We're taking action!

Annual Report
2018

ADLER
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MULTI-YEAR OVERVIEW

		2014	2015	2016	2017	2018	Change 2018 to 2017 absolute	Change 2018 to 2017 relative
Revenue	**€ million**	**535.3**	**566.1**	**544.6**	**525.8**	**507.1**	**– 18.7**	**– 3.6 %**
Material expenses	€ million	– 243.2	– 261.2	– 256.5	– 244.1	– 229.8	14.3	– 5.9 %
Gross profit	€ million	292.0	304.9	288.1	281.8	277.3	– 4.5	– 1.6 %
Gross profit margin		54.6 %	53.9 %	52.9 %	53.6 %	54.7 %	1.1	2.0 %
EBITDA	**€ million**	**41.5**	**33.3**	**23.3**	**32.0**	**20.7**	**– 11.3**	**– 35.3 %**
EBITDA margin		7.8 %	5.9 %	4.3 %	6.1 %	4.1 %	– 2.0	– 32.9 %
Depreciation	€ million	– 15.4	– 16.3	– 16.7	– 16.5	– 17.4	– 0.9	5.5 %
EBIT	**€ million**	**26.2**	**17.0**	**6.6**	**15.6**	**3.3**	**– 12.3**	**– 78.8 %**
EBIT margin		4.9 %	3.0 %	1.2 %	3.0 %	0.7 %	– 2.3	– 78.1 %
Net income from operations	**€ million**	**21.2**	**12.1**	**1.7**	**10.7**	**– 1.6**	**– 12.3**	**– 115.0 %**
Income taxes	€ million	– 7.1	– 4.2	– 1.3	– 6.8	– 1.0	5.8	– 85.3 %
Consolidated profit for the year	**€ million**	**14.1**	**7.9**	**0.4**	**3.9**	**– 2.6**	**– 6.5**	**– 166.7 %**
Earnings per share	€	0.77	0.43	0.02	0.21	– 0.14	– 0.4	– 166.7 %
Cash flows								
Net cash flows from operating activities	€ million	36.4	19.5	22.2	21.2	9.9	– 11.3	– 53.3 %
Net cash flows from investing activities	€ million	– 11.4	– 16.6	– 10.8	14.8	– 5.9	– 27.2	– 183.8 %
Free cash flow	€ million	25.0	2.9	11.4	36.0	3.9	– 32.1	– 89.2 %
Total assets	**€ million**	**244.3**	**243.4**	**222.6**	**241.1**	**226.8**	**– 14.3**	**– 5.9 %**
Non-current assets	€ million	93.1	99.7	95.5	88.6	83.4	– 5.2	– 5.9 %
Current assets	€ million	151.2	143.7	127.1	152.5	143.4	– 9.1	– 6.0 %
Inventories	€ million	75.6	81.3	75.4	73.7	78.7	5.0	6.8 %
Cash and cash equivalents	€ million	69.7	52.1	42.8	63.3	54.9	– 8.4	– 13.3 %
Equity	**€ million**	**105.6**	**104.9**	**95.8**	**100**	**96.3**	**– 3.7**	**– 3.7 %**
Equity ratio		43.3 %	43.1 %	43.0 %	41.5 %	42.5 %	1.0	2.4 %
Non-current liabilities	€ million	63.5	64.6	60.7	64.6	60.8	– 3.8	– 5.9 %
Current liabilities	€ million	75.1	74.0	66.0	76.6	69.7	– 6.9	– 9.0 %
Debt equity ratio		1.31	1.32	1.32	1.41	1.36		
Employees								
Number of employees as of December 31		4,154	4,203	3,984	3,866	3,786	– 80	– 2.1 %
Personnel expenses	€ million	– 95.2	– 102.5	– 102.3	– 96.9	– 97.5	– 0.6	0.6 %
Total number of stores		**170**	**177**	**183**	**183**	**178**	**– 5**	
of which in Germany		145	153	156	156	150	– 6	
of which in Austria		22	21	22	22	23	1	
of which in Luxembourg		2	2	3	3	3	0	
of which in Switzerland		1	1	2	2	2	0	

We're taking action!

» In the course of implementing the ADLER "Strategy 2020" we reached key milestones over the past year. We always had and still have our goal in mind: to create sustainable added value. For our customers. And thus also for our shareholders. By this we want to be measured. «

THOMAS FREUDE
CHAIRMAN OF THE EXECUTIVE BOARD
OF ADLER MODEMÄRKTE AG


WISH
YOU
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» WE'RE TAKING ACTION – TOGETHER WE HAVE REACHED KEY MILESTONES «

In the course of implementing the ADLER "Strategy 2020", ADLER laid the groundwork over the past year for the Group's sweeping transformation. ADLER is looking to return to a profitable growth path in a challenging market environment while staying true to its stated mission of offering fashion for people in their prime. The Company reached key milestones in 2018 that will lead to significantly positive effects in 2019.

THOMAS FREUDE, CEO
Since 11 September 2017, Thomas Freude is Chairman of the Executive Board. He is Executive Board member for Strategy, Marketing, Procurement, Mergers & Acquisitions, Expansion, Transformation, HR Development and Public Relations.

KARSTEN ODEMANN, CFO
Since his appointment as CFO 2011, Karsten Odemann is Executive Board member for Finance, Controlling, Audits, Legal, Logistics, IT, Human Resources, Asset Management, Sustainability and Investor Relations.

CARMINE PETRAGLIA, CCO
Since 1 June 2018 Carmine Petraglia is Executive Board member for Sales and Distribution and e-Commerce.

Mr Freude, in 2018, the textile retail industry was again put through the wringer. The extremely hot and long summer stifled consumer spending and forced even major brands to correct their forecasts. How would you rate ADLER's performance?
FREUDE In light of the difficult conditions, we're quite pleased with what we've achieved in 2018. We have made solid progress in our operations and at the same time taken important steps towards securing our future. The initial positive effects of our ADLER "Strategy 2020" demonstrate that we're on the right path to lead our Company into a profitable future.

Could you please explain in greater detail why you're so optimistic? What measures have you introduced?
FREUDE The systematic optimisation of our marketing activities has been a big help with regard to revenue. We have done away with costly and inefficient TV advertisements to focus instead on measures which have proven to have a greater impact. In the second half of the year, we contacted our customers one way or another every single week. The many promotions surrounding ADLER's 70th anniversary last year also had a positive effect. This enabled us to stimulate customer spending somewhat, which had been flagging due to the extreme summer heat.

CARMINE PETRAGLIA — KARSTEN ODEMANN — THOMAS FREUDE

And what about earnings?

ODEMANN We certainly weren't able to completely offset the 3.6% decline in revenue to €507.1 million. But we continued to pursue a highly systematic approach to boosting our earnings power and set the course for significant savings in the future. For example, we improved our gross profit margin as compared to 2017 by 110 basis points to 54.7% by optimising our procurement volumes and by undertaking initial efforts to strengthen our own brands, whose gross profit margins are significantly higher than those of external brands. Our stated EBITDA reached €20.7 million after €32.0 million in the previous year. On a purely operational level, i.e. adjusted for one-off effects, EBITDA even increased slightly from €25.4 million to €26.2 million.

Mr Petraglia, you joined ADLER's Executive Board in June 2018 after holding executive positions at Deutsche Telekom Group. As ADLER's Chief Commercial Officer you are responsible for Retail and e-Commerce. What changes are you looking to drive forward?

PETRAGLIA I've been responsible for very sweeping transformation and change processes throughout my professional career. All had one common objective: ensuring a positive customer experience across all sales and service channels at all times as a means to improve both sales figures and customer loyalty. I want to build on this experience by targeting and further fusing ADLER's channels. That means regardless of whether a customer makes contact with ADLER in person in a store, online or via the ADLER app, he or she should be able rely on the brand promise that ADLER has made for 70 years: outstanding service, excellent value for money and easy checkouts.

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Do personal customer consultations even still pay off at all? Even consumer electronics stores, whose products require a great deal more explanation, now schedule their staff on the assumption that customers have researched online before visiting the store.

PETRAGLIA While that may be true, it cannot be applied 1:1 to our business model. Our customer service skills are a key driver of purchases and customer satisfaction among our target group: people in the prime of their lives. This is also demonstrated by the fact that this past year ADLER was named "Customer Champion" for the tenth year running. We want to continue building on this and will therefore place a much greater focus than previously on developing and training our sales staff. In addition, we want to further improve our focus on what's important – our customers – by streamlining, automating and digitizing processes. In this way, we will reduce the amount of time spent on administrative tasks and free employees up to spend more time helping customers. We have firmly anchored both points in our ADLER "Strategy 2020".

This brings us to automation: Having permanently deployed an inventory robot, ADLER is already considered an international trailblazer ...

ODEMANN And we take a certain amount of pride in this, but we were primarily concerned with process optimisation. The robot "TORY" brings enormous advantages. Aside from the fact that it saves our sales staff in our strores a great deal of time, it also considerably improves the tracking and availability of merchandise: if every night you take a complete inventory and at the same time determine the location of every single item, the next morning you'll know exactly what needs to be reordered and what needs to be brought from the warehouse to the sales floor. After a very thorough two-year test phase we are now ready to gradually roll out the robot to all structurally suitable stores. We intend to equip 40 stores until august 2019.

Although you continue to place a strong focus on the brick-and-mortar stores, the online store is also meant to play an increasingly important role ...

PETRAGLIA The individual sales channels should not be seen as competitors. Managed correctly, they work together like good partners which complement and strengthen each other. Ultimately, the customers decide which channels they use. Mapping the customer journey will allow us to determine the degree of integration at each touchpoint. The ability to seamlessly switch between channels is key. On this basis, we will offer our customers new services. For instance, we've introduced the "extended sales counter". If an article is out of stock in the store, but available from the online shop or at another location, this item can now be ordered directly in the store for home delivery. Since ADLER stores are usually located on the outskirts of town and many customers specifically make the trip to visit a store, this is a practical added benefit for them, and a revenue for us that would otherwise be lost.

» We want to further improve our focus on what's important – our customers – also by streamlining, automating and digitizing processes. «

CARMINE PETRAGLIA

» Despite the strong headwind, ADLER continues to be a healthy company. «

KARSTEN ODEMANN

The many measures to be implemented under the ADLER "Strategy 2020" are associated with investments. How will you finance these?
ODEMANN In addition to our regular operating expenses, we will also invest in our strategic measures until 2020. Even though last year's performance was weaker than initially expected, ADLER's balance sheet structure remains extremely healthy as compared to that of its peers. Our cash and cash equivalents at the end of 2018 amounted to €54.9 million. Thus, we are excellently positioned to implement the strategy on our own. Although we have lines of credit, we are in the comfortable position of not having to use them.

Is there also sufficient liquidity for a dividend?
ODEMANN Our objective continues to be to allow our shareholders to participate commensurately in the Company's future profits. However, in light of the net loss reported for the past financial year, we proposed that no dividend be paid for the year; this was also necessary in order to ensure that we can continue to finance our future growth on our own.

Back to the ADLER "Strategy 2020": Where do you see the greatest potential in the near term?
FREUDE We're on a very, very good path. We're systematically taking action and together we have reached key milestones at all stages of the value chain, laying a solid foundation for the return to a profitable growth path: On the purchasing front in Asia, we're now working with Hermes-OTTO International, which, among other things, will lead to a further improvement in product quality. Meyer & Meyer is now our logistics service provider, which has not only made us considerably more flexible and faster, but also led to cost savings in the low- to mid-seven-figure range. On the marketing front, we tested the potential of our customer loyalty card data for the first time by mailing 600,000 completely individualised mailshots as part of a pilot programme – with outstanding success. The response rate was double that of standard mailshots.

> » First positive effects resulting from the ADLER "Strategy 2020" show that we are on the right track to lead our company into a profitable future. «
>
> THOMAS FREUDE

So the stronger, renewed focus on the target group of over 55-year-olds was the right move?

FREUDE Absolutely. We will continue on our mission to "offer fashion for people in their prime" and to drive forward the measures derived from the sub-strategies – Product, communication, channel and processes – in a targeted manner. I'm particularly thrilled that we were able to recruit highly qualified colleagues who are all working as a team for our second management level. Together with our highly motivated 3,800 employees, whom I would like to very much thank on behalf of my colleagues on the Executive Board for their hard work, we have achieved a great deal in a relatively short period of time.

What do you expect for 2019 and beyond?

FREUDE We always said that the effects of the "Strategy 2020" would not be felt until 2019. The past year showed us that our instincts were correct. ADLER continues to take decisive steps to sustainably increase the company's profitability. In this context, we will again analyse the entire branch network in detail and implement optimization measures in the coming years, especially in the fashion markets, which have a negative contribution to earnings. This should have a positive effect on the company's results in the short term. In addition, ADLER will continue to selectively exploit growth opportunities and open fashion stores at lucrative locations. We currently expect revenues for the 2019 financial year to be slightly below the € 500 million threshold. We expect operating EBITDA to be between € 27 million and € 30 million thanks to the efficiency enhancement measures introduced in previous years, especially in the logistics and personnel sectors. In 2019 and the years to come, ADLER will continue to implement the necessary measures to sustainably increase profitability and return to a continuous revenue growth. As I have already mentioned, in this context, it is planned to close several fashion stores that are making a negative contribution to earnings. To this end, we are planning one-off restructuring costs of € 8 million to € 10 million for the current financial year. Accordingly, we expect EBITDA after restructuring expenses to range between € 18 million to € 21 million. These measures will already have a sustained positive effect on the company's results from 2020.

Mr Freude, Mr Odemann, Mr Petraglia, thank you very much for speaking with us.

We're taking action

along our value chain

MEET **»SANDRA«, THE LADIES' TROUSERS.** SANDRA IS VERY POPULAR WITH ADLER CUSTOMERS AND IS ONE OF THE COMPANY'S BEST-SELLING ITEMS. SANDRA IS THEREFORE PART OF ADLER'S »NOS ARTICLES«. »NOS« STANDS FOR »NEVER OUT OF STOCK«: ITEMS, WHICH ARE ALWAYS AVAILABLE IN ALL COMMON SIZES AND COLOURS. YET BEFORE SANDRA CAN MAKE IT INTO THE WARDROBES OF ADLER'S CUSTOMERS, THE TROUSERS MUST FIRST MAKE THEIR WAY THROUGH EVERY STAGE OF ADLER'S VALUE CHAIN.

IN THIS YEAR'S ANNUAL REPORT, THE GUIDING THEME IS **»WE'RE TAKING ACTION!«** AND WE WILL FOLLOW SANDRA'S JOURNEY ALONG THE VALUE CHAIN FROM PROCUREMENT THROUGH THE LOGISTICS, MARKETING AND SALES PROCESSES – AND WILL TAKE A CLOSER LOOK AT THE MILESTONES ADLER HAS ALREADY ACHIEVED ON ITS OWN JOURNEY AS PART OF THE **ADLER »STRATEGY 2020«**.


1
ANALYSIS & PLANNING
Analysis of numbers, data, facts
Evaluation of historical data
Planning based on the analyzes and evaluations
2
COLLECTION CREATION
Creation of the color concept
Trend analysis
Competitive analysis
Design
Creation of the collection
3
SOURCING & ORDER
Supplier selection on the basis of the specified quality requirements and audits to be fulfilled
Price negotiations
Offer placement
4
FFP-PROCESS & SHIPPING
Free-for-Production process (Fitting, Lab-dips, QA, etc.)
Production release
Production monitoring
Final Inspection
Shipping
Allocation of the goods
5
DELIVERY
Loading the goods at the port of Hamburg
Transport to the central warehouse
Acceptance of the goods and quality control
Possibly further preparations
Delivery to POS
6
SALE
Acceptance of the goods
Customer support
Sale of the goods
Customer service
Product
Lifecycle
Management

PROCUREMENT

SANDRA'S JOURNEY STARTS WITH THE PROCUREMENT PROCESS, WHICH WAS REVAMPED IN THE PAST FINANCIAL YEAR. IN THE COURSE OF IMPLEMENTING THE ADLER "STRATEGY 2020", A KEY MILESTONE FOR THE FURTHER OPTIMISATION OF THE SUPPLY CHAIN WAS REACHED IN Q2 2018: ADLER SIGNED A NEW SOURCING AGENT, HERMES-OTTO INTERNATIONAL (H-OI), HONG KONG, AS A STRATEGIC PARTNER TO REPLACE ITS CURRENT SUPPLIERS, METRO SOURCING INTERNATIONAL (MSI) AND NTS HOLDING (NTS).

The product strategy is one of the focal points of ADLER's "Strategy 2020": ADLER will tailor its product range even more closely to the needs of its target group of over 55-year-olds, and the switch from MSI and NTS to H-OI was an important step in this direction.

The sourcing agent has a decisive influence on ADLER's product quality since it works with ADLER to select the individual players along the production chain, from the raw materials suppliers to the subsequent further processing of the raw materials through to the finishing process – the contribution of each individual participant is fundamental for the overall quality of the product. ADLER places high demands on all of its preliminary stages with regard to quality, fit and delivery reliability.

In this context, the sourcing agent coordinates the work of the various suppliers. For instance, standardised colour cards are used to ensure that identical colour tones are used across various collections and articles of clothing can be combined accordingly into outfits.

ADLER's revised own-brand strategy, which H-OI communicated to the suppliers, ensures that there are no questions on the procurement markets as to the customers that ADLER's product ranges target. This also covers the concept of "fashionability", which has been tailored for each own brand according to the requirements of the target customers.

Proximity to suppliers guarantees production quality

H-OI is also a good fit of ADLER because the company has multiple offices located in ADLER's procurement markets and is thus closer to suppliers. This not only facilitates and improves communication, but also allows risks and challenges to be identified more quickly. In its role as sourcing agent, H-OI recommends manufacturers that can produce ADLER's product ranges in accordance with ADLER's high quality standards.

While these quality requirements are ultimately a reflection of the requirements and standards demanded and expected by customers, they by all means are also based on CSR criteria. H-OI continually evaluates all of the players in the production process on the basis of these criteria and ensures compliance with the relevant audit standards. This of course includes routine on-site factory inspections. H-OI is responsible for ensuring efficiency, that the manufacturers produce ADLER's product ranges in the desired quantities and sizes at the right time, and takes care of the final quality

control checks of all orders prior to shipping. Thus, the sourcing agent acts as an intermediary between ADLER and the suppliers in the procurement markets and in this role also organises the purchasing trips of ADLER's senior buyers/product managers so that they can be updated about new products and negotiate final procurement terms and conditions on site.

H-OI also has a large number of employees working in quality assurance and control as well as qualified cutting technicians who ensure that ADLER's prescribed sizes and fits are met.

As part of the Otto Group, H-OI is intimately familiar with the European and in particular German textile retail industries. It also embodies the values and standards of its parent company, which has an excellent reputation, in particular for sustainability, environmental protection and human rights.

Digitalisation simplifies production processes

H-OI furthermore offers a high degree of digitalisation: For instance, quality control reports can be transmitted digitally and products can be presented in a digital showroom. Its sophisticated digital portfolio also includes 3D fitting technology. Using this software, a 3D avatar modelled according to the customer's wishes is depicted wearing any desired product. The fit, cut and size of the product can then be reviewed, adjusted in real time and saved for a later review. This saves time and costs in the development of a given product and helps to protect the environment by reducing the samples that suppliers, the sourcing agent and ADLER send to one another to a minimum. In addition, ideas and modification requests can be implemented at a significantly faster rate, allowing ADLER to respond to customer wishes and trends even faster, because after all, ADLER sells far more than the Sandra trousers.

LOGISTICS

LOGISTICS PLAYS A **KEY ROLE** IN HOW **SANDRA** ENDS UP INTO OUR CUSTOMERS' WARDROBES.

ADLER has been continually upgrading its logistics operations since 2017, when it established the Supply Chain Management division to optimise processes, merchandise allocation and markdown management, and to improve efficiency. A related significant milestone under the new "Strategy 2020" was the termination of the existing agreement with the previous logistics service provider BLG at the end of 2018 and the conclusion of a new agreement with Meyer & Meyer. ADLER expects the change in logistics partners to make the delivery and distribution of goods easier to plan and more cost effective, and envisages cost savings in the low- to mid-seven-figure range starting in 2019.

