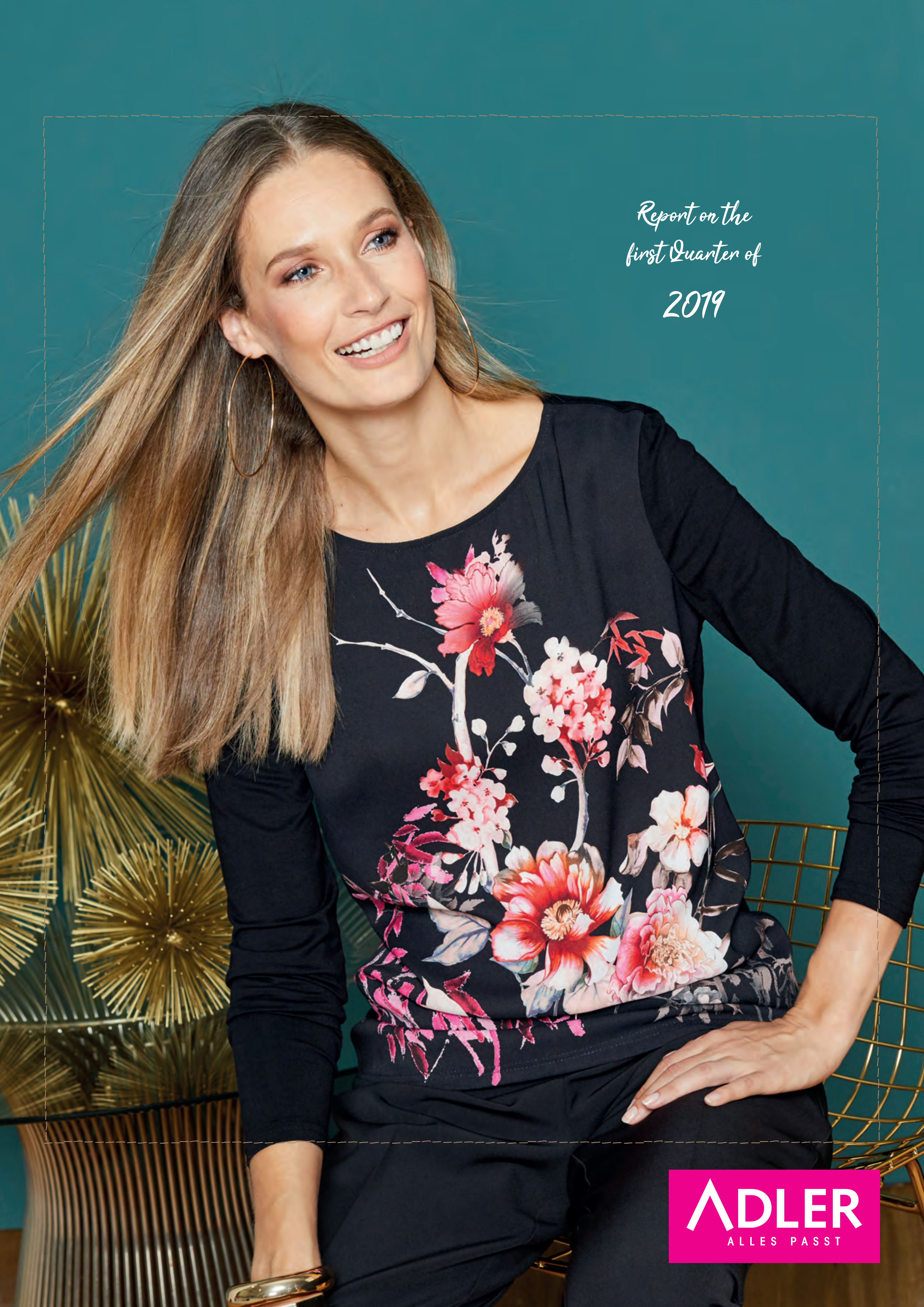
Report on the first Quarter of 2019



ADLER
ALLES PASST

KPIS ACCORDING TO IFRS 16*

		Q1 2019	Q1 2018	Change absolute	relative
Income statement					
Revenue	**€ million**	**99.3**	**102.7**	**– 3.4**	**– 3.3 %**
EBITDA	**€ million**	**– 2.3**	**– 5.8**	**3.5**	**60.3 %**
EBITDA margin		– 2.3 %	– 5.6 %	3.3 pp	
EBIT	**€ million**	**– 13.5**	**– 17.4**	**3.9**	**22.4 %**
EBIT margin		– 13.6 %	– 16.9 %	3.4 pp	
Consolidated net profit/loss	**€ million**	**– 13.3**	**– 16.6**	**3.3**	**19.9 %**
Per-share figures					
Earnings per share	€	– 0.72	– 0.90	0.18	19.8 %

		31 Mar 2019	31 Dec. 2018	Change absolute	relative
Financial position					
Total assets	€ million	393.2	412.0	– 18.8	– 4.6 %
Equity	€ million	46.0	59.3	– 13.3	– 22.4 %
Equity ratio		11.7 %	14.4 %	– 2.7 pp	
Debt/equity ratio		7.55	5.94		

