ADLER
REAL ESTATE

ANNUAL REPORT

2020

/// KEY FIGURES

In EUR millions Consolidated Statement of Income	2020	2019
Net rental income	239.7	248.7
Earnings from property lettings	211.2	219.3
Earnings from the sale of properties	12.1	0.5
EBIT	353.3	469.0
Consolidated net profit from continuing operations	195.1	275.8
Consolidated net profit	-304.4	367.8
FFO I	85.3	84.4
FFO I per share in EUR (fully diluted)[1)]	1.05	1.06
Consolidated Balance Sheet	**31.12.2020**	**31.12.2019**
Investment properties (including inventories)	5,020.1	5,007.3
EPRA NRV (adjusted and fully diluted)	2,324.2	2,206.2
EPRA NRV per share in EUR (adjusted and fully diluted)[1)]	19.93	27.62
LTV in %[2)]	51.2	49.4
WACD	1.94	2.05
Cash flow	**2020**	**2019**
Net cash flow from operating activities	149.2	94.4
– of which from continuing operations	144.1	94.4
Net cash flow from investing activities	-145.0	-146.9
– of which from continuing operations	-18.9	107.3
Net cash flow from financing activities	-57.4	600.0
– of which from continuing operations	-204.5	600.0
Employees	**31.12.2020**	**31.12.2019**
Number of employees	843	922
FTEs (Full-time equivalents)	778	852
Portfolio	**2020**	**2019**
Portfolio (units)	52,178	58,083
– of which residential	51,389	57,133
– of which commercial	789	950
Average rent (EUR /month/sqm)	6.00	5.60
Vacancy rate (%)	4,3	4,9
Fair value investment properties incl. inventories (EUR m)	5,020	5,007
Net rental income (EUR m)	219.9	224.4

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

/// CONTENT

/// THE MANAGEMENT BOARD

MAXIMILIAN RIENECKER
Board (CEO)

Maximilian Rienecker, born in 1985 in Hamburg and a Master of Science in Management with distinction from the University of Nottingham, was appointed to the Board on 22 December 2017. Initially, he assumed the role of Co-CEO together with Tomas de Vargas Machuca, who stepped down from his position on 15 November 2020. Since then, he has acted as sole CEO. He can draw on more than five years of experience in the real estate industry after roles in sales & marketing at ING Investment Management in Hong Kong and in corporate strategy and M&A at SBM Offshore in Monaco.

SVEN-CHRISTIAN FRANK
Board (COO)

Sven-Christian Frank, born in 1965 in Munich, attorney at law, mediator (DAA) and Real Estate Asset Manager (IREBS), has been a member of the Management Board since 9 June 2016 with responsibility for operational management (asset, property and facility management) and transactions. He has been with ADLER since September 2015 and previously held senior positions in well-known real estate companies such as Gestrim Germany AG and German Real Estate AG.

/// LETTER FROM THE MANAGEMENT BOARD

Dear all,

The year 2020 marked a turning point in the history of ADLER Real Estate AG because our company became an integral part of the new Adler Group, to which the former ADO Properties S.A. and Consus Real Estate AG also belong. The Adler Group is one of the leading listed residential real estate companies in Europe and can, thanks to its structure, support the entire lifecycle of a property from planning and construction to rental and management.

At the time of reporting, the integration of the individual divisions into a new, common organisation was largely complete. The existing structures and processes have been harmonised to create a common corporate organisation – including a new business address. We played an active role in the restructuring and integration processes, bringing our extensive experience to the table and so significantly shaping the new company. This offers tremendous benefits for us because we, too, will profit from the resulting potential leveraged through financial and operational synergies.

It was important to everyone concerned that we successfully completed the process of integrating the organisational structures, personnel and IT infrastructure in a collaborative manner and with a view to achieving a friendly acquisition. We would therefore like to thank all those responsible at ADLER Real Estate AG for their role in driving forward the integration process. We would also like to thank all those employees who were prepared to see these changes as an opportunity for a successful future, to proactively shape the integration process and to become part of the new Adler Group.

Our affiliation with the Adler Group, however, also entails a substantial shift in the focus of our activities away from strategic development toward operational business only. And this means concentrating on day-to-day apartment management within the new group structures. Following the establishment of the new ownership structure, the new majority shareholder – the Adler Group – also announced its intention to conclude a domination agreement with the objective of making the remaining ADLER shareholders an offer for the acquisition of their shares at a later stage.

Until then, you, the remaining shareholders of ADLER Real Estate AG, will continue to be entitled to a detailed economic report. This annual report therefore continues to offer the high level of transparency to which you have become accustomed over previous years and that provides you with a detailed insight into how your company is performing.

Business operations also include a constant review of existing properties' intrinsic values and portfolio optimisation measures. To improve the quality of the portfolio, we sold 5,064 rental units in the third quarter and a further 1,605 rental units in the fourth quarter. Most of these were scattered stocks in small or medium-sized cities that did not harmonise with Adler Group's strategy of concentrating on major large cities in Germany in the future. At the time of reporting, rights and obligations had not yet been transferred in full.

In the course of the integration into Adler Group, there were also changes in the company's management. The previous Co-CEO, Tomas de Vargas Machuca, left the Management Board with effect from 15 November 2020 by mutual agreement. The position is not to be filled again. We would like to take this opportunity to thank him very much for his work on the board. He was instrumental in bringing the financing to a competitive level.

As you can see, 2020 was an extremely eventful year. We would therefore like to thank you, our shareholders, in particular for continuing to place your trust in ADLER.

Yours sincerely

Maximilian Rienecker
CEO

Sven-Christian Frank
COO

/// PORTFOLIO
/// THE ADLER SHARE
/// SUPERVISORY BOARD REPORT

/// PORTFOLIO

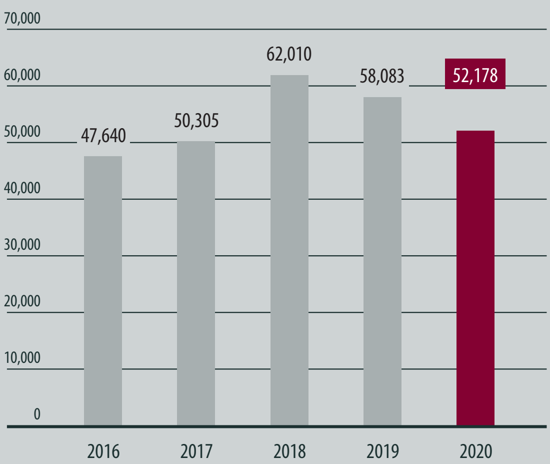
THE PROPERTY PORTFOLIO

At the end of 2020, ADLER's portfolio comprised 52,178 rental units totalling 3.2 million square metres with an annualised net rent (including parking spaces and other areas) of EUR 219.9 million. The fair value of the total portfolio (investment properties and inventories) was EUR 5,020.1 million. The regional focus is on Lower Saxony, North Rhine-Westphalia and Saxony. 2020, the number of units declined by a good 10 percent as a result of further optimisation measures.

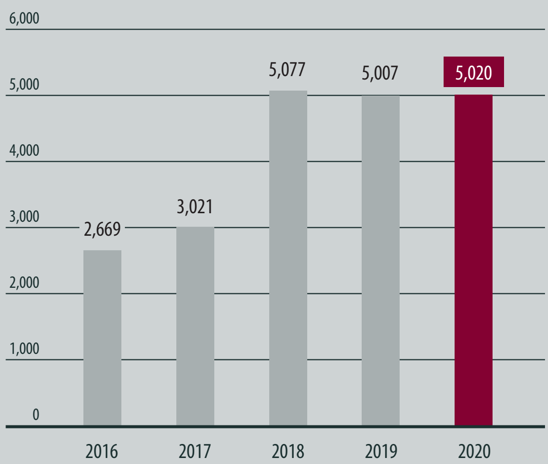
ADLER's residential portfolio also includes a small number of associated commercial units, mainly shops and offices of a type that is often found in city-centre residential properties.

ADLER actively manages its portfolio and, as part of its continuous portfolio optimisation, the underlying features of its assets and market data are assessed to determine the amount and proportion of capital allocated to capital expenditure, maintenance and renovation expenses. This is to ensure that the quality of the apartments is consistent with market standards and to optimise the level of occupancy and rental growth. The most significant external factors determining the positioning of the assets and capital allocation are: socio-demographic trends, expected changes in demand, various infrastructure measures and political decisions. Depending on the outcome of the portfolio analysis, and after coordination with regional managers, different strategies are implemented – such as increasing marketing activities for properties which are of good quality but are located in less favourable areas, or capital expenditure if the area is good but the asset itself is not. Properties of lower quality, as well as properties located in less attractive macroenvironments, are earmarked for sale.

PORTFOLIO
(Investment properties, units)

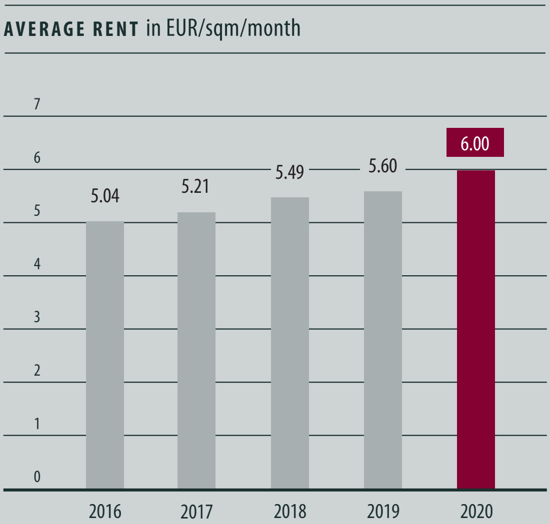


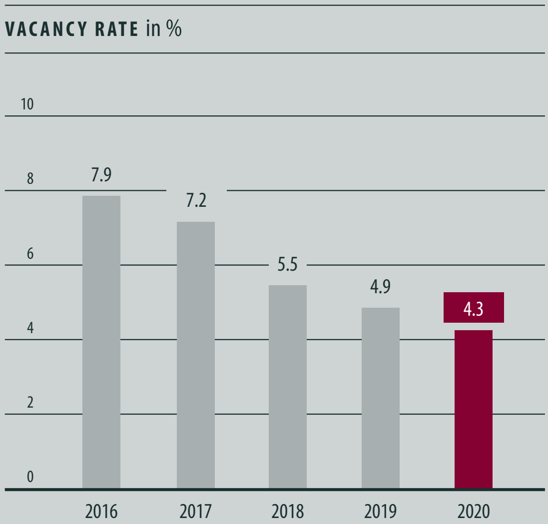
FAIR VALUE INVESTMENT PROPERTIES
(including inventories)



Operating performance – average rent increased, vacancy rate reduced

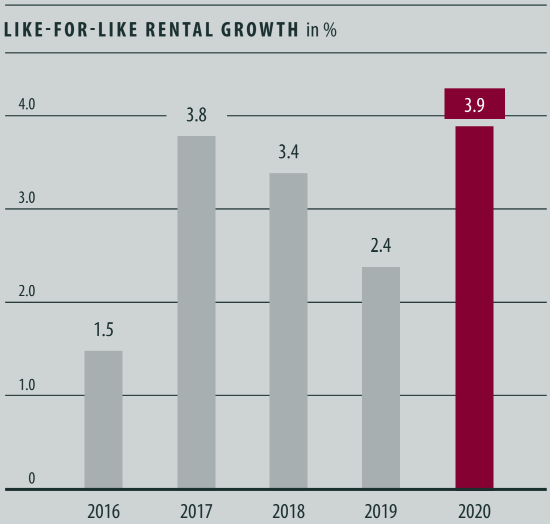
In 2020, the Group once again improved its operating performance. As of 31 December 2020, the average contractually agreed rent per square metre per month amounted to EUR 6.00, an increase of EUR 0.40 compared to EUR 5.60 at the end of 2019. The vacancy rate (excl. units under renovation) stood at 4.3 percent at the end of 2020, a year-on-year improvement of 0.6 percentage points (end of 2019: 4.9 percent). Net rental income increased by 3.9 percent on a like-for-like-basis.

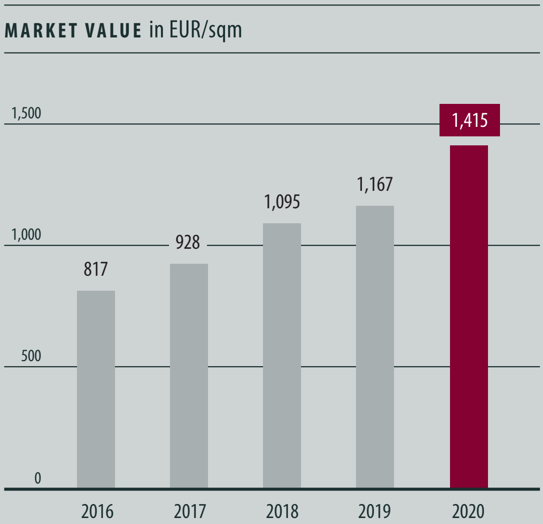




Fair value gains

The fair value of the total portfolio (investment properties plus inventories) calculated in accordance with IFRS was EUR 5,020.1 million at the end of 2020 as compared to EUR 5,007.3 million one year earlier. A decrease resulted from fair value adjustments of the remaining purely commercial properties of BCP due to the COVID-19 pandemic and from the sale of residential units. Positive effects resulted from modernisation measures, building expenses of development projects and positive market developments. In addition, prepayments made for landbanks for development projects were reclassified as investment properties after building work started. In 2020, ADLER invested EUR 71.0 million in maintenance and modernisation measures (previous year: EUR 106.5 million), of which EUR 16.7 million related to ongoing maintenance work and EUR 54.3 million to renovation and modernisation measures which can be capitalised.





Key focus on Lower Saxony and North Rhine-Westphalia

ADLER owns properties located on the edges of larger conurbations. This is particularly apparent in North Rhine-Westphalia, where all of the company's properties are in the Ruhr, which is still Germany's largest industrial region. In Lower Saxony, the property holdings are mainly located in the Wolfsburg/Braunschweig region, a traditionally strong region in economic terms, and in Wilhelmshaven, a city which is benefiting from its deep-water port and from what is the German Navy's largest base on the North Sea. In Saxony and Saxony-Anhalt, the properties are predominantly located in the – in part strongly – growing catchment areas for Halle, Leipzig, Chemnitz and Dresden.

Focus on small to medium-sized residential units

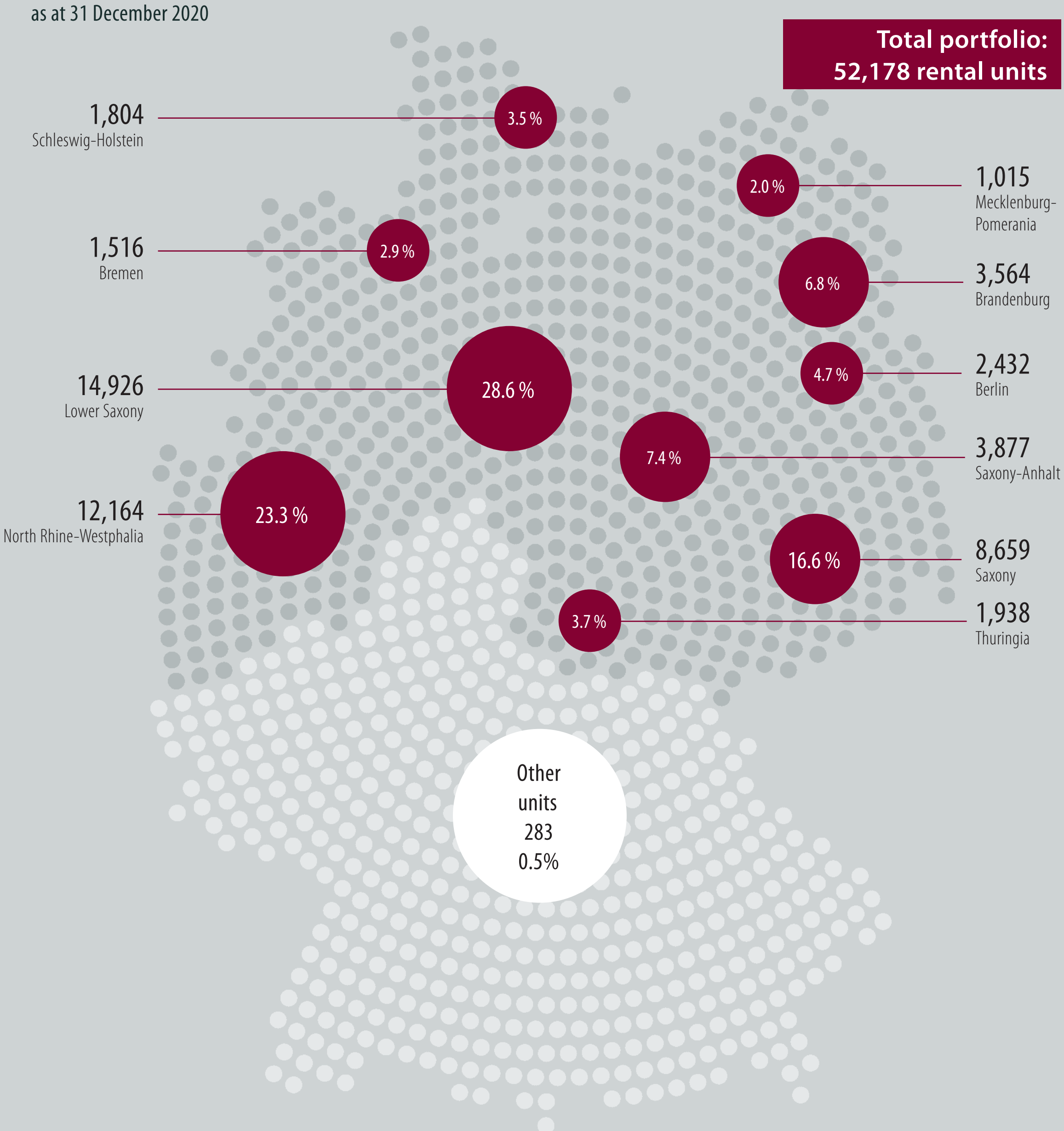
ADLER´s portfolio largely comprises small to medium-sized residential units. The apartments have an average size of just over 60 square metres and are thus particularly suited to the needs of the company's target group, namely tenants with low to medium incomes. For ADLER, this alignment makes economic sense, as its properties satisfy the trend observed for some years now towards an ongoing increase in the number of single-person households in Germany. Moreover, the risk of tenants with low incomes defaulting on their rent payments is reduced as they can obtain support from social security providers if they are unable to settle their obligations from their own incomes.

Projects

Besides its letting business, ADLER has also been investing in modernisation projects, such as adding floors to existing residential buildings and in the construction of new facilities. The acquisition of three neighbouring plots of land on the outskirts of Berlin near Schoenefeld Airport is the basis for a residential project with space for over 2,000 apartments. Planning for the development of the property in Dresden Trachau is expected to commence as soon as the development plan has been approved. In addition, BCP manages several development projects in Dusseldorf, of which one has been sold in a share deal while maintaining a minority stake of 25 percent. These projects will create urgently needed new living spaces. One of the benefits of new construction is that all current requirements relating to energy efficiency and reducing CO_2 are easily met – requirements which can only be achieved with difficulty or at higher costs in existing buildings.

Rental units

as at 31 December 2020



/// THE ADLER SHARE

Stock markets develop positively overall

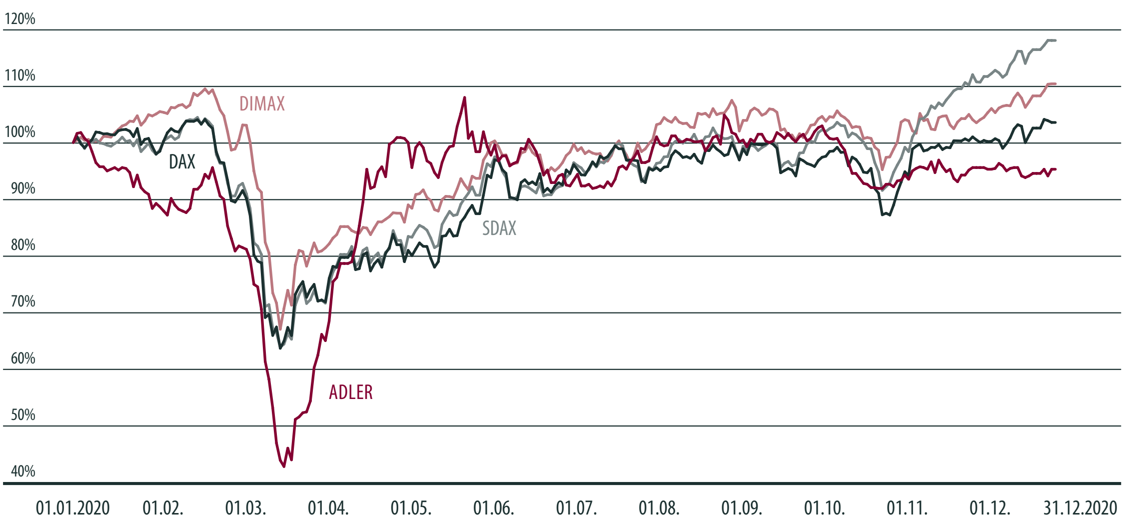
The German stock market developed positively overall in the course of 2020 and recovered noticeably after the historic collapse towards the end of the first quarter. At the beginning of the year, the COVID-19 crisis, and the radical political measures such as lockdown, social distancing and restrictions on freedom of movement that were implemented in many countries around the world, shook the stock markets so hard that the DAX and SDAX lost more than a third of their value in just a few days. However, a turnaround began at the end of the first quarter and continued throughout the rest of the year. Towards the end of the year, when large parts of the world were again affected by rising infection rates and corresponding political measures such as restrictions on social interaction and closures of entire sectors of the economy, share price performance even noticeably picked up. Positive expectations for the future triggered by the US presidential election, extensive government support programmes for suffering economic sectors and successes in the production of vaccines obviously overrode concerns about the current situation.

As a result, the DAX, which had been in negative territory for most of the year, ended the year up a good 3 percent. The SDAX, in which Adler Group, the parent company of ADLER, is listed, even recorded a year-on-year gain of more than 18 percent. Both indices particularly benefited from the strong price increases in the last two months of the year.

The Solactive DIMAX, the index comprising Germany's major listed property holding companies, was a good 10 percent higher at the end of December than at the beginning of the year. Investors are likely to have noted positively that the development of revenue and earnings in the property sector has suffered comparatively little from the COVID-19 crisis, although the crisis and the associated increase in unemployment have also affected the dynamics of the housing market – and thus the expectations for revenue and earnings growth in the coming years.

The development of ADLER shares essentially followed the same pattern as the above indices. However, the share price at the end of the year was almost 5 percent lower than at the beginning of the year. It should be noted that the current free float accounts for no more than roughly 4 percent of the total number of shares following the successful completion of the takeover bid by Adler Group. The market for ADLER shares has thus narrowed considerably due to the corresponding effects on transaction volumes and volatility.

DEVELOPMENT OF THE DAX, SDAX, DIMAX AND THE ADLER SHARE 2020 | JANUARY 2020 =100



Number of shares and share of Adler Group increased

In the course of the Adler Group takeover offer, which at the time was then still operating under the name ADO Properties, the number of shares rose considerably, as a large proportion of holders of the outstanding 2016/2021 convertible bonds wanted to participate in the Adler Group offer and exercised their conversion rights accordingly. After the takeover, bonds continued to be converted in small volumes only. As at the balance sheet date of 31 December 2020, shareholders' equity of ADLER consisted of 73,658,680 shares with a nominal value of EUR 1.00 per share. This was an increase of 2,594,937 shares compared to the end of the previous year.

The shareholder structure has changed significantly as a result of the takeover offer. As of 31 December 2020, Adler Group held 95.86 percent of ADLER shares. The free float accounted for 4.14 percent of the total only. Following the establishment of the new ownership structure, Adler Group announced its intention to conclude a domination agreement with the objective of making the remaining ADLER shareholders an offer for the acquisition of their shares at a later stage.

Towards the end of the reporting period, ADLER reached an agreement with Adler Group to transfer 35,107,487 new shares from authorised capital in a debt-to-equity swap.

Investor relations realigned

Following the successful takeover offer, ADLER has limited its investor relations activities. Instead, all efforts are now focused on presenting the new combined company in the capital markets, to which all activities can be seamlessly transferred since the continuity of personnel has been guaranteed. However, as long as it is listed as an independent public limited company, ADLER will continue to meet its associated obligations which, among others, comprise quarterly reporting.

/// REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

In the past financial year, the Supervisory Board of ADLER Real Estate AG performed the duties assigned to it by law and the Articles of Association on an ongoing basis. These duties were carried out both in regular meetings and in individual discussions. The Supervisory Board supported the Management Board in an advisory capacity and monitored its activity. To this end, the Supervisory Board ensured it was informed about the company's financial position and has adopted appropriate resolutions. The Supervisory Board was in regular contact with the Management Board outside the meeting framework as well and was kept continually informed about the latest business developments. The Supervisory Board was directly involved in all decisions of fundamental importance to the company or the Group.

Changes in composition

In the 2020 financial year, there were changes in the compositions of both the Supervisory Board and the Management Board. The former Chairman of the Supervisory Board, Dr. Dirk Hoffmann, resigned from office effective 29 February 2020. On 20 March 2020, Martin Billhardt was nominated by court as member of the Supervisory Board. He was elected Chairman of the Board in the Supervisory Board meeting on 25 March 2020 and confirmed as a member of the Supervisory Board by the company's Annual General Meeting on 15 December 2020. At the constituent meeting of the Supervisory Board on the same day, Martin Billhardt was also re-elected Chairman of the Board.

The previous Co-CEO, Tomas de Vargas Machuca, resigned from the Management Board of ADLER Real Estate AG by mutual agreement effective 15 November 2020. Since then, the Management Board has comprised two members, with Maximilian Rienecker now as sole CEO and Sven-Christian Frank as COO.

Supervisory Board meetings

The Management Board reports to the Supervisory Board at regular joint meetings. These are based on written reports submitted by the Management Board. With these reports, the Supervisory Board was kept informed both about the overall situation of the company and its subsidiaries and about individual matters of greater importance. The course of business, the company's situation, profitability and liquidity and its intended business policy and other fundamental matters of corporate management formed the key focuses of discussions, as did the situation of the Group's subsidiaries.

The Supervisory Board held a total of four scheduled in-person meetings during the 2020 financial year. These took place on 25 March, 27 July, 1 October and 15 December. All members of the Supervisory Board attended the meetings in person. Board resolutions were further taken at a total of four extraordinary Supervisory Board meetings or telephone conferences and by way of circular procedures. These also were attended by all Supervisory Board members. Further meetings of the Supervisory Board served the exchange of information without resolutions being taken.

As, pursuant to the Articles of Association, the company's Supervisory Board comprises only three members, no committees have been formed. Within the framework of their activities, all Supervisory Board members addressed all of the tasks incumbent on the Supervisory Board.

Accordingly, all matters brought to the attention of the Supervisory Board and proposed resolutions were discussed and decided by the Supervisory Board as a whole. Following a proper review, the Supervisory Board consented to all transactions and measures requiring its approval as far as possible.

The Management Board provided the Supervisory Board with written quarterly reports on the course and status of business, the company's and the group´s profitability and liquidity, the business policies pursued and other fundamental matters of corporate planning.

Key focuses of activities

At its regular meetings, the Supervisory Board focused consistently on significant questions relating to corporate strategy, corporate planning and business development for the Group and the company as well as questions relating to financial and investment planning. The Board also dealt with risk and compliance reporting.

The focus of the Supervisory Board activities initially related to supporting measures to refinance the ADO Group, which led to a streamlining and simplification of the company's financing structure. ADLER held its stake in ADO Properties via the ADO Group. Until the middle of the year, attention was then focused on the voluntary takeover offer made by ADO Properties (today Adler Group) to the shareholders of ADLER Real Estate, which was then also supported by the Management Board and Supervisory Board with a positive recommendation to the shareholders. In the second half of the year, the Supervisory Board focused on the targeted debt-to-equity swap, which will strengthen ADLER's equity base. Later, it also focused on the sale of various sub-portfolios, which made sense in the course of portfolio optimisation to improve operating ratios as well as to further strengthen the financing structure, especially the LTV.

The Supervisory Board also supported ADLER on the path to integration into the Group, now called Adler Group, in which the former ADO Properties and Consus Real Estate have found a common roof together with ADLER Real Estate.

German Corporate Governance Code (DCGK)

Like the Management Board, the Supervisory Board is convinced that the German Corporate Governance Code (DCGK) sets out internationally and nationally recognised standards for good and responsible corporate management, which serve to enhance the management and supervision of publicly listed companies in Germany.

The provisions governing the management and supervision of publicly listed companies in Germany as pooled in the DCGK, as well as the recommendations and suggestions included in the Code in regard to internationally and nationally recognised standards of good and responsible corporate management, have been implemented at the company since 2002, i.e. the year of introduction of the Code, by the Management and Supervisory Boards of ADLER Real Estate AG. These provisions were implemented with few exceptions, and this practice has been retained in each case in the years since. To the extent that the provisions of the DCGK in its respectively valid form have not been complied with, this has been explained in the Declaration of Conformity pursuant to § 161 of the German Stock Corporation Act. This declaration has been made permanently available in its respectively valid version in the Investor Relations section of the company's website. Insofar as deviations from the provisions of the DCGK have occurred during the year, the Declaration of Conformity was updated accordingly.

ADLER Real Estate AG publishes its Declaration of Conformity on its website upon publication of its Corporate Governance Declaration pursuant to § 289f of the German Commercial Code (HGB).

In December 2020, the Management Board and Supervisory Board jointly issued an updated Declaration of Conformity in accordance with Section 161 of the German Stock Corporation Act, which is published on the company's website. The act implementing the Second Shareholders' Rights Directive (ARUG II), which came into effect on 1 January 2020, and the new version of the German Corporate Governance Code 2020 were continuously monitored and are taken into account to the necessary extent in the work of the Supervisory Board.

There were no indications of any conflicts of interest on the part of either the Supervisory Board or the Management Board in the 2020 financial year.

2020 annual and consolidated financial statements

The annual financial statements of ADLER Real Estate AG prepared by the Management Board and the consolidated financial statements, including the combined management report, for the 2020 financial year have each been audited and provided with unqualified audit opinions by Ebner Stolz GmbH & Co. KG Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, the audit company elected by the Annual General Meeting on 15 December 2020.

The annual financial statements (HGB) and the consolidated financial statements (IFRS), including the combined management report, were submitted to the Supervisory Board for review, as were the auditor's reports on its audit of the annual and consolidated financial statements. At the meeting held to adopt the financial statements on 24 March 2021, the Supervisory Board discussed the documents relating to the annual financial and consolidated financial statements and reports with the Management Board. Its focus lay particularly on matters pertaining to the valuation of current and non-current assets, and in-depth discussions on this point were held. At this meeting, the auditor reported on the key findings of its audits and was on hand to provide the Supervisory Board with additional information. Based on its own review of the annual financial statements, consolidated financial statements and the combined management report, the Supervisory Board endorsed the auditor's findings and raised no objections following the final results of its review. By resolution dated 24 March 2021, the Supervisory Board approved the annual financial statements, which were thereby adopted pursuant to § 172 of the German Stock Corporation Act, and the consolidated financial statements.

Members of the Supervisory Board

Pursuant to § 96 AktG, the Supervisory Board comprises shareholder representatives.

The Supervisory Board would like to thank the employees of the Adler Group for their achievements, their commitment and their loyalty.

Berlin, March 2021

Martin Billhardt

Supervisory Board Chairman

/// COMBINED MANAGEMENT REPORT 2020

/// COMBINED MANAGEMENT REPORT 2020

1. GROUP FUNDAMENTALS OF ADLER REAL ESTATE AG

BUSINESS MODEL

ADLER is one of Germany's leading residential property companies with a focus on affordable housing. Its portfolio is primarily located in – or on the outskirts of – large and growing conurbations in northern, eastern and western Germany and has considerable upside potential in terms of revaluation gains, vacancy reduction and rent uplifts. All of the Group's properties and business operations are located in Germany. The Group's residential portfolio has been built up over the past six years by acquiring individual portfolios or shares in property-holding companies.

ADLER's core business model is the long-term letting of flats and the generation of sustainable cash flows with a selective exposure to project developments with a 'build and hold' strategy, preferably in 'A' cities. To maximise long-term profitability, ADLER's residential real estate management business is complemented with advantageous acquisitions and disposals.

All main functions relating to property management are carried out through the staff of Adler Group, of which ADLER has been part of since the middle of 2020. The daily management of the portfolio continues to be in the hands of group companies like ADLER Wohnen Service GmbH, ADLER Gebaeude Service GmbH and ADLER Energie Service GmbH. The BCP portfolio is currently managed by the group company RT Facility Management GmbH.

Residential real estate portfolio

As at 31 December 2020, ADLER's portfolio comprised 52,178 rental units with a total area of 3.2 million square metres. The regional focus is on the German states of Lower Saxony, North Rhine-Westphalia and Saxony.

ADLER's portfolio is largely composed of small to medium-sized residential units. The apartments have an average size of slightly over 60 square metres and are particularly well suited to the needs of the company's target group, namely tenants with low to medium incomes. The risk of tenants with low incomes defaulting on their rent payments is low as they can obtain support from social security providers if they are unable to settle their obligations from their own income. Furthermore, this category of affordable living space is also increasingly sought-after by municipalities and local councils on the lookout for permanent homes for people with particular needs.

ADLER actively manages its portfolio and, as part of its continuous portfolio optimisation strategy, the underlying features of its assets and market data are regularly assessed to determine the amount and proportion of capital to be allocated in terms of capital expenditure, maintenance and renovation expenses. This is to ensure that the quality of the flats is consistent with market standards as well as to optimise the level of occupancy and rental growth. Significant external factors determining the positioning of the assets and capital allocation are socio-demographic trends, expected changes in demand, various infrastructure measures and political decisions. Depending on the outcome of the portfolio analysis, regular discussions are held with regional managers to ensure the operational strategy is implemented – such as increasing marketing activities for properties that are of good quality but located in less favourable areas, or capital investment measures if the area is good but the asset itself is not. Properties of lower quality, as well as properties located in less attractive macroenvironments, are thus earmarked for sale.

Acquisition strategy

Following its integration into the new Adler Group, ADLER will no longer pursue its former independent acquisition strategy but will instead follow the overall strategy of the new Group. Up to now, ADLER intended to expand its residential portfolio further through acquisitions of shares in companies as well as individual portfolios or assets, and thus focused its investments on residential property portfolios with core market quality. When suitable market opportunities arose, ADLER also supplemented its portfolio by investing in 'core plus locations' in mid-sized cities or cities such as Berlin or Leipzig in order to benefit from diversification and value growth in these markets.

ADLER regularly streamlined its portfolio as part of its portfolio optimisation process and sold properties that had a below-average operating performance or were widely scattered and therefore required a great deal of effort to manage.

ADLER believes acquisitions only make sense when the properties promise to generate positive cash flows from the time of the acquisition onwards. As it has become increasingly challenging to acquire portfolios at attractive yields, and as purchasing prices have come closer to construction costs, ADLER also explored the possibility of expanding its portfolio by way of investing in project developments, portfolio densification or loft conversions of existing portfolios to complement its approach. The number of development projects increased with the acquisition of BCP. However, the exposure to these value-added activities has amounted to a rather small, single-digit percentage of ADLER's balance sheet total only.

Financing strategy

Following its integration into the new Adler Group, ADLER has ceased to pursue an independent financing strategy, but rather is subject to decisions taken by the new Group.

Owing to economic efficiency and risk considerations, ADLER has always believed that the appropriate ratio of equity to debt for financing its group activities is one that produces a loan-to-value (LTV) consistent with an investment grade rating.

This objective continues to apply at Adler Group level. However, as part of ADLER Group, ADLER no longer pursues its own objectives with regard to the balance sheet structure while it continues to strive for a maturity structure in financing that corresponds to the long-term nature of the financed assets.

By repaying existing liabilities or refinancing existing facilities on more favourable terms, ADLER has also successfully reduced its average cost of debt in recent years.

As part of the new Adler Group, ADLER has favourable access to both the market for secured bank debt and the market for unsecured financing. Access to these two markets significantly reduces refinancing risk, which is one of the major risks associated with the industry. Since the end of 2016, investors, capital market participants and lending banks have been able to benefit from ADLER's ratings as awarded by Standard & Poor's.

MANAGEMENT SYSTEM

Financial performance indicators

The main financial performance indicators used by ADLER are: EPRA net reinstatement value (EPRA NRV, adjusted for goodwill and fully diluted), funds from operations I (FFO I) to indicate cash-flow-based operating earnings and loan-to-value (LTV) to indicate financial stability calculated as net debt/gross asset value.

EPRA NRV has substituted EPRA NAV since 2020 in ADLER´s reporting, following corresponding recommendations by EPRA.

A significant difference between the NRV and the former NAV involves the real estate transfer tax of the properties held which was deducted for the purposes of property valuation and is now to be added again, since a sale is not currently expected.

Non-financial performance indicators

Numerous non-financial performance indicators are regularly monitored within the Group's property management activities. This applies both to the Group's own property management and to the few external service providers with which ADLER still cooperates. These indicators include the occupancy rate, the number of contract termination notices received from tenants, the number of new rental agreements, compliance with time schedules for maintenance measures, the availability of property managers and so forth. Should actual figures significantly deviate from the projected figures, then corrective measures are devised and implemented.

Non-financial key figures also play a major role in the decisions concerning property portfolios. Factors such as changes in local infrastructure, expected demographic developments and potential changes in regional labour markets all influence future growth in the value of properties. An awareness or assessment of these key figures is factored into all decisions around the acquisition or divestment of properties or property portfolios.

Other non-financial performance indicators recorded at ADLER are included in the non-financial reporting. These are not used for active management of the company. From 2020, ADLER will be part of Adler Group's non-financial reporting, which will be made available on the Adler Group's website.

EMPLOYEES

As the group holding company, ADLER has Management Board members but no employees. Operational tasks relating to central administration and portfolio management are performed within the Group by employees of Adler Group who are employed by other group companies and with whom corresponding service contracts exist. These are mainly, but not exclusively, employees of ADLER Real Estate Service GmbH, ADLER Wohnen Service GmbH, ADLER Gebaeude Service GmbH and ADLER Energie Service GmbH. The BCP portfolio is managed by the group company RT Facility Management GmbH. At the end of September 2020, ADLER employed a total of 843 full-time and part-time employees in its group companies, a few more than it did at the same date one year earlier. The majority of employees work in the operating divisions (646 employees). BCP had a total of 132 employees at the end of 2020, most of whom focus on operating activities.

RESEARCH AND DEVELOPMENT

As a real estate group, ADLER does not perform any research and development functions in the traditional sense. However, ongoing market analyses are required to assess future developments in housing markets. Here, ADLER draws on assessments compiled by estate agents' associations, federal authorities, specialist research institutes, valuation companies and bank research departments. This information is supplemented by the internal experience gained from letting properties on site. Moreover, various developments in the construction sector and in building technology also have to be monitored and analysed, as do any changes in regulatory requirements. These insights form an important basis for all of the company's and Group's operating activities.

2. ECONOMIC REPORT

MACROECONOMIC AND SECTOR-SPECIFIC SETTINGS

In 2020 the German economy experienced a major downturn and shrank by 5 percent in comparison with the previous year, which was triggered by the measures initiated in Germany and other countries worldwide to contain the coronavirus pandemic. When entire economic sectors like bricks-and-mortar retail, gastronomy or tourism are temporarily shut down, both they and their suppliers can no longer create value. The public sector has offered extensive financial support for ailing companies of all sizes, but even this was not enough to avoid the massive decrease in gross domestic product. At the end of 2020, the employment figures were 1.6 percent down on the previous year, while unemployment rose by one percentage point to 5.9 percent. On top of this, more than two million people were on short-time work schemes.

The economic downturn is also reflected in the inflation rate, which reached 0.5 percent on average in 2020, having been in negative territory most of the second half of the year. Products based on crude oil in particular had become significantly cheaper with the global economic downturn. In addition, the temporary reduction in VAT contributed substantially to this development.

The property sector, however, and in particular the letting business, has not been affected as much by the crisis afflicting the economy as a whole, with rents showing a continuously stable development. According to the cost-of-living index, German rents increased by 1.4 percent on yearly average and by 1.2 percent in December 2020 compared to the same month in the previous year, outperforming the index strongly. However, it should be noted that a shopping basket weighted for 'normal' times is less meaningful in the event of macroeconomic distortion such as that caused by the pandemic. The average rent increase, however, may conceal variations between individual regions, urban and rural locations, new and existing housing and different apartment sizes. Nor does it reflect the fact that individual companies such as ADLER have temporarily suspended rent increases in response to the exceptional circumstances affecting the whole of society.

Legal framework

The legal framework had changed temporarily in the first half of 2020 in response to the coronavirus crisis. Between April and June, tenants were allowed under certain conditions to suspend their rent payments and catch up over the course of two years. This regulation expired at the end of June 2020.

In order to stimulate consumption and to alleviate the hardships associated with the coronavirus measures, the federal government had also reduced VAT for the second half of 2020. This brought an economic advantage for companies in the real estate industry. Rents are not subject to VAT. Thus, VAT on purchased products and services cannot be deducted from VAT tax obligations as would otherwise be the case. Where suppliers left their prices unchanged, the expenses for products and services purchased in the second half of 2020 decreased in the order of magnitude of the tax cut.

ECONOMIC DEVELOPMENT OF THE GROUP

The first quarter was marked by the takeover by Adler Group (former ADO Properties) and the prospect of establishing a combined Group which would then be among the largest on the German market. The takeover was successfully concluded in April 2020.

In February 2020, bonds in ADO Group Ltd were prematurely paid back in this context. Via ADO Group, ADLER has held a 33 percent stake in Adler Group since 2019. The redemption resulted in ADLER becoming the sole investor in the company.

In February 2020, the Management and Supervisory Board recommended, in a legally prescribed statement, that ADLER shareholders accept the offer from Adler Group. The fairness opinion obtained from Deutsche Bank and UBS found the offer to be appropriate and fair. The planned merger is in ADLER's best interests.

On 6 March 2020, Adler Group announced that at the end of the first offer period, around 83 percent of ADLER shares had been exchanged for shares in Adler Group.

At the end of March 2020, Martin Billhardt was legally appointed as a new member of the Supervisory Board and was elected Chairman of the Supervisory Board in its meeting on 25 March 2020.

On 25 March 2020, Adler Group also announced a public takeover offer in cash for all outstanding shares in WESTGRUND. The objective of the offer was to simplify the corporate structures.

On 30 March 2020, the Administrative Board of Adler Group appointed Maximilian Rienecker as Co-CEO of ADO Properties.

On 9 April 2020, ADO Properties announced that, following the conclusion of the voluntary takeover offer, almost 92 percent of ADLER shares (without treasury shares) had been exchanged for shares in ADO Properties.

On 28 April 2020, Adler Group announced the initiation of a domination agreement. Should a domination agreement be concluded, ADO Properties also intends to offer to purchase the shares of the minority shareholders of ADLER.

On 25 June 2020, Adler Group announced that, following the end of the additional acceptance period for the public takeover bid for all outstanding WESTGRUND shares, 1.36 percent of shares had been submitted. Adler Group has thereby increased its direct and indirect stakes in WESTGRUND to a total of 98.2 percent.

On 29 June 2020, Adler Group announced its decision to take control of property developer Consus Real Estate AG. This will make ADLER part of a property group that can make use of its own development pipeline to build up its stock of rental apartments. The new group was to be called Adler Group in order to continue the company´s long tradition. The resolution to rename the company was passed at the Annual General Meeting of Adler Group on 29 September 2020.

On 18 September 2020, ADLER signed an agreement to sell 5,064 residential units. The transaction serves to optimise the portfolio and strengthen the balance sheet by deleveraging.

On 1 October 2020, ADLER decided, by way of using authorised capital, to increase the capital by 35,107,487 shares and to transfer the new shares plus the existing treasury shares (1,603,232 shares) to Adler Group as part of a debt-to-equity-swap. In return, Adler Group will transfer part of its receivables from a shareholder loan in the amount of c. EUR 500 million to ADLER.

As of 15 November 2020, Tomas de Vargas Machuca stepped down from the Management Board of ADLER Real Estate AG by mutual understanding. He had been responsible for the company's capital market activities as Chairman of the Executive Committee since 2013, and took over the position of Management Board member and co-CEO in December 2017.

On 21 December 2020, ADLER entered into a binding sale and purchase agreement to dispose of 1,605 rental units. The transaction is part of the strategy to streamline the portfolio, focus on fewer locations and improve operational KPIs.

3. RESULT FROM OPERATIONS, NET ASSETS AND FINANCIAL POSITION

PRELIMINARY REMARKS

The reporting differs from the previous year in that Adler Group (formerly ADO Properties) was fully consolidated in the previous year's financial statements and corresponding pro forma disclosures had been provided for net assets. After Adler Group acquired the majority of ADLER shares as part of a takeover offer in April 2020 which included a capital increase, the controlling influence over Adler Group was lost again. As a result, Adler Group has been deconsolidated again and its assets and liabilities, which were reported under "Non-current assets and liabilities held for sale" until 31 March 2020 in accordance with IFRS 5 (discontinued operations), have been disposed of.

Accordingly, pro forma disclosures on net assets are no longer provided as at 31 December 2020.

RESULT FROM OPERATIONS

ADLER generates its income almost exclusively from the management of its existing properties. This is the main focus of its business model.

In EUR millions	2020	2019
Gross rental income	354.7	370.3
– of which net rental income	239.7	248.7
Expenses from property lettings	-143.5	-151.0
Earnings from property lettings	**211.2**	**219.3**
Income from the sale of properties	836.5	533.8
Expenses from the sale of properties	-824.4	-533.3
Earnings from the sale of properties	**12.1**	**0.5**
Personnel expenses	-45.0	-47.1
Other operating income	19.2	8.4
Other operating expenses	-78.4	-69.0
Income from fair value adjustments of investment properties	239.5	362.6
Depreciation and amortisation	-5.3	-5.7
Earnings before interest and taxes (EBIT)	**353.3**	**469.0**
Financial result	-70.9	-110.7
Net income from at-equity valued investment associates	-5.9	-1.3
Earnings before taxes (EBT)	**276.5**	**357.0**
Income taxes	-81.4	-81.2
Net consolidated result from continuing operations	**195.1**	**275.8**
Earnings after tax from discontinued operations[1]	-499.5	92.0
Net consolidated result	**-304.4**	**367.8**

[1] Consolidated net income from the discontinued operation Adler Group

Earnings from property lettings decreased due to fewer property holdings

In 2020, gross rental income amounted to EUR 354.7 million. This was 4.2 percent lower than in the previous year (2019: EUR 370.3 million). Net rental income was down 3.6 percent year-on-year at EUR 239.7 million (2019: EUR 248.7 million). The downturn in gross and net rental income is mainly due to the fact that while the BCP commercial portfolio significantly contributed to rental income in the business year 2019, it contributed a much smaller amount in 2020 as the majority of the portfolio was already sold and transferred over the course of 2019. This is also the case to some extent for 3,700 or so rental units, which were effectively sold over the first quarter of 2019 in order to streamline the portfolio. A small countereffect was produced by the fact that, at the beginning of 2020, completed rental units of the Riverside (Berlin) and Grafental (Dusseldorf) projects were transferred to the rental portfolio and have since been contributing to rental income.

A positive effect on gross and net rental income also resulted from the fact that the operative performance improved again in 2020.

The average contracted rent per square metre per month was EUR 6.00, EUR 0.40 above the value of the previous year.

The vacancy rate, which does not include apartments under renovation, stood at 4.3 percent at the end of 2020, a year-on-year improvement of 0.6 percentage points.

Expenses from property lettings comprise recoverable and non-recoverable operating expenses and maintenance expenses. These expenses decreased by 5.0 percent year-on-year to EUR 143.5 million in 2020, reflecting the lower number of rental units.

Net of expenses from property lettings, earnings from property lettings amounted to EUR 211.2 million in 2020, 3.7 percent less than in the previous year (2019: EUR 219.3 million).

Positive income from the sale of properties

The income and expenses from the sale of properties stem mainly from the sale of a development project, various smaller commercial portfolios held by BCP, and from the divestment of 5,064 units from the existing portfolio. These sales resulted in an earnings contribution of EUR 12.1 million.

Fair value gains significantly lower than one year ago

At the end of 2020, a market valuation of the investment properties produced a result of EUR 239.5 million (2019: EUR 362.6 million). Although the effects of the COVID-19 crisis caused general uncertainty, related value adjustments of only EUR 21.5 million were applied to BCP's commercial portfolio. With regard to the valuation of residential properties, no significant effects arose from measures to contain the coronavirus. In fact, fair values increased by EUR 261.0 million.

The property valuations are exclusively performed by independent external experts with longstanding experience in this area. Income from fair value adjustments of investment properties is not cash-effective and is therefore not included in the calculation of funds from operations.

Personnel expenses decline

Personnel expenses came to EUR 45.0 million in 2020, down 4.5 percent on the previous year (2019: EUR 47.1 million), the main reason being that one-off expenses were lower in 2020 and staff numbers also decreased in the course of 2020 in connection with the integration into the new Adler Group and the further optimisation of the portfolio. ADLER had a total number of 843 employees as at the reporting date of 31 December 2020, 79 fewer than one year earlier.

Other operating income and expenses reflect one-off expenses

Other operating income reached EUR 19.2 million in 2020 and thus increased significantly over the previous year (EUR 8.4 million), the main reason being that, in the course of the divestment of 5,064 units from the existing portfolio, five former group companies were deconsolidated resulting in a one-off deconsolidation profit of EUR 7.0 million.

Other operating expenses amounted to EUR 78.4 million in 2020 (2019: EUR 69.0 million). This increase can largely be explained by the fact that significant one-off expenses were incurred for legal and advisory services during the acquisition of ADO Group and the subsequent takeover offer from Adler Group. The other operating expenses item also includes general administration expenses, IT expenses, impairments of receivables and public relations expenses.

EBIT affected by fair value adjustments

After taking into account all non-financial expenses, earnings before interest and taxes (EBIT) for 2020 came to EUR 353.3 million. The year-on-year decrease mainly resulted from the fact that valuation gains turned out to be lower than in the previous year.

Improved financial result

At minus EUR 70.9 million, the financial result for 2020 was much better than the figure for the same period of the previous year (2019: minus EUR 110.7 million). This reflects the improved financing conditions that ADLER has secured for its liabilities in recent years. Nevertheless, the financial result also contains a few extraordinary items. For example, one-off financial income resulted from the derecognition of financial liabilities amounting to EUR 30.6 million due to the early repayment of ADO Group bonds, which saw ADLER become the sole investor in the company. Positive income also resulted from the fact that, after the deconsolidation of Adler Group, the market value of both the investment and the convertible bonds held increased (EUR 39.8 million). One-off expenses arose from transaction costs related to the premature repayment of liabilities and expenses in connection with refinancing (EUR 26.9 million).

Earnings before taxes (EBT) came to EUR 276.5 million in 2020, whereas the figure was EUR 357.0 million in 2019.

Income tax expenses amounted to EUR 81.4 million in 2020 and thus stayed on the same level as in the previous year when they came to EUR 81.2 million. EUR 51.3 million or 63.0 percent of tax expenses related to non-cash-effective deferred taxes while EUR 30.1 million or 37.0 percent related to cash-effective tax expenses.

Consolidated net profit from continuing operations was EUR 195.1 million in 2020 (2019: EUR 275.8 million). Consolidated net profit from discontinued operations, which exclusively comprises Adler Group, came to minus EUR 499.5 million as the fair value of the investment at the time of acquisition was significantly higher than at the time of deconsolidation – partly reflecting the effect which the COVID-19 pandemic had on stock prices in general. Total consolidated net profit was minus EUR 304.4 million in 2020 (2019: EUR 367.8 million), of which minus EUR 351.9 million was attributable to shareholders in the parent company (2019: EUR 238.3 million).

Segment reporting

In its segment reporting, ADLER distinguishes between Rental and Other segments.

The Rental segment includes all ADLER's portfolios, which ADLER holds with the aim of generating long-term gross rental income through letting. Gross rental income and the expenses associated with the letting business reflect the activities of the Group's Asset and Property Management unit, which manages residential units held in the portfolio in technical and commercial terms. This segment also includes expenses for craftsmen and caretaker services, which are provided by the Group's internal Facility Management unit. To a limited extent, the segment also comprises commercial assets of BCP and developments that are intended to be sold to third parties and are thus not intended to be transferred to the rental portfolio.

Group activities that do not constitute stand alone segments are pooled in the Other column. These mainly involve historic holdings relating to development projects that are still in the process of being sold off.

The following table shows the allocation of income and earnings, operating and financial expenses and results to the segments.