Innovations lead to optimised logistics

Together with Meyer & Meyer, ADLER is working to constantly optimise its logistics processes. Over the medium and long term, Meyer & Meyer aims to work together with ADLER through constant innovation to become an industry leader. The primary objective of the logistics service provider is to map ADLER's business from a logistics perspective and structure its processes according to the needs of ADLER's customers.

Over the medium term, the Company plans to establish an automated shuttle warehouse and a new matrix sorting facility in Peine, Germany to significantly increase productivity and process quality. Automation also promises increased throughput and delivery speeds. While at the present, employees collect items to be shipped from the warehouse, going forward, the merchandise will be brought to the employees via automated technology ("goods-to-person" concept). The plan is to bring the automated high-bay warehouse and sorting facility online in Q3 2019.

The newly implemented RFID-based goods receipt leads to a significantly greater stock and delivery reliability for end customers. This will be implemented on the basis of the previously established RFID labelling of all ADLER items, which is already handled by most producers.

Meyer & Meyer employees are already working in two shifts to ensure that goods are safely packaged and sent direct either to customers' homes or to the different ADLER stores – with additional

Keeping the stores and online shop well stocked

The primary objectives of ADLER's logistics apparatus is to ensure that the right quantities of merchandise are in the right place at the right time to meet our customer requirements and to further optimise the associated processes. For instance, ADLER is planning to deliver merchandise to stores according to product group: while previously, Sandra trousers had been delivered alongside a diverse mix of other merchandise, going forward, the item will be pre-sorted and distributed in a way that streamlines how the item is received and stocked in the stores. This will save employees time and make their jobs easier. The switch from cardboard boxes to reusable containers to transport flat-packed goods will not only be good for the environment but also save employees time opening the boxes and breaking them down for recycling.

While on the one hand, ADLER's procurement staff order clothes and distribute them to the stores depending on the relevant trends and seasons, on the other, the replenishment process for NOS items in particular is fully automated and

depends on the individual store sales. Depending on the terms of the relevant procurement agreement, any clothes not sold to customers in the stores can be sent back to the suppliers or stored in the seasonal warehouse. ADLER's online returns process is similar to that of most industry players: the merchandise is first checked to ensure it is complete and undamaged, and if necessary it is prepared – e.g., ironed – to be put back into circulation in the online shop. ADLER has also trained Meyer & Meyer employees to do this so as to convey ADLER's quality standards.

Improvements in logistics process already implemented
Working conditions in the logistics hub have also been improved with the introduction of more ergonomic workstations for packaging and handling merchandise.

In addition, the new logistics hub will also make it possible to realise considerable improvements and cost savings in the area of inventory. Previously, no warehouse operations could take place on inventory days and a large number of employees were needed to perform the inventory, but now Meyer & Meyer is able to conduct a permanent inventory that does not disrupt logistics processes and reduces staff costs.

Flexible, cost-efficient e-commerce warehouse management makes a new type of warehouse storage possible: cardboard boxes, which are stacked on pallets and open at the front. In addition, unlike in the past, B2B and B2C inventories are no longer kept separate. This has a significant influence on warehouse capacities and costs.

Overall, ADLER's cooperation with Meyer & Meyer enables more efficient work, so that unit costs for logistics services have fallen significantly.

Therefore, thanks to Meyer & Meyer, Sandra is dispatched to customers directly or sent to ADLER's sales floors.

MARKETING

BEFORE THE SANDRA TROUSERS CAN BECOME A PART OF A CUSTOMER'S OUTFIT, THE CUSTOMER MUST FIRST KNOW THAT THE TROUSERS GO WELL WITH GARMENTS SHE HAS ALREADY PURCHASED FROM ADLER. IN THE PAST FINANCIAL YEAR, THIS HAS BEEN MADE POSSIBLE BY INDIVIDUALISED MAILSHOTS TO ADLER CUSTOMERS.

The "communication strategy" calls for focusing on existing customers within the ADLER "Strategy 2020". This means that ADLER's marketing activities will be directed more focused towards addressing existing and former customers. Extensive analyses have demonstrated that ADLER can sustainably increase its revenue just by mobilising existing customers to a greater extent. While the Company was commemorated its anniversary with the slogan "70 years of ADLER – Celebrating life", it also continued to focus on bringing in new customers.

Individualisation and digitisation are the key premises of the new communications strategy, which focuses on the data generated by the ADLER customer card. While only standardised mailshots were sent out by post in the past, these are now geared more towards the preferences of the individual customer. The products advertised are selected based on the customer's previous buying history at ADLER. The customer has more incentive to buy when the articles they are shown go well with items they have previously purchased. In other words, the Sandra trousers now being offered match the blouse the customer bought a month ago. The response rate from these kinds of individualised mailshots is much higher than with standardised ones. In this sense, digital print will become more significant in 2019, since the technology makes it easier to individualise the mailshots.

Addressing new customers relies on trends

To get new customers interested in ADLER, the Company's advertising inserts are now much more heavily geared towards more fashionable products than was the case in the past. In no way is ADLER interested in chasing a younger audience. Its guiding principle is clearly still to find the perfect outfit for people in their prime and to stick to its target group of customers 55 and older. Rather, showing more fashionable products is in line with the trend of how this target group wants to dress. The ADLER inserts will also be more jovial, fashionable and emotional in future. In doing so, the Company also aims to reach those who have not yet shopped with ADLER before. Starting in March 2019, a special "offer of the month" will be advertised in consumer publications, which will stand out from the usual product range and will aim to generate additional interest among buyers. With a view to the content, quality, fashionability and price, these special offers will be prominently displayed at store entrances.

We're taking action!

ADLER's online magazine offers fashion and lifestyle tips

In addition to tangible advertisements, digitalisation is also becoming more important for ADLER. Its online magazine, for example, is geared towards both existing and new customers in that it seizes on fashion and lifestyle topics and offers editorials on these. Additional functionalities are gradually being added to the ADLER app in order to further digitise the Company's sales and customer communication activities. The app allows customers to easily make purchases and stay connected with ADLER via mobile devices. The objective is to use personalised adverts, event info and other content relevant to the target group to encourage customers to use the app regularly, thereby strengthening customer loyalty. Of course, ADLER is active on social media platforms such as Facebook, and uses these channels to communicate with its customers. This means that the Sandra trousers and ADLER's other products are presented and made available to the customer via a wide range of channels.

BEFORE THE PANTS SANDRA CAN BE WORN, THEY HAVE TO BE BOUGHT. WHETHER ONLINE OR IN-STORE, THE MOST IMPORTANT THING IS THAT SHOPPING AT ADLER IS FUN AND ENTICES THE SHOPPER TO RETURN.

ADLER's continued strategic development aims at making the Company both a brick-and-mortar and a digital platform for people over the age of 55. ADLER's sales department is investing in this platform strategy. The store concept in particular was optimised further in the year under review. The better blend of external and own brands played an important role in doing so, as the Company is placing even greater emphasis than before on its high-margin own brands, which are specifically tailored in terms of fit to the Company's target group. In the future, ADLER's own-brand range will be integrated and positioned even more strongly alongside external brands. Our own brands will still have their own sales floors, but with less discernible separation. In turn, the number of external brands will gradually be reduced by roughly half. ADLER already generates around 75 % of its revenue from own brands. The goal is to increase this share to 85 % by 2020.

ADLER events are popular with customers

The Company also held more events on its sales floors in 2018, with the aim of making shopping even more attractive for customers and offering more of an incentive to visit ADLER. These events help add more footfall to the stores, increase the amount of time acustomer remains in the store, and finally further improve customer loyalty. In addition to fashion shows, music events, light-night and after-work shopping, readings, and colour and style consultations, the Company also put on exclusive autograph signings with long-time brand ambassador Birgit Schrowange.

In order to make shopping at ADLER more enjoyable and convenient for customers, the Company is also allowing its store employees to act as the "extended sales counter". This means they are given mobile devices that they can use to process orders online for customers. So if the right blouse to go with the Sandra trousers is no longer available in a customer's size in the store, the employee can order it directly. The customer can request to have the merchandise delivered either to her home or to the store. Individual consultation remains a top priority at ADLER stores. Customers at the stores also continue to benefit from other perks like spacious fitting rooms.

We're taking action!

Continued expansion of online activities

When it comes to e-commerce, the goal is ideally to make the full line of merchandise found at the stores also available to customers online. ADLER is therefore always thinking of ways to expand its product range in its online shop. The TomTailor children's collection for example will also be available online starting with the 2019 spring collection. ADLER feels very strongly about simplifying online ordering and making it more user-friendly. Customers can follow the four steps for ordering via a visible bar, for example, which gives them an overview of where they are in the ordering process at all times. ADLER also offers different types of payment in order to give the customer the best possible online checkout process. There is traditional invoicing, which incidentally is the most frequently used method for online customers, or the customer has the possibility to pay via the most common online payment formats. Gift cards can also be redeemed online, or customers can pay directly in the store Modemarkt with the "Click&Collect" programme. The latter can increases the rate of footfall at our the stores, where a customer might browse or possibly even consult an ADLER employee on which accessory goes with her Sandra trousers. This leaves open a number of different ways the trousers can be purchased, paid for and brought home.

We're taking action!

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

Financial year 2018 was a difficult year, marked primarily by a sustained slump in sales in the retail textiles sector and the predatory competition that followed in its wake. In addition to the Supervisory Board's decisions in connection with a new Executive Board appointment and the Company's strategy, the constructive collaboration between the Supervisory Board and the Executive Board helped to advance the necessary measures that had been introduced to increase efficiency and profitability in the reporting year.

In 2018, the Supervisory Board performed the duties incumbent upon it by operation of law, the Articles of Association and its rules of procedure. The Supervisory Board regularly advised the Executive Board in managing the Company and assisted it in coordinating the Company's strategic objectives. The Executive Board fulfilled its duties with regard to the provision of information, notifying the Supervisory Board regularly, promptly and in detail, both in writing and orally, on the events and measures relevant for the Company. Based on these reports and during joint discussions with the members of the Executive Board, the Supervisory Board carefully and continually monitored the management. The full Supervisory Board voted on matters as required by operation of law or pursuant to the Articles of Association. In justified cases, resolutions were adopted outside of meetings. The Supervisory Board granted its consent to individual transactions to the extent this was required by law, the Articles of Association or the rules of procedure for the Executive Board. Above and beyond Supervisory Board meetings, the Chairman of the Supervisory Board and the Chairman of the Audit Committee maintained regular contact with the Executive Board and kept apprised of the current development of the business situation.

In preparation for the meetings of the full Supervisory Board, the shareholder and employee representatives addressed the agenda items in separate preliminary meetings. Overall, four regular meetings and three extraordinary meetings were held, with an average attendance rate of more than 85 %. The committees convened with an average attendance rate in excess of 84 %.

EFFECTIVE WORK IN THE COMMITTEES

In order to effectively perform its duties, the Supervisory Board formed four committees. These committees prepare issues and resolutions to be addressed by the full Supervisory Board. In appropriate individual cases, the full Supervisory Board may, to the extent permitted by law, assign powers to adopt resolutions to committees; the Supervisory Board exercised this right in 2018. The committee chairmen provided each subsequent Supervisory Board meeting with a detailed report of the matters discussed and resolved at the individual committee meetings. With the exception of the Audit Committee, the Chairman of the Supervisory Board chairs all committees. The composition of the committees can be found in the chapter entitled "Corporate Governance, Supervisory Board".

The *Personnel Committee* met three times in the year under review. It addressed the structure of the Executive Board remuneration system, and reviewed and set the remuneration for new and existing members of the Executive Board. For further details, we refer to the remuneration report in the management report. Key issues covered were the discussions surrounding the variable Executive Board remuneration for the past financial year, the decisions made in January and March 2018 to recommend the early termination of Andrew Thorndike's term of office as a member of the Executive Board and the appointment of Carmine Petraglia to the Executive Board as the Chief Commercial Officer.

MASSIMILIANO MONTI
Chairman

The *Audit Committee* held four meetings in the year under review. In the presence of the auditor, the Chairman of the Executive Board, and the CFO, it discussed the annual and consolidated financial statements and management reports for Adler Modemärkte AG and the Group. It also issued its recommendation to the full Supervisory Board regarding the Supervisory Board's nomination for the election of the auditor for financial year 2018 by the Annual General Meeting. The interim reports were each discussed in detail prior to their publication. The auditor reported on all events material to the duties of the Supervisory Board that had arisen during the conduct of the audit and the auditor's review of the semi-annual financial report. The independence and qualifications of the auditor and additional services rendered by it were the subject of extensive discussions. On the basis of these discussions and the statement of independence by the auditor, it engaged it as auditor for financial year 2018 and specified the focal points of the audit, taking into account the recommendations of the full Supervisory Board. The Committee also addressed the new requirements under Regulation (EU) 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities as well as the German Audit Reform Act (Abschlussprüfungsreformgesetz, "AReG"). In this connection, the Committee passed a resolution in October 2018 on the approval of non-audit services by the auditor for financial year 2019. Moreover, the Audit Committee addressed the effects of IFRS 16, which took effect in 2019, the Company's accounting process and risk management system, as well as the effectiveness of internal audits and the internal control system. In line with its supervisory duties, the Audit Committee obtained reports from the Risk Management Officer and the head of the Internal Audit department regarding the focal points and findings of the audits conducted and the organisation and audit requirements. In addition, the Compliance Officer reported on the Company's compliance regime.

The *Nomination Committee* held one meeting in the year under review. The purpose of the meeting was to discuss and nominate suitable candidates to be elected to the Company's Supervisory Board. As a result, in the lead-up to the 2018 Annual General Meeting, the Committee gave the full Supervisory Board the names of six candidates to be elected by the Annual General Meeting, taking into account the legal requirements and the recommendations of the German Corporate Governance Code as set out in the Company's current Declaration of Conformity.

The *Conciliation Committee* to be formed as required by law (§ 27 (3) of the German Co-determination Act (*Mitbestimmungsgesetz*, "MitbestG")) did not have to convene in the year under review.

MEETINGS AND RESOLUTIONS OF THE FULL SUPERVISORY BOARD

The regular discussions in the full Supervisory Board focused on issues such as the revenue development, earnings situation, employment trends, the financial position, the procurement of goods and the status of market expansion of Adler Modemärkte AG and the Group. The Supervisory Board received regular reports on corporate planning, strategic and business developments, and the current situation of the Group.

An extraordinary meeting was held on 16 January 2018. In addition to the discussions surrounding the Company's strategy, the agenda included the audit and approval of the budget prepared by the Executive Board for financial year 2018 and the presentation of a multi-year budget by the Executive Board.

Another extraordinary meeting was held on 30 January 2018. On the agenda were the Personnel Committee's resolution recommending the early termination of Andrew Thorndike's term of office on the Executive Board as well as the resolutions to reappoint Karsten Odemann as a member of the Executive Board and to appoint him as the Company's Labour Director, in each case until the end of December 2021. The Supervisory Board also discussed the Executive Board's allocation of responsibilities.

The meeting on 13 March 2018 to discuss the annual accounts was centred around the annual and consolidated financial statements as at 31 December 2017, the management report, the Group management report and the dependent company report. In addition, the Supervisory Board discussed the agenda for the 2018 Annual General Meeting, including resolution proposals and the 2017 Annual Report and the corporate governance report contained therein. The full Supervisory Board took the decision to appoint Carmine Petraglia as a new member of the Executive Board on the basis of the Personnel Committee's resolution recommending said appointment and also discussed the current financial indicators and planned transactions requiring the Board's approval.

By way of resolutions outside of a meeting, the Supervisory Board decided between mid-March and the end of April 2018 on the list of candidates for the Supervisory Board to be nominated to the Annual General Meeting, several transactions requiring approval pursuant to the Executive Board's rules of procedure and the review of the sustainability report. Thus, following the annual and consolidated financial statements, the Company has prepared a separate non-financial report in accordance with § 289b (3) German Commercial Code (*Handelsgesetzbuch*, "HGB") and § 315b (3) HGB outside the management report for the 2017 financial year. This was prepared in the form of a separate sustainability report by the Executive Board and approved by the Supervisory Board without raising objections.

The meeting of the Supervisory Board on 8 May 2018 focused on the implementation of the corporate strategy and the Company's current financial indicators, the ADLER online shop and the Company's subsidiaries. The Supervisory Board also discussed the review of the implementation of the recommendations of the German Corporate Governance Code and resolved to issue a new Declaration of Conformity by the Executive Board and the Supervisory Board in accordance with § 161 AktG. In connection with this, the full Supervisory Board defined a corresponding profile of qualifications for the Supervisory Board.

The constituting meeting of the Company's Supervisory Board was held directly following the conclusion of the Company's Annual General Meeting on 9 May 2018, at the end of which the term of office of all members of the Supervisory Board began. The meeting primarily covered the election of the chairman and his deputy as well as the composition of the Committees.

Another meeting of the Supervisory Board was held on 1 August 2018. In addition to the report by the Chairman of the Audit Committee on the semi-annual financial report and the audit review findings in this regard, the full Supervisory Board addressed the audit findings and results of the Committee concerning the effectiveness of the internal control system and internal audits. The Supervisory Board also discussed the progress of the measures in connection with the corporate strategy, the portfolio of stores and several planned transactions requiring approval in accordance with the rules of procedure.

At the end of October 2018 the Supervisory Board, by way of a resolution outside of a meeting, decided on transactions requiring approval that had been proposed by the Executive Board.

The meeting on 12 December 2018 primarily covered the in-depth discussion of the Company's current business performance and the implementation status of the corporate strategy and its effects on the Company's performance going forward. In this connection and following an in-depth discussion, the Supervisory Board granted the Executive Board its consent for various measures and transactions. The Supervisory Board also discussed a personnel matter in connection with the settlement of a legal dispute with the former Executive Board member Andrew Thorndike, the analysis of the results of the Supervisory Board's annual efficiency review, and matters concerning digitalisation.

CORPORATE GOVERNANCE AND DECLARATION OF CONFORMITY

The Supervisory Board discussed in detail the contents of the German Corporate Governance Code. Although the Executive Board and the Supervisory Board had issued a Declaration of Conformity on 10 May 2017, the Executive Board and the Supervisory Board both resolved on 8 May 2018 to issue an updated Declaration of Conformity pursuant to § 161 AktG. This was made permanently available on the Company's website. According to that declaration, the Company has been in conformity with the Code's recommendations since 8 May 2018, with four exceptions, and will continue to be in future.

As previously reported, the work of the Supervisory Board during the year under review stood out by virtue of its high attendance rate in excess of 85 % for Committee meetings and the meetings of the full Supervisory Board. With the exception of Cosimo Carbonelli D'Angelo, no member of the Supervisory Board attended only half or fewer of the meetings of the Supervisory Board or the meetings of the committees on which they served. Apart from their role as board members and the transactions and legal relationships with related parties referred to in the notes to the annual and consolidated financial statements, the Supervisory Board members have no other legal relationships with the Company. Supervisory Board members Dott. Michele Puller (until 9 May 2018) and Paola Viscardi-Giazzi have contractual and professional ties to companies that are affiliates of S&E Kapital GmbH, Munich. The same applies for Kirsten Fox in her function as Partner at Kantenwein Zimmermann Fox Kröck & Partner Rechtsanwälte Steuerberater Wirtschaftsprüfer which supplies services on S&E Kapital GmbH. Mr Cosimo Carbonelli D'Angelo is a member of the governing body/proprietor of one of the Company's suppliers. Therefore, these four Supervisory Board members (three of them still in office, one left office on 9 May 2018) also have obligations towards the interests of these companies. The interests of these companies might not be identical to the interests of Adler Modemärkte AG, meaning that there is potential for conflicts to arise in individual cases. Apart from this, there was no basis for conflicts of interest on the part of Supervisory Board and Executive Board members in terms of their obligations towards Adler Modemärkte AG.

Apart from this report, the corporate governance of the company is also presented in the Annual Report under the chapter entitled "Corporate Governance Report". That report was submitted jointly by the Executive Board and Supervisory Board and also contains the full text of the Declaration of Conformity dated 8 May 2018, including the notes on the four deviations from the recommendations of the German Corporate Governance Code.

AUDIT OF ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, audited the annual financial statements and the consolidated financial statements of Adler Modemärkte AG as at 31 December 2018 prepared by the Executive Board in accordance with German commercial law provisions and the Group management report combined with the management report and issued them all an unqualified auditors' report. The consolidated financial statements were prepared in accordance with the International Financial

Reporting Standards (IFRSs) as adopted by the European Union (EU) and the supplemental commercial law provisions pursuant to § 315e (1) HGB.