		Q1 2019	Q1 2018	Change absolute	relative
Cash flows					
Cash flows from operating activities (net)	€ million	– 13.6	– 8.5	– 5.1	– 60.0 %
Cash flows from investing activities	€ million	– 0.7	– 1.2	0.5	41.7 %
Free cash flow	€ million	– 14.3	– 9.8	– 4.5	– 45.9 %
Employees					
Employees as at 31 March	Number	3,692	3,777	– 88	– 2.3 %
Stores					
Stores as at 31 March	Number	175	181	– 6	– 3.3 %

*For a detailed overview of the IFRS effects, please see the notes, pages 13 and 14

FINANCIAL CALENDAR

8 May 2019	2019 Annual General Meeting
1 August 2019	Report on the first half of 2019
7 November 2019	Report on the first nine months of 2019

INTERIM GROUP MANAGEMENT REPORT AS AT 31 MARCH 2019

KEY FACTS

- Revenue at € 99.3 million (previous year: € 102.7 million) in traditionally weakest quarter
- Gross profit on goods sold up from 48.8 % to 49.4 %
- EBITDA prior to IFRS 16 at € – 14.3 million, up on prior-year figure of € – 17.8 million
- Cash and cash equivalents remain high at € 25.9 million

ECONOMIC SITUATION & BUSINESS DEVELOPMENT

In light of the global economic slowdown, the German economy grew only slightly in the first quarter of 2019. The German Institute for Economic Research (*Deutsches Institut für Wirtschaftsforschung*, "DIW Berlin") assumes that real gross domestic product (GDP) grew by 0.2 % as against the final quarter of 2018. For 2019 as a whole, DIW Berlin forecasts GDP growth of 1.0 %. The economy in Austria, where ADLER operated 23 stores at the end of the first quarter of 2019, only experienced a slight upswing. For the period from January to March 2019, the Austrian central bank (*Oesterreichische Nationalbank*, "OeNB") forecasts GDP growth of 0.3 % compared to 0.4 % in the prior-year quarter. The Austrian Institute of Economic Research (*Österreichisches Institut für Wirtschaftsforschung*, "WIFO"), expects GDP to expand by 1.7 % for the year as a whole. The International Monetary Fund expects GDP growth of 2.7 % in Luxembourg (three stores) and 1.1 % in Switzerland (two stores) in 2019.

THE ENVIRONMENT FOR THE GERMAN TEXTILE RETAIL INDUSTRY

The participants in TW-Testclub, a regular survey carried out by German industry magazine TextilWirtschaft, reported that revenue in the first quarter had remained level year on year. At 51 % of the surveyed points of sale (POS), revenue in the first three months of the year increased compared to the first quarter of 2018; by contrast, revenue declined at the remaining 49 % points of sale. Hence, the negative trend from the prior year could not be reversed. While revenue in February – measured against the weak prior-year figure of – 4 % – was clearly positive at 8 %, revenue decreased in January (– 3 %) and March (– 2 %). On average, revenue for the first quarter of 2019 was down 2 % on the first quarter of 2018.

DEVELOPMENT AND ANALYSIS OF REVENUE

For ADLER, the first quarter is traditionally the weakest due to selling off winter merchandise. Adler Modemärkte AG's total revenue under IFRS amounted to € 99.3 million in the first three months of 2019, down 3.3 % year on year (Q1 2018: € 102.7 million).

On a like-for-like basis, revenue declined by a total of 2.5 % in the first three months (prior-year quarter: decrease of 6.2 %).

ADLER did not open any stores in the reporting period; three stores in Worms, Herne and Neumünster were closed in March. Consequently, the total number of ADLER stores amounted to 175 as at 31 March 2019 (31 March 2018: 181). 147 stores are located in Germany, with 23 in Austria, three in Luxembourg, and two in Switzerland.

PRELIMINARY REMARKS REGARDING IFRS 16 "LEASES"

As previously reported in the 2018 Annual Report (see pages 85 and 86), IFRS 16 replaced IAS 17 "Leases" and IFRIC 4 "Determining whether an Arrangement Contains a Lease" beginning in financial year 2019. This new standard applies in particular to how ADLER accounts for lease agreements as well as motor vehicle and IT leases and has a material effect on the net assets, financial position and profit or loss of the Company. In order to ensure a high level of transparency and good comparability, "prior to IFRS 16" figures are also presented below where relevant.

FINANCIAL PERFORMANCE

In the first three months of 2019, the cost of materials decreased by 4.4% from €52.6 million to €50.3 million. The 2.0% decline in gross profit from €50.1 million to €49.1 million was less pronounced than the decrease in revenue. The gross profit on goods sold improved to 49.4% (previous year: 48.8%).

In the first quarter of 2019, personnel expenses increased by 1.2% from €24.9 million to €25.2 million. This includes €0.6 million in transformation costs (previous year: €0.7 million).

Other operating expenses decreased by €4.6 million and totalled €27.5 million as at the end of the reporting period. Prior to IFRS 16, other operating expenses decreased by €4.7 million to €39.5 million.

In the first three months of 2019, marketing costs (€10.7 million) decreased year on year (Q1 2018: €13.0 million). In the first quarter of the previous year, these costs included the costs for the TV campaign. Maintenance and modernisation expenses (€3.5 million) increased by €0.3 million and included €0.2 million in costs for store closures. Building expenditures decreased to €5.1 million (Q1 2018: €5.2 million). Prior to IFRS 16, these expenditures declined by €0.1 million to €17.1 million. Consulting fees and administrative expenses decreased by €1.6 million. Freight and transport costs declined by €0.6 million. Other expenses (€2.5 million) decreased by €0.4 million compared to the prior-year quarter.