ADLER Group	Rental		Other		Group	
In EUR millions	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Gross rental income and income from the sale of properties	1,191.0	904.0	0.2	0.2	1,191.2	904.2
– of which gross rental income	354.5	370.2	0.2	0.2	354.7	370.4
– of which income from sales	836.5	533.8	0.0	0.0	836.5	533.8
Change in the value of investment property	239.5	362.6	0.0	0.0	239.5	362.6
Earnings before interest and taxes (EBIT)	**353.3**	**468.8**	**0.0**	**0.2**	**353.3**	**469.0**
Net income from at-equity-valued investment associates	-5.9	-1.3	0.0	0.0	-5.9	-1.3
Financial result	**-71.1**	**-110.8**	**0.1**	**0.1**	**-70.9**	**-110.7**
Earnings before taxes (EBT)	**276.4**	**356.7**	**0.1**	**0.3**	**276.5**	**357.0**

Funds from Operations (FFO) stable

As is customary in the real estate sector, ADLER refers to funds from operations (FFO I) as its major cash-flow-based performance indicator in order to assess the profitability of its operating business. FFO I represents the performance of the property letting business.

As is documented in the overview provided below, FFO I is determined by first calculating earnings before interest, taxes, depreciation and amortisation, impairment losses and income from fair value adjustments of investment properties (EBITDA IFRS), and then adjusting this figure to exclude non-recurring and extraordinary items (adjusted EBITDA). The adjustments made involve items that are of a non-periodic nature, recur irregularly, are not typical for operations or are non-cash-effective. These relate, in particular, to the optimisation and development of existing and new business fields and business processes, acquisition and integration expenses arising in the context of acquisitions, refinancing expenses and capital-related measures and further one-off items such as settlements and impairments of receivables. Interest expenses directly incurred in connection with the operating business are then deducted from this adjusted EBITDA figure (FFO interest charges), as are any earnings generated from the sale of properties and current income taxes. Any investments made to maintain the condition of the properties but have not been capitalised are then added.

In EUR millions		2020	2019
Consolidated net profit		**-304.4**	**367.8**
of which from continuing operations		**195.1**	**275.8**
+	Financial result	92.3	18.7
	of which from continuing operations	70.9	110.7
+	Income taxes	79.7	81.2
	of which from continuing operations	81.3	81.2
+	Depreciation and amortisation	5.7	5.7
	of which from continuing operations	5.3	5.7
–	Income from measurement of investment properties	239.5	362.6
	of which from continuing operations	239.5	362.6
–	Net income from at-equity-valued investment associates	-5.9	-1.3
	of which from continuing operations	-5.9	-1.3
EBITDA IFRS (continuing and discontinued operations)		**-360.3**	**112.1**
+/–	Non-recurring and extraordinary items	539.1	57.5
Adjusted EBITDA		**178.8**	**169.6**
–	Interest expense FFO	54.2	66.2
–	Current income taxes	5.0	1.8
+	Preservation capex	3.3	2.0
–	Earnings before interest and taxes from the sale of properties, discontinued operations and minority interests	37.1	19.3
FFO I		**85.9**	**84.4**
Number of shares (basic)[1]		73,658,680	69,460,511
FFO I per share (basic)		1.17	1.22
Number of shares (diluted)[2]		81,482,427	79,879,195
FFO I per share (diluted)		1.05	1.06

[1] 73,658,680 shares as at balance sheet date (previous year: 68,460,511)
[2] Plus 7,823,747 shares from assumed conversion of convertible bonds with entitlement to conversion (previous year: 10,418,684)

Non-recurring and extraordinary items are structured as follows:

Non-recurring and extraordinary items **In EUR millions**	**2020**	**2019**
Non-cash income/expenses and one-off payments	37.6	26.0
Costs of acquisition/integration/sale	499.2	25.8
Optimisation of business model, structuring	2.3	5.7
Total of non-recurring and extraordinary items	**539.1**	**57.5**

Among other things, the loss from the deconsolidation of Adler Group of EUR 497.5 million is included in one-off and extraordinary items.

The FFO interest charge is derived as follows:

Interest expense FFO **In EUR millions**	**2020**	**2019**
Interest income	89.7	102.2
Interest expenses	-182.0	-120.9
Total interest income (continued and discontinued operations)	**-92.3**	**-18.7**
Adjustments		
Prepayment compensation and provision costs	8.3	11.1
Effects of measurement of primary financial instruments	28.3	15.8
Other adjustments	1.5	-74.4
Interest expenses FFO	**-54.2**	**-66.2**

In the reporting period, the negative financial result of Adler Group of the first quarter, valuation effects on financial investments and lending , income from the derecognition of financial liabilities due to the early repayment of ADO Group bonds and currency effects were all recognised in other adjustments.

Calculated this way, FFO I for 2020 increased despite the decline in the number of rental units to EUR 85.9 million, which was EUR 1.5 million or 1.8 percent higher than in the previous year (2019: EUR 84.4 million). Calculated on an undiluted basis, FFO I per share was EUR 1.17 as at 31 December 2020. On a diluted basis (shares issued less treasury shares, plus shares from the assumed conversion of outstanding convertible bonds), FFO I per share amounted to EUR 1.05.

NET ASSETS

In EUR millions	31.12.2020	as percentage of total assets	31.12.2019	as percentage of total assets
Non-current assets	**5,578.4**	**88.7**	**5,288.7**	**49.5**
– of which investments properties	4,951.8	78.7	4,920.0	46.1
Current assets	**601.1**	**9.6**	**554.4**	**5.2**
– of which inventories	68.3	1.1	87.3	0.8
– of which cash and cash equivalents investments	149.9	2.4	237.4	2.2
Non-current assets held for sale	**112.8**	**1.7**	**4,838.6**	**45.3**
Assets	**6,292.3**	**100.0**	**10,681.7**	**100.0**
Equity	**1,580.8**	**25.1**	**3,547.9**	**33.2**
– of which capital stock	73.7	1.2	71.1	0.7
– of which capital reserve	280.2	4.5	309.3	2.9
– of which net retained profit	761.1	12.1	1,093.5	10.2
– of which non-controlling interests	465.8	7.4	2,102.0	19.7
Contributions made to carry out the capital increase decided	**478.2**	**7.6**	**0.0**	**0.0**
Non-current liabilities	**3,073.3**	**48.8**	**4,928.5**	**46.1**
– of which liabilities from convertible bonds	0.0	0.0	122.2	1.1
– of which liabilities from bonds	1,549.0	24.6	2,327.8	21.8
– of which financial liabilities to banks	1,039.2	16.5	2,002.1	18.7
Current liabilities	**1,132.8**	**18.0**	**377.9**	**3.6**
– of which liabilities from convertible bonds	97.4	1.5	1.9	0.0
– of which liabilities from bonds	530.3	8.4	101.6	1.0
– of which financial liabilities to banks	367.3	5.8	157.7	1.5
Liabilities held for sale	**27.2**	**0.5**	**1,827.4**	**17.1**
Equity and liabilities	**6,292.3**	**100.0**	**10,681.7**	**100.0**

As at the reporting date, ADLER had assets totalling EUR 6,292.3 million, about 40 percent less than at the end of the previous year (EUR 10,681.7 million). The decline is almost exclusively due to the deconsolidation of Adler Group.

Investment properties marginally reduced

The value of investment properties was reported to be EUR 4,951.8 million at the end of 2020. At the start of the year, the figure was EUR 4,920.0 million. Investment properties decreased in value for two reasons: first because commercial properties still owned by BCP were subject to impairments caused by government measures to contain the coronavirus, and second due to the sale of 5,064 rental units as part of a wider portfolio optimisation strategy and the transfer of 1,605 rental units to assets held for sale. This was offset by increases in value of almost the same amount, which resulted from capitalised refurbishment and modernisation measures, construction costs for development projects and positive changes in the fair value of residential properties. In the first nine months, advance payments were also made for land within the scope of development projects, which will be reclassified from other non-current assets to investment properties upon the commencement of construction in the second quarter of 2020.

Following the conclusion of a binding sale and purchase agreement for the sale of a 75 percent shareholding in a BCP development project in Dusseldorf in the third quarter of 2019, control over it was transferred at the end of the first quarter of 2020. Following receipt of a partial payment, ADLER recognises non-current receivables from the buyer of EUR 133.2 million as at the balance sheet date, the redemption of which has been agreed along with a defined payment schedule which again is related to the progress of the project. The remaining 25 percent shareholding is reported as EUR 51.7 million under investments in associated companies. There is also a loan for EUR 66.9 million from the associated company. The related investment properties, which had been recognised under non-current assets held for sale (EUR 375.0 million) and liabilities held for sale (EUR 127.5 million) as at 31 December 2019, were already disposed of in the first quarter of 2020.

Current assets amounted to EUR 601.1 million as at the balance sheet date, which was EUR 46.7 million more than at the beginning of the year. Cash and cash equivalents declined as liabilities from ADO Group bonds were repaid at the beginning of the year. Current assets comprise EUR 59.1 million in remaining receivables against the buyer of the shares in ACCENTRO, which ADLER had already sold at the end of 2017 but for which full payment had been postponed several times based on a mutual understanding. Since December 2020, ADLER has been in negotiations regarding the timely repayment of the residual receivable, which bears interest at market rates. The payment period has elapsed without receipt of payment. Management Board and Supervisory Board resolved on March 24, 2021 to extend the payment period again with a due date of September 30, 2021. If no payment should be received by then, the existing collateral could be used to cover the outstanding purchase price claim.

Cash and cash equivalents came to EUR 149.9 million as at 31 December 2020.

Non-current assets held for sale at the end of the third quarter mainly include the properties from the portfolio sale of 1,065 residential and commercial units, for which notarised purchase agreements exist at the balance sheet date.

Shareholders' equity and equity ratio decline due to deconsolidation

Shareholders' equity amounted to EUR 1,580.8 million at the end of 2020. This decrease compared with the end of the previous year (EUR 3,547.9 million) is mainly attributable to the consolidated net loss and to the fact that the share of non-controlling interest has come down considerably with the deconsolidation of Adler Group. The equity ratio reached 25.1 percent compared to 33.2 percent at the end of the previous year.

Liabilities reduced

Non-current liabilities amounted to EUR 3,073.3 million at the end of 2020 and thus decreased considerably compared with the level at the end of the previous year (EUR 4,928.5 million). In particular, liabilities from bonds and to banks, which were initially repaid during the year and replaced by loans from the majority shareholder Adler Group, were significantly reduced. This was due to the transfer of Adler Group shares to the purchaser, the increase in share capital against contributions in kind resolved in the second half of 2020 and registered in February 2021 (reported as at 31 December 2020 as "Contributions made to implement the resolved capital increase") and the transfer of treasury shares to Adler Group. In addition, with the sale of the commercial property at BCP, the associated liabilities were also redeemed. Part of the reduction is also related to the fact that previously non-current liabilities were reclassified to current liabilities. As a result, current liabilities increased to EUR 1,132.8 million (31 December 2019: EUR 377.9 million). In particular, for the EUR 500 million bond tranche maturing in the 2021 financial year, the Adler Group had already declared that it would provide necessary refinancing funds from its own bond issued in January 2021 with a total volume of EUR 1.5 billion.

Liabilities held for sale amounted to EUR 27.2 million at the end of 2020. At the end of the previous year (31 December 2019: EUR 1, 827.4 million) Adler Group was still included in the consolidated financial statements as a discontinued operation.

Loan-to-value (LTV) better than guidance

ADLER calculates LTV as the ratio of adjusted net financial liabilities (financial liabilities adjusted for cash and cash equivalents, non-current assets held for sale, selected financial instruments, purchase price receivables and advance payments minus liabilities held for sale) to ADLER's total property assets, as is customary in the industry. At the end of the third quarter, the LTV, excluding the outstanding convertible bonds, reached 51.2 percent, which is better than the previous target, which had been forecast in the 2019 annual report at around 55 percent. Forecasts of LTV have meanwhile been abandoned due to the integration into the Adler Group.

	In EUR millions	31.12.2020	31.12.2019
Convertible bonds		97.4	124.2
+	Bonds	2,079.3	2,429.5
+	Financial liabilities to banks	1,406.5	2,159.8
+	Financial liabilities to affiliated companies[1]	22.6	-
–	Cash and cash equivalents	149.9	237.4
=	**Net financial liabilities**	**3,455.9**	**4,476.1**
–	Non-current assets held for sale and purchase price receivables, financial instruments minus liabilities associated with assets held for sale[2]	728.3	502.0
=	**Adjusted net financial liabilities**	**2,727.6**	**3,974.1**
Investment properties		4,951.8	4,920.0
+	Inventories	68.3	87.3
+	Property, plant and equipment for property management	16.4	25.3
+	Shares in real estate companies	99.7	59.1
+	Net financial liabilities of Adler Group[2]	0.0	2,709.3
=	**Gross asset value**	**5,136.2**	**7,801.0**
LTV including convertible bonds in %		53.1	50.9
LTV excluding convertible bonds in %		51.2	49.4

[1] Purchase price receivables including interest from the sale of ACCENTRO amounted to EUR 59.1 million (previous year: EUR 56.3 million); non-current assets held for sale excluding Adler Group amounted to EUR 112.8 million (previous year: EUR 429.5 million); equity instruments measured at fair value amounted to EUR 21.7 million (previous year: EUR 6.5 million) and debt instruments amounted to EUR 102.1 million (previous year: EUR 14.7 million); receivables/loans/loans to real estate companies amounted to EUR 459.8 million (previous year: EUR 122.5 million) and liabilities held for sale without Adler Group amounted to EUR 27.3 million (previous year: EUR 127.6 million)

[2] Assets held for sale of EUR 0.0 million (prior year: EUR 4.409,1 million) less liabilities held for sale of EUR 0.0 million (prior year: EUR 1,699.8 million) of Adler Group

The average cost of debt for all of the Adler Group's liabilities (WACD = weighted average cost of debt) amounted to 1.94 percent as at 31 December 2020 (31 December 2019: 2.05 percent).

Net reinstatement value (EPRA NRV)

With effect from 1 January 2020, EPRA has developed three new ratios to replace the NAV to reflect changes in the regulatory framework in Europe. They are the EPRA Net Reinstatement Value (NRV), the EPRA Net Tangible Assets (NTA) and the EPRA Net Disposal Value (NDV). ADLER has therefore focused its reporting on the NRV from the 2020 financial year onwards, as significant sales activities of the residential properties held are regularly only of minor relevance, as is the case with the NTA and NDV. A significant difference between the NRV and the former NAV involves the real estate transfer tax of the properties held, which was deducted for the purposes of property valuation and is now to be added again, since a sale is not currently expected.

The diluted and adjusted EPRA NRV reached EUR 2,324.2 million at the end of 2020, corresponding to EUR 19.93 per share.

In EUR millions	31.12.2020	31.12.2019
Equity	**1,580.8**	**3,547.9**
Non-controlling interests	-465.8	-2,102.0
Equity attributable to ADLER shareholders	**1,115.0**	**1,445.9**
Effect resulting from conversion of convertibles	96.2	122.2
Diluted equity of ADLER shareholders	**1,211.2**	**1,568.1**
Deferred tax liabilities on investment properties	519.2	517.1
Diff. between fair values and carrying amounts of inventory properties	0.2	6.3
RETT on investment properties	282.7	280.8
Fair value of derivative financial instruments	3.1	4.7
Deferred taxes for derivative financial instruments	-0.9	-1.4
EPRA NRV (diluted)	**2,015.5**	**2,375.6**
Goodwill - synergies	-169.4	-169.4
Resolved capital increase[1)]	478.2	-
Adjusted EPRA NRV (diluted)	**2,324.2**	**2,206.2**
Number of shares, diluted[1) 2)]	116,589,916	79,879,195
EPRA NRV per share (diluted) in EUR	**24.73**	**29.74**
Adjusted EPRA NRV per share (diluted) in EUR	**19.93**	**27.62**

1) With the approval of the Supervisory Board, the Executive Board of ADLER had resolved on 2 October 2020 to exercise the authorised capital in the amount of EUR 35,107 k within the scope of a debt-equity swap announced by the company on 30 August 2020 and to increase the company's share capital entered in the commercial register accordingly. The necessary non-cash capital increase in the amount of EUR 478,163k was entered in the commercial register on 23 February 2021

2) 73,658,680 shares as at balance sheet date (previous year: 69,460.511) plus assumed conversion of 7,823,747 outstanding convertibles entitled to be converted (previous year: 10,418,684) and plus the 35,107,489 shares newly created by the capital increase through contributions in kind (previous year: 0).

FINANCIAL POSITION

In EUR millions	2020	2019
Cash flow from operating activities	149.2	94.4
– of which from continuing operations	144.1	94.4
Cash flow from investing activities	-145.0	-146.9
– of which from continuing operations	-18.9	107.3
Cash flow from financing activities	-57.4	600.0
– of which from continuing operations	-204.5	600.0
Change in cash and cash equivalents due to changes in scope of consolidation	-413.7	547.4
Non-cash effective change in cash and cash equivalents from impairment losses	-0.3	-0.1
Non-cash effective change in cash and cash equivalents from currency translation	-7.9	0.0
Cash and cash equivalents at beginning of period	625.0	77.7
Cash and cash equivalents at end of period	150.0	625.0

In 2020, cash flow from operating activities in relation to both the continuing and discontinued operations of Adler Group was impacted by significant one-off expenses for legal and advisory services in connection with Adler Group's takeover offer to ADLER and preparations for the merger of the two companies. It profited from the sale of inventories to a degree which was sufficient to more than compensatee the former effect.

Investing activities resulted in a cash outflow of EUR 145.0 million in 2020, which was due primarily to the acquisition of financial investments by Adler Group before deconsolidation (an increase of investment in Consus) and to investments in the real estate portfolio (investment properties). Cash inflow was generated by the sale of a BCP development project and the disposal of reals estate companies and portfolio properties.

Financing activities resulted in a cash outflow of EUR 57.4 million in 2020. The cash outflow mainly resulted from repayments of ADO Group and BCP bonds. In addition, the cash outflow was affected by unscheduled repayments and scheduled interest and principal payments. This was mainly offset by an increase of the bridging loan that ADLER had taken out to acquire ADO Group, as well as the acquisition of several short-term loans with Adler Group and the sale of shares in subsidiaries of Adler Group to minority shareholders. Lastly, bank loans to property companies of the Group had a positive effect on the cash flow from financing activities.

As at 31 December 2020, the Adler Group had cash and cash equivalents of EUR 150.0 million (31 December 2019: EUR 237.4 million or EUR 625.0 million including Adler Group).

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

OVERALL SUMMARY OF BUSINESS PERFORMANCE AND POSITION OF GROUP

Given the development of the existing property portfolios, the successful implementation of the Group's realignment, the financing structure which – despite the temporary increase in LTV – remains stable as ADLER has become part of the new Adler Group, and the financing facilities being secured on a long-term basis, the business performance and position of the Group are assessed as positive. The foundations have been laid for strong performance in the future.

4. EVENTS AFTER THE BALANCE SHEET DATE

On 23 February 2021 the capital increase in connection with the debt-to-equity-swap which ADLER had initiated in 2020 has been entered into the commercial register, thereby increasing the share of Adler Group in the equity of ADLER Real Estate to 95.86 percent.

No further events with the potential to significantly influence the earnings, assets and financial position of ADLER occurred between the end of the period under report and the editorial deadline for this report. The company's business performance up to the reporting date confirms the statements made in its report on expected developments.

5. REPORT ON EXPECTED DEVELOPMENTS

The statements made concerning the expected development in key financials for the 2021 financial year are based on current planning at ADLER, which includes all group companies. However, planning for 2021 should take into consideration the fact that ADLER is now part of the Adler Group. This means that all relevant decisions concerning ADLER will be made in terms of this Group affiliation. ADLER itself has relinquished its autonomy in this respect.

General conditions slightly sombre, but still stable

ADLER expects the macroeconomic conditions for companies in the property sector to remain stable overall in 2021 as well – despite the weakness in overall economic development triggered by the measures to contain the coronavirus pandemic. Nevertheless, the momentum of rental development has slowed in many regional markets. However, there are no indications of rising vacancy rates or declines in rents for new contracts. There is therefore an unchanged sector-specific expectation that demand for housing will remain high, at least in the metropolitan areas, while supply will increase only in the context of new construction projects already approved. These will certainly help to cover some of the additional demand, but not all. The operating performance data for the past year remained positive despite one of the most severe economic downturns in post-war history. There is no indication that this will fundamentally change in 2021.

Property also remained a sought-after investment in 2020, as evidenced by rising purchase prices and market valuations. As long as interest rates remain at the current low level, this is unlikely to change. Nevertheless, the restrictions in everyday life caused by the coronavirus may lead to significantly delayed processes and possibly also to loss of rent receivables, which may result in the forecast not being met. However, the risk of a sharp drop in business should not be particularly pronounced for ADLER, as the infections are expected to subside.

For 2021, the expectation of a stable occupancy rate therefore again appears to be justified. The same applies to the assumption that there will continue to be a certain, albeit small, scope for rent adjustments. Despite all of these negative factors in the macroeconomic environment, the general conditions remain quite stable overall for companies in the property sector.

Stay successful with smaller portfolio

ADLER adjusted its portfolio by more than 6,000 rental units last year and intends to continue this optimisation in 2021. The aim is to concentrate the portfolio in fewer locations and reduce the scattered properties in smaller and medium sized cities. This will inevitably have an impact on net rental income and FFO I. ADLER therefore expects a slight decrease in net rental income and FFO I in 2021, with net rental income in the range of EUR 225 to 230 million and FFO I in the range of EUR 70 to 75 million.

ADLER no longer makes forecasts for LTV after becoming part of the Adler Group, because these are made at Group level. The NRV is also not forecast because it is largely dependent on valuations over which ADLER has no influence.

	2020 reported	2020 guided	Δ reported to guided
Net Rental Income (EUR m)	240	240 to 245	reached
FFO I (EUR m)	86	75 to 80	exceeded

Previous year's forecasts met and partly exceeded

ADLER was able to meet and partly exceed the 2020 targets it had set itself. Net rental income came out at the lower end of the target corridor while FFO I clearly exceeded the target corridor.

Overall, the forecasts for 2020 provided a very accurate picture of the future economic development of ADLER Real Estate AG.

6. ADDITIONAL STATUTORY DISCLOSURE

Supplementary disclosures pursuant to Section 289a (1) and Section 315a (1) of the German Commercial Code (HGB)

Composition of subscribed capital

The fully paid-up capital stock of ADLER Real Estate AG amounted to EUR 73,658,680 as at 31 December 2020 (previous year: EUR 71,063,743) and was divided into 73,658,680 no-par bearer shares (previous year: 71,063,743). All shares confer the same rights. Each share grants one vote and determines the bearer's interest in the company's net profit.

Restrictions on voting rights and transfers of shares

No restrictions have been agreed in respect of voting rights or transfers of shares.

Direct or indirect voting rights exceeding 10 percent

The company is aware of the following direct or indirect equity interests accounting for more than 10 percent of voting rights at the end of 2020:

An equity interest in Adler Group S.A., Luxembourg, Grand Duchy of Luxembourg, comprising 70,759,977 voting rights in total. This equates to a share of 93.86 percent in the capital stock on the balance sheet date.

Shares with special rights granting powers of control

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

Type of voting right control for employee shareholdings

Like other shareholders, employees with an interest in ADLER's capital stock exercise their rights of control in accordance with statutory provisions and the Articles of Association. There is no indirect voting right control.

Statutory provisions and provisions of the Articles of Association regarding the appointment and dismissal of members of the Management Board and amendments to the Articles of Association

The appointment and dismissal of Management Board members is based on Sections 84 and 85 of the German Stock Corporation Act (AktG). Accordingly, Management Board members are generally appointed by the Supervisory Board for a maximum term of five years and cannot be called from office unless for an important reason. Repeated terms in office, or extensions of terms in office, in each case by five years, are permitted. In addition, Section 7 of the Articles of Association stipulates that the number of Management Board members is determined by the Supervisory Board and that the Management Board consists of one or more persons.

In accordance with Section 179 (2) AktG in connection with Section 22 of the Articles of Association of the company, amendments to the Articles of Association that do not concern a change in the purpose of the company require a resolution of the Annual General Meeting, which requires a simple majority of the capital stock represented in the vote. The Supervisory Board is also authorised, under Section 16 of the Articles of Association, to resolve changes to the Articles of Association that relate solely to the wording.

Powers of the Management Board to issue and buy back shares

Authorisation to acquire treasury shares

By resolution adopted by the Annual General Meeting of ADLER Real Estate Aktiengesellschaft on 11 June 2019, the Management Board is authorised until 10 June 2024 to acquire and dispose of treasury shares up to a total of 10 percent of the capital stock and to use the treasury shares thereby acquired to the exclusion of shareholders' subscription rights. The treasury shares acquired on the basis of this resolution may also be retired. The full wording of the resolution is stated in the invitation to the Annual General Meeting published in the Federal Gazette (Bundesanzeiger) on 29 April 2019. By 2019, the company acquired 2,583,232 treasury shares through three share buyback programmes on the basis of older share buyback authorisations. In 2019, 980,000 of these treasury shares were used as acquisition currency to acquire a property portfolio. In 2020, a further 1,603,232 treasury shares were transferred to Adler Group S.A. as part of a debt-to-equity swap. As at the balance sheet date of 31 December 2020, there were no remaining treasury shares in the company.

Authorised capital as per Section 4 (2) of the Articles of Association

Pursuant to Section 4 (2) of the Articles of Association, the Management Board is authorised until 9 May 2022, subject to the approval of the Supervisory Board, to increase the company's capital stock on one or several occasions by a total of up to EUR 12,500,000 by issuing up to 12,500,000 new no-par bearer shares in return for cash contributions or contributions in kind. The Management Board is authorised, subject to the approval of the Supervisory Board, to exclude shareholders' subscription rights in the cases listed in Section 4 (2) of the Articles of Association.

Authorised capital as per Section 4 (3) of the Articles of Association

Pursuant to Section 4 (3) of the Articles of Association, the Management Board is authorised until 10 June 2024, subject to the approval of the Supervisory Board, to increase the company's capital stock on one or several occasions by a total of up to EUR 23,000,000 by issuing up to 23,000,000 new no-par bearer shares in return for cash contributions or contributions in kind. The Management Board is authorised, subject to the approval of the Supervisory Board, to exclude shareholders' subscription rights in the cases listed in Section 4 (3) of the Articles of Association.

On 29 September 2020, the Management Board resolved, with the approval of the Supervisory Board on 2 October 2020, to utilise the authorised capital pursuant to Section 4 (2) of the Articles of Association and the authorised capital pursuant to Section 4 (3) of the Articles of Association for an increase in share capital against contributions in kind excluding shareholders' subscription rights as part of a debt-to-equity-swap with Adler Group S.A. In the context of the debt-to-equity-swap, the authorised capital pursuant to Section 4 (2) of the Articles of Association was fully utilised in the amount of EUR 12,500,000.00 and the authorised capital pursuant to Section 4 (3) of the Articles of Association was utilised in the amount of EUR 22,607,487.00. This means there is only EUR 392,513.00 left available of the authorised capital pursuant to Section 4 (3) of the Articles of Association. The utilisation of the authorised capital meant that the company's capital stock entered in the Commercial Register was increased from the current level of EUR 71,063,743.00 to EUR 106,171,230.00 through the issue of 35,107,487 new shares. This capital measure was entered in the Commercial Register of Berlin-Charlottenburg on 23 February 2021.

New authorised capital

The Annual General Meeting of the company resolved on 15 December 2020 to create new authorised capital. Pursuant to the new Section 4 (2) of the Articles of Association, under the new authorised capital not yet entered in the Commercial Register, the Management Board is authorised until 14 December 2025, subject to the approval of the Supervisory Board, to increase the company's capital stock on one or several occasions by a total of up to EUR 20,000,000.00 by issuing up to 20,000,000 new no-par bearer shares with a pro rata share in the company's capital stock of EUR 1.00 per share in return for cash contributions or contributions in kind. The Management Board is authorised, subject to the approval of the Supervisory Board, to exclude shareholders' subscription rights in the cases listed in the new Section 4 (2) of the Articles of Association. The new authorised capital was entered in the Commercial Register of Berlin-Charlottenburg on 4 March 2021.

Contingent capital as per Section 4 (4) of the Articles of Association

Pursuant to Section 4 (4) of the Articles of Association, the company's capital stock is contingently increased by up to EUR 22,000,000 by issuing up to 22,000,000 new no-par bearer shares (Contingent Capital 2019).

The contingent capital increase exclusively serves to issue shares to the bearers of warrant or convertible bonds issued until 10 June 2024 on the basis of the authorisation granted by the Annual General Meeting on 11 June 2019.

In accordance with the terms and conditions of the respective warrant and/or convertible bonds, the contingent capital increase also serves to issue shares to bearers of warrant and/or conversion bonds furnished with warrant and/or conversion obligations. The contingent capital increase is only executed to the extent that the bearers of warrant and/or convertible bonds exercise their option and conversion rights, or that the bearers of warrant or convertible bonds obliged to exercise their options or convert their bonds meet such obligations to exercise their options or convert their bonds, to the extent that the option or conversion rights are not satisfied by issuing treasury shares or that other forms of settlement are not drawn on to satisfy the respective claims. The new shares enjoy dividend entitlements from the beginning of the financial year in which they are issued, for all financial years for which the Annual General Meeting has not yet adopted any resolutions in respect of the appropriation of profit.

Contingent capital as per Section 4 (5) of the Articles of Association

Pursuant to Section 4 (5) of the Articles of Association, the company's capital stock is contingently increased by up to EUR 12,000,000 by issuing up to 12,000,000 new no-par bearer shares (Contingent Capital 2015/I).

The contingent capital increase exclusively serves to issue shares to the bearers of warrant or convertible bonds issued until 21 May 2020 on the basis of the authorisation granted by the Annual General Meeting on 22 May 2015 in the version set out in the authorisation adopted by the Annual General Meeting on 9 June 2016.

In accordance with the terms and conditions of the warrant and convertible bonds, the contingent capital increase also serves to issue shares to the bearers of warrant or convertible bonds furnished with option or conversion obligations. The contingent capital increase is only executed to the extent that the bearers of warrant and/or convertible bonds exercise their option and conversion rights, or that the bearers of warrant or convertible bonds obliged to exercise their options or convert their bonds meet such obligations to exercise their options or convert their bonds, to the extent that the option or conversion rights are not satisfied by issuing treasury shares or that other forms of settlement are not drawn on to satisfy the respective claims. The new shares enjoy dividend entitlements from the beginning of the financial year in which they are issued, for all financial years for which the Annual General Meeting has not yet adopted any resolutions in respect of the appropriation of profit.

Following the exercising of conversion rights in connection with the 2016/2021 convertible bond issued on 19 July 2016 (ISIN DE000A161XW6), Contingent Capital 2015/I still amounted to EUR 8,793,181 on the balance sheet date.

Authorisation to issue warrant and/or convertible bonds

2019 Authorisation

By resolution adopted by the Annual General Meeting on 11 June 2016, the Management Board is authorised, subject to approval by the Supervisory Board, to issue, on one or more occasions up to and including 10 June 2024, bearer or registered warrant and/or convertible bonds with a total nominal amount of up to EUR 700,000,000 with a maximum term of ten years, and to grant the bearers of warrant and/or convertible bonds warrant or conversion rights to up to 22,000,000 new no-par bearer shares in the company in accordance with the more detailed terms and conditions of the warrant or convertible bonds.

Shareholders are intrinsically entitled to subscription rights to the warrant or convertible bonds. The Management Board is nevertheless authorised, subject to approval by the Supervisory Board, to exclude shareholders' entitlement to subscribe to warrant or convertible bonds in specific cases. The Management Board is also authorised to stipulate all further details relating to the issue and furnishing of warrant and convertible bonds and their specific terms and conditions.

Significant arrangements subject to a change of control following a takeover bid and their repercussions

Bond conditions of the corporate bonds and convertible bonds issued by ADLER Real Estate AG provide for the fact that the respective bond creditors are entitled to demand premature redemption of their bonds on the conditions set out in the terms of the respective bonds in the event of any potential change of control as a result of a takeover bid. The convertible bonds may also be converted at an adjusted conversion price set out in the terms of the bonds. Agreements subject to a change of control also exist with members of the Management Board and certain employees.

Although a change of control event occurred in 2020, respective entitlements have not been executed.

Compensation agreements with the members of the Management Board or with employees in the event of a takeover bid

Each Management Board member has special termination rights, should a change of control event occur. The respective Management Board member is entitled to receive a settlement payment corresponding to the capitalised basic compensation for the originally agreed remaining term of their employment contract, limited to a maximum of two years, should these special termination rights be exercised.

No special termination right was executed in 2020 by the remaining members of the Board although a change of control event had occurred in 2020.

Basic features of the compensation system

Management Board compensation

The overall structure and amount of Management Board compensation are determined by the Supervisory Board of ADLER Real Estate AG and reviewed at regular intervals. Management Board compensation comprises a non-performance-related fixed annual salary that is paid in equal monthly instalments and non-cash benefits in the form of the provision of a company car and the reimbursement of health and nursing care insurance. Furthermore, Management Board members are also reimbursed for any suitably documented outlays incurred while performing their duties.

In addition to their annual compensation, members of the Management Board receive variable compensation, 60 percent of which is based on the achievement of previously set targets for the respective financial year and 40 percent on the achievement of previously set targets over a period of several years to achieve sustainable value creation at ADLER Real Estate AG. Variable remuneration is limited in its amount and designed so that both positive and negative developments can be taken into account. Within reasonable limits, the Supervisory Board has a margin of discretion in determining the degree of target achievement. In individual cases, such as exceptional performance and the achievement of exceptional results, the Supervisory Board may grant an additional bonus that exceeds the contractually agreed total.

On 9 June 2016, the company's Annual General Meeting resolved to omit an individualised disclosure of Management Board emoluments pursuant to Sections 285 No. 9 a) Sentences 5 to 8 et seq. HGB and Sections 315a (2), 314 (1) No. 6 a) Sentences 5 to 8 et seq. HGB in conjunction with Article 83 of the Introductory Act on the German Commercial Code (EGHGB).

Supervisory Board compensation

The Extraordinary General Meeting held by the company on 15 October 2015 adopted a resolution determining that, alongside the reimbursement of their expenses, each member of the Supervisory Board should receive fixed annual compensation, the amount of which should be determined by the Annual General Meeting. The company's Annual General Meeting on 7 June 2017 set the Supervisory Board compensation as follows: for the 2017 financial year and subsequent financial years, alongside the reimbursement of their expenses, each Supervisory Board member shall receive annual compensation of EUR 50,000. The Chairman receives EUR 100,000 and his deputy receives EUR 75,000.

Should this compensation and reimbursement of expenses be subject to VAT, then this is also reimbursed by the company in cases where it can be separately invoiced by the Supervisory Board member. Furthermore, the company pays the insurance premiums for the liability insurance taken out to cover the activities of its Supervisory Board members (D&O insurance).

Corporate governance declaration pursuant to § 289f HGB and § 315d HGB

The corporate governance declaration is published annually in the Investor Relations/Corporate Governance section of the company's website and can be found at the following URL:
http://adler-ag.com/investor-relations/corporate-governance/declaration-of-corporate-governance

7. REPORT ON RISKS AND OPPORTUNITIES

RISK REPORT

Risk management system

Pursuant to Section 91 (2) of the German Stock Corporation Act, the Management Board is expected to take appropriate measures, particularly to set up a monitoring system, to ensure that developments that could jeopardise the company's continued existence (risks) are identified at an early stage. The risk management system of the Adler Group is the essential component of the Governance-Risk-Compliance rule book of Adler Group S.A. The compliance management system, the internal control system and internal auditing are included as additional elements. Our risk policy is geared towards the planning and implementation of Adler Group's corporate strategy. As part of Adler Group, ADLER takes appropriate risks to exploit entrepreneurial opportunities. In exploiting these business opportunities, an effort is made to avoid inappropriate risks that jeopardise the continued existence of the company.

The core function of the Group-wide risk management system is to recognise developments that pose a risk to the Group's existence, to measure risk-bearing capacity and to assess the extent of the threat. Individual risks are only likely to lead to the company's existence being threatened in extreme cases. Individual risks that can affect the existence of the Group or the parent company when considered together are more dangerous. For instance, increasing interest rates combined with a simultaneous decline in market rent and an increase in the vacancy rate could have an extremely negative impact on the values of investment properties. This negative impact could also result in non-compliance with financial covenants.

For this reason, ADLER, as part of Adler Group, pursues a risk policy that takes account of the Group's risk-bearing capacity.

Following the strategic realignment of Adler Group as an integrated real estate company that covers all stages of the value-added process from purchasing property and creating property through Consus, administering property portfolios, letting property and managing property right through to selling non-core properties, numerous new internal processes were created, adapted and documented in the 2020 financial year as well. As part of this realignment, the processes and individual risks were updated by Compliance & Risk Management.

The risk management system is geared towards the size and requirements of ADLER as part of Adler Group and adapted to ADLER's current risk and opportunities profile. Alongside a team of external consultants, in 2020 we worked on improving and optimising the Adler Group-wide risk management system. In the process, we reviewed the appropriateness and up-to-dateness of the weightings, risk classes and individual risks, making adjustments, amendments and refinements where necessary. The relevant changes were approved by the Management Board of ADLER Real Estate AG.

The most important elements of risk management include a well-considered risk strategy, a responsible risk organisation, regular risk identification and assessment, and meaningful reporting as the basis for introducing effective measures. These include frequent discussions and regular meetings, controlling reports, internal approval processes for far-reaching decisions and checking mechanisms such as the dual control principle. The effectiveness of risk management is also reviewed on an ongoing basis by Internal Auditing and any potential for improvement identified. The primary objective of the Group-wide risk management system, whose functionality is safeguarded by regular internal and external reviews, is to secure the ADLER's existence over the long term as part of Adler Group.

The transformed risk management system is documented in the Adler Group-wide risk management handbook. The risk management handbook acts as a guideline and thus takes on a steering function for management. In addition to being a source of information, it also makes a record of the obligation to continuously implement risk management, making it an integral part of Group-wide corporate governance. Together with the extended risk catalogue and the defined risk organisation, it forms the basis of the current risk assessment as at 31 December 2020.

The risk management handbook sets out the risk organisation and responsibilities, the risk management process including risk identification and assessment, monitoring of the risk management system and risk reporting, as described below.

Risk organisation and responsibilities

The Management Board bears overall responsibility for risk management, making decisions on the risk management structure and process organisation and the resources allocated to it. It defines the risk strategy and risk policies of ADLER as part of Adler Group as well as the risk management procedures. Part of the risk strategy involves drawing up the guidelines for operational risk management, including the setting of loss limits, which if exceeded trigger a requirement to introduce mandatory risk management measures, or tolerance limits for risk acceptance. The findings of the risk management system documented in the reporting are signed off by the Management Board and taken into account in managing the company.

The Supervisory Board regularly monitors the risks and reviews the effectiveness of the current risk management and internal control procedures.

The risk officers are responsible for identifying, assessing, documenting, managing and communicating all material risks in their areas of responsibility. All ADLER employees are also asked to be aware of risk, provide clarity on the risk situation and deal with identified risks in a responsible manner, the aim being to avoid unreasonably high risks.

Risk management process

Central Risk Management coordinates the risk management process, checks the plausibility of and consolidates the risk identification and risk assessment findings of the risk officers and prepares the regular report for the Management Board and Supervisory Board of ADLER Real Estate AG. There is also an internal ad hoc reporting process for material risks and risks that jeopardise the company's existence.

This enables the Management Board to identify and assess material risks in and for the company on a systematic and timely basis and to introduce appropriate measures. Potential risks to the company's value or development are identified at an early stage. An early warning system is also set up within the risk management system as an additional risk identification element. Its purpose is to identify risks at an early enough stage based on weak signals that steps can be taken to avert the risks in advance. It factors in industry- and company-specific early warning indicators and the knowledge of our risk-conscious employees.

Operational risk management processes comprise the assessment of new locations for the acquisition of new properties and property development with a focus on letting and managing the properties. Accompanying risk monitoring includes regular analysis of interest rate and price trends on the real estate markets, modelling of rent and vacancy rates, and continuous monitoring of modernisation and construction costs as well as liquidity.

Risk assessment

Risks are assigned to five risk categories and assessed using a scoring model featuring six loss classes and six probabilities of occurrence. Risk assessment is based on targeted measurement and assessment of identified risks. The scoring model can be used as a basis to directly measure the impact on costs and income, liquidity, values and the image of ADLER. It can also be used to estimate the relevance of the measured risks in order to filter out significant risks. The focus here is on adherence to risk limits and thresholds.

Risks are assigned to one of the following five categories:
- Macroeconomic and sector-specific conditions
- Strategic risks
- Financial and financing risks
- Property management risks (incl. project developments)
- Company-specific risks

ADLER uses a six-point scale for assessing risk. The so-called inclination towards the middle, or "error of central tendency", a well-known phenomenon of empirical social research, was therefore countered by using an even number of scale values in the Group-wide risk management system. Accordingly, in their risk assessment, the risk officers are forced to take a position deviating from the middle. Other, more suitable risk descriptions have also been used for some of the risks.

The following classification is generally used to classify the possible amount of loss:

Classification	Value	Description
Low	1	No significant impact
Medium	2	Slight impact on one or more business process(es)
Significant	3	Significant impact on one or more business process(es)
Drastic	4	Very significant impact on one or more business process(es)
Severe	5	Severe impact on one or more business process(es)
Dangerous to company/project	6	Impacts the whole company or the whole/part of the project in a way that can jeopardise the existence of the company

The following classification is generally used to classify the expected probability of occurrence:

Classification	Value	Description
Improbable	1	Risk has not yet occurred but cannot be ruled out
Remote	2	Expected to occur in the next five years or repeated occurrence over the past seven years
Infrequent	3	Expected to occur in the next three years or repeated occurrence over the past five years
Conceivable	4	Expected to occur in the next two years or repeated occurrence over the past three years
Possible	5	Expected to occur in the next year or repeated occurrence over the past two years
Probable	6	Expected to occur in the next three months or repeated occurrence over the past year

It is possible to consult with the individual risk officer about using a different basis for the description of probability of occurrence for risk classification.

During the assessment, the risks are assigned a score, which is the mean value of the loss class and the probability of occurrence.

Monitoring of risk management system

The risk management system is monitored on a regular basis and adjusted/developed based on changes within the environment and the company. The purpose of risk monitoring is to check that the risk management measures taken are having the desired effect and that the risk exposures being considered meet the specified target values once the management measurements have been implemented. Required adjustments to the key elements of the risk management system are recorded in the risk management handbook on an ongoing basis.

Risk reporting

The risk officers (risk owners) assess the individual risks in their areas of responsibility on a quarterly basis as well as on an ad hoc basis and forward them to Central Risk Management to prepare the quarterly risk management report. They assess the risk classification, i.e. the impact that the risk would have on ADLER or the portfolio to be valued, and the probability of risk occurrence.

Material risks are documented on a quarterly basis in the risk report to the Management Board. The Supervisory Board is regularly provided with in-depth information on the company's business performance and the status of the risk management system and its ongoing improvement. The most important aim of risk reporting is to inform the decision-makers about risk-related developments in a complete, proper and timely manner, taking into account aspects of materiality. This provides a basis for identifying risks in good time and initiating countermeasures at an early stage. New risks with a significant impact on the company or highly negative changes are subject to ad hoc reporting to the Management Board and Supervisory Board. The risk classification system was adapted to some of the changed structures and requirements within the scope of integration into Adler Group in the 2020 financial year. ADLER is fully integrated in the Group-wide risk management system of Adler Group.

Internal control system in respect of the financial reporting process

ADLER's internal control system in respect of the financial reporting process comprises all Group-wide principles, procedures and measures intended to safeguard the efficiency, reliability and correctness of its financial reporting and to secure compliance with the most important legal requirements in order to ensure that external reporting provides a true and fair view of the company. This includes organisational requirements, such as the dual control principle and routine IT process checks performed automatically. Written procedural instructions also set out how the relevant requirements are to be applied.

One key aspect determining the correctness and reliability of financial reporting involves the deliberate segregation of administration, execution, invoicing and approval functions. ADLER safeguards this by appropriately assigning responsibilities. To ensure that assets are accurately valued in line with market standards, ADLER draws on the expertise of external service providers specialising in property valuation. Other regulatory and control activities are intended to ensure that the information provided by accounting records is reliable and transparent.

Overall, the organisational measures are aimed at ensuring that any company-specific or Group-wide changes in business activities are promptly and suitably reflected in the company's financial reporting. The internal control system also safeguards the presentation of changes in the economic or legal environment of ADLER and the Adler Group and ensures the suitable application of new or amended legal accounting requirements.

Accounting processes are recorded using accounting systems customary to the market. Sub-ledger accounting for the properties is executed on a centralised basis in the Group's shared service centre in Hamburg and Munster using a certified housing management software system. The consolidated financial statements are prepared centrally using a leading IT system that is customary to the market and certified by independent auditors.

When preparing the ADLER´s consolidated financial statements, subsidiaries supplement their single-entity financial statements with the required reporting packages. All facts and figures are checked and evaluated by the Controlling or Accounting departments at ADLER. The single-entity financial statements provided by the group companies also undergo the control mechanisms and plausibility checks that are specifically provided for this purpose in the IT system for consolidation. All consolidation entries are made and documented there.

External Auditing works with the Management Board to prepare a risk-oriented audit plan and checks whether the legal framework and guidelines are applied during control and risk management. This monitors the functionality and effectiveness of the defined controls. The Management Report is the designated user of the audit report, which helps it to correct any potential errors and improve the ICS.

Risk assessment as at the balance sheet date of 31 December 2020

The risk assessment as at 31 December 2020 was performed in accordance with the transformed risk management concept. The following section presents the risks and management measures that are seen as especially relevant from the ADLER's perspective in terms of avoiding, reducing and transferring risk.

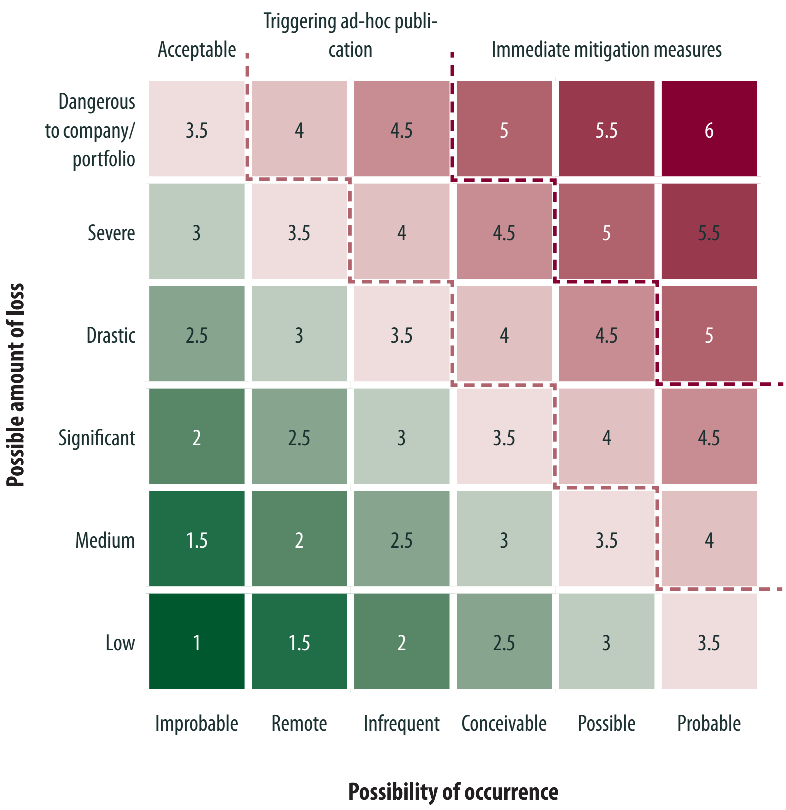
ADLER is exposed to a range of different risks that, either individually or in aggregate, could have an adverse effect on the Group's net assets, financial position and results of operations, or on its business performance moving forward. All risks that ADLER considers significant and drastic are outlined below. Determining their importance also involves setting out the possible effects on ADLER.

A risk is considered relevant if it has a score of more than 3.0 and very relevant if it has a score of greater than or equal to 4.0. The following risk assessment combines risk categories and sub-categories – where appropriate – but also addresses individual risks.

The most significant individual risks for ADLER are as follows:

	Risks	Risk Categories	Valuation
1.	Tax risks	Company-specific risks	4.0
2.	Deterioration of Adler Group's external corporate rating	Financial and financing risks	3.5
3.	Risk from the company form	Strategic risks	3.5
4.	Negative change in the macroeconomic and property sector framework	Macroeconomic and sector specific conditions	3.5
5.	Transaction risk	Property management risk	3.5
6.	Maintenance and modernisation risk	Property management risk	3.0
7.	Sustainability risk	Strategic risks	3.0
8.	Governance and compliance risk	Company-specific risks	3.0
9.	Valuation risk	Financial and financing risks	3.0
10.	(Re)financing risk and risk from capital structure	Financial and financing risks	3.0

Alongside general risks that apply to all companies, the ADLER is exposed in particular to property-specific risks resulting from the purchase, management and sale of property holdings and to real economic and financial risks associated therewith.



Macroeconomic and sector-specific conditions

Negative change in the macroeconomic and property sector framework

The economic performance of ADLER depends to a material extent on developments in the German property market. This, in turn, is affected by macroeconomic developments. At the time of preparing these financial statements, it was difficult to assess the continued impact of coronavirus on the German economy as a whole, and it may well be considerable. However, it is not yet expected to have a direct and, above all, material impact on the German property market. One principal indicator for the scarcity of rented accommodation is the price paid for the temporary assignment of such. As long as rents continue to rise, as is presently apparent in Germany, the risk of losing tenants due to a change in overall conditions on the housing market, and thus of having to accept higher vacancy rates, is limited.

In the case of regulatory and political measures in the area of real estate (e.g. rent brakes, a rent cap in Berlin, a tightening of real estate transfer tax rules and an increase in property tax), potential changes must be investigated at short notice and, where necessary, countermeasures developed.

The fact that ADLER has a diversified portfolio in terms of the regions covered throughout the Group can also be viewed as a risk distribution measure. ADLER is represented by its portfolios in 14 federal states (not including BCP). The majority are in the federal states of Lower Saxony, North Rhine-Westphalia and Saxony, while the other federal states each make up less than 10 percent of ADLER's total property portfolio. In addition, the overall Group portfolio is continually being optimised. Reporting of non-core holdings that are held for sale serves to identify unviable properties, the aim being to sell these and thus offset the associated market risk.

Due to the existing high demand for affordable living space in conurbations, the Management Board assesses the risk of negative changes in the macroeconomic and property sector framework and the impact on net assets, financial position and results of operations as irrelevant.

Pandemic risk

On 30 January 2020, the World Health Organization (WHO) designated the coronavirus outbreak a public health emergency of international concern. Since 11 March 2020, the WHO has classified the spread of coronavirus as a pandemic. The rapid spread of coronavirus has led to a deterioration in the political, socio-economic and financial situation in Germany, which, in turn, could have a negative impact on our company. Any widespread public health crisis, including coronavirus and future pandemics, has the potential to place our tenants in a position in which they are unable to pay their rent on time or at all, drag down the fair value of our properties, trigger a considerable decline in the overall rent level in the affected areas and, ultimately, limit our ability to obtain debt and equity capital at attractive terms if at all. The further spread of coronavirus and the ramifications for ADLER's business are being evaluated continuously. At the time of preparing these financial statements, the continued impact of coronavirus on the German economy as a whole remained uncertain, and could be considerable.

With effect from 25 March 2020, the German government introduced a legislative package to mitigate the impact of coronavirus, which also covers rental and lease agreements. Landlords are not allowed to terminate an agreement solely on the grounds of the tenant paying late during the period from 1 April to 30 June 2020 if the delay in payment is related to the impact of the pandemic and the tenant can credibly prove the link between the pandemic and the late payment. The government is authorised to extend the regulations from 1 July to 30 September 2020.

Because of the pandemic, fewer on-site appointments can take place than before, which makes it more difficult to perform property management. The longer the coronavirus pandemic disrupts social life in Germany, the more likely that ADLER could encounter a risk in the future of a deterioration in its property management and letting services.

An internal crisis team was set up to decide on and coordinate all measures that may be necessary. The managers and employees of ADLER were informed about and trained in the precautionary and specific measures to take in the event of a suspected or confirmed case of illness.

Another consequence of the coronavirus pandemic was a global slump in commodities prices as a result of plant and business closures. ADLER is affected by this as well because one of its subsidiaries has concluded a medium-term framework agreement for the procurement of natural gas. Due to the price escalation clause in the heat supply agreement, tenants can be billed for natural gas only at the market rate. While the pandemic is still continuing, it is not possible to reliably forecast how gas prices are going to develop going forward.

