Other loans	Lar	1,579
Trade receivables	Lar	2,206
Other current assets	Lar, Aafv	274
Cash and cash equivalents	Lar	1,084
Equity and liabilities		
Financial liabilities	FLAC	14,270
Trade payables	FLAC	724
Other current liabilities	FLAC	471
of which aggregated by IAS 39 categories		
Loans and receivables	Lar	
Financial liabilities at fair value through profit or loss	Lafv	
Financial assets valued at cost	FLAC	

Abbreviations	IFRS 7 classes
Lar	Loans and receivables
Aafv	Financial assets at fair value through profit or loss
FLAC	Financial liabilities measured at amortised costs
Lafv	Financial liabilities at fair value through profit or loss

Carrying amount of financial instruments	Amortised cost	Fair value without affecting profit or loss	Fair value through profit or loss	Fair value as comparative information
1,579	1,579	0	0	1,456
2,206	2,206	0	0	2,206
191	191	0	0	191
1,084	1,084	0	0	1,084
14,270	14,270	0	0	14,270
707	707	0	0	707
379	379	0	0	379
5,060	5,060	0	0	4,937
0	0	0	0	0
15,356	15,356	0	0	15,356

(B) Fair Value Disclosures

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

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

31 December 2013 EUR '000	Carrying amount total	Overview of the calculation methods used to determine fair values of which Level 1	of which Level 2	of which Level 3
Assets				
Investment properties	417,865			417,865
Shares in associates: classified as AfS	0		0	
Other current assets	143		143	
Equity and liabilities				
Derivative financial liabilities: Cash flow hedges	1,356		1,356	

31 December 2012 EUR '000	Carrying amount total	Overview of the calculation methods used to determine fair values of which Level 1	of which Level 2	of which Level 3
Assets				
Investment properties	14,450			14,450
Shares in associates: classified as AfS	0		0	

The investments included in other financial assets are recognised at acquisition costs less impairments, if any, since the fair values for these assets cannot be reliably determined. These are shares not listed on a stock exchange and for which there is no active market. Mostly these are composed of non-consolidated subsidiaries with minor business activities. There are currently no concrete plans to dispose of these investments.

Trade receivables and other current assets as well as cash and cash equivalents have short terms. Therefore, their carrying amounts on the reporting date are virtually equal to their fair values. This applies correspondingly to liabilities to financial institutions, trade payables and other current liabilities. The fair value of the non-current liabilities to financial institutions, the bond and convertible bond liabilities and the other non-current liabilities is determined by discounting the future cash flows. Discounting is performed on the basis of a market interest rate for the same term and risk.

(C) Net result from financial instruments

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

		Net result 2013			Net result 2012		
In EUR '000	**Category according to IAS 39**	**Interest**	**Gains/ losses**	**Total**	**Interest**	**Gains/ losses**	**Total**
Loans and receivables	Lar	814	–302	512	468	–206	262
Financial assets measured at fair value through profit or loss	Aafv	0	-8	-8	0	0	0
Financial liabilities measured at fair value through profit or loss	Lafv	0	0	0	0	114	114
Financial liabilities valued at cost	FLAC	–8,477	0	–8,477	–311	0	–311
Total		**–7,663**	**–310**	**–7,973**	**157**	**–92**	**65**

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

9.2 Financial Risk Management and Disclosures According to IFRS 7

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

(A) Interest rate risk

Interest rate risk is the result of obtaining credit facilities that bear interest at variable rates. This means that interest rate changes can lead to higher interest payments to a limited extent. However, ADLER AG primarily finances itself with financial debt that bears interest at fixed rates, and liabilities with a longer-term fixed interest rate. For this reason, the Group generally pursues a risk-averse financing policy.

The effects of interest rate changes on the financial result are shown in the following overview:

Interest rate risk sensitivity analysis	31 December 2013		31 December 2012	
Changeable variable: interest rate	+100 bp	–100 bp	+100 bp	–100 bp
Net interest income in EUR '000	+50	–50	+94	–94

If the interest rate on financial debt bearing interest at variable rates had been 100 basis points higher or lower on the reporting date, the financial result would be higher or lower by EUR 50 thousand.

To further reduce the interest rate risk, ADLER AG uses interest rate hedging instruments in the form of swaps (see note 7.19). Had interest rates been 100 basis points higher/lower on 31 December 2013, the fair values (EUR -1,356 thousand) of the derivatives would have changed by EUR +1,408 thousand (previous year: EUR 0 thousand) or EUR -1,408 thousand (previous year: EUR 0 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.

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

(C) Liquidity risk

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

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

For the bonds and convertible bonds issued in 2013, the agreed credit terms can lead to a liquidity risk in case of failure to comply. In case of a violation of the credit terms, e.g. if there is a change in control, these bonds and convertible bonds can be cancelled with early redemption.