Thanks to the improved gross profit on goods sold and the continuing high level of cost discipline, ADLER's earnings fully stemmed the decline in revenue. Earnings before interest, taxes, depreciation and amortisation (EBITDA) improved from €−5.8 million to €−2.3 million. Prior to IFRS 16, EBITDA increased from €−17.8 million in Q1 2018 to €−14.3 in the first three months of 2019.

Depreciation, amortisation and write-downs decreased from €11.6 million in the previous year to €11.2 million. Prior to IFRS 16, depreciation, amortisation and write-downs declined from €4.1 million in the previous year to €3.7 million.

Earnings before interest and taxes (EBIT) increased from €−17.4 million in the prior-year period to €−13.5 million in the first three months of 2019. At €−4.3 million, net finance costs were below the prior-year figure (Q1 2018: €−4.9 million).

Prior to IFRS 16, EBIT amounted to €−18.0 million in the first three months of 2019 after €−21.9 million in the prior-year period. Net finance costs (€−1.2 million) remained roughly level (Q1 2018: €−1.3 million).

In light of the aforementioned developments, earnings before taxes (EBT) improved from €−22.3 million in Q1 2018 to €−17.8 million. In the first three months of 2019, ADLER reported a consolidated net loss of €13.3 million (Q1 2018: consolidated net loss of €16.6 million). This resulted in earnings per share of €−0.72 (based on 18,510,000 no-par value shares). Earnings per share totalled €−0.90 in the same period of the previous year.

Prior to IFRS 16, earnings before taxes (EBT) improved due to the aforementioned developments from €−23.2 million in Q1 2018 to €−19.2 million. In the first three months of 2019, ADLER reported a consolidated net loss of € 14.4 million (Q1 2018: consolidated net loss of € 17.3 million). This resulted in earnings per share of €−0.78 (based on 18,510,000 no-par value shares). Earnings per share totalled €−0.93 in the same period of the previous year.

FINANCIAL POSITION & CASH FLOWS

The ADLER Group's total assets amounted to € 393.2 million as at 31 March 2019; this represents a € 18.8 million decrease compared with total assets as at 31 December 2018 (€ 412.0 million).

Prior to IFRS 16, the ADLER Group's total assets amounted to € 215.8 million as at 31 March 2019; this represents a € 11.0 million decrease compared with total assets as at 31 December 2018 (€ 226.8 million).

Due to fewer additions, intangible assets decreased slightly from €4.8 million as at 31 December 2018 to €4.2 million as at 31 March 2019. IFRS 16 did not have any effect on the "intangible assets" item of the statement of financial position.

Property, plant and equipment decreased in the first three months of 2019, declining from € 239.4 million as at 31 December 2018 to € 229.3 million as at 31 March 2019.

Prior to IFRS 16, property, plant and equipment decreased in the first three months of 2019, declining from € 69.0 million as at 31 December 2018 to € 66.3 million as at 31 March 2019.

Inventories were up 13.5 % to €91.0 million at the end of the reporting period (31 December 2018: € 78.7 million). This is a standard feature of ADLER's business model, since new spring and summer merchandise is purchased in the first quarter.

The procurement of new merchandise also made a significant contribution to the decline in cash and cash equivalents that is likewise normal for the first quarter. These decreased by € 29.1 million to € 25.9 million.

On the equity and liabilities side, the consolidated net loss typically seen in the first quarter caused equity to decrease from € 59.3 million as at the end of 2018 to € 46.0 million as at 31 March 2019. Consequently, the equity ratio decreased from 14.4 % as at 31 December 2018 to 11.7 % as at 31 March 2019.

Prior to IFRS 16, on the equity and liabilities side, the consolidated net loss caused equity to decrease from € 96.3 million as at the end of 2018 to € 81.9 million. As a result, the equity ratio declined from 42.5 % as at 31 December 2018 to 38.0 % as at 31 March 2019.

A significant share of the € 347.2 million in total liabilities was attributable to finance lease liabilities amounting to € 265.7 million (31 December 2018: € 276.2 million).

Prior to IFRS 16, total liabilities amounted to € 133.9 million, of which a significant share was also attributable to finance lease liabilities, which prior to IFRS 16 amounted to € 52.4 million (31 December 2018: € 54.1 million).

As at the end of the reporting period, liabilities from the customer loyalty programme amounted to € 11.3 million (31 December 2018: € 9.8 million).

Trade payables increased to € 30.5 million from € 25.1 million as at 31 December 2018 (31 March 2018: € 38.9 million) due to seasonal factors.

The debt/equity ratio of 7.55 was above the figure for the end of 2018 (5.94) but below the 9.14 recorded as at 31 March 2018.

Prior to IFRS 16, the debt/equity ratio of 1.63 was above the figure for the end of 2018 (1.36) but below the 1.80 recorded as at 31 March 2018.

ADLER's working capital (inventories plus trade receivables less trade payables) is based on the retail business mainly from inventories less accounts payable to suppliers. The rise in trade payables and inventories led to an increase in working capital from €53.6 million as at 31 December 2018 to €60.9 million as at 31 March 2019. As at 31 March 2018, working capital had amounted to €45.1 million.