The dependent company report submitted by the Executive Board for financial year 2018, concerning relationships with affiliated companies, was also audited by the auditor. The dependent company report of the Executive Board was issued the following unqualified auditors' report: "After our due audit and assessment, we confirm that 1. the factual statements of the report are correct, 2. the consideration paid by the Company was not unreasonably high for the legal transactions set forth in the report."

The aforementioned documents and the Executive Board's recommendation for the appropriation of net retained profits have been provided to the Supervisory Board in good time. At its meeting on 5 March 2019 the Audit Committee first addressed the aforementioned documents in detail. At the meeting on 11 March 2019, the full Supervisory Board then discussed in detail and audited the aforementioned submissions by the Executive Board after the Committee Deputy Chairman had reported on the meeting of the Audit Committee. Both meetings were attended by representatives of the auditor, who reported on the key findings of the audit. It was also found that there are no material weaknesses in the internal control system and the risk early warning system related to the accounting process. In addition, the representatives of the auditor answered questions by the members of the Supervisory Board and confirmed that the risk early warning system established by the Executive Board is suitable for detecting at an early stage developments that may jeopardise the Company as a going concern. The auditor also examined the scope, costs and the focal points of the audit stipulated by the Audit Committee. There are no objections to be raised after audit and discussion of the annual financial statements, the consolidated financial statements, the management report, the Group management report as well as the Executive Board's dependent company report in the Audit Committee and our own audit in the Supervisory Board. The Supervisory Board has approved the findings of the audit by the auditor and unanimously approved the annual financial statements and consolidated financial statements. The annual financial statements are therefore adopted. In this respect we agreed within the approval of the annual financial statement with the Executive Board's proposal not to pay a dividend.

CHANGES TO COMPOSITION OF THE EXECUTIVE BOARD

At its extraordinary meeting on 30 January 2018, the Supervisory Board approved, in each case unanimously, the revocation of the appointment of Andrew Thorndike, former member of the Management Board and Labor Director, with immediate effect and the early reappointment of Karsten Odemann to the Management Board until the end of December 2021 and the appointment of Karsten Odemann as Labor Director of the Company with immediate effect.

In its meeting on 13 March 2018, the Supervisory Board unanimously appointed Carmine Petraglia to the Company's Executive Board for four years and seven months, until the end of December 2022, with effect from 1 June 2018.

The Supervisory Board would like to thank the current members of the Executive Board, all employees and the employee representatives of Adler Modemärkte AG for their hard work over the past year in the face of a once again very difficult market environment.

Haibach, 11 March 2019
For the Supervisory Board

Massimiliano Monti
Chairman

SUPERVISORY BOARD

Massimiliano Monti [1*, 2, 3*, 4*], *Milan, Italy*, Chairman of the Supervisory Board, partner at Equinox S.A.

Majed Abu-Zarur [1, 2, 4], *Viernheim, Germany*, Deputy Chairman of the Supervisory Board, Chairman of the Joint Works Council at Adler Modemärkte AG

Wolfgang Burgard [1, 2*, 3], *Dortmund, Germany*, Managing Director of Bund Getränkeverpackungen der Zukunft GbR

Cosimo Carbonelli D'Angelo [1], *Naples, Italy*, Chairman of the Managing Board of G.&C. Holding S.r.l.

Kirsten Fox, *Munich, Germany*, Tax Advisor and Partner at Kantenwein Zimmermann Fox Kröck & Partner Rechtsanwälte Steuerberater Wirtschaftsprüfer

Jochen Gröning [1, 2, 4], *Aschaffenburg, Germany*, IT Organiser and Chairman of the Works Council Haibach of Adler Modemärkte AG

Corinna Groß, *Neuss, Germany*, Deputy Head at ver.di, North-Rhine Westphalia District

Peter König, *Rottendorf, Germany*, secretary of the national Executive Board of the ver.di union

Giorgio Mercogliano [3, 4], *Montagnola - Lugano, Switzerland*, Partner at Equinox S.A.

Paola Viscardi-Giazzi [2], *Dortmund, Germany*, Executive Board member of Steilmann Holding AG i.l.

Jürgen Vogt [2], *Essen, Germany*, Head of Sales, Adler Modemärkte AG

Beate Wimmer [1], *Nettetal, Germany*, Specialist Consultant Information Desk, Cash Desk and Sales at Adler Modemärkte AG

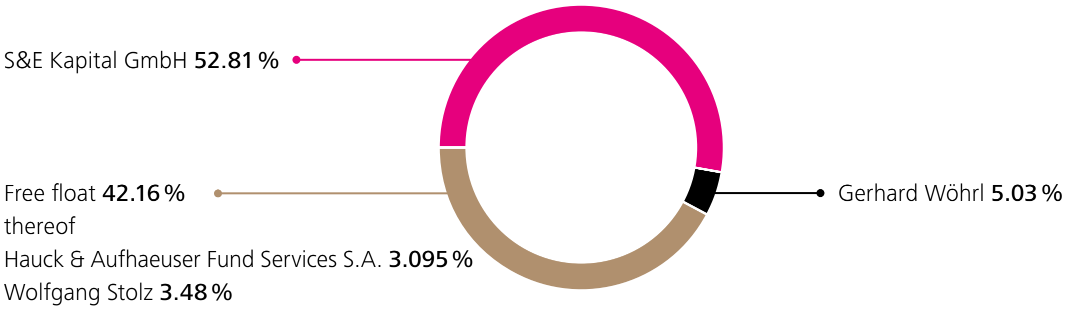
Memberships in (as at 31 Dec. 2018):
*[1] Personnel Committee, [2] Audit Committee, [3] Nomination Committee, [4] Conciliation Committee, * Chairman of the Committee*

ADLER SHARES

ADLER shares have been traded on the regulated market of the Frankfurt Stock Exchange since 22 June 2011. The share capital of Adler Modemärkte AG is divided into 18,510,000 no-par value bearer shares, each representing a notional interest in the share capital of € 1.00.

ADLER shares are admitted to trading on the regulated market (regulierter Markt) and the regulated market sub-segment with additional post-admission listing obligations (Prime Standard) of the Frankfurt Stock Exchange. The shares are included in several Deutsche Börse AG indices, including the CDAX, the Classic All Share, the DAXsector Consumer and the DAX Subsector Clothing & Footwear. ADLER's exchange ticker symbol is ADD; its Reuters instrument code is ADDG.DE.

SHAREHOLDER STRUCTURE*



** reportable shareholdings, as of 31 December 2018*

ADLER'S SHARE PRICE PERFORMANCE

After ADLER's share price had increased by 23.9 % in 2017, it dropped by a significant 45.5 % in the past financial year.

On the stock exchange, share prices declined across the board in 2018 due to the trade dispute between the United States and China, a possible reversal of interest rate policies and the uncertainty surrounding Brexit. Furthermore, one of the primary factors weighing down ADLER's share price was the difficult environment facing the entire textile industry. In this context, the industry magazine TextilWirtschaft reported that despite the generally favourable economic situation and positive consumer sentiment, the revenue generated by German fashion brick-and-mortar retailers had dropped for the third year running, decreasing by a further 2 % in 2018. TextilWirtschaft's MAI fashion share index (Modeaktienindex) painted a similar picture: the MAI was down 22 % in 2018 (including both online and offline business), with just 10 stocks listed on the MAI having turned a profit while 21 stocks recorded declines.

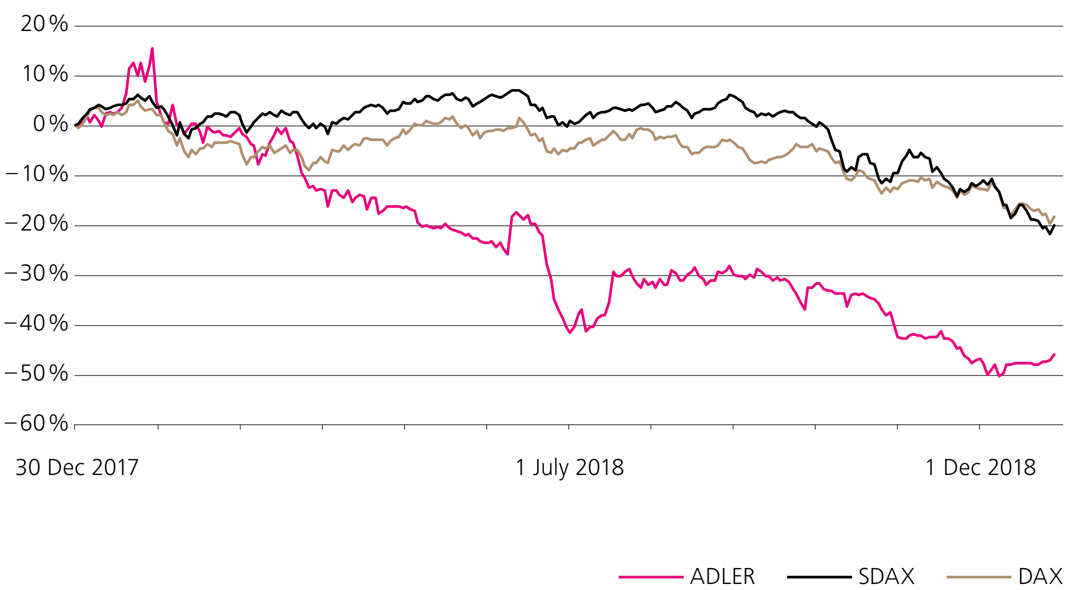
Adler Modemärkte AG's shares were not immune to these negative conditions, even though they started in 2018 on a positive note, climbing 15.5 % (based on the closing price of € 5.83 at the end of 2017) towards their high for the year of € 6.74 at the end of January. The shares then tracked the falling DAX and SDAX, wiping out the year's initial gains by the end of the first quarter. The announcements of the ADLER "Strategy 2020" at the end of February did not have a lasting stabilising effect on the share price.

Rather, the decline in ADLER's share price gathered pace in April, a development attributable primarily to the continuing declines on the overall markets and in the textile industry. This development continued despite confirmation of the full-year forecast in May on the basis of the intensified marketing measures that took effect in the second half of the year. ADLER shares continued to lose ground following the Q1 2018 announcement of a consolidated net loss and earnings per share of €−0.93 compared with €−0.71 in Q1 2017. It was not until 18 July, when the Company confirmed its projected earnings turnaround and the year-on-year increase in EBITDA in Q2 2018, that ADLER shares rebounded and stabilised at around €4 until early October. However, ADLER's share price again deteriorated, bottoming out at €2.94 for the year on 30 November 2018 on account of the adjustment to the revenue forecast in November due in part to the exceptionally hot summer. At the end of the year, ADLER shares subsequently trended sideways to close at €3.18 on 28 December.

ADLER SHARE PRICE VERSUS DAX AND SDAX

After an exceptional start to 2018, which saw both the DAX and the SDAX reach highs of 13,560 points and 12,737 points, respectively, at the end of January, share prices declined significantly until the end of the year due to the uncertainties surrounding the trade dispute between the United States and China as well as Brexit. The DAX closed out the year on 28 December 2018 at 10,559 points, having fallen approximately 18% during the course of 2018. The SDAX was down approximately 21% in the same period, ending the year at 9,509 points, while ADLER shares lost 45.5% to close the year at €3.18. ADLER shares initially tracked the DAX and SDAX until the end of the first quarter before following a different trajectory due the factors outlined above.

ADLER SHARE VERSUS DAX AND SDAX (INDEX AT 30 DECEMBER 2017 = 100)



DIVIDEND DISTRIBUTION

The Executive Board and Supervisory Board of Adler Modemärkte AG aim to let the shareholders of Adler Modemärkte AG participate commensurately in the Company's profits. Net profit for the year had increased to €3.9 million in the 2017 financial year (previous year: €0.4 million). After no dividend had been distributed for the 2016 financial year, the Company's Annual General Meeting on 9 May 2018 approved the proposed dividend of €0.05 per bearer share for financial year 2017. Based on the Xetra closing price in 2017, the dividend yield amounts to 0.8%.

INVESTOR RELATIONS

ADLER continued its intensive investor relations activities in the year under review and actively sought dialogue with the relevant target groups. In particular, these include institutional and private investors, analysts, the media, employees and the interested public.

Investor relations activities are performed by the Executive Board together with the IR department and are designed to increase public awareness of ADLER and to inform the various target groups about business performance, business policies and the management's strategies and objectives. The Executive Board aims to help achieve an appropriate valuation for the shares and to ensure sufficient market liquidity by providing this level of transparency.

In order to achieve this objective, the Executive Board once again participated in capital market conferences and roadshows, including the Oddo BHF Forum in Lyon, the German Corporate Conference in Frankfurt, the Baader Investment Conference in Munich and the German Equity Forum in Frankfurt. In addition, a large number of one-on-one meetings were again held with analysts and investors in 2018.

DESIGNATED SPONSORS

In financial year 2018, M.M. Warburg and Oddo Seydler were the designated sponsors of ADLER's shares.

In addition to these two institutions, five other investment firms monitored and prepared analyses on Adler Modemärkte AG and regularly reported on the Company's performance: Baader Bank, Bankhaus Lampe, Equinet, Montega and Sphene Capital.

CORPORATE GOVERNANCE REPORT

Effective corporate governance that reflects ADLER's high values and standards goes without saying. Corporate governance stands for responsible and transparent management aimed at adding value sustainably and steering and monitoring the Company. However, since the initial public offering in June 2011, it also stands for efficient collaboration between the Executive Board and the Supervisory Board, attention to shareholder and employee interests and respect for the Company's fundamental values and objectives. Openness and transparency in corporate communication are also aspects of good corporate governance and apply to all parts of the Company. In pursuing and refining these principles, ADLER wishes to continually reinforce the trust of employees, shareholders, investors and the public in the Company. Together, the Executive Board and the Supervisory Board provide the following information on governance measures and implementation in accordance with Section 3.10 of the German Corporate Governance Code.

IMPLEMENTATION OF THE GERMAN CORPORATE GOVERNANCE CODE

As a German stock corporation listed on the Prime Standard sub-segment of the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange, ADLER mainly bases its corporate governance on the laws applicable in Germany and the recommendations and suggestions of the German Corporate Governance Code. In financial year 2018, the Executive Board and the Supervisory Board once again discussed in detail the stipulations of the unamended Code in the version adopted on 7 February 2017 and published on 24 April 2017. In 2018, the Supervisory Board discussed the recommendations concerning Executive Board remuneration, the composition of the Supervisory Board including a profile of qualifications for the Supervisory Board and taking the ownership structure of the Company into account, as well as diversity at the Company at its meetings. After the Executive Board and the Supervisory Board issued a declaration of conformity on 10 May 2017, the declaration of conformity was updated on 8 May 2018; it is published on ADLER's website and included at the end of this report. Since 8 May 2018, Adler Modemärkte AG complies with all but four recommendations of the Code (see Declaration of Conformity).

EXECUTIVE BOARD AND SUPERVISORY BOARD

The Executive Board and the Supervisory Board of ADLER work closely together for the benefit of the Company and are in regular contact. An intensive dialogue between the two boards forms the basis for efficient corporate governance. The Executive Board regularly and promptly provides the Supervisory Board with detailed information on any and all issues relevant to the Company. This includes business development, budgeting, the risk situation, risk management, adherence to compliance guidelines and any variances between the business development and the original budget. The Supervisory Board has specified reporting duties of the Executive Board that go above and beyond the statutory obligations. Moreover, there is a regular exchange of information between the CEO and the Chairman of the Supervisory Board.

The German Corporate Governance Code recommends that attention be paid to diversity and reasonable inclusion of women in the Supervisory Board and the Executive Board and when filling management positions.

The *Executive Board* of Adler Modemärkte AG currently has three members, all of whom are male. In its decisions to date, the Supervisory Board has always taken into account the recommendations of the German Corporate Governance Code. Taking into account the Company's best interests and circumstances as well as the target and deadline for meeting it set for the second time pursuant to § 111 (5) AktG and laid out in the corporate governance statement pursuant to § 289f (2) no. 4 HGB, the Supervisory Board will also continue to pay attention to the greatest possible diversity and reasonable inclusion of women in the work of the Personnel Committee.

When filling management positions in the Company, it has always been the ADLER Executive Board's fundamental approach to not only factor in professional qualifications but also to strive for the greatest possible level of diversity and reasonable inclusion of women. Personnel decisions in financial year 2018 were also made on the basis of this fundamental approach. Because diversity translates into opportunity, the ADLER Executive Board will take this principle into account going forward as well in the context of the targets and deadlines set again pursuant to § 76 (4) AktG and laid out in the corporate governance statement pursuant to § 289f (2) no. 4 HGB.

The *Supervisory Board* has a total of twelve members and, pursuant to the German Co-determination Act, has an equal number of shareholder and employee representatives. According to its own estimation, the Supervisory Board has a reasonable number of independent members. Its members should have complementary professional experience and skills in order to duly perform their duties. The members as a whole are also familiar with the sector in which the Company operates. However, the Supervisory Board continues to not specify any targets in terms of its constitution since this would too greatly limit its flexibility in searching for candidates with the necessary expertise and experience. For the same reason, the Company does not stipulate an age or term limit for members of the Supervisory Board either. However, on 8 May 2018 the Supervisory Board adopted a profile of qualifications applicable to the entire board, which will be taken into consideration when people are nominated for election to the Supervisory Board in the future. The Supervisory Board in its current composition meets the requirements of the law and the Articles of Association. Since 9 May 2018, the share of female Supervisory Board members has been one-third, thus complying with the requirements set out in § 96 (2) AktG. Previously, that share had fallen just short of that requirement, at 25 %.

Information about the board members' areas of responsibility and their CVs are available online on the Company's website under the heading Investor Relations/The Company/Management. For information on the remuneration of members of the Executive Board and Supervisory Board, see the "Remuneration report", which constitutes a component of the management report.

AVOIDANCE OF CONFLICTS OF INTEREST

In performing their board work, members of both the Executive Board and the Supervisory Board have an obligation towards ADLER's corporate interest. On this basis, personal interests may not be pursued nor may benefits be granted to third parties when decisions are taken. In financial year 2018 there were no conflicts of interest requiring disclosure to the Supervisory Board without undue delay. Transactions involving the Company, its executive bodies and related parties were always executed at arm's length received the approval of the Supervisory Board if they exceeded the materiality threshold. No member of the Supervisory Board performed special consultancy or other services for the Company in financial year 2018.

We refer to the notes to the consolidated financial statements for information on the memberships held by Executive Board and Supervisory Board members in statutory supervisory boards and comparable domestic and foreign boards of commercial enterprises. On this basis, one Executive Board member presently holds a supervisory board position in listed non-Group companies or on the supervisory bodies of non-Group companies. The notes to the consolidated financial statements include related party disclosures.

D&O INSURANCE DEDUCTIBLE

In accordance with the statutory requirements under § 93 (2) sentence 3 of the German Stock Corporation Act (*Aktiengesetz*, "AktG") the Company has taken out financial losses and liability insurance ("D&O insurance") for its executive bodies. The reasonable deductible provided for therein has been agreed for members of the Executive Board as well as for members of the Supervisory Board.

REPORTABLE SECURITIES TRANSACTIONS AND SHAREHOLDINGS

Persons discharging managerial responsibilities and persons closely associated with them within the meaning of the Market Abuse Regulation (MAR), which specifically includes members of the Executive Board and the Supervisory Board, are required under article 19 MAR to disclose reportable transactions relating to the shares or debt instruments of Adler Modemärkte AG or to derivatives or other financial instruments linked thereto if the total value of the transactions reaches or exceeds € 5,000 in a calendar year. Three such transactions were reported to the Company in financial year 2018. Detailed information in this regard is published on the ADLER website.

Apart from the share-based remuneration components of Executive Board compensation reported in detail in the remuneration report, the Company currently does not provide any other securities-based incentive systems.

SHAREHOLDERS AND ANNUAL GENERAL MEETING

The shareholders of Adler Modemärkte AG exercise their rights at the Company's Annual General Meeting, at which each ADLER share is granted one vote. The Annual General Meeting is held once annually for purposes of providing the shareholders with detailed information. The shareholders may exercise their voting right at the Annual General Meeting either themselves or through a proxy of their choice or a Company proxy subject to instruction. In addition, the shareholders may vote in writing through a postal ballot without appointing a proxy. Moreover, all key information and documents relating to the Annual General Meeting shall be made available on ADLER's website in good time.