Due to the existing high demand for affordable living space in conurbations, the Management Board assesses the risk of the continued spread of the pandemic and the impact on net assets, financial position and results of operations as irrelevant.

Strategic risks

Risk arising from the company form

Risks arising from the company’s form as a listed stock corporation include not only the requirements of stock corporation and stock exchange law such as publication and reporting obligations and formalities in connection with the Annual General Meeting, but also the recommendations of the Corporate Governance Code.

The Management Board assesses the risk from the company form and the impact on net assets, financial position and results of operations as relevant.

Risks in relation to ADLER’s integration to Adler Group (formerly ADO Properties or Adler Properties)

On 15 December 2019, Adler Group resolved to present a voluntary tender offer in the form of an exchange offer to ADLER shareholders. Adler Properties intended to offer shareholders 0.4164 ADO Properties shares for each ADLER share.

In addition, Adler Group and ADLER signed a business combination agreement. The objects of the business combination agreement include the common understanding of the strategic objectives of both Adler Group and ADLER, portfolio diversification, the intended future corporate structure of the Group, the intended integration process, the timeframe and the terms and conditions of the offer (including certain acceptance thresholds), and the fundamental support of ADLER’s Management Board and Supervisory Board.

Furthermore, a credit facility agreement for EUR 3.463 billion was agreed between Adler Group and J.P. Morgan Securities Plc, J.P. Morgan AG and J.P. Morgan Europe Limited to satisfy any loans that may become due under change of control clauses.

At the beginning of October 2020, with the approval of the Supervisory Board, the ADLER Management Board resolved to utilise authorised capital of EUR 35.1 million as part of a debt-to-equity swap, which the company announced on 30 August 2020, and increase the company's capital stock currently entered in the Commercial Register from EUR 71.1 million to EUR 106.2 million. The company also resolved to transfer its 1,603,232 treasury shares (approximately 2.2 percent of capital stock) to Adler Group S.A. at a price of EUR 13.62 per share. In return, Adler Group contributed a partial amount of its receivable from a shareholder loan worth approximately EUR 500 million to ADLER. An entry of the capital stock increase was yet to be made as at the reporting date, but was completed by the end of February 2021.

ADLER's integration in Adler Group poses a large number of risks. Selected core risks are:

- Change of control clauses could lead to additional expenses for liabilities due immediately in an amount of up to EUR 3.5 billion. However, as things stand at 11 March 2020, creditors (mainly bondholders and bank creditors), who would have special termination rights under these change of control clauses, have signed waivers for around EUR 3.135 billion of a total amount of EUR 3.5 billion.

- Adler Properties used incorrect assumptions in its assessment of the takeover, and it failed to – or did not properly – identify the risks.

- The takeover announcement prompted a significant number of Adler Group employees to hand in their notices of resignation. A considerable amount of expertise stands to be lost in some departments. This loss of staff may have significant negative repercussions for the performance of operational duties with regard to tenants.

- The dependence of the Adler Group portfolio on the regional market may not have been assessed correctly. This may have a negative effect on property values as legal regulations (such as rent brakes and morata on rent increases) can significantly curb growth.

- There is the risk of a change in property fair value in the event of an economic downturn.

- There is the risk of financing costs becoming more expensive for the new Adler Group (e.g. rating downgrade) combined with interest rates going up.

- The tax burden could increase. Adler Group´s takeover of ADLER results in the loss of loss carryforwards for ADLER's property holding companies, as defined in Section 8c of the German Corporation Tax Act, if there are no more hidden reserves.

- The tax environment in Luxembourg is of paramount importance to the new company and may have been incorrectly assessed. This could lead to unscheduled tax payments.

- Risks for securities: dilution of the former shareholders and a (total) loss of shareholders unwilling to exchange their shares could occur in the event of a possible delisting of ADLER.

Due to the existing high demand for affordable living space in conurbations, the Management Board assesses the integration risk and the impact on net assets, financial position and results of operations as irrelevant.

Sustainability risks

Sustainable action is becoming increasingly important. The company is increasing its awareness of this issue and raising its expectations for the company's sustainability performance. Business partners, tenants and employees are all demonstrating an ever greater interest in sustainable business activity. The importance of sustainability in politics is also growing all the time. In its Green Deal, the European Union (EU) has set out a number of important sustainability aims – including climate neutrality, improving the circular economy and renovating/upgrading buildings on a larger scale with sustainability in mind.

Companies that do not align their business activities with sustainability practices may encounter the following risks:

- Capital market risk: more and more investors are choosing to invest only in companies that have a sustainable business model. To establish comparability between market participants, independent rating agencies are determining ESG scoring systems to assess how companies rank in terms of environmental, social and corporate governance aspects. If a company receives a poor score, this may negatively impact its position on the capital market, which, in turn, may affect its financing.

- Political and regulatory risks: from early 2021, a charge will be levied in Germany for CO_2- emissions originating, for example, from heat generated from combustion of fossil fuels. The CO_2 charge is part of the German government's climate protection programme. The additional costs created by this are not yet fully apportionable to tenants, but this is currently the subject of discussion. Some people hold the view that the increased costs from the CO_2 charge should not be apportionable to tenants because they have no influence over the energy performance of the building. A suggested compromise is based around the efficiency class of buildings and spreads the costs between the relevant parties dependent on the energy performance of the building. Based on factors such as the age of the building and the low renovation quota in the ADLER portfolio to date, an expense risk could arise if the ability to apportion costs is skewed. If this remains the case, there is the risk that properties could become less attractive, and this could result in an increased vacancy rate or reduced scope for rent adjustments.

- Image risk: sustainability has gained a new-found importance in the corporate context, not least since the Fridays for Future demonstrations and the letter to shareholders sent by the CEO of Blackstone. Companies that fail to meet these requirements for social, responsible and environmentally sustainable business activities may suffer damage to their reputations, which can also have an impact on recruitment of employees. Generation Y in particular has a tendency to question the implications of its actions and exhibits a preference for companies that are sustainable.

Due to the existing high demand for affordable living space in conurbations, the Management Board assesses the sustainability risk and the impact on net assets, financial position and results of operations as irrelevant.

Financial and financing risks

Deterioration in the external corporate rating

Over the past few years, ADLER has gradually increased its activities on the capital market and has had an external rating carried out by the international external rating agency Standard & Poor's (S&P). If its corporate rating were to deteriorate, this could have a significant impact on refinancing and ADLER's reputation on the capital market. On 23 April 2020, Standard & Poor's awarded ADLER a BB rating. The rating of Adler Group S.A., the parent company, will influence the refinancing risks of ADLER. On 29 June 2020, Standard & Poor's gave Adler Group S.A. a BB rating once again. Standard & Poor's rating assumes that the level of debt plus equity of the new Adler Group S.A. (Group) will be between 51 percent and 53 percent during the next twelve months. The leverage to EBITDA ratio should be 16–18x and the EBITDA interest coverage ratio should remain between 2.0 and 2.3. Should these key figures worsen and the company find it difficult to refinance any debts that are due, there is a risk that its rating may deteriorate. On 10 November 2020, Adler Group S.A. successfully placed an unsecured six-year bond with a fixed coupon of 2.75 percent. Due to the high recovery rate of bonds and Adler Group S.A.'s high-valued asset base, the bond is rated BB+ by Standard & Poor's.

If a rating that has been awarded deteriorates, this will have a possible impact on the rate of interest paid for financing and the Group's reputation on the capital market. In addition, if debt is tied to a specific rating, depending on the contractual nature of the financing, it may be necessary to repay the funds received if the rating deteriorates below a certain level.

ADLER counters this risk by means of a consistent risk strategy and risk measures in the form of Group-wide risk management to improve financial covenants.

The Management Board assesses the risk of a deterioration in the external corporate rating and the impact on net assets, financial position and results of operations as relevant.

Valuation risk

The valuation of properties is a crucial issue for property companies. In essence, the valuation is influenced by the discount rate, market rent and vacancy rate. In this respect, the risk lies in having to adjust the value of property portfolios if the trend in the parameters mentioned above is negative. There is also the intrinsic risk that the values determined by experts cannot be realised in the market.

ADLER responds to the valuation risk by commissioning renowned valuation institutes and by cautiously determining the valuation parameters.

The risk from the coming into force of the Berlin Senate's "law on updating the legislation on rent control", also known as the "Berlin rent cap", and the negative impact it stands to have on the market development of rental apartments (risk of property devaluation) is not currently deemed likely by property valuation specialists. On 22 October 2019, despite legal objections, the Berlin Senate passed the "rent cap". It stipulates that rents shall be "frozen" at 2019 levels for five years and that from 2022 there will be a 1.3 percent inflation adjustment. Tenants may be charged modernisation fees without approval only up to EUR 1.00 per m².

On 28 October 2020, the Federal Constitutional Court rejected an emergency appeal against the retroactive rent reduction (Berlin rent cap). The second stage of the Berlin rent cap therefore went into effect on 22 November 2020. It stipulates that the rents in ongoing tenancy agreements shall be lowered if the apartments were built before 2014. This applies to any rents that exceed the rent cap by more than 20 percent. This could have a negative impact on the fair values of the properties. A final ruling by the Federal Constitutional Court on the Berlin rent cap is expected in spring 2021.

As at 31 December 2020, ADLER has approximately 2,500 rental units in Berlin, which equates to roughly 4.2 percent of the total portfolio. In this respect, the impact on ADLER is not classed as significant.

The same applies to a potential deterioration in the housing market as a whole and to potential apartment sales.

The Management Board assesses the risk of a deterioration in market value development and the impact on net assets, financial position and results of operations as irrelevant.

(Re)financing risk and risk from capital structure

As a property company with a high share of borrowing, ADLER is automatically exposed to the risk that the financing required for acquisition projects will not be obtained. However, there are currently still no signs of restrictive lending policies on the part of banks. To ensure that its (re)financing risk is reduced, ADLER cooperates with several banks, institutional investors on the capital market and private investors. The Group is therefore not dependent on any individual creditor. Furthermore, ADLER draws on various forms of financing instruments, such as mortgage loans, corporate bonds and convertible bonds. Thus, it has gained various forms of access to the capital market that can also be drawn on independently of each other. Contracts for derivative financial instruments are, if at all, only concluded with financial institutions with high credit ratings.

Although the European Central Bank's interest rate remains at a low level, interest rate hikes can be observed on the capital market and among commercial banks due to higher risk provisions by banks and increasing risk aversion among commercial banks and institutional investors. Even if there is a moderate rise in interest rates again, the expectation is that even in the foreseeable future – provided there is sufficient collateral – follow-up financing is likely to be more favourable than expiring financing. In this respect, ADLER expects refinancing to have a positive effect on cash flow and FFO I. Any refinancing concentrations are countered by timely solutions and measures, including within Adler Group.

The Management Board assesses the (re)financing risk and the impact on net assets, financial position and results of operations as irrelevant.

Risk of non-compliance with financial covenants

Should any Adler Group companies breach their obligations from convertible bonds, bonds and credit agreements (financial covenants and bond conditions), loans could be declared due for early repayment, bonds could be terminated early or infringement of contractual conditions could be found to have been committed. For this reason, the Financing department monitors and manages compliance with financial covenants on an ongoing basis. This is also monitored on a regular or an ad hoc basis within the framework of the risk management system and the results provided to creditors as part of routine bank reporting.

Non-compliance with financial covenants also includes change of control clauses in bank financing and in bond financing.

The Management Board assesses the risk of non-compliance with covenants and the impact on net assets, financial position and results of operations as irrelevant.

Negative change in interest rates

The Adler Group borrows money – with the exception of the BCP and ADO Group bonds issued in New Israeli Shekels – solely in its functional currency and is therefore exposed to interest rate risks in euros only.

After a certain time delay, changes in interest rates also impact the market value of available assets such as properties held. This non-cash interest rate risk, i.e. the possible change in fair value, generally also applies to all medium- and long-term receivables and liabilities with fixed interest rates.

Given the size of the Adler Group's gross asset value, the impact of rising interest rates on the IFRS value of investment properties alone is quite considerable. For example, if the discount and capitalisation rates were each to increase by 0.25 percentage points, this could have a negative impact of around 8.6 percent on the value of investment properties and of 36.9 percent on the value of internal development projects based on an increase of the capitalisation rate by 0.5 percent. ADLER considers a possible negative change in interest rates, on its own, to be a risk of considerable importance. As a means of counteracting a negative change in interest rates, property financing has been replaced with ADLER capital market financing for a percentage of the overall portfolio.

The Management Board assesses the risk of a negative change in interest rates and the impact on net assets, financial position and results of operations as irrelevant.

Currency risks

Currency risk arises from a company's foreign currency positions and potential changes in the relevant exchange rates. The uncertainty surrounding future developments in this regard is classed as exchange rate risk. Currency risk is attached to individual transactions, but what is crucially important is the overall risk in a certain currency, known as a company's "exposure".

Currency risk can usually be divided into the following three sub-risks:

(1) Translation risk (translation exposure), which relates to possible fluctuations in the value of net assets as a result of changes in exchange rates;
(2) Transaction risk (transaction exposure), which relates to possible changes in the value of existing receivables or liabilities in a foreign currency due to exchange rate fluctuations;
(3) Operating risk (operating exposure), which comprises all future domestic and foreign cash flows whose amount is still uncertain and dependent on exchange rate developments, without there already being specific positions.

As part of the acquisition of BCP, ADLER indirectly incurred a currency risk that may result from the bonds issued in New Israeli Shekels (ILS or NIS) totalling EUR 77.6 million as at the balance sheet date of 31 December 2020. This currency risk is not hedged.

The Management Board assesses the currency risk and the impact on net assets, financial position and results of operations as irrelevant.

Property management risks

Reduction in the market rent

The risk of a deterioration in market rent may impact the intrinsic values of investment properties. For this reason, ADLER considers the risk and the impact on cash flow to be significant. The valuation of investment properties is based on an achievable rent. If this achievable rent is viewed as falling, the property values will decline in turn.

Due to the existing high demand for affordable living space in conurbations, the Management Board assesses the risk of reduction in the market rent and the impact on net assets, financial position and results of operations as irrelevant.

Increase in the vacancy rate

Another risk of considerable importance and possible impact on the value of the property portfolio and the Adler Group's earning power is – in its own right – the increase in the vacancy rate of rental units. When viewed in isolation, ADLER sees this risk as significant in principle. As above-average vacancy rates are being recorded in sub-portfolios, countermeasures were required to stop further increases. ADLER is pursuing a policy of targeted investment in its own residential lettings portfolio with the aim of reducing these vacancy rates. However, the utilisation of construction companies, technical service providers and even internal technical capacities also proved to be an important factor for vacancy management in the 2020 financial year. ADLER's portfolio is largely composed of small to medium-sized residential units. The apartments have an average size of slightly over 60 square metres and are particularly well suited to the needs of the company's target group, namely tenants with low to medium incomes. For ADLER, this alignment makes economic sense. Its properties satisfy the trend, which has been observed for some time now, towards an increase in the number of single-person households in Germany. Moreover, the risk of tenants with low incomes defaulting on their rent payments is reduced as they can obtain support from social security providers if they are unable to settle their rent arrears from their own income. Furthermore, this category of affordable living space is also increasingly sought-after by municipalities and local councils on the lookout for permanent homes for people with particular needs.

ADLER is lowering its vacancy risk by implementing ongoing maintenance measures and programmes.

Due to the existing high demand for affordable living space in conurbations, the Management Board assesses the vacancy rate risk and the impact on net assets, financial position and results of operations as irrelevant.

Maintenance and modernisation risk

ADLER is exposed to risks relating to the structural condition of the properties and their maintenance, repair and modernisation. In order to maintain demand for a rental property and generate adequate long-term returns, the condition of a property must be maintained, repaired and/or upgraded to a standard that meets market demand and complies with environmental laws.

Although the company continually monitors the condition of its properties and has established a reporting system to monitor and budget for the necessary maintenance and modernisation measures, numerous factors could lead to significant cost overruns or unexpected cost increases for maintenance and modernisation measures. If these measures do not result in a significant reduction in the vacancy rate of these properties upon completion of the renovation and refurbishment work, this could have a negative impact on our financial results compared with our business plan. In addition to lost gross rental income, additional fixed and ancillary costs incurred to maintain the vacant residential units could reduce our operating earnings.

Due to the building stock and the age of the properties, the Management Board assesses the maintenance and modernisation risk and the impact on net assets, financial position, and results of operations as relevant.

Fire safety risk

Following the devastating fire at a high-rise block in London's North Kensington in mid-June 2017, fire safety has become a topic of public debate in Germany as well. As a professional landlord, ADLER routinely ensures that fire safety requirements are met at all of the Group's properties in addition to also having refreshed all of its property managers' awareness on this topic and calling upon them to carefully review all relevant fire avoidance and fire-fighting procedures in cooperation with fire safety authorities, where necessary. The increased awareness on this issue has triggered measures to further improve fire safety in some locations. The technical survey of high-rise blocks plus properties that are not classified as high-rise is continuing.

The Management Board assesses the fire safety risk and the impact on net assets, financial position and results of operations as irrelevant.

Profitability risk

The risk of lack of profitability is considered a significant risk. ADLER counters the risk by making decisions on the basis of stated returns before any investments are made. Subsequent investments are followed by a post-calculation to further mitigate the profitability risk. Following the acquisition of a portfolio, one aspect of portfolio management is to continue investigations to identify which units should be sold or which holdings can be developed to make them more profitable.

The Management Board assesses the profitability risk and the impact on net assets, financial position and results of operations as irrelevant.

Company-specific risks

Tax risk

ADLER's takeover by ADO Properties S.A. (now Adler Group S.A.) resulted in the loss of loss carryforwards for ADLER's property holding companies, as defined in Section 8c of the German Corporation Tax Act, if there are no more hidden reserves. As a result of the takeover by Adler Group S.A., tax loss carryforwards of EUR 142.9 million and interest carryforwards of EUR 60.5 million were lost. This could lead to an increase in the tax burden.

As a result of the complete takeover by Adler Group S.A., there is also a real estate transfer tax risk of approximately EUR 7.6 million. This risk can be reduced to around EUR 1.0 million by activating RETT blockers (already initiated by the tax advisors). Where the new legal situation (real estate transfer tax reform) already needs to be taken into account for the transaction, the current RETT blocker structure is not sufficient and, in this case, all properties of the ADLER Real Estate AG Group (except for BCP as there is only roughly a 70 percent interest) would have to pay real estate transfer tax.

ADLER fulfils its tax compliance obligations by keeping an extensive record of process documentation, which has now almost been completed. This process documentation covers the tax strategy, which is based on the tax organisation handbook. The Adler Group has currently outsourced its tax-related support to two tax consultancy companies, which keep ADLER informed at regular monthly meetings. At the start of 2021, a project to develop a standardised tax compliance management system was initiated at Adler Group level.

The Management Board assesses tax risks and the impact on net assets, financial position and results of operations as very relevant.

Communication and reputation risk

Damage to the public image of the Adler Group (reputational risk) is a considerable risk. The Adler Group has established a good image on the capital and property market by now, which is evidenced, for example, by the fact that it received the "Gold Level" award from EPRA for its financial reporting. ADLER's reputational risk is also influenced overall by the reputation of Adler Group.

The Management Board assesses the communication and reputation risk and the impact on net assets, financial position and results of operations as irrelevant.

Transaction risk

Following its integration into the new Adler Group, ADLER will no longer pursue its former independent acquisition strategy, but will instead follow the overall strategy of the new Group. Up to now, ADLER intended to expand its residential portfolio further through acquisitions of shares in companies as well as individual portfolios or assets, and thus focused its investments on residential property portfolios with core market quality. When suitable market opportunities arose, ADLER also supplemented its portfolio by investing in core plus locations in mid-sized cities or cities such as Berlin or Leipzig in order to benefit from diversification and value growth in these markets.

ACCENTRO

In the 2017 financial year, ADLER sold its investment in ACCENTRO Real Estate AG, Berlin. The remaining purchase price of EUR 55.6 million was due for payment by the end of 2019, following the granting of an extended payment term and the interim payment of EUR 97.9 million in the 2019 financial year. Management and Supervicsory Board resolved on March 24, 2021 to extend the payment period for the remaining receiable until September 30, 2021. ADLER considers the receivable to be secure. Nevertheless, a potential receivables risk is present.

BCP

ADLER acquired just under 70 percent of shares in BCP in April 2018. BCP is a company based in the Netherlands and listed on the Tel Aviv Stock Exchange, Israel. Its continued integration into the Adler Group poses certain risks. On the one hand, the capitalised earnings value risk of the investment itself is recognised and assessed; on the other, the operational risks of BCP's property portfolios and project developments are also recorded. ADLER indirectly incurs the usual project development risks on account of BCP's project developments. BCP has since contractually divested a significant number of commercial properties and a 75 percent interest in its major property development in Gerresheim. At the time these consolidated financial statements are being prepared, this poses two areas of risk as outlined below:

Disposal of a significant number of BCP commercial properties

In the process of divesting further parts of BCP's commercial portfolio, a second tranche was notarised with effect from 28 June 2019. Four Brack Group companies disposed of seven commercial properties with a total value of EUR 98.2 million. A further three Brack Group companies disposed of three commercial properties with a total value of EUR 30.4 million in an agreement dated 28 June 2019. The agreements concerning the ten commercial properties in total have a total volume of around EUR 128.6 million.

To date, transactions involving six of the ten properties have closed. The transactions of four commercial properties are expected to close in April/May 2020. The agreements that have not yet been closed have a total volume of around EUR 50.0 million. Reasons for the transactions not having closed yet include long lists of demands for documents for which the sellers require input from the tenant before they can respond. This gives rise to earnings and liquidity risks and risks of potential rescission of the agreements.

The commercial properties that currently remain are more difficult to sell. Consideration is being given to the possibility of no longer selling them or repurposing them. Risks associated with this include anticipated losses in a disposal scenario or costs for repurposing. As at the reporting date, the remaining commercial assets were revalued at current value.

Disposal of 75 percent interest in project development in Gerresheim

In an agreement dated 22 September 2019/26 December 2019, Brack Capital Germany (Netherlands) XLVIII B.V. sold its 75 percent interest in Glasmacherviertel GmbH & Co. KG, Gerresheim, Dusseldorf, with effect from 1 June 2019 and took over existing bank loans and former shareholder loans for a total purchase price of EUR 213.75 million. The value of the real estate assets (project development) has been set at EUR 375 million. Closing and payment of the agreed four purchase price instalments are dependent on approvals that are still pending. There was still no approval as at the balance sheet date of 31 December 2020. There is a risk that payments for future instalments may not be made.

Due to the protracted closing and payment of the purchase prices, the Management Board assesses the transaction risk and the impact on net assets, financial position and results of operations as relevant.

IT risks

In the 2019 financial year, ADLER successively improved its information technology (IT) and its processing of electronic data (EDP). ADLER's business processes could be significantly impeded by disruptions, failures or manipulations of its IT systems, as well as by unauthorised access to such systems. To counter this risk, ADLER works exclusively with established market software offering a high standard of security. In the 2019 financial year, ADLER stepped up these precautions further and transformed its IT into managed information technology. The increased data security requirements introduced by the EU General Data Protection Regulation on 25 May 2016 – which penalises the absence of safeguards as at 25 May 2018 – are being addressed by appropriate measures, including technical and organisational regulations such as training employees and agreements (data protection officers). Furthermore, operations, maintenance and administration contracts concluded with specialist external IT service providers ensure that all electronic applications run as smoothly as possible.

During a period of self-reflection inspired by a sentence that was handed down to a property company based in Germany for data protection infringements, ADLER undertook an internal review to determine whether the necessary precautions were being taken with regard to data protection. The preliminary finding was that ADLER had taken significant data protection precautions by installing a data protection management system and that this most likely satisfied the legal requirements.

The Management Board assesses the IT risk and the impact on net assets, financial position and results of operations as irrelevant.

Personnel risks

Like any other company, the Adler Group is also exposed to risks inherent in its own organisational structures (management and organisational risks). ADLER has a lean management and organisational structure. The resultant benefits in terms of lower personnel expenses are countered by the risk of losing staff performing key functions. Having competent, engaged and motivated employees is an essential requirement for the Adler Group's success. The company could be exposed to the risk that managers or other top-level employees leave the company and it is not able to replace them promptly by recruiting sufficiently qualified staff.

Due to the lean corporate structure in the holding functions, a high employee turnover rate could lead to an outflow of company knowledge. ADLER counters this risk by recruiting new staff, adopting a deputisation policy and keeping a record of all key information for ongoing business transactions, sharing specialist and factual knowledge, and using external service providers. In addition, ADLER responds to changing processes by adjusting personnel functions, for example in property management at regional level.

The Group counters personnel risks in particular through a defined selection process and through various induction measures taken when employees join the Group (such as providing them with a welcome folder and instructions). However, the shortage of skilled workers is also becoming increasingly more evident in the property sector. ADLER's strong growth, particularly in the areas of property and facility management, meant that a high number of employees was required. Meeting staffing requirements promptly by recruiting qualified staff has become more difficult in the 2020 financial year and it has taken longer to fill vacant positions, especially in technical areas.

The Management Board assesses the personnel risk and the impact on net assets, financial position and results of operations as irrelevant.

Governance and compliance risks

Compliance constitutes another area of risk. All activities at the company must be consistent with the externally prescribed statutory and regulatory framework while also complying with the company's self-imposed internal guidelines. This general requirement gives rise to a wide variety of compliance risks, such as risks relating to third-party service performance in portfolio management, as well as to investment, divestment, data protection and security, IT, insider trading, labour law, money laundering and general operating risks. ADLER averts these risks with a compliance policy and by offering suitable training to those employees entering into specific compliance risks associated with their respective activities. Furthermore, Adler Group has a self-imposed Code of Conduct and ADLER has undertaken to comply with it. In the area of tax risks (tax compliance), such as those resulting from changes to the tax framework, regulations are applied to Accounting's internal departments and to external service providers.

The Management Board assesses governance and compliance risks and the impact on net assets, financial position and results of operations as relevant.

Legal risks

Legal risks arise whenever private contracts such as letting arrangements, the purchase or sale of properties, financing agreements with banks, capital market activities or company law agreements are involved. Legal risks also arise in connection with the company's obligation to comply with a wide variety of requirements, laws and conditions governing property ownership and management. The Adler Group has secured suitable personnel resources to deal with its legal affairs and avoid legal risks. Where necessary, in individual cases, the Group also draws on external expertise. Any risks becoming apparent in connection with legal disputes are accounted for by recognising an appropriate volume of provisions in the accounts.

The Adler Group's business performance may be affected by various external factors, in some cases unforeseeable, which lie outside the company's control, such as acts of terrorism or natural disasters. Prospective earnings from the rental and trading of property may also be affected, either positively or negatively, by political decisions in respect of monetary policy, tax policy, rental law or the subsidisation of housing construction.

The Management Board assesses legal risks and the impact on net assets, financial position and results of operations as irrelevant.

Health, safety and environmental risks

Property management and development is associated with certain health, safety and environmental (HSE) risks. A major HSE incident affecting one of the development projects or a general deterioration in our HSE standards for the properties could pose a risk of injury or death to our employees, tenants, contractors or the general public and result in litigation, significant fines or damage to our reputation. ADLER could be held liable for costs relating to the removal, examination or clean-up of hazardous or toxic substances (including asbestos) that are found on, beneath or in one of the properties currently or formerly under our ownership, irrespective of whether we caused them or were aware of their existence. Any breakdown in HSE performance, including delays in responding to changes in HSE regulations, can lead to fines for non-compliance with relevant official requirements.

The Management Board assesses HSE risks and the impact on net assets, financial position and results of operations as irrelevant.

Summary of the Adler Group's risk situation

The above significant and even drastic risks and the additional further risks currently do not jeopardise the continued existence of ADLER Real Estate AG and Adler Group management either individually or cumulatively. ADLER is confident that it will succeed in managing the existing threats to its existence and challenges associated with these risks in future as well and will develop countermeasures to avert any threat to its existence in good time.

OPPORTUNITY REPORT

As part of the ADLER Group's opportunity policy, those responsible regularly assess the entrepreneurial opportunities for the entire Group. The evaluation of entrepreneurial opportunities is carried out by the individual risk officers within the framework of the ADLER Group risk management system. The key opportunities that are closely related to the risks are set out below.

Presentation of the most significant opportunities

The key opportunities are described below. This assessment reflects an indication of the current significance of these opportunities for ADLER.

Improvement in the external corporate rating of the parent group

Adler Group's BB rating from Standard & Poor's was reaffirmed on 29 June 2020. The company endeavours to further improve this rating.

The importance of the external corporate rating of Adler Group is considered significant by the Management Board. A further improvement in the rating and, in particular, obtaining an investment grade rating offer Adler Group opportunities with respect to further (re)financing on the capital market. These opportunities are of great importance. An investment grade rating also often constitutes a basic requirement for institutional investors to even consider a possible investment.

Operating opportunities of an integrated real estate company

ADLER sees the programmes to renovate vacant residential units, which were completed in 2019, as a significant opportunity to improve its occupancy rates and rental income. Experience shows that, following renovation, the apartments become marketable once again and can be let at appropriate prices.

ADLER extended its value chain beyond the mere renting of apartments. The group company ADLER Energie Service GmbH has now taken over the energy procurement and energy supply for all the housing portfolios of Adler Group.

Almost all housing portfolios have been managed in-house since the 2019 financial year. Organisation of the integration of rental housing management and billing as well as extensive management by means of its own facility management has been implemented with the realignment of ADLER Wohnen Service GmbH and ADLER Gebaeude Service GmbH. Cost savings and further economies of scale are being achieved and will continue to be increased gradually due to ADLER Real Estate AG's own administration and management of property portfolios within the main process of property management. Most of the unsatisfactory work by previous external agents has now been rectified. However, the challenges associated with recruiting sufficiently qualified staff remain. Further savings in the form of synergies are also expected in connection with the management of BCP's housing portfolios (service agreement).

The stake in ADLER Assekuranzmakler GmbH & Co. KG will bring improved insurance benefits and continue to lead to added value and more intensive support for ADLER companies.

Refinancing opportunity

The current interest rate level, the good rating and any expiring fixed interest rates continue to provide the Adler Group with opportunities for further good refinancing on the capital market and with commercial banks. Thus, the weighted average cost of borrowing was reduced further. However, it is no longer at the level seen in previous years.

Positive change in interest rates

The possibility of using lower interest rates also offers ADLER financial opportunities. The lower interest rates that were seen in previous years resulted in lower discount rates and capitalisation rates when measuring property values. This, in turn, results in higher IFRS values (fair values). Sensitivity analyses in the case of a discount rate or capitalisation interest rate reduction, each by 0.25 percentage points, result in an increase in IFRS values by around 7.3 percent. With development projects, sensitivity ananlysis has shown an increase in IFRS values of around 56.2 percent based on a decrease in the capitalisation rate of 0.5 percent. However, the parameters of market rents and vacancies should also be considered in this context as they could exacerbate this development or have an opposite effect.

Increase in the market rent

Rising market prices are currently being observed everywhere. ADLER also recorded a moderate increase in its average rent price in the 2020 financial year. In this respect, ADLER also believes that there is an opportunity for further growth in market prices to have a positive impact on the IFRS values of investment properties. The continuing high demand for housing, with dwindling supply due to low construction permits and full utilisation of the construction companies, is leading to rising market rents and thus to higher fair values of the properties. However, in the future, the likelihood of a further increase in the IFRS property values is generally estimated to be lower than in the past. The opportunity of a further market rent increase is considered significant as more factors currently point in favour of an increase than against it.

Reduction in the vacancy rate

ADLER was able to achieve improvements in earnings and a reduction in the vacancy rate in previous financial years and in 2020 through intensive programmes to modernise previously vacant residential units. The financial opportunities were reflected in the higher profitability of its property portfolio and in the savings in vacancy costs as a result of the letting. In addition, residential estates are becoming more attractive due to higher occupancy rates and investments in the districts, and staff turnover is falling, leading to further savings (rental commissions, lettings renovations, temporary vacancies).

Digitalisation in the property sector

As part of Adler Group, ADLER sees further digitalisation as an opportunity to make administrative processes more efficient and thereby permanently reduce administrative expenses. The ADLER-wide application of the standardised ERP management software Wodis Sigma since the 2017 financial year has created the basis for the uniform recording of all tenant and property data and lays the foundation for timely and comprehensive reporting and controlling of all property activities.

The introduction of a Real Estate Operation Centre and the gradual increase in activities provides tenants with a central communication platform. The associated increase in efficiency should also have a positive effect on ADLER's cost structure.

The IT projects undertaken in the 2019 and 2020 financial years created a good basis for further digitalisation. Software that can be used to perform all treasury activities was already introduced last year and has now been implemented, and software for personnel management was developed. The company believes that digitalisation in this area has the power to generate further potential to automate manual and error-prone work types. This means that trained employees who work in and are responsible for these areas can be assigned tasks that cannot be automated.

The property portfolio data that was transferred in 2019 using software developed by the Fraunhofer Institute provided a comprehensive overview based on objective information. This optimised budget distribution and identified weak spots or areas for building action before they materialised. Further harmonisation and optimisation efforts on behalf of Adler Group will continue to drive forward digitalisation in general.

Opportunities through sustainability

The ever greater interest that investors, business partners, tenants and employees are paying to sustainable business activity generates significant opportunities for a sustainable company. Sustainability combined with a good ESG rating gives Adler Group and its group companies more financing options and makes them more attractive as a landlord and employer. Furthermore, investors are also increasingly looking for sustainable, environmentally friendly and socially responsible investments. This trend can also be observed in the construction sector and is increasing the pressure to provide energy-efficient, cost-saving building solutions. This pressure is further exacerbated by political intervention in the form of legislative initiatives and subsidies. Thanks to CONSUS and its innovative concepts for district development, Adler Group is following this trend. True to its vision of "More future per square metre", Adler Group's and thereby ADLER's goal is to improve people's quality of life. By using sustainable, ecological construction materials and energy concepts, ADLER Group is doing its bit to conserve scarce resources and use renewable sources of energy.

Opportunities through buying and selling property

Opportunities to make favourable property purchases are dwindling increasingly at present. For this reason, Adler Group is looking for new methods of property procurement that could possibly be realised once CONSUS has been integrated into Adler Group.

Thanks to the longstanding industry expertise of the Management Board and its good network of contacts, ADLER still has an adequate portfolio of possible investments that is constantly being evaluated and examined in closer detail where necessary as part of due diligence checks.

One of these investment opportunities was utilised in the 2019 financial year with the acquisition of properties in Potsdam. This was also the case for the commercial portfolio of BCP properties with respect to the sale of significant property holdings and for project developments (Gerresheim). The resulting income and/or cash inflows were intended to pay off more debt and improve LTV.

Positive change in the macroeconomic and property sector framework

The Adler Group further consolidated its financial stability in the 2020 financial year courtesy of Adler Group. Consolidation of the organisational structure, improvement of processes and transformation into an integrated real estate group covering the entire value chain are starting to bear fruit in terms of business performance. Adler Group and ADLER have therefore been promoted to the ranks of the most significant German listed real estate companies.

As part of Adler Group, ADLER distinguishes itself from its major competitors by focusing on real estate investments primarily in "B" locations and/or on the edges of larger conurbations. When apartments are no longer available in desirable locations in the city centre, demand tends to automatically shift to the surrounding areas. This trend generally did not change in the 2020 financial year. This is one of the most significant business opportunities for ADLER. The consideration of opportunities and risks are inseparable. For this reason, ADLER, as part of Adler Group, pursues a risk-oriented opportunity policy.

There is a consistently high level of demand for apartments. It continues to be driven by the same factors that played a key role in past years: demographic change, the increasing number of single-person households and people's ongoing inclination to head to cities and leave the countryside. It is still true that signs of an urban exodus to the outskirts of major cities are also apparent. However, this trend is overlaid by the arrival of people from abroad – people from other European countries looking for work in Germany and people coming to Germany from outside the European Union in order to apply for asylum here.

Furthermore, despite growing demand in the "affordable" housing segment in which ADLER operates, there is hardly any new supply. Although apartments continued to be built and approved in 2020, the price of newly-built apartments is far higher than that of existing apartments. The differences in rental prices are correspondingly high. For price-sensitive tenants, living in apartments such as those offered by Adler Group and ADLER generally represents the most appealing option.

Summary of the Adler Group's opportunity situation

Considering the current property sector policy and framework – and taking into account the economic impact of the coronavirus – the above opportunities of the Adler Group as part of Adler Group are generally promising. However, this assessment as at the balance sheet date and at the time this management report was being prepared does not take into account all the potential negative implications of weaker economic development during the 2021 financial year in the wake of the coronavirus pandemic. Nor does this assessment yet reflect all the opportunities brought by the merger with the various Adler Group companies.

The further improvement of the key financial ratios, such as increased IFRS property values as a result of price increases, the improved loan-to-value ratio and lower weighted average cost of debt (WACD), are just some of the parameters. The current low interest rate level is among the determining factors in realising our opportunities.

But the realignment of Adler Group into an integrated real estate group, concentration on the capital market and investments in "A" and "B" locations also yield opportunities for the continued positive development of the Adler Group as a whole.

8. REPORTING FOR ADLER REAL ESTATE AG ACCORDING TO GERMAN COMMERCIAL LAW

The management report of ADLER Real Estate AG (ADLER AG) is combined with the group management report of ADLER AG according to Section 315 (5) of the German Commercial Code (Handelsgesetzbuch – HGB) in connection with Section 298 (2) HGB (combined management report). In addition to the reporting on the Adler Group, the development of ADLER AG is presented below.

In contrast to the consolidated financial statements, the annual financial statements of ADLER AG are not prepared in accordance with the International Financial Reporting Standards (IFRS), but instead according to the rules of the German Commercial Code (HGB) in compliance with the additional provisions of the German Stock Corporation Act (AktG).

8.1 BUSINESS FUNDAMENTALS AND ECONOMIC REPORT

ADLER AG conducts its business through independent subsidiaries. As an operating investment holding company, the company provides customary management, administrative and financing functions to its group companies. ADLER AG is integrated into the Group-wide management system.

Due to the connections between ADLER AG and the group companies, macroeconomic and industry-specific developments as well as company-related economic development correspond to those of the Group.

8.2 RESULTS FROM OPERATIONS, NET ASSETS AND FINANCIAL POSITION

Result of operations

Due to its holding function, ADLER AG's results from operations are essentially characterised by cost allocations to subsidiaries and their functional expenses and financial costs.

In EUR millions	2020	2019
Turnover	3.1	3.5
Other operating income	10.2	0.1
Personnel expenses	-2.2	-5.1
Other operating expenses	-52.8	-34.7
Income from participations	0.0	0.3
Income from securities and lending of financial assets	64.1	60.0
Other financial and similar income	16.2	14.7
Depreciation on financial assets and on securities from currents assets	-490.7	-0.4
Other financial and similar expenses	-64.8	-53.8
Income taxes	0.0	0.0
Earnings after taxes	**-517.0**	**-15.4**
Other taxes	0.0	0.0
Net result	**-517.0**	**-15.4**
Loss carried forward from previous year	-3.1	0.0
Purchase of treasure shares	19.5	12.3
Net accumulated loss	**-500.5**	**-3.1**

In the 2020 financial year, ADLER AG generated revenue amounting to EUR 3.1 million (previous year: EUR 3.5 million) from services to group companies.

Other operating income increased year-on-year by EUR 10.1 million to EUR 10.2 million. This is mainly due to write-ups from reversals of write-downs on securities (EUR 5.6 million), the reversal of provisions (EUR 2.3 million) and gains from the disposal of securities (EUR 1.5 million). The merger of subsidiary MountainPeak Trading Limited into ADLER AG generated a profit of EUR 0.8 million.

Personnel expenses amounted to EUR 2.2 million, compared with EUR 5.1 million in the previous year. In the previous year, personnel expenses were impacted by bonuses for the Management Board in connection with the acquisition of ADO Group and indirectly Adler Group (formerly ADO Properties) and by the business combination that was successfully initiated on 15 December 2019. In addition, the personnel expenses of a member of the Management Board at the new parent company Adler Group have been recognised since April 2020 and passed on to ADLER AG as a fee. Taking into account the activities of the other Management Board member for Adler Group, this figure amounts to EUR 0.1 million and is recognised under other operating expenses.

Other operating expenses increased year-on-year by EUR 18.1 million to EUR 52.8 million. The increase compared with the previous year is primarily as a result of legal and consulting costs, which totalled EUR 42.0 million (previous year: EUR 20.0 million). Expenses for issuing bonds, on the other hand, decreased by EUR 5.4 million to zero.

The company generated income of EUR 80.3 million (previous year: EUR 74.7 million) from loans to group companies and current financial and security investments. The increase compared with the previous year relates primarily to current receivables from WESTGRUND and to a loan to ADO Group that has now been repaid.

This income is offset by interest expenses of EUR 64.8 million (previous year: EUR 53.8 million), which mainly result from issued bonds, convertible bonds and other financial liabilities. Taking up a bridging loan to finance the acquisition of 100 percent of the shares in ADO Group in December 2019 led to interest expenses of EUR 3.2 million in the reporting year, whereas no comparable expenses had been incurred in the previous year. This bridging loan was replaced in April 2020 by a loan from the new parent company Adler Group, formerly ADO Properties. This, combined with additional loans from Adler Group and one of its subsidiaries, resulted in interest expenses of EUR 11.0 million in the reporting year. Interest expenses of EUR 4.4 million were incurred for a loan from the subsidiary ADO Group. By contrast, interest expenses for bonds and convertible bonds decreased by EUR 6.2 million due to the refinancing on more favourable terms that was implemented in the 2019 financial year and to the exercise of conversion rights.

Write-downs on financial assets and securities classified as current assets amounted to EUR 490.7 million in the 2020 financial year and thus increased significantly compared with the previous year (previous year: EUR 0.4 million). This figure mainly includes write-downs of EUR 486.9 million on ADO Group shares and write-downs of EUR 3.6 million on securities classified as non-current assets. The write-downs on ADO Group shares had become necessary after ADO Group had transferred its interest to Adler Group. On 2 July 2020, the Supervisory Board of ADLER AG approved the finalisation of a share transfer and procurement contract between ADLER AG and its parent company, Adler Group. The contract concerned the transfer of the remaining interest in ADLER Group held by ADO Group as a subsidiary of ADLER AG to Aggregate Holdings S.A. "Aggregate") within the framework of the option agreement in place between Adler Group and Aggregate dated 15 December 2019. Under the terms of the share transfer and procurement contract, ADLER AG made a commitment to Adler Group to sign a further share transfer and procurement contract with ADO Group, under which ADO Group will pledge to ADLER AG to transfer the 14,692,889 Adler Group shares that it holds to Aggregate upon instruction from ADLER AG. Adler Group granted consideration for the transfer of the shares from ADO Group to Aggregate, which was equivalent to the fair value of the Adler Group shares on the transfer date of 2 July 2020 (EUR 348.2 million). Particularly as the stock market price of Adler Group had decreased significantly at the time of the transfer, partly in the wake of the COVID-19 pandemic, this resulted in a disposal loss for ADO Group. The original acquisition costs for the ADO Group shares, including incidental acquisition costs, had been EUR 718.5 million at the end of 2019.

ADLER AG reports a net loss of EUR 517.0 million for the 2020 financial year (previous year: EUR 15.4 million).

The company had acquired a total of 2,583,232 treasury shares through share buyback programmes as at 31 December 2018. The share buyback programme expired in March 2018. The nominal amount of the treasury shares thereby acquired has been deducted from subscribed capital at the time of acquisition, while the acquisition costs in excess of the nominal amount have been deducted from net retained profit.

In the 2020 financial year, the remaining 1,603,232 treasury shares were transferred to the parent company Adler Group as consideration for the transfer of a partial amount of EUR 21.8 million of the receivables from a shareholder loan in connection with a resolved increase in share capital against contributions in kind. The shares were valued at EUR 13.62 per share. The deduction from capital stock of EUR 1.6 million was reversed up to the nominal amount of the transferred treasury shares. The difference between the nominal amount and the transfer amount was reallocated to net retained profit up to the amount of EUR 19.5 million that was offset. The remaining difference of EUR 0.7 million was allocated to the capital reserve.

ADLER AG consequently reports a net accumulated loss of EUR 500.5 million for the 2020 financial year (previous year: EUR 3.1 million).

Financial position and net assets

In EUR millions	31.12.2020	31.12.2019
Non-current assets	**2,102.8**	**2,735.4**
Financial assets	2,100.7	2,733.3
Property, plant and equipment	2.2	2.1
Current assets	**486.8**	**454.0**
Receivables against associated companies	108.8	88.1
Other assets	77.0	73.7
Other securities	288.3	261.7
Deposits	12.7	30.5
Deferred income	**8.8**	**14.3**
Assets	**2,598.4**	**3,203.7**
Equity	**244.7**	**229.8**
Capital stock (Previous year: minus treasury stock)	73.6	69.4
Capital reserve	193.4	163.5
Contributions made to carry out the capital increase decided	478.2	0.0
Net accumulated loss	-500.5	-3.1
Provisions	**1.8**	**8.5**
Liabilities	**2,351.9**	**2,965.4**
Liabilities from convertibles and bonds	2,122.6	2,155.1
Financial liabilities to banks	0.0	710.6
Trade payables	3.6	1.7
Liabilities against associated companies	224.7	96.3
Other liabilities	1.0	1.7
Equity and liabilities	**2,598.4**	**3,203.7**

ADLER AG's total assets decreased by EUR 605.3 million year-on-year. The change is attributable to several partly opposing effects during the year.

In the reporting year, the subsidiary MountainPeak Trading Limited was merged into ADLER AG, which means that there are no longer any shares in the company (previous year: EUR 58.3 million) nor are there any liabilities to the company (EUR 59.1 million after offsetting receivables of EUR 0.4 million).

In 2019, ADLER AG had acquired all shares in ADO Group at acquisition cost including ancillary costs of EUR 718.5 million and taken out a bridging loan of EUR 710.0 million with a bank in this context. This bridging loan was replaced in April 2020 by a loan for EUR 855.5 million from the new parent company Adler Group, formerly ADO Properties. Moreover, ADLER AG was granted additional loans totalling EUR 230.7 million from Adler Group. From these funds, ADLER AG, in turn, granted a loan for EUR 142.9 million to its subsidiary ADO Group.

As at the balance sheet date of 31 December 2020, ADLER AG recognised a write-down of EUR 486.9 million on ADO Group shares, after ADO Group had transferred its shares to Adler Group at the fair value (market price) of EUR 348.2 million at the beginning of July. The consideration for the transfer of the shares had reduced ADLER AG's loan liabilities to Adler Group accordingly. However, the loan receivable of

EUR 142.9 million to ADO Group is thereby converted into a loan liability of EUR 205.3 million, which was subsequently reduced as at the balance sheet date thanks to a partial repayment of EUR 195.3 million, including interest.

With the approval of the Supervisory Board, on 2 October 2020 the ADLER AG Management Board had resolved to utilise authorised capital of EUR 35.1 million as part of a debt-to-equity swap, which the company announced on 30 August 2020, and increase the company's capital stock entered in the Commercial Register accordingly. The necessary increase in share capital against contributions in kind with a volume of EUR 478.2 million was entered in the Commercial Register on 23 February 2021 and was therefore already reported as a separate item under equity. Adler Group, as the majority shareholder, was exclusively admitted to subscribe to the new shares to be issued. In this context, the company's 1,603,232 treasury shares (approximately 2.2 percent of capital stock) were transferred to Adler Group at a price of EUR 13.62 per share prior to the balance sheet date at a total volume of EUR 21.8 million. In return, Adler Group contributed a partial amount of its receivable from the existing shareholder loan worth a total EUR 500.0 million to ADLER AG, thereby reducing the liabilities to the parent company. The liabilities to Adler Group and a subsidiary were reduced as at the balance sheet date through payments and offsetting of receivables up to a total EUR 22.6 million including interest.

The interest-bearing loan of EUR 44.2 million granted to the subsidiary BCP in the 2019 financial year was repaid early in the reporting year. Loans to the subsidiary Münchener Baugesellschaft mbH went down by EUR 52.0 million. Loans of EUR 19.5 million were granted to the subsidiary Eurohaus Frankfurt AG, Berlin.

Because ADLER AG is a group parent company, its assets consist primarily of financial assets. As at the balance sheet date, these amounted to a carrying amount of EUR 2,100.7 million (previous year: EUR 2,733.3 million) and accounted for over 81 percent of total assets (previous year: 85 percent).

Financial assets include the following:

- EUR 943.9 million (previous year: EUR 995.8 million) for Münchener Baugesellschaft mbH, of which EUR 7.7 million (previous year: EUR 7.7 million) is for the shareholding and EUR 936.2 million (previous year: EUR 988.2 million) is for loans to this company.

- EUR 232.2 million (previous year: EUR 718.5 million) for the ADO Group shareholding. Furthermore, the costs of EUR 0.6 million directly associated with the acquisition were capitalised as subsequent incidental acquisition costs in the reporting year.

- EUR 567.3 million (previous year: EUR 611.5 million) for BCP, of which EUR 567.3 million (previous year: EUR 567.3 million) for the shareholding and EUR 0.0 million (previous year: EUR 44.2 million) is for loans to this company including interest.

- EUR 266.4 million (previous year: EUR 266.4 million) for the WESTGRUND shareholding.

- EUR 51.7 million (previous year: EUR 31.8 million) for Eurohaus Frankfurt AG, of which EUR 31.8 million (previous year: EUR 31.8 million) for the shareholding and EUR 19.9 million (previous year: EUR 0.0 million) for loans to this company.

- EUR 12.3 million (previous year: EUR 14.5 million) for a fixed-interest bond with a term until November 2025.

Receivables from affiliated and group companies increased by EUR 20.7 million to EUR 108.8 million. This is mainly due to current offsetting.

At EUR 59.1 million (previous year: EUR 56.3 million), other assets include in particular the still pending remaining purchase price receivable, including interest claims from the sale of the shares in ACCENTRO Real Estate AG in 2017. Interest income of EUR 2.9 million was recognised on the receivable. Since December 2020, ADLER has been in negotiations regarding the timely repayment of the residual receivable, which bears interest at market rates.The payment period has elapsed without receipt of payment. Management Board and Supervisory Board resolved on March 24, 2021 to extend the payment period again with a due date of September 30, 2021. If no payment should be received by then, the existing collateral could be used to cover the outstanding purchase price claim.

Other securities classified as current assets amounting to a total of EUR 288.3 million (previous year: EUR 261.7 million) include acquired interest-bearing promissory note loans of EUR 254.7 million (previous year: EUR 256.0 million) and, as in the previous year, the remaining shares in ACCENTRO (4.8 percent of diluted share capital) at an unchanged volume of EUR 5.7 million. Bonds of EUR 27.9 million are also held as short-term investments.

As at the balance sheet date, deposits with banks amounted to EUR 12.7 million (previous year: EUR 30.5 million).

Prepaid expenses of EUR 8.8 million (previous year: EUR 14.3 million) essentially comprise the premium resulting from the issue of bonds and convertible bonds.

Equity increased by EUR 14.9 million to EUR 244.7 million (previous year: EUR 229.8 million). The exercise of conversion rights increased subscribed capital by EUR 2.6 million and the capital reserve by EUR 29.3 million. The transfer of treasury shares increased subscribed capital by EUR 1.6 million and the capital reserve by EUR 0.7 million, while the net accumulated loss decreased by EUR 19.5 million. The contribution of EUR 478.2 million for the increase in share capital against contributions in kind was already recognised in equity as the entry in the Commercial Register occurred before the financial statements were prepared. The net loss of EUR 517.0 million (previous year: EUR 15.4 million) had an opposite effect. The equity ratio amounts to 9.4 percent (previous year: 7.2 percent) as at the balance sheet date.

Provisions decreased by EUR 6.7 million to EUR 1.8 million (previous year: EUR 8.5 million). The decrease is essentially due to higher personnel-related provisions in the previous year.

Liabilities decreased overall by EUR 613.6 million to EUR 2,351.9 million (previous year: EUR 2,965.4 million). EUR 710.6 million of this decrease is primarily attributable to liabilities to banks as the bridging loan to finance the acquisition of shares in ADO Group was repaid in full in the reporting year. Liabilities from convertible bonds and bonds fell by EUR 32.5 million to EUR 2,122.6 million (previous year: EUR 2,155.1 million) mainly due to the exercise of conversion rights. Liabilities to affiliated companies rose by EUR 128.4 million to EUR 224.7 million (previous year: EUR 96.3 million). This increase can mainly be attributed to financial liabilities to ADO Group (EUR 195.3 million) and to Adler Group and a subsidiary (EUR 22.6 million). By contrast, liabilities to MountainPeak Trading Limited (previous year: EUR 59.5 million) and WESTGRUND (EUR 27.7 million) no longer applied.

ADLER AG was able to meet its payment obligations at all times.