CASH FLOW & CASH FLOW MANAGEMENT

The cash outflow from operating activities, which amounted to €8.5 million in the first three months of 2018, increased to €13.6 million due primarily to the increase in inventories and the decrease in tax receivables.

In Q1 2019, cash flows from investing activities amounted to €−0.7 million (Q1 2018: €1.2 million).

At €−14.3 million, the free cash flow for the first three months of 2019 fell significantly short of the prior-year figure of €−9.8 million.

Net cash outflows from financing activities remained virtually level at €14.8 million (Q1 2018: net cash outflows of €14.9 million). These primarily included payments connected with liabilities from finance leases.

The application of IFRS 16 led to a €12.0 million decrease in net cash flows from operating activities and simultaneously a €12.0 million increase in net cash flows from financing activities.

Cash and cash equivalents decreased by a total of €29.1 million in the first three months of 2019. These totalled €25.9 million as at the end of the reporting period, which remained a healthy figure given the decline in cash and cash equivalents typically seen in the first quarter.

INVESTMENT

The ADLER Group's investments during the first three months of 2019 totalled €0.4 million (Q1 2018: €1.2 million). Of this figure, €0.3 million (Q1 2018: €0.9 million) was attributable to property, plant and equipment (operating and office equipment) and €0.1 million (Q1 2018: €0.3 million) to intangible assets.

EMPLOYEES

The employee headcount totalled 3,692 as at the reporting date, or approximately 2.3% fewer than in the same period of the previous year (31 March 2018: 3,777). Expressed as FTEs, ADLER employed 2,350 staff, down 2.8% on the prior-year figure of 2,417. In the reporting period, personnel expenses (including transformation costs) increased to €25.2 million (Q1 2018: €24.9 million).

The ADLER Group had 248 trainees as at 31 March 2018, 2.4% fewer than as at the prior-year reporting date (252).

SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

There were no significant events during the reporting period.

RISK REPORT

Opportunities and risks may impact business development positively or negatively. ADLER employs a proven risk management and control system to identify in advance and effectively manage the relevant opportunities and risks. ADLER's risk management is an integral part of all of the Group's decisions and business processes and thus supports the long-term protection of our Company's future success. Against this background, the Group risks are finite and manageable. Currently, there are no material risks that jeopardise the Group's long-term financial position, financial performance or cash flows.

We have detailed the specific risks and opportunities that could have material long-term effects on our financial position, financial performance or cash flows, as well as the structure of ADLER's risk management system; see pages 56 to 61 of our report on the 2018 financial year.

REPORT ON EXPECTED DEVELOPMENTS & OVERALL ASSERTION

ADLER confirms the forecast for its operating business for the current year, as given in the 2018 Annual Report. ADLER's Executive Board does not expect the difficult situation facing the textile retail industry to improve during the 2019 financial year either. Although five ADLER stores were closed during the past financial year, these measures, however, will not be entirely enough to match the prior-year figure of €507.1 million. Instead, consolidated revenue is expected to be just under the €500 million mark. The measures introduced to increase efficiency in previous years, particularly in the logistics and HR areas, are nevertheless expected to lead to a comparable EBITDA (excluding restructuring expenses and prior to the effects from the first-time application of IFRS 16) of between €27–30 million. In 2019 and beyond, ADLER will continue to implement the necessary measures to sustainably increase profitability and return to steady revenue growth. It is in this context that ADLER plans to close several loss-making stores. The Executive Board expects that this will result in non-recurring restructuring expenses of €8–10 million during the current financial year. Accordingly, the Company expects EBITDA after restructuring expenses to amount to €18–21 million. This measure will have a positive effect on the Company's earnings by as early as 2020.

IFRS 16 "Leases" must be applied for the first time for the 2019 financial year. This will boost EBITDA by an additional €46–48 million in the new financial year (see the notes to the consolidated financial statements in the 2018 Annual Report on page 85).

The forecast already includes the expected increase in personnel expenses due to the collective bargaining agreement and the restructuring expenses. ADLER expects only minor changes as it pertains to the €/USD exchange rate. The same applies to the development of key commodity prices.

ADLER'S SHARE PRICE PERFORMANCE

ADLER's share price improved in the reporting period. After closing 2018 at €3.14, the share price initially trended upward and reached its high of €3.71 for the first quarter on 20 February 2019. The share price then dipped slightly and closed out at €3.39 on 29 March 2019. This corresponds to a 7.9% increase as compared to the closing price on 28 December 2018.