CONTROL AND RISK MANAGEMENT

At ADLER, professional corporate management based on sound corporate governance also includes the continual and systematic management of corporate opportunities and risks. Risk management and risk controlling to be effected by the Executive Board make a material contribution to the detection and evaluation of risks early on. This makes it possible to effectively reduce and manage risk exposures. The Audit Committee set up by the Supervisory Board not only supervises the accounting, the accounting process and auditing, but also regularly monitors the effectiveness of the internal control, risk management and internal auditing systems as well as compliance. The systems are continually updated and modified in line with changing framework conditions. Interested shareholders will find details in the risk report.

CORPORATE COMPLIANCE AS A MANAGEMENT DUTY OF THE EXECUTIVE BOARD

ADLER considers corporate compliance – a measure aimed at ensuring adherence to statutory and official provisions, as well as to internal company guidelines – to be a management and supervisory duty. In 2016, the Company published its first sustainability report, underscoring its commitment to social and ecological sustainability. Corporate compliance also includes compliance with capital market, anti-corruption and antitrust law. ADLER has consolidated the understanding of corporate compliance in its code of conduct. This code of conduct, which has been implemented Group-wide, can be accessed on the ADLER website. However, these principles for avoiding violations of anti-corruption, competition and antitrust law also address how to deal with employees, clients, suppliers and company property properly and respectfully. Using the existing principles as a foundation, the objective is to continue to promote the understanding of corporate compliance within the Company through regular employee training. Audits, risk analyses and the lasting implementation of solutions to address issues identified during the course thereof will further improve corporate compliance. The programme will be supported by a whistleblower system that will encourage employees to openly address any concerns they have and report circumstances that may indicate a violation of law or internal guidelines.

ACCOUNTING AND AUDITING

ADLER's consolidated financial statements and quarterly reports are prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union. The mandatory separate financial statements of Adler Modemärkte AG are prepared in accordance with the provisions of the German Commercial Code (*Handelsgesetzbuch*, "HGB"). For the year under review, the Supervisory Board arranged with the auditor, PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Stuttgart, that the Chairman of the Audit Committee be advised immediately of any potential grounds for disqualification or partiality arising during the audit if these cannot be rectified without undue delay. The auditor shall report without undue delay on any and all key findings and events relevant to the duties of the Supervisory Board that it becomes aware of during performance of the audit. Moreover, the auditor shall inform the Supervisory Board or note in the audit report if it discovers facts in performing the audit that reveal an inaccuracy in the declaration of conformity issued by the Executive Board and the Supervisory Board in accordance with § 161 AktG. Furthermore, the Supervisory Board has obtained a declaration of auditor independence in accordance with Section 7.2.1 of the German Corporate Governance Code. The statutory requirements and rotation obligations under §§ 319 and 319a HGB are met.

TRANSPARENT CORPORATE GOVERNANCE

ADLER remains committed to ensuring the greatest possible transparency by providing prompt, detailed and regular information on the Company's position and key business changes. Only in this way can the trust investors, capital providers, the media, and the interested public have thus far placed in ADLER be ensured long-term. With the objective of being even closer to the capital market, ADLER pushed forward with its efforts to continue developing its investor relations work in 2018. Moreover, there is an in-depth dialogue at analyst and investor conferences and during teleconferences and roadshows. These are presented regularly to discuss the annual financial statements, the publication of interim reports and current affairs. In addition, the Company publishes the accompanying presentations on ADLER's website.

Information on current developments for the ADLER Group and all publications are available to the shareholders and potential investors online at *www.adlermode-unternehmen.com*. All press releases and ad hoc disclosures by Adler Modemärkte AG are published in German and English under the heading "Investor Relations", under "News & Releases". Apart from ad hoc disclosures pursuant to article 17 MAR, ADLER has a policy of providing transparent and prompt information through press releases, notices on voting rights changes and reportable proprietary trades by senior executives. The Company's Articles of Association and information on implementation of the recommendations of the German Corporate Governance Code may be found in the "Corporate Governance" section, and the consolidated financial statements, interim financial reports and presentations may be found under "Reports & Publications".

In addition, the ADLER website offers extensive, up-to-date information on recurring dates, the date of the Annual General Meeting, publication dates for the financial reports and Company appearances at capital market forums under the heading "Financial Calendar".

DECLARATION OF CONFORMITY

The Executive Board and the Supervisory Board of Adler Modemärkte AG have issued the following declaration:

"Declaration of the Executive Board and Supervisory Board of Adler Modemärkte Aktiengesellschaft relating to the recommendations of the "German Corporate Governance Code Government Committee" as per Section 161 of the German Stock Corporation Act (*Aktiengesetz*, "AktG"):

The Executive Board and Supervisory Board of Adler Modemärkte AG declare that the recommendations of the German Corporate Governance Code ("Code") as amended on February 7, 2017, published by the Federal Ministry of Justice on April 24, 2017 in the official section of the Federal Gazette, were complied with during the time period since the last Declaration of Conformity from May 10, 2017 and will be complied with in the future with the following exceptions:

Appointment of the Chairman of the Executive Board (Section 4.2.1 sent. 1 sub-clause 2 of the Code)
Due to the leave of the former Chairman of the Executive Board from May 1, 2017 until September 10, 2017, the Executive Board did not have a Chairman or spokesperson. Since the appointment and nomination of the new Chairman of the Executive Board, effective September 11, 2017, the company follows the recommendation in Section 4.2.1 sent. 1 sub-clause 2 of the Code again.

Disclosure of Executive Board remuneration (Section 4.2.5 para. 3 of the Code)
The Company's Annual General Meeting on May 30, 2011, and May 4, 2016 passed a resolution that there would be no individualized disclosure of Executive Board remuneration. Therefore, the Company does also not implement the recommendations in Section 4.2.5 para. 3 of the Code which relate to the disclosure of the remuneration of each member of the Executive Board and the use of according model tables.

Re-appointment of Members of the Executive Board (Section 5.1.2 para. 2 sent. 2 of the Code)
In its decision dated July 17, 2012 (Az. II ZR 55/11), the Federal Court of Justice (*Bundesgerichtshof*, "BGH") generally permitted the early re-appointment after the consensual resignation of a member of the Executive Board prior to one year before the end of the original appointment period. In the opinion of the BGH, this generally also applies if there are no special circumstances for this course of action. Based on this decision and the requirement of a resolution by the Supervisory Board, which must act in the interest of the company, we do not consider necessary additional preconditions ("special circumstances") and we declare, as a precautionary measure, a deviation from the recommendation in Section 5.1.2 para. 2 sent. 2 of the Code.

Composition of Supervisory Board (Section 5.4.1 para. 2 and 4 of the Code)
The Company's Supervisory Board has not named any specific targets relating to the composition of the Board and until 7 May 2018 not compiled a competence profile for the plenum; for that reason, there is also no publication of the target and status of implementation as well as the numbers and names of the independent members of the shareholder representatives according to the assessment of the Supervisory Board in the Corporate Governance report. It is true that the Supervisory Board aims to have members with different and complementary professional experience and skills. Nevertheless, the Supervisory Board believes that the stipulation of specific targets would restrict the flexibility of the Supervisory Board too greatly in its search for candidates with the necessary ability and experience. For the same reason, the Company does not stipulate neither an age limit for members of the Supervisory Board nor a control limit for the term of membership in the Supervisory Board. However, the Supervisory Board compiled a competence profile for the plenum on 8 May 2018 which will be taken into consideration with regard to nominations of the Supervisory Board in the future.

Consideration of ownership structure (Section 5.4.2 sent. 1 sub-clause 2 of the Code)
The Supervisory Board of the company is to co-determination on a parity. Therefore the Supervisory Board consists of in each case six shareholder and employee representatives. In the assessment of the Supervisory Board the Supervisory Board has a sufficient number of independent members and therefore considers its composition as appropriate and serving all interests. In the present circumstances the Supervisory Board sees no necessity to further consider the ownership structure in its composition.

Haibach, 8 May 2018

Adler Modemärkte Aktiengesellschaft

The Executive Board The Supervisory Board"

CORPORATE GOVERNANCE STATEMENT

Further information on the Company's Corporate Governance, particularly the working method of the Executive Board and the Supervisory Board, the targets set pursuant to § 76 (4) and § 111 (5) AktG and on key corporate governance practices is contained in the Corporate Governance Statement under § 289f and § 315d HGB, which is published on ADLER's website (*www.adlermode-unternehmen.com*) under the heading Investor Relations/Corporate Governance.

GROUP MANAGEMENT REPORT

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

Meyer & Meyer, Osnabrück, is commissioned to be ADLER's new service provider for fashion logistics. Meyer & Meyer takes on responsibility for warehousing, supplies to all ADLER stores and an extensive range of e-commerce services. The change in the logistics partner will make the delivery and distribution of goods easier to plan and more cost effective for ADLER, which will then be reflected in significant cost savings in the low- to mid-seven-figure euro range starting in 2019.

In the second quarter of 2018, the cooperation with Hermes-OTTO International (H-OI), Hong Kong, started as ADLER's new purchasing agency. METRO Sourcing International and NTS Holding, both in Hong Kong, will be gradually replaced. In the light of the "Strategy 2020" communicated in March 2018, with which ADLER is aligning itself even more specifically to the needs of the target group of over 55 year-olds, the cooperation with H-OI in particular generated new impulses for production, quality and social responsibility. In addition, an improvement in purchasing processes in terms of efficiency and flexibility was achieved.

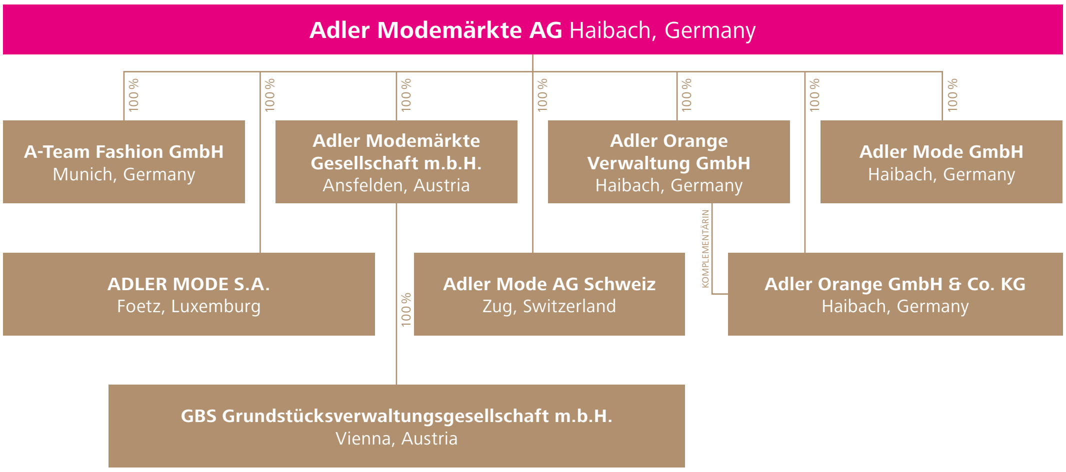
Carmine Petraglia was appointed as the Chief Commercial Officer with effect from 1 June 2018. His term will expire on 31 December 2022. Mr Petraglia is responsible for Sales and Distribution and e-Commerce in particular.

BUSINESS & GENERAL CONDITIONS

GROUP STRUCTURE AND CORPORATE ORGANISATION

Adler Modemärkte AG, having its registered office in Haibach near Aschaffenburg, is the strategic and operating holding company of the ADLER Group. In Germany, ADLER operates its own stores itself and via its wholly owned subsidiaries Adler Mode GmbH, Haibach, and Adler Orange GmbH & Co. KG, Haibach. In Luxembourg, Austria and Switzerland, ADLER operates its stores via the wholly owned subsidiaries ADLER MODE S.A., Foetz, Luxembourg, Adler Modemärkte Gesellschaft m.b.H., Ansfelden, Austria, and Adler Mode AG Schweiz, Zug, Switzerland, respectively. A-Team Fashion GmbH, Munich, is primarily responsible for vertical product refinement, in particular the design of and production processing of the Steilmann product range. GBS Grundstücksverwaltungsgesellschaft m.b.H., Vienna, Austria, became a member of the ADLER Group on 3 May 2017. In its function as the Group parent, Adler Modemärkte AG oversees the areas of responsibility affecting all companies within the Group. These include procurement and marketing, IT infrastructure management, finance and accounting, internal audit and controlling, and legal issues.

As at the end of the reporting period the structure of the ADLER Group was as follows:



GENERAL DESCRIPTION OF BUSINESS ACTIVITIES

Adler Modemärkte AG is one of the leading textile retail chains in Germany. The industry magazine TextilWirtschaft ranks the Company 23rd in its Top 100 Ranking for 2017 (2016: 22nd). At the end of 2018, the Group operated a total of 178 stores (2017: 182), 150 (2017: 155) of which in Germany, 23 (2017: 22) in Austria, three in Luxembourg and two in Switzerland. The Company also operates an online shop at *www.adlermode.com*.

In terms of fit, fashionability, functionality and quality, ADLER's product range is primarily tailored to the age group of over 55-year-olds, whose share of the population is set to grow by around 10 % to 33 million over the next ten years. ADLER offers this target group high-quality products that represent attractive value for money in the lower mid-range price segment. The product range includes a broad selection of womenswear, menswear and underwear. With a supplementary range consisting of accessories, footwear, kidswear and babywear, traditional dress and durable goods, ADLER offers a well-rounded product portfolio, thus harnessing the cross-selling potential in its stores.

The Group's own brands are ADLER's main revenue drivers. At the end of the 2018 financial year, these included Bexleys, Malva, Thea, My Own, Via Cortesa, Viventy by Bernd Berger and Steilmann for women, as well as Bexleys, Senator, Eagle No. 7, Big Fashion, Via Cortesa and Bernd Berger for men. These represent approximately 75 % of the Group's revenue and the majority of its earnings. ADLER also offers nationally and internationally recognised external brands for womenswear, menswear and kidswear at many of its stores.

As part of its strategic alignment, ADLER will in future focus more strongly on its high-margin own brands and gradually reduce its external product range by 2020. This will allow ADLER to ensure that the products offered meet the needs of its target group and prevent the cannibalisation of its own brands.

CORPORATE GOVERNANCE

The ADLER Group is managed by the Executive Board, which in particular sets the Group's strategic course. Group strategy is implemented on an operational level in close co-operation with the sales managers and the heads of central Group departments. The organisational and managerial structure clearly assigns internal authorities and responsibilities within the Company and defines reporting lines. The structure aligns all Company resources with the goal of sustainably increasing enterprise value.

REVENUE AND EBITDA AS KEY PERFORMANCE INDICATORS

As a growth-oriented company, ADLER attaches particular importance to profitably increasing revenue. All activities undertaken to boost revenue are measured against their potential to sustainably increase EBITDA and the EBITDA margin. EBITDA was selected because it provides the best information on the profitability of the actual operating activities while excluding any non-recurring factors. The gross profit margin is the primary EBITDA driver. The most important measures in this context are improvements in procurement as well as the optimisation of merchandise management and the rebates policy. Moreover, other operating expenses are strictly monitored.

CORE ELEMENTS OF THE INTERNAL CONTROL SYSTEM

The Group's planning, controlling and monitoring activities are geared towards optimising the aforementioned key performance indicators. The Group financial planning, the Group-wide computerised reporting system and investment financial control make up the core elements of the Company's internal control system.

The Executive Board and the Financial Control and Purchasing departments are responsible for managing inventories and trade payables. Since merchandise is sold directly to end consumers against cash, EC card or credit card payments, trade receivables are of marginal importance to ADLER.

The Group's investing activities focus on the expansion and modernisation of its retail sales activities. The investment financial control process first estimates the investment volume and then calculates the return on investment (ROI) as part of a profitability analysis. On this basis, cross-divisional investment meetings are held regularly to decide which investments to make.

REGULAR UPDATES OF GROUP FINANCIAL PLANNING AND PROJECTIONS

The Group financial planning is developed for a three-year period and uses regular projections for the current financial year. The three-year budget is prepared annually as part of the Group-wide budget process and takes the current business situation into account. During the planning process, the Executive Board sets planning and business objectives for the operating units on the basis of Group targets. The units prepare an earnings forecast and determine the necessary investment levels on the basis of these objectives.

In order to extrapolate the expected consolidated profit or loss for the current year, the annual budget is revised at regular intervals taking into account actual business performance and the existing opportunities and risks. The Financial Control department also prepares weekly projections regarding liquidity developments on the basis of the Group's expected performance. This allows financial risks to be identified early on and appropriate measures to be taken to address financing requirements.

Details regarding the management of financial risks can be found in the risk report.

GENERAL ECONOMIC ENVIRONMENT

The global economy experienced a slowdown in 2018. Whereas the International Monetary Fund (IMF) had raised its forecasts at the start of the year, the mood was soon tempered as share prices around the world began to slide beginning in early February. According to current IMF estimates, the rate of global economic growth increased only slightly from 3.6% in 2017 to 3.7% in 2018 due to factors including geopolitical obstacles such as the trade dispute between the United States and China. The eurozone's GDP growth even deteriorated from 2.5% in 2017 to 1.3% in 2018. Germany, which is ADLER Modemärkte's most important market, is especially exposed to the global economic developments due to its dependence on exports: a deterioration of the international sales market will have an effect on domestic markets. As such, growth slowed substantially to just 1.5% compared to 2.3% in the previous year. In Austria, too, where ADLER Modemärkte has 23 stores, economic growth in 2018 weakened slightly from 3.0% to 2.8% compared to the previous year, according to the IMF. Luxembourg and Switzerland, on the other hand, recorded GDP growth from 2.3% to 3.5% and from 1.0% to 3.0% respectively. However, these countries have been of minor importance to ADLER to date, as the Group has only three or two markets in these countries.

CONSUMER SENTIMENT IN GERMANY IS STILL POSITIVE

Contrary to the macroeconomic situation, the consumer climate in Germany was positive across all sectors in 2018. In real terms, sales increased for the entire German retail industry in 2018 by nearly 1.5% according to estimates by the German Federal Statistical Office (*Statistisches Bundesamt*). A labour market situation described as historically good is thus seen as a key driving force behind the growing appetite of German consumers. The consumer confidence index from the Gesellschaft für Konsumforschung (GFK) also peaked at 11 points at the end of January 2018 before then deteriorating a bit in line with the aforementioned decline in share prices of the benchmark indices over the course of the year. It then closed out 2018 near the prior-year's historical peak of 10.7 points. The consumer climate index, as indicated by GfK, thereby explicitly refers to private consumer spending as a whole. Depending on which definition is used, retail makes up roughly 30% of private consumer spending. The rest is comprised of services, travel, rent, healthcare services and the entire wellness industry, which has an indirect impact on retail. The picture was similar in Austria, where economic expectations peaked at the beginning of 2018 in order to stabilise at a still very high level over the course of the year.

BRICK-AND-MORTAR FASHION RETAILERS

According to data by the German Retail Association (HDE), the good performance of the retail industry is still clearly showing through in online retail. Textilwirtschaft (TW) has provided data putting brick-and-mortar retail in the red for the third year in a row and has now reported another 2% decrease in sales. This can be traced back to the ongoing shift in sales channels on the one hand and the unusual weather on the other. With extremely high summer temperatures lasting an unusually long time, autumn got off to a very late start. This meant that winter merchandise, which brings in more in sales, failed to move from the shelves and was often only sold after massive price discounts were offered. Despite the sound start to the year in January with a 3% increase according to sales data issued by Textilwirtschaft-Testclub, sales for 2018 had already come under pressure before the end of the first quarter (February: –4%; March: –6%). The second quarter of 2018 started off well with sales up an impressive 7% in April, but a weak trend set in again in the summer months. September was clearly the worst month for sales at –13% year-on-year. Although this initially stabilised in the fourth quarter according to TW-Testclub data, December 2018 ended down 4%, thus confirming the sobering trend of brick-and-mortar retail for the full year.

DEVELOPMENT AND ANALYSIS OF REVENUE

DEVELOPMENT OF REVENUE

In financial year 2018, consolidated revenue decreased by 3.6% to €507.1 million (2017: €525.8 million). ADLER was unable to buck the tough trends seen within the whole retail industry, with declines in sales affecting all of textile retail and thus, like the rest of the industry, suffered under the accompanying pricing pressure. Particularly the extraordinarily long and hot summer had a negative effect on ADLER's revenue performance and that of the entire industry.