The ADLER Group has cash and cash equivalents of EUR 5,874 thousand on the reporting date (previous year: EUR 1,084 thousand). In addition, restricted cash and cash equivalents of EUR 1,166 thousand (previous year: EUR 0 thousand) are reported under other assets.

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

31 December 2013		**Cash outflows**	
EUR '000	**2014**	**2015–2018**	**>2018**
Liabilities to financial institutions	14,425	135,874	412,612
Bond liabilities	3,046	47,268	0
Convertible bond liabilities	1,275	25,448	0
Trade payables	5,953	0	0
Other liabilities	21,573	0	0
Total	**46,271**	**208,589**	**412,612**

31 December 2012		**Cash outflows**	
EUR '000	**2013**	**2014–2017**	**>2017**
Liabilities to financial institutions	5,306	523	4,403
Bond liabilities	0	0	0
Convertible bond liabilities	0	0	0
Trade payables	706	0	0
Other liabilities	380	0	0
Total	**6,392**	**523**	**4,403**

(D) Financing risk

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

Within the Group, there are also credit agreements totalling around EUR 210.1 million (previous year: EUR 0 thousand) with financial covenants imposed by the banks. Various sanctions of the lenders may apply if the financial covenants are violated, including the cancellation of the loans.

10 CAPITAL RISK MANAGEMENT

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

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

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

The equity ratio at year-end is as follows:

In EUR '000	2013	2012
Equity (before minority interests)	72,335	26,331
Total assets	460,889	43,765
Equity ratio (%)	**15.7 %**	**60.2 %**

The reduced equity ratio is related to the acquisition of investment properties in 2013 financed with debt.

11 OTHER DISCLOSURES

11.1 Minimum Lease Payments under Operating Lease Agreements

Disclosures on operating leases according to IAS 17.56				
EUR '000	2013 reporting period	2014	2015 to 2018	from 2018
		up to 1 year	1 to 5 years	more than 5 years
Total future minimum lease payments based on operating leases that cannot be cancelled as the lessor	17,252	10,922	16	0

Claims to minimum lease payments on long-term operating leases generally result from leasing commercial real estate. In the residential property segment, lease contracts are generally subject to the three-month statutory term of notice. There are no other claims to minimum lease payments.

11.2 Other Financial Obligations and Contingent Liabilities

Significant financial obligations on the reporting date are as follows:

EUR '000	2013	2012
Rental and lease obligations		
Due within one year	203	144
Due between 1 and 5 years	465	26
Due in more than 5 years	0	0
	668	**170**
Management contracts, support agreements		
Due within one year	1,136	61
Due between 1 and 5 years	4,186	0
Due in more than 5 years	4,522	0
	9,844	61
Gesamt	**10,512**	**231**

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

There is an obligation to pay the purchase price and assume loans receivable under a purchase contract concluded at the end of 2013 for the acquisition of additional real estate and real estate companies. This contract was subject to conditions precedent as at 31 December 2013. The obligations arising from the preliminary purchase prices are around EUR 35 million.

In the context of the acquisition mentioned above, there are provisions for contract penalties in the amount of EUR 500 thousand if the transaction is not concluded under certain conditions. A declaration of release and exemption up to EUR 3,000 thousand was issued for certain required measures and actions by management and the members of the advisory body of the company being acquired. In this regard, a subsidiary of ADLER AG has issued an independent warranty bond according to § 311 Para. 1 of the German Civil Code (BGB). Another purchase contract for the acquisition of minority interests of real estate companies included on the reporting date was concluded at the end of 2013. This purchase contract also obligates ADLER AG to assume the loan receivable of the shareholder who is the seller. This contract was subject to conditions precedent as at 31 December 2013. The obligations arising from the preliminary purchase prices are around EUR 5.9 million.

To finance the acquisition of a minority interest in a real estate company that was sold again at the end of December 2013, ADLER AG had issued a directly enforceable guarantee to a bank in the amount of EUR 980 thousand. This guarantee had not expired on the reporting date. ADLER AG has been indemnified from this guarantee internally by the buyer of this investment.

ADLER AG has assumed a directly enforceable guarantee of EUR 250 thousand from the purchase of an investment in a real estate company that was sold again in March 2013, from which it had not been released on the reporting date.

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

Unscheduled repayment, posting of a cash bond or issuing of a guarantee or bank guarantee is required at the discretion of the financial institution providing financing due to a breach of the financial covenants under a loan agreement with a volume of EUR 34,727 thousand. The loan agreement in question relates to a real estate company that was taken over as at the reporting date. No agreement on concrete actions was reached by the date the financial statements were prepared.