CONSOLIDATED FINANCIAL STATEMENT AS AT 31 MARCH 2019

CONSOLIDATED INCOME STATEMENT

€ '000	1 Jan. – 31 Mar. 2019	1 Jan. – 31 Mar. 2018 adjusted*
Revenue	**99,323**	**102,676**
Other operating income	1,305	1,175
Cost of materials	– 50,266	– 52,601
Personnel expenses	– 25,170	– 24,921
Other operating expenses*	– 27,507	– 32,085
EBITDA*	**– 2,316**	**– 5,755**
Depreciation, amortisation and write-downs*	– 11,162	– 11,630
EBIT*	**– 13,477**	**– 17,386**
Other interest and similar income	8	6
Interest and similar expenses*	– 4,293	– 4,937
Net finance costs*	**– 4,284**	**– 4,931**
Net income from operations*	**– 17,762**	**– 22,316**
Income taxes*	4,424	5,688
Consolidated net profit/loss*	**– 13,338**	**– 16,628**
of which attributable to shareholders of Adler Modemärkte AG*	**– 13,338**	**– 16,628**
Earnings per share*/ (continuing operations)**		
Basic in €*/**	– 0.72	– 0.90
Diluted in €*/**	– 0.72	– 0.90

* *For reasons of comparability, the 2018 figures were retrospectively restated to reflect the requirements of the new IFRS 16 effective from 1 January 2019.*

** *Earnings per share were calculated as in the prior-year period on the basis of the weighted average of existing shares in the period from 1 January 2019 to 31 March 2019 in the amount of 18,510,000 shares.*

STATEMENT OF COMPREHENSIVE INCOME

€ '000	1 Jan. – 31 Mar. 2019	1 Jan. – 31 Mar. 2018 adjusted*
Consolidated net profit/loss*	**– 13,338**	**– 16,628**
Currency translation gains from foreign subsidiaries	– 30	24
Remeasurement of defined benefit pension entitlements and similar obligations	0	0
Deferred taxes	0	0
Items that will not be recycled to the income statement going forward	**– 30**	**24**
Change in fair value of financial instruments in equity instruments measured at fair value	9	– 4
Deferred taxes	0	0
Items that may subsequently be recycled to the income statement	**9**	**– 4**
Other comprehensive income	**– 21**	**20**
Consolidated total comprehensive income*	**– 13,358**	**– 16,608**

* *For reasons of comparability, the 2018 figures were retrospectively restated to reflect the requirements of the new IFRS 16 effective from 1 January 2019.*

STATEMENT OF FINANCIAL POSITION

ASSETS € '000	31 Mar. 2019	31 Dec. 2018 adjusted*
Non-current assets		
Intangible assets	4,166	4,797
Property, plant and equipment*	229,265	239,338
Investment property	413	413
Other non-current receivables and assets	238	242
Deferred tax assets*	28,219	23,794
Total non-current assets*	**262,301**	**268,584**
Current assets*		
Inventories	90,960	78,706
Trade receivables	390	2
Other current receivables and assets	13,370	9,483
Financial assets measured at fair value through other comprehensive income	272	263
Cash and cash equivalents	25,880	54,933
Total current assets	**130,872**	**143,387**
TOTAL ASSETS*	**393,173**	**411,971**

* *For reasons of comparability, the 2018 figures were retrospectively restated to reflect the requirements of the new IFRS 16 effective from 1 January 2019.*

EQUITY AND LIABILITIES € '000	31 Mar. 2019	31 Dec. 2018 adjusted*
CAPITAL AND RESERVES		
Subscribed capital	18,510	18,510
Capital reserves	127,408	127,408
Accumulated other comprehensive income	– 2,244	– 2,223
Negative retained earnings*	– 97,706	– 84,368
Total equity*	**45,968**	**59,326**
LIABILITIES		
Non-current liabilities		
Provisions for pensions and similar obligations	5,124	5,202
Other non-current provisions	1,427	1,378
Non-current financial liabilities	1,868	1,949
Liabilities from finance leases*	233,445	242,798
Other non-current liabilities	4,679	4,861
Deferred tax liabilities	114	111
Total non-current liabilities*	**246,657**	**255,298**
Current liabilities		
Other current provisions	6,116	5,560
Liabilities from the customer loyalty card programme	11,340	9,776
Current financial liabilities	320	319
Liabilities from finance leases*	32,289	33,385
Trade payables	30,478	25,094
Other current liabilities	19,635	21,944
Current income tax liabilities	371	269
Total current liabilities*	**100,548**	**96,347**
Total liabilities*	**347,205**	**352,645**
TOTAL EQUITY and LIABILITIES*	**393,173**	**411,971**

* *For reasons of comparability, the 2018 figures were retrospectively restated to reflect the requirements of the new IFRS 16 effective from 1 January 2019.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM 1 JANUARY TO 31 MARCH 2019

€ '000	Subscribed capital	Capital reserves	Accumulated other comprehensive income: Securities	Currency translation	Other changes**	Negative retained earnings*	Total equity*
As at 1 Jan. 2019*	**18,510**	**127,408**	**– 1**	**– 52**	**– 2,171**	**– 84,368**	**59,326**
Dividend payment	0	0	0	0	0	0	0
Consolidated net profit/loss*	0	0	0	0	0	– 13,338	– 13,338
Other comprehensive income	0	0	9	– 30	0	0	– 21
Consolidated total comprehensive income*	0	0	9	– 30	0	– 13,338	– 13,358
As at 31 Mar. 2019	**18,510**	**127,408**	**8**	**– 82**	**– 2,171**	**– 97,706**	**45,968**

* *For reasons of comparability, the 2018 figures were retrospectively restated to reflect the requirements of the new IFRS 16 effective from 1 January 2019.*
** *Other changes relate to actuarial gains and losses less deferred taxes.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM 1 JANUARY TO 31 MARCH 2018