On a like-for-like basis, revenue for the past financial year declined by 3.5%, representing a significant year-on-year deterioration.

SEASONAL, QUARTERLY PERFORMANCE

Over the course of a financial year, the ADLER Group's net revenue and EBITDA fluctuate from quarter to quarter in line with the nature of the industry. In the second and fourth quarters, it is generally possible to sell merchandise at the calculated sale price. This is true in particular for the first weeks of those quarters, and has a positive influence on revenue and earnings. The fourth quarter is ADLER's highest-margin quarter by far due to higher-priced winter merchandise and the stimulating effect of the holiday business. By contrast, the first and third quarters of the calendar year are each marked by clearance sales of seasonal merchandise. This impacts not only the Group's revenue potential, but also its earnings.

DEVELOPMENT OF REVENUE BY QUARTER

A quarterly analysis reveals the following: In 2018, ADLER was unable to buck the negative trend in the textile retail industry. In the traditionally weak first quarter, revenue fell by 5.5% to €102.7 million (Q1 2017: €108.7 million). In the second quarter, revenue decreased by 3.4% to €140.4 million (Q2 2017: €145.3 million). In the third quarter, revenue declined by 2.4% to €117.3 million (Q3 2017: €120.2 million). In the fourth quarter, revenue fell by 3.2% to €146.7 million (Q4 2017: €151.6 million).

On a like-for-like basis, revenue decreased in the first (6.6%), second (2.3%), third (1.3%) and fourth (1.8%) quarters.

ANALYSIS OF REVENUE BY COUNTRY

In financial year 2018, ADLER generated €417.7 million (82.4%) of its consolidated revenue in its traditional core market, Germany (2017: €435.4 million). In Austria, the Company generated revenue of €68.2 million (2017: €68.9 million), corresponding to 13.5% of ADLER's total revenue. Revenue in Luxembourg declined to €17.8 million (2017: €18.2 million). The share of total revenue amounted to 3.5%. In 2018, ADLER's two stores in Switzerland increased revenue, generating €3.4 million as compared to €3.2 million in 2017.

FINANCIAL PERFORMANCE

GROSS PROFIT MARGIN RISES

Due to a more efficient purchasing policy and a lower level of inventory discrepancies, the 5.9 % decline to € 229.8 million (2017: € 244.1 million) in the ADLER Group's cost of materials was more pronounced than the decrease in revenue. Gross profit (revenue less cost of materials) decreased in absolute terms from € 281.8 million to € 277.3 million in financial year 2018. However, the gross profit margin increased from 53.6 % to 54.7 %.

ADLER will continue its policy of avoiding excessive price markdowns. The Company will work to further optimise its inventory management system and continuously increase the share of merchandise in its product range that is directly sourced.

Other operating income primarily includes rental income, reversals of provisions, construction subsidies, income from special projects and income from the hanger recycling project. The figure was € 6.1 million compared with € 18.8 million in financial year 2017. The prior year figure was largely due to the sale of buildings in Austria. Adjusted for this non-recurring item, other operating income amounted to € 6.9 million in 2017, which deviated from the previous year by € −0.8 million. The year-on-year decline is largely a result of lower reversals of liabilities and provisions and lower rental income resulting from the sale of real estate.

PERSONNEL EXPENSES

As a result of voluntary wage and salary increases under the collective bargaining agreement, the reinstatement of holiday pay and the restructuring expenses, personnel expenses increased by 0.6 % in 2018 to € 97.5 million (2017: € 96.9 million). The figure includes severance payments for personnel changes, primarily in the purchasing and sales and distribution departments, as part of the restructuring and strategic realignment measures introduced in 2017, which totalled € 2.4 million (2017: € 2.3 million).

OTHER OPERATING EXPENSES

In 2018, other operating expenses decreased to € 165.2 million (adjusted: € 162.1 million) as compared with € 171.7 million in 2017 (adjusted: € 168.8 million), corresponding to 32.6 % of consolidated revenue (2017: 32.7 %). This item includes in particular building management expenditures, marketing and advertising outlays, freight and transport expenses, and costs for technical facilities. Consulting costs of around € 1.5 million in connection with the strategic realignment as well as closure costs and one-off expenses in connection with the change of logistics service provider were eliminated. In the previous year, consulting costs in connection with the restructuring and strategic realignment, fees from the sale of real estate and closure costs were adjusted.

EARNINGS

In total, EBITDA of € 20.7 million (adjusted: € 26.2 million) was generated in financial year 2018 (2017: € 32.0 million/adjusted: € 25.4 million). Adjustments to EBITDA in financial year 2018 included special charges resulting from the strategic realignment – primarily restructuring and consulting costs – in the amount of € 5.5 million.

In the previous year, ADLER generated non-recurring income on the one hand through the sale of two buildings in Austria by Adler Modemärkte Gesellschaft m.b.H., Ansfelden, Austria, in the first quarter of 2017 and on the other hand through the sale of property by GBS Grundstücksverwaltungsgesellschaft m.b.H., Vienna, Austria, in the fourth quarter of 2017. ADLER also generated non-recurring expenses from its strategic realignment in the same period. These were mostly restructuring costs and consulting fees. Considering these two offsetting non-recurring items, the positive effect on the Company's earnings totalled approximately €6.6 million.

In financial year 2018, depreciation, amortisation and write-downs amounted to €17.4 million, thereby exceeding the prior-year figure (€16.5 million) by €0.9 million. The increase was mostly due to the extension of several finance lease agreements and non-recurring effects in depreciation, amortisation and write-downs totalling €0.4 million due to impairment losses on property, plant and equipment.

EBIT decreased from 15.6 million (adjusted: €9.1 million) to €3.3 million (adjusted: €9.4 million). The EBIT margin thus amounted to 0.7% (adjusted: 1.8%) after 3.0% in 2017 (adjusted: 1.7%).

As in the previous year, net finance costs amounted to €−4.9 million. In the year under review, EBT amounted to €−1.6 million (adjusted: €4.2 million) after €10.7 million in the previous year (adjusted: €3.9 million).

In financial year 2018, income taxes decreased year on year, amounting to €−1.0 million (adjusted: €−2.5 million) as compared with €−6.8 million in 2017. The higher loss before taxes and the recognition of loss carryforwards led to a decrease in the tax expense. The consolidated net profit for the year decreased from €3.9 million in 2017 to €−2.6 million in 2018 (adjusted: €1.7 million).

EARNINGS PER SHARE

The net earnings per share amounted to €−0.14 or €0.09 on an adjusted basis (based on 18,510,000 no-par value shares). Earnings per share had amounted to €0.21 in the previous year or €0.11 on an adjusted basis (based on 18,510,000 no-par value shares).

FINANCIAL POSITION AND CASH FLOWS

FINANCIAL POSITION

The ADLER Group's total assets as at 31 December 2018 decreased year on year to €226.8 million (2017: €241.1 million). Property, plant and equipment decreased to €69.0 million (2017: €75.0 million). This included expenditures for the modernisation of existing stores, including the associated procurement of other office equipment for store construction, as well as new or renewed finance leases. The lease agreements primarily relate to leased store buildings, whereby the Group is deemed the beneficial owner for the purpose of the underlying lease agreements.

Inventories at the end of the reporting period increased by €5.0 million to €78.7 million (2017: €73.7 million) as a result of the decline in revenue.

The ADLER Group's cash and cash equivalents decreased from €63.3 million to €54.9 million.

Group equity declined to €96.3 million (2017: €100.0 million). The equity ratio, at 42.5%, exceeded the prior-year figure (2017: 41.5%). A dividend worth €0.9 million was paid out to the shareholders of ADLER Modemärkte AG for financial year 2017 after no dividend in the previous year.

DEBT/EQUITY RATIO

As at 31 December 2018, ADLER's liabilities decreased by € 10.7 million to € 130.5 million (2017: € 141.2 million). As at the end of the reporting period, ADLER no longer had any liabilities to banks. Liabilities comprised in particular finance lease liabilities (€ 54.1 million; 2017: € 56.0 million), liabilities from the customer loyalty card programme (€ 9.8 million; 2017: € 10.4 million), and current and non-current financial liabilities (€ 2.3 million; 2017: € 2.6 million).

The provisions for pensions and similar obligations declined slightly by € 0.3 million to € 5.2 million (2017: € 5.5 million), and income tax liabilities amounted to € 0.3 million (2017: € 3.8 million). The debt/equity ratio of 1.36 was up on the previous year's ratio (2017: 1.41).

WORKING CAPITAL

Working capital (inventories plus trade receivables, less trade payables) increased by € 6.9 million to € 53.6 million as at the end of the reporting period (2017: € 46.7 million). The working capital ratio (working capital in relation to revenue) rose to 10.6 % (2017: 8.9 %).

CASH FLOW MANAGEMENT

Cash flows from operating activities (net cash flow) are one key indicator of ADLER's operating earnings power. Net cash flow decreased during the year under review by € 11.3 million from € 21.2 million to € 9.9 million. Cash flows used in investing activities amounted to € 5.9 million (2017: cash flows from investing activities of € 14.8 million). Of this amount, around € 14.0 million was attributable to the sale of the buildings in Austria in the previous year.

Free cash flow decreased in 2018 by € 32.0 million to € 3.9 million (2017: € 35.9 million). The increase in the previous year was primarily due to the sale of the buildings and the higher consolidated net profit.

Cash flows used in financing activities totalled € − 12.4 million, down on the prior-year figure of € − 15.4 million. This largely correlated to liabilities from finance leases. The repayment of a loan in connection with the acquisition of GBS Grundstücksverwaltungsgesellschaft m.b.H., Vienna, Austria, had an effect in the year prior.

As at the end of the reporting period, the ADLER Group's cash and cash equivalents amounted to € 54.9 million, representing a decrease of € 8.4 million from € 63.3 million as at 31 December 2017.

INVESTMENT

The ADLER Group's investments during financial year 2018 totalled € 10.8 million (2017: € 15.8 million). Of that amount, € 4.4 million (2017: € 4.1 million) was invested in property, plant and equipment (land, buildings, and operating and office equipment) and € 4.6 million (2017: € 9.7 million) was attributable to new finance lease agreements and the extension of existing finance lease agreements. Investments in intangible assets amounted to € 1.8 million (2017: € 1.6 million). This figure mainly relates to IT investments. Capital expenditure commitments include investments that had already been authorised as at the reporting date. Investments during the year under review included new store openings as well as the modernisation of existing stores.

PROCUREMENT

The ADLER Group does currently not operate its own production facilities. which is why its products are imported directly from Asia, India, Turkey, Greece, northern Africa and eastern Europe as well as indirectly through importers and brand manufactures at cost-effective prices. Purchasing high-quality products at low prices, securing delivery of the merchandise and optimally showcasing the articles to the customers at the Company's own stores are the main priorities of procurement and logistics.

ADLER has many years of experience in procuring textiles in Asia. These are produced mainly with a core group of suppliers, which represented 58 % of the purchasing volume in financial year 2018.

ADLER sells products from its own-brand range and brand-name items (external brands). ADLER's direct supplier of own brands in Asia has been the sourcing agent H-OI (Hermes-OTTO International) since the second quarter of 2018. The agent bundles the procurement activities of the Otto Group as well as other well-known textile retailers in Germany and elsewhere in Europe.

In addition to procuring the sourcing agent, ADLER's purchasing departments also work directly with producers in Eastern Europe, Morocco, Greece and Turkey. ADLER also gained extensive know-how about manufacturing in eastern Europe as well as vertical direct supply by acquiring the Steilmann brand and team in 2016.

In financial year 2018, ADLER purchased merchandise valued at a total of € 215 million. Of this amount, 24 % or € 52 million was used to purchase external brands and € 163 million to purchase own brands. Of the own brands, goods worth € 98.5 million were procured from sourcing agents in Asia and € 14 million directly from producers. In financial year 2018, the share purchased from EU-based importers amounted to 23 % or € 50.5 million.

Rather than just concentrating on a procurement agent, in 2018 ADLER also began optimising its purchasing process further. The first step was to reduce the number of suppliers by 25 %, thereby significantly increasing the relevance in the procurement markets. This consolidation of suppliers will continue in 2019 with the help of ADLER's own supplier evaluation. ADLER is also stepping up its strategic partnerships.

One of the Company's strategic objectives is to increase its gross profit. To this end, it is steadily expanding the share of direct supply in Asia and Europe, whereas procurement via importers is gradually being scaled back.

ADLER makes sure that it distributes its purchase volumes evenly across a worldwide network of suppliers in order to spread the risk and to minimise its dependency on any one procurement market or manufacturing site.

Furthermore, an optimised mixture of Asian and European suppliers guarantees that goods are delivered as needed and also allows the Company to react quickly to changes in demand as well as a continuous supply of NOS (Never-Out-of-Stock) articles.

ADLER's own brand range is supplemented by third-party brands offered in the fashion markets.

DISTRIBUTION, SALES & MARKETING

ADLER announced its strategic realignment in the first quarter of 2018. The implementation of the new strategy will allow the Company to more consistently tailor its full range of products and services to its target group. ADLER defines this group as women and men aged 55 and above who want high-quality clothing at attractive prices, but do not want to follow the latest fashion trends. The Company already enjoys a leading market position with this demographic group in the DACH region (Germany, Austria, Switzerland and Luxembourg), which it intends to further strengthen and expand. The aim is to create a brick-and-mortar and digital platform for "best agers" and thus to become the number one choice to meet their fashion needs with regard to style, fit, quality and service.

According to estimates by the German Federal Statistical Office, the number of people over the age of 55 in Germany will grow by 10% over the next ten years to around 33 million people. The strategy, which focuses on profitable growth, aims to achieve even better penetration of this growth market in future. With this in mind, ADLER's primary objective is to create greater loyalty to the ADLER brand among existing customers in order to increase its "share of wallet" (proportion of a customer's total spending on a specific product group) without losing its focus on acquiring new customers.

ADLER pursues a multi-channel strategy through which it aims to ensure a consistently positive brand experience across all sales channels.

BRICK-AND-MORTAR SALES STRATEGY

For its brick-and-mortar business, ADLER focuses on large-space retail concepts, meaning that the space occupied by the stores it operates is usually between 1,500 m² and 4,000 m². Large sales floors with wide aisles, spacious fitting rooms and rest areas exemplify the Company's customer-oriented approach. At the end of 2018, the Company had an extensive brick-and-mortar sales network spanning 178 stores in Germany (150), Austria (23), Luxembourg (3) and Switzerland (2).

The majority of ADLER stores are located in shopping centres and retail parks. Free-standing stores located at greenfield sites or in downtown locations are the exception. In addition to economic factors, the key criteria for selecting a store location are easy accessibility for customers, the size of the catchment area and the proximity to the nearest ADLER store.

ADLER conducted extensive analyses and surveys of customers, former customers and non-customers in 2018 to identify growth potential. Based on the findings, ADLER believes that the greatest potential for short- and medium-term footfall and revenue growth lies in directly addressing existing customers (increasing the "share of wallet"), in particular, as well as winning back former customers. In order to generate economies of scale and to strengthen its market position, ADLER also plans to expand the network of stores organically as well as through acquisitions over the long term. Outside of this long-term planning, new store openings are also possible in the near term if opportunities arise in attractive locations.

Surveys have shown that ADLER customers highly value service and personal advice. Well-trained, motivated and approachable sales staff play a key role in ADLER's brick-and-mortar stores. Continuously improving the sales skills of our employees and optimised planning of personnel resources to deal with peak periods are therefore a core focus of our strategy.

ADLER wants to generate additional cost benefits and optimise internal processes by employing innovative technology. After the Company-wide introduction of RFID (radio frequency identification), ADLER is reviewing how the technology can be used to further automate processes. The prerequisite for the use of the technology is an appropriate cost-benefit ratio. RFID uses electromagnetic waves to automatically detect and identify merchandise, which has already had a clear positive impact on the efficiency of checkout and stocktaking processes.

ONLINE SALES STRATEGY

As part of the omni-channel strategy, ADLER operates an online shop in Germany, Austria and Luxembourg at *www.adlermode.com*. Customers in the Netherlands and Belgium can also place orders.

In financial year 2018, ADLER's online shop had 10.5 million visitors, around 3 % fewer than in the previous year. Revenue generated through the online shop was down 9.4 % in 2018 at € 9.6 million, which represents 1.9 % of the Group's total revenue (2017: 2.0 %).

The online shop serves as ADLER's display window and mainly offers rapidly changing ranges in traditional women's fashions for blouses, jackets and dresses. It also caters to market niches such as plus-sizes and traditional dresses. During the year under review, the average age of online customers was 56, while customers at physical stores were on average 62 years old. The online shop is therefore becoming increasingly important in terms of reaching and gaining younger customers. The Click & Collect-service, which allows customers to order online and pick up or return the merchandise at a store, is also helping to drive up footfall at stores.

Different approaches to leveraging various digital shopping mediums (e.g. mobile and desktop) to generate sales are also gaining in importance for ADLER. Mobile devices accounted for around 49 % of visits to the ADLER online shop in 2018, in line with the previous year. Against this background, the digital sales offering was rounded out with the launch of the ADLER app in spring 2017. As part of the strategic realignment, the functionality of the app is to be considerably expanded to offer users additional benefits and further enhance brand loyalty.

Alongside its own online shop, ADLER plans to make greater use of third-party digital selling platforms for its own brands in future, with the aim of improving brand recognition and increasing revenue.

The e-commerce strategy is bolstered by an online marketing budget structured for growth and increased efforts to digitally interact with ADLER's existing customer base. The online marketing measures include a mix of performance-oriented marketing instruments, including a broad e-mail and mobile marketing campaign.

MARKETING

As an operator of large-space retail stores, mainly in peripheral locations, ADLER uses extensive brand and product advertisements to generate footfall. In financial year 2018, advertising expenditure amounted to € 43.4 million, down 5.6 % versus the prior-year figure.

THE ADLER LOYALTY CARD

The ADLER loyalty card is a key marketing tool. The programme was first launched in 1974 and is thus one of the oldest and most successful loyalty card programmes in Germany. Cardholders receive three points in their respective shopping basket for every euro spent (one point = one cent), which can be used against their next purchase. In financial year 2018, the loyalty card programme had some 3.2 million members and registered a total of approximately 92 % of the Company's revenue.

ADVERTISING

As part of the strategic realignment, ADLER has modified its communications strategy and will in future primarily focus on targeting existing and selected former customers. Against this background, the formats used to date have undergone a new, detailed cost-benefit analysis. Based on the results, ADLER is to stop using TV advertising from the second half of 2018 and instead allocate the budget to other advertising channels on a performance-oriented basis.

During the year under review, ADLER used inserts, mailshots, TV and radio advertising, as well as online advertising in the form of banners and search engine optimisation as the main means of promoting its products and image. In 2018, ADLER sent a total of €52 million advertising mailshots to customers. During the same period the total number of all newspaper and magazine inserts was approximately €134 million. ADLER also invested €2.6 million in TV advertising and €1.1 million in radio spots.

In 2018, ADLER celebrated 70 years in business, with the slogan "Celebrating life". The primary focus for the year was on the "zest for life". The campaign in all aspects spoke to pure *joie de vivre* with its happy, fun-loving imagery, the vivacious models and the long-time brand ambassador Birgit Schrowange. The high-points of the year were the POS initiatives, attractive prize drawings and special anniversary offers as well as the "Be the face of ADLER anniversary 2018" model competition.

ELECTRONIC TERMINALS FOR CUSTOMER SATISFACTION SURVEYS

Systematic customer surveys in the local branches provide additional information that ADLER uses to improve service and product quality. To this end, the Company installed electronic terminals at all of its stores in order to better collect customer feedback. The surveys allow customers to anonymously rate their shopping experience and provide open-ended comments, which may be added in a textbox.

"GERMANY'S CUSTOMER CHAMPIONS" AWARD

For the eleventh consecutive year, in 2018 ADLER was a recipient of the "Germany's Customer Champions" prize awarded by the market research institute forum! and the German Society for Quality (*Deutsche Gesellschaft für Qualität e.V.,* "DGQ"). Recipients of the title are companies that are particularly successful in appealing to consumers on a service and an emotional level, thus gaining them as loyal customers and turning them into fans. The key factor driving customer loyalty at ADLER is how the Company dovetails customised marketing efforts, attractive product ranges and one-on-one customer services at its stores.