Overall summary of business performance and position of the company and the Group

Business performance was largely impacted by the write-downs of EUR 486.9 million on ADO Group shares, which together with the increased legal and consulting expenses almost fully accounted for the high net loss. The reduction of equity was fully offset by the increase in share capital against contributions in kind of the majority shareholder that was resolved at the end of 2020 and entered in the Commercial Register at the start of 2021. Given the further development of existing property portfolios, the strategic investments that have been made, the ongoing improvement in the financing structure and the financing facilities secured on a long-term basis, the positions of the company and Group are therefore assessed as positive. The foundations have been laid for stable development in the future.

8.3 REPORT ON EVENTS AFTER THE BALANCE SHEET DATE

Significant events after the balance sheet date correspond to the matters described in the report on post-balance sheet date events of the Adler Group.

8.4 REPORT ON EXPECTED DEVELOPMENTS

The expectations for ADLER AG are reflected in the forecast of the Adler Group due to its links with the Group companies.

The previous year's forecast, which had assumed a much more negative annual result for the reporting year than for the 2019 financial year, was accurate, even though it did not yet include write-downs on ADO Group shares.

ADLER AG expects the annual result in the single-entity financial statements for the 2021 financial year to be consistent with the reporting year's level, excluding write-downs, as the success of business activity is initially only evident in the subsidiaries, but expenses are mainly incurred within the framework of the holding structure.

8.5 REPORT ON RISKS AND OPPORTUNITIES

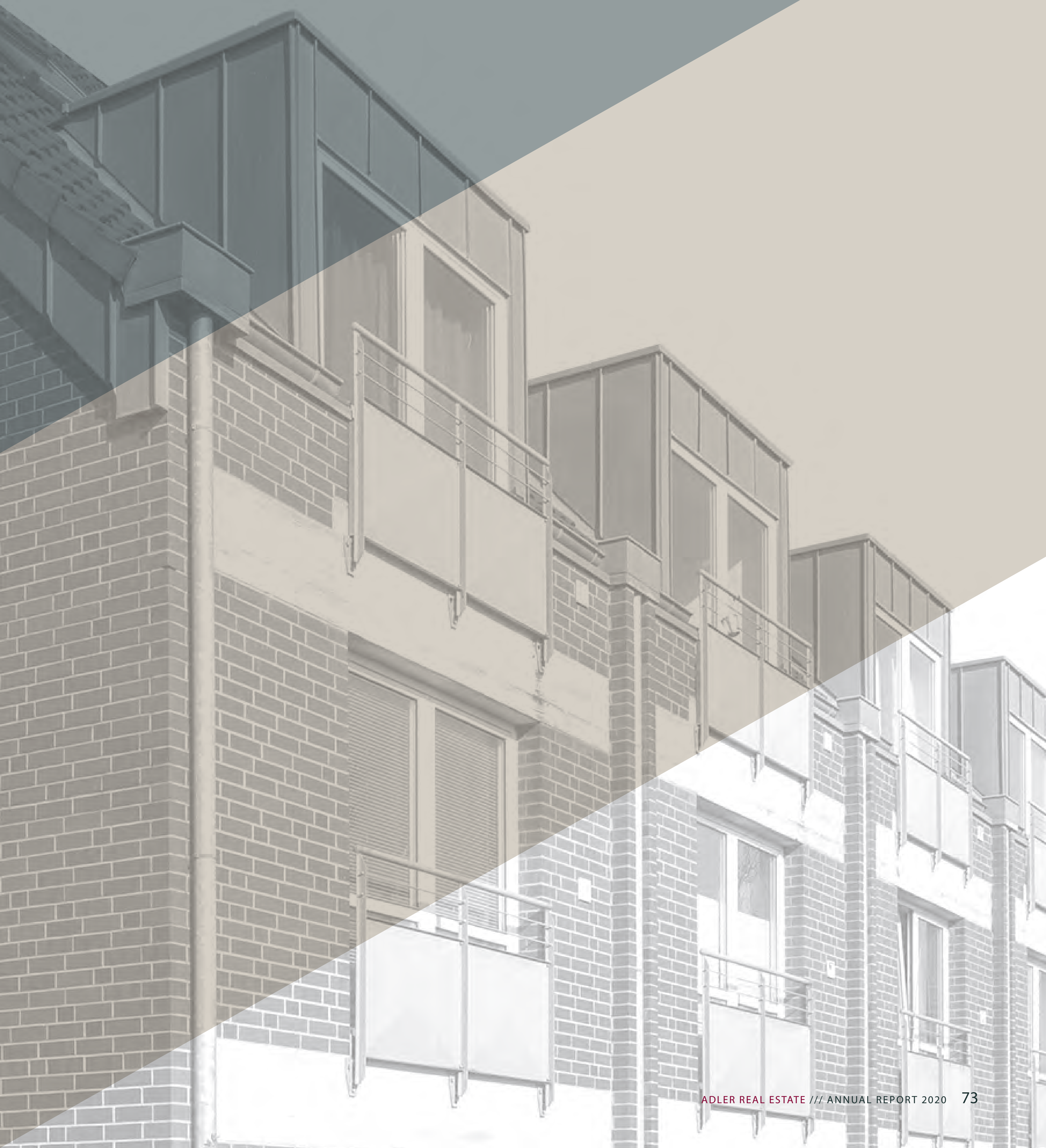
As the parent company of the Adler Group, ADLER AG is integrated into the group risk management system and the group accounting-related internal control system. ADLER AG's business development is essentially subject to the same opportunities and risks as the Adler Group.

Berlin, 24 March 2021

Maximilian Rienecker
CEO

Sven-Christian Frank
COO

/// CONSOLIDATED BALANCE SHEET
/// CONSOLIDATED STATEMENT OF INCOME AND ACCUMULATED EARNINGS
/// CONSOLIDATED CASH FLOW STATEMENT
/// CONSOLIDATED STATEMENT OF CHANGES IN EQUITY



/// CONSOLIDATED BALANCE SHEET

(IFRS) as at 31 December 2020

In EUR ´000	Note	31.12.2020	31.12.2019
Assets		**6,292,313**	**10,681,677**
Non-current assets		**5,578,424**	**5,288,676**
Goodwill	8.1	169,439	169,439
Intangible assets	8.1	485	584
Property, plant and equipment	8.2	22,276	19,348
Investment properties	8.3	4,951,790	4,920,008
Receivables from and loans to associated companies	8.4	103,270	79,523
Investments in associated companies	8.5	63,585	23,432
Other financial investments	8.6	131,832	56,603
Other non-current assets	8.6	135,185	17,782
Deferred tax assets	8.7	563	1,955
Current assets		**601,097**	**554,355**
Inventories	8.8	68,257	87,308
Trade receivables	8.9	23,669	31,987
Receivables from affiliated companies		548	0
Income tax receivables	8.9	4,165	4,643
Other current assets	8.9	354,602	193,002
Cash and cash equivalents	8.10	149,857	237,415
Non-current assets held for sale	8.11	**112,791**	**4,838,646**

In EUR ´000	Note	31.12.2020	31.12.2019
Equity and liabilities		**6,292,313**	**10,681,677**
Shareholders' equity		**1,580,770**	**3,547,857**
Capital stock	8.12	73,659	71,064
Treasury shares	8.12	0	-1,603
		73,659	69,461
Capital reserve	8.13	331,696	309,337
Retained earnings	8.14	-48,383	-26,438
Currency translation reserve	8.15	-3,077	0
Net retained profit		761,112	1,093,506
Equity attributable to owners of the parent company		1,115,007	1,445,866
Non-controlling interests	8.16	465,763	2,101,992
Contributions made to carry out the capital increase decided	8.17	**478,164**	**0**
Non-current liabilities		**3,073,299**	**4,928,486**
Pension provisions	8.18	1,131	4,092
Deferred tax liabilities	8.7	459,478	439,856
Other provisions	8.19	3,026	3,148
Liabilities from convertible bonds	8.20	0	122,249
Liabilities from bonds	8.21	1,548,970	2,327,846
Financial liabilities to banks	8.22	1,039,179	2,002,136
Other non-current liabilities	8.23	21,514	29,159
Current liabilities		**1,132,809**	**377,916**
Other provisions	8.19	282	12
Income tax liabilities	8.25	35,013	15,960
Liabilities from convertible bonds	8.20	97,384	1,947
Liabilities from bonds	8.21	530,340	101,612
Financial liabilities to banks	8.22	367,339	157,708
Financial liabilities to affiliated companies	8.24	22,551	0
Trade payables	8.25	32,246	37,380
Other current liabilities	8.25	47,654	63,297
Liabilities held for sale	8.11	**27,271**	**1,827,418**

/// CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(IFRS) for the period from 1 January to 31 December 2020

In EUR '000	Note	**2020**	**2019**
Gross rental income	9.1	354,680	370,362
Expenses from property lettings	9.2	-143,510	-151,044
Earnings from property lettings		**211,171**	**219,317**
Income from the sale of properties	9.3	836,514	533,823
Expenses from the sale of properties	9.4	-824,430	-533,329
Earnings from the sale of properties		**12,084**	**495**
Personnel expenses	9.5	-45,009	-47,130
Other operating income	9.6	19,256	8,364
Other operating expenses	9.7	-78,352	-68,964
Income from fair value adjustments of investment properties	9,8	239,461	362,638
Depreciation and amortisation	9.9	-5,318	-5,712
Earnings before interest and tax (EBIT)		**353,293**	**469,008**
Financial income	9.10	87,603	10,190
Financial costs	9.11	-158,539	-120,885
Net income from at-equity-valued investment associates	9.12	-5,901	-1,327
Earnings before tax (EBT)		**276,456**	**356,986**
Income taxes	9.13	-81,349	-81,231
Consolidated net profit from continuing operations		**195,107**	**275,755**
Earnings after taxes of discontinued operations	9.14	-499,527	92,009
Consolidated net profit		**-304,420**	**367,764**
Actuarial gains/losses before taxes		-19	-502
Deferred taxes on actuarial gains/losses		6	152
OCI gains/losses not reclassifiable into profit or loss		**-13**	**-350**
Gains/losses from currency translation	8.15	-3,077	-88
Change in value of financial assets measured at fair value	11.1	2,251	-205
OCI gains/losses reclassifiable into profit or loss		**-826**	**-293**
Total comprehensive income from continuing operations		**194,268**	**275,111**
Total comprehensive income of discontinued operations	9.14	-572,347	23,982
Total comprehensive income		**-378,079**	**299,093**

In EUR '000	Note	2020	2019
Carry over total comprehensive income		**-378,079**	**299,093**
Net profit from continuing operations:			
Owners of the parent company		145,825	207,745
Non-controlling interests		49,282	68,010
Consolidated net profit attributable to:			
Owners of the parent company		-351,943	238,338
Non-controlling interests		47,523	129,426
Total comprehensive income from continuing operations:			
Owners of the parent company		144,986	207,101
Non-controlling interests		49,282	68,010
Total comprehensive income attributable to:			
Owners of the parent company		-376,995	215,075
Non-controlling interests		-1,084	84,018
Earnings per share, basic in EUR (consolidated net profit from continuing operations)	9.15	2.05	3.01
Earnings per share, diluted in EUR (consolidated net profit from continuing operations)	9.15	1.90	2.69
Earnings per share, basic in EUR (consolidated net profit)	9.15	-4.94	3.46
Earnings per share, diluted in EUR (consolidated net profit)	9.15	-4.39	3.08

/// CONSOLIDATED STATEMENT OF CASH FLOWS

(IFRS) for the period from 1 January to 31 December 2020

In EUR '000		2020	2019
Earnings before interest and taxes (EBIT) – continuing and discontinued operations		-126,534	469,008
+	Depreciation and amortisation	5,694	5,712
–/+	Net income from fair value adjustments of investment properties	-239,461	-362,638
–/+	Non-cash income/expenses	577,441	19,773
–/+	Changes in provisions and accrued liabilities	-2,813	-387
–/+	Increase/decrease in inventories, trade receivables and other assets not attributable to investment or financing activities	235,281	-46,929
–/+	Decrease/increase in trade payables and other liabilities not attributable to investment or financing activities	-312,783	18,205
+	Interest received	1,790	865
+	Dividends received	0	248
+/–	Tax payments	-8,516	-10,280
=	**Operating cash flow before dis-/reinvestment into the trading portfolio**	**130,099**	**93,577**
–/+	Increase/decrease in inventories (commercial properties)	19,051	782
=	**Net cash flow from operating activities**	**149,150**	**94,359**
	of which continuing operations	144,050	94,359
	of which discontinued operations	5,100	0
–	Acquisition of subsidiaries, net of cash acquired	-14,686	30,014
+	Disposal of subsidiaries, net of cash disposed	0	162,030
–	Purchase of investment properties	-220,633	-200,691
+	Disposal of investment properties	293,285	170,705
–	Purchase of property, plant and equipment and intangible assets	-7,921	-7,208
+	Disposal of property, plant and equipment and intangible assets	0	299
–	Payments into short-term deposits	-47,404	-48,969
+	Proceeds from short-term deposits	25,603	15,064
+	Proceeds from disinvestment of financial assets	12,821	0
–	Investments in financial assets	-186,059	-256,173
+	Proceeds from the repayment of long-term receivables from associated companies	0	500
–	Payments for long-term receivables from associated companies	0	-12,500
=	**Net cash flows from investing activities**	**-144,994**	**-146,929**
	of which continuing operations	-18,888	107,256
	of which discontinued operations	-126,106	-254,185

	In EUR '000	2020	2019
–	Costs of issuing equity	-4,065	0
–	Transactions with non-controlling interests	42,926	-91,538
+	Proceeds from issue of bonds	0	400,000
–	Repayment of bonds	-326,222	-318,676
–	Payments from issuing debt	0	-5,599
–	Interest payments	-83,114	-83,231
+	Proceeds from bank loans	538,260	1,321,887
–	Repayment of bank loans	-1,126,335	-619,203
–	Repayment of leasing liabilities	-2,989	-2,468
–	Payment of interest portion of leasing liabilities	-1,378	-1,136
+/–	Proceeds from borrowings of loans and advances from affiliated companies	905,561	0
=	**Net cash flows from financing activities**	**-57,356**	**600,036**
	of which from continuing operations	-204,526	600,036
	of which from discontinued operations	147,170	0

	Reconciliation to Consolidated Balance Sheet		
	Cash and cash equivalents at beginning of periods	**624,973**	**77,655**
	Non-cash changes in cash and cash equivalents from impairment losses	-308	-148
	Non-cash changes in cash and cash equivalents from currency translation	-7,886	0
	Changes in cash and cash equivalents due to changes in the scope of consolidation	-413,722	0
	Net cash flow from operating activities	149,150	94,359
	Net cash flow from investing activities	-144,994	-146,929
	Net cash flow from financing activities	-57,356	600,036
=	**Cash and cash equivalents at end of periods**	**149,857**	**624,973**
	of which from continuing operations	149,857	237,415
	of which discontinued operations	0	387,558

/// CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(IFRS) for the period from 1 January to 31 December 2020

In EUR '000	Capital stock	Treasury Shares	Capital reserves
As at 1 January 2019	**71,064**	**-2,583**	**309,233**
Consolidated net profit	0	0	0
Other comprehensive income (OCI) – reclassifiable	0	0	0
Other comprehensive income (OCI) – non-reclassifiable	0	0	0
Increase/decrease in shareholding with no change in status	0	0	-847
Change in scope of consolidation	0	0	0
Acquisition of treasury shares	0	980	951
Conversion of convertible bonds	0	0	1
As at 31 December 2019	**71,064**	**-1,603**	**309,337**
As at 1 January 2020	**71,064**	**-1,603**	**309,337**
Consolidated net profit	0	0	0
Other comprehensive income (OCI) – reclassifiable	0	0	0
Other comprehensive income (OCI) – non-reclassifiable	0	0	0
Increase/decrease in shareholding with no change in status	0	0	-6,419
Change in scope of consolidation	0	0	0
Transfer of treasury shares	0	1,603	684
Transfer to reserves	0	0	0
Conversion of convertible bonds	2,595	0	28,094
As at 31 December 2019	**73,659**	**0**	**331,696**

Retained earnings	Currency translation reserves	Net retained profit	Equity attributable to the owners of the parent company	Non-controlling interests	Total equity
-3,264	**88**	**842,888**	**1,217,426**	**362,205**	**1,579,631**
0	0	238,338	238,338	129,426	367,764
-204	-88	0	-292	0	-292
-22,970	0	0	-22,970	-45,408	-68,378
0	0	0	-847	-90,735	-91,582
0	0	0	0	1,746,504	1,746,504
0	0	12,279	14,210	0	14,210
0	0	0	1	0	1
-26,438	**0**	**1,093,506**	**1,445,865**	**2,101,992**	**3,547,857**
-26,438	**0**	**1,093,506**	**1,445,865**	**2,101,992**	**3,547,857**
0	0	-351,943	-351,943	47,523	-304,420
2,251	-3,077	0	-826	0	-826
-24,226	0	0	-24,226	-48,510	-72,736
0	0	0	-6,419	130,346	123,927
30	0	0	30	-1,765,909	-1,765,879
0	0	19,549	21,836	0	21,836
0	0	0	0	321	321
0	0	0	30,689	0	30,689
-48,383	**-3,077**	**761,112**	**1,115,007**	**465,763**	**1,580,770**

/// NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 2020

/// NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

ADLER Real Estate Aktiengesellschaft (hereinafter "ADLER") is the parent company of the Group and has its legal domicile at Karlsbad 11, Berlin, Germany. The Company is entered in the Commercial Register of Charlottenburg District Court under HRB 180360. Its financial year is the calendar year.

ADLER is a publicly listed real estate company focusing on establishing and developing a substantial and profitable property portfolio. Its activities centre on the acquisition, development and management of residential properties throughout Germany. In addition to this, ADLER selectively expands its portfolio through new-build project developments.

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

The consolidated financial statements and the group management report were approved for publication by the Management Board, subject to approval by the Supervisory Board, on 23 March 2021.

2. BASIS OF ACCOUNTING

2.1 Basis for the preparation of financial statements

ADLER's consolidated financial statements as at 31 December 2020 have been prepared in accordance with the International Financial Reporting Standards (IFRS) effective in the European Union and the provisions of § 315e (1) of the Handelsgesetzbuch (HGB – German Commercial Code). The requirements of the standards applied have been met and the financial statements represent a true and fair view of the company's net assets, financial position and result of operations.

The financial years of the parent company, its subsidiaries and associates are equivalent to the calendar year. The financial statements of subsidiaries have been prepared on the basis of uniform accounting policies. The Statement of Comprehensive Income has been prepared using the total cost method.

The preparation of the consolidated financial statements requires the use of discretionary decisions, estimates and assumptions in respect of recognition and measurement. The areas that are more subject to judgement and complexity and those areas where assumptions and estimates are of decisive significance for the consolidated financial statements are presented in Note 6.

Effective as at 10 December 2019, ADLER obtained control over ADO Group Ltd, Tel Aviv, Israel (ADO Group) and thereby Adler Group S.A., Senningerberg, Luxembourg (Adler Group) as well. They were included in the consolidation as at 31 December 2019 on the grounds of simplicity and materiality. Since ADLER lost its controlling influence over Adler Group again on 9 April 2020 following the completion of the successful takeover bid by Adler Group, the assets and liabilities of Adler Group, which were reported under "Non-current assets and liabilities held for sale" at the balance sheet date of 31 December 2019 and the balance sheet date of 31 March 2020 in accordance with IFRS 5 (discontinued operations), were disposed of at the beginning of the second quarter of 2020 (see Section 4).

The Consolidated Statement of Comprehensive Income shows only continuing operations in the respective items, while the discontinued operation is shown as a total (Earnings after taxes and total comprehensive income from discontinued operations, see Note 9.14). With regard to the consolidated statement of cash flows, cash flows from operating, investing and financing activities are shown in relation to continuing and discontinued operations.

The consolidated financial statements have been prepared in euros (EUR), the Group's functional currency. Unless otherwise indicated, all figures presented in euros have been rounded up or down to the nearest thousand euros (EUR thousands). Statements of thousand-euro amounts may result in discrepancies due to rounding up or down. Figures in brackets generally refer to the previous year.

2.2 Accounting standards applicable for the first time in the 2020 financial year

The Group applied the following new and revised IFRS standards and interpretations in the 2020 financial year:

Standard/ Interpretation	Title	IASB Effective Date[1)]	Initial application date in the EU[1)]
Amendments to IAS 1 and IAS 8	Definition of materiality	1 January 2020	1 January 2020
Amendments to the Conceptual Framework	Amendments to references to the Conceptual Framework	1 January 2020	1 January 2020
Amendments to IFRS 3	in IFRS Standards Definition of a business	1 January 2020	1 January 2020
Amendments to IFRS 16	Relief for COVID-19-conditional lease concessions	1 June 2020	1 June 2020
Interest Rate Benchmark Reform (Phase 1)	Amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020	1 January 2020

[1)] For financial years beginning on or after this date

Amendment to IAS 1 and IAS 8 – Definition of Materiality

Materiality is defined as following: information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. It is clarified that information that could influence users' decisions is not necessarily required if it is very unlikely. It is added that the materiality of the information is not determined by its influence on decisions of all possible users but only the primary users. The amendments have no material impact on the consolidated financial statements.

Amendment to the Conceptual Framework – Amendments to References to the Conceptual Framework

Amendments to references to the Conceptual Framework in IFRS Standards (including IFRS 2, IFRS 3, IAS 1, IAS 8, IAS 34, IAS 37 and IAS 38) were published with the revision of the Conceptual Framework. The amendments, which are updates, have no material impact on the consolidated financial statements.

Amendment to IFRS 3 – Definition of a Business

The amendments contain an updated definition of a business to clarify the three associated elements. The amendment was prompted by uncertainty regarding the existence of a business on acquisition. There will be no material impact on the consolidated financial statements, as the resulting clarifications of the definition of a business operation have already been observed at ADLER.

Amendment IFRS 16 – Relief for COVID-19-conditional lease concessions

The amendments include an option for the lessee not to account for COVID-19-conditional lease concessions as a modification under certain conditions. The other changes – the interest rate benchmark reform – also had no material impact on the consolidated financial statements.

The other changes - the Interest Rate Benchmark Reform – also had no significant impact on the consolidated financial statements.

2.3 Standards and interpretations not prematurely applied

A number of amendments and clarifications to existing standards and interpretations were also adopted, but these are not expected to have any material implications for the consolidated financial statements.

Standard/Interpretation	Title	IASB Effective Date[1]	Initial application date in the EU[1]
Endorsed by the EU:			
Interest Rate Benchmark Reform (Phase 2)	Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	1 January 2021	1 January 2021
Amendments to IFRS 4	Extension of the Temporary Exemption from Applying IFRS 9	1 January 2021	1 January 2023
EU endorsement still pending:			
Amendments to IFRS 3, IAS 16, IAS 37	Business Combinations; Property, Plant and Equipment; Provisions, Contingent Liabilities and Contingent Assets	1 January 2022	expected 1 January 2022
Annual Improvements (2018–2020)	Amendments to IFRS 1, IFRS 9, IAS 41 and IFRS 16	1 January 2022	expected 1 January 2022
Amendments to IAS 1	Classification of Liabilities as Current or Non-Current	1 January 2023	expected 1 January 2023
IFRS 17 and amendments to IFRS 17	Insurance Contracts	1 January 2023	expected 1 January 2023

[1] For financial years beginning on or after this date

Amendment IFRS 3, IAS 16 and IAS 37

The amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets includes a clarification of the definition of fulfilment costs. Accordingly, the costs that an entity recognises in assessing whether a contract will be loss-making include directly attributable costs and costs that would not be incurred in the absence of the contract. The amendments to IFRS 3 Business Combinations relate exclusively to an adjustment of the reference to the conceptual framework. The amendments to IAS 16 Property, Plant and Equipment clarify that costs and income arising from the production and sale of items produced during the preparation of an asset are to be recognised in profit or loss. These amounts are not to be included in the acquisition costs. ADLER will apply these changes as soon as they come into effect. ADLER does not expect any material implications on its consolidated financial statements.

Annual Improvements (2018–2020)

The amendments to the annual improvements process (2018–2020 cycle) include minor amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 and will have no material impact on the consolidated financial statements.

Amendments to IAS 1

The amendments clarify that, for the purpose of classifying liabilities as current or non-current, the entity's existing rights as at the balance sheet date are decisive. Management's expectations or intentions regarding the actual exercise of the right and potential early prepayments are therefore not to be taken into account. ADLER does not expect any material implications on its consolidated financial statements, since the resulting clarifications have already been observed by ADLER.

The aforementioned other standards and amendments are not expected to have any material implications.

3. BASIS OF CONSOLIDATION

3.1 Subsidiaries

Subsidiaries involve all entities (including special purpose entities) controlled by ADLER. The Group assumes control over a company when it is exposed to variable returns or has a right to such returns and the ability to influence those returns by way of its influence over the company. It is generally the case that control is accompanied by a share of voting rights of more than 50 percent. When assessing whether the Group has control, account is taken of the existence and effect of potential voting rights that are currently exercisable or convertible and of a potential de facto control even though voting rights are less than 50 percent of the total. Subsidiaries are fully consolidated from the date on which control passes to the parent company. They are deconsolidated if control ceases.

All material subsidiaries are included in the consolidated financial statements (see Note 4.1, Investments in subsidiaries).

In the case of company acquisitions, it must be assessed (see Note 6, Significant discretionary decisions and estimates) whether the respective acquisition constitutes a business combination pursuant to IFRS 3 or merely the acquisition of a group of assets and liabilities that do not qualify as a company.

Company acquisitions meeting the IFRS 3 definition are recognised using the purchase method. This involves allocating the cost of the company acquisition to individually-identifiable assets, liabilities and contingent liabilities in accordance with their fair values. Any surplus between the consideration given and the net assets is recognised as goodwill, while any corresponding deficit is charged to earnings. Incidental acquisition costs are expensed.

Shares in the net assets of subsidiaries that are not attributable to ADLER are recognised as separate components of equity under non-controlling interests. When calculating the share of consolidated net profit attributable to non-controlling interests, account is also taken of consolidation entries recognised through profit or loss. Non-controlling interests in partnerships are recognised under other liabilities.

The acquisition of property companies and project development companies that do not constitute businesses pursuant to IFRS 3 are presented as the direct acquisition of an aggregate unit, in particular of real estate. This involves allocating the costs of acquiring the company to individually-identifiable assets and liabilities based on their fair values. As a result, the acquisition of property companies and project development companies does not produce any positive or negative goodwill from capital consolidation. The sale of property companies is accordingly presented as the sale of an aggregate unit, in particular of real estate.

When preparing the consolidated financial statements, intragroup receivables, liabilities and results are eliminated within the consolidation of debt, expense and income items. The income and expenses resulting from intragroup transfers of assets are also eliminated. Accounting policies at subsidiaries are based on uniform group-wide standards.

3.2 Joint arrangements

Joint arrangements are based on contractual arrangements according to which two or more partners undertake an economic activity that is subject to joint control. Joint control exists when the partners have to work together to manage the relevant activities of the joint arrangement and decisions require the unanimous consent of the partners involved. A joint arrangement constitutes a joint venture when the partners exercising joint control have rights to the net assets of the arrangement. Where, by contrast, the partners have direct rights to the assets attributable to the joint arrangement and assume obligations for its liabilities, the arrangement constitutes a joint operation.

Where a joint arrangement is embodied by a legally independent partnership or corporation with its own corporate assets, as a result of which ADLER's interest only results in a prorated claim to the net assets of the company, such an arrangement generally constitutes a joint venture. In the case of joint arrangements taking the form of a company under German civil law (such as associations) for which the legal form does not in itself result in an asset and financial structure separate from the partners, the decision as to whether the arrangement constitutes a joint venture or a joint operation is taken by additionally referring to the contractual provisions and the object of the joint arrangement.

Should neither the legal form nor the contractual provisions or other factors or circumstances indicate whether ADLER has direct rights over the assets or obligations for the liabilities of the joint arrangement in question, such an arrangement constitutes a joint venture.

Joint ventures are companies whose financial and business policies can be controlled by the Group directly or indirectly in conjunction with one or more third parties. Interests in joint ventures are recognised using the at-equity method.

The information provided on the recognition of joint ventures also applies to the recognition of associated companies.

3.3 Associated companies

Investments over which ADLER exerts significant influence – generally as a result of shareholdings between 20 percent and 50 percent – are basically measured using the at-equity method. For investments requiring measurement at equity, the acquisition cost is increased or decreased each year by the changes in equity attributable to the Group. Upon the initial inclusion of investments measured using the at-equity method, any differential amounts resulting from first-time consolidation are treated in the same way as goodwill relating to fully consolidated companies.

Gains and losses from transactions between group companies and associates are eliminated based on the Group's share in the associates. Gains and losses from transactions between associates are not eliminated.

4. SCOPE OF CONSOLIDATION, BUSINESS COMBINATIONS AND PROPERTY COMPANIES

4.1 Shares in subsidiaries

Including the parent company, the scope of consolidation comprises a total of 226 (previous year: 433) fully consolidated companies. The Group owns no real estate outside Germany.

The consolidated group has developed as follows:

Quantity	2020	2019
As of 01.01.	433	229
Additions	1	211
Disposals	206	4
Mergers/accruals	2	3
As of 31.12.	**226**	**433**

In the reporting period, 206 companies were deconsolidated. Two companies were merged with other companies in the consolidated group.

MountainPeak Trading Limited, Cyprus, was merged into ADLER Real Estate AG in the first quarter of 2020. This did not affect the Group's net assets, financial position or results of operations.

As a result of the binding sale and purchase agreement concluded in the third quarter of 2019 for the sale of a project development in Dusseldorf by Brack Capital Properties N.V., Amsterdam, Netherlands (BCP), the fully consolidated company Glasmacherviertel GmbH & Co. KG, Dusseldorf was sold at the end of the first quarter of 2020. Investment properties of EUR 375,000k, which were recognised under "Non-current assets and liabilities held for sale" as at 31 December 2019 as a result of the sale, and financial liabilities to banks of EUR 127,512k were disposed of (see Note 8.11, Non-current assets and liabilities held for sale). As part of the agreed share deal, BCP retained 25 percent of the shares in this company and carried out a transition consolidation. The remaining participation is included in the consolidated financial statements using the equity method as an associated company in accordance with IAS 28 (see Note 8.5, Investments in associated companies and joint ventures).

At the beginning of the second quarter of 2020, ADLER lost its controlling influence over Adler Group, including its 198 subsidiaries, and carried out a deconsolidation (see Note 4.2, Deconsolidation of Adler Group).

In the third quarter of 2020, the shares in Treuhaus Hausbetreuungs-GmbH, Ludwigshafen, were sold and Jade Immobilien Management GmbH, Wilhelmshaven, was merged with ADLER Wohnen Service GmbH. This did not affect the Group's net assets, financial position or results of operations.

In the third quarter of 2020, ADLER concluded a binding purchase agreement with an international real estate investor for the sale of 5,064 residential and commercial units. The transaction was completed by transfer of control as at 31 December. The properties were located mainly in Lower Saxony, North Rhine-Westphalia and Rhineland-Palatinate. The units generated net rental income of EUR 18.6 million p.a. and had a vacancy rate of 12 percent with an average rent of EUR 5.46/sqm/month. The sale was concluded partly as an asset deal and partly as a share deal. Due to the sales that took place as asset deals, investment properties of EUR 126,885k, which were classified as non-current assets held for sale as at 30 September 2020 and reclassified accordingly, were disposed of (see Note 8.11, Non-current assets and liabilities held for sale).

In addition, five fully consolidated companies (WBG GmbH, Helmsted; MBG Lüdenscheid GmbH, Hamburg; MBG Dorsten GmbH & Co. KG, Hamburg; Wiederaufbau-Gesellschaft mit beschränkter Haftung, Ludwigshafen am Rhein; Westgrund Westfalen GmbH & Co. KG, Berlin) were disposed of due to loss of control with effect from 31 December 2020. The assets and liabilities of the five companies sold in a share deal and classified as non-current assets and liabilities held for sale as at 30 September 2020 comprised the following:

In EUR ´000	**31.12.2020**
Property, plant and equipment	3
Investment properties	195,159
Inventories	3
Trade receivables	751
Income tax receivables	88
Other current assets	251
Cash and cash equivalents	1,334
Total assets	**197,589**

In EUR ´000	**31.12.2020**
Pension provisions	3,079
Deferred tax liabilities	24,245
Financial liabilities to banks	54
Other non-current liabilities	937
Income tax liabilities	734
Trade payables	20,918
Other current liabilities	4,626
Total liabilities	**54,594**

Based on the preliminary purchase prices, the disposal of the five fully consolidated companies resulted in a deconsolidation gain of EUR 6,991k, which is reported under "Other operating income" (see Note 9.6, Other operating income). As a result of the deconsolidation, cash and cash equivalents as reported in the Consolidated Statement of Cash Flows decreased by EUR 467k.

ADLER retained 10.1 percent of the shares in each of these companies as part of the agreed share deal. The remaining investments were classified as financial assets measured at fair value and reported in the financial results with changes in value under "Other financial investments" (see Note 8.6, Other financial investments and other non-current assets). The initial valuation and subsequent measurement took place with due consideration given to the effect on profit or loss of deferred tax liabilities.

At the end of the fourth quarter of 2020, shares in several subsidiaries were sold to non-controlling shareholders without ADLER losing its existing controlling influence (see Note 8.16, Non-controlling interests).

ADLER's shareholdings as at 31 December 2020, which also correspond to voting rights, are presented in an annex to the notes to the consolidated financial statements on page 192.

4.2 Deconsolidation of Adler Group

On 15 December 2019, ADLER and Adler Group (formerly ADO Properties) entered into a business combination agreement under which Adler Group was to acquire ADLER as part of a public takeover offer. On 9 April 2020, Adler Group's takeover offer to ADLER shareholders was successfully concluded. Adler Group announced that 91.93 percent of ADLER shares had been exchanged for shares in Adler Group. ADLER therefore lost its controlling influence as of early April 2020 and deconsolidated Adler Group again, including its 198 subsidiaries. For the sake of simplicity, deconsolidation took place on 1 April 2020.

Particularly as the stock market price of Adler Group has decreased since the acquisition date partly in the wake of the COVID-19 pandemic, deconsolidation has resulted in a loss, as follows:

In EUR ´000	1 April 2020
Disposal of assets of Adler Group	-4,498,680
Disposal of debt of Adler Group	1,866,193
Disposal of non-controlling interests of Adler Group	1,757,186
Fair value of the remaining investment in Adler Group	319,423
Fair value of convertible bonds of Adler Group	58,157
Fair value of receivables from Adler Group	145
Transfer of other comprehensive income reclassifiable of Adler Group	48
Result from the deconsolidation of Adler Group	**-497,527**

The loss from deconsolidation was reported in the results of discontinued operations. As a result of the deconsolidation of Adler Group, cash and cash equivalents as reported in the Consolidated Statement of Cash Flows decreased by EUR 413,722k.

The assets and liabilities of Adler Group were reported as discontinued operations until the beginning of the second quarter of 2020 (see Note 8.11, Non-current assets and liabilities held for sale).

Due to the lack of voting rights, the remaining investment in Adler Group (20.5 percent; 14,692,889 shares) was initially classified as a financial asset measured at fair value and reported in the financial results with changes in value under "Other financial investments". The initial valuation and subsequent measurement took place with due consideration given to the effect on profit or loss of deferred tax liabilities in the results of continued operations.

On 2 July 2020, the Supervisory Board of ADLER approved the finalisation of a share transfer and procurement contract between ADLER and its parent company, Adler Group. The contract concerns the transfer of the remaining interest in Adler Group held by ADO Group Ltd ,Tel Aviv, Israel, a wholly owned subsidiary of ADLER, to Aggregate Holdings S.A. ("Aggregate") within the framework of the option agreement in place between Adler Group and Aggregate dated 15 December 2019. Under the terms of the share transfer and procurement contract, ADLER made a commitment to Adler Group to sign a further share transfer and procurement contract with ADO Group Ltd, according to which ADO Group Ltd will make a commitment to ADLER to transfer the 14,692,889 Adler Group shares that it holds to Aggregate upon receiving such an instruction from ADLER. ADLER received consideration from Adler Group for the transfer of the shares from ADO Group Ltd to Aggregate, which was equivalent to the fair value of the Adler Group shares on the transfer date of 2 July 2020 (EUR 348,221k). The positive change in value of EUR 28,798k compared with the time of the initial recognition upon deconsolidation at the beginning of April 2020 is reported under "Financial results" (see Note 9.10, Financial income).

Through its subsidiary ADO Group Ltd, ADLER holds roughly 38 percent of a convertible bond issued by the Adler Group and due to mature at the end of 2023, which has been eliminated up to deconsolidation. The conversion right constitutes an embedded derivative and the convertible bond is thus classified as a financial asset measured at fair value and reported in the financial results with changes in value under "Other financial investments" (see Note 8.6, Other financial investments and other non-current assets). The initial valuation and subsequent measurement took place with due consideration given to the effect on profit or loss of deferred taxes in the results of continued operations.

5. SPECIFIC ACCOUNTING POLICIES

5.1 Intangible assets and property, plant and equipment

Upon first-time recognition, separately purchased intangible assets are measured at cost. Following the initial recognition, intangible assets with finite useful lives are subject to straight-line amortisation over their expected useful lives, generally over three to five years, and are tested for impairment as soon as there are any indications of such. Impairments of intangible assets are recognised through profit or loss under depreciation, amortisation and impairment losses in the Statement of Comprehensive Income.

Intangible assets with indefinite useful lives, which include goodwill in particular, are not subject to scheduled amortisation. These assets are tested for impairment at least once a year, either on an individual asset or cash-generating group level. An impairment test is also performed should any triggering event occur.

Property, plant and equipment is recognised at cost, less accumulated depreciation and accumulated impairments. Cost includes expenses directly attributable to the acquisition. Subsequent acquisition or production costs are only capitalised if it is likely that future economic benefits will accrue to the company. Repair and maintenance costs are recognised as an expense in the financial year in which they are incurred.

Property, plant and equipment is subject to straight-line depreciation over its expected useful life, generally over three to 20 years (office equipment) or six to 13 years (vehicle fleet and outdoor facilities). The depreciation methods are reviewed and, if necessary, adjusted at each balance sheet date. Carrying amounts of property, plant and equipment are tested for impairment as soon as there are any indications that they exceed the respective recoverable amounts.

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

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

5.2 Investment properties

Investment properties include all properties that are held on a long-term basis to generate gross rental income and value growth. In contrast to investment properties, inventories constitute assets which are held for sale in the ordinary course of business, which are in the process of production for such sale or which are used in the production process or in the rendering of services. Consequently, properties held for sale in the normal course of business or constructed or developed with the intention of being sold are outside the scope of IAS 40. These are recognised under inventories and are within the scope of IAS 2.

At the time of acquisition, investment properties are measured at their acquisition and production costs, including the ancillary costs of the acquisition. In subsequent periods, investment properties are measured at their fair values. Ongoing maintenance costs are recognised as an expense in the Statement of Comprehensive Income. Modernisation measures, if they extend beyond ongoing maintenance, are capitalised if it is likely that the company will derive an economic benefit from them in the future. Measurement results are presented in the Statement of Comprehensive Income under the item "Income from fair value adjustments of investment properties".

The fair value of a property is the price that would be received for the sale of the asset between knowledgeable, willing and independent market participants in an orderly transaction or, in the case of the transfer of a liability, the price that would be paid. The fair value basically implies the sale of the asset. It corresponds to the (theoretical) price to be paid to the seller for a (hypothetical) sale of a property at the measurement date.

Fair value can be determined using the market-based approach, the cost-based approach or the income-based approach. It will maximise the use of relevant observable market-based input factors and minimise the use of non-observable inputs.

IFRS 13 requires investment property measured at fair value to be classified and the input factors referred to when determining fair value to be cited. Classification is based on the following three-level fair value hierarchy:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability.

Investment properties are not traded in active markets, but are measured using input factors based on unobservable market data (Level 3).

The fair value of investment properties is determined by reference to surveys compiled by external experts on the basis of current market data and using internationally recognised valuation methods. The discounted cash flow method is generally used. For properties under construction (project development/project properties), which will be held in the long term to generate gross rental income and capital appreciation after completion, the residual value method is applied (please refer to the disclosures on measurement methods in Note 8.3).

Investment properties are derecognised when they are sold or unused over a sustained period of time and no future economic benefit is expected upon their retirement. Gains or losses resulting from disposal or discontinuation are recognised in the year of disposal or discontinuation. Gains or losses correspond to the difference between the disposal price and the carrying amount plus costs to sell.

Properties initially acquired for trading purposes and correspondingly allocated to inventories are reclassified to investment properties when it becomes apparent that their use has changed.

5.3 Impairment of intangible assets and property, plant and equipment

To the extent that they are definitively allocated upon acquisition to a cash-generating unit, intangible assets with indefinite useful lives or that are not yet ready for use are not subject to scheduled amortisation but rather are tested annually for impairment. Assets subject to scheduled amortisation are tested for impairments if events or changes in circumstances indicate that the carrying amount may no longer be recoverable. Impairment losses are recognised in the amount by which the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For impairment-testing purposes, assets are aggregated at the lowest level for which cash flows can be separately identified (cash-generating units). Goodwill is reviewed at the level of a cash-generating unit or a group of cash-generating units to which the goodwill is allocated.

A cash-generating unit is the smallest group of assets that includes assets and generates cash flows that are largely independent of the cash flows generated by other assets or groups of assets. Goodwill acquired as part of a business combination is allocated to the cash-generating unit or group of cash-generating units that is expected to benefit from the synergies of the business combination.

The main cash-generating units defined at the Group relate to properties which as investment properties are already measured using the fair value model and therefore require no additional impairment testing. In the context of the Group's operating management, properties are aggregated in business units structured along geographical lines. As these regional business units (North, West, East, Central) represent the lowest level within the Company on which goodwill is monitored for internal management purposes, the annual impairment test is performed on the level of the regional business units. Assets are allocated to the business units based on the geographical location of the properties.

Assets may only be written up to a maximum of amortised cost. No write-ups are recognised for goodwill.

5.4 Financial assets

Trade receivables are recognised from the date on which they incurred. All other financial assets are recognised for the first time on the trade date if the Company becomes a party in accordance with the terms of the instrument.

Financial assets (except for trade receivables with no material financing component) are recognised for the first time at fair value. An item that is not measured at fair value through profit or loss will incur transaction costs that are directly attributable to its acquisition or issuance. Upon initial recognition, trade receivables with no material financing component are measured at their transaction price.

Upon initial recognition, a financial asset is classified and measured as follows:

- Financial assets at fair value through profit or loss – aafv.
- Financial assets at fair value through other comprehensive income – aafvoci.
- Financial assets measured at amortised cost – aac.

Financial assets are not reclassified after initial recognition unless the Group changes its business model to manage its financial assets. In this case, all relevant financial assets are reclassified on the first day of the period under report following the change to the business model.

A financial asset is measured at amortised cost if both of the following conditions are met and it has not been classified as "at fair value through profit or loss":

- It is held as part of a business model whose aim is to hold financial assets for collection of the contractual cash flows.
- The contractual terms and conditions governing a financial asset give rise to cash flows at fixed dates that are only payments of principal and interest on the principal amount outstanding.

A debt instrument is classified as "at fair value through other comprehensive income" if the two conditions below are met and it has not been classified as "at fair value through profit or loss":

- It is held as part of a business model in which the aim is both to hold financial assets for the collection of contractual cash flows and to sell financial assets.
- Its terms result in payment flows at fixed dates which are only payments of principal and interest on the principal amount outstanding.

Upon initial recognition of an equity instrument that is not held for trading, the Group may irrevocably choose to show consequential changes in the fair value of the instrument in other comprehensive income. This choice is made on a case-by-case basis for each equity instrument.

All financial assets that are not measured at amortised cost or at fair value through other comprehensive income are measured at fair value through profit or loss. This includes all derivative financial assets. Upon initial recognition, the Group may irrevocably choose to designate financial assets that would otherwise qualify for measurement at amortised cost or fair value through other comprehensive income as "at fair value through profit or loss" if that results in eliminating or significantly reducing accounting mismatches. This so-called fair value option was not exercised on the existing financial assets of the Adler Group.

ADLER makes an assessment of the goals of the business model in which the financial asset is held at a portfolio level, as this best reflects the way the business is managed and information is provided to management.

Financial assets held or managed for trading and whose performance is measured at fair value are measured at fair value through profit or loss.

For purposes of assessing whether the contractual cash flows are solely principal and interest payments, the "principal amount" is defined as the fair value of the financial asset upon initial recognition. "Interest" is defined as the consideration of the time value of money and the default risk associated with the principal amount over a period of time and other basic credit risks, costs and a profit margin. In assessing whether the contractual cash flows are exclusively interest and principal payments on the principal amount, the Group takes the contractual arrangements of the instrument into account. This includes an assessment of whether the financial asset includes a contractual arrangement that could change the timing or amount of the contractual cash flows so that they no longer meet these conditions.

ADLER derecognises a financial asset when the contractual rights to cash flows from the financial asset expire or when it transfers the rights to receive the cash flows in a transaction, at which point all material risks and rewards associated with the ownership of the financial asset will also be transferred. Derecognition also occurs if the Group neither transfers nor retains all material risks and rewards of ownership and does not retain control over the transferred asset.

Financial assets at fair value through profit or loss

Equity instruments (unless the option to recognise changes in value in other comprehensive income is declared irrevocable) and derivatives are always subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss in the Statement of Comprehensive Income.

Assets within this category are recognised as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Financial assets measured at fair value through other comprehensive income

The correspondingly classified debt instruments are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairments are recognised in profit or loss. Other net gains or losses are recognised in other comprehensive income. Upon derecognition, the accumulated other comprehensive income is reclassified to profit or loss.

These assets are classified as current assets unless their maturity or realisation exceeds 12 months after the balance sheet date. They are otherwise recognised as non-current assets.

Financial assets measured at amortised cost

These financial assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairments are recognised in profit or loss. Gains or losses from the derecognition are recognised in profit or loss in the Consolidated Statement of Comprehensive Income.

They are classified as current assets unless their maturity exceeds 12 months after the balance sheet date. They are otherwise recognised as non-current assets. The effective interest method is applied only if the asset has a maturity of more than 12 months.

Impairments

ADLER recognises impairment losses on expected credit losses:

- For financial assets measured at amortised cost, and
- at fair value with changes in other comprehensive income.

ADLER measures the impairments in the amount of credit losses expected over the term, except for the following impairments, which are measured at the expected 12-month credit loss:

- Bonds with a low default risk at the balance sheet date and
- other debt instruments, including bank deposits, for which the default has not significantly increased since first-time recognition.

Impairment losses on trade receivables (rental receivables, receivables from the disposal of properties and contract assets) are always measured in the amount of the expected credit loss over the term. ADLER uses an impairment matrix to measure the expected credit losses of its receivables, which comprise a very large number of small balances. The loss rates are determined on the basis of an assumption based on the probability that a receivable advances through successive stages in the delay in payment. The assessment takes into account historical default rates depending on the past due status, and is updated over time as required.

In determining whether the default risk of a financial asset has increased significantly since initial recognition and in estimating expected credit losses, ADLER considers reasonable and reliable information that is relevant and available without disproportionate time and expense. This comprises both quantitative and qualitative information and analyses that are based on past experience and well-founded assessments, including forward-looking information.

In ADLER's view, a bond has a low default risk if its credit risk rating meets the global definition of "investment grade". ADLER continues to assume that the default risk of a financial asset has increased significantly if it is more than 30 days past its due date.

The Group considers a financial asset to have defaulted if it is unlikely that the borrower will be able to fully pay its credit commitment to the Group without the Group being able to resort to measures such as the realisation of collateral (if any is available).

Credit losses expected over the term are those that result from all possible default events during the expected life of the financial instrument. 12-month credit losses are the portion of expected credit losses resulting from default events that are possible within 12 months of the end of the reporting period (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period to be considered when estimating expected credit losses is the maximum contract period in which the Group is exposed to credit risk.

Expected credit losses are the probability-weighted estimates of credit losses. Credit losses are measured as the present value of the defaults (i.e. the difference between the payments owed to a company in accordance with the contract and the payments the company is expected to make). Expected credit losses are discounted at the effective interest rate of the financial asset. When assessing expected credit losses, existing collateral is taken into account.

At each balance sheet date, ADLER estimates whether financial assets at amortised cost or bonds at fair value through other comprehensive income with regard to credit rating are impaired. A financial asset is impaired if one or more events have an adverse effect on the expected future cash flows of the financial asset. Indicators that a financial asset has an impaired credit quality include the following observable data:

- Significant financial difficulties of the issuer or the borrower.
- A breach of contract, such as a default or more than 90 days overdue.
- Restructuring a loan by the Group that it would otherwise not consider.
- It is likely that the borrower will enter bankruptcy or other financial reorganisation.
- The disappearance of an active market for a security due to financial difficulties.

Impairment losses of financial assets in accordance with IFRS 9 are not disclosed in a separate item in the Consolidated Statement of Comprehensive Income for reasons of materiality, but as previously under other operating expenses (trade receivables) and financial costs (other debt instruments). Impairment losses of financial assets are recognised separately in the notes to the consolidated financial statements.

Impairment losses on financial assets that are measured at amortised cost are deducted from the gross carrying amount of the assets. For bonds that are measured at fair value through other comprehensive income, the impairment is reclassified from other comprehensive income to profit or loss.

The gross carrying amount of a financial asset is amortised if the Group does not reasonably believe that the financial asset is fully or partly feasible. Subsequent payments received on previously derecognised amounts are recognised in profit or loss as other operating income.

5.5 Derivative financial instruments

In particular, the Group uses interest rate hedges intended to hedge changes in interest rates. Interest hedging instruments are used to hedge interest rate risks while foreign currency derivatives are used to hedge currency risks. However, the derivative financial instruments are not currently reported as hedges.

Upon initial recognition and subsequent measurement, derivatives are measured at fair value. Relevant changes are recognised through profit or loss in the Statement of Comprehensive Income. The fair values of derivatives are determined using standard market valuation methods and take account of the market data available on the valuation date.

5.6 Inventories

Properties acquired exclusively for the purpose of resale in the normal course of business or for development and resale are recognised as inventories. Other inventories, such as heating oil stocks, are also recognised in this line item.

These items are initially measured at acquisition or production cost. Acquisition costs include the purchase price of the property plus directly attributable ancillary costs, such as brokerage fees, land transfer tax, notarial fees and land register costs. Renovation costs that result in a significant improvement to the properties are capitalised. These inventories are subsequently measured at the lower of cost from acquisition or production costs or at their net realisable value. Net realisable value corresponds to the estimated selling price less estimated costs through to completion and the estimated required disposal costs.

5.7 Cash and cash equivalents

Cash and cash equivalents comprise cash, demand deposits and other short-term, highly liquid financial assets with an initial term of up to three months. They also include credit balances at banks with original terms of no longer than six months and intended for short-term debt service.

5.8 Non-current assets and liabilities held for sale

A non-current asset or a group of non-current assets is classified as "held for sale" if the associated carrying amount will predominantly be recovered via a sale transaction rather than through continued use, if the assets are available for immediate sale and the sale is considered highly probable. The shares have been measured at the lower of their previous carrying amount and their fair value less sales costs. These assets or groups of assets, as well as the associated liabilities, are reported separately in the balance sheet. Liabilities are classified as "held for sale" if they are connected to an asset held for sale and are also due to be acquired by a buyer.

ADLER recognises investment properties as non-current assets held for sale if there are notarised purchase agreements or purchase intentions signed by both parties as at the balance sheet date, but the transfer of ownership will not take place until the following period as agreed in the contract. Initial recognition takes place at the contractually agreed sale price and subsequently at fair value after deducting the costs of disposal, providing this is lower.

5.9 Shareholders' equity

Debt and equity instruments are classified as financial liabilities or equity on the basis of the economic substance of the contractual arrangements. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of the associated liabilities. Equity instruments are recognised in the amount of the issue proceeds, less directly attributable issuance costs. Issuance costs are costs that would not have been incurred if the equity instrument had not been issued. Such costs of an equity transaction, less all associated income tax benefits, are deducted from equity and directly offset against the capital reserves.

The components of a hybrid instrument issued by the Group (convertible bond) are separately recognised as financial liabilities and equity instruments in accordance with the economic substance of the arrangement. Upon issue, the fair value of the debt component is determined on the basis of the market interest rate applicable to a comparable non-convertible instrument. This amount is carried as a financial liability at amortised cost using the effective interest method through to settlement upon conversion or maturity of the respective instrument. The equity component is calculated by subtracting the value of the debt component from the fair value of the overall instrument. The resultant value, less income tax effects, is recognised under equity and is subsequently not measured.

5.10 Pension provisions

Provisions for pensions and similar obligations are measured by external actuaries using the projected unit credit method for defined benefit plans. Service cost is recognised under personnel expenses, while the interest portion of the increase in the provision is recognised in the financial result. Like deferred taxes, actuarial gains and losses arising in this regard are recognised under other comprehensive income. The amount recognised corresponds to the present value of the defined benefit obligation (DBO).