T€	Subscribed capital	Capital reserves	Accumulated other comprehensive income: Securities	Currency translation	Other changes**	Negative retained earnings*	Total equity*
As at 1 Jan. 2018*	**18,510**	**127,408**	**22**	**72**	**–2,180**	**– 83,914**	**59,918**
Dividend payment	0	0	0	0	0	0	0
Consolidated net profit/loss*	0	0	0	0	0	– 16,628	– 16,628
Other comprehensive income	0	0	–4	24	0	0	20
Consolidated total comprehensive income*	0	0	–4	24	0	– 16,628	– 16,608
As at 31 Mar. 2018*	**18,510**	**127,408**	**18**	**96**	**–2,180**	**– 100,542**	**43,310**

* *For reasons of comparability, the 2018 figures were retrospectively restated to reflect the requirements of the new IFRS 16 effective from 1 January 2019.*
** *Other changes relate to actuarial gains and losses less deferred taxes.*

STATEMENT OF CASH FLOWS

€ '000	31 Mar. 2019	31 Mar. 2018 adjusted*
Consolidated profit or loss before tax*	**– 17,762**	**– 22,316**
Depreciation (+) of property, plant and equipment and amortisation of intangible assets*	11,162	11,630
Increase (+)/decrease (–) in pension provisions	– 78	– 85
Gains (–)/losses (+) from the sale of non-current assets	– 8	12
Gains (–)/losses (+) from currency translation	– 34	– 96
Other non-cash expenses (+)/income (–)	4,078	2,200
Net interest income*	4,284	4,931
Interest income	5	6
Interest expense	– 76	– 76
Income taxes refunded (+)/paid (–)	2,174	959
Increase (–)/decrease (+) in inventories	– 15,993	– 11,958
Increase (–)/ decrease (+) of trade receivables and other receivables	– 6,377	40
Increase (+)/decrease (–) of trade payables, other liabilities and other provisions	5,067	6,289
Increase (+)/decrease (–) in other items of the statement of financial position	0	– 73
Cash from (+)/used (–) in operating activities (net cash flow)	**– 13,557**	**– 8,539**
Proceeds from disposals of non-current assets	43	71
Payments for investments in non-current assets	– 777	– 1,283
Cash from (+)/used (–) in investing activities	**– 734**	**– 1,212**
Free cash flow	**– 14,291**	**– 9,751**
Payments in connection with the repayment of loan liabilities	– 79	– 79
Payments in connection with finance lease liabilities*	– 14,683	– 14,930
Cash from (+)/used (–) in financing activities*	**– 14,762**	**– 14,930**
Net decrease (–)/increase (+) in cash and cash equivalents	**– 29,053**	**– 24,681**
Cash and cash equivalents at beginning of period	54,933	63,342
Cash and cash equivalents at end of period	25,880	38,661
Net decrease (–)/increase (+) in cash	**– 29,053**	**– 24,681**

* *For reasons of comparability, the 2018 figures were retrospectively restated to reflect the requirements of the new IFRS 16 effective from 1 January 2019.*

CONDENSED NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2019

PRELIMINARY REMARKS

Adler Modemärkte AG is a corporation (*Kapitalgesellschaft*) in accordance with German law with its registered office at Industriestraße Ost 1–7, Haibach, Federal Republic of Germany. The relevant registration court is located in Aschaffenburg (registered under Number HRB 11581).

The ADLER Group (Adler Modemärkte AG and its subsidiaries) is engaged in apparel retailing and operates specialist clothing stores in Germany, Luxembourg, Austria and Switzerland. Under the trade name "ADLER", the Group operates specialist clothing stores on a stand-alone basis, as part of specialist store or shopping centres, or together with other retailers at locations operated jointly. The range of goods offered by the ADLER stores includes womenswear, menswear and kidswear.

The euro (€) is both the reporting currency and the functional currency of the ADLER Group. Unless stated otherwise, the figures in the notes to the consolidated financial statements are quoted in thousands of euros (€ '000).

In its role as the ADLER Group's holding company, Adler Modemärkte AG assumes Group-wide responsibilities for all of its subsidiaries. In particular, these include procuring goods, marketing, providing IT infrastructure, financial accounting, audits, controlling and legal.

S&E Kapital GmbH, Munich, prepares the consolidated financial statements for the largest group of companies. These financial statements can be obtained at the Company's registered office in Munich. Adler Modemärkte AG, Haibach, prepares the consolidated financial statements for the smallest group of companies. These financial statements can be obtained at the Company's registered office in Haibach.

NOTES ON THE BASES AND METHODS EMPLOYED IN THE CONSOLIDATED FINANCIAL STATEMENTS

ACCOUNTING POLICIES

The consolidated financial statements of Adler Modemärkte AG were prepared in accordance with the requirements of the International Accounting Standards Board (IASB), London, in conformity with International Financial Reporting Standards (IFRSs), as adopted by the EU. The interpretations issued by the IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee and the Standing Interpretations Committee) were also applied. Accordingly, these consolidated interim financial statements as at 31 March 2019 were prepared in accordance with IAS 34 "Interim Financial Reporting". Depreciation and amortisation, additions to provisions for pensions and interest payments are recognised as an expense in the period to which they relate during the year. Income and expenses in connection with taxes on income were determined on the basis of actual tax calculations.

Those International Financial Reporting Standards (IFRSs) were applied that had become mandatory by the end of the reporting period on 31 March 2019.