11.3 Related parties

Owing to its majority interest in the company at the General Meeting, ADLER AG was an affiliated company of Mezzanine IX Investors LP, Atlanta, USA, during 2013 and, is an affiliated company of Mezzanine IX Investors S.A., Luxembourg, Grand Duchy of Luxembourg, as at the reporting date.

Related parties of ADLER AG according to IAS 24:

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

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

A member of the Company's Supervisory Board is the general manager of Deutsche Land- und Jagdimmobilien GmbH (DLJ), which holds a minority interest in two ADLER AG real estate companies. In the course of purchasing GmbH shares in a company of DLJ, ADLER AG granted DLJ a purchase loan of EUR 7,000 thousand. DLJ had previously granted a shareholder loan of EUR 7,489 thousand with a term of ten years at an interest rate of 8 percent p.a. to the company that was sold. This loan receivable was transferred to ADLER AG to redeem the purchase loan. Interest claims and obligations were fully offset and settled in 2013.

Significant receivables from and liabilities to related parties on the reporting date were as follows:

In EUR '000	2013	2012
Nominal values:		
MRT (Mountleigh Roland Ernst B.V.)	2,486	2,467
Airport Center Luxembourg GmbH	3,447	3,145
DB Immobilien GmbH	327	308
Stovago B.V.	443	306
Total	**6,703**	**6,226**

The loan receivables including the interest claims against MRT (Mountleigh Roland Ernst) B.V., Stovago B.V. and DB Immobilien GmbH i.L. are fully adjusted.

All legal transactions, income, the provision of services and allocations described above were conducted at arm's length.

The Supervisory Board and Management Board hold the key management positions in ADLER AG. Remuneration for these persons is composed as follows:

In EUR '000	2013	2012
Supervisory Board remuneration	34	34
Management Board remuneration	215	155

At the General Meeting on 28 September 2011, the shareholders resolved with 99.95 percent of the votes to omit the individual disclosure of Management Board remuneration by fixed and performance-based components for 2011 through 2016.

11.4 Audit Fees

The total audit fees for the year are calculated as follows:

In EUR '000	2013	2012
Year-end audit services	121	62
Other confirmation services	53	0
Other services	30	13
Total	**204**	**75**

11.5 Employees

The average number of employees was as follows:

Number	2013	2012
Management Board members	1	1
Full-time employees	16	8
Total	**17**	**9**

11.6 Segment Reporting

In regards to decisions on the allocation of resources and profitability, internal reporting and the review of results from operating activities are performed exclusively at Group level and not at segment level (management approach). Segment reporting is therefore omitted.

11.7 Notes to the Consolidated Cash Flow Statement

Financial resources correspond to cash and cash equivalents. In addition, restricted cash and cash equivalents of EUR 1,166 thousand (previous year: EUR 0 thousand) are reported under other assets. The cash flows are classified according to operating activities, investment (divestment) activities and financing activities. The indirect measurement method was chosen to present the cash flows from operating activities.

The disclosure of interest payments has changed compared to the previous year, since these are no longer included under cash outflows for operating activities but instead under financing activities. Since the interest payments mainly result from financing for investment properties, the accounting policy choice according to IAS 7.33 was exercised.

After adjusting for non-cash expenses and income, and under consideration of the changes in working capital, the ADLER Group generated a total cash inflow of EUR 10,911 thousand from operating activities (previous year, adjusted: EUR 453 thousand).

The cash outflow for investment activities of EUR 94,198 thousand (previous year: EUR 3,534 thousand) was due primarily to the acquisition of the Magnus, Cato, Schwelm and SIG RE residential property portfolios. The sale of the residential and commercial building on Rankestrasse in Berlin acquired in the previous year had the opposite effect.

The cash inflow from financing activities of EUR 88,077 thousand (previous year, adjusted: cash outflows of EUR -318 thousand) is mainly the result of issuing the convertible bonds and the bonds, capital increases for cash and taking out bank loans.

Total financial resources increased by EUR 4,789 thousand.

11.8 Management Board and Supervisory Board

The Management Board of ADLER Real Estate Aktiengesellschaft, Frankfurt am Main, Germany, consists of Axel Harloff, business administration graduate (Dipl.-Kaufmann), Hamburg, Germany.