ADLER also pays contributions to state pension schemes in accordance with statutory provisions. Current payments for these defined contribution obligations are recognised within personnel expenses as social security contributions.

5.11 Other provisions

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

ADLER recognises provisions for non-profitable contracts when the benefit expected from the contractual claim is lower than the unavoidable costs of fulfilling the contractual obligations.

Measurement is based on the best estimate of the current scope of the obligation as at the balance sheet date. Non-current provisions are recognised at their respective settlement amounts discounted (present value) as at the balance sheet date.

5.12 Financial liabilities

Financial liabilities are recognised for the first time on the trade date if the Company becomes a party in accordance with the terms of the instrument. Liabilities are classified as current liabilities when the Group does not have the unconditional right to defer the redemption of the liability to a time later than at least 12 months after the balance sheet date or if settlement is expected within 12 months of the balance sheet date.

Financial liabilities are classified and measured as financial liabilities measured at amortised cost (flac) or financial liabilities at fair value through profit or loss (lafv). A financial liability is classified as at fair value through profit or loss if it is classified as held for trading, is a derivative or is classified as such at initial recognition. The so-called fair value option was not exercised on the existing financial liabilities of the Adler Group.

Net gains or losses, including interest expenses related to financial liabilities at fair value through profit or loss, are recognised through profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expenses and currency translation differences are recognised through profit or loss. Gains or losses from derecognition are also recognised through profit or loss.

When determining the fair value, the expected future cash flows are discounted using market interest rates with matching maturities. Individual characteristics of the financial instruments being measured are accounted for by way of standard credit rating and liquidity spreads.

The fair value of the financial liabilities is determined on the basis of the input factors in Levels 1, 2 and 3.

The Group derecognises a financial liability when the contractual obligations are discharged, cancelled or expire. The Group also derecognises a financial liability when the obligations stipulated in the contract are changed and the cash flows of the adjusted liability are significantly different. In this case, a new financial liability is recognised based on the adjusted requirements for fair value. When a financial liability is derecognised, the difference between the carrying amount of the amortised liability and the consideration paid (including any transferred non-cash assets or liabilities assumed) is recognised in profit or loss.

5.13 Taxes

Current tax assets and tax liabilities are measured at the amount of refund or payment expected to or from the tax authorities based on the tax rate and tax laws applicable as at the balance sheet date.

In accordance with 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 – with the exception of deferred tax liabilities that arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affect neither the accounting profit nor taxable profit or loss – and for tax loss carryforwards. The exemption provided as per IAS 12.15(b) has been applied regarding the acquisition of property companies that have been included in the consolidated financial statements as acquisitions of groups of assets and liabilities rather than as a business combination in accordance with IFRS 3. Where the Group's acquisition costs exceed the tax carrying amounts, deferred taxes are only recognised for the difference between the fair values and the Group's acquisition costs.

The tax rates used to calculate deferred taxes are determined on the basis of currently valid statutory provisions. Unchanged from the previous year, application is made of tax rates of 15.0 percent for corporate income tax, 5.5 percent for the solidarity surcharge and 14.4 percent for trade tax for German group companies. Deferred tax assets for temporary differences and for tax loss carryforwards are recognised in the amount at which it is likely that temporary differences will be offset against future positive tax income and taking account of minimum taxation requirements. When measuring deferred taxes, account is taken of the expected implications of what is known as the extended property deduction on domestic trade tax.

No deferred taxes are recognised for taxable temporary differences, whether positive or negative, in connection with interests in group companies for as long as the Group is able to control their reversal and such differences will not be reversed in the foreseeable future.

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

5.14 Leases

The Group is both a lessor and a lessee in the property letting business.

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

As a lessee

In particular, ADLER enters into leases for the following assets:

- Leasehold contracts for land (leaseholds)
- Leases for office space, garages and storage space (property)
- Leases for cars and commercial vehicles (vehicles)
- Leases for hardware and heating equipment (hardware and contracting)

When an arrangement that contains a lease component is entered into or amended, the Group allocates the contractually agreed consideration to the individual lease and non-lease components based on relative stand alone selling prices.

At the commencement date, the Group recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost, which is equal to the first-time measurement of the lease liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs, less any lease incentives received.

The right-of-use asset is then depreciated on a straight-line basis from the commencement date to the end of the lease period, unless ownership of the underlying asset transfers to the Group by the end of the lease term or if the measurement of the right-of-use asset reflects that the Group will exercise a purchase option. In this case the right-of-use asset is depreciated on a straight-line basis over the useful life of the underlying asset, which is calculated in accordance with the provisions for property, plant and equipment. In addition, the right-of-use asset is adjusted on an ongoing basis for any impairment losses and certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using the Group's incremental borrowing rate. With the exception of leases for leaseholds, ADLER uses its incremental borrowing rate as the discount rate as the interest rate implicit in the lease cannot be readily determined.

To calculate its incremental borrowing rate, ADLER considers interest rates from several of its external financing sources in the form of the weighted average cost of debt (WACD) and possibly makes certain adjustments reflecting the terms of the lease and the nature of the asset. A single discount rate is applied to portfolios of leases with similar characteristics.

Interest rates for specific properties or market-based discount rates are used for leaseholds.

The lease payments included in the measurement of the lease liability comprise fixed payments, variable lease payments, amounts expected to be payable under residual value guarantees, the exercise price of a purchase option if the Group is reasonably certain to exercise that option and payments of penalties for terminating the lease, unless the Group is reasonably certain that it will not terminate the lease early.

The lease liability is measured at carrying amount applying the effective interest method. It is reassessed if there is a change in future lease payments resulting from a change in an index or a rate, when the Group adjusts its estimate of the amounts expected to be payable under the residual value guarantee, when the Group adjusts its opinion on exercising an option to extend or terminate the lease, or to purchase the underlying asset, or there is a change in in-substance fixed lease payments. When the lease liability is reassessed, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or this is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

ADLER reports right-of-use assets that do not meet the definition of investment property in its statement of financial position under property, plant and equipment and lease liabilities in other liabilities. Right-of-use assets to investment property (leaseholds in particular) measured at fair value in accordance with IAS 40 are also measured at fair value and reported under investment properties.

ADLER has decided not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments in connection with these leases as an expense on a straight-line basis over the term of the lease.

As a lessor

If the Group is the lessor in a lease, it classifies each lease as a finance lease or an operating lease at inception of the contract.

ADLER leases its investment property. A lessor classifies these leases as operating leases as the lessee does not receive substantially all of the risks and rewards incidental to ownership. ADLER recognises lease payments for operating leases on a straight line basis over the term of the lease in gross rental income (net rental income).

When a lease is entered into or amended, the Group allocates the contractually agreed consideration based on relative stand alone selling prices. When an arrangement contains lease and non-lease components, the Group applies IFRS 15 to allocate the contractually-agreed consideration. A distinction must be made between those non-lease components of the continuing obligation in which the tenant does not receive a separate service, but has to replace ADLER in the context of accounting for operating costs (subject to IFRS 16), and those in which ADLER has a commitment to provide a service (subject to IFRS 15). Thus, revenue from the charge of property tax and building insurance expenses are now included in the scope of IFRS 16 in addition to net rental income.

The Group applies the derecognition and impairment requirements of IFRS 9 to its receivables and liabilities from the lease.

5.15 Revenue recognition

The Group’s income from letting items of real estate (net rental income) is attributable to leases and is recognised based on the period in accordance with the terms of the underlying contracts. Rent and income are recognised if they are stipulated by contract and it is probable that the economic benefits will accrue to the Group. Since net rents are usually paid monthly in advance, rent is due immediately.

Income from charged operating costs is recognised based on the period corresponding to the underlying rendering of services, i.e. when control of the service has been transferred to the tenants. It is required that there are contractual arrangements with the tenants and that it is likely that the specified consideration will be received. Operating costs and their additional charges are recognised using the principal method. This is due in particular to ADLER’s business model, which provides for a high share of in-house services relevant to operating costs. ADLER is regarded by the tenant as being primarily responsible for the provision of services and also has an inventory risk for all services that are not provided in-house. The reporting of expenses related to operating costs and the corresponding income from additional charges to the tenant was therefore not offset in the Consolidated Statement of Comprehensive Income. Liabilities from the payments of ancillary expenses are reported net with the receivables for the services that have not yet been invoiced, and the net amount is recognised under trade payables as “contract assets operating costs” or “liabilities from advance payments of operating costs”. The tenants’ advance payments of operating costs and the net rent are due monthly and are payable immediately.

Income from the sale of investment properties is recognised when the control has been transferred to the buyer; this is usually the case when transferring ownership rights, benefits and obligations arising from properties. When disposing of property companies, this date regularly coincides with the completion of the transfer of the respective shares. It is required that there are contractual arrangements with enforceable rights and obligations and that it is likely that the consideration specified will be received. The contracts in question provide for only this defined benefit obligation with a clearly defined consideration and the date of revenue recognition is specified in concrete terms. The purchase prices are usually deposited on notary accounts and paid to ADLER when the control has been transferred. Payments received for sales of investment properties (contract liabilities) are recognised under other liabilities if control has not yet been transferred.

In accordance with IFRS 15, ADLER recognises revenue from the sale of newly built apartments as part of project developments before the apartments are handed over to the buyers, as revenue is recognised over time in line with the progress of the project. Contractual arrangements with enforceable rights and obligations and receipt of the consideration specified are required for the recognition of income. The transaction price is determined separately for each performance obligation. The Company’s performance obligation is to provide the buyer with the power of disposal of the respective apartment. Based on the existing contracts with the buyers and the legal situation in Germany, the apartments do not constitute assets with alternative use and the Company has an enforceable right to demand compensation for the services provided up to that point in time. The power of disposal within the meaning of IFRS 15.35(c) thus passes to the buyer upon conclusion of the notarised purchase agreement and revenue is recognised from this date according to the stage of completion or performance progress. The Company uses the input method to measure performance progress. Costs that do not reflect performance progress such as land and borrowing costs and duties are not taken into account. The Company estimates the costs required to complete the project to determine the amount of revenue expected to be realised. These estimates include the direct costs associated with the fulfilment of the contract and are allocated based on an appropriate allocation formula. Thus, a performance progress rate is determined according to which the revenue for each individual contract is recognised in accordance with the performance progress rate of the entire construction project. The Company uses a practical expedient regarding the consideration of material financing components, according to which the consideration does not have to be adjusted if it is expected at the time of conclusion of the contract that the period between the receipt of the consideration and the time of realisation of the sale will not exceed one year. Receivables from the services which have not yet been invoiced are recognised under trade receivables as "contract assets project development". Payments received for sales of project development properties (contract liabilities) are recognised under other liabilities if it is not possible to offset the contract assets again.

Interest income is recognised in proportion to time in accordance with the provisions of the underlying contracts taking into account the residual claim and the effective interest rate over the remaining term.

5.16 Currency translation

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

Foreign currency transactions are translated into the functional currency of the relevant group company using the exchange rate on the transaction date. Monetary foreign currency items are subsequently translated at the respective reporting date rate. The currency translation differences arising upon the settlement of foreign currency transactions and from the translation of monetary foreign currency items at the reporting date rate are recognised in the income statement under other operating income or expenses. The functional currency of the foreign companies is the respective national currency, as the foreign companies conduct their businesses independently in financial, economic and organisational terms.

At the end of the year, assets and liabilities at foreign companies are translated into euros using the relevant reporting date rates, while income and expenses at such companies are translated using annual average exchange rates. Equity components are translated using the historical exchange rates applicable from a group perspective upon the dates of their respective addition to the scope of consolidation. The currency translation differences thereby arising compared with the reporting date rates are recognised in equity in the "currency translation reserve" line item.

5.17 Residual interests and dividend distributions

In its consolidated financial statements, ADLER also includes subsidiaries that have the legal form of partnerships with non-controlling interests. Pursuant to IAS 32, the shareholder position attributable to these minorities requires recognition as a liability due to their statutory and non-excludable termination rights. When such liability arises, it is measured at the present value of the settlement claim attributable to the respective shareholder. This generally corresponds to the amount of capital contribution made by the shareholder. In subsequent periods, the liability is carried forward and adjusted to account for the company's earnings prior to the recognition of this liability within earnings. To the extent that it is not due to capital contributions or withdrawals, the change in the liability is recognised through profit or loss. Where the carry forward procedure results in an imputed claim against the shareholder, such procedure is deferred until it once again results in a liability due from the shareholder.

For the corporations included in the Group, liabilities for dividends to shareholders are generally only recognised in the period in which the corresponding resolution concerning the appropriation of profit is adopted by the relevant shareholders' meeting. Obligations for minimum profit distributions are deferred as liabilities.

5.18 Cash flow statement

The cash flow statement presents the development in the Group's payment flows in the financial year. In the consolidated financial statements, the cash flow from operating activities is calculated using the indirect method, with earnings before interest and tax (EBIT) being adjusted to exclude non-cash-effective items and include cash-effective items. The cash flow statement presents the cash flows from operating, investment and financing activities.

5.19 Share-based payments

ADLER has a share-based compensation plan which grants beneficiaries at the company stock appreciation rights, and thus the possibility of participating in the company's value growth. The stock appreciation rights provided in the stock appreciation right programme ("SAR Programme") constitute a share-based, cash-settled payment programme pursuant to IFRS 2. Provisions for these personnel obligations have been recognised in the amount of the expected expenses, with such being allocated in instalments over the fixed overall term of the respective tranches. The fair value is calculated in reference to recognised financial valuation models. The recognition of stock appreciation rights requires assumptions and estimates concerning the development in performance indications and personnel. The identification is carried out using an option price model.

6. SIGNIFICANT DISCRETIONARY DECISIONS AND ESTIMATES

In preparing its consolidated financial statements, the Company makes assessments and assumptions concerning expected future developments based on the circumstances extant at the balance sheet date. The estimates derived on this basis may deviate from actual circumstances at a later point in time. In this case, the assumptions and the carrying amounts of the relevant assets or liabilities are adjusted as appropriate on a prospective basis.

The assumptions and estimates are continually reviewed and are based on past experience and other factors, including expectations concerning future events that seem reasonable in the given circumstances.

In applying accounting policies, the Management Board made the following estimates which significantly impact the amounts recognised in the consolidated financial statements:

- In the event of business combinations as defined by IFRS 3, estimates are made to calculate the fair value of the consideration transferred and for the preliminary calculation of the fair values of the identifiable assets acquired and liabilities assumed.

- When testing goodwill for impairment, estimates have to be made concerning the recoverable amounts of the respective cash-generating units or group of cash-generating units. This corresponds to the higher of fair value less disposal costs and the value in use. When determining the value in use, the estimated future cash surpluses are discounted to their present values. This is based on the company planning adopted by the Management Board. For regional business units operating in the property management business, this particularly requires estimates to be made concerning future rental income, vacancy rates and maintenance and modernisation measures. Based on forecast market developments and past experience, the assumptions underlying these figures are factored into a planning horizon of up to ten years.

The payment surpluses thereby determined are discounted to their present values, taking due account of market-based equity and debt financing costs, a market-based risk premium as well as a sustainable growth rate. The figure that best reflects the market value based on various scenarios and under consideration of all known input factors is reported in the consolidated financial statements.

- The market values of investment properties are based on the findings of independent experts commissioned to this end. These assessments are based on the discounted future cash surpluses determined using the discounted cash flow methods over a ten-year planning horizon. To perform the valuation, the surveyors have to estimate various factors, such as future rental income, vacancy rates, maintenance and modernisation measures and applicable interest rates. All these factors directly influence the fair value of the investment properties. Furthermore, due account is also taken of transaction costs in an amount deemed likely by ADLER. In the case of valuing property under construction, under the residual value method the construction costs still to be incurred as well as risk reductions for risk and profit until completion must be estimated. Further estimates will be made with regard to the fair value costs of disposal of properties held for sale.

- Estimates also characterise the determination of the impairment of financial assets. In this context, the default risks of financial assets must be assessed and the respective expected credit losses estimated.

- In determining deferred taxes, the Executive Board makes decisions on the basis of current planning as to the extent to which future loss carryforwards can be utilised. The basis for the decision is therefore the expected taxable profits of the respective company. Furthermore, the effects of changes in shareholders or partners must be taken into account, which could lead to a loss of tax loss carryforwards if there are insufficient hidden reserves in the respective company.

- For other provisions, various assumptions have to be made concerning the probabilities of occurrence and level of utilisation. Account is taken of all information known when preparing the balance sheet.

- When recognising revenue, it must be assessed whether the specified consideration is likely to be received. Revenue recognition for sales of newly built apartments as part of project developments is based on the period corresponding to the degree of completion or performance progress. In this context, the company estimates the costs required to complete the project to determine the amount of revenue expected to be realised.

In applying accounting policies, the Management Board made the following discretionary decisions that materially impact the amounts recognised in the consolidated financial statements:

- In respect of the properties held by the Group, the Management Board has to decide at each balance sheet date whether these assets are to be held for long-term rental and value appreciation purposes or rather classified as held for sale. Depending on this decision, the properties are reported as investment properties, under inventories or as non-current assets held for sale.

- Upon the addition of property companies, a decision has to be made whether this constitutes the acquisition of a business operation. When the acquisition involves not only assets and liabilities, but also a business operation (integrated group of activities), the transaction constitutes a business combination. For example, the business processes of asset and property management, receivables management and accounting are deemed to represent an integrated group of activities. A further key indication that the takeover involves a business operation is the fact that personnel are also employed by the company thereby taken over. All these processes and indications could be negated in the case of the acquisitions of property companies in the 2020 financial year, as a result of which the acquisitions have not yet been presented as business combinations pursuant to IFRS 3 in 2020.

- When acquiring equity investments, it must be decided whether there is significant influence when control is pooled. Significant influence is typically assumed for a shareholding of between 20% and 50%, though this presumption can be overcome in individual cases.

- To assess the lease term when accounting for leases, it must be decided whether it is reasonably certain that an extension option will be exercised. It must also be determined how the incremental borrowing rate will be calculated for discounting lease obligations.

- Upon the initial recognition of financial instruments, a decision has to be made as to which of the measurement categories they should be allocated to.

7. SEGMENT REPORTING

Adler Group, which was acquired in December 2019, was presented as a discontinued operation in accordance with IFRS 5 until its deconsolidation at the beginning of the second quarter of 2020 and was therefore not included in the segment reporting. For more information, please see Section 4.2.

The 'Rental' segment includes all ADLER's portfolios, through the letting of which ADLER Real Estate AG aims to generate long-term gross rental income. Gross rental income and the expenses associated with the letting business reflect the activities of the Group's Asset and Property Management, which manages residential units held in the portfolio in technical and commercial terms. This segment also includes the expenses for craftsmen and caretaker services which are provided by the Group's internal Facility Management. To a lesser extent, this item also includes BCP's commercial properties held for sale and project developments that are sold to non-group companies and which are therefore not to be added to the portfolio after completion.

Other group activities that do not constitute standalone segments are pooled in the "Other" column. These are mainly historic holdings relating to development projects that have been in the remainder of the process since the Group's realignment.

Segment reporting based on the trading segment is consistent with the internal reporting system to ADLER's Management Board, which is the top management body pursuant to IFRS (management approach). The Group only trades in properties that are located in Germany. No geographical segmentation has been performed.

Income and EBIT are structured as follows:

Adler Group In EUR ´000	Rental		Other		Group	
	2020	2019	2020	2019	2020	2019
Gross rental income and income from the sale of properties	1,191,013	903,977	181	208	1,191,194	904,185
– of which gross rental income	354,499	370,154	181	208	354,680	370,362
– of which income from sales	836,514	533,823	0	0	836,514	533,823
Change in the value of investment property	239,461	362,638	0	0	239,461	362,638
Earnings before interest and taxes (EBIT)	**353,312**	**468,766**	**-19**	**242**	**353,293**	**469,008**
Net income from at-equity-valued investment associates	-5,901	-1,327	0	0	-5,901	-1,327
Financial result	**-71,054**	**-110,808**	**117**	**113**	**-70,937**	**-110,695**
Earnings before taxes (EBT)	**276,352**	**356,654**	**104**	**332**	**276,456**	**356,986**

Depreciation of property, plant and equipment and amortisation of intangible assets break down as follows:

Adler Group In EUR ´000	Rental		Other		Group	
	2020	2019	2020	2019	2020	2019
Depreciation of property, plant and equipment	-4,608	-4,167	0	0	-4,608	-4,167
Amortisation of intangible assets	-247	-1,546	0	0	-247	-1,546

Income and EBIT were broken down in the previous year as follows:

Adler Group In EUR ´000	Rental 2020	Other 2020	Consolidation 2020	Group 2020
Assets per segment	6,228,687	4,579	-4,538	6,228,728
Result of investments accounted for using the equity method	63,585	0	0	63,585
Total segment assets	**6,292,272**	**4,579**	**-4,538**	**6,292,313**
Non-current assets held for sale Adler Group	-	-	-	0
Segment liabilities	**4,233,297**	**4,620**	**-4,538**	**4,233,379**
Non-current liabilities held for sale Adler Group	-	-	-	0
Segment investments	**222,089**	**0**	**0**	**222,089**

In the previous year, segment assets, segment liabilities and segment investments were structured as follows:

Adler Group In EUR ´000	Rental 2019	Other 2019	Consolidation 2019	Group 2019
Assets per segment	6,249,175	4,515	-4,543	6,249,147
Result of investments accounted for using the equity method	23,432	0	0	23,432
Total segment assets	**6,272,607**	**4,515**	**-4,543**	**6,272,579**
Non-current assets held for sale Adler Group	-	-	-	4,409,098
Segment liabilities	**5,433,898**	**4,621**	**-4,543**	**5,433,976**
Non-current liabilities held for sale Adler Group	-	-	-	1,699,844
Segment investments	**349,202**	**0**	**0**	**349,202**

Segment assets mainly comprise property, plant and equipment, investment properties and receivables due from third parties and the "Other" segment. Goodwill of EUR 169.439k (previous year: EUR 169,439k) is recognised in the Rental segment. Please refer to the comments under Note 8.1, Goodwill, intangible assets.

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

The intragroup balances between the reportable segment "Rental" and the "Other" column are eliminated in the "Consolidation" column. Segment investments include additions to property, plant and equipment, intangible assets, investment properties, properties recognised under inventories (primarily at BCP) and investments in associated companies.

8. NOTES TO THE CONSOLIDATED BALANCE SHEET

8.1 Goodwill and intangible assets

In EUR '000 2020	Goodwill	Other intangible assets
Carrying amounts 01.01.2020	**169,439**	**584**
Additions (+)	0	148
Depreciation current year (–)	0	-247
Carrying amounts 31.12.2020	**169,439**	**485**

In EUR '000 2019	Goodwill	Other intangible assets
Carrying amounts 01.01.2019	**170,758**	**612**
Additions (+)	0	199
Depreciation current year (–)	0	-227
Reclassification	-1,319	0
Carrying amounts 31.12.2019	**169,439**	**584**

Goodwill of EUR 101,198k is attributable to the acquisition of WESTGRUND in June 2015 and EUR 69,560k to the acquisition of BCP in April 2019. Allocation has been made to the regional business units (North, Middle, West, East) of the Rental segment.

Mandatory annual impairment testing for goodwill of the Rental segment was performed in the fourth quarter of the year under report. To determine the recoverable amounts of the business divisions, the respective values in use were first calculated by comparison with the measurement of investment properties (see comments in Note 8.3) on the basis of company planning adopted by the Management Board with a planning horizon of ten years. Perpetuity figures were computed on the basis of the cash inflows in the final year covered by the planning. The planning was determined by reference to factors which can be influenced and those which cannot.

The Management Board determined the cash flows budgeted for the detailed planning stage on the basis of the positive developments shown by the business model in the past and of expectations as to future market developments. For the regional business divisions within the Rental segment, the key value drivers are the planned increase in rent per square metre (target rent) and the reduction in the vacancy rate.

Due to ADLER's business model, the Covid-19 pandemic crisis did not have any material impact on the business at this time and is not expected to have any at this time.

Further major parameters used to determine the recoverable amounts include weighted average costs of capital (WACC) before taxes and the sustainable growth assumed for perpetuity. The WACC are derived from market-based costs of equity and debt capital weighted to account for the company's capital structure. These were calculated using the capital asset pricing model (CAPM) as used in theory and practice. This involves accounting for a risk-free interest rate, a market-based risk premium (market risk premium and beta factor) and a risk premium from industrial bonds. The market risk premium used was left on on 7.5 percent in the year under review (previous year: 7.5 percent). The calculation was performed by reference to comparative peer group data. The sustainable growth rate presents the market development expected in the future. With regard to the regional business units, the figures have been based on developments in actual rents.

Cash-generating units as of 31.12.2020	North	Central	West	East	Total
Goodwill in EUR ´000	32,223	22,894	62,526	51,796	169,439
WACC before tax in %	3.6	3.6	3.6	3.6	-
Sustainable growth rate in %	1.0	1.0	1.0	1.0	-

Cash-generating units as of 31.12.2019	North	Central	West	East	Total
Goodwill in EUR ´000	32,223	22,894	62,526	51,796	169,439
WACC before tax in %	2.7	2.7	2.7	2.7	-
Sustainable growth rate in %	1.0	1.0	1.0	1.0	-

The impairment test performed in the fourth quarter of the year identified significant surplus cover of the carrying amounts in all business divisions. The recoverability of goodwill was confirmed. Sensitivity analyses were performed to test the impact of changes in key parameters while retaining the other assumptions.

In the year under review, a 1.0 percentage point decrease in the target rent (in EUR/square metre rental area) for the business units would not lead to an impairment of the respective book value, with the exception of the North business unit. In the Northern Business Area, this would have resulted in a complete impairment of goodwill. An increase in the vacancy rate (as a percentage of the target rent) by 1.0 percentage point would not lead to an impairment of the book value for any of the divisions. A 0.5 percentage point increase in the weighted average cost of capital (WACC) would result in a complete impairment of goodwill in all business units except East. The same would apply to a 0.5 percentage point reduction in the sustainable growth rate, although here, too, no impairment losses would be expected for the CGU West.

In the previous year, a reduction in the target rent (in EUR/square metre of rental area) by 1.0 percentage point would not have led to an impairment of the book values of any of the regional business units. An increase in the vacancy rate (as a percentage of the target rent) by 1.0 percentage point would also not lead to an impairment of the book value of any divisions. A 0.5 percentage point increase in the weighted average cost of capital (WACC) or a 0.5 percentage point decrease in the sustainable growth rate would have had no impact on the recoverability of the book values of the regional business units.

8.2 Property, plant and equipment

in EUR '000	2020	2019
Carrying amounts 01.01.	**19,348**	**7,578**
Additions from the first-time application of IFRS 16 (+)	0	6,694
Additions from acquisitions (+)	0	392
Additions (+)	8,786	9,459
Depreciation current year (–)	-4,608	-4,167
Disposals (–)	-1,250	-608
Carrying amounts 31.12.	**22,276**	**19,348**

The disclosures according to IFRS 16 on the rights of use to assets in the context of leases are presented in Section 12 of the notes to the consolidated financial statements.

8.3 Investment properties

In EUR '000	Let Investment properties	Project development properties	Total 2020
Carrying amounts 01.01.	**4,634,567**	**285,442**	**4,920,008**
Additions through investment properties/property companies (+)	0	95,756	95,756
Other additions (+)	125,273	12,340	137,613
Result of fair value measurement	236,952	2,509	239,461
Reclassifications IFRS 5 (+/-)	-441,048	0	-441,048
Reclassifications (+/-)	67,242	-67,242	0
Carrying amounts 31.12.	**4,622,986**	**328,805**	**4,951,790**

In EUR '000	Let Investment properties	Project development properties	Total 2019
Carrying amounts 01.01.	**4,382,884**	**606,170**	**4,989,054**
First-time adoption IFRS 16 (+)	3,306	0	3,306
Additions through investment properties/property companies (+)	0	107,276	107,276
Other additions (+)	81,650	84,271	165,921
Result of fair value measurement	136,601	226,037	362,638
Reclassifications IFRS 5 (+/-)	-313,786	-375,000	-688,786
Reclassifications (+/-)	363,312	-363,312	0
Disposals (-)	-19,400	0	-19,400
Carrying amounts 31.12.	**4,634,567**	**285,442**	**4,920,008**

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

EUR 108,096k of the additions resulted from investments in project development properties under construction, with EUR 98,011k from modernisation measures that can be capitalised and EUR 27,262k from other additions.

In the 2020 financial year, income from the valuation of investment properties was realised in the amount of EUR 239,461k (previous year: EUR 362,638k). Negative valuation effects result from value adjustments to BCP's remaining commercial properties in the first quarter and third quarter of 2020, as these were impacted by the measures to contain the coronavirus. With regard to the valuation of residential properties, however, no significant effects can be identified in this regard at present.

The reclassifications amounting to EUR 441,048k relate to investment properties classified in accordance with IFRS 5 as non-current assets held for sale. Project properties were included in the financial year, a value of EUR 67,242k was completed and the rental was taken over.

The Statement of Comprehensive Income includes the following material amounts for investment properties:

In EUR '000	**2020**	**2019**
Income from property management	354,680	370,362
Expenses from property management	-143,510	-151,044
Earnings from property management	**211,170**	**219,318**

The fair value of individual properties/individual property portfolios (level 3 of the fair value measurement hierarchy) has been determined on the basis of discounted future cash flows using the DCF method. For properties under construction (project development/project properties), which will be held in the long term to generate gross rental income and capital appreciation after completion, the residual value method is applied to determine the fair value (level 3 of the fair value measurement on the basis of measurement models).

The Management Board is responsible for determining the measurement methods and processes used at the Group and for coordinating the relevant processes. Properties are measured by external surveyors based on the data as at the measurement date, much of which is provided by ADLER's Asset Management department. This way, it is ensured that the properties are measured in line with market conditions and as at the reporting date. The year-on-year changes in fair values are subject to plausibility reviews by the Group Accounting and Asset Management departments. The results of the measurement process are then discussed with the Management Board.

Let investment Properties – DCF method

The DCF method involves discounting the cash flows expected to be generated by a property to the measurement date. To this end, the cash flows from the respective properties are determined for a detailed planning period (ten years). These involve the net balance of expected inflows and outflows of cash. While inflows generally relate to net rents, the (gross) outgoing payments particularly involve the operating costs borne by the owner. The net cash flows for each period are then discounted to the balance sheet date as at 31 December 2020 through application of a market-based, property-specific discount rate.

This results in the capitalised value of the net cash flows for the respective period. A potential discounted disposal value (terminal value) is forecast for the property at the end of the detailed planning period. This reflects the price most likely to be achievable at the end of the detailed planning period. This involves capitalising the discounted net cash flows as perpetuity figures through application of the capitalisation rate of the respective property (exit rate). The sum of the discounted cash flows and the discounted potential disposal value provides the gross value of the property to be assessed. Market-specific transaction costs incurred by any potential buyer and quantified at 4.8 percent to 10.6 percent are then deducted from this gross value (previous year: 3.5 percent to 11.0 percent), following which the properties are recognised at net value.

The following overview presents the significant assumptions and results used to determine the fair values of investment properties when measuring them using the DCF method (excluding the commercial properties of BCP):

Valuation parameters	**Unit**	**Average**	**Range**
Discount rate	%	4.89	3.90-5.95
Capitalisation rate	%	3.54	2.10-4.90
Maintenance costs	EUR/sqm	9.66	8.25-10.75
Administrative expenses	EUR/per rental unit/ year	251.90	200-350
Stabilised vacancy rate	%	2.62	0.00-7.50
Valuation results			
Actual rent multiplier		20.66	12.61-40.30
Market value per sqm	EUR/sqm	1,408.10	681.00-7,808.00

The stabilised vacancy rate comprises temporary vacancies that are not considered to be marketable as well as fluctuation-related vacancies.

The following overview shows the key assumptions and results used in determining the fair value of BCP's commercial properties as part of the valuation using the DCF method:

Valuation parameters	**Unit**	**Average**	**Range**
Discount rate	%	6.93	5.40-8.00
Capitalisation rate	%	6.07	4.90-6.75
Market value per sqm	EUR/sqm	1,030.33	432.63-1,364.61
Stabilised vacancy rate	%	7.20	0.00-28.71

In the previous year, measurement was based on the following parameters (includes commercial properties of BCP):

Valuation parameters	Unit	Average	Range
Discount rate	%	4.40	3.00-6.25
Capitalisation rate	%	4.76	2.90-6.85
Maintenance costs	EUR/sqm	8.14	6.00-11.00
Administrative expenses	EUR/per rental unit/ year	228.08	200.00-307.00
Stabilised vacancy rate	%	3.90	0.00-15.00
Valuation results			
Actual rent multiplier		19.50	12.47-36.40
Market value per sqm	EUR/sqm	1,278.08	628.28-7,708.56

Various parameters were used when determining the discount rate. The discount rate comprises the base rate and a risk premium. The risk premium represents an interest rate suitable to the specific sub-segment, the type of use and the quality of the property. These assessments were made by reference to current market data and official documents, as well as to information from the valuation committee. The risk premium therefore varies from property to property.

The valuation parameters stated above represent averages weighted by market value. None of the margins stated account for exceptional individual cases. The assumptions used to value existing properties were made by an independent surveyor based on his longstanding professional experience. The surveys commissioned by the Group are governed by the requirements of the Royal Institution of Chartered Surveyors (RICS).

The chosen interest rate, underlying market rents and stabilised occupancy rates were identified as the main value drivers influenced by the market. The effects of potential fluctuations in these parameters are presented separately in the table below. Interaction between these parameters is possible. Given the complexity of the relationships involved, however, the effects of such interaction are not quantifiable. In the reporting year, the following effects resulted in the event of possible fluctuations in the respective valuation parameters (excluding BCP commercial properties).

	Discount/ and Capitalisation rate		Market rent		Vacancy rate	
	-0.25 PP	+0.25 PP	-10.0 %	+10.0 %	-1.0 PP	+1.0 PP
Change in value						
In EUR ´000	-332,771	391,874	305,370	-403,743	-73,186	64,318
in %	-7.31	8.61	6.71	-8.89	-1.61	1.41

The following effects resulted for BCP's commercial properties in the reporting year in the event of possible fluctuations in the respective valuation parameters:

	Discount/and capitalisation rate		Market rent		Vacancy month	
	+ 0.25 %	- 0.25 %	+ 5.0 %	-5.0 %	+3.0	-3.0
Change in value						
In EUR ´000	-3,080	3,510	3,320	-3,120	-710	810
in %	-4.55	5.18	4.90	-4.61	-1.05	1.20

In the previous year, the following effects resulted from possible fluctuations of the respective measurement parameters:

	Capitalisation rate		Market rent		Vacancy rate	
	-0.5 PP	+0.5 PP	-10.0 %	+10.0 %	-1.0 PP	+1.0 PP
Change in value						
In EUR ´000	196,584	-192,190	-524,861	521,502	58,064	-56,446
in %	4.26	-4.16	-11.37	11.30	1.29	-1.26

The following overview presents the geographical distribution of the property portfolios broken down by rental area, market values and the main parameters used in the valuation methods outlined above (excluding commercial properties of BCP with a market value of TEUR 68,390 and undeveloped land):

	Total rental area in sqm	Discount rate in %	Capitalisation rate in %	Actual rent multiplier	Stabilised vacancy rate in %	Market value 2020 in EUR '000
Lower Saxony	921,263	5.06	3.73	18.68	2.89	1,172,508
North Rhine-Westphalia	809,000	5.18	3.84	18.50	2.83	1,014,677
Saxony	504,628	4.71	3.45	22.01	3.74	692,760
Saxony-Anhalt	222,096	4.74	4.04	16.87	5.95	202,355
Brandenburg	216,281	4.86	3.98	16.44	4.11	218,079
Berlin	163,677	4.35	2.35	40.47	1.21	689,410
Other	392,729	5.00	3.80	19.43	3.45	557,925
Total	**3,229,674**	**4.89**	**3.54**	**20.66**	**2.62**	**4,547,714**

In the previous year, the geographical distribution of the property portfolios was as follows:

	Total rental area in sqm	Discount rate in %	Capitalisation rate in %	Actual rent multiplier	Stabilised vacancy rate in %	Market value 2019 in EUR '000
Lower Saxony	1,122,439	4.59	5.12	17.88	4.29	1,251,613
North Rhine-Westphalia	887,238	4.57	4.90	17.57	3.70	1,021,627
Saxony	560,141	4.59	4.74	20.67	4.03	666,728
Saxony-Anhalt	221,942	4.72	5.19	17.43	4.34	197,212
Brandenburg	213,368	4.79	4.78	16.30	4.51	202,488
Berlin	158,874	3.34	3.24	33.40	3.33	628,595
Other	429,451	4.37	5.06	18.93	3.83	666,304
Total	**3,593,453**	**4.40**	**4.76**	**19.50**	**3.94**	**4,634,567**

Project development properties – Residual value method

The determination of the fair value of properties under construction – which are held in the long term for the purpose of generating gross rental income and capital appreciation after completion – takes place using the residual value method, since the value of these properties is primarily determined by the value of the specific development concept. In the case of the residual value method, an indicative market value of the finished and leased object is initially determined on the basis of the future expected annual net income using the DCF method. All remaining costs that are incurred in connection with the preparation of the project are deducted from this value. These possible costs include all construction costs, building ancillary costs, fees, financing costs, marketing costs and incidental acquisition costs. There is also a risk deduction for risk and profit.

The following overview presents the significant assumptions used to determine the fair values of investment properties when measuring them using the residual value method:

Valuation parameters	Unit	Average	Range
Capitalisation rate	%	2.71	1.88-3.48
Calculated construction costs of the net rentable area	EUR/sqm	3,904.90	2,214.31-5,928.00
Risk deduction for risk and profit	%	10.07	10.00-12.00
Multiplier gross annual profit		28.45	24.95-33.09

In the previous year, the valuations were based on the following parameters:

Valuation parameters	Unit	Average	Range
Capitalisation rate	%	2.73	1.88-3.52
Calculated construction costs of the net rentable area	EUR/sqm	3,782.73	2,214.31-5,928.00
Risk deduction for risk and profit	%	10.00	10.00-10.00
Multiplier gross annual profit		28.25	24.23-31.51

The risk deduction for risk and profit relates to the yet-to-be-generated added value of the respective project.

The chosen interest rate, underlying market rents and calculated construction costs were identified as the main value drivers influenced by the market. The effects of potential fluctuations in these parameters are presented separately in the table below:

	Capitalisation rate		Market rent		Calculated building[1]	
	-0.5 PP	+0.5 PP	-10.0 %	+10.0 %	-10.0 %	+10.0 %
Change in value						
In EUR ´000	76,520	-53,012	-48,947	48,834	30,027	-30,139
in %	56.16	-38.90	-26.76	26.70	16.42	-16.48

[1] Without consideration of potential project guarantees

In the previous year, the following effects resulted from possible fluctuations of the respective measurement parameters:

	Capitalisation rate		Market rent		Calculated building[1]	
	-0.5 PP	+0.5 PP	-10.0 %	+10.0 %	-10.0 %	+10.0 %
Change in value						
In EUR ´000	89,315	-57,590	-51,402	51,289	30,056	-30,980
in %	59.58	-38.42	-26.15	26.09	15.29	-15.76

[1] Without consideration of potential project guarantees

Project development properties – DCF method

For projects that are already very advanced, the DCF method used for existing properties was applied. As of 31 December 2020, only one project is still reported according to DCF. The outstanding construction costs were recognised as cash in the first year. The fair value of this project amounts to EUR 5,600k. In the previous year, the fair value of these projects amounted to EUR 66,590k. The outstanding expenses taken into account in the following year amount to EUR 188k (previous year: EUR 5,565).

The following overview shows the main assumptions used in determining the fair value of these projects in the context of the valuation using the DCF method.

Valuation parameters	Unit	Value
Discount rate	%	2.75
Capitalisation rate	%	3.50
Maintenance costs	EUR/sqm	14.25
Administrative expenses	EUR/unit/year	203.77
Valuation results		
Actual rent multiplier		22.90
Market value per sqm	EUR/sqm	4,108.58

Valuation parameters	Unit	Average	Range
Discount rate	%	2.68	2.40-2.93
Capitalisation rate	%	2.64	2.36-3.50
Maintenance costs	EUR/sqm	8.67	7.81-14.25
Administrative expenses	EUR/unit/year	235.88	203.77-249.00
Valuation results			
Actual rent multiplier		28.7	22.9-33.1
Market value per sqm	EUR/sqm	3,498.84	2,803.36-4,133.06

The selected interest rate and the underlying market rents were identified as significant value drivers influenced by the market. The effects of possible fluctuations in these parameters are shown below in isolation from each other. Interactions between the parameters are possible, but cannot be quantified due to the complexity of the relationships.

	Capitalisation rate		Market rent	
	-0.5 PP	**+0.5 PP**	**-10.0 %**	**+10.0 %**
Change in value				
In EUR ´000	200	-300	-500	500
in %	3.57	-5.36	-8.93	8.93

In the previous year, the following effects resulted from possible fluctuations of the respective measurement parameters:

	Capitalisation rate		Market rent/Cost rent	
	-0.5 PP	+0.5 PP	-10.0 %	+10.0 %
Change in value				
In EUR ´000	3,240	-3,150	-7,630	7,800
in %	4.87	-4.73	-11.46	11.71

8.4 Receivables and loans to associated companies

The carrying amount of receivables from and loans to associated companies amounted to EUR 103,270k as at the balance sheet date (31 December 2019: EUR 79,524k).

On 27 December 2018, ADLER entered into a binding agreement with Benson Elliot Capital Management LLP, which plans to sell around 2,300 rental units to a joint venture, AB Immobilien B.V., Amsterdam, Netherlands, in which ADLER likewise holds a 25 percent interest. ADLER remains responsible for asset, property and facility management until the properties are sold to third parties. The properties were worth approximately EUR 117,700k. Control over the rental units was already transferred in the first quarter of 2019. The agreement for the sale of the around 2,300 rental units to AB Immobilien B.V. does not provide for a significant financing component as the remaining consideration is variable after the partial payment has been made. The amount and date of the consideration depend on the resale of properties to third parties over which ADLER has no material influence. However, payment is intended by no later than 31 December 2028. As of 31 December, ADLER recognises receivables from AB Immobilien B.V. of EUR 32,494k (31 December 2019: EUR 45,494k), taking into account default risks.

ADLER holds a 25 percent interest in Caesar JV Immobilienbesitz und Verwaltungs GmbH, Berlin. The remaining receivables from the sale to the associate will be due for payment – subject to market interest rates and collateralisation – no later than 1 December 2022. At the end of the second quarter of 2020, ADLER and the co-investor entered into a binding agreement with another investor providing for the sale of all shares in Caesar JV Immobilienbesitz und Verwaltungs GmbH. Accordingly, the shares held were reclassified as assets held for sale (EUR 3,955k). The agreement also stipulates that ADLER will be fully compensated for the remaining receivables, including interest, due from Caesar JV Immobilienbesitz und Verwaltungs GmbH. As at 31 December 2020, ADLER therefore reported all receivables including interest claims against Caesar JV Immobilienbesitz und Verwaltungs GmbH in the amount of EUR 44,636k under other current assets. A partial repayment of Caesar JV Immobilienbesitz und Verwaltungs GmbH and other loans were taken into account. In the previous year, a non-current portion of EUR 26,361k was reported under receivables from and loans to associates and a current portion of EUR 16,000k was already reported under other current assets. ADLER received interest income of EUR 1,276k in the reporting year (previous year: EUR 1,162k).

As part of the transitional consolidation of Glasmacherviertel GmbH & Co. KG, an interest-bearing loan receivable from the associated company was recognised , taking into account default risks. As of 31 December 2020, ADLER reported loan receivables including interest claims of EUR 66,882k. ADLER received interest income in the amount of TEUR 2,865 in the reporting year.

Other loans to associated companies are presented in Note 14.2, Related party disclosures. The Group's default risks and impairment losses of financial assets are presented in Section 11 of the notes to the consolidated financial statements.

8.5 Investments in associates and joint ventures

Five companies were included in the consolidated financial statements using the equity method as at the balance sheet date (previous year: six companies). Two associates (previous year: two) have not been included at equity due to materiality considerations.

in EUR '000	2020	2019
Carrying amounts 01.01.	**23,432**	**15,709**
Additions through acquisitions IFRS 3	0	0
Other additions	52,019	9,300
Other disposals	-2,011	-2
Share of gains and losses (at-equity result)	-5,901	-1,327
Other results attributable to the Group	0	0
Reclassifications IFRS 5 due to sale	-3,955	0
Dividends received	0	-248
Carrying amounts 31.12.	**63,585**	**23,432**

The main investments in associated companies are ACCENTRO, AB Immobilien B.V., Caesar JV Immobilienbesitz und Verwaltungs GmbH and Glasmacherviertel GmbH & Co. KG.

The remaining interest in ACCENTRO (share of 4.78 percent after dilution) will continue to be recognised as an associate in the consolidated financial statements due to its ability to exercise significant influence through a member of the Supervisory Board.

ACCENTRO is a listed public limited company that primarily manages (buying and selling) residential property and individual apartments as well as the brokerage business associated with residential privatisation.

The investment in ACCENTRO developed as follows:

in EUR '000	2020	2019
Carrying amounts 01.01.	**11,286**	**12,639**
Share of gains and losses (at-equity result)	271	-1,105
Other result attributable to the Group	0	0
Dividends received	0	-248
Carrying amounts 31.12.	**11,557**	**11,286**

The tables below contain the combined financial information of ACCENTRO based on the last published IFRS consolidated financial statements:

In EUR ´000	**30.09.2020**	**31.12.2019**
Assets		
Non-current assets	119,449	102,508
– of which goodwill	17,776	17,776
Current assets	604,882	478,250
– of which inventories	460,158	416,573
– of which cash and cash equivalents	36,450	24,167
Equity and liabilities		
Equity	210,128	220,811
Non-current liabilities	343,227	215,919
– of which financial liabilities to banks	93,451	114,474
– of which liabilities from bonds	244,726	99,235
Current liabilities	170,975	144,028
– of which financial liabilities to banks	124,929	102,368
– of which liabilities from bonds	1,180	1,563

In EUR ´000	**9M 2020**	**2019**
Earnings from sale of inventories	9,996	29,841
Earnings from property lettings	3,867	6,518
Earnings from services	623	2,363
EBIT	5,596	39,804
EBT	-8,015	32,488
Consolidated net profit	-11,811	26,299

In EUR ´000	**9M 2020**	**2019**
Cash flow from operating activities	-47,102	-75,665
Cash flow from investing activities	-60,516	2,411
Cash flow from financing activities	118,041	81,017
Change in cash and cash equivalents	10,422	7,763

AB Immobilien B.V. is a property company that pursues the objective of selling its assets at a profit. The interest (25 percent) was still classified as immaterial in the previous year and developed as follows:

In EUR '000	2020	2019
Carrying amounts 01.01.	**5,369**	**7**
Other additions	0	5,300
Share of gains and losses (at equity result)	-5,369	62
Carrying amounts 31.12.	**0**	**5,369**

The tables below contain the combined financial information of AB Immobilien B.V.:

In EUR ´000	31.12.2020	31.12.2019
Assets		
Non-current assets	6	6
Current assets	92,931	133,319
Equity and liabilities		
Equity	-3,329	5,577
Non-current liabilities	53,669	79,309
Current liabilities	42,597	48,439

In EUR ´000	2020	2019
Earnings form property lettings	-1,488	2,688
Earnings from the sale of properties	-4,071	0
EBIT (Earnings before interest and taxes)	-6,516	2,573
Net profit	-8,906	247

Caesar JV Immobilienbesitz und Verwaltungs GmbH is a property company whose objective is to generate income from letting and, where applicable, also selling its properties. The interest (25 percent) developed as follows:

In EUR '000	2020	2019
Carrying amounts 01.01.	**3,723**	**6**
Other additions	0	4,000
Share of gains and losses (at equity result)	232	-283
Reclassifications IFRS 5 due to sale	-3,955	0
Carrying amounts 31.12.	**0**	**3,723**

The shares in Caesar JV Immobilienbesitz und Verwaltungs GmbH, with a value of EUR 3,955k, were reclassified to non-current assets held for sale as of the balance sheet date due to a binding sale and purchase agreement.

The tables below contain the combined financial information of Caesar JV Immobilienbesitz und Verwaltungs GmbH:

In EUR ´000	31.12.2020	31.12.2019
Assets		
Non-current assets	72,348	70,867
Current assets	19,182	6,093
Equity and liabilities		
Equity	3,348	2,826
Non-current liabilities	79,046	51,366
Current liabilities	9,136	22,768

In EUR ´000	2020	2019
Earnings form property lettings	5,079	1,460
Earnings from the sale of properties	0	0
EBIT (Earnings before interest and taxes)	3,238	999
Net profit	522	-1,132

Glasmacherviertel GmbH & Co. KG is a real estate project development company which intends to generate income from the rental and, if applicable, also from the sale of its properties after completion of construction. The addition of the shares (25 percent) in the amount of EUR 52,019k can be attributed to the transitional consolidation following the sale of the 75 percent stake in Glasmacherviertel GmbH & Co. KG. In accordance with IFRS 10, the remaining 25 percent interest in the company was measured at fair value, derived from the purchase price, at the date of transitional consolidation:

In EUR '000	2020	2019
Carrying amounts 01.01.	**0**	**0**
Other additions	52,019	0
Share of gains and losses (at equity result)	-277	0
Carrying amounts 31.12.	**51,742**	**0**

The tables below contain the combined financial information of Glasmacherviertel GmbH & Co. KG:

In EUR ´000	31.12.2020	31.12.2019
Assets		
Non-current assets	390,963	-
Current assets	43,945	-
Equity and liabilities		
Equity	185,642	-
Non-current liabilities	245,370	-
Current liabilities	3,896	-

In EUR ´000	2020	2019
Earnings form property lettings	1	-
Earnings from the sale of properties	0	-
EBIT (Earnings before interest and taxes)	1	-
Net profit	-1,108	-

The Group still holds investments in three (previous year four) other associates and joint ventures that are not of material significance. The carrying amounts and the share of profit and other comprehensive income of these associates are presented in aggregated form in the table below:

In EUR ´000	2020	2019
Carrying amount of shares on not-vital-at-equity consolidated companies	**285**	**3,054**
Group's share in the result of non-vital-at-equity companies:		
– Profit from continuing operations	262	0
– Other results	0	0
Total result	**262**	**0**

The shares in Tuchmacherviertel GmbH & Co. KG, Aachen were sold in the third quarter of 2020 at a value of EUR 2,011k.

The prorated share of profit and loss at the companies included using the equity method has been recognised in full in 2020. There are no accumulated unrecognised losses.

8.6 Other financial investments and other non-current assets

In the 2018 financial year, ADLER acquired 4,870,891 (3.6 percent) of the shares in a project development company based in Germany through its subsidiary BCP. The shares were classified as financial assets at fair value through profit or loss and recognised under other financial assets. As at 31 December 2020, based on the stock market price, the fair value amounted to EUR 36,093k (31 December 2019: EUR 35,655k). The change in value year on year of EUR 438k is recognised under financial expenses.

Other financial assets at the balance sheet date also include debt instruments (bonds) of an associated company with a term until 9 November 2025, which are held as part of a business model whose objective is both to hold the financial assets in order to collect the contractual cash flows and to sell them if necessary. The debt instruments are therefore measured at fair value with changes in other comprehensive income. The interest rate is 6.88 percent p.a., and semi-annual interest payments are scheduled. As of 32 December 2020, the fair value based on the stock market price amounts to EUR 12,519 k (previous year: EUR 14,454k). The change in value results in the amount of EUR 2,301 from a write-up to the closing rate, which was recognised in other comprehensive income, on additions amounting to EUR 2,000k and from the sale of shares in the amount of EUR 6,235k. ADLER received interest income of EUR 994k and from these bonds in the reporting year.

ADLER also holds roughly 38 percent in a convertible bond issued by Adler Group with a term until 23 November 2023, which was eliminated until deconsolidation. The interest rate is 1.25 percent p.a., and interest payments are due semi-annually. The conversion right is an embedded derivative, so that the convertible bond is classified as a financial asset measured at fair value and reported under other financial assets. As of 31 December 2020, the fair value amounts to EUR 61,487k. The change in value of EUR 3,330k compared with the date of initial recognition upon deconsolidation at the beginning of April 2020 is reported under financial income. In the reporting year, ADLER generated interest income in the amount of EUR 635k from the convertible bond.

Furthermore, as part of the sale of residential and commercial units, the remaining shares (in each case 10.1 percent) in the property companies in the amount of EUR 21,733k (previous year: EUR 6,494k) are recognised under other financial assets. They are measured at fair value through profit or loss.