IFRS 16 was applicable for the first time as at the end of the reporting period and had a material effect on the net assets, financial position and profit or loss of Adler Modemärkte AG.

The transition primarily affected the accounting of lease agreements and motor vehicle and IT leases. Some of the lease agreements were already accounted for as finance leases. The Company has elected to apply the full retrospective transition method in accordance with IFRS 16.C5(a). Pursuant to IAS 8, this method must be applied retrospectively and the figures for the comparative period(s) must be restated. All existing leases as at 1 January 2018 were taken into account. The discount rate applied was the interest rate at the date the agreements were entered into. Differences between the carrying amounts of the assets-in-use and lease liabilities were reported in equity as at 1 January 2018.

The transition to IFRS 16 had the following effects on the quarterly financial statements of Adler Modemärkte AG:

INCOME STATEMENT

€ '000	31 Mar. 2019	IFRS 16	31 Mar. 2019 as presented	31 Mar. 2018	IFRS 16	31 Mar. 2018 adjusted
Other operating expenses	– 39,469	11,962	– 27,507	– 44,158	12,073	– 32,085
EBITDA	**– 14,278**	**11,962**	**– 2,316**	**– 17,828**	**12,073**	**– 5,755**
Depreciation, amortisation and write-downs	– 3,746	– 7,416	– 11,162	– 4,099	– 7,531	– 11,630
EBIT	**– 18,023**	**4,546**	**– 13,477**	**– 21,927**	**4,542**	**– 17,386**
Interest and similar expenses	– 1,189	– 3,104	– 4,293	– 1,291	– 3,646	– 4,937
Net finance costs	– 1,181	– 3,104	– 4,284	– 1,285	– 3,646	– 4,931
Net income from operations	**– 19,204**	**1,442**	**– 17,762**	**– 23,213**	**896**	**– 22,316**
Income taxes	4,846	– 422	4,424	5,957	– 269	5,688
Consolidated net profit/loss	**– 14,358**	**1,020**	**– 13,338**	**– 17,256**	**628**	**– 16,628**

STATEMENT OF FINANCIAL POSITION – ASSETS

€ '000	31 Mar. 2019	IFRS 16	31 Mar. 2019 as presented	31 Dec. 2018	IFRS 16	31 Dec. 2018 adjusted
Property, plant and equipment	66,315	162,951	229,265	69,012	170,326	239,338
Deferred tax assets	13,817	14,402	28,219	8,970	14,824	23,794
Total non-current assets	**84,948**	**177,353**	**262,301**	**83,434**	**185,150**	**268,584**
Total ASSETS	**215,820**	**177,353**	**393,173**	**226,821**	**185,150**	**411,971**

€ '000	31 Mar. 2019	IFRS 16	31 Mar. 2019 as presented	31 Dec. 2018	IFRS 16	31 Dec. 2018 adjusted
Negative capital reserves	– 61,744	– 35,962	– 97,706	– 47,386	– 36,983	– 84,369
Total equity	**81,930**	**– 35,962**	**45,968**	**96,309**	**– 36,982**	**59,326**
Non-current finance lease obligations	45,728	187,717	233,445	47,321	195,477	242,798
Total non-current liabilities	**58,940**	**187,717**	**246,657**	**60,821**	**195,477**	**256,298**
Current financial lease obligations	6,691	25,598	32,289	6,729	26,656	33,385
Total current liabilities	**74,950**	**25,598**	**100,548**	**69,691**	**26,656**	**96,347**
Total liabilities	**133,890**	**213,315**	**347,205**	**130,512**	**222,133**	**352,645**
Total EQUITY and LIABILITIES	**215,820**	**177,353**	**393,173**	**226,821**	**185,150**	**411,971**

STATEMENT OF CASH FLOWS

€ '000	31 Mar. 2019	IFRS 16	31 Mar. 2019 as presented	31 Mar. 2018	IFRS 16	31 Mar. 2018 adjusted
Cash from (+)/used (–) in operating activities (net cash flow)	– 25,519	11,962	– 13,557	– 20,612	12,073	– 8,539
Free cash flow	– 26,253	11,962	– 14,291	– 21,824	12,073	– 9,751
Net decrease (–)/increase (+) in cash and cash equivalents	– 29,053	0	– 29,053	– 24,681	0	– 24,681

There was no early adoption of standards whose application had not yet become mandatory as at 31 March 2019.

The notes to the 2018 consolidated financial statements apply accordingly in particular with respect to the significant accounting policies adopted.

GROUP OF CONSOLIDATED COMPANIES/SHAREHOLDINGS

The consolidated financial statements include Adler Modemärkte AG as well as four German and four foreign subsidiaries. These subsidiaries are listed in the table below.

Name, registered office	Shareholding in %	Currency	Subscribed capital/limited partnership capital in local currency ('000)
Adler Modemärkte Gesellschaft m.b.H., Ansfelden/Austria	100	€ '000	1,500
ADLER MODE S.A., Foetz/Luxembourg	100	€ '000	31
Adler Mode GmbH, Haibach	100	€ '000	25
Adler Mode AG Schweiz, Zug/Switzerland	100	CHF '000	100
Adler Orange GmbH & Co. KG, Haibach	100	€ '000	4,000
Adler Orange Verwaltung GmbH, Haibach	100	€ '000	1,040
A-Team Fashion GmbH, Munich	100	€ '000	25
GBS Grundstücksverwaltungsgesellschaft m.b.H., Vienna, Austria	100	€ '000	37

Due to the fact that the Group holds 100% of shares in the subsidiaries, there are no minority (non-controlling) interests.