Members of the Supervisory Board:

- Dr. Dirk Hoffmann, Berlin, lawyer and banker, Chairman
- Ralf Preyer, Dubai/UAE, business administration graduate, Deputy Chairman
- Thomas Katzuba von Urbisch, Monte Carlo/Monaco, lawyer and entrepreneur (since 12 June 2013)
- John D. Heikenfeld, Irving, Texas/USA (until 12 June 2013)

Changes after the end of the reporting period:

- Resignation of Ralf Preyer effective 31 January 2014
- Court appointment of Thilo Schmid, project controller, Blotzheim, France, effective 1 February 2014
- Appointment of Thomas Katzuba von Urbisch as Deputy Chairman

The following members of the Supervisory Board and Management Board of ADLER Real Estate Aktiengesellschaft, Frankfurt am Main, Germany, had the following additional supervisory board mandates and memberships in other governing bodies according to § 125 Para. 1 Sentence 5 AktG:

Dr. Dirk Hoffmann
- Squadra Immobilien GmbH & Co. KGaA, Frankfurt am Main, Germany (Chairman of the Supervisory Board)
- DEMIRE Deutsche Mittelstand Real Estate AG, Frankfurt am Main, Germany (Deputy Chairman of the Supervisory Board)
- Dexia Kommunalbank Deutschland AG, Berlin, Germany (member of the Supervisory Board)

Ralf Preyer
- PPP Land Investment AG, Vienna, Austria (member of the Supervisory Board)

Thilo Schmid
- Talentory AG, Zurich, Switzerland (member of the Advisory Board)
- Jedox AG, Freiburg, Germany (Chairman of the Supervisory Board)

Axel Harloff, Thomas Katzuba von Urbisch and John D. Heikenfeld were not members of other governing bodies according to § 125 Para. 1 Sentence 5 AktG.

11.9 Events after the Balance Sheet Date

At the end of 2013, ADLER AG concluded a purchase contract for the acquisition of a majority interest in a housing society in Lower Saxony which holds a total of around 2,400 residential units. The properties are located in cities and municipalities in the vicinity of Wolfsburg. The transaction was concluded in February 2014.

At the end of 2013, ADLER AG concluded a purchase contract to acquire the remaining shares in S.I.G. RE B.V. The transaction was concluded in February 2014. As a result, ADLER AG now holds 94.9 percent of the “SIG” real estate portfolio.

Furthermore, on 10 February 2014, ADLER AG decided to submit a voluntary takeover offer to obtain control of ESTAVIS AG, Berlin, Germany. The exchange ratio was established on 11 March 2014. The shareholders of ESTAVIS AG are to obtain 14 new shares of ADLER AG for 25 shares of ESTAVIS AG.

With the resolution of the Management Board and Supervisory Board on 28 March 2014, ADLER successfully placed another bond issue with a volume of EUR 50 million. The bond issue was offered purely as a private placement aimed solely at qualified investors in the Federal Republic of Germany and certain other states, with the exception of the USA, Canada, Australia and Japan.

The new bond of ADLER Real Estate has a term of five years and a coupon of 6.00 percent p.a. Interest payments are semi-annual. The net proceeds of the issue are intended to fund the further growth of ADLER, and will therefore be used mainly to finance the acquisition of residential real estate, residential real estate portfolios and/or investments in real estate companies.

11.10 Declaration of Conformity with the German Corporate Governance Code

The declaration of conformity was most recently issued by the Management Board in January 2014. It is available to the shareholders at all times on the internet under the following link:

http://www.adler-ag.com/adler-ag/contao-2.11.7/index.php/entsprechenserklaerung.html

Frankfurt am Main, 28 March 2014

Harloff

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, 28 March 2014

Axel Harloff
Management Board

Auditor's Report

"We have audited the consolidated financial statements prepared by the ADLER Real Estate Aktiengesellschaft, Frankfurt am Main, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January 2013 to 31 December 2013. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a paragraph 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in ac- cordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a paragraph 1 HGB and full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suit- able view of the Group's position and suitably presents the opportunities and risks of future development."

Hamburg, 28 March 2014

Ebner Stolz GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Jens Lingthaler
Auditor

Dirk Heide
Auditor

At a Glance

Supervisory Board	
Dr. Dirk Hoffmann	Chairman, Berlin/Germany
Thomas Katzuba von Urbisch	Vice Chairman, Monte Carlo/Monaco
Thilo Schmid	Blotzheim/Frankreich
Management Board	
Axel Harloff	Hamburg/Germany
Company	
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Investor relations	Hillermann Consulting Poststraße 14–16 20354 Hamburg/Germany Tel.: +49 (0) 40/32 02 79 10 Fax.: +49 (0) 40/32 02 79 114 E-Mail: c.hillermann@adler.com
Subscribed capital	EUR 16,547,824*
Division	16,547,824* shares without nominal value
Accounting par value	EUR 1 per share
Voting rights	1 vote per share
Share information	16,547,824* shares WKN 500 800 ISIN DE0005008007 Exchange abbreviation ADL Reuters ADLG.DE
Designated Sponsors	Close Brothers Seydler Bank AG
Stock exchanges	Xetra, Frankfurt am Main/Germany
Indexes	CDAX, DIMAX
Financial year	Calendar year

*As at 31 Dec. 2013

ADLER REAL ESTATE

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