Other non-current assets mainly comprise the receivables remaining after payment of the first purchase price instalment from the sale of 75 percent of the shares in Glasmacherviertel GmbH & Co. KG, which were deferred at standard market interest rates and collateral. For payment of the purchase price receivables, it was agreed that each instalment payment would be due when certain milestones, which are not yet fixed but can be determined, in relation to project development are met. Accounting for default risks and accrued interests, a receivable of EUR 133,231k from the buyer is recognised under other non-current assets as at the balance sheet date. If the next defined milestone is reached, a partial payment of EUR 70,000k would be due, which the Company currently expects.

Miscellaneous other non-current assets include advance payments of EUR 1,848k (31 December 2019: EUR 17,698k) in connection with project developments. With the commencement of construction in the second quarter of 2020, the advance payments previously reported for the addition to existing residential properties in Goettingen and Wolfsburg were reclassified to investment properties. Advance payments for the acquisition of land for project development or project development companies were also reclassified to investment properties with the transfer of control.

8.7 Deferred taxes

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

In EUR ´000	2020	2019
Tax loss carryforwards (deferred tax assets)	87,021	78,059
Valuation of other liabilities (deferred tax assets)	1,030	1,961
Valuation of pension provisions (deferred tax assets)	69	667
Valuation of (convertible) bonds (deferred tax assets)	1,033	58
Valuation of financial liabilities (deferred tax assets)	8,170	9,978
Valuation of rights of use leasing liabilities (deferred tax assets)	7	8
Valuation of investment properties/inventories (deferred tax liabilities)	-519,188	-517,076
Valuation of (convertible) bonds (deferred tax liabilities)	-4,553	-8,599
Accrual of financing costs (deferred tax liabilities)	-1,742	-2,702
Other	-30,762	-255
Total deferred tax assets	97,329	90,731
Total deferred tax liabilities	-556,245	-528,632
	-96,766	-88,776
Offsetting	96,766	88,776
Reported deferred tax assets	**563**	**1,955**
Reported deferred tax liabilities	**-459,478**	**-439,856**

Deferred tax assets for tax loss carryforwards are recognised at the amount at which the corresponding tax benefits are likely to be realised through future taxable income (recognised at no less than the value of deferred tax liabilities). The loss carryforwards relate exclusively to Germany and are therefore not expected to expire. As a result, the maturity structures of those loss carryforwards which have not been capitalised have not been disclosed.

No deferred tax assets were recognised for corporate tax loss carryforwards of around EUR 214.1 million (previous year: around EUR 179.5 million) and trade tax loss carryforwards of around EUR 201.2 million (previous year: around EUR 146.7 million) as their realisation is not sufficiently certain. Corporate income tax loss carryforwards in the amount of approximately EUR 289.8 million and trade tax loss carryforwards in the amount of approximately EUR 188.2 million expired due to the majority takeover of ADLER AG by Adler Group in the first half of 2020. As of 31 December 2020, these loss carryforwards were not taken into account in the calculation of deferred taxes due to the pending acquisition. Further corporate income tax loss carryforwards of EUR 12.5 million and trade tax loss carryforwards of EUR 8.4 million accrued until the majority takeover in the 2020 financial year were also not taken into account in the calculation of deferred taxes.

No deferred tax liabilities have been recognised on amounts totalling EUR 62.7 million (previous year: EUR 58.6 million) in connection with shareholdings in group companies. This is due to the Group's ability to control their reversal, which is not expected to be the case in the foreseeable future.

8.8 Inventories

Inventories include an amount of EUR 68,240k for properties acquired for sale (previous year: EUR 87,289k) and an amount of EUR 17k for other inventories (previous year: EUR 20k). The portfolio of inventory properties or properties from project developments (newly built apartments) acquired for sale developed as follows:

In EUR '000	2020	2019
Carrying amounts 01.01.	**87,289**	**88,071**
Additions through acquisition (+)	0	0
Additions (+)	31,460	58,183
Disposals (-)	-56,915	-58,964
Depreciation (-)	-432	0
Reclassifications (+/-)	6,838	0
Carrying amounts 31.12.	**68,240**	**87,289**

No material write-ups or write-downs were recognised on properties recognised under inventories in the financial year under report.

The carrying amount of inventories pledged as securities for liabilities amounts to EUR 55,027k (previous year: EUR 73,644k). Inventory properties with total carrying amounts of EUR 65,763k (previous year: EUR 57,118k) are only expected to be sold after more than 12 months.

8.9 Trade receivables, income tax claims and other current assets

Current trade receivables comprise the following items:

In EUR ´000	2020	2019
Rent receivables	7,175	11,792
Contractual assets from operating costs	6,745	5,805
Contractual assets from project developments	3,405	7,464
Receivables from sale of investment properties	110	131
Other	6,234	6,796
Total	**23,669**	**31,987**

The disclosures in accordance with IFRS 15 to the balances related to contracts with customers are presented in Section 10 of the notes to the consolidated financial statements.

Other trade receivables primarily include balances with suppliers and service providers associated with the letting business.

Other current assets break down as follows:

In EUR ´000	2020	2019
Purchase price receivable ACCENTRO including interest claims	59,127	56,261
Current securities	28,140	294
Earmarked financial assets	33,751	82,125
Short-term loans to third parties	21,008	20,953
Purchase price receivables from disposals of shares to minority shareholders	80,983	0
Short-term loans to associated companies	44,636	16,000
Credit balance notarial account due to the sale of real estate	75,178	0
Sales tax receivables	1,174	1,784
Advance payment of financing costs	1,079	1,142
Derivates current	0	1,637
Receivables reductions in purchase price	854	3,123
Other current assets	8,672	9,682
Total	**354,602**	**193,001**

The ACCENTRO purchase price receivable results from the sale of ACCENTRO in the fourth quarter of 2017. In the year under review, interest income on the receivable of EUR 2,866k (previous year: EUR 4,319k) was recognised on the receivable bearing interest at market rates.The payment period ending on 31 December 2020 was extended to 30 September 2021 by resolution of the Management Board and Supervisory Board on 24 March 2021. Should the extended payment period expire without success, the existing collateral could be realised to cover the outstanding purchase price claim.

Restricted financial assets comprise bank balances with specific use restrictions that should only be used for the repayment of certain financial liabilities, as security for specific obligations or for particular maintenance measures. ADLER cannot decide on their disposal.

Receivables from disposals of shares to minority shareholders are based on preliminary purchase prices. At the end of the fourth quarter of 2020, shares in several subsidiaries were sold to non controlling shareholders without ADLER losing its existing controlling influence (see Note 8.16, Non-controlling interests).

Short-term loans to associated companies include the deferred payment claims against Caesar JV Immobilienbesitz und Verwaltungs GmbH arising from the sale of property. In addition, a short-term loan of EUR 12,000k was granted to Caesar JV Immobilienbesitz und Verwaltungs GmbH in the second quarter of 2020. Both claims will be repaid as part of the sale of the shares by the purchaser (see Note 8.4, Receivables and loans to associated companies).

The credit balances on the notary account result from the sale of 5,064 residential and commercial units to an international real estate investor and will be transferred to ADLER after the balance sheet date upon completion of all payment terms.

All items within other current assets are of a short-term nature as they mainly result from contractual arrangements due to be settled within one year.

The Group’s default risk, impairment losses of financial assets and the disclosures on the derivatives are presented in Section 11 of the notes to the consolidated financial statements.

8.10 Cash and cash equivalents

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

Cash and cash equivalents amounted to EUR 149,857k (previous year: EUR 237,415k) as at the balance sheet date, of which an amount of EUR 27,318k (previous year: EUR 15,753k) was subject to restrictions on disposal. ADLER can dispose of these resources, but they are intended for a special use. In particular, these are credit accounts on which funds are accumulated, which are then used for interest payment and repayment.

Due to the specific restrictions on disposal, bank credit balances of EUR 33,751k (previous year: EUR 82,125k) have been reported for the year under report under other current assets.

8.11 Non-current assets and liabilities held for sale

Until the beginning of the second quarter of 2020, the non-current assets and liabilities held for sale included in particular the assets (EUR 4,498,680k) and liabilities (EUR 1,866,193k) of Adler Group after consolidation of intercompany transactions (discontinued operation according to IFRS 5). ADLER lost its controlling influence again at the beginning of April 2020 and deconsolidated Adler Group.

At the end of the second quarter the shares in the associated company Caesar JV Immobilienbesitz und Verwaltungs GmbH with a value of EUR 3,955k were reclassified to non-current assets held for sale because of the binding sale and purchase agreement, which provides for the transfer of the shares.

Other non-current assets held for sale primarily include properties recognised at a value of EUR 108,836k (31 December 2019: EUR 429,548k), for which notarial purchase contracts were available at the balance sheet date. Other non-current liabilities held for sale of EUR 27,271k (31 December 2019: EUR 127,574k) are to be transferred on disposal of the assets if they are sold in share deals.

In detail, the following developments occurred in relation to other non-current assets and liabilities held for sale:

As a result of the binding sale and purchase agreement concluded in the third quarter of 2019 for the sale of a BCP development project in Dusseldorf, the fully consolidated company Glasmacherviertel GmbH & Co. KG, Dusseldorf was disposed of at the end of the first quarter of 2020. Investment properties of EUR 375,000k, which were recognised under non-current assets and liabilities held for sale as at 31 December 2019 as a result of the sale, and financial liabilities to banks of EUR 127,512k were disposed of when control was transferred.

In the second quarter of 2020, the power of disposal over further commercial units of BCP held for sale with a value of EUR 40,140k was transferred.

Furthermore, in the third quarter of 2020, the power of disposal over real estate held for sale by Westgrund Immobilien VIII. GmbH, Berlin with a value of EUR 3,605k was transferred.

On 18 September 2020, ADLER concluded a binding purchase agreement with an international real estate investor for the sale of 5,064 residential and commercial units and recognised the assets and liabilities concerned under "Non-current assets held for sale" or "Liabilities held for sale". The transaction was completed by transfer of control as at 31 December 2020 and the assets and liabilities were disposed of (see Note 4, Scope of consolidation, business combinations and property companies).

In the fourth quarter of 2020, binding sale and purchase agreements were concluded for further commercial units of BCP, and investment properties in the amount of EUR 17,338k were classified as non-current assets held for sale and reclassified accordingly.

On 21 December 2020, ADLER entered into binding sale and purchase agreements with OMEGA AG, Munich, a private real estate company, for the sale of 1,605 residential and commercial units at a price of EUR 75.7 million. This represents a slight premium to the carrying amount as determined at the end of the third quarter. The properties are located in Borna, Osterholz-Scharmbeck and Schwanewede. The rental units generate annual net rental income of EUR 4.8 million, have a vacancy rate of 17.45 percent on average and up to 27 percent at peak, and an average rent of EUR 5.21 per sqm/month. The sale is being concluded partly as an asset deal and partly as a share deal. Due to sales that took place as asset deals, investment properties of EUR 25,250k were classified as non-current assets held for sale and reclassified accordingly. The assets and liabilities of the company that are being sold as part of a share deal break down as follows:

In EUR ´000	**31.12.2020**
Investment properties	50,450
Trade receivables	100
Other current assets	1,759
Cash and cash equivalents	584
Total assets	**52,893**

In EUR ´000	**31.12.2020**
Deferred tax liabilities	5,201
Financial liabilities to banks	20,276
Trade payables	234
Other current liabilities	1,548
Total liabilities	**27,529**

8.12 Capital stock

The fully paid up share capital at ADLER amounted to EUR 73.659k as at 31 December 2020 (previous year: EUR 71,064k) and was divided into 73,658,680 (previous year: 71,063,743) no-par bearer shares with equal voting rights. Due to the exercising of conversion rights, capital stock increased marginally. The number of outstanding shares is as follows:

Amount	**2020**	**2019**
As at 01.01.	71,063,743	71,063,622
Conversion of convertible bonds	2,594,937	121
As at 31.12.	**73,658,680**	**71,063,743**

Authorisation to acquire treasury stock

The Management Board is authorised until 10 June 2024 to acquire treasury stock of the company up to a total of 10 percent of the existing share capital of the company while observing the principle of equal treatment (Section 53a AktG). At no time may the shares acquired on the basis of this authorisation, together with other shares of the company that the company has already acquired or still holds or which are attributable to the company pursuant to Sections 71d and 71e AktG, account for more than 10 percent of the company's respective share capital. The authorisation may be exercised in whole or in part, once or several times. The acquisition may also be carried out by group companies dependent on the company or by third parties for its or their account. Treasury shares may be acquired only to the extent that the company could form a reserve in the amount of the expenses for the acquisition without reducing the share capital or a reserve to be formed in accordance with the law or the Articles of Association, which may not be used for payments to shareholders.

The Management Board is authorised, subject to compliance with the principle of equal treatment within the meaning of Section 53a AktG, to resell on the stock exchange any treasury stock acquired by virtue of the aforementioned authorisation or any prior authorisations, or to offer them to the shareholders by way of an offer to all shareholders by maintaining the shareholders' subscription rights. Trading in treasury stock is not permitted.

On 16 June 2017, ADLER AG had started a share buyback programme, which has been supplemented twice. The share buyback programme had expired in March 2018. A total of 2,583,232 no-par bearer shares had been acquired by 31 December 2018. The nominal amount of the treasury stock thereby acquired has been deducted from share capital, while the acquisition costs in excess of the nominal amount have been deducted from net retained profit. In the 2019 financial year, the purchase price for the acquisition of property companies was paid partly through the transfer of 980,000 treasury shares, valued at EUR 14.50 per share. The deduction from share capital of EUR 980k was reversed up to the nominal amount of the transferred treasury shares. The difference between the nominal amount and the transfer amount was reallocated to net retained profit up to the amount of EUR 12,279k that was offset. The remaining difference of EUR 951k was allocated to the capital reserve.

In the 2020 financial year, the remaining 1,603,232 treasury shares were transferred to the parent company Adler Group as consideration for the transfer of a partial amount of EUR 21,836k of the receivables from a shareholder loan in connection with a resolved increase in share capital against contribution in kind (see Note 8.17, Contributions made to implement the resolved capital increase). The shares were valued at EUR 13.62 per share. The deduction from capital stock of EUR 1,603k was reversed up to the nominal amount of the transferred treasury shares. The difference between the nominal amount and the transfer amount was reallocated to net retained profit up to the amount of EUR 19,549k that was offset. The remaining difference of EUR 684k was allocated to the capital reserve.

Authorised Capital 2017/I
The Ordinary General Meeting of the company resolved on 7 June 2017 to create additional authorised capital. By entry of Authorised Capital 2017/I in the Commercial Register on 27 June 2017, the Management Board is authorised until 9 May 2022, subject to the approval of the Supervisory Board, to increase the company's capital stock on one or several occasions by a total of up to EUR 12,500k by issuing new no-par bearer shares in return for cash contributions or contributions in kind, excluding shareholders' subscription rights.

Authorised Capital 2019/I
The Ordinary General Meeting of the company resolved on 11 June 2019 to create additional authorised capital. By entry of Authorised Capital 2019/I in the Commercial Register on 17 June 2019, the Management Board is authorised until 10 June 2024, subject to the approval of the Supervisory Board, to increase the company's capital stock on one or several occasions by a total of up to EUR 23,000k by issuing new no-par bearer shares in return for cash contributions or contributions in kind, excluding shareholders' subscription rights.

Authorised Capital 2020/I
The Annual General Meeting of the Company on 15 December 2020 resolved to create further authorised capital. Upon entry of Authorised Capital 2020/I in the Commercial Register, which had not yet taken place at the time of preparing this Annual Report, the Board of Management is authorised, with the approval of the Supervisory Board, to increase the Company's share capital up to and including 14 December 2025, with the approval of the Supervisory Board, by issuing new no-par value bearer shares against cash and/or non-cash contributions on one or more occasions by up to a total of EUR 20,000k, whereby the subscription rights of shareholders may be excluded.

Contingent Capital 2015/I
The company has Contingent Capital 2015/I of EUR 12,000k based on the resolution by the Annual General Meeting held on 22 May 2015, last amended by resolution by the Ordinary General Meeting held on 30 May 2018. The resolution by the Annual General Meeting held on 30 May 2018 regarding the increase in Contingent Capital 2015/I was entered in the Commercial Register on 18 June 2018.

The contingent capital increase exclusively serves to issue shares to the bearers of warrant or convertible bonds issued until 21 May 2020 on the basis of the authorisation granted by the Annual General Meeting on 22 May 2015. In accordance with the terms and conditions of the warrant and convertible bonds, the contingent capital increase also serves to issue shares to the bearers of warrant or convertible bonds furnished with option or conversion obligations. The contingent capital increase is only executed to the extent that the bearers of warrant and/or convertible bonds exercise their option and conversion rights, or that the bearers of warrant or convertible bonds obliged to exercise their options or convert their bonds meet such obligations to exercise their options or convert their bonds, to the extent that the option or conversion rights are not satisfied by issuing treasury stock or that other forms of settlement are not drawn on to satisfy the respective claims. The new shares enjoy dividend entitlements from the beginning of the financial year in which they are issued, for all financial years for which the Annual General Meeting has not yet adopted any resolutions in respect of the appropriation of profit.

Following the exercising of conversion rights in connection with the EUR 137.9 million, 2.5 percent 2016/2021 convertible bond, Contingent Capital 2015 still amounted to EUR 8,793k as at 31 December 2020.

Contingent Capital 2019/I
The company has Contingent Capital 2019/I of EUR 22,000k based on the resolution by the Ordinary General Meeting held on 11 June 2019. The resolution by the Annual General Meeting held on 11 June 2019 regarding the increase in Contingent Capital 2019/I was entered in the Commercial Register on 17 June 2019.

The contingent capital increase exclusively serves to issue shares to the bearers of warrant or convertible bonds issued until 10 June 2024 on the basis of the authorisation granted by the Annual General Meeting on 11 June 2019. In accordance with the terms and conditions of the warrant and convertible bonds, the contingent capital increase also serves to issue shares to the bearers of warrant or convertible bonds furnished with option or conversion obligations. The contingent capital increase is only executed to the extent that the bearers of warrant and/or convertible bonds exercise their option and conversion rights, or that the bearers of warrant or convertible bonds obliged to exercise their options or convert their bonds meet such obligations to exercise their options or convert their bonds, to the extent that the option or conversion rights are not satisfied by issuing treasury stock or that other forms of settlement are not drawn on to satisfy the respective claims. The new shares enjoy dividend entitlements from the beginning of the financial year in which they are issued, for all financial years for which the Annual General Meeting has not yet adopted any resolutions in respect of the appropriation of profit.

8.13 Capital reserve

The capital reserve mainly relates to the premiums paid on capital increased in previous years offset against the costs of the respective capital increases. Furthermore, the capital reserve includes the equity component of the convertible bonds issued net of allocable transaction costs and income tax effects. Moreover, differential amounts arising from acquisitions of shares not leading to a change of status are also recognised in the capital reserve.

Due to the exercising of conversion rights, the capital reserve increased by EUR 28,094k.

In the first quarter of 2020, shares in several subsidiaries, particularly Adler Group, were sold. The difference between the value of the shares and the consideration was offset against the capital reserve (EUR -6,419k).

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

8.14 Retained earnings

Retained earnings include adjustments in the opening balance sheet due to the conversion of accounting from the German Commercial Code (HGB) to International Financial Reporting Standards (IFRS) implemented in the 2005 financial year (first-time adoption), items resulting from changes to accounting policies pursuant to IAS 8 and current items resulting from the re-measurement of pension provisions. In addition, changes in the fair value of financial assets measured at fair value through other comprehensive income and shares in other comprehensive income and companies accounted for using the equity method are recognised.

Changes in the value from the reclassifiable and non-reclassifiable other comprehensive income amounting to EUR -21,975k (previous year: EUR -22,824k) were recorded in retained earnings after offsetting applicable taxes.

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

8.15 Currency translation reserve

The currency translation reserve is attributable to the ADO Group.

8.16 Minority interests

The item comprises the share of equity and annual earnings of consolidated subsidiaries. The consolidated net income attributable to shareholders in the parent company corresponds to the difference between the consolidated net income before non-controlling interests and the non-controlling interests reported in the Statement of Comprehensive Income.

Non-controlling interests break down as follows:

In EUR ´000	2020	2019
Subsidiary Adler Group	0	1,758,659
Subsidiary WESTGRUND	98,821	57,102
Subsidiary BCP	265,561	232,503
Subsidiary JADE	21,503	11,618
WBR Wohnungsbau Rheinhausen GmbH	26,861	10,535
Other	53,017	31,575
Carrying amounts 31.12.	**465,763**	**2,101,992**

The development in non-controlling interests is presented separately in the statement of changes in equity.

Due to the deconsolidation of Adler Group at the beginning of the second quarter, non-controlling interests amounting to EUR 1,757,186k were disposed of. In addition, non-controlling interests amounting to EUR 8,723k were disposed of as a result of further deconsolidations.

In the reporting year, shares in several subsidiaries with a total value of EUR 130,346k were sold to non-controlling shareholders without ADLER losing its existing controlling influence.

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

The key financials of those subsidiaries with non-controlling interests which are of material relevance to the Group are presented in the following tables. The amounts are presented prior to consolidation. Due to the acquisition of Adler Group in the reporting year, no financial information for the 2020 financial year is disclosed.

Combined consolidated balance sheets IFRS	Subsidiary Adler Group		Subsidiary WESTGRUND		Subsidiary BCP	
Headquarters Minority interest %	**Berlin -**	**Berlin 66.75**	**Berlin 3.12**	**Berlin 3.12**	**Amsterdam 30.19**	**Amsterdam 30.19**
in EUR ´000	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Current assets[1)]	-	464,324	71,268	50,217	85,875	349,471
Current liabiliets[1)]	-	111,714	226,075	70,386	165,718	262,119
Net current assets	**-**	**352,610**	**-154,807**	**-20,169**	**-79,843**	**87,352**
Investment properties	-	3,624,453	1,423,214	1,331,089	1,225,446	1,123,350
Other non-current assets	-	307,688	12,636	18,963	186,045	190,363
Non-current liabilities	-	1,586,306	308,382	499,647	486,218	647,628
Net fixed assets	**-**	**2,345,835**	**1,127,468**	**850,405**	**925,273**	**666,085**
Equity	**-**	**2,698,445**	**972,661**	**830,236**	**845,430**	**753,437**

[1)] Includes non-current assets and liabilities held for sale

Combined statement of comprehensive income IFRS	Subsidiary ADO Properties		Subsidiary WESTGRUND		Subsidiary BCP	
in EUR ´000	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Revenue	-	156,520	103,455	102,221	86,566	99,675
Annual result	**-**	**606,924**	**111,999**	**79,953**	**97,693**	**17,627**
Other comprehensive income	-	-67,502	0	225	0	0
Net result	**-**	**539,422**	**111,999**	**80,178**	**97,693**	**17,627**
Profit or loss attributable to non-controlling interests	-	5,050	7,413	3,922	4,998	-691

Combined cash flow statement	Subsidiary ADO Properties		Subsidiary WESTGRUND		Subsidiary BCP	
In EUR ´000	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Cash flow from operating activities	-	88,764	35,211	26,843	51,826	37,508
Cash flow from investing activities	-	269,061	-6,444	-10,628	94,377	89,948
Cash flow from financing activities	-	1,767	-20,275	-16,877	-155,798	-110,185
Change in cash and cash equivalents	**-**	**359,592**	**8,492**	**-662**	**-9,595**	**17,271**

8.17 Contributions made to implement the resolved capital increase

With the approval of the Supervisory Board, on 2 October 2020 the ADLER Management Board resolved to utilise authorised capital of EUR 35,107k as part of a debt-to-equity swap, which the Company announced on 30 August 2020, and increase the Company’s capital stock entered in the Commercial Register accordingly.

The necessary increase in share capital against contributions in kind in the amount of EUR 478,163k was entered in the Commercial Register on 23 February 2021 and was carried out excluding shareholders' subscription rights. The capital increase shall be effected with partial exercise of the existing authorised capital pursuant to Section 4 (2) and (3) of the Company's Articles of Association. Accordingly, Adler Group, as the majority shareholder, was exclusively admitted to subscribe to the new shares to be issued. In the absence of an entry in the commercial register by the balance sheet date of 31 December 2020, but within the period in which the balance sheet was prepared, the capital measure now determined was reported as a separate item outside equity and liabilities for reasons of transparency. In this context, the Company's 1,603,232 treasury shares (approximately 2.2 percent of capital stock) were transferred to Adler Group at a price of EUR 13.62 per share prior to the balance sheet date. In return, Adler Group contributed a partial amount of its receivable from the existing shareholder loan worth EUR 500,000k to ADLER.

8.18 Pension provisions

The projected unit credit method was used for the recognition and measurement of pension provisions as at 31 December 2020. This takes account of both the pensions and known pension entitlements at the balance sheet date and any increases in pension and salaries expected in the future.

The calculation was based on the following material actuarial assumptions:

In EUR ´000	31.12.2020	31.12.2019
Discount rate	0.78% to 1.00%	1.00%
Future salary increases	0.00% to 2.35%	0.00% to 2.35%
Future pension increases	1.5% to 1.6%	1.5% to 1.6%
Best-estimate actuarial assumptions	Mortality tables 2018 G by Dr. Klaus Heubeck	Mortality tables 2018 G by Dr. Klaus Heubeck

As the pension provisions at ADLER Real Estate Service GmbH solely comprise historic commitments to employees who have left the company (vested claims and current benefits), the personnel turnover rate is 0 percent (previous year: 0 percent). A customary personnel turnover rate was used to measure the pension provision at ADLER Wohnen Service GmbH.

After offsetting against plan assets, the pension provisions amounted to EUR 1,131k as at the balance sheet date (previous year: EUR 4,092k). Plan assets were taken into account at EUR 181k (previous year: EUR 1,094k). Due to the deconsolidation of WBG GmbH, pension provisions in the amount of EUR 3,079k were disposed of in the reporting year.

Actuarial losses of EUR 19k (excluding deferred taxes) were recognised in other comprehensive income in 2020 (previous year: EUR 502k).

Sensitivity analysis: if all other assumptions remain unchanged, an increase or decrease in material actuarial assumptions would have had the following impact on the DBO as of 31 December 2020:

In EUR ´000		2020	2019
	Increase of 0.5 PP	-67	-308
Actuarial interest	Decrease of 0.5 PP	78	346
	Increase of 0.25 PP	0	42
Pension increase	Decrease of 0.25 PP	0	-41
	Increase of 0.25 PP	1	1
Income trend	Decrease of 0.25 PP	-1	-1

Of pension provisions, an amount of EUR 36k is due to mature within one year (previous year: EUR 206k). This amount has been uniformly reported together with the other pension obligations under non-current liabilities. As the commitments mainly relate to employees who have left the company and no new commitments are being made, an annual disbursement of around EUR 36k is expected in future years as well.

8.19 Other provisions

A contingent liability of EUR 2,954k (previous year: EUR 2,954k) was recognised on the acquisition of BCP for a pending lawsuit in which the entity is a defendant. The claim has arisen from a general contractor demanding payment for services performed for a development project.

Other non-current provisions include amounts of EUR 7k (previous year: EUR 124k) in provisions from the SAR programme, EUR 0k (previous year: EUR 18k) for early retirement commitments and EUR 65k (previous year: EUR 52k) for anniversary provisions.

8.20 Liabilities from convertible bonds

In EUR ´000	31.12.2020	31.12.2019
Convertible bond 2016/2021	97,384	124,196
Total	**97,384**	**124,196**
– of which non-current	0	122,249
– of which current	97,384	1,947

The 2016/2021 convertible bond with a total number of 10,000,000 bonds with a nominal value of EUR 13.79 per bond was issued in June 2016. The convertible bond totals EUR 137,900k, has an interest rate of 2.5 percent and matures in July 2021. ADLER grants each bondholder the right, within the exercise period, to convert each bond into no-par bearer shares in ADLER, each representing a nominal value of EUR 1.00 of the share capital as at the issue date. The conversion price at issuance was EUR 13.79. The conversion price was adjusted to EUR 12.5364 as at 7 June 2017 and then to EUR 12.5039 as at 31 August 2018 as a result of the issuing of bonus shares. A total of 3,206,819 bonds were converted up to 31 December 2020, which means that there are now only 8,793,181 convertible bonds in issue.

As the remaining term of the debt component of the convertible bonds, after deduction proportionate transaction costs, is less than one year, it is reported together with the bondholders' interest claims under current liabilities as at the balance sheet date.

8.21 Liabilities from bonds

These liabilities were structured as follows as at the balance sheet date:

In EUR ´000	31.12.2020	31.12.2019
Bond 2017/2021	497,831	495,020
Bond 2017/2024	301,873	300,692
Bond 2018/2023	500,290	497,759
Bond 2018/2026	299,979	298,930
Bond 2019/2022	401,785	399,920
Bond BCP 2011/2020 (A)	0	15,828
Bond BCP 2013/2024 (B)	38,876	49,816
Bond BCP 2014/2026 (C)	38,676	40,590
Bond ADO Group 2015/2023 (G)	0	173,820
Bond ADO Group 2017/2025 (H)	0	157,083
Total	**2,079,310**	**2,429,458**
– of which non-current	1,548,970	2,327,846
– of which current	530,340	101,612

In December 2017, ADLER issued a corporate bond of EUR 800,000k in two tranches. The first tranche (2017/2021) with a coupon of 1.50 percent and a volume of EUR 500,000k runs until December 2021 and was issued at 99.52 percent. The second tranche (2017/2024) with a coupon of 2.13 percent and a volume of EUR 300,000k expires in February 2024 and was issued at 99.28 percent. On average, the interest on the bonds overall is 1.73 percent.

In April 2018, ADLER successfully placed corporate bonds of EUR 800,000k in two tranches again with institutional investors in Europe. The first tranche has a volume of EUR 500,000k, a coupon of 1.88 percent and a term until April 2023; the second tranche has a volume of EUR 300,000k, a coupon of 3.0 percent and a term until April 2026. On average, the interest on the bonds overall is 2.30 percent.

In April 2019, ADLER successfully placed a corporate bond of EUR 400,000k with a coupon of 1.5 percent with institutional investors in Europe. The bond has a three-year term and matures in April 2022.

As part of the acquisition of BCP, ADLER has acquired liabilities for bonds in three tranches with an original volume of NIS 700 million. At the balance sheet date, the amortised cost amounted to EUR 77,552k in total (previous year: EUR 106,234k). Tranche A (originally NIS 400 million) had a term up to July 2020 and had a 4.80 percent interest rate. The liabilities from the Tranche A bond were repaid early at par plus accrued interest on 20 April 2020. Tranche B (originally NIS 175 million) has a term up to December 2024 and has a 3.29 percent interest rate. Tranche C (originally NIS 125 million) has a term up to 2026 and has a 3.30 percent interest rate. Annual principal payments are made until the end of the respective term. The interest rate and the repayment of the two tranches is also linked to the development of the Israeli Consumer Price Index. Interests in the subsidiary Brack German Properties B.V., Amsterdam/Netherlands, have been pledged as collateral for the fulfilment of the obligations arising from these bonds.

As part of the acquisition of the ADO Group, ADLER had acquired liabilities for bonds in two tranches with an original volume of NIS 1,147 million. Tranche G (originally NIS 608 million) had a term up to January 2023 and a 4.05 percent interest rate. Tranche H (originally NIS 539 million) had a term up to June 2025 and a 2.50 percent interest rate. ADO Group's bond liabilities were repaid early on 17 February 2020 at par plus accrued interest. ADLER increased the bridge loan taken out to acquire the shares in ADO Group for refinancing purposes. The remaining amount was paid from ADO Group's existing cash and cash equivalents.

Nominal bond amounts have been recognised under non-current liabilities less transaction costs, which are expensed on a time-apportioned basis using the effective interest method if the remaining term is longer than one year. Bondholders' interest claims as at the balance sheet date have been recognised under current liabilities.

8.22 Financial liabilities

Non-current liabilities to banks include liabilities relating to the acquisition and financing of investment properties. The liabilities to finance investment properties have terms that are in most cases medium to long term and mostly also have fixed interest rates. Non-current loans with floating interest rates are largely hedged with interest swaps.

Non-current financial liabilities to banks amounted to EUR 1,039,179k as at the balance sheet date (previous year: EUR 2,002,136k). The decrease compared to the previous year is mainly due to the repayment of the bridge loan, which was taken out in the previous year to finance the acquisition of shares in ADO Group (EUR 962,957k). In connection with the disposal of further commercial properties of BCP, financial liabilities to banks were repaid. In the second half of 2020, non-current financial debt was also reclassified as current due to pending repayments and unscheduled repayments were taken into account. This was offset by the long-term refinancing of existing financial liabilities, as some of these loans were reported under current financial liabilities to banks at the end of the previous year.

Current financial liabilities to banks amounted to EUR 367,339k as at the balance sheet date (31 December 2019: EUR 157,708k). Current financial liabilities also include the repayments and interest liabilities of the non-current financial liabilities due within one year.

Liabilities to banks are largely secured with land charges. Further security includes the assignment of gross rental income, the pledging of bank credit balances and shareholdings and letters of subordination.

When taking up borrowing facilities or taking over loan agreements upon company acquisitions, the company has in some cases provided the financing banks with specific financial covenants. These include requirements typical to the industry in terms of loan-to-mortgage lending value, interest and capital coverage, overall debt-to-equity ratio, minimum total rental income and minimum investment amounts. Failure to comply with these covenants may result in the termination of the respective facilities or the mandatory deposit of additional security.

Financial liabilities are secured by assets as follows:

In EUR ´000	2020	2019
Investment properties	1,420,369	1,438,791
Properties in inventories	55,027	73,644
Deposits with banks	55,268	59,737
Rent receivables	6,711	8,104

8.23 Other non-current liabilities

Other non-current liabilities mainly include non-current lease liabilities at EUR 16,885k (previous year: EUR 20,525k), the negative fair values of long-term interest hedges at EUR 2,728k (previous year: EUR 5,973k) – further information about these can be found in Note 11.3, Derivative financial instruments and hedge accounting and Note 12, Information on leases in accordance with IFRS 16.

Distribution claims on the part of non-controlling interests have been recognised at EUR 1,900k (previous year: EUR 2,660k).

8.24 Financial liabilities to affiliated companies

Non-current financial liabilities to affiliated companies totalled EUR 22,551k as of the balance sheet date and are due to the parent company Adler Group and its subsidiaries.

On 14 April 2020, Adler Group initially granted ADLER EUR 885,470k as a long-term interest-bearing loan to repay the bridge loan taken out in the previous year to finance the acquisition of shares in ADO Group. The interest rate depends on the term and rating and was 2.77 percent p.a. on the balance sheet date. Adler Group also charged ADLER transaction costs of EUR 3,087k. The loan will be repaid by 15 March 2022 at the latest. The loan is not secured. In the third quarter of 2020, on the basis of an agreement, an offsetting against newly accrued receivables from Adler Group totalling EUR 377,403k was made, based on the transfer of shares in Adler Group in the amount of EUR 348,221k and payments made on behalf of Adler Group of EUR 29,182k. In the fourth quarter, Adler Group contributed a partial amount of its receivables totalling EUR 500,000k as a contribution in kind in exchange for the granting of new shares and in exchange for the transfer of ADLER's treasury shares.

In addition, ADLER was provided with further interest-bearing loans by Adler Group in the second quarter of 2020 totalling EUR 230,735k for financing in several tranches. The interest rate is 4.32 percent p.a. and quarterly interest payments are planned. The loans are repayable in each case with final maturity in the fourth quarter of 2021. The loans are completely unsecured. In the third quarter of 2020, an offsetting in the amount of EUR 60,000k was made due to the assignment of existing loan claims. In the fourth quarter, repayments of EUR 142,000k were made and a further offset of EUR 18,000k was made due to the assignment of existing claims.

Interest liabilities to Adler Group in the amount of EUR 251k are reported as part of financial liabilities. ADLER recorded interest expenses of EUR 11,017k from these financial liabilities in the reporting year.

Current financial liabilities of EUR 1,149k are based on liabilities arising from current netting between ADLER and Adler Group.

8.25 Trade payables, income tax liabilities and other current liabilities

All the trade payables of EUR 32,426k (previous year: EUR 37,380k) are current and owed to third parties. These items mainly relate to letting liabilities but also include unbilled maintenance measures and advisory services.

The income tax liabilities of EUR 35,013k (previous year: EUR 15,960k) involve corporate income and trade tax obligations for the current and previous financial years.

Other current liabilities comprise the following items:

In EUR ´000	2020	2019
Purchase price liabilities	20,186	17,690
Payments received – investment properties	210	220
Deferred rental income	3,899	3,655
Payment received – project development	33	1,143
Selling costs commercial real estate	6,150	8,363
Security deposits received	9,313	8,699
Liability to Federal and State Government Employees Retirement Fund (VBL)	0	8,608
Personnel obligations	2,528	7,545
Derivates current	392	393
Current lease liabilities	2,263	2,701
Real estate transfer tax	0	1,667
Other current liabilities	2,680	2,613
Total	**47,654**	**63,297**

The purchase price liabilities relate to the acquisition of land for a property project development or project development companies in Berlin.

Advance payments received for sales of investment properties (contract liabilities) relate to disposals for which the benefits and obligations had not yet been transferred and control had not yet been transferred in the reporting year.

Deferred rental income mainly comprises rent payments from social security authorities for the January of the following financial year.

Payments received for sales of project development properties (contract liabilities) are recognised if it is not possible to offset against the contract assets concerned.

The additional disclosures in accordance with IFRS 15 to the balances related to contracts with customers are presented in Section 10 of the notes to the consolidated financial statements.

Liabilities from costs of disposal are attributable to expenses in connection with the disposal of the BCP commercial units.

The received deposits shown are attributable to BCP.

The obligation to the VBL results from the acquisition of JADE and was discharged in the reporting year.

The additional disclosures in accordance with IFRS 16 on lease liabilities are presented in Section 12 of the notes to the consolidated financial statements.

9. NOTES TO THE STATEMENT OF INCOME AND ACCUMULATED EARNINGS

9.1 Gross rental income

Gross rental income is structured as follows:

In EUR '000	2020	2019
Net rental income	239,722	248,735
Income from recoverable expenses	111,167	114,961
Other income from property management	3,791	6,666
Total	**354,680**	**370,362**

The decrease in net rental income is due to the sale of the rental units of the non-core portfolio and the commercial properties of BCP in the course of the previous year.

9.2 Expenses from property lettings

Expenses from property lettings are broken down as follows:

In EUR '000	2020	2019
Apportionable and non-apportionable operating costs	116,708	124,279
Maintenance	26,395	26,293
Other property management expenses	406	472
Total	**143,510**	**151,044**

9.3 Income from the sale of properties

Income from the sale of properties is structured as follows:

In EUR '000	2020	2019
Income from the disposal of project development inventory properties	72,548	70,029
Income from the disposal of other inventory properties	0	81
Income from the disposal of investment properties	763,966	463,713
Total	**836,514**	**533,823**

As in the previous year, the income from the sale of project developments is fully attributable to BCP.

Income from the sale of investment properties is mainly attributable to the sale of 5,064 residential and commercial units to an international real estate investor and to a project development by BCP in Dusseldorf, which was initially intended for the company's own portfolio. This item also includes the sale of further commercial properties by BCP and individual residential properties. In the previous year, income from the disposal of investment properties was attributable to the sale of rental units in the non-core portfolio and commercial units at BCP.

9.4 Expenses from the sale of properties

Expenses from the sale of properties are structured as follows:

In EUR '000	2020	2019
Carrying amount of disposed project development inventory properties	56,915	58,894
Carrying amount of disposed other inventory properties	0	70
Carrying amount of disposed investment properties	764,110	463,618
Costs of disposal	3,406	10,747
Total	**824,430**	**533,329**

As in the previous year, the carrying amount of project developments is fully attributable to BCP.

The book value disposals from the sale of investment properties are mainly attributable to the sale of 5,064 residential and commercial units to an international real estate investor and a project development by BCP in Dusseldorf, which was initially intended for the company's own portfolio. This item also includes the sale of further commercial properties by BCP and individual residential properties. In the previous year, the book value disposals from the sale of investment properties were attributable to the sale of rental units in the non-core portfolio and commercial units at BCP.

9.5 Personnel expenses

Personnel expenses include the following items:

In EUR '000	2020	2019
Wages, salaries and other benefits	37,882	41,095
Social security contributions	6,689	5,025
Old-age pension expenses	438	1,010
Total	**45,009**	**47,130**

In the year under review, an addition of the VBL obligations amounting to EUR 115k (in previous year: EUR 951k) is recognised in old-age pension expenses.

Stock appreciation right programme

ADLER introduced a stock appreciation right programme (SAR programme) in the 2015 financial year, which aims to retain the beneficiaries at the company and enable them to participate in the company's value growth. Based on a resolution adopted by the Supervisory Board, the rules of the scheme provide for a total volume of 599,178 stock appreciation rights. These rights entitle their beneficiaries to compensation whose amount is dependent on ADLER's share price performance. In all cases, rights are granted by concluding individual agreements between the company and the beneficiary or a framework decision of the Supervisory Board. These agreements provide for a cash settlement.

The exercising of the rights granted by the stock appreciation programme is dependent on the beneficiary completing a specific period of service. Should the beneficiary resign from employment at ADLER prematurely for whatever reason, then their entitlement to as-yet unvested SAR rights is forfeited without replacement. For the beneficiary, one-third of the stock appreciation rights granted become vested for the first time and in full at the end of one year. The remaining two-thirds of the stock appreciation rights granted become vested on a quarterly basis at an amount of one-twelfth per quarter through to the end of a three-year period.

The details of this share-based compensation scheme are as follows:

Valuation as at 31.12.2020	Total	of which Board
Number of fully earned SAR	33,338	33,338.0
Proportional recorded number of SAR in expenses	39,275	39,275.0
Fair value per SAR in EUR	0.17	0.17
Expenses in the reporting period in EUR´000	-117	-117
Provision for due date in EUR´000	**7**	**7**
– of which intrinsic value for the earned SAR in EUR´000	0	0

Valuation as at 31.12.2019	Total	of which Board
Number of fully earned SAR	83,590	83,590
Proportional recorded number of SAR in expenses	105,739	105,739
Fair value per SAR in EUR	1.17	1.17
Expenses in the reporting period in EUR´000	65	33
Provision for due date in EUR´000	**124**	**124**
– of which intrinsic value for the earned SAR in EUR´000	20	20

The structure of share-based compensation, including the parameters used for measurement purposes, is presented in the following table:

Structure/valuation parameter 2020	Total	of which Board
Maximum amount of granted SARs	**599,178**	**40,000**
Balance/Payment	**in cash**	**in cash**
Structure		
SARs granted at the beginning of reporting period		
– Total number	113,000	113,000
– Weighted basis price	14.26	14.26
SARs granted in the reporting period		
– Total number	0	0
– Weighted basis price	-	-
SARs contractually vested in the reporting period		
– Total number	13,336	13,336
– Weighted basis price	14.26	14.26
SARs forfeited in the reporting period		
– Total number	0	0
– Weighted basis price	-	-
SARs exercised in the reporting period		
– Total number	73,000	73,000
– Weighted basis price	13.48	13.48
– Weighted average share price upon exercise	12.94	-
– Exercise date	9 June 2020	9 June 2020
SARs outstanding at the end of reporting period		
– Total number	40,000	40,000
– Weighted basis price	14.26	14.26
– Min. basis price	14.26	14.26
– Max. basis price	14.26	14.26
– Weighted average remaining term in years	0.45	0.45
SARs exercisable		
– Total number	0	0
– Weighted basis price	-	-
Value determination		
– Weighted average fair value of the option	0.17	0.17
– Applied pricing model	Binomial model	Binomial model
– Weighted average share price	12.96	12.96
– Weighted average basis price	14.26	14.26
– Anticipated yearly volatility	42.62%	42.62%
– Anticipated dividend	0%	0%
– Risk-free yearly interest rate	(0.76%)	(0.76%)

Expected volatility has been estimated in reference to the historic volatility of the logarithmised daily equity return over periods of six months, one year, one and a half years, two years and two and a half years, depending on the remaining period of stock appreciation rights.

Structure/valuation parameter 2019	Total	of which Board
Maximum amount of granted SARs	**599,178**	**113,000**
Balance/Payment	**in cash**	**in cash**
Structure		
SARs granted at the beginning of reporting period		
– Total number	267,000	234,000
– Weighted basis price	13.75	13.75
SARs granted in the reporting period		
– Total number	0	0
– Weighted basis price	-	-
SARs contractually vested in the reporting period		
– Total number	44,338	44,338
– Weighted basis price	13.83	13.83
SARs forfeited in the reporting period		
– Total number	0	0
– Weighted basis price	-	-
SARs exercised in the reporting period		
– Total number	154,000	121,000
– Weighted basis price	12.10	12.25
– Weighted average share price upon exercise	13.34	14.30
– Exercise date	9 June 2019	9 June 2019
SARs outstanding at the end of reporting period		
– Total number	113,000	113,000
– Weighted basis price	13.75	13.75
– Min. basis price	12.93	12.93
– Max. basis price	14.26	14.26
– Weighted average remaining term in years	0.69	0.69
SARs exercisable		
– Total number	0	0
– Weighted basis price	-	-
Value determination		
– Weighted average fair value of the option	1.19	1.19
– Applied pricing model	Binomial model	Binomial model
– Weighted average share price	13.60	13.60
– Weighted average basis price	13.75	13.75
– Anticipated yearly volatility	30.18%	30.18%
– Anticipated dividend	0%	0%
– Risk-free yearly interest rate	(0.76%)	(0.76%)

Expected volatility has been estimated in reference to the historic volatility of logarithmised daily equity return over periods of six months, one, and one and a half years – depending on the remaining period of stock appreciation rights.

9.6 Other operating income

Other operating income is structured as follows:

In EUR '000	2020	2019
Reversal of provisions and of provision-like liabilities	7,298	1,702
Insurance claims	1,443	1,660
Deconsolidation as result of share deals	6,991	0
Other	3,524	5,003
Total	**19,256**	**8,364**

The income from deconsolidation is attributable to the disposal of five fully consolidated companies in connection with the sale of 5,064 residential and commercial units to an international real estate investor. The preliminary purchase prices were taken into account in the determination.

9.7 Other operating expenses

Other operating expenses break down as follows:

In EUR '000	2020	2019
Legal and consulting expenses	31,555	24,091
Impairment and write-downs of receivables	11,370	10,962
General and administrative expenses	1,260	1,136
Purchased services	5,298	4,440
Office and IT expenses	8,698	7,997
Cost of premises	3,628	3,240
Public relations	943	924
Miscellaneous other expenses	15,599	16,174
Total	**78,352**	**68,964**

Legal and consulting expenses mainly comprise consulting expenses relating to transactions and strategic and management consulting services.

Impairment and write-downs of receivables mainly result from impairment of trade receivables. The Group's default risks and impairment losses of financial assets are presented in Section 11 of the notes to the consolidated financial statements.

9.8 Income from fair value adjustments of investment properties

These items include gains and losses on the fair value measurement of investment properties as at the balance sheet date. Further information can be found in Note 8.3.

9.9 Depreciation and amortisation

This item includes the amortisation of intangible assets and depreciation of property, plant and equipment at an amount of EUR 4,855k (previous year: EUR 5,712k) and depreciation and amortisation of current assets amounting to EUR 463k (previous year: EUR 0k).

9.10 Financial income

Financial income is structured as follows:

In EUR '000	2020	2019
Interest income – financial assets measured at amortised cost	13,272	6,598
Interest income – financial assets at fair value	635	0
Interest income – financial assets at fair value through other comprehensive income	1,118	836
Net change in fair value of derivatives	1,600	2,418
Net change in fair value of financial instruments at fair value through profit or loss	39,768	0
Derecognition of financial liabilities measured at amortised cost	30,576	0
Reversal of impairments of financial assets measured at amortised cost (Loans to associated companies, restricted funds, deposits at banks)	23	254
Reversal of impairments of financial assets at fair value with changes in other comprehensive income	58	0
Other financial income	554	83
Total	**87,603**	**10,190**

Interest income from financial assets measured at amortised cost results in the amount of EUR 4,140k (previous year: EUR 1,161k) from receivables from and loans to associated companies.

The income from the change in the fair value of financial instruments measured at fair value through profit or loss results from the subsequent measurement of the remaining shares in Adler Group until the transfer on 2 July 2020 and the convertible bond issued by Adler Group, which is held proportionately by ADLER via ADO Group.

The income from the derecognition of financial liabilities measured at amortised cost results from the early redemption of the ADO Group bonds at nominal value plus accrued interest. At the time of initial consolidation in December 2019, hidden liabilities were recognised in the corresponding amount and carried as liabilities until they are paid out.

9.11 Financial expenses

Financial expenses are structured as follows:

In EUR '000	2020	2019
Interest expenses – financial liabilities measured at amortised cost		
– Interest expenses – bank loans	58,387	42,157
– Interest expenses – bonds	48,075	55,243
– Interest expenses – convertible bonds	6,568	8,186
– Interest expenses – financial liabilities to affiliated companies	14,062	0
– Interest expenses – leasing	1,118	1,179
– Interest expenses – other	458	347
Net change in fair value of derivatives	0	613
Net change in fair value of financial instruments at fair value through profit or loss	7,202	1,364
Impairment and write-downs of financial assets measured at amortised cost (loans, restricted funds, deposits at banks)	16,550	820
Impairment of financial assets at fair value with changes in other comprehensive income	8	6
Net foreign exchange losses/gain	5,842	10,869
Accrued interest on provisions	267	65
Other financial expenses	2	38
Total	**158,539**	**120,886**

Expenses for interest on bank loans and bonds include early repayment penalties and transaction costs recognised immediately as expenses for the early repayment of financial liabilities to banks and bonds, as well as other expenses in connection with refinancing totalling EUR 24,453k (previous year: EUR 13,847k).

9.12 Income from at-equity valued investment associates

Further information can be found in Note 8.5.

9.13 Income taxes

Taxes on income are broken down as follows:

In EUR '000	2020	2019
Current income tax expense	25,098	16,227
Income tax expense (income) from other accounting periods	5,014	1,536
Actual income tax expense	**30,112**	**17,763**
Deferred tax expense (income), loss carry forwards	-8,962	9,467
Deferred tax expense (income), temporary differences	60,199	54,001
Deferred taxes	**51,237**	**63,468**
Total	**81,349**	**81,231**

Current tax expense is calculated on the basis of the taxable income for the financial year. For the 2020 financial year, the tax rate for domestic companies, which combines corporate income tax and the solidarity surcharge, amounts to 15.8 percent (previous year: 15.8 percent). Including the trade tax rate of around 14.4 percent (previous year: 14.4 percent), the group tax rate therefore amounts to 30.2 percent (previous year: 30.2 percent). When measuring deferred taxes, account is taken of the expected implications of the extended trade tax reduction for the domestic trade tax charges. The tax on the Group's pre-tax profit deviates from the theoretical tax rate that would result from applying the group tax rate of 30.2 percent (previous year: 30.2 percent) as follows:

In EUR '000	2020	2019
Earnings before taxes	276,456	356,987
Expected income tax 30.175% (previous year: 30.175%)	83,421	107,721
Reconciliation due to tax effects:		
– Income taxes, previous years	5,014	1,536
– Derecognition of deferred tax assets, previous years	5,916	14,052
– Sales proceeds exempt from taxes	-10,795	-1,355
– Different tax rates	-32,528	-57,880
– Utilisation of loss carryforwards not capitalised as deferred taxes	-503	-3,768
– Non-deductible expenses	12,921	9,178
– Unrecognised deferred tax assets on losses	10,234	7,746
– Trade tax effects	5,529	2,896
– Other	2,140	1,105
Total	**81,349**	**81,231**

9.14 Earnings after taxes and total comprehensive income from discontinued operations

In EUR '000	**2020**	**2019**
Income from property lettings	37,794	0
Expenses from property lettings	-12,146	0
Earnings from property lettings	**25,648**	**0**
Income from the sale of properties	2,187	0
Expenses from the sale of properties	-2,046	0
Earnings from the sale of properties	**141**	**0**
Personnel expenses	-5,249	0
Other operating income	6,800	0
Other operating expenses	-506,791	0
Income from fair value adjustments of investment properties	0	0
Depreciation and amortisation	-375	0
Earnings before interest and taxes (EBIT)	**-479,827**	**0**
Financial income	2,095	92,009
Financial expenses	-23,493	0
Income from at-equity-valued investment associates	0	0
Earnings before taxes (EBT)	**-501,225**	**92,009**
Income taxes	1,698	0
Earnings after tax from discontinued operations	**-499,527**	**92,009**
Other comprehensive income	-72,820	-68,027
Total comprehensive income of discontinued operations	**-572,347**	**23,982**

The after-tax result and the overall result from discontinued operations are attributable to Adler Group.

Other operating expenses include the loss from deconsolidation of Adler Group amounting to EUR 497,527k.