EMPLOYEES

As at the end of the 2018 financial year, ADLER had a total of 3,786 employees (31 December 2017: 3,866). In addition to efficiently accomplishing the tasks at the Company headquarters, ADLER places particular importance on direct contact with its customers through the sales staff. Having a keen eye for the wishes and needs of the target group is especially important. An important objective of the Company's HR development is therefore to provide its employees with training in order to continually heighten their sensitivity to the needs of individual customers. At the same, the objective is also to strengthen and steadily foster the employees' self-motivation and customer service skills as well as the team spirit at ADLER. To this end, the Company regularly provides local training seminars with internal and external instructors.

CORPORATE CULTURE

ADLER is a company with more than 70 years of tradition and a well-established corporate culture which rests on the pillars of excellent service orientation, team spirit, creativity, openness and transparency. Great importance is placed on fostering a work environment that enables each employee to optimally apply themselves and their unique set of skills. For ADLER, this type of work environment is an excellent starting point to continue improving our customer focus and the quality of the service we provide.

ADLER conducted a Group-wide employee survey in 2018. Employees were encouraged to express their ideas, desires and criticisms anonymously. Extensive measures to improve the quality of work at stores and Company headquarters, as well as to leverage additional potential will be developed in 2019 based on the survey findings.

TRANSFORMATION

The successful implementation of the ADLER "Strategy 2020" requires a comprehensive transformation process throughout the entire Group. The objective is to communicate the new strategy to all employees plainly and clearly and to further develop internal communications. This needs to be based on a change in culture and values which rewards courage, focuses on the well-being of the customers, eliminates silo structures and promotes cross-divisional collaboration.

EXPERIENCED LOCAL MANAGEMENT TEAMS

ADLER's management makes the organisational and personnel decisions necessary to ensure that the individual stores are led by locally based, experienced employees. These employees are present on the sales floors and are given appropriate discretion to make decisions based on their duties. The store managers are familiar with the local conditions and the characteristic features of the region. ADLER has been able to continually attract qualified and experienced employees from within the Company as well as from its competitors when expanding upon its number of stores or recruiting local managers.

EMPLOYEE TURNOVER

Compared to other companies in the retail industry, employee turnover at the Company headquarters and at ADLER's stores is low. The turnover rate was approximately 11.6 % in the reporting year (2017: 13.2 %). This moderate rate is a good indication on the one hand that ADLER adheres to high social standards and on the other hand that the employees hold the Company in high regard. A large number of employees have been with the ADLER Group for many years. The average ADLER employee has been with the Company for more than 11 years. As they have worked for the Company for many years, many employees have built up personal relationships with customers, which has contributed to the high proportion of regular customers.

DIVERSITY AT ADLER

ADLER is an employer that does not take nationality, gender, background, religion, age, disabilities or sexual preferences into account when considering and evaluating employees and applicants. Given current demographic changes, ADLER wants to fully tap the potential that a diverse applicant pool has to offer. The professional qualifications, personal integrity and commitment of the applicants are the only attributes given priority during the Company's selection process. ADLER considers a diverse staff a competitive advantage, as this allows employees with skills and talents that complement one another to successfully work together in the Company. At the end of 2018, ADLER employed people from 49 different countries.

Women have made up an extremely high share of ADLER's workforce since the Company's founding. Approximately half of the positions at the executive levels are held by women. One-third of the Supervisory Board seats are currently held by women. Overall, 90% of ADLER's workforce are women. Recognising that many mothers carry the dual burden of balancing both their professional and family lives, ADLER will continue to make their professional and family lives more compatible by accommodating work conditions. ADLER is also committed to affording people with severe disabilities the opportunity to participate in the workforce with the same rights as other employees.

EMPLOYEES AS AT THE END OF THE FINANCIAL YEAR:

	31 Dec. 2018	31 Dec. 2017
Total employees	**3,786**	**3,866**
of which managers	198	215
of which full-time employees	682	671
of which part-time employees	2,629	2,704
of which trainees/interns	277	276
Average age in years	46.7	46.7
Men	10.0%	10.0%
Women	90.0%	90.0%

Personnel expenses were €97.5million in financial year 2018, an increase of €0.6million compared to previous year.

VOCATIONAL TRAINING AND CONTINUING EDUCATION

- Training
- Workplace health management
- Recruiting
- Succession planning
- Onboarding and induction processes
- Personnel development plan
- Evaluation of the need for further training and conception of further training programmes
- Conception and moderation of trainings and workshops
- Feedback culture

ADLER will continue to rely on qualified and service-oriented employees going forward. The Company therefore promotes young talent from within its own ranks. In principle, ADLER offers vocational training positions based on which positions it needs to fill. Currently, ADLER offers vocational training for the following positions: office management assistant in retail sales, office management assistant, wholesale and export merchants, software engineer, office management assistant in marketing communications, office management assistant in e-commerce and visual marketing designer. As at 31 December 2018, of the 277 trainees and interns, the Company had 162 trainees it employed directly, 68 trainees from joint vocational programmes (überbetriebliche Ausbildung), 4 trainees with entry-level qualifications, 42 interns and 1 student from the dual education programme with LDT Nagold.

ADLER uses a targeted recruiting strategy to win over external experts and executives. Each new employee undergoes an onboarding process that is tailored to their individual position in order to make their induction with ADLER as easy and pleasant as possible and to help them to quickly identify with the Company.

The objective of HR development is also to evaluate each employee's specific need for future advanced training and continuing education so that they can continue to grow in line with their abilities and skills. A talent management process has been established as part of this approach and is aimed at preparing employees to take on leadership and specialist positions. This helps to ensure that succession planning is not neglected. A further key milestone in human resources development going forward will be placing the focus on sales staff qualification.

ADLER believes that it is vital to have an open and transparent feedback culture. In this connection, regular employee appraisals are conducted in order to promote continued dialogue between employees and supervisors.

SUSTAINABILITY AND THE ENVIRONMENT

The procurement and sale of textile clothing are at the core of Adler Modemärkte AG's business. Corporate social responsibility, sustainability objectives and environmental awareness are important preconditions for ADLER's long-term success. Sustainability concerns are taken into account when making any strategic or operating decisions and also when working together with business partners.

INTEGRATED SUSTAINABILITY MANAGEMENT

The objective of ADLER's sustainability management function is to offer customers ecologically and socially sound products and at the same time, act in the best interests – socially and economically – of employees, suppliers and other stakeholders.

ADLER follows an integrated sustainability management approach. The underlying aim is to create and foster a corporate culture that is anchored in sustainable business principles and embodied by every single employee. Against this background, ADLER develops and implements certification measures and management processes for the departments, and also supports the departments at an operational level with these tools.

COMPLIANCE WITH BSCI STANDARDS BY SUPPLIERS AND PRODUCERS

ADLER sells products from its own-brand range and external brands (brand-name items). ADLER is directly responsible for its own-brand products. It is essential to know and document not only which raw materials are used to manufacture the products, but also the social and ecological conditions under which they are manufactured. ADLER's procurement policy forbids the sourcing of products made under conditions which are exploitative, harmful to health or which otherwise violate human dignity, such as child or forced labour.

ADLER requires all suppliers who manufacture products in a high-risk country as defined by the Business Social Compliance Initiative (BSCI) submit a valid audit in accordance with that Initiative's criteria. These audits must be conducted at the level of the production facilities. This applies both to European suppliers as well as to procurement agencies in Asia. ADLER has been working with Hermes-OTTO International (HOI) there since the second quarter 2018. As part of process improvement efforts, suppliers and producers receive support from the purchasers in planning improvement measures.

ADLER introduced the OSCA system for monitoring in 2015. This software enables the suppliers/agencies as well as ADLER to manage the production facilities and the audits. At the end of 2018, 512 production facilities were registered in the software which guarantee that timely measures can be taken in the course of the audits.

In addition to BSCI audits, certifications of compliance with standards such as SA 8000, WRAP and GOTS, which are based on the relevant standards set by the United Nations and the International Labour Organisation (ILO), are also acceptable.

COTTON

Cotton is currently sourced from certified organic producers (Global Organic Textile Standard (GOTS) or Organic Cotton Standard (OCS)), the Better Cotton Initiative (BCI) and from Fairtrade. These standards cover the reduction of water and energy consumption, acceptable nutrient levels in the soil and the moderate to prohibited use of toxics and persistent pesticides.

ADLER works together with these various initiatives so that suppliers are always able to offer buyers products made of sustainable cotton. This enables buyers to increase the share of sustainable items in the product range and thus meet their sustainability targets.

RECYCLING OF USED CLOTHING

ADLER's vision of sustainability also includes supporting sustainable consumption. ADLER works together with the I:CO take back-system, allowing customers to return used textiles and shoes to stores so that these products can be repurposed in a way that benefits the environment. Customers returning used textiles are rewarded with coupons for ADLER products. By employing I:CO's solution, ADLER fulfils its product responsibility and actively contributes to the conservation of valuable resources.

A total of 4 million kilogrammes of used clothing have been collected since ADLER became the first clothing company in Germany to enter into a partnership with I:CO in 2009. By recycling used merchandise, ADLER has made a significant contribution to reducing CO_2 emissions and to conserving water.

For every kilogramme of clothing and shoes returned, ADLER donates two cents to the CharityStar donation platform, where any customer or interested individual can decide which charitable project to support with the money collected. You can find more information about the CharityStar donation platform under *www.charitystar.com* (only available in German).

PARTNERSHIP FOR SUSTAINABLE TEXTILES

Established in 2014, the Partnership for Sustainable Textiles is an initiative of representatives from companies, non-profit organisations and trade unions. Initiated by the German Federal Ministry for Economic Cooperation and Development, the partnership aims to bundle the strength and expertise of its members in order to bring about social, ecological and economic improvements along the textile supply chain. The Partnership for Sustainable Textiles sees itself as a platform where participants jointly review the implementation of the partnership's objectives, share experiences and best practices and learn from each other in order to improve conditions in the producer countries.

ADLER has followed the Partnership from the very beginning and has helped shape the broad-based initiative. ADLER joined the Partnership for Sustainable Textiles in June 2015 together with leading trade and producer associations and other companies. In doing so, ADLER also signed a voluntary agreement to no longer offer plastic carrier bags free of charge, and since July 2016 now charges 10 or 20 cents for carrier bags at all of its stores in Germany. For the latest information, please visit *www.textilbuendnis.com*.

In 2017 this partnership introduced a roadmap and set yearly targets in line with the requirements. As a partner ADLER also has set itself targets and implemented them. More detailed information can be found in the sustainability report.

OPPORTUNITIES AND RISK REPORT

REPORT ON OPPORTUNITIES

General economic opportunities

The ADLER Group is one of the major vendors in the fashion industry consistently focused on the fashion needs of the growing group of customers aged 55 and up. ADLER's market position is thus not only clearly established, the Company is also reaping the benefits of demographic changes in Germany and Europe: the target group – and with it, revenue potential – will continue to grow going forward. This solid foundation will be further bolstered through the judicious expansion of the product range. ADLER will leverage its product range to appeal to potential new customers, who will flow into the primary target group, thus lending additional momentum to the business.

Sector-specific opportunities

Given the dynamic environment and the structural changes in the textile retail industry, ADLER slowed the pace of its short-term organic and inorganic growth. In addition to increasing profitability by lowering costs and improving efficiency, ADLER's management is focusing on realigning the Company and reviewing its corporate strategy. In the course of this realignment, the target customer group and their market potential have been examined, and the product strategy, channel strategy and communication strategy have been redefined. These and other measures are important steps that were taken to create a stable and sustainable basis on which the planned growth course can continue to be pursued in the medium term.

Corporate strategy opportunities

As part of the channel strategy, the online shop will in future be a key component of ADLER's multi-channel approach. ADLER successfully launched its online shop in 2010 in response to the increasing importance of online retail and the changing buying patterns of its customers. The online shop is continuously being expanded and optimised to meet the rising expectations of consumers and to further improve their shopping experience. By coupling its in-store and online retail activities, ADLER is leveraging cross-selling effects on the one hand by using the Click & Collect system, which allows customers to order online and pick up or return the merchandise at an ADLER store, and on the other via ROPO effects. An analysis of the behaviour of the more than 10-million online visitors demonstrated that products are selected online and then purchased in stores. In both cases customers are encouraged to purchase additional products by visiting a store, thus creating the potential for additional revenue.

By taking advantage of its long-standing experience, a large network of manufacturers in Asia, India, Turkey, North Africa and Eastern Europe, and increasing globalisation, ADLER can leverage procurement-related opportunities and continuously improve its procurement structures and procurement conditions. The contracts with the procurement agencies MSI in Hong Kong and NTS in Hong Kong were terminated at the end of 2017. At the same time, a new procurement agency, Hermes-OTTO International (H-OI) in Hong Kong, was engaged as a future strategic partner. ADLER has thus ensured the improvement of the supplier structure and product range from 2019 onwards.

To improve efficiency, the Supply Chain Management division was established in 2017 to optimise processes, merchandise allocation and markdown management. In connection with this, the existing contract with the former logistics service provider BLG was terminated at the end of 2017 and a new contract was entered into with Meyer & Meyer. ADLER expects this change in logistics partner to make the delivery and distribution of goods easier to plan and more cost effective starting from 2019.

RISK AND OPPORTUNITY MANAGEMENT SYSTEM

ADLER is exposed to a large number of risks and opportunities in the course of its business activities. There is always a risk that targets will not be met or will be only partly met due to unforeseen events or negative market developments. Conversely, unexpected opportunities may lead to these targets being exceeded.

Opportunity and risk management is a management tool used by ADLER to identify, classify and manage opportunities and risks at an early stage in order to ensure that the Company's short-, medium- and long-term targets are met, thus securing its continued existence and profitability, as well as increasing its enterprise value.

The risk management system (RMS) is generally valid for all of the Company's divisions and subsidiaries. Strategic and operational factors, events and actions having a significant impact on the existence and economic position of the Company are considered risks. External factors, such as the competitive environment, demographic changes, etc., that might prevent the Company from achieving its objectives, are also taken into account and evaluated. The risk management system covers strategic decisions made by the Executive Board as well as day-to-day business operations.

The executive bodies of the Group have laid down basic rules for risk assumption. These include that ADLER may assume specific corporate risks, provided that opportunities associated with those risks are likely to increase the value of the Company.

ADLER's Executive Board holds overall responsibility for ensuring the efficient management of opportunities and risks within the ADLER Group. The risk management officer coordinates and defines responsibilities and processes, and draws up binding guidelines and formal rules. The risk management officer reports directly to the Executive Board, as well as to the Audit Committee of the Supervisory Board once per year. Risks are generally managed where they arise. Each department head is therefore also a risk owner since their management responsibilities in their day-to-day function require them to weigh risks and opportunities when taking decisions and undertaking actions, and to decide on an appropriate course of action.

The primary medium for the RMS is the risk manual, which lays out the core issues of the Company's risk management regime. It defines risk areas, how risks are assessed and the organisational approach to risk. Defining the process chain for handling risks ensures that risk areas are identified rapidly and that systematic countermeasures can be implemented at any time.

In terms of day-to-day business operations, risk management means weighing the identified opportunities and the efforts involved in managing the associated risks, as well as continuously monitoring the risks entered into and the measures introduced for their management. A coordinated set of measures to mitigate risks requires clearly delineated responsibilities and a suitable framework. In this respect, risk management is among the most important management duties and is regularly reviewed.

RISK RECOGNITION AND ANALYSIS

The legal requirement of a functioning risk management system is that it must record as fully as possible all material risks, namely all strategic and operational factors that could impact the Company's financial position, cash flows and financial performance. In order to meet this requirement, there are two key tools for recognising and assessing risk.

The purpose of the risk inventory is to record all of the risks within the departments as fully as possible. In the initial risk inventory, a questionnaire is used to inquire about potential and already identified risks. Together with the department heads, these risks added to as necessary and analysed, before responsibilities are defined. In addition to comprehensively identifying the potential risks, the aim of the initial inventory is to raise the management's risk awareness, clearly define responsibilities and provide guidance on how to eliminate or manage risks, e.g. through the implementation of risk monitoring tools. Any measures taken to manage risk are documented in an appropriate form during the process and their effectiveness is monitored by the risk management officer.

Following the initial risk inventory, an inventory is carried out on a regular half-yearly basis in each department, documented using the questionnaire provided by the risk management officer, and recorded centrally in the risk inventory document.

The risk inventory document is a centralised document which contains the Company's entire risk portfolio resulting from the risk inventory. The risk inventory document is therefore also used for the purpose of reporting to the Executive Board and the parent company. Since the risk situation must be able to be quickly, clearly and comprehensively determined from this document, a brief description of the risks is provided, ensuring that they can be allocated to a risk field and risk owner in a clear format. The risk inventory document is updated annually.

The risk analysis assesses the significance of the identified risks with regard to influencing factors and quantitative impact. The assessment system must be simple and practical. The aim of the risk inventory is not to accurately estimate the potential monetary cost of the risk, but to clarify the relevance of the risk in question.

Accordingly, the precise quantification of risks is only required if it can be carried out using recognised and reliable methods, if it is economically viable, and if the quantitative data provides information that is relevant for decision-making processes. In particular, it is difficult to quantify non-material damages or potential financial damages for the loss of future profits, as well as events that seldom occur for which there are no historical values.

RISK REPORTING

Risk reporting serves to monitor risks on an ongoing basis. It ensures that existing risks are identified, analysed and evaluated and that risk-related information is systematically forwarded on to the responsible decision-makers. Risks are monitored with the aid of indicators and management is notified of any pertinent developments if thresholds are exceeded. The risk reports summarise the findings of the risk inventories and are prepared individually for each operating company and for the Group as a whole.

As part of the monthly reporting under the German Commercial Code (Handelsgesetzbuch, "HGB") and IFRSs, any deviations from the budget are reviewed and their impact on target achievement are forecast. The key indicators here are revenue, expense items and, as a result, EBITDA. Further KPIs, including customer footfall, sales closing ratio, average shopping basket, liquidity development, and the change in inventories and their valuation are used to assess the Company's position.

RISK REPORTING MACROECONOMIC AND POLITICAL RISKS

The economic situation can worsen at any time. Both in theory and in practice there are numerous causes and triggers that would lead consumers to spend less or to maintain lower spending levels. A significant deterioration of the global economic climate would also negatively impact the European Union and the situation in ADLER's sales markets. The occurrence of the aforementioned risks could have an adverse effect on the ADLER Group's financial position, cash flows and financial performance.

MARKET RISKS

The ADLER Group's business performance and growth depend on general demand trends in the retail clothing industry and ADLER's target customer group in particular. Demand trends are of key significance in the ADLER Group's home market of Germany, where the Group generates the predominant share of its revenue. However, the remaining sales markets – Austria, Luxembourg and Switzerland – are also of economic consequence for ADLER. Demand depends significantly on the economic climate and consumer behaviour.

Any phase of weak economic performance in the ADLER Group's sales markets or decline in disposable income for clothing in ADLER's target customer group increases the risk of a negative sales trend. On the one hand, this could result in greater pricing pressure on the merchandise sold by ADLER and in lower margins. On the other hand, shifts in income levels for entire demographic groups could mean that consumers who in the past purchased high-end merchandise might turn to ADLER for their clothing needs in the future.

Changes in buyer behaviour, for example from brick-and-mortar to online retail, increase the risk of a negative sales trend and shrinking margins.

Fluctuations in supply and demand among suppliers or on commodities markets may lead to supply shortages, quality defects or higher logistics and manufacturing costs. It may not be (entirely) possible to offset these costs with higher prices. ADLER counters such risks by following a rather broadly diversified procurement policy while at the same time focussing on reliable partners. The simultaneous expansion of its retail business ensures higher margin flexibility and allows for the possibility of offsetting price fluctuations on supplier markets.

Country risks are primarily attributable to international purchasing activities. For ADLER, these include potential macroeconomic, political and other entrepreneurial risks abroad. The Company counters these risks through the aforementioned diversification of its supplier structure. Country risks are offset on the sales side by selling ADLER products exclusively in neighbouring, German-speaking countries with stable economic and political environments. As is the case for all companies, there is the risk that potential acts of terrorism or environmental disasters could jeopardise the financial position, cash flows and financial performance of the Company.

ADLER's economic success depends in large part on the brand image of the ADLER umbrella brand and its long-term strong positioning among the customer segment aged 55 and up. Therefore, the utmost priority is placed on protecting and maintaining ADLER's brand image. By the same token, this theoretically gives rise to the risk that ADLER could damage the umbrella brand through poor decisions or incorrect actions. Such decisions or actions may adversely affect the Company's growth prospects.