ALASKA GmbH & Co. KG, Pullach im Isartal, in which the Group holds no interest, has also been included in the consolidated financial statements as a structured entity in accordance with IFRS 10 on the basis of a rental agreement with Adler Modemärkte AG, Haibach (relating to an administration building).

OTHER NOTES

SEASONAL EFFECTS

The Group's revenue is subject to seasonal fluctuations. For example, revenue and earnings in the third and particularly the fourth quarter are higher than in the other quarters due to the sale of winter merchandise with a higher average selling price for each product.

EARNINGS PER SHARE

There were 18,510,000 existing shares during the period under review. As in the previous year, the weighted average of existing shares amounted to 18,510,000 shares.

Earnings per share amounted to €−0.72 in the first three months of 2019 (31 March 2018: €−0.90 (adjusted)).

Shares bought back during a period are taken into account on a pro-rated basis for the period in which they are in circulation. There are no dilutive effects at the present time.

MATERIAL TRANSACTIONS

There were no material transactions in the reporting period.

SEGMENT REPORTING

31 Mar. 2019 (€ '000)	Stores segment	Reconciliation with IFRS	ADLER Group
Total revenue (net)	99,083	240	99,323
EBITDA	− 16,849	14,533	− 2,316
EBIT	− 18,915	5,438	− 13,477

31 Mar. 2018 (€ '000)	Stores segment	Reconciliation with IFRS	ADLER Group
Total revenue (net)	102,494	182	102,676
EBITDA	− 19,344	13,588	− 5,755
EBIT	− 21,684	4,298	− 17,386

The reconciliation contains differences from various account allocations for internal control purposes and differences arising between national accounting standards and IFRSs.

Where revenue and other operating income is concerned, these differences mainly concern customer discounts and IFRS 15 "Revenue from Contracts with Customers", which has been applicable since 1 January 2018. The differences relating to cost of materials stem from logistics services and inventory measurements, and differences relating to personnel expenses and other operating expenses stem primarily from differences in account allocation and the accounting treatment for leases and pension provisions under German commercial law (HGB) and IFRSs (since Q1 2019 also differences due to accounting treatment in accordance with IFRS 16). Depreciation, amortisation and write-downs under IFRSs include amortisation and write-downs on finance leases and useful lives that in some cases deviate from the useful lives under HGB.

GBS Grundstücksverwaltungsgesellschaft m.b.H., Vienna, Austria, is not included in the segment reporting since it does not conduct operations.

Non-current assets, defined as intangible assets, property, plant and equipment and investment property, are broken down by region as follows:

	31 Mar. 2019			31 Dec. 2018 adjusted*		
€ '000	Germany	International	Group	Germany	International	Group
Non-current assets	192.441	41.403	233.844	201.595	42.953	244.548

* *For reasons of comparability, the 2018 figures were retrospectively restated to reflect the requirements of the new IFRS 16 effective from 1 January 2019.*

RELATED PARTY DISCLOSURES

Since 25 April 2013, Adler Modemärkte AG has been an affiliated company of S&E Kapital GmbH, Munich, and indirectly an affiliated company of Steilmann Holding AG, Munich i.I. Steilmann Holding AG i.I. and its subsidiaries are thus to be considered related parties.

Transactions with related parties are contractually agreed and carried out at arm's length prices.

The following transactions were entered into with related parties:

Goods and services were purchased from the Steilmann Group for €11.2 million (Q1 2018: €9.1 million). These mainly included goods and services from NTS Holding Ltd., Hong Kong. Trade payables/services to related parties of the Steilmann Group amounted to €5.5 million, primarily in connection with the operating business with NTS Holding Ltd., Hong Kong (31 March 2018: €4.4 million).

Goods amounting to €0 thousand were procured from Elan PVT Limited, Hong Kong, in the reporting period (Q1 2018: €14 thousand). The company is associated with a member of the Supervisory Board and is therefore treated as a related party in accordance with IAS 24. The outstanding liabilities to Elan PVT Limited, Hong Kong, for deliveries of goods amounted to €0 thousand as at the reporting date (31 March 2018: €0 thousand).

Remuneration for members of the Supervisory Board in their function as employees amounted to €58 thousand (Q1 2018: €62 thousand) during the reporting period.

For information relating to the remuneration of the Executive Board, please refer to the details given in the consolidated financial statements as at 31 December 2018.

MATERIAL EVENTS AFTER THE END OF THE REPORTING PERIOD

There were no material events after the end of the reporting period from 1 January to 31 March 2019.

GERMAN CORPORATE GOVERNANCE CODE

The current version of the Declaration of Conformity with the German Corporate Governance Code pursuant to § 161 of the German Stock Corporation Act (*Aktiengesetz*, "AktG") can be found on the Company's website at *www.adlermode.de*.

Haibach, 8 May 2019

Thomas Freude	Karsten Odemann	Carmine Petraglia
Chairman of the Executive Board	Member of the Executive Board	Member of the Executive Board

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