9.15 Earnings per share

Earnings per share reflects the amount of earnings generated in a given period that are attributable to each share. This involves dividing consolidated net income by the weighted number of shares outstanding. This key figure is diluted by what are known as "potential shares" (e.g. from convertible bonds).

With the approval of the Supervisory Board, the Executive Board of ADLER had resolved on 2 October 2020 to exercise the authorised capital in the amount of EUR 35,107k in the context of a debt-equity swap announced by the Company on 30 August 2020 and to increase the Company's share capital recorded in the commercial register accordingly. The necessary non-cash capital increase in the amount of EUR 478,163k was entered in the commercial register on 23 February 2021. The capital increase in kind will create 35,107,489 new shares.

Earnings per share are structured as follows:

	2020 Continuing operations	2020 Discontinued operations	2020 Total
Consolidated net earnings (in EUR ´000)	**195,107**	**-499,527**	**-304,420**
Consolidated net earnings without non-controlling interests	145,825	-497,768	-351,943
Expenses including deferred taxes on convertibles	4,724	0	4,724
Consolidated net earnings without non-controlling interests (diluted)	150,549	-497,768	-347,219
Number of shares (in thousands)			
Weighted number of subscribed shares	71,217	71,217	71,217
Effect of conversion of convertibles	7,824	7,824	7,824
Weighted number of shares (diluted)	79,041	79,041	79,041
Earnings per share (in EUR)			
Basic earnings per share	2.05	-6.99	-4.94
Diluted earnings per share	1.90	-6.30	-4.39

	2019 Continuing operations	2019 Discontinued operations[1]	2019 Total
Consolidated net earnings (in EUR ´000)	**275,755**	**92,009**	**367,764**
Consolidated net earnings without non-controlling interests	207,745	30,593	238,338
Expenses including deferred taxes on convertibles	5,716	0	5,716
Consolidated net earnings without non-controlling interests (diluted)	213,461	30,593	244,054
Number of shares (in thousands)			
Weighted number of subscribed shares	68,922	68,922	68,922
Effect of conversion of convertibles	10,419	10,419	10,419
Weighted number of shares (diluted)	79,340	79,340	79,340
Earnings per share (in EUR)			
Basic earnings per share	3.01	0.44	3.46
Diluted earnings per share	2.69	0.39	3.08

10. DISCLOSURES ON REVENUES FROM CONTRACTS WITH CUSTOMERS (IFRS 15)

The table below shows the sources of income related to property management and the sale of properties and the respective date of revenue recognition. The classified income is reconciled to the Group's reportable segments (see Note 7, Segment reporting).

		Segments				Group	
In EUR ´000	**Notes**	**Rental**		**Other**			
		2020	**2019**	**2020**	**2019**	**2020**	**2019**
Revenues from leases (IFRS 16)		**283,537**	**265,610**	**181**	**208**	**283,718**	**265,818**
Net rental income	9.1	267,330	248,527	181	208	267,511	248,735
Income from charging of expenses for property tax and building insurance	12	16,207	17,083	0	0	16,207	17,083
Revenues from contracts with customers (IFRS 15)		**947,458**	**638,367**	**0**	**0**	**947,458**	**638,367**
Income from charged operating costs	9.1	103,321	97,878	0	0	103,321	97,878
Other income from property management	9.1	5,435	6,666	0	0	5,435	6,666
Income from the disposal of project developments	9.3	72,548	70,029	0	0	72,548	70,029
Income from the disposal of other inventory properties	9.3	2,188	81	0	0	2,188	81
Income from the sale of investment properties	9.3	763,966	463,713	0	0	763,966	463,713
Date of revenue recognition							
Revenue recognition over a period of time		464,841	440,183	181	208	465,022	440,391
Revenue recognition based on a point in time		766,154	463,794	0	0	766,154	463,794
Income from property lettings		**392,293**	**370,154**	**181**	**208**	**392,474**	**370,362**
Income from the sale of properties		**838,702**	**533,823**	**0**	**0**	**838,702**	**533,823**

The table below provides information on receivables, contractual assets and contract liabilities from contracts with customers.

in EUR ´000	Notes	31.12.2020	31.12.2019
Contractual assets operating expenses	8.9	6,745	5,805
Receivables from sale of investment properties	8.9	110	131
Prepayments received from investment properties	8.25	210	220
Contractual assets project developments	8.9	3,405	7,464
Prepayments received project developments	8.25	33	1,143

Liabilities from the services that have not yet been invoiced related to operating costs are reported net with the advance payments of operating costs, while the net amount is recognised under trade payables as contract assets operating costs or liabilities from advance payments of operating costs. Liabilities from advance payments of operating costs are paid to the respective tenants after settlement.

Payments received for sales of investment properties are recognised under other liabilities if control has not yet been transferred. Receivables from the sale of investment properties are offset when control has been transferred.

Receivables from the services which have not yet been invoiced for project developments are recognised under trade receivables as contract assets project development. Payments received for sales of project development properties are recognised under other liabilities if it is not possible to offset against the contract assets.

As permitted under IFRS 15, no information is provided on the remaining performance obligations as at 31 December 2020, which have an expected original maturity of one year or less.

11. DISCLOSURES ON FINANCIAL INSTRUMENTS AND FAIR VALUES DISCLOSURES

11.1 General information on financial instruments

(A) Classification

The Adler Group bases its classification of financial instruments as required by IFRS 7 on the respective balance sheet items. The table below shows the reconciliation of the carrying amounts for each IFRS 7 category (balance sheet item) and the IFRS 9 measurement categories as at the individual balance sheet dates.

31.12.2020 In EUR '000	Category according to IFRS 9	Total carrying amount
Assets		
Loans to associated companies	aac	103,270
Other financial investments	aafv, aafvoci	131,832
Other non-current assets	aac	135,185
Trade receivables	aac	23,669
Receivables from affiliated companies	aac	548
Other current assets	aac, aafv, aafvoci	354,602
Cash and cash equivalents	aac	149,857
Liabilities		
Financial liabilities to banks and (convertible) bonds	flac	3,610,483[1)]
Financial liabilities to affiliated companies	flac	22,551
Trade payables	flac	32,246
Other liabilities	flac, lafv	69,168
of which aggregated by IFRS 9 categories		
Financial assets measured at amortised costs	aac	-
Financial assets at fair value through profit or loss	aafv	-
Financial assets at fair value through other comprehensive income	aafvoci	-
Financial liabilities at fair value through profit or loss	lafv	-
Financial liabilities measured at amortised costs	flac	-

Abbreviation	Category
aac	Financial assets measured at amortised costs
aafv	Financial assets at fair value through profit or loss
aafvoci	Financial assets at fair value through other comprehensive income
flac	Financial liabilities measured at amortised costs
lafv	Financial liabilities at fair value through profit or loss

1) Including IFRS 5 Debts held for sale

Carrying amount of financial instruments	Amortised cost	Fair value directly to equity	Fair value through profit or loss	Fair value for comparative purposes	Impairment losses IFRS 9
103,270	103,270	0	0	103,270	-9,690
131,832	0	12,519	119,313	131,832	-138
133,231	133,231	0	0	133,231	-1,460
23,669	23,669	0	0	23,669	-37,196
548	548	0	0	548	
345,771	317,635	280	27,856	345,771	-1,383
149,857	149,857	0	0	149,857	-308
3,610,483	3,610,483	0	0	3,672,426	0
22,551	22,551	0	0	22,551	0
32,246	32,246	0	0	32,246	0
62,237	59,117	0	3,120	62,237	0
728,210	728,210	0	0	728,210	-50,037
147,169	0	0	147,169	147,169	0
12,799	0	12,799	0	12,799	-138
3,120	0	0	3,120	3,120	0
3,724,397	3,724,397	0	0	3,786,340	0

31.12.2019 In EUR '000	Category according to IFRS 9	Total carrying amount
Assets		
Loans to associated companies	aac	79,524
Other financial investments	aafv, aafvoci	56,603
Trade receivables	aac	31,987
Other current assets	aac, aafv, aafvoci	193,002
Cash and cash equivalents	aac	237,415
Liabilities		
Financial liabilities to banks and (convertible) bonds	flac	4,841,072[1)]
Trade payables	flac	37,380
Other liabilities	flac, lafv	92,456
of which aggregated by IFRS 9 categories		
Financial assets measured at amortised costs	aac	-
Financial assets at fair value through profit or loss	aafv	-
Financial assets at fair value through other comprehensive income	aafvoci	-
Financial liabilities at fair value through profit or loss	lafv	-
Financial liabilities measured at amortised costs	flac	-

Abbreviation	Category
aac	Financial assets measured at amortised costs
aafv	Financial assets at fair value through profit or loss
aafvoci	Financial assets at fair value through other comprehensive income
flac	Financial liabilities measured at amortised costs
lafv	Financial liabilities at fair value through profit or loss

[1)] Including IFRS 5 Debts held for sale without discontinued Adler Group

Carrying amount of financial instruments	Amortised cost	Fair value directly to equity	Fair value through profit or loss	Fair value for comparative purposes	Impairment losses IFRS 9
79,524	79,524	0	0	79,524	-4,546
56,603	0	14,454	42,149	56,603	-188
31,987	31,987	0	0	31,987	-37,619
185,088	183,156	294	1,637	185,088	-336
237,415	237,415	0	0	237,415	-148
4,841,072	4,841,072	0	0	4,923,804	0
37,380	37,380	0	0	37,380	0
78,068	63,094	0	14,974	78,068	0
532,082	532,082	0	0	532,082	-42,649
43,786	0	0	43,786	43,786	0
14,748	0	14,748	0	14,748	-188
14,974	0	0	14,974	14,974	0
4,941,546	4,941,546	0	0	5,024,278	0

In the financial year, liabilities from the payments of ancillary expenses amounting to EUR 73,810k (previous year: EUR 79,662k) were netted against an amount of EUR 80,555k (previous year: EUR 85,466k) for receivables from unbilled services, with the net amount being recognised as trade receivables.

(B) Fair value disclosures

Financial assets and liabilities measured at fair value can be classified and assigned to levels according to the significance of the factors and information used in their measurement. Assets and liabilities are classified based on the significance of the input factors for their overall measurement. This in turn is based on those input factors in the lowest level relevant or significant for overall measurement. The measurement levels are hierarchically structured in line with their input factors:

- Level 1: Prices quoted for identical assets or liabilities on active markets (adopted unchanged).
- Level 2: Inputs that are not quoted prices considered in Level 1, but are observable directly or indirectly for the asset or liability (i.e. derived from prices).
- Level 3: Factors not based on observable market data for the measurement of the asset or liability (unobservable inputs).

		Overview of the measurement levels used to determine fair values		
31.12.2020 in EUR '000	**Total carrying amount**	**of which Level 1**	**of which Level 2**	**of which Level 3**
Assets				
Investment properties	4,951,790	0	0	4,951,790
Other financial instruments: Equity instruments – aafv	119,313	97,580	0	21,733
Other current assets: Debt instruments – aafvoci	12,799	12,799	0	0
Other current assets: Debt instruments held for trading – aafv	27,856		27,856	0
Non-current assets held for sale according to IFRS 5	112,791	112,791	0	0
Equity and liabilities				
Other liabilities: Derivatives – lafv	3,120	0	3,120	0
Liabilities held for sale according to IFRS 5	27,271	0	0	27,271

31.12.2019 in EUR '000	Total carrying amount	Overview of the measurement levels used to determine fair values of which Level 1	of which Level 2	of which Level 3
Assets				
Investment properties	4,920,008	0	0	4,920,008
Other financial instruments: Equity instruments – aafv	42,149	42,149	0	0
Other current assets: Debt instruments – aafvoci	14,748	14,748	0	0
Other current assets: Derivatives – aafv	1,637	0	1,637	0
Non-current assets held for sale according to IFRS 5	429,280	429,280	0	0
Equity and liabilities				
Other liabilities: Derivatives – lafv	6,366	0	6,366	0
Other non-current liabilities: Liabilities VBL – lafv	8,608	0	0	8,608
Liabilities held for sale according to IFRS 5	127,574	0	0	127,574

Trade receivables, other current assets and cash and cash equivalents have short remaining terms. Their carrying amounts as at the balance sheet date are therefore approximate to their fair values. The same applies for current liabilities to banks, trade payables and other current liabilities.

The fair value of non-current liabilities to banks and other non-current liabilities is determined by discounting future cash flows. Discounting is based on a market interest rate matching term and risk (Level 3). The fair values of bond and convertible bond liabilities are determined by reference to their market prices as at the balance sheet date (Level 1).

(C) Net result from financial instruments

The net result from financial instruments broken down into individual measurement categories is presented in the table below. Interest income and interest expenses from financial instruments represent a component of the net result. The gains and losses are due to impairments and reversals from the fair value measurement.

In EUR '000	Category IFRS 9	Net result 2020 Interest	Profit/loss	Total
Financial assets measured at amortised cost	aac	13,272	-28,506	-15,234
Financial assets at fair value through profit or loss	aafv	635	32,566	33,201
Financial assets measured at fair value through other comprehensive income	aafvoci	1,118	2,301	3,419
Financial liabilities measured at fair value through profit or loss	lafv	0	1,600	1,600
Financial liabilities measured at amortised cost	flac	-128,668	29,188	-99,480
Total		**-113,643**	**37,149**	**-76,494**

In EUR '000	Category IFRS 9	Net result 2019 Interest	Profit/loss	Total
Financial assets measured at amortised cost	aac	6,598	-11,202	-4,604
Financial assets at fair value through profit or loss	aafv	0	-1,370	-1,370
Financial assets measured at fair value through other comprehensive income	aafvoci	836	-205	631
Financial liabilities measured at fair value through profit or loss	lafv	0	1,805	1,805
Financial liabilities measured at amortised cost	flac	-107,112	-9,567	-116,680
Total		**-99,678**	**-20,539**	**-120,217**

Interest income and interest expenses are presented in financial income and financial expenses. Gains and losses relating to financial assets at amortised cost are recognised under trade receivables under other operating expenses (impairments/reversals) and also under financial income and finance costs. Gains and losses relating to financial assets or financial liabilities measured at fair value through profit or loss are recognised under financial income and financial expenses. Gains and losses relating to financial assets measured at fair value through other comprehensive income are generally recognised in other comprehensive income, but impairments are reclassified from other comprehensive income to financial expenses. Gains and losses relating to financial liabilities measured at amortised cost are recognised under other operating income or expenses in the case of trade payables and otherwise under financial income and financial expenses.

11.2 Financial risk management and IFRS 7 disclosures

The risk management system comprises all organisational requirements and activities necessary for the systematic, regular and Company-wide implementation of the processes needed for risk management. Each risk is assigned to a designated employee. Risk management coordination is incumbent on the Governance-Risk-Compliance department, which keeps the Management Board regularly informed about the Group's overall risk situation. Within the quarterly Supervisory Board meeting framework, the Management Board in turn then reports the findings to the Supervisory Board. The core function of the Group-wide risk management system is to recognise developments that pose a risk to its existence, to measure risk-bearing capacity and to assess the extent of the threat. The risk management system is itself described in a risk policy, which is updated each year and whenever a specific need arises. An extensive risk catalogue documents all material risks to which ADLER is exposed.

Financial risk management is part of the Group-wide risk management system. The material risks monitored and managed by the Group's financial risk management include interest rate, default, liquidity and financing risks and currency risk.

ADLER does not currently expect the crisis triggered by the Covid-19 pandemic to have any significant impact on its business activities or business performance due to its business model. So far, only a few tenants have deferred their rental payments. In the commercial property sector, the changed economic environment was taken into account through impairments.

(A) Interest rate risk
Virtually all the interest rate risks to which the Adler Group is exposed are in the euro area.

Interest rate risks arise upon the conclusion of credit facilities with floating interest rates, in the context of follow-up financing or in the event of any significant change in capital market conditions. To a limited extent, changes in interest rates may therefore lead to higher interest payments. However, ADLER predominantly finances its business with financial liabilities that have interest rates that are either fixed permanently or for longer periods of time. Thus the Group basically pursues a risk-averse financing policy.

The interest risk for all of the Group's current and non-current financial liabilities with floating interest rates is determined in a sensitivity analysis which also takes account of fixed-interest periods. By analogy with the interest rate scenarios used to determine the value of investment properties, two interest scenarios have been referred to for the sensitivity analysis of loans. Based on the financial liabilities outstanding as at 31 December, any increase/decrease in the loan interest rate by 0.5 percent points would have led to the following increase/decrease in interest expense:

Interest rate risk sensitivity analysis	31.12.2020		31.12.2019	
Change in interest rate	+ 50 bp	- 50 bp	+ 50 bp	- 50 bp
Effect on interest expense in EUR ´000	144	-144	823	-823

Given the low impact on the carrying amount and income and the currently favourable capital market conditions, the Group's interest rate risk, taking due account of existing interest rate sensitivities, is assessed as moderate.

To reduce its interest rate risk further, ADLER deploys interest rate hedging instruments in the form of swaps (see Note 11.3). Had the interest rate level as at 31 December 2020 been 100 basis points higher/lower, the fair values of derivatives (EUR 3,120k, previous year: EUR 6,364k) would have changed by EUR +1,473k (previous year: EUR +3,546k) or EUR -1,465k (previous year: EUR -3,513k).

(B) Credit risk

Default risk results from the risk of contractual partners failing to meet their contractually agreed payment obligations. The maximum default risk corresponds to the carrying amounts of financial assets.

In EUR '000	Category according to IFRS 9	2020	2019
Impairment loss trade receivables	aac	-11,791	13,240
Impairment loss loans to associated companies	aac	-5,168	157
Impairment loss other non-current assets	aac	-1,460	0
Impairment loss other current assets – loans, restricted funds and cash and cash equivalents – deposits at banks	aac	-1,282	663
Impairment loss other current assets – bonds	aafvoci	-8	0
Total		**-19,709**	**14,060**

Trade receivables

Trade receivables mainly relate to a large number of customers (tenants and buyers of investment properties or apartments as part of project developments). The credit risk is managed on a portfolio level. ADLER has introduced a receivables management system through which new customers are initially analysed on an individual basis with regard to their credit rating. In the tenant selection process, priority is accorded to those with a pre-existing sound credit rating. Dunning procedures are initiated for all past due receivables and, upon completion, enforcement measures. The Group does not have any significant clusters of potential credit risks.

There were no significant default risks for contractual assets from the transfer of operating expenses, receivables from sales of investment properties and contract assets in connection with project developments, meaning that generally no expected credit losses are taken into account. Services which have not yet been invoiced in connection with operating costs are usually offset by advance payments received from the tenants in the corresponding amount. Purchase prices for investment properties are usually lodged to notary accounts and paid to ADLER when control has been transferred. No expected credit losses are recognised for contractual assets in connection with project developments, as the apartments are handed over to the purchasers only after the full purchase price has been paid.

For rental receivables, the simplified IFRS 9 impairment model is used. Deposits are not taken into account when measuring expected credit losses.

The following overview shows a summary of the default risk for trade receivables:

In EUR '000	2020		
	not impaired	impaired	
		credit rating not impaired	credit rating impaired
Rent receivables	4,683	1,642	38,046
Contractual assets from operating costs	6,745	0	0
Receivables from the sale of investment properties	110	0	0
Contract assets project development	3,405	0	0
Other	6,234	0	0
Gross total carrying amount	**21,177**	**1,642**	**38,046**
Accumulated impairment losses	0	328	36,868
Net total carrying amount	**21,177**	**1,314**	**1,178**

In EUR '000	2019		
	not impaired	impaired	
		credit rating not impaired	credit rating impaired
Rent receivables	8,017	2,063	39,330
Contractual assets from operating costs	5,805	0	0
Receivables from the sale of investment properties	131	0	0
Contract assets project development	7,464	0	0
Other	6,795	0	0
Gross total carrying amount	**28,212**	**2,063**	**39,330**
Accumulated impairment losses	0	413	37,206
Net total carrying amount	**28,212**	**1,650**	**2,124**

Assessment of expected credit losses:

ADLER uses an impairment matrix to measure the expected credit losses of its receivables due from tenants of apartments, which comprise a very large number of small balances.

31.12.2020 EUR '000	Loss rate	Gross carrying amount	Impairment	Impaired credit rating
1 to 30 days past due	0%	4,683	0	no
31 to 90 days past due	20%	1,642	328	no
91 to 180 days past due	50%	2,357	1,179	yes
more than 180 days past due	100%	35,689	35,689	yes

31.12.2019 EUR '000	Loss rate	Gross carrying amount	Impairment	Impaired credit rating
Not past due	0%	202	0	no
1 to 30 days past due	0%	7,815	0	no
31 to 90 days past due	20%	2,063	413	no
91 to 180 days past due	50%	4,247	2,124	yes
more than 180 days past due	100%	35,082	35,082	yes

Impairments of trade receivables have developed as follows:

In EUR '000	2020	2019
Carrying amounts 01.01.	**37,619**	**66,795**
Change in the scope of consolidation	-513	0
Reclassification IFRS 5	-85	0
Additions (impairment)	11,791	13,240
Utilisation/reversals	-11,616	-42,416
Carrying amounts 31.12.	**37,196**	**37,619**

The changes in value adjustment on trade receivables result mainly from the derecognition of receivables that have been written down in full.

Other financial assets

The default risk on borrowings, loans, bonds and credit balances at banks is managed at Group level. There are trading rules to ensure that transactions are only made with business partners if they have shown adequate payment behaviour in the past. In the borrower selection process, care is taken to ensure that they have at least a satisfactory credit rating. The analysis of credit includes external ratings, where available, as well as annual financial statements, information from credit agencies, industry information and, in some cases, bank information. ADLER monitors changes in credit risk by tracking the published information mentioned above.

The general impairment model pursuant to IFRS 9 is used. The risks of a default for a 12-month period and over the entire term are based on historical information provided by various rating agencies for each credit rating or classification and aggregated using the rating map or rating matrix (Creditreform or Stuttgart Stock Exchange).

As at the balance sheet date, the default risk for the other financial assets is as follows:

In EUR '000	Category according to IFRS 9	Net carrying amount 2020	Net carrying amount 2019
Receivables from and loans to associated companies	aac	103,270	79,524
Other assets – bonds	aafvoci	12,519	14,454
Other non-current assets	aac	133,231	0
Other current assets – purchase price receivable ACCENTRO	aac	59,127	56,261
Other current assets – restricted funds	aac	33,751	82,125
Other current assets – loans	aac	224,758	44,771
Other current assets – bonds	aafvoci	280	294
Cash and cash equivalents – deposits at banks	aac	149,848	237,380
Total		**716,784**	**514,809**

The table below shows an analysis of the credit rating of borrowers of other financial assets (aac and aafvoci), if an impairment loss has been recognised for them. It shows whether a loss allowance has been recognised for an expected 12-month credit loss or for lifetime expected credit losses for those assets measured at amortised cost or fair value in other comprehensive income and whether – in the latter case – an impaired credit rating exists:

	2020					
	At fair value through other comprehensive income (aafvoci)			Measured at amortised cost (aac)		
In EUR ´000	**Expected 12-month credit loss**	**Lifetime expected credit loss – credit rating not impaired**	**Lifetime expected credit loss– impaired credit rating**	**Expected 12-month credit loss**	**Lifetime expected credit loss – credit rating not impaired**	**Lifetime expected credit loss– impaired credit rating**
Very good to good credit rating (very low default risk)	-	-	-	-	-	-
Good to satisfactory credit rating (low default risk)	-	-	-	183,916	-	-
Satisfactory credit rating (average default risk)	12,661	-	-	310,449	-	-
Sufficient credit rating (increased default risk)	-	-	-	-	37,352	-
Poor credit rating (high default risk)	-	-	-	-	-	-
Insufficient credit rating (very high default risk)	-	-	-	-	-	4,067
Gross total carrying amount	**12,661**	**-**	**-**	**494,365**	**37,352**	**4,067**
Accumulated impairment losses	138	-	-	3,917	4,857	4,067
Other comprehensive income	-277	-	-	-	-	-
Net total carrying amount	**12,800**	**-**	**-**	**490,449**	**32,494**	**0**

	2019					
	At fair value through other comprehensive income (aafvoci)			Measured at amortised cost (aac)		
In EUR ´000	**Expected 12-month credit loss**	**Lifetime expected credit loss – credit rating not impaired**	**Lifetime expected credit loss– impaired credit rating**	**Expected 12-month credit loss**	**Lifetime expected credit loss – credit rating not impaired**	**Lifetime expected credit loss– impaired credit rating**
Very good to good credit rating (very low default risk)	-	-	-	-	-	-
Good to satisfactory credit rating (low default risk)	-	-	-	319,664	-	-
Satisfactory credit rating (average default risk)	16,910	-	-	74,639	-	-
Sufficient credit rating (increased default risk)	-	-	-	-	-	-
Poor credit rating (high default risk)	-	-	-	-	-	-
Insufficient credit rating (very high default risk)	-	-	-	-	-	3,933
Gross total carrying amount	**16,910**	**-**	**-**	**394,303**	**-**	**3,933**
Accumulated impairment losses	188	-	-	1,097	-	3,933
Other comprehensive income	1,974	-	-	-	-	-
Net total carrying amount	**14,748**	**-**	**-**	**393,206**	**-**	**0**

Due to existing collateral, no expected credit loss is taken into account for the deferred ACCENTRO purchase price receivable. The same applies for the deferred remaining receivables from the sale of 1,400 rental units to Caesar JV Immobilienbesitz und Verwaltungs GmbH. No expected credit losses were also taken into account for the credit balances on the notary escrow account from the sale of 5,064 residential and commercial units to an international real estate investor.

Cash and cash equivalents are deposited at banks that predominantly have a good to satisfactory credit rating. The loans are partly due to associates that have no active operating activities.

Impairment losses on financial assets measured at amortised cost developed as follows over the course of the year:

	2020			
In EUR '000	**Expected 12-month credit loss**	**Lifetime expected credit loss – credit rating not impaired**	**Lifetime expected credit loss– impaired credit rating**	**Total**
As at 01.01.	**1,076**	**-**	**3,933**	**5,009**
Net remeasurement of impairment losses	0	4,374	-	4,374
Reclassified as lifetime expected credit losses – credit rating not impaired	-483	483	-	-
Reclassified as lifetime credit losses – impaired credit rating	-	-	-	-
Repaid financial assets	-81	-	-	-81
Newly acquired financial assets	3,405	-	134	3,539
As at 31.12.	**3,917**	**4,857**	**4,067**	**12,841**

	2019			
In EUR '000	**Expected 12-month credit loss**	**Lifetime expected credit loss – credit rating not impaired**	**Lifetime expected credit loss– impaired credit rating**	**Total**
As at 01.01.	**668**	**-**	**3,776**	**4,444**
Net remeasurement of impairment losses	-	-	-	-
Reclassified as lifetime expected credit losses – credit rating not impaired	-	-	-	-
Reclassified as lifetime credit losses – impaired credit rating	-	-	-	-
Repaid financial assets	-254	-	-	-254
Newly acquired financial assets	663	-	157	820
As at 31.12.	**1,076**	**-**	**3,933**	**5,010**

Impairment losses on financial assets measured at fair value through comprehensive income developed as follows over the course of the year:

	2020			
In EUR '000	Expected 12-month credit loss	Lifetime expected credit loss – credit rating not impaired	Lifetime expected credit loss– impaired credit rating	Total
As at 01.01.	**188**	**-**	**-**	**188**
Net remeasurement of impairment losses	-	-	-	-
Reclassified as lifetime expected credit losses – credit rating not impaired	-	-	-	-
Reclassified as lifetime credit losses – impaired credit rating	-	-	-	-
Repaid financial assets	-58	-	-	-58
Newly acquired financial assets	8	-	-	8
As at 31.12.	**138**	**-**	**-**	**138**

	2019			
In EUR '000	Expected 12-month credit loss	Lifetime expected credit loss – credit rating not impaired	Lifetime expected credit loss– impaired credit rating	Total
As at 01.01.	**182**	**-**	**-**	**182**
Net remeasurement of impairment losses	-	-	-	-
Reclassified as lifetime expected credit losses – credit rating not impaired	-	-	-	-
Reclassified as lifetime credit losses – impaired credit rating	-	-	-	-
Repaid financial assets	-	-	-	-
Newly acquired financial assets	6	-	-	6
As at 31.12.	**188**	**-**	**-**	**188**

(C) Liquidity risk

Responsibility for liquidity risk management rests with the Management Board, which has developed a suitable concept for managing the Company's short-, medium- and long-term financing and liquidity requirements. The Group manages liquidity risks by continually monitoring its expected and actual cash flows and aligning the maturity profiles of financial assets and liabilities. Liquidity management aims to ensure that the Group is always able to meet its payment obligations by maintaining adequate liquidity reserves and optimising group-internal liquidity flows.

In credit agreements assumed in the context of acquisitions, the Group has in some cases undertaken to comply with contractually agreed financial covenants. Among other aspects, these relate to the generation of cash flows on a property company level. Asset management for these portfolios is geared to ensure compliance with these financial covenants.

Similarly, credit terms have also been agreed for the bonds issued. Any failure to comply with these terms could also lead to a liquidity risk. Infringement of the credit terms, such as a change of control, may result in the premature termination and repayment of these bonds and convertible bonds. We refer to the presentation in Section 14.7, Events after the balance sheet date.

The dler Group had cash and cash equivalents of EUR 149,857k at the balance sheet date (previous year: EUR 237,415k). In addition, restricted cash and cash equivalents of EUR 33,751k are subject to restrictions on disposal and have been recognised under other current assets (previous year: EUR 82,125k).

The following liquidity analyses present the contractually agreed (undiscounted) cash flows for primary financial liabilities including interest payments, as at the respective balance sheet date. The analyses include all financial instruments held on the respective reporting date. Budget figures for future new liabilities are not included. Floating-rate interest payments were calculated by reference to the relevant spot rates on the respective balance sheet dates. With regard to outflows of cash for convertible bonds, it has been assumed that these will not be converted.

31.12.2020	Cash outflows					
in EUR '000	2021	2022	2023	2024	2025	> 2025
Liabilities to banks[1]	379,826	193,800	85,326	60,509	151,054	673,836
Liabilities from bonds	550,442	442,619	536,296	332,727	23,159	322,720
Liabilities from convertible bonds	100,859	0	0	0	0	0
Trade payables	32,246	0	0	0	0	0
Other liabilities	38,068	380	380	380	380	380
Total	**1,101,441**	**636,799**	**622,001**	**393,616**	**174,593**	**996,936**

[1] Including liabilities to banks (IFRS 5)

31.12.2019	Cash outflows					
in EUR '000	2020	2021	2022	2023	2024	> 2024
Liabilities to banks[1]	337,990	1,126,493	214,689	82,068	94,520	590,954
Liabilities from bonds	130,260	611,397	495,653	589,315	379,235	401,379
Liabilities from convertible bonds	3,256	133,503	0	0	0	0
Trade payables	37,380	0	0	0	0	0
Other liabilities	46,338	380	380	380	380	760
Total	**555,224**	**1,871,773**	**710,722**	**671,763**	**474,135**	**993,093**

[1] Including liabilities to banks (IFRS 5)

Further information about outflows of cash for lease liabilities can be found in chapter 12.

(D) Financing risk

In making further acquisitions, the Group depends on the granting of loans or capital increases. Expiring loans also have to be extended or refinanced. In all cases, there is the risk that such facilities cannot be extended, or only on different terms. Furthermore, within the scope of consolidation there are loan agreements with a total carrying amount of around EUR 1,123 million on which the banks have imposed requirements in the form of financial covenants (previous year: EUR 1,739 million). Depending on the property to which such agreements apply, the Group must achieve a debt service coverage ratio (DSCR) of between 107 percent and 160 percent (previous year: between 107 percent and 160 percent), an interest coverage ratio (ICR) of 1.26 to 2.10 (previous year: 1.26 to 2.10), a loan-to-value (LTV) ratio of between 60 percent and 80 percent (previous year: between 60 percent and 80 percent) or a loan-to-mortgage-lending-value (LTMLV) ratio of no more than 74 percent (previous year: no more than 74 percent). Individual credit agreements require a minimum amount of maintenance work or rental income. Should the maintenance measures agreed in the loan agreement not be carried out, the Company must maintain a cash reserve of the same amount on restricted accounts. Failure to comply with such covenants entitles the lenders to impose various sanctions, which may also include terminating the respective facility.

Similarly, credit terms have also been agreed for the convertible and corporate bonds issued. Failure to comply with such terms may result in a liquidity risk. In some cases, failure to comply with the terms may lead to the termination and premature repayment of these convertible bonds and corporate bonds.

The rating agencies Standard & Poor's and Moody's have adjusted the corporate rating of the parent company Adler Group to "BB/Stable Outlook" and Ba2 respectively because they see a certain implementation risk in the merger with ADLER and the real estate development company Consus Real Estate AG, Berlin, in which they acquired a majority stake in July. This could make financing the joint venture more expensive or more difficult.

(E) Currency risk

In the course of the acquisition of the ADO Group and BCP, ADLER took over bonds issued in New Israeli Shekels (NIS). The ADO Group bonds were repaid early in 2020. The bonds are also linked to the Consumer Price Index (CPI) for Israel. As there are no matching assets with such characteristics in the Adler Group, ADLER is exposed to the foreign exchange risk for the currency pair EUR/NIS as well as to a fluctuation in the CPI. The changes in these factors can lead to an increase in interest payments and principal repayments of the bonds.

Had the exchange rate (EUR/NIS) as at 31 December 2020 been 5 percent higher/lower, the book value of the bonds would have changed by EUR 3,878k (previous year: EUR 20,584k) or EUR -3,878k (previous year: EUR -20,584k). If the CPI had increased/reduced by 3 percent, the book value of the bonds would have changed by EUR -2,112k (previous year: EUR -12,527k) or EUR 349k (previous year: EUR 10,572k).

11.3 Derivative financial instruments

Derivative financial instruments are used at the Group to hedge interest rate risks for floating-rate loan agreements in particular. No material rating risk is involved, as the interest hedges are concluded with the financing banks. In addition, foreign currency derivatives were also used at BCP in the previous year.

The fair values of the interest hedge contracts amounted to EUR -3,120k as at the balance sheet date (previous year: EUR -6,364k). The fair values and nominal values of the interest hedge contracts broken down by maturity are presented below:

	Fair Values		Nominal	
In EUR '000	**2020**	**2019**	**2020**	**2019**
Up to 1 year	-392	-393	11,684	2,613
Due between 1 and 5 years	-2,728	-5,702	125,968	184,472
Due between 5 and 10 years	0	-269	0	7,651
Total	**-3,120**	**-6,364**	**137,652**	**194,736**

The fair values of the foreign currency derivatives amounted to EUR 0k as at the balance sheet date (previous year: EUR 1,635). The fair values and nominal values of the interest hedge contracts broken down by maturity are presented below:

	Fair Values		Nominal	
In EUR '000	**2020**	**2019**	**2020**	**2019**
Up to 1 year	0	1,635	0	30,000
Due between 1 and 5 years	0	0	0	0
Due between 5 and 10 years	0	0	0	0
Total	**0**	**1,635**	**0**	**30,000**

The derivative financial instruments are initially measured at fair value, which is attributable to them on the day the contract is concluded. Subsequent measurement is based on the fair value of the respective balance sheet.

The fair value of derivates broken down by balance sheet item are presented below:

Balance sheet item in EUR '000	**Hedging relationship under IFRS 9**	**31.12.2020**	**31.12.2019**
Other current assets (measured at fair value though profit or loss)	no	0	1,637
Other current liabilities (measured at fair value through profit or loss)	no	-392	-393
Other non-current liabilities (measured at fair value through profit or loss)	no	-2,728	-5,973
Total		**-3,120**	**-4,729**

A valuation result of EUR 1,600k was recognised for derivatives in the financial year (previous year: EUR 1,805k).

12. DISCLOSURES ON LEASES IN ACCORDANCE WITH IFRS 16

Leases as a lessee

In particular, ADLER enters into leases for the following assets:

- Leasehold contracts for land (leaseholds)
- Leases for office space, garages and storage space (property)
- Leases for cars and commercial vehicles (vehicles)
- Leases for hardware and heating equipment (hardware and contracting)

Leasehold contracts have terms of up to 200 years and sometimes provide for preferential rights of renewal in the event of a renewed leasehold following the expiry of the contract or for the right of first refusal in the event of the land being sold. The lessee has no renewal or purchase options. Some of the leasehold payments are index-linked. The future cash flows are discounted using interest rates for specific properties or market-based discount rates ranging from 4.25 percent to 6.26 percent (previous year: 4.0 percent to 7.8 percent).

ADLER leases office space, garages and storage space. These leases typically do not have a fixed term and can be terminated by the contracting parties observing a defined notice period. In assessing the term of such leases, ADLER assumed that the respective leases will remain in effect for five years, unless there were specific indications of shorter use. Some leases provide for additional lease payments based on changes in local price indexes.

The terms for leases for cars and commercial vehicles are typically between three and four years. Typically there are no renewal or purchase options, or such options are not exercised.

ADLER leases hardware and heating equipment (contracting). The terms for leases for hardware are typically between four and five years. Typically there are no renewal or purchase options, or such options are not exercised. In the context of contracting agreements, the leases for heating equipment will gradually expire by 2031 at the latest and will not be renewed.

Lease obligations not resulting from leaseholds are discounted using the incremental borrowing rate. Discount rates of between 1.94 percent and 3.00 percent were applied in the reporting year (previous year: 2.05 percent to 3.00 percent).

ADLER reports right-of-use assets that do not meet the definition of investment property in its statement of financial position under property, plant and equipment and lease liabilities in other liabilities. Right-of-use assets to investment property (leaseholds) measured at fair value in accordance with IAS 40 are likewise measured at fair value and reported under investment properties.

The following table shows the right-of-use assets that do not meet the definition of an investment property.

In EUR '000 2020	Property	Vehicles	Hardware/ Contracting	Total
Carrying amounts 01.01.	**3,903**	**2,038**	**995**	**6,936**
Additions from acquisitions (+)	0	0	0	0
Additions (+)	88	1,291	0	1,379
Depreciation (–)	-1,358	-1,061	-268	-2,687
Disposals (–)	-1,119	-12	-28	-1,159
Carrying amounts 31.12.	**1,514**	**2,256**	**699**	**4,469**

In EUR '000 2019	Property	Vehicles	Hardware/ Contracting	Total
Carrying amounts 01.01.	**0**	**0**	**0**	**0**
Additions from the first-time application (+)	4,578	1,781	335	6,694
Additions from acquisitions (+)	365	0	0	365
Additions (+)	259	1,201	968	2,428
Depreciation (–)	-1,299	-889	-288	-2,476
Disposals (–)	0	-55	-20	-75
Carrying amounts 31.12.	**3,903**	**2,038**	**995**	**6,936**

The following table shows the amounts recognised in the Consolidated Statement of Comprehensive Income in connection with leases (including leaseholds):

In EUR '000	2020	2019
Interest expenses for lease liabilities	1,126	1,179
Expenses for short-term leases	184	137
Expenses for low-value leases	2,128	1,928
Total	**3,438**	**3,244**

The expenses for low-value leases essentially relate to payments for emergency call devices in lifts, smoke alarms, heating and water meters.

The carrying amounts of lease liabilities and the cumulative lease payments over the lease term (including leaseholds) break down as follows by maturity:

in EUR ´000	Carrying amount 2020	Lease payments in 2020	Carrying amount 2019	Lease payments in 2019
Up to 1 year	2,263	3,108	2,701	3,798
1 to 5 years	2,328	5,774	4,258	8,205
More than 5 years	14,558	78,596	16,267	88,998
	19,149	**87,478**	**23,226**	**101,001**
Less future interest costs		-68,329		-77,775
Total	**19,149**	**19,149**	**23,226**	**23,226**

Leases as a lessor

ADLER leases its investment property. A lessor classifies these leases as operating leases as the lessee does not receive substantially all of the risks and rewards incidental to ownership.

Thus, revenue from the charge of property tax and building insurance expenses of EUR 16,207k (previous year: 17,083k) are included in the scope of IFRS 16.

The claims to lease payments from long-term operating leases generally result from the letting of commercial properties. In the residential property segment, leases are generally subject to the three-month statutory term of notice. There are no further claims to lease payments. The lease payments shown in the following tables include the net rental income only.

The commercial properties of BCP are expected to be sold in 2021. The future minimum rents still included in 2019 are therefore no longer included in 2020 .

2020 Disclosures on operating leases in accordance with IFRS 16.97 in EUR ´000	2020	2021	2022 to 2025	From 2026
		Up to 1 year	1 to 5 years	More than 5 years
Total future lease payments under non-cancellable operating leases as a lessor	239,541	55,360	1,728	788

2019 Disclosures on operating leases in accordance with IFRS 16.97 in EUR ´000	2019	2020	2021 to 2024	From 2025
		Up to 1 year	1 to 5 years	More than 5 years
Total future lease payments under non-cancellable operating leases as a lessor	248,734	66,936	31,291	21,375

13. CAPITAL RISK MANAGEMENT

The Group manages its capital with the objective of maximising the earnings of shareholders by optimising the ratio of equity to debt. This ensures that all group companies can continue to operate as going concerns. Consolidated equity as posted in the balance sheet is used as an important key figure for capital management.

As a stock corporation, the Company is subject to the minimum capital requirements set out in the German Stock Corporation Act (AktG). Furthermore, the Group is subject to both standard and industry-specific minimum capital requirements imposed by lenders, especially for financing specific property projects. These minimum capital requirements are continually monitored and were met in the year under report and the previous year.

Risk management reviews the Group's capital structure on a quarterly basis. Accounting ratios are identified and projected in order to ensure compliance with external capital requirements and the financial covenants applicable to numerous credit agreements. These also include property-specific debt service ratios, loan-to-value figures and contractually defined balance sheet and income ratios.

The year-end equity ratio was determined as follows:

In EUR '000	31.12.2020	31.12.2019
Equity (incl. non-controlling interests)	1,580,770	3,547,857
Total assets	6,292,313	10,681,677
Equity ratio in %	**25.1**	**33.2**

Excluding convertible bonds, the ratio of net financial liabilities to assets net of cash (LTV) amounted to 51.2 percent (previous year: 49.4 percent). Further details can be found in the disclosures on the asset position in the combined management report.

14. OTHER DISCLOSURES

14.1 Other financial obligations and contingent liabilities

(A) Other financial obligations
The Group had the following significant financial obligations at the balance sheet date:

In EUR '000	2020	2019
Rental and lease obligations		
– Due within 1 year	6,616	6,647
– Due between 1 and 5 years	13,353	17,706
– Due in more than 5 years	7,873	11,995
	27,842	36,348
Management contracts, support agreements		
– Due within 1 year	23,873	20,310
– Due between 1 and 5 years	7,918	6,017
– Due in more than 5 years	2,566	2,605
	34,357	28,931
Obligations from acquisitions/project developments		
– Unpaid construction expenses	321,670	269,061
Total	**383,869**	**334,340**

Rental and lease obligations primarily result from leasing relationships of minor value or from short-term leases within the meaning of IFRS 16 as well as from contracts that do not entitle the holder to control the use of an identified asset for a specified period of time.

Outstanding construction costs result from property development projects that have already been started. The outstanding construction costs are taken from the residual value appraisals for these projects (see Note 8.3) and thus represent an estimate of the costs incurred until the completion of the respective project.

(B) Contingent liabilities
In connection with the divested stake in conwert Immobilien Invest SE, the Austrian Takeover Board has determined in review proceedings pursuant to Section 33 Übernahmegesetz (ÜbG – Takeover Act), which are now legally binding, that the Company achieved a controlling stake in conwert by mutual agreement with other persons within the meaning of Section 1 clause 6 ÜbG and then failed to make a mandatory bid as required pursuant to Section 33 (1) clause 2 ÜbG. In connection with this, ADLER is engaged in eight litigation proceedings against companies that are seeking to claim compensation from ADLER. The total litigation value is roughly EUR 8.5 million. Another lawsuit for compensation has already been legally decided in favour of the Company. In addition, the Company is subject to two administrative prosecutions in which fines totalling EUR 55,000 were imposed. The Company has filed a complaint against this. ADLER continues to reject the determinations of the Takeover Commission as ascertained in its review but unverifiable by any second instance as inaccurate and erroneous. Due to the fact that the claims in the first lawsuit have already been dismissed in two instances, the Company considers it largely probable that it will also win in all other ongoing lawsuits with the same subject matter and has therefore not recognised any provisions as at the balance sheet date of 31 December 2020.

In connection with the acquisition of shares in BCP, a minority shareholder filed a lawsuit at the Tel Aviv District Court, Tel Aviv, Israel. The complaint alleges a disadvantage whereby the majority shareholders, Redzone Empire Holding Limited, Cyprus, and the three members of senior management sold their shares in full to ADLER, while the remaining minority shareholders in BCP transferred their shares in the context of the STO only to a limited extent. As part of the lawsuit, a litigation value of NIS 78 to 116 million (equivalent to EUR 18 to 27 million), the total value of the minority interests concerned, was asserted. At the current moment in time, the prospects for a successful outcome cannot yet be assessed. However, the Company assesses the risk as very low. This is because comprehensive legal advice was obtained during the entire acquisition process, so that from the ADLER perspective there is no need to create provisions.

As part of the financing of a project development in Dusseldorf, BCP issued guarantees of EUR 12.4 million in total (previous year: EUR 12.4 million). The risk of utilisation is currently estimated to be low, as all financing obligations have so far been met.

14.2 Related-party disclosures

Pursuant to IAS 24 "Related-Party Disclosures", related parties are defined as closely related companies and persons, including parent companies and subsidiaries, subsidiaries of a common parent company, associates, legal entities influenced by the management as well as the Company's own management. Transactions between ADLER and its subsidiaries are eliminated through consolidation and are therefore not disclosed in the notes.

ADLER is included in the consolidated financial statements of the parent company Adler Group S.A., domiciled in Luxembourg (ultimate controlling company).

As of the balance sheet date, the Group had the following significant loan receivables including interest receivables from non-consolidated companies, associated companies and joint ventures:

In EUR '000	**2020**	**2019**
MRT (Mountleigh Roland Ernst) B.V.	2,732	2,694
Stovago B.V.	1,335	1,239
Glasmacherviertel GmbH & Co. KG	67,542	0
Brack Capital (Chemnitz) B.V.	4,000	4,000
Tuchmacherviertel GmbH & Co. KG	0	3,775
AB Immobilien B.V.	37,352	46,000
Caesar Immobilienbesitz und Verwaltungs GmbH	44,636	42,361
Total nominal value	**157,597**	**100,069**
Accumulated impairment losses	-9,691	-4,546
Carrying amounts 31.12.	**147,906**	**95,523**

Significant transactions with associated companies are presented in Section 8.4, Receivables and loans to associated companies. In addition, ADLER holds listed bonds of an associated company, which are presented under Section 8.6, Other financial investments and other non-current assets. The Group's other business relationships with unconsolidated companies, associated companies and joint ventures are of subordinate overall significance.

As at the balance sheet date, ADLER reports financial liabilities to the parent company, Adler Group, and its subsidiaries in the amount of EUR 22,551k. See Section 8.24, Financial liabilities to affiliated companies for further details.

With regard to the transfer of shares in Adler Group, please refer to Section 4.2, Deconsolidation of Adler Group. Details on the contribution in kind by Adler Group and the transfer of treasury shares in this context are presented in Section 8.12, Capital stock and Section 8.17, Contributions made to implement the resolved capital increase.

The Adler Group has invoiced ADLER for a management fee of EUR 120k. The outstanding item is presented under "Trade payables". In addition, the Adler Group charged ADLER a fee for administrative services in the amount of EUR 210k. ADLER in turn invoiced the Adler Group for a fee of EUR 452k for administrative services. The open items are shown net under "Receivables against affiliated companies."

The Supervisory Board and Management Board hold the key management positions at ADLER AG. The compensation paid to these persons is structured as follows:

In EUR '000	2020	2019
Supervisory Board remuneration	262	261
Management Board remuneration	7,326	2,069

The current remuneration of the Management Board in the reporting year does not include any payments (previous year: EUR 59k) from exercised SARs. In addition to the current remuneration, the Management Board received a total of 13.336 SARs under the SAR program in fiscal year 2020, with an average fair value of EUR 0.17 per SAR. With the exception of the right of the Company to use stock appreciation rights instead of replacing cash compensation with shares of the Company, there are no stock options in favour of the Management Board members.

A member of ADLER's Management Board is the Managing Director and a shareholder in Consortium Finance Limited, London. In the year under review, payments totalling EUR 4,107k (previous year: EUR 1,677k) were made to the Consortium Finance Limited, which are included in the compensation of the Executive Board presented in the previous paragraph. In addition to the remuneration of this Management Board member, these payments also include one-time payments in the course of termination of Executive Board activities, non-deductible input tax, the rent for the business premises in London, reimbursed travel expenses and other administrative costs of this company. These expenses are reported under other operating expenses in the amount of EUR 4,107k (previous year: EUR 1,677k). No liabilities are outstanding in this respect. ADLER also granted the Consortium Finance Limited an interest-bearing loan (interest rate 1 percent) of EUR 400k, which was repaid in the reporting year.

Individualised disclosure of Management Board compensation pursuant to § 314 (1) No. 6a, Sentences 5 to 9 of the German Commercial Code (HGB) has been waived as the 2016 Annual General Meeting passed a resolution valid for a period of five years.

14.3 Auditor's fee

The total fee invoiced by the auditor for the financial year is structured as follows:

In EUR '000	2020	2019
Audit of financial statements	881	735
Other assurance services	130	137
Other services	0	26
Total	**1,011**	**898**

Of financial statement audit fees, an amount of EUR 49k relates to the previous year (previous year: EUR 14k). Other assurance services include services provided in the context of capital market transactions (issuing of comfort letters). Other services include support for selected accounting issues. In addition, the audit firm only carried out audits of financial statements of controlled companies.

14.4 Employees

The average number of employees was as follows:

Number	2020	2019
Board members	3	3
Full-time employees	911	888
Total	**914**	**891**

14.5 Notes to the consolidated cash flow statement

Financial funds generally correspond to cash and cash equivalents of EUR 149,857k (previous year: EUR 624,973k). In the year under review, financial funds also included cash and cash equivalents from discontinued operations amounting to EUR 387,558k. It decreased by a total of 475,116k (previous year: increased by 547,318k). The Group was able to meet its payment obligations at all times.

Furthermore, restricted liquid funds of EUR 33,751k (previous year: EUR 82,125k) with limitations on disposability were recognised under other assets.

Cash flows are subdivided into cash flows from operating, (divesting) investing and financing activities. The indirect method has been used to present cash flow from operating activities.

Net of non-cash income and expenses and including changes in working capital and investments in inventory properties (trading portfolio), the Adler Group generated a net inflow of funds of EUR 149,150k from operating activities (previous year: EUR 94,359k).

The cash outflow from investing activities amounts to EUR 144,994k (previous year: cash outflow of EUR 146,929k). EUR 40,000k of the cash outflow is mainly attributable to the acquisition of financial assets by Adler Group prior to deconsolidation (increase in the investment in Consus) and EUR 220,633k to investments in the real estate portfolio (investment properties). This was offset by the sale of 5,064 residential and commercial units to an international real estate investor in the amount of EUR 123,980k (see also 4.1), as well as the sale of project developments and commercial properties of BCP.

The cash outflow from financing activities amounted to EUR 57,35k (previous year: cash inflow of EUR 600,036k). The cash outflow is mainly due to the repayment of the corporate bonds of ADO Group and BCP. Furthermore, the cash outflow was influenced by unscheduled repayments and scheduled interest and principal payments. This was offset in particular by the increase in the bridge loan that ADLER had taken out to acquire ADO Group, the taking out of several short-term loans at Adler Group and by the sale of shares in subsidiaries of Adler Group to minority shareholders. At the beginning of the second quarter of 2020, this bridge loan was repaid and replaced by a loan from Adler Group as part of a debt restructuring. Loans granted by dler Group, net of interest and principal payments made, amounted to EUR 905,561k in financial year 2020. Most recently, the raising of bank loans by real estate property companies had a positive impact on cash flow from financing activities. Proceeds from loans and borrowings from affiliated companies relate to loans received from Adler Group in the amount of EUR 1,116,205k as well as interest and principal payments made to Adler Group and a payment in connection with the granting of the bridge loan in the total amount of EUR 210,644k.

Changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, changes due to accrued interest, changes due to the effective interest method, changes from exercising conversion rights and changes due to reclassifications in a reconciliation statement between the opening and closing balances in the statement are presented in the following. There were no material implications from changes in foreign exchange rates.

In EUR '000	31.12.2019	Cash effective
Non-current liabilities		
Liabilities from convertibles	122,249	0
Liabilities from bonds	2,327,846	-273,642
Liabilities to banks	2,002,136	-664,513
Leasing liabilities	20,525	0
Financial liabilities to affiliated companies	0	866,328
Current liabilities		
Liabilities from convertibles	1,947	-3,059
Liabilities from bonds	101,612	-90,830
Liabilities to banks	157,708	-91,398
Leasing liabilities	2,700	-4,367
Financial liabilities to affiliated companies	0	-10,766
Total liabilities from financing	**4,736,723**	**-272,247**

The partial amount of EUR 500,000k contributed by Adler Group in connection with the debt-equity swap from the receivable of the existing shareholder loan as well as the consideration of Adler Group in the amount of EUR 348,221k for the transfer of the shares by ADO Group to Aggregate are disclosed under "Other".