ADLER identifies current trends in its target customer group early on and adapts its design, procurement, distribution and sales processes to reflect them. The Group's competitive position, growth prospects and profitability may be adversely affected in the event ADLER fails to identify important trends or cater to the tastes of its customers. This also applies to the Company's pricing and product development.

FINANCIAL AND LIQUIDITY RISKS

ADLER's long-term corporate financing is secured through the availability of the Company's own cash and cash equivalents and sufficient invoice terms for accounts payable. At the same time, the Company has access to sufficient lines of credit to rule out liquidity squeezes. Corporate financial planning, together with weekly rolling liquidity planning, ensures that liquidity reserves are always available. As a result of the available cash and cash equivalents and the expected positive business development, ADLER avoids exposure to any risk of insufficient financing.

The Company is primarily financed through equity, which is why ADLER is only partly affected by interest rate changes. No interest hedges have been concluded.

CURRENCY RISKS

ADLER is only marginally exposed to currency risks since it realises revenue and procures merchandise primarily in euros. However, the procurement markets for the textiles industry, which are primarily located in Asia, generally deal in US dollars. There are indirect currency risks insofar as importers might pass on the currency fluctuations resulting from the current weakness of the euro via the price at which they sell goods to ADLER. This results in a margin risk which affects ADLER as well as any other textiles company with a high share of imported goods. However, ADLER genereally purchases the delivered merchandise at fixed prices that are agreed upon in advance on which it can base its sales price calculation.

ADLER procures goods from both Europe and the Far East. More than 80 suppliers for the various fashion segments ADLER offers are intra-European sources of supply. ADLER is not dependent on any supplier to such an extent that sales development could be noticeably impaired. In the event of a supplier failure, replacement sources are available. Purchases from Far East are largely handled by ADLER's purchasing agency, H-OI. H-OI in turn cooperates with a large number of manufacturers. There are no dependencies or major risks if individual H-OI suppliers fail to deliver.

RISKS ASSOCIATED WITH THE PROCUREMENT OF MERCHANDISE

Aside from general geographical and political risks, rising wages in emerging regions and increasing prices for raw materials mean that there is always a risk of increasing production costs and hence lower margins. The ADLER Group counteracts this risk through margin-based collection planning in order to ensure an early response to rising production costs. Negative effects on the gross profit margin are reduced through the expansion and continued professionalization of the operating business, Group-wide efficiency enhancement measures, improved material use and the consistent implementation of pricing policy.

ASSESSMENT OF RISKS BY THE EXECUTIVE BOARD

Based on the information currently available, no individual or aggregated risks have been identified which might jeopardise the Company as a going concern.

INTERNAL CONTROL & RISK MANAGEMENT SYSTEM

Internal control and risk management system (ICS) related to the (group) accounting process (report in accordance with §§289 (4), 315 (2) no. 5 of the german commercial code (Handelsgesetzbuch, "HGB"))

The internal control and risk management system features suitable structures and defined processes that are integrated within the organisation. It is designed in such a way to ensure the timely, consistent and correct recording of all business processes and transactions. To consolidate the companies included in the consolidated financial statements, ADLER's ICS ensures compliance with mandatory statutory norms, accounting requirements and internal accounting instructions. Changes are continually analysed with regard to their relevancy and impact on the consolidated financial statements and, where necessary, are integrated into the intra-Group guidelines and systems.

ADLER's Group Finance department is responsible not only for actively supporting all business divisions and Group companies but also for developing and updating standard guidelines and work instructions for accounting-related processes. Aside from established control mechanisms, the principles of the ICS consist of technical system-based and manual reconciliation processes, the separation of management and control functions and the adherence to guidelines and work instructions.

The financial statements of the Group companies outside of Germany are drawn up by Group Accounting. The Group companies are responsible for adhering to Group-wide guidelines and procedures and the proper and timely operation of their accounting-related processes and systems. Local companies are supported by points of contact at the Group level throughout the entire accounting process. Appropriate measures are implemented as part of the accounting process to ensure that the consolidated financial statements are in compliance with the regulations. The measures serve in particular to identify and evaluate risks and to mitigate and monitor known risks.

In principle, it should be taken into account that an internal control system, regardless of its design, cannot provide absolute certainty that material accounting misstatements will not be made or discovered. However, it can be used with sufficient certainty to prevent business risks from having a material impact.

REMUNERATION REPORT

The remuneration report describes the principles applied in setting the Executive Board members' total remuneration, explains the structure and specifies the amount of the remuneration paid to Executive Board members. The report also provides a summary of the principles underlying the Supervisory Board members' remuneration and the amount thereof. The report contains the disclosures required under the German Commercial Code (Handelsgesetzbuch, "HGB"), International Financial Reporting Standards (IFRSs), and the declaration of conformity in accordance with the recommendations of the German Corporate Governance Code.

PERFORMANCE-BASED REMUNERATION SCHEME FOR THE EXECUTIVE BOARD

Since ADLER's founding, Executive Board remuneration has been based on a scheme aimed at creating an appropriate incentive for successful and forward-thinking corporate management. Executive Board remuneration, which is in line with that of comparable organisations, is based on the Company's size and financial situation and aims to appropriately reward exceptional performance as well as to tangibly reflect failures to meet performance targets. Executive Board members are expected to demonstrate their long-term commitment to ADLER. This expectation, which is part and parcel of the shareholders' interest in an attractive investment, is met by making the remuneration contingent on the long-term and thus sustainable increase in the Company's value as reflected in ADLER's share price.

Based on applicable law, specifically the German Act on the Appropriateness of Executive Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung, "VorstAG"; § 87 (1) of the German Stock Corporation Act (Aktiengesetz, "AktG")) as well as a corresponding provision in the rules of procedure for the Supervisory Board, the full Supervisory Board is responsible, following preparation by the Personnel Committee, for setting and periodically reviewing the remuneration of the individual Executive Board members. The remuneration scheme for the Executive Board – the underlying principles of which remained unchanged in 2018 – was approved most recently by the Annual General Meeting held on 9 May 2018 in accordance with § 120 (4) of the German Stock Corporation Act (Aktiengesetz, "AktG").

The Executive Board members' remuneration consists of a base salary plus performance-based components. The performance-based components are the "short-term incentive" (STI) bonus and the "long-term incentive" (LTI) bonus, the calculation of which takes several years into account.

Base remuneration

The base remuneration for Executive Board members consists of an annual fixed amount paid out in 12 equal instalments as a monthly salary. Executive Board members also receive ancillary benefits in the form of non-cash benefits consisting primarily of the use of a company car, telephone and insurance premiums. The Company reimburses the Executive Board members 50 % of their documented expenses for health and long-term care insurance, albeit not more than the total of the Company's share of the health and long-term care insurance premiums owed in the event an employment relationship is deemed to exist under social security insurance law.

Short-term incentive bonus (STI)

The STI is the first remuneration component, and continues to be based on the Company's performance for the past financial year. In financial year 2018, the STI for current members of the Executive Board will be calculated based on earnings before interest, tax, depreciation and amortisation (EBITDA) as reported in the audited IFRS consolidated financial statements for the financial year ended and based on targets and further financial ratios to be defined at the beginning of the year which operate to either increase or decrease the STI depending on the degree to which such targets and ratios are met. Each member's STI is capped at € 750 thousand annually.

The Supervisory Board may reasonably reduce the STI if it is based on circumstances which are not adequately attributable to the performance of Executive Board members; or are attributable to extraordinary developments. The STI for the past financial year is due and payable two weeks after the conclusion of the Annual General Meeting. If a member's appointment to the Company's Executive Board was only for part of the financial year, the STI will be paid on a pro rata temporis basis.

Long-term incentive bonus (LTI)

The LTI bonus, the calculation of which takes several years into account, is intended as monetary recognition of the Executive Board member's contribution toward increasing the Company's value. The LTI bonus is based on EBITDA as reported in the audited and approved IFRS consolidated financial statements for the financial year ended. The amount of the bonus depends on the performance of ADLER shares (weighted average share price for the Company during the financial year for which the LTI bonus is calculated as compared to the prior-year weighted average share price). The LTI bonus, the calculation of which takes several years into account, is currently limited to a total amount of € 1,500 thousand and is not paid out if ADLER shares do not perform accordingly. The LTI bonus for each financial year ended is due and payable two weeks after the conclusion of the Annual General Meeting. If a member's appointment to the Company's Executive Board was only for part of the financial year, the LTI bonus will be paid on a pro rata temporis basis.

Cap on overall amount of remuneration

In addition to the cap on the amount of remuneration for the variable remuneration components of STI and LTI, a cap on the overall amount of remuneration has also been agreed upon.

Commitments in connection with the termination of executive board membership

In the event an Executive Board membership or service agreement is terminated early without good cause, the current service agreements provide for the payment of severance benefits. The payments, including ancillary benefits, may not exceed the equivalent of two annual salaries ("Severance Cap") and may not amount to more than the remaining term of the service agreement. The Severance Cap is determined based on either an individual amount or on the total remuneration for the past financial year and the expected total remuneration for the current financial year. No commitments have been made to pay benefits to members of the Executive Board for early termination of the Executive Board membership as a result of a change of control.

Pensions

There are no contractual pension claims in existence for active members of the Executive Board.

TOTAL REMUNERATION FOR FINANCIAL YEAR 2018

The Company's Annual General Meeting on 4 May 2016 resolved that individual Executive Board members' remuneration would not be disclosed separately. For financial year 2018, remuneration for the Executive Board totalled € 1,471 thousand (previous year: € 2,327 thousand). The breakdown of the remuneration is as follows:

€'000	2018	2017
Fixed remuneration	1,081	1,073
Non-cash benefits	29	26
Bonuses	50	228
Short-term employee benefits payable to Executive Board members	**1,160**	**1,327**
Long-term incentive bonus (LTI)	0	0
Benefits payable to Executive Board members from long-term bonus (LTI)	**0**	**0**
Severance payments	311	1,000
Benefits due to termination of the Executive Board position	**311**	**1,000**
Total	**1,471**	**2,327**

SUPERVISORY BOARD REMUNERATION

The remuneration system for the Supervisory Board has recently been modified by resolution of the Annual General Meeting on 13 June 2013. The remuneration system is set forth under article 14 of Adler Modemärkte AG's Articles of Association. At ADLER, the remuneration of the Supervisory Board is structured in the form of fixed remuneration only. As with the remuneration for the Executive Board, the remuneration for the Supervisory Board is contingent on the size of the organisation and should reflect the level of activity and responsibility assumed.

Accordingly, the members of the Supervisory Board receive annual remuneration in the amount of € 20 thousand for their activities, payable following the conclusion of a given financial year. The chairman of the Supervisory Board receives double this amount and the deputy chairman receives 1.5 times this amount.

For each Supervisory Board committee of which they are a member, members receive an additional 10 % to the amount set out above, provided that the respective committee has met at least twice in the respective financial year. Excepted from this provision is the membership in the Conciliation Committee pursuant to § 27 (3) MitbestG. Supervisory Board members who have not been a member or chairman of the Supervisory Board or a committee for an entire financial year shall be remunerated on a pro rata temporis basis. Remuneration is due and payable at the end of the Annual General Meeting resolving on the ratification of the acts of the Supervisory Board. Supervisory Board members also receive € 300 for each Supervisory Board meeting attended. The chairman receives double this amount and the deputy chairman receives 1.5 times this amount. Members of the Supervisory Board are also reimbursed for all expenses as well as VAT payable on their remuneration and out-of-pocket expenses. The Annual General Meeting shall decide by resolution on other methods of remuneration for the members of the Supervisory Board and benefits of a remunerative nature.

In financial year 2018, the total remuneration for members of the Supervisory Board was € 325 thousand (previous year: € 317 thousand). The breakdown of the remuneration is as follows:

	2018				2017			
€'000	Fixed remune-ration	Committee member-ship	Meeting attendance	Total remune-ration	Fixed remune-ration	Committee member-ship	Meeting attendance	Total remune-ration
Supervisory Board members in office as at 31 December 2018								
Massimiliano Monti, Chairman [1]	40.0	8.0	4.2	52.2	40.0	8.0	3.0	51.0
Majed Abu-Zarur [1], Deputy Chairman	30.0	6.0	3.2	39.2	30.0	6.0	1.8	37.8
Wolfgang Burgard [1]	20.0	4.0	1.8	25.8	20.0	4.0	1.5	25.5
Cosimo Carbonelli D'Angelo [1]	20.0	2.0	0.6	22.6	20.0	2.0	0.3	22.3
Kirsten Fox (since 9 May 2018)	13.0	0.0	0.6	13.6	0.0	0.0	0.0	0.0
Jochen Gröning [1] (since 9 May 2018)	13.0	2.6	0.9	16.5	0.0	0.0	0.0	0.0
Corinna Groß	20.0	0.0	1.2	21.2	20.0	0.0	0.6	20.6
Peter König [1]	20.0	1.4	2.1	23.5	20.0	4.0	1.2	25.2
Giorgio Mercogliano	20.0	0.0	1.5	21.5	20.0	0.0	1.5	21.5
Paola Viscardi-Giazzi [1]	20.0	2.0	2.1	24.1	20.0	2.0	1.2	23.2
Jürgen Vogt [1] (since 9 May 2018)	13.0	1.3	0.9	15.2	0.0	0.0	0.0	0.0
Beate Wimmer [1]	20.0	1.3	2.1	23.4	20.0	0.0	1.5	21.5
Former members of the Supervisory Board								
Frank König (until 9 May 2018)	7.1	0.0	1.2	8.3	20.0	0.0	1.5	21.5
Georg Linder [1] (until 9 May 2018)	7.1	1.4	1.2	9.7	20.0	4.0	1.5	25.5
Dott. Michele Puller (until 9 May 2018)	7.1	0.0	1.2	8.3	20.0	0.0	1.5	21.5
Total	**270.2**	**30.0**	**24.8**	**324.9**	**270.0**	**30.0**	**17.1**	**317.1**

[1] *The Chairman and the Deputy Chairman of the Supervisory Board receive a higher fixed remuneration and a higher remuneration for attending meetings. In accordance with the Articles of Association of Adler Modemärkte AG, Supervisory Board members receive an additional 10 % for each Supervisory Board committee of which they are a member; this remuneration is reported separately from the remuneration for committee activities.*

MISCELLANEOUS

The Company has taken out D&O liability insurance, in particular for the members of its governing bodies. The insurance includes a deductible for members of the Executive Board and the Supervisory Board in compliance with § 93 (2) sentence 3 AktG and the German Corporate Governance Code.

LEGAL DISCLOSURES

The following section primarily contains disclosures and explanations pursuant to § 289a, § 289b, § 289f, § 315a, § 315b and § 315d of the German Commercial Code (*Handelsgesetzbuch*, "HGB"). These disclosures concern corporate legal structures and other legal relationships. They also serve to provide a better overview of the Company and any obstacles that may exist with respect to an acquisition.

CORPORATE GOVERNANCE STATEMENT

The corporate governance statement under § 289f and § 315d of the German Commercial Code (Handelsgesetzbuch, "HGB") constitutes a component of the management report. Pursuant to § 317 (2) sentence 6 HGB, the audit of the disclosures provided under § 289f and §315d HGB is limited to whether the relevant disclosures have been made. The statement published on the ADLER website at *www.adlermode-unternehmen.com* under the heading Investor Relations/Corporate Governance pursuant to § 289f (2) sentence 2 and §315d sentence 2 in conjunction with § 289f (2) sentence 2 HGB contains the declaration of conformity, information on corporate governance practices, a description of the procedures applied by the Executive Board and the Supervisory Board and information on targets set pursuant to § 76 (4) and § 111 (5) AktG.

SEPARATE NON-FINANCIAL REPORT IN ACCORDANCE WITH § 289B (3) HGB AND §315B (3) HGB

Adler Modemärkte AG prepared a separate non-financial report in accordance with § 289b (3) HGB and §315b (3) HGB for financial year 2018 that is not contained in the management report. This report will be published as a separate sustainability report on the Company's website (*www.adlermode-unternehmen.com*) under the heading Sustainability by 30 April 2019, where it will be available for inspection and download for a minimum of ten years.

REPORT ON RELATIONSHIPS WITH AFFILIATES

S&E Kapital GmbH, Munich, held a majority interest in the Company throughout the year under review. No control or profit and loss transfer agreement exists between Adler Modemärkte AG and S&E Kapital GmbH.

Therefore, the Executive Board of Adler Modemärkte AG prepared a dependent companies report on relationships with affiliates pursuant to § 312 of the German Stock Corporation Act (Aktiengesetz, "AktG"). At the conclusion of that report, the Executive Board declared "[…] that Adler Modemärkte AG and its subsidiaries, based on the circumstances which were known to the Executive Board at the time and under which the legal transactions were effected received reasonable consideration for each such legal transaction. No measures were taken or omitted in the interest or at the behest of the controlling entity or any entities affiliated with it".

DISCLOSURES UNDER TAKEOVER LAW PURSUANT TO § 289A AND § 315A HGB AS AT 31 DECEMBER 2018 AND EXPLANATORY REPORT

Composition of subscribed capital

Adler Modemärkte AG's share capital is currently still € 18,510,000 and is divided into 18,510,000 no-par value ordinary bearer shares, each representing a notional interest in the share capital of € 1.00. All shares carry the same rights and each share carries one vote at the Annual General Meeting.

Restrictions on voting rights or the transferability of shares, even if these could arise from agreements between shareholders, to the extent these are known to the Executive Board of the parent company
There were no restrictions on voting rights or the transferability of shares.

Equity interests in excess of 10% of the voting rights
As at 31 December 2018, to the best of ADLER's knowledge, direct and indirect equity interests held in the Company in excess of 10% of the voting rights as disclosed pursuant to the German Securities Trading Act (*Wertpapierhandelsgesetz*, "WpHG") exist as follows:

- Direct equity interest held by S&E Kapital GmbH, Munich, representing 52.81% of the voting interest in the Company.
- Indirect equity interests by virtue of the attribution of the 52.81% voting interest in the Company held by S&E Kapital GmbH, Munich, under the WpHG: STB Fashion Holding GmbH i.l., Herne; Steilmann SE i.l., Bergkamen; Miro Radici Hometextile GmbH i.l., Bergkamen; Steilmann Holding AG i.l., Bergkamen; Excalibur I S.A., Luxembourg; Equinox Two S.C.A., Luxembourg and Equinox S.A., Luxembourg.

Changes may have arisen after the reporting date that were not required to be disclosed to the Company. All notifications received by the Company pertaining to voting rights may be viewed on ADLER's website (*www.adlermode-unternehmen.com*) under the heading Investor Relations/News & Releases/Voting Rights Announcements.

Shares with special rights granting control powers
No shares with special rights granting control powers exist.

Type of voting rights control where employees hold equity interests and do not directly exercise their control rights
The Company has not currently issued any shares to employees under any employee stock option plan.

Appointment and dismissal of members of the Executive Board, amendments to the Articles of Association
The appointment and dismissal of members of the Executive Board of Adler Modemärkte AG is governed by § 84 and § 85 AktG and by § 31 of the German Co-determination Act (*Mitbestimmungsgesetz*, "MitbestG") in conjunction with article 6 of the Articles of Association. According to the provisions thereunder, members of the Executive Board are appointed by the Supervisory Board for a maximum term of five years. Re-appointment or an extension of the term of office for up to an additional five years is permissible. Under § 31 (2) MitbestG, a majority of at least two thirds of the members of the Supervisory Board is required to appoint members of the Executive Board. If this does not result in an appointment being made, the Conciliation Committee of the Supervisory Board must propose a candidate for appointment within one month of voting. The Supervisory Board will then appoint the members of the Executive Board by majority vote of its members. If this does not result in an appointment being made either, a new vote will be held in which the chairman of the Supervisory Board's vote counts twice. Pursuant to article 6 (1) of the Articles of Association, the Executive Board is composed of at least two members; the Supervisory Board stipulates the number of members on the Executive Board. Pursuant to § 84 AktG and article 6 (1) of the Articles of Association, the Supervisory Board may appoint a chairman of the Executive Board (CEO) as well as a deputy chairman. If the Executive Board is lacking a required member, the member will be judicially appointed in urgent cases by application of one of the parties pursuant to § 85 AktG. Pursuant to § 84 (3) AktG, the Supervisory Board may revoke the appointment as a member of the Executive Board and the appointment as CEO for good cause.

Amendments to the Articles of Association are passed with a majority of at least three quarters of the share capital represented at the adoption of the resolution; §§ 179 et seq. AktG apply. Pursuant to article 16 of the Articles of Association, the Supervisory Board is authorised to pass editorial amendments to the Articles of Association. The Supervisory Board is further authorised to update the language of article 4 of the Articles of Association (Share capital amount and division) to reflect the utilisation of authorised and/or contingent capital in each case.

Executive Board's authority to issue shares

The Executive Board's authorisation under article 5 (5) of the Articles of Association currently in force, subject to the consent of the Supervisory Board, to increase the Company's share capital against cash and/or in-kind contributions, on one or several occasions, by a total of up to € 7,930 thousand by issuing new no-par value bearer shares (Authorised Capital), expired on 10 February 2016.

The Executive Board's authorisation, granted by resolution of the Company's extraordinary General Meeting held on 30 May 2011, subject to the Supervisory Board's consent, to issue, on one more occasions on or before 30 April 2016, warrant-linked and/or convertible bonds with a total nominal amount of up to € 250,000 thousand with a maximum term to maturity of 20 years and, subject to the specific stipulations of the respective terms and conditions of the warrant-linked and/or convertible bonds, to grant option rights to the holders of warrant-linked bonds and conversion rights to the holders of convertible bonds in respect of up to € 7,930 thousand no-par value ordinary bearer shares of the Company, expired on 30 April 2016. In connection with this, the contingent increase of € 7,930 thousand in the Company's share capital through the issue of up to 7,930,000 new no-par value ordinary bearer shares (Contingent Capital 2011), resolved by the extraordinary General Meeting held on 30 May 2011 and pursuant to article 5 (6) of the Company's current Articles of Association, lapsed on the same date.

Executive Board's authority to buy back shares

The Annual General Meeting on 13 June 2013 had authorised the Company pursuant to § 71 (1) no. 8 AktG to acquire treasury shares representing a total of up to 10 % of the share capital existing at the time the resolution was adopted until 12 June 2018. At no time may the shares acquired under this authorisation together with other shares of the Company which the Company had acquired at the time of acquisition and still holds or which are attributable to it pursuant to § 71d or § 71e AktG represent more than 10 % of the share capital. The Company may not exercise the authorisation for the purpose of trading in treasury shares. The authorisation may be exercised in whole or in partial amounts on one or more occasions by the Company, or by dependent companies or entities in which the Company has a majority shareholding, or by third parties acting for the account of the Company or that of dependent companies or entities in which the Company has a majority shareholding. At the Executive Board's option, treasury shares may be acquired over the stock exchange or by way of a public purchase offer directed to all shareholders. If the shares are acquired over the stock exchange, the consideration paid per share (excluding ancillary acquisition costs) may not be more than 10 % above or below the price determined for the share on the relevant trading day in the opening auction of the XETRA trading system (or a comparable successor system). If the shares are acquired in the way of a public purchase offer, the purchase price offered, or the minimum and maximum amounts of the purchase price range per share (excluding ancillary acquisition costs), may not be more than 10 % above or below the closing price in the XETRA trading system (or a comparable successor system) on the third stock exchange trading day preceding the day of the public announcement of the purchase offer. If, following publication of a public purchase offer, there are significant deviations from the relevant price, the purchase offer may be adjusted. In this case, the price on the third stock exchange trading day preceding the public announcement of any such adjustment shall be relevant. The volume of the offer may be restricted. If the offer is over-subscribed, acceptance of the offer must take place on a pro rata basis. A preferential acceptance of smaller units of up to 100 tendered shares per shareholder may be stipulated.

The Executive Board shall be authorised to use shares of the Company, which have been acquired pursuant to this authorisation or any prior issued authorisation, for any purpose permitted by law. Specifically, the Executive Board's authorisation shall cover the following: (i) The Executive Board shall be authorised, subject to the Supervisory Board's consent, to dispose of treasury shares, which were acquired pursuant to this authorisation or any prior issued authorisation, over the stock exchange or by tender offer to all the shareholders. Shares sold over the stock exchange shall not carry any shareholders' pre-emptive subscription rights. In the event shares are sold by way of a public tender, the Executive Board shall be authorised, subject to the Supervisory Board's consent, to exclude shareholders' pre-emptive subscription rights on fractional shares. (ii) The Executive Board shall furthermore be authorised, subject to the Supervisory Board's consent, to dispose of treasury shares, which were acquired pursuant to this authorisation or any prior issued authorisation, in a manner other than over the stock exchange or by tender offer to all the shareholders, provided the treasury shares acquired are sold at a price that is not substantially lower than the stock exchange price of the Company's shares with the same features at the time of any such sale. Shareholders' pre-emptive subscription rights shall be excluded in this context. This authorisation shall be limited to a total of 10 % of the share capital existing at the time the resolution is adopted by the Annual General Meeting or to the Company's share capital existing at the time this authorisation is exercised, whichever is lower. The proportionate amount of the share capital represented by the shares which pursuant to this authorisation may be sold in a manner other than over the stock exchange or by tender offer to all the shareholders shall be reduced by the proportionate amount of the share capital represented by those shares which were issued since the grant of this authorisation based on the authorisation under article 5 (5) of the Articles of Association (Authorised Capital), and by those shares for which the holders or creditors of warrant-linked and/or convertible bonds issued since the grant of this authorisation are or were eligible to subscribe, in each case to the extent that, when shares were issued from authorised capital or when warrant-linked and/or convertible bonds were issued, pre-emptive subscription rights under § 186 (3) sentence 4 AktG were excluded. (iii) The Executive Board shall furthermore be authorised, subject to the Supervisory Board's consent, to use treasury shares, which were acquired pursuant to this authorisation or any prior issued authorisation, as (partial) consideration in the context of corporate mergers or to acquire companies, equity investments in companies, parts of companies or other assets. (iv) The Executive Board shall furthermore be authorised, subject to the Supervisory Board's consent, to offer for purchase or to transfer treasury shares, which were acquired pursuant to this authorisation or any prior issued authorisation, to employees of the Company or its Group companies. The Supervisory Board shall be authorised to offer for purchase or to transfer treasury shares, which were acquired pursuant to this authorisation or any prior issued authorisation, to members of the Company's Executive Board. (v) The Executive Board shall furthermore be authorised, subject to the Supervisory Board's consent, to offer for purchase or to transfer treasury shares, which were acquired pursuant to this authorisation or any prior issued authorisation, to third parties who, as business partners of the Company or its Group companies, play a significant role in assisting the Company in achieving its corporate goals. (vi) The Executive Board shall furthermore be authorised to use treasury shares, which were acquired pursuant to this or any prior issued authorisation, to satisfy conversion or subscription rights arising under convertible or warrant-linked bonds granted by the Company or its Group companies. (vii) The Executive Board shall furthermore be authorised, subject to the Supervisory Board's consent, to cancel treasury shares, which were acquired pursuant to this authorisation or any prior issued authorisation, without the need for a separate resolution by the Annual General Meeting. The authorisation to cancel shares may be exercised in whole or in part. The cancellation of shares would result in a capital reduction. Alternatively, the Executive Board may determine that the share capital will not be reduced and that the cancellation will instead result in the proportionate interest in the share capital held by the other shareholders being increased pursuant to § 8 (3) AktG. In this case, the Supervisory Board is authorised to amend the number of shares set out in the Articles of Association. (viii) Shareholders' pre-emptive subscription rights shall be excluded in effecting the measures under (ii) to (vi).

The aforementioned authorisations may be exercised on one or several occasions, in whole or in part, individually or jointly.

In January 2014, the Company sold 888,803 treasury shares that had been previously acquired.

Material agreements of the parent company which are contingent upon a change of control as a result of a takeover offer

Adler Modemärkte AG has three credit facility agreements for a total of € 15 million and three guarantee facilities for a total of € 7 million, four of which provide for a right of termination for good cause in the event of a change of control. The agreements essentially give the lender a right of termination in those cases where the lender has reason to believe that its legitimate concerns will be impaired by the acquisition of direct or indirect control over the Company by one or several legal entities or that such an acquisition would have a negative impact on the performance of Adler Modemärkte AG. The lender may also terminate where a change of control occurs and the parties are unable to agree on continuing the agreement on new terms where applicable, e.g. with respect to the interest rate, collateral or other arrangements, within an appropriate period or in due time before the change of control occurs.

Compensation agreements entered into by the Company with members of the Executive Board or employees in the event of a takeover offer
No commitments have been made to pay benefits to members of the Executive Board or employees for premature termination of the Executive Board position as a result of a change of control.

REPORT ON EXPECTED DEVELOPMENTS

GLOBAL ECONOMIC GROWTH CURBED

The International Monetary Fund (IMF) expects the global economy to continue growing in 2019, but to lose momentum particularly in the large industrialised countries. The reasons for this can be found in the smouldering trade disputes, the potential consequences of an uncontrolled Brexit and a weakening Chinese economy. Global gross domestic product is expected to grow by 3.5 % in 2019 compared to 3.7 % in 2018. In October 2018, experts at the IMF had still anticipated 3.7 % growth for 2019.

The IMF also anticipates a slight economic slowdown in the eurozone. Here it expects to see 1.6 % growth after 1.8 % in 2018. The experts had also anticipated 0.3 percentage points more in this economic region in October. As for Germany, the forecast has even fallen by 0.6 points since October 2018 to now just 1.3 %. Growth of 2.2 % is expected for Austria in 2019.

In China, the IMF expects to see 6.2 % growth in 2019, which means another disappointing figure for the emerging economy after the 6.6 % growth seen in 2018. The IMF also believes the US economy is slowing at a similar rate. Growth there should be at 2.5 % in 2019 after a figure of 2.9 % in 2018.

SPENDING SUBDUED

According to a study conducted by GfK, a market research institute based in Nuremberg, the nominal disposable income in Germany is set to rise by € 763 or 3.3 % per capita in 2019. The sound level of purchasing power predicted for 2019 rests upon rising wages in a number of sectors and the stable labour market. Pensions are also expected to increase during 2019. However, how much of the nominal growth in purchasing power remains in real terms depends on how consumer prices develop in 2019. GfK expects to see private consumption increase overall in 2019 by 1.5 %.

According to the Austrian Institute of Economic Research, private consumption is holding up Austria’s economy, but in the late stages of the upturn, this is not quite offering it enough additional momentum due to the fact that incomes are still moderate. Private consumer spending in 2019 for example should increase by 1.6 % (2018: +1.7 %).

According to a survey conducted by Switzerland’s State Secretariat for Economic Affairs (SECO), Swiss consumer sentiment is still just above average. Despite the weaker expectations for the general economy, the prospects for the labour market and its own budget are improving.

ONGOING PESSIMISM AMONG BRICK-AND-MORTAR FASHION RETAILERS

The retailers surveyed by the industry magazine Textilwirtschaft have started off the new year sceptical overall. 70 % believe the consumer climate for textiles and clothing will deteriorate over the course of this year. 60 % anticipate a worsening of the general political situation, while 49 % believe the overall economic situation will deteriorate. Specifically, 30 % also expect to see their sales decline in 2019.

FORECAST AND OVERALL ASSERTION

Despite a difficult industry environment in the whole textile retail sector, ADLER's Management Board had forecasted consolidated revenues for fiscal year 2018 at approximately the same level as the previous year (€ 525.8 million) and an operating EBITDA in a range between € 26 – 29 million and as such above the comparable figure for 2017 (€ 25.4 million). However, these expectations had to be lowered at the beginning of November 2018 in view of the unusually hot and long summer and the dampened outlook for the Christmas business. The new forecasts envisioned revenues slightly below the previous year's level and EBITDA in a range of € 20 – 24 million. Against the backdrop of a Christmas business that was even weaker than expected, these adjusted sales targets were not quite achieved at € 507.1 million, whereas EBITDA at € 20.7 million was in line with the forecast.

The ADLER Management Board does not expect the difficult environment in the textile retail sector to brighten up in fiscal year 2019 either. Accordingly, the Management Board had already taken measures to stabilize the operating performance in 2017 and 2018. In view of the fact that five ADLER-Modemärkte stores were closed last year, these measures will not be sufficient to reach the previous year's level of € 507.1 million. On the contrary, consolidated revenues are expected to be just slightly below the € 500 million threshold. The efficiency enhancement measures, which were introduced in previous years, especially in the logistics and personnel areas, should nevertheless result in a comparable operating EBITDA (excluding restructuring expenses and effects from the first-time application of IFRS 16) between € 27 – 30 million. ADLER will continue to implement the necessary measures in 2019 and the following years to sustainably increase profitability and return to a continuous revenue growth. In this context, it is planned to close several fashion stores that are making a negative impact on earnings. To this end, the Management Board is planning one-off restructuring costs of € 8 – 10 million for the current financial year. Accordingly, the company expects to achieve EBITDA after restructuring expenses within a range of € 18 - 21 million. This measure will already have a positive effect on net profit for the year 2020.

The accounting standard IFRS 16 "Leases" is mandatory for the first time for the 2019 financial year. As a result, EBITDA will increase by an additional € 46 – 48 million in the new fiscal year (see notes on page 85 of this annual report).

The forecast already takes into account the expected collectively bargained increase in personnel costs and restructuring costs. ADLER expects only minor changes in the euro/US dollar exchange rate. This also applies to the development of the most important raw material prices.

ADLER will continue to pursue its successfully established conservative accounting and financing strategy in the future. Accordingly, the focus will remain on generating sustained positive free cash flows and a solid positive net liquidity position. This will be used to finance future corporate growth as well as a timely return to dividend payments.

FORWARD-LOOKING STATEMENTS

This management report contains forward-looking statements regarding Adler Modemärkte AG, its subsidiaries and affiliates, and the economic environment. All of these statements are based on assumptions that the management made on the basis of the knowledge and information available to it at the time this report was prepared. If these assumptions do not or only partially hold true, or if additional risks arise, actual business performance may deviate from the expected business performance. Therefore, no specific responsibility is taken for any forward-looking statements made in this management report.

CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

CONSOLIDATED INCOME STATEMENT

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2018

€ '000	Note	2018	2017
Revenue	1	**507,093**	**525,814**
Other operating income	2	6,127	18,812
Cost of materials	3	– 229,777	– 244,060
Personnel expenses	4	– 97,532	– 96,849
Other operating expenses	5	– 165,197	– 171,712
EBITDA		**20,714**	**32,005**
Depreciation, amortisation and write-downs	6	– 17,370	– 16,454
EBIT		**3,344**	**15,551**
Other interest and similar income	7	13	318
Interest and similar expenses	7	– 4,957	– 5,173
Net finance costs	7	**– 4,944**	**– 4,855**
Consolidated net profit/loss for the year before tax		**– 1,600**	**10,696**
Income taxes	8	– 975	– 6,838
Consolidated net profit/loss for the year		**– 2,575**	**3,858**
of which attributable to shareholders of Adler Modemärkte AG		– 2,575	3,858
Basic in EUR	34	– 0.14	0.21
Diluted in EUR	34	– 0.14	0.21

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR FROM 1 JANUARY TO 31 DECEMBER 2018

€ ‘000	Note	2018	2017
Consolidated net profit/loss for the year		**– 2,575**	**3,858**
Currency translation gains from foreign subsidiaries		– 124	231
Remeasurement of defined benefit pension entitlements and similar obligations	19	15	18
Deferred taxes		– 6	– 7
Items that will not be to the income statement going forward		**– 115**	**242**
Changes in the fair value of equity instruments at fair value through other comprehensive income		– 23	8
Items subsequently to the income statement		**– 23**	**8**
Other comprehensive income		**– 138**	**250**
Consolidated total comprehensive income		**– 2,713**	**4,108**
of which attributable to shareholders of Adler Modemärkte AG		– 2,713	4,108

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

ASSETS (€ '000)	Note	31 Dec. 2018	31 Dec. 2017
Non-current assets			
Intangible assets	9	4,797	5,581
Property, plant and equipment	10	69,012	74,975
Investment property	11	413	413
Other non-current receivables and assets	12	242	277
Deferred tax assets	14	8,970	7,398
Total non-current assets		**83,434**	**88,644**
Current assets			
Inventories	15	78,706	73,676
Trade receivables	16	2	635
Other current receivables and assets	12	9,483	14,550
Financial assets at fair value through other comprehensive income	13	263	286
Cash and cash equivalents	17	54,933	63,342
Total current assets		**143,387**	**152,489**
TOTAL ASSETS		**226,821**	**241,133**

EQUITY AND LIABILITIES (€ '000)	Note	31 Dec. 2018	31 Dec. 2017
Capital and reserves			
Subscribed capital	18	18,510	18,510
Capital reserves	18	127,408	127,408
Accumulated other comprehensive income	18	– 2,223	– 2,085
Negative retained earnings	18	– 47,386	– 43,886
Total equity	18	**96,309**	**99,947**
LIABILITIES			
Non-current liabilities			
Provisions for pensions and similar obligations	19	5,202	5,493
Other non-current provisions	20	1,378	1,309
Non-current financial liabilities	22	1,949	2,267
Liabilities from finance leases	23	47,321	50,233
Other non-current liabilities	25	4,861	5,359
Deferred tax liabilities	14	111	75
Total non-current liabilities		**60,821**	**64,737**
Current liabilities			
Other current provisions	20	5,560	4,366
Liabilities from the customer loyalty card programme	21	9,776	10,380
Current financial liabilities	22	319	316
Liabilities from finance leases	23	6,729	5,718
Trade payables	24	25,094	27,608
Other current liabilities	25	21,944	24,250
Current income tax liabilities	26	269	3,810
Total current liabilities		**69,691**	**76,449**
Total liabilities		**130,512**	**141,185**
TOTAL EQUITY and LIABILITIES		**226,821**	**241,133**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FROM 1 JANUARY 2017 TO 31 DECEMBER 2018

	Subscribed capital	Capital reserves	Accumulated other comprehensive income			Negative retained earnings	Total equity
€ '000			Securities	Currency translation	Other changes[2]		
As at 1 Jan. 2017	**18,510**	**127,408**	**14**	**– 159**	**– 2,191**	**– 47,743**	**95,839**
Dividend payment	0	0	0	0	0	0	0
Transactions with shareholders	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Consolidated net profit for the year	0	0	0	0	0	3,858	3,858
Other comprehensive income	0	0	8	231	11	0	250
Consolidated total comprehensive income	0	0	8	231	11	3,858	4,108
As at 31 Dec. 2017	**18,510**	**127,408**	**22**	**72**	**– 2,180**	**– 43,886**	**99,947**
As at 1 Jan. 2018	**18,510**	**127,408**	**22**	**72**	**– 2,180**	**– 43,886**	**99,947**
Dividend payment[1]	0	0	0	0	0	– 926[1]	– 926
Transactions with shareholders	**0**	**0**	**0**	**0**	**0**	**– 926**	**– 926**
Consolidated net loss for the year	0	0	0	0	0	– 2,575	– 2,575
Other comprehensive income	0	0	– 23	– 124	9	0	– 138
Consolidated total comprehensive income	0	0	– 23	– 124	9	– 2,575	– 2,713
As at 31 Dec. 2018	**18,510**	**127,408**	**– 1**	**– 52**	**– 2,171**	**– 47,386**	**96,309**

[1] *A dividend of €0.05 per share was distributed in the financial year (previous year: €0.00 per share).*
[2] *Other changes relate to actuarial gains and losses less deferred taxes.*

CONSOLIDATED STATEMENT OF CASH FLOWS

FROM 1 JANUARY 2018 TO 31 DECEMBER 2018

€ '000	Note	2018	2017
Consolidated net profit for the period before tax		**– 1,600**	**10,696**
(+) Depreciation of property, plant and equipment and amortisation of intangible assets		16,580	16,300
(+) Impairment		791	154
Increase (+)/decrease (–) in pension provisions		– 277	– 304
Gains (–)/losses (+) from the sale of non-current assets		– 114	– 7,138
Gains (–)/losses (+) from currency translations		– 151	307
Other non-cash expenses (+)/income (–)		993	– 8,945
Net interest income		4,944	4,855
Interest income		7	311
Interest expense		– 232	– 319
Income taxes paid		– 4,443	– 2,005
Increase (–)/decrease (+) in inventories		– 5,817	3,930
Increase (–)/decrease (+