In the previous year, the reconciliation statement was as follows:

In EUR '000	31.12.2018	Cash effective
Non-current liabilities		
Liabilities from convertibles	117,516	0
Liabilities from bonds	1,961,111	75,725
Liabilities to banks	1,476,187	1,304,841
Leasing liabilities	0	0
Current liabilities		
Liabilities from convertibles	1,756	-3,256
Liabilities from bonds	40,260	-42,754
Liabilities to banks	142,408	-610,662
Leasing liabilities	0	-2,501
Total liabilities from financing	**3,739,238**	**721,393**

Not cash effective								
Acquisitions/ sale	**Index and exchange rate effects**	**Interest liabilities**	**Amortisation effective interest method**	**Conversions**	**Reclassification**	**Reclassification IFRS 5**	**Other**	**31.12.2020**
0	0	0	4,462	-30,519	-96,192	0	0	0
0	-1,547	0	-22,137	0	-481,550	0	0	1,548,970
0	0	0	11,121	0	-286,999	-20,384	-2,182	1,039,179
683	0	0	0	0	-2,311	0	-2,011	16,886
0	0	0	3,045	0	-21,151	0	-848,221	1
0	0	2,304	0	0	96,192	0	0	97,384
0	0	38,008	0	0	481,550	0	0	530,340
0	0	15,732	-1,702	0	286,999	0	0	367,339
-76	0	1,730	0	0	2,311	0	-35	2,263
0	0	11,017	0		21,151	0	1,149	22,551
607	**-1,547**	**68,791**	**-5,211**	**-30,519**	**0**	**-20,384**	**-851,300**	**3,624,913**

Not cash effective								
First-time adoption IFRS 16	**Acquisitions/ sale**	**Index and exchange rate effects**	**Interest liabilities**	**Amortisation effective interest method**	**Conversions**	**Reclassification**	**Reclassification IFRS 5**	**31.12.2019**
0	0	0	0	4,734	-2	0	0	122,249
0	278,323	9,263	0	11,105	0	-7,681	0	2,327,846
0	-59,623	0	0	2,865	0	-722,134	0	2,002,136
19,963	3,010	0	0	0	0	-2,448	0	20,525
0	0	0	3,448	0	0	0	0	1,947
0	52,580	1,606	42,638	-399	0	7,681	0	101,612
0	28,040	0	7,933	-4,584	0	722,134	-127,562	157,708
2,026	728	0	0	0	0	2,448	0	2,700
21,989	**303,058**	**10,869**	**54,019**	**13,721**	**-2**	**0**	**-127,562**	**4,736,723**

14.6 Management Board and Supervisory Board

At the time of preparation, the Management Board of ADLER comprised Maximilian Rienecker, Master of Science in Management and Sven-Christian Frank, lawyer. Sven-Christian Frank has been COO of the Management Board since 9 June 2016, while Maximilian Rienecker and Tomas de Vargas Machuca were appointed as co-CEOs on 22 December 2017. Tomas de Vargas Machuca resigned from the Management Board of ADLER by mutual agreement on 15 November 2020. The other positions on ADLER's Management Board remain unchanged, with Maximilian Rienecker now as sole CEO and Sven-Christian Frank as COO.

Maximilian Rienecker is also co-CEO of Adler Group (Executive Director on the Administrative Board).

The Supervisory Board of ADLER Real Estate AG consists of the following members:

- Dr Dirk Hoffmann, Lagos/Portugal, lawyer and banker, Chairman until February 29, 2020
- Martin Billhardt, Pfäffikon/Switzerland, lawyer, Chairman since March 20, 2020
- Thilo Schmid, Blotzheim/France, project controller, Deputy Chairman
- Claus Jørgensen, London/UK, businessman

The following members of the Supervisory Board of ADLER Real Estate Aktiengesellschaft, Berlin, held the following further positions on supervisory boards and other supervisory bodies as defined in § 125 (1) Sentence 5 of the German Stock Corporation Act (AktG):

- Martin Billhardt
  WESTGRUND AG, Berlin (Supervisory Board Chairman)
  Deutsche Rohstoff AG, Heidelberg (Supervisory Board Chairman)
  Cub Greek Energy LLC, Highlands Ranch/USA (Non-executive Board Member)
  Elster Oil & Gas LLC, Highlands Ranch/USA (Non-executive Board Member)
  Bright Rock Energy LLC, Denver/USA (Non-executive Board Member)

- Thilo Schmid
  Adler Group S.A., Luxembourg (Non-executive Director)
  Jedox AG, Freiburg (Advisory Board member)
  DTH S.A., Luxembourg (Member of the Board)
  Mindlab Solutions GmbH, Stuttgart (Advisory Board member)
  cynora GmbH, Bruchsal (Advisory Board member)

- Claus Jørgensen
  Adler Group S.A., Luxembourg (Non-executive Director)
  Brack Capital Properties N.V., Amsterdam/NL (Member of the Directors' Board)

14.7 Events after the balance sheet date

On 23 February 2021, the non-cash capital increase resolved in the fourth quarter of 2020 in the amount of EUR 478,163k was entered in the commercial register (see Section 8.17, Contributions made to implement the resolved capital increase).

No further events with the potential to significantly influence the earnings, assets and financial position of ADLER occurred between the end of the period under report and the editorial deadline for this report. The Company's business performance up to the reporting date confirms the statements made in its report on expected developments.

14.8 Declaration of Conformity with the German Corporate Governance Code

The Declaration of Conformity of ADLER was most recently submitted by the Management Board in December 2020. It is permanently available to shareholders at:

http://adler-ag.com/investor-relations/corporate-governance/entsprechenserklaerung

The Declaration of Conformity of WESTGRUND was most recently submitted by that company's Management Board in December 2020. It is permanently available to shareholders at:

http://www.westgrund.de/investor-relations/corporate-governance/entsprechenserklaerung

Berlin, 24 March 2021

Maximilian Rienecker
CEO

Sven-Christian Frank
COO

No.	Company	Headquarters
	Subsidiaries fully consolidated	
1	ADLER Real Estate AG (Muttergesellschaft)	Berlin
2	ADLER Real Estate Service GmbH	Hamburg
3	Verwaltungsgesellschaft ADLER Real Estate mbH	Hamburg
4	Achte ADLER Real Estate GmbH & Co. KG	Hamburg
5	MÜBAU Real Estate GmbH	Hamburg
6	ADLER Lux Sàrl	Luxembourg/Grand Duchy of Luxembourg
7	Münchener Baugesellschaft mbH	Hamburg
8	ADLER Wohnen Service GmbH	Hamburg
9	MBG Beteiligungsgesellschaft mbH & Co. KG	Hamburg
10	MBG Dallgow GmbH & Co. KG	Hamburg
11	MBG Großbeeren GmbH & Co. KG	Hamburg
12	MBG Trachau GmbH & Co. KG	Hamburg
13	MBG Wohnbau Verwaltungsgesellschaft mbH	Hamburg
14	MBG Erste Vermögensverwaltungs GmbH	Hamburg
15	Magnus zweite Immobilienbesitz und Verwaltungs GmbH	Hamburg
16	Energy AcquiCo I GmbH	Frankfurt am Main
17	Magnus Dritte Immobilienbesitz und Verwaltungs GmbH	Hamburg
18	Magnus Fünfte Immobilienbesitz und Verwaltungs GmbH	Hamburg
19	WER 1. Wohnungsgesellschaft Erfurt Rieth mbH	Berlin
20	WER 2. Wohnungsgesellschaft Erfurt Rieth mbH	Berlin
21	ESTAVIS 6. Wohnen GmbH	Berlin
22	ESTAVIS 7. Wohnen GmbH	Berlin
23	ESTAVIS 8. Wohnen GmbH	Berlin
24	ESTAVIS 9. Wohnen GmbH	Berlin
25	RELDA 36. Wohnen GmbH	Berlin
26	RELDA 38. Wohnen GmbH	Berlin
27	RELDA 39. Wohnen GmbH	Berlin
28	RELDA 45. Wohnen GmbH	Berlin
29	RELDA Bernau Wohnen Verwaltungs GmbH	Berlin
30	MBG Sachsen GmbH	Aue
31	Magnus-Relda Holding Vier GmbH	Berlin
32	Cato Immobilienbesitz und -verwaltungs GmbH	Hamburg
33	Magnus Immobilienbesitz und Verwaltungs GmbH	Hamburg
34	WBR Wohnungsbau Rheinhausen GmbH	Hamburg
35	S.I.G. RE GmbH	Hamburg
36	Resident Baltic GmbH	Berlin
37	Resident Sachsen P&K GmbH	Berlin
38	Resident West GmbH	Hamburg
39	MBG Schwelm GmbH	Hamburg
40	Alana Properties GmbH	Hamburg
41	Aramis Properties GmbH	Hamburg

	Equity interest in %	Held by No.	Business activity
			Holding
	100.0	1	Service company
	100.0	1	General partner
1)	100.0	1	Project development
	100.0	1	None
	100.0	1	None
	99.95	1	Intermediate holding company
	0.05	18	
	83.3	7	Service company
	16.7	1	
1)	94.9	7	Intermediate holding company
1)	100.0	7	Project development
1)	100.0	7	Project development
1)	99.9	7	Project development
	100.0	7	Intermediate holding company
	100.0	7	Intermediate holding company
	100.0	7	Intermediate holding company
	100.0	15	Intermediate holding company
	100.0	7	Intermediate holding company
	100.0	7	Intermediate holding company
	89.9	7	Portfolio management
	89.9	7	Portfolio management
	94.8	31	Portfolio management
	94.8	31	Portfolio management
	94.8	31	Portfolio management
	94.8	31	Portfolio management
	94.8	31	Portfolio management
	94.8	31	Portfolio management
	94.8	31	Portfolio management
	94.8	31	Portfolio management
	89.9	31	Portfolio management
	89.9	7	Portfolio management
	98.0	7	Intermediate holding company
	89.9	15	Portfolio management
	100.0	7	Intermediate holding company
	87.4	33	Portfolio management
	100.0	14	Intermediate holding company
	89.9	35	Portfolio management
	89.9	35	Portfolio management
	89.9	35	Portfolio management
	89.9	15	Portfolio management
	89.9	17	Portfolio management
	89.9	17	Portfolio management

No.	Company	Headquarters
	Subsidiaries fully consolidated	
42	REO-Real Estate Opportunities GmbH	Frankfurt am Main
43	ROSLYN Properties GmbH	Hamburg
44	Rostock Verwaltungs GmbH	Hamburg
45	SEPAT PROPERTIES GmbH	Hamburg
46	Wallace Properties GmbH	Hamburg
47	Zweite REO-Real Estate Opportunities GmbH	Frankfurt am Main
48	ADLER ImmoProjekt Erste GmbH	Hamburg
49	ADLER Energie Service GmbH	Berlin
50	Magnus Achte Immobilienbesitz und Verwaltungs GmbH	Hamburg
51	Magnus Neunte Immobilienbesitz und Verwaltungs GmbH	Hamburg
52	ADLER Immo Invest GmbH	Hamburg
53	Wohnungsbaugesellschaft JADE mbH	Wilhelmshaven
54	ADLER Gebäude Service GmbH	Berlin
55	WESTGRUND Aktiengesellschaft	Berlin
56	Westgrund Immobilien GmbH	Berlin
57	Westgrund Immobilien II GmbH	Berlin
58	Westconcept GmbH	Berlin
59	IMMOLETO Gesellschaft mit beschränkter Haftung	Berlin
60	ICR Idee Concept und Realisation von Immobilienvorhaben GmbH	Berlin
61	HKA Grundstücksverwaltungsgesellschaft mbH & Co. Kommanditgesellschaft	Berlin
62	HKA Verwaltungsgesellschaft mbH	Berlin
63	Westgrund Immobilien Beteiligung GmbH	Berlin
64	Westgrund Immobilien Beteiligung II GmbH	Berlin
65	Westgrund Immobilien Beteiligung III GmbH	Berlin
66	WESTGRUND Immobilien IV GmbH	Berlin
67	WESTGRUND Immobilien V GmbH	Berlin
68	WESTGRUND Immobilien VI GmbH	Berlin
69	WAB Hausverwaltungsgesellschaft mbH	Ludwigshafen am Rhein
70	Westgrund Wolfsburg GmbH	Berlin
71	Westgrund Niedersachsen Süd GmbH	Berlin
72	Westgrund Niedersachsen Nord GmbH	Berlin
73	Westgrund Brandenburg GmbH	Berlin
74	Westgrund VII GmbH	Berlin
75	Westgrund I Halle GmbH	Berlin
76	Westgrund Halle Immobilienverwaltung GmbH	Berlin
77	Westgrund Immobilien II Halle GmbH & Co. KG	Berlin
78	Westgrund VIII GmbH	Berlin
79	RESSAP – Real Estate Service Solution Applications -GmbH	Berlin
80	Xammit GmbH	Berlin
81	Magnus Zehnte Immobilienbesitz und Verwaltungs GmbH	Hamburg
82	Magnus Elfte Immobilienbesitz und Verwaltungs GmbH	Hamburg
83	Zweite CM Real Estate GmbH	Berlin
84	Dritte CM Real Estate GmbH	Berlin

	Equity interest in %	Held by No.	Business activity
	89.9	17	Portfolio management
	89.9	17	Portfolio management
	89.9	17	Portfolio management
	89.9	17	Portfolio management
	89.9	17	Portfolio management
	89.9	17	Portfolio management
	89.9	1	Project development
	100.0	1	Service company
	94.9	7	Portfolio management
	89.9	7	Intermediate holding company
	100.0	1	None
	89.9	18	Portfolio management
	100.0	7	Service company
	96.88	1	Holding
	89.9	55	Portfolio management
	89.9	55	Portfolio management
	100.0	55	Service company
	100.0	55	Intermediate holding company
	89.9	59	Portfolio management
1)	99.9	60	Portfolio management
	100.0	60	General partner
	100.0	55	None
	100.0	55	None
	89.9	55	Portfolio management
	89.9	55	Portfolio management
	93.9	55	Portfolio management
	89.9	55	Portfolio management
	100.0	55	None
	89.9	55	Portfolio management
	89.9	55	Portfolio management
	89.9	55	Portfolio management
	89.9	55	Portfolio management
	89.9	55	Portfolio management
	89.9	55	Portfolio management
	100.0	75	General partner
1)	99.9	75	Portfolio management
	89.9	55	Portfolio management
	100.0	7	None
	100.0	55	None
	100.0	7	Intermediate holding company
	100.0	7	Intermediate holding company
	89.9	51	Portfolio management
	89.9	51	Portfolio management

No.	Company	Headquarters
	Subsidiaries fully consolidated	
85	Vierte CM Real Estate GmbH	Berlin
86	TGA Immobilien Erwerb 3 GmbH	Berlin
87	ADP Germany GmbH	Hamburg
88	AFP II Germany GmbH	Hamburg
89	AFP III Germany GmbH	Hamburg
90	RIV Harbour West MI 1 GmbH	Berlin
91	RIV Harbour East WA 1 GmbH	Berlin
92	RIV Total MI 2 GmbH	Berlin
93	RIV Central WA 2 GmbH	Berlin
94	RIV Square West MI 3 GmbH	Berlin
95	RIV Square East WA 3 GmbH	Berlin
96	RIV Channel MI 4 GmbH	Berlin
97	RIV Kornspreicher GmbH	Berlin
98	Magnus Zwölfte Immobilienbesitz und Verwaltungs GmbH	Berlin
99	Magnus Dreizehnte Immobilienbesitz und Verwaltungs GmbH	Berlin
100	TGA Immobilien Erwerb 10 GmbH	Berlin
101	Brack Capital Properties N.V. (BCP)	Amsterdam/Netherlands
102	Magnus Fünfzehnte Immobilienbesitz und Verwaltungs GmbH	Berlin
103	Magnus Sechszehnte Immobilienbesitz und Verwaltungs GmbH	Berlin
104	Brack German Properties B.V.	Amsterdam/Netherlands
105	Brack European Ingatlankezelö KFT	Budapest/Hungary
106	Brack Capital (Düsseldorf-Rossstrasse) B.V.	Amsterdam/Netherlands
107	Brack Capital (Düsseldorf-Schanzenstrasse) B.V.	Amsterdam/Netherlands
108	Brack Capital (Bad Kreuznach) B.V.	Amsterdam/Netherlands
109	Brack Capital (Gelsenkirchen) B.V.	Amsterdam/Netherlands
110	Brack Capital (Neubrandenburg) B.V.	Amsterdam/Netherlands
111	Brack Capital (Ludwigsfelde) B.V.	Amsterdam/Netherlands
112	Brack Capital (Remscheid) B.V.	Amsterdam/Netherlands
113	Brack Capital Theta B.V.	Amsterdam/Netherlands
114	Graniak Leipzig Real Estate GmbH & Co KG	Frankfurt am Main
115	BCRE Leipzig Residenz am Zoo GmbH	Frankfurt am Main
116	Brack Capital Epsilon B.V.	Amsterdam/Netherlands
117	Brack Capital Delta B.V.	Amsterdam/Netherlands
118	Brack Capital Alfa B.V.	Amsterdam/Netherlands
119	Brack Capital (Hamburg) B.V.	Amsterdam/Netherlands
120	BCP Leipzig B.V.	Amsterdam/Netherlands
121	BCRE Leipzig Wohnen Nord B.V.	Amsterdam/Netherlands
122	BCRE Leipzig Wohnen Ost B.V.	Amsterdam/Netherlands
123	BCRE Leipzig Wohnen West B.V.	Amsterdam/Netherlands

	Equity interest in %	Held by No.	Business activity
	89.9	51	Portfolio management
	89.9	17	Portfolio management
	89.9	82	Portfolio management
	89.9	82	Portfolio management
	89.9	82	Portfolio management
	89.9	81	Portfolio management
	89.9	81	Portfolio management
	89.9	81	Project development
	89.9	81	Portfolio management
	89.9	81	Portfolio management
	89.9	81	Portfolio management
	89.9	81	Portfolio management
	89.9	81	Project development
	100.0	7	Intermediate holding company
	89.9	7	Project development
	89.9	98	Portfolio management
	69.8	1	Holding
	89.9	7	Project development
	89.9	7	Project development
	100.0	101	Intermediate holding company
	100.0	101	Service company
	99.9	104	Portfolio management
	100.0	104	None
	99.9	104	Portfolio management
	100.0	104	Portfolio management
	99.9	104	Portfolio management
	99.9	104	Portfolio management
	99.9	104	Portfolio management
	100.0	104	Intermediate holding company
	99.9	113	Portfolio management
	94.9	113	General partner
	100.0	104	None
	52.29	104	None
	37.61	101	
	10.10	7	
	52.29	104	None
	37.61	101	
	10.10	7	
	100.0	104	None
	100.0	104	Intermediate holding company
	99.9	120	Portfolio management
	99.9	120	Portfolio management
	99.9	120	Portfolio management

No.	Company	Headquarters
	Subsidiaries fully consolidated	
124	Brack Capital Germany (Netherlands) XVIII B.V.	Amsterdam/Netherlands
125	Brack Capital Germany (Netherlands) XXII B. V.	Amsterdam/Netherlands
126	BCRE Essen Wohnen B.V.	Amsterdam/Netherlands
127	BCRE Duisburg Wohnen B.V.	Amsterdam/Netherlands
128	BCRE Dortmund Wohnen B.V.	Amsterdam/Netherlands
129	Brack Capital Germany (Netherlands) XVII B.V.	Amsterdam/Netherlands
130	Brack Capital Germany (Netherlands) Hedging B.V.	Amsterdam/Netherlands
131	Brack Capital Germany (Netherlands) XLV B.V.	Amsterdam/Netherlands
132	S.I.B. Capital Future Markets Ltd.	Tel Aviv/Israel
133	Brack Capital Labda B.V.	Amsterdam/Netherlands
134	LBHQ Investments B.V.	Amsterdam/Netherlands
135	RealProb (Rodelheim) C.V.	Amsterdam/Netherlands
136	RealProb Investment Germany (Netherlands) III B.V.	Amsterdam/Netherlands
137	Brack Capital Germany (Netherlands) XLVII B.V.	Amsterdam/Netherlands
138	Brack Capital Germany (Netherlands) L B.V.	Amsterdam/Netherlands
139	Brack Capital Germany (Netherlands) LI B.V.	Amsterdam/Netherlands
140	Brack Capital Germany (Netherlands) LIII B.V.	Amsterdam/Netherlands
141	Brack Capital Germany (Netherlands) LIV B.V.	Amsterdam/Netherlands
142	Brack Capital Germany (Netherlands) XLVIII B.V.	Amsterdam/Netherlands
143	Brack Capital Beta B.V.	Amsterdam/Netherlands
144	Grafental Mitte B.V.	Amsterdam/Netherlands
145	Brack Capital Germany (Netherlands) XXVI B.V.	Amsterdam/Netherlands
146	Grafental GmbH & Co. KG	Dusseldorf
147	Brack Capital Germany (Netherlands) XLIX B.V.	Amsterdam/Netherlands
148	Brack Capital Germany (Netherlands) XLVI B.V.	Amsterdam/Netherlands
149	Brack Capital (Witten) GmbH & Co. Immobilien KG	Dusseldorf
150	Brack Capital Witten GmbH (GP)	Dusseldorf
151	Brack Capital Germany (Netherlands) XII B.V.	Amsterdam/Netherlands
152	Brack Capital Germany (Netherlands) XIX B.V.	Amsterdam/Netherlands
153	Brack Capital Germany (Netherlands) XXI B.V.	Amsterdam/Netherlands
154	Brack Capital Germany (Netherlands) XLI B.V.	Amsterdam/Netherlands
155	Brack Capital Germany (Netherlands) XXIII B.V.	Amsterdam/Netherlands
156	Brack Capital Germany (Netherlands) XLII B.V.	Amsterdam/Netherlands
157	Brack Capital Germany (Netherlands) XLIII B.V.	Amsterdam/Netherlands
158	Brack Capital Germany (Netherlands) XLIV B.V.	Amsterdam/Netherlands
159	Brack Capital Germany (Netherlands) XXX B.V.	Amsterdam/Netherlands
160	Brack Capital (Darmstadt Goebelstrasse) GmbH	Frankfurt am Main
161	Brack Capital Germany (Netherlands) XXXI B.V.	Amsterdam/Netherlands
162	Brack Capital Germany (Netherlands) XXXV B.V.	Amsterdam/Netherlands
163	Brack Capital Germany (Netherlands) XXXVI B.V.	Amsterdam/Netherlands
164	Brack Capital Germany (Netherlands) XXXVII B.V.	Amsterdam/Netherlands
165	Brack Capital Germany (Netherlands) XXXVIII B.V.	Amsterdam/Netherlands

	Equity interest in %	Held by No.	Business activity
	100.0	104	None
	100.0	104	Intermediate holding company
	99.9	125	Portfolio management
	99.9	125	Portfolio management
	99.9	125	Portfolio management
	100.0	104	None
	100.0	104	None
	100.0	104	Service company
	100.0	131	Service company
	100.0	104	Intermediate holding company
	100.0	104	None
	99.0	134	None
	1.0	136	
	100.0	104	None
	99.9	104	Portfolio management
	100.0	104	Intermediate holding company
	99.9	104	Intermediate holding company
	99.9	104	Portfolio management
	100.0	104	None
	100.0	104	Intermediate holding company
	84.98	104	Intermediate holding company
	99.9	143	Project development
	99.9	143	Project development
	100.0	145	Project development
	99.9	104	Portfolio management
	100.0	104	None
	100.0	148	None
	100.0	148	General Partner
	100.0	104	Intermediate holding company
	99.9	104	Portfolio management
	99.9	104	Portfolio management
	99.9	104	Portfolio management
	100.0	104	None
	99.9	104	Portfolio management
	100.0	104	None
	99.9	104	Portfolio management
	99.9	104	Portfolio management
	100.0	155	None
	99.9	104	Portfolio management
	99.9	104	Portfolio management
	99.9	104	Portfolio management
	99.9	104	Portfolio management
	99.9	104	Project development

No.	Company	Headquarters
	Subsidiaries fully consolidated	
166	Brack Capital Germany (Netherlands) XXXIX B.V.	Amsterdam/Netherlands
167	Brack Capital Germany (Netherlands) XXV B.V.	Amsterdam/Netherlands
168	Brack Capital Wuppertal (Netherlands) B.V.	Amsterdam/Netherlands
169	Brack Capital (Wuppertal) GmbH	Frankfurt am Main
170	Invest Partner GmbH	Frankfurt am Main
171	Brack Capital Gelsenkirchen GmbH & Co. Immobilien KG	Frankfurt am Main
172	Brack Capital (Oberhausen) GmbH	Frankfurt am Main
173	Grafental Verwaltungs GmbH (phG)	Dusseldorf
174	Brack Capital Kaufland Sàrl	Luxemburg/Großherzogtum Luxemburg
175	TPL Augsburg Sàrl	Luxemburg/Großherzogtum Luxemburg
176	TPL Bad Aibling Sàrl	Luxemburg/Großherzogtum Luxemburg
177	TPL Biberach Sàrl	Luxemburg/Großherzogtum Luxemburg
178	TPL Borken Sàrl	Luxemburg/Großherzogtum Luxemburg
179	TPL Geislingen Sàrl	Luxemburg/Großherzogtum Luxemburg
180	TPL Erlangen Sàrl	Luxemburg/Großherzogtum Luxemburg
181	TPL Neckersulm Sàrl	Luxemburg/Großherzogtum Luxemburg
182	TPL Vilshofen Sàrl	Luxemburg/Großherzogtum Luxemburg
183	TPL Ludwigsburg Sàrl	Luxemburg/Großherzogtum Luxemburg
184	Brack Capital Eta B.V.	Amsterdam/Netherlands
185	Brack Capital Germany (Netherlands) XL B.V.	Amsterdam/Netherlands
186	Parkblick GmbH & Co. KG	Dusseldorf
187	Grafental am Wald GmbH (PhG)	Dusseldorf
188	Brack Capital Germany (Netherlands) LII B.V. "Holdco BV"	Amsterdam/Netherlands
189	Brack Capital Patros GmbH "Holdco GmbH"	Frankfurt am Main
190	Brack Capital Magdeburg I GmbH	Berlin
191	Brack Capital Magdeburg II GmbH	Berlin
192	Brack Capital Magdeburg III GmbH	Berlin
193	Brack Capital Magdeburg IV GmbH	Berlin
194	Brack Capital Magdeburg V GmbH	Berlin
195	Brack Capital Magdeburg VI GmbH	Berlin
196	Brack Capital Halle I GmbH	Berlin
197	Brack Capital Halle II GmbH	Berlin
198	Brack Capital Halle III GmbH	Berlin
199	Brack Capital Halle IV GmbH	Berlin
200	Brack Capital Halle V GmbH	Berlin
201	Brack Capital Leipzig I GmbH	Berlin
202	Brack Capital Leipzig II GmbH	Berlin
203	Brack Capital Leipzig III GmbH	Berlin
204	Brack Capital Leipzig IV GmbH	Berlin
205	Brack Capital Leipzig V GmbH	Berlin
206	Brack Capital Leipzig VI GmbH	Berlin

	Equity interest in %	Held by No.	Business activity
	99.9	104	Portfolio management
	100.0	104	None
	100.0	104	None
	100.0	104	None
	93.9	169	Portfolio management
	99.2	109	Intermediate holding company
	100.0	109	General partner
	100.0	151	General partner
	89.9	104	None
	10.1	7	
	92.0	174	Portfolio management
	91.9	174	Portfolio management
	91.9	174	Portfolio management
	92.0	174	None
	91.9	174	Portfolio management
	91.9	174	Portfolio management
	91.9	174	Portfolio management
	92.0	174	None
	91.9	174	Portfolio management
	100.0	104	Intermediate holding company
	100.0	104	Intermediate holding company
	99.9	185	Portfolio management
	100.0	185	General partner
	100.0	104	Intermediate holding company
	100.0	188	Intermediate holding company
	94.8	189	Portfolio management
	94.8	189	Portfolio management
	94.8	189	Portfolio management
	94.8	189	Portfolio management
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No.	Company	Headquarters
	Subsidiaries fully consolidated	
207	Brack Capital Germany (Netherlands) LV B.V.	Amsterdam/Netherlands
208	RT Facility Management GmbH & Co. KG	Dusseldorf
209	RT Facility Management (Germany) GmbH (GP)	Dusseldorf
210	BCRE Kassel I B.V.	Amsterdam/Netherlands
211	Brack Objekt Kassel Hafenstrasse GmbH	Frankfurt am Main
212	Brack Capital (Kassel) GmbH & Co. Immobilien KG	Frankfurt am Main
213	RealProb Investment (Duisburg) B.V.	Amsterdam/Netherlands
214	Magnus Siebzehnte Immobilienbesitz- und Verwaltungs GmbH	Berlin
215	Wasserstadt Co-Living GmbH	Berlin
216	Magnus Neunzehnte Immobilienbesitz- und Verwaltungs GmbH	Berlin
217	Magnus Zwanzigste Immobilienbesitz- und Verwaltungs GmbH	Berlin
218	Spree Zweite Beteiligungs Ost GmbH	Zossen
219	Spree Röbellweg 2-10 Verwaltungs GmbH	Berlin
220	ADO GROUP LTD.	Israel
221	BCP Invest Rostock B.V.	Amsterdam/Netherlands
222	BCP Invest Celle B.V.	Amsterdam/Netherlands
223	BCP Invest Castrop B.V.	Amsterdam/Netherlands
224	Eurohaus Frankfurt AG	Berlin
225	Glasmacherviertel Verwaltungs GmbH (phG)	Dusseldorf
226	Brack Capital (Duisburg 2) GmbH & Co. Immobilien KG	Frankfurt am Main

No.	Company	Headquarters
	Associated Companies or Joint Ventures included in the consolidated financial statements	
227	ACCENTRO Real Estate AG	Berlin
228	ADLER Real Estate Assekuranzmakler GmbH & Co. KG	Dusseldorf
229	AB Immobilien B.V.	Amsterdam/Netherlands
230	Brack Capital (Chemnitz) B.V.	Amsterdam/Netherlands
231	Glasmacherviertel GmbH & Co. KG	Dusseldorf
	Companies not significant enough to be included at equity in the consolidated financial statements	
232	MRT (Mountleigh Roland Ernst) B.V.	Rotterdam/Netherlands
233	Stovago B.V.	Rotterdam/Netherlands

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

	Equity interest in %	Held by No.	Business activity
	100.0	104	Intermediate holding company
	100.0	207	Service company
	100.0	208	General partner
	89.9	104	Intermediate holding company
	10.1	7	
	94.9	210	General partner
	100.0	210	Portfolio management
	100.0	104	Portfolio management
	99.9	7	None
	100.0	7	Intermediate holding company
	100.0	7	None
	100.0	7	None
	89.9	1	Portfolio management
	89.9	1	Portfolio management
	100.0	1	Holding
	100.0	104	Intermediate holding company
	100.0	104	Intermediate holding company
	100.0	104	Intermediate holding company
	89.99	1	Portfolio management
	100,0	142	General partner
	99.33	151	None

	Equity interest in %	Held by No.	Business activity
	6.2	1	Trade
	50.0	1	Insurance broker
	25.0	7	Portfolio management
	59.9	104	Portfolio management
	25.0	142	Portfolio management
	50.0	1	None
	50.0	1	None

/// AFFIRMATION BY THE LEGAL REPRESENTATIVES

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

Berlin, 24 March 2021

Maximilian Rienecker
CEO

Sven-Christian Frank
COO

/// LEGAL REMARK

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

/// AUDITOR'S REPORT

This is a convenience translation of the German original. Only the original text in German is authoritative.

To ADLER Real Estate Aktiengesellschaft, Berlin

Preliminary remark
The auditor's report reproduced below also includes a note on the audit of the electronic reproductions of the financial statements and the management report prepared for the purpose of disclosure in accordance with Section 317 (3b) of the German Commercial Code (ESEF note). The subject of the examination on which the ESEF note is based (ESEF documents to be examined) is not attached. The checked ESEF documents can be viewed or retrieved from the Federal Gazette (Bundesanzeiger).

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

Audit Opinions
We have audited the consolidated financial statements of ADLER Real Estate Aktiengesellschaft, Berlin and its subsidiaries (the Group), comprising the consolidated statement of financial position as at 31 December 2020, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January to 31 December 2020, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we audited the combined management report of ADLER Real Estate Aktiengesellschaft for the financial year from 1 January to 31 December 2020. We did not audit the contents of the Group's management declaration published on the Group's website pursuant to Section 315d HGB or the separate non-financial consolidated report pursuant to Sections 315b and 315c HGB, to which reference is made in Section 6 and Section 1 of the combined management report, in compliance with German law.

In our opinion, based on the findings of our audit,
- the attached consolidated financial statements comply in all material respects with IFRSs, as adopted by the EU, and the additional requirements of German law pursuant to Section 315e (1) HGB and, in accordance with these requirements, give a true and fair view of the Group's net assets and financial position as at 31 December 2020, and of its results of operations for the financial year from 1 January to 31 December 2020, and
- the attached combined management report as a whole presents an accurate view of the Group's position. The combined management report is consistent with the consolidated financial statements, complies with German legal regulations and suitably presents the opportunities and risks of future development. Our audit opinion regarding the combined management report does not extend to the contents of the Group's management declaration pursuant to Section 315d HGB published on the Group's website.

Pursuant to Section 322 (3) Sentence 1 HGB, we state that our audit has not led to any reservations with regard to the compliance of the consolidated financial statements or the combined management report.

Basis for the Audit Opinions
We conducted our audit of the consolidated financial statements and the combined management report in accordance with Section 317 HGB, the EU Audit Regulation (No. 537/2014; hereinafter "EU-AR"), and generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftspruefer (IDW). Our responsibility according to these regulations and standards is described in further detail in the "Responsibility of the Auditor for the Audit of the Consolidated Financial Statements and the Combined Management Report" section of our auditor's report. We are independent of the consolidated companies in compliance with the provisions of European law, German commercial law and

professional law and have fulfilled our other German professional obligations in compliance with these requirements. In addition, we declare pursuant to Article 10 (2) lit. f) EU-AR that we have provided no prohibited non-audit services referred to in Article 5 (1) EU-AR. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions regarding the consolidated financial statements and the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements
Key audit matters are such matters that, in our professional judgement, were the most significant in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 December 2020. These matters were considered in connection with our audit of the consolidated financial statements as a whole and the formulation of our audit opinion; we do not provide a separate audit opinion on these matters.

We present the matters that we consider key audit matters below:

1. Recoverability of goodwill
2. Fair value adjustments of investment properties

Ref 1) Recoverability of goodwill

a) Financial Statement Risk
As of the reporting date, the consolidated statement of financial position shows goodwill items with a total carrying amount of EUR 169.4 million. The Group's disclosures on goodwill are included in Sections 5.3, 6 and 8.1 of the notes to the consolidated financial statements. According to IAS 36.90, cash-generating units to which goodwill has been allocated shall be tested for impairment at least annually. This impairment test is carried out by ADLER Real Estate Aktiengesellschaft in the fourth quarter of each year. For each group of cash-generating units, the carrying amount should be compared with the recoverable amount.

The recoverable amount is the higher of the value in use as determined using a discounted cash flow method and fair value less disposal costs. As the value in use for the groups of cash-generating units was above the carrying amount as at 31 December 2020, the additional determination of the fair value less disposal costs was not required. However, the result of this measurement depends to a large extent on expectations regarding the future development of the respective operating business, the resulting cash flows and the discount rate used (WACC). The impairment test is therefore largely subject to the influence of estimated values. Since even minor changes in the assumptions regarding the expected cash flows or the discount rate can have a significant impact on the recoverable income, we considered these matters to be of particular importance in the context of our audit. Furthermore, IAS 36 requires extensive disclosures in the notes.

b) Audit Approach and Conclusions
As part of our audit, in addition to checking the appropriateness of the measurement model, we checked the plausibility of the planning underlying the impairment tests of all material goodwill on the basis of the historical development and industry-specific market expectations. As a significant part of the value in use results from cash flow forecasts for the period after the detailed planning period (perpetual phase), in particular we have critically assessed the sustainable expected rental increase applied in the perpetual phase. We inspected the planning for potentially biased judgement. As well as checking the plausibility of the underlying planning, we assessed planning accuracy by comparing the previous year's planning with the values actually achieved.

With regard to the discount rate used, we have checked the appropriateness of the discount rate provided by an external expert concerning the individual parameters used as well as a critical overall assessment. The impairment test performed in the fourth quarter of 2020 identified significant surplus cover of the recoverable amount above the carrying amount for the cash-generating units being assessed. We validated the client's calculation results using complementary analyses, including sensitivity analyses. We also checked the completeness and appropriateness of the disclosures required under IAS 36 in the notes to the consolidated financial statements.

We have no indications or findings that the discretion of the legal representatives would not be balanced and appropriate to the valuation parameters and assumptions used. The disclosures made in the notes to the consolidated financial statements in accordance with IAS 36, including those relating to the sensitivities, are complete and appropriate.

Ref 2) Fair value adjustments of investment properties

a) Financial Statement Risk
As at the reporting date, the consolidated statement of financial position shows investment properties with a total carrying amount of EUR 4,951.8 million. ADLER Real Estate Aktiengesellschaft measures investment properties at fair value in accordance with IAS 40 in connection with IFRS 13. In the past financial year, increases in fair value of EUR 239.5 million were recognised in the consolidated statement of comprehensive income. The company's disclosures on investment properties are included in Sections 5.2, 6 and 8.3 of the notes to the consolidated financial statements. Further information on the opportunities and risks is provided in Chapter 7 of the combined management report. The fair value of investment properties is determined by reference to surveys compiled by external experts on the basis of current market data and using internationally-recognised valuation methods. Discounted cash flow methods are used to discount cash flows expected to be generated by a property object by application of a market-specific, property-specific discount and capitalisation interest rate on the balance sheet date as at 31 December 2020.

We believe the measurement of investment properties was of significant importance, as the approach and the measurement of this item which has a significant impact on the amount is largely based on estimates and assumptions. Even small changes in the parameters relevant for measurement can lead to significant changes in the resulting fair values. The most significant parameters in the past financial year were the discounting and capitalisation rates and the sustainable future rental income. Their development reflects the different dynamics of property purchase price and rental price development (yield compression), which is the main driving force for the increase in fair values as at 31 December 2020 compared to the previous year. In addition, IAS 40 and IFRS 13 require a large number of disclosures, the completeness and appropriateness of which are to be ensured.

b) Audit Approach and Conclusions
In particular, our audit procedures included an assessment of the measurement process for compliance with IAS 40 in connection with IFRS 13, the accuracy and completeness of the data used on property holdings and the appropriateness of the parameters related to the measurement, such as discount and capitalisation rates, sustainable rental income, operating costs and vacancy rates. To assess the parameters relevant for measurement used, we also used external market data among other aspects. For a deliberate risk-oriented selection of measurement units, we conducted on-site inspections to check the respective condition of the property and its appropriate consideration in the reports of the external experts. We also obtained an additional valuation report (control account) from two external experts mandated by us. We convinced ourselves of the qualifications and objectivity of the external surveyors commissioned by ADLER Real Estate Aktiengesellschaft. With the knowledge that even relatively small changes in the parameters relevant to the measurement can have a significant impact on the amount of investment properties, we also checked the sensitivity analyses carried out by ADLER Real Estate Aktiengesellschaft and in mathematical terms verified the effects of possible fluctuations in these parameters. We also assessed the appropriateness of the associated disclosures in the consolidated financial statements.

ADLER Real Estate Aktiengesellschaft has implemented appropriate regulations suitable for determining fair values in accordance with IAS 40 and IFRS 13. In our view, the assessments of the legal representatives on which the accounting is based are sufficiently documented and substantiated and ensure an appropriate presentation in the consolidated financial statements. The disclosures in the notes to the consolidated financial statements in accordance with IAS 40 and IFRS 13 are complete and appropriate.

Other information

The legal representatives and the Supervisory Board are responsible for the other information. Other information obtained at the date of this auditor's report includes:

- the Group's Corporate Governance Declaration published on the Group's website pursuant to Section 315d HGB, to which reference is made in Section 6 of the combined management report,

- the Supervisory Board Report,

- the Corporate Governance Report as amended on 16 December 2019,

- the other parts of the annual report, excluding the consolidated financial statements, the disclosures contained in the combined management report that were not included in the audit and our associated auditor's report, and

- the responsibility statement pursuant to Section 297 (2) Sentence 4 HGB on the consolidated financial statements and the responsibility statement pursuant to Section 289 (1) Sentence 5 HGB in connection with Section 315 (1) Sentence 5 HGB on the combined management report.

The Supervisory Board is responsible for the Supervisory Board Report. The legal representatives and the Supervisory Board are responsible for the declaration on the German Governance Code pursuant to Section 161 of the German Stock Corporation Act, which forms part of the Group's Corporate Governance Declaration contained in Section 6 of the combined management report. The legal representatives are responsible for the other information.

The company is included in the separate non-financial consolidated report (sustainability report) of its parent company Adler Group, to which reference is made in the combined management report of ADLER, and is therefore not obliged to prepare its own non-financial statement or its own non-financial consolidated report in accordance with Section 315b (2) and Section 289b (2) HGB . This Adler Group sustainability report will not be made available to us until after the date of this auditor's report, and the plan is to publish it on the Adler Group website by 30 April 2021.

Our audit opinions regarding the consolidated financial statements and the combined management report do not extend to the other information, and accordingly we provide neither an audit opinion nor any other form of audit conclusion in this regard.

As part of our audit of the consolidated financial statements, we have a responsibility to read the other information mentioned above and to evaluate whether it

- exhibits material discrepancies with the consolidated financial statements, with the audited disclosures contained in the combined management report or with knowledge we have obtained during our audit, or
- otherwise seems significantly incorrect.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there has been a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the legal representatives and the Supervisory Board for the consolidated financial statements and the combined management report

The legal representatives are responsible for preparing the consolidated financial statements, which in all material respects comply with IFRSs, as adopted by the EU, and the additional requirements of German law pursuant to Section 315e (1) HGB, and for the consolidated financial statements giving a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. Furthermore, the legal representatives are responsible for the internal controls that they deemed necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

When preparing the consolidated financial statements, the legal representatives are responsible for assessing the Group's status as a going concern. In addition, they have a responsibility to disclose matters related to the status as a going concern, if relevant. They are also responsible for accounting on the basis of the going concern principle, unless they intend to liquidate the Group or discontinue its business operations, or there is no realistic alternative.

Moreover, the legal representatives are responsible for preparing the combined management report, which as a whole provides an accurate view of the Group's position and is consistent with the consolidated financial statements in all material respects, complies with German legal regulations and suitably presents the opportunities and risks of future development. The legal representatives are also responsible for the arrangements and measures (systems) that they considered necessary to enable the preparation of a combined management report in compliance with applicable German legal regulations and to allow sufficient, suitable evidence to be provided for the statements in the combined management report.

The Supervisory Board is responsible for monitoring the Group's accounting process for the preparation of the consolidated financial statements and the combined management report.

Responsibility of the auditor for the audit of the consolidated financial statements and the combined management report

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and whether the group management report as a whole provides an accurate view of the Group's position and is in all material respects consistent with the consolidated financial statements and with the findings of the audit, complies with German legal regulations and suitably presents the opportunities and risks of future development, and to issue an auditor's report containing our audit opinions regarding the consolidated financial statements and the combined management report.

Reasonable assurance is a high level of assurance but not a guarantee that an audit carried out in compliance with Section 317 HGB, the EU-AR and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) will always uncover a material misstatement. Misstatements can result from transgressions or inaccuracies and are deemed material if it could be reasonably expected that they would individually or together influence the financial decisions made by users on the basis of the consolidated financial statements and combined management report.

We exercise due discretion during an audit and maintain a critical attitude.
In addition,

- we identify and evaluate the risk of material misstatements, whether due to fraud or error, in the consolidated financial statements and the combined management report, plan and implement audit procedures in response to these risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk that material misstatements are not uncovered is higher in the case of transgressions than in the case of inaccuracies, as transgressions can entail fraudulent collaboration, falsifications, deliberate omissions, misleading depictions or the suspension of internal controls.

- we gain an understanding of the internal control system relevant for the audit of the consolidated financial statements and of the arrangements and measures relevant for the audit of the combined management report in order to plan audit procedures that are appropriate given the circumstances, but not with the aim of providing an audit opinion regarding the effectiveness of these systems.

- we evaluate the appropriateness of the accounting policies used by the legal representatives and the reasonableness of the estimated values presented by the legal representatives and the associated disclosures.

- we draw conclusions about the appropriateness of the going concern principle applied by the legal representatives and, on the basis of the audit evidence obtained, whether there is material uncertainty regarding events or circumstances that could cause significant doubt about the Group's ability to continue as a going concern. If we come to the conclusion that there is material uncertainty, we are obliged to call attention to the associated disclosures in the consolidated financial statements and in the combined management report in the auditor's report or, if these disclosures are inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances may mean that the Group is no longer a going concern.

- we evaluate the overall presentation, the structure and the content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events such that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with IFRS, as adopted by the EU, and the additional requirements of German law pursuant to Section 315e (1) HGB.

- we obtain sufficient appropriate audit evidence for the Company's accounting information or business activities within the Group in order to provide audit opinions regarding the consolidated financial statements and the combined management report. We are responsible for directing, monitoring and implementing the audit of the consolidated financial statements. We bear sole responsibility for our audit opinions.

- we evaluate the consistency of the combined management report with the consolidated financial statements, its legality and the view it gives of the position of the Group.

- we conduct audit procedures regarding the forward-looking disclosures made by the legal representatives in the combined management report. On the basis of sufficient appropriate audit evidence, we examine the significant assumptions underlying the legal representatives' forward-looking disclosures in particular and evaluate the appropriateness of the derivation of the forward-looking disclosures from these assumptions. We do not provide a separate audit opinion regarding the forward-looking disclosures or the underlying assumptions. There is a considerable, unavoidable risk that future events will differ significantly from the forward-looking disclosures.

Topics for discussion with those responsible for monitoring include the planned scope and scheduling of the audit as well as significant audit findings, including any deficiencies in the internal control system that we find during our audit.

We issue a statement to the monitors to the effect that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that can reasonably be assumed to affect our independence and the safeguards put in place to protect against this.

From among the matters that we have discussed with the monitors, we determine which matters were most significant in the audit of the consolidated financial statements for the current reporting period and are therefore the key audit matters. We describe these matters in the auditor's report, unless laws or other legal provisions preclude their public disclosure.

Other legal and regulatory requirements

Report on the audit of the electronic reproductions of the consolidated financial statements and of the combined management report created for disclosure purposes in accordance with Section 317 (3b) HGB

Audit opinion
Pursuant to Section 317 (3b) HGB, we conducted an audit to obtain reasonable assurance on whether the reproductions of the consolidated financial statements and of the combined management report contained in the attached file "ESEF documents / client designation / t2" and created for disclosure purposes (also referred to hereinafter as the "ESEF documents") satisfy the requirements of Section 328 (1) HGB relating to the electronic reporting format ("ESEF format") in all material respects. In compliance with the German legal requirements, this audit covers only the conversion of the information in the consolidated financial statements and the combined management report into the ESEF format, and therefore neither the information contained in these reproductions nor other information contained in the above-mentioned file. Under those requirements, our audit does not extend either to disclosures made in the individual notes to the consolidated financial statements or the combined management report voluntarily provided by the company, nor to additional disclosures made in the consolidated statement of comprehensive income that are not required by law.

In our opinion, the reproductions of the consolidated financial statements and of the combined management report contained in the above-mentioned file and created for disclosure purposes meet the requirements of Section 328 (1) HGB relating to the electronic reporting format in all material respects. Beyond this opinion and our opinions on the accompanying consolidated financial statements and the accompanying combined management report for the financial year from 1 January to 31 December 2020 contained in the preceding "Report on the audit of the consolidated financial statements and the combined management report", we do not issue any opinion whatsoever on the information contained in these reproductions or on the other information contained in the above-mentioned file. We do not issue any opinion either on disclosures made in the individual notes to the consolidated financial statements or the combined management report voluntarily provided by the company, or on additional disclosures made in the consolidated statement of comprehensive income that are not required by law.

Basis for the audit opinion
We conducted our audit of the reproductions of the consolidated financial statements and of the combined management report contained in the attached file mentioned above in accordance with Section 317 (3b) HGB and the draft IDW auditing standard: Audit of the electronic reproductions of financial statements and management reports created for disclosure purposes in accordance with Section 317 (3b) HGB (IDW EPS 410) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibilities under those requirements are further described in the section entitled "Responsibility of the auditor of the financial statements for auditing the ESEF documents". Our audit practice has applied the requirements for quality assurance systems set out in the IDW quality assurance standard: Requirements for quality assurance in auditing practice (IDW QS 1).

Responsibility of the legal representatives and the Supervisory Board for the ESEF documents

The legal representatives of the company are responsible for drawing up the ESEF documents with the electronic reproductions of the consolidated financial statements and of the combined management report pursuant to Section 328 (1) sentence 4 no. 1 HGB. In addition, the legal representatives of the company are responsible for such internal control as they have determined necessary to enable the creation of ESEF documents that are free from material violations, whether due to fraud or error, of the requirements of Section 328 (1) HGB relating to the electronic reporting format.

The legal representatives of the company are furthermore responsible for submitting to the operator of the German Federal Gazette the ESEF documents together with the auditor's report and the accompanying audited consolidated financial statements and the audited combined management report as well as other documents to be disclosed.

The Supervisory Board is responsible for overseeing the creation of the ESEF documents as part of the financial reporting process.

Responsibility of the auditor of the consolidated financial statements for auditing the ESEF documents

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material violations, whether due to fraud or error, of the requirements of Section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material breaches of the requirements of Section 328 (1) HGB, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion;

- obtain an understanding of internal control relevant to the audit of the ESEF documents in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these controls;

- assess the technical validity of the ESEF documents, i.e. whether the file containing the ESEF documents meets the requirements of Delegated Regulation (EU) 2019/815, as amended as at the balance sheet date, relating to the technical specification for this file;

- assess whether the ESEF documents enable the audited consolidated financial statements and the audited combined management report to be reproduced in XHTML with the same contents;

- assess whether the mark-up of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction to be made.

Other disclosures pursuant to Article 10 EU-AR
We were elected as the auditor of the annual financial statements by the Annual General Meeting on 15 December 2020. Pursuant to Section 318 (2) HGB, we are deemed the auditor of the consolidated financial statements as no other auditor was appointed. We were engaged by the Supervisory Board on 22 December 2020. We have been the auditor of the consolidated financial statements of ADLER Real Estate Aktiengesellschaft without interruption since the 2010 financial year.

We declare that the audit opinions contained in this auditor's report are consistent with the additional report to the Supervisory Board according to Article 11 EU-AR (audit report).

Auditor responsible

The German Public Auditor responsible for the engagement is Mr. Julian Breidthardt.
Hamburg, 24 March 2021

Ebner Stolz GmbH & Co. KG
Wirtschaftspruefungsgesellschaft Steuerberatungsgesellschaft

Thomas Götze	Julian Breidthardt
Auditor	Auditor

/// AT A GLANCE

Supervisory Board	
Martin Billhardt	Chairman of the Supervisory Board
Thilo Schmid	Vice Chairman of the Supervisory Board
Claus Jorgensen	Member of the Supervisory Board
Management Board	
Maximilian Rienecker	Member of the Management Board (CEO)
Sven-Christian Frank	Member of the Management Board (COO)
Company Facts	
Legal domicile	Berlin Charlottenburg, Berlin HRB 180360 B
Address	ADLER Real Estate Aktiengesellschaft Am Karlsbad 11 10789 Berlin Phone: +49 30 39 80 18 – 10 Email: info@adler-ag.com
Website	www.adler-ag.com
Investor Relations	Tina Kladnik Tel.: +49 30 398 01 81 23 Email: t.kladnik@adler-group.com
Public Relations	Dr Rolf-Dieter Grass Tel.: +49 30 200 09 14 29 Email: r.grass@adler-group.com
Capital stock	EUR 73,658,680[1)]
Classification	73,658,680[1)] no-par value shares
Arithmetical value	EUR 1 per share
Voting right	1 vote per share
Identification	WKN 500 800 ISIN DE0005008007 Ticker symbol ADL Reuters ADLG.DE
Designated sponsors	Baader Bank AG
Stock exchanges	Xetra, Frankfurt am Main
Indices	CDAX, GPR General Index, DIMAX
Financial year	Calendar year

[1)] As at 31 December 2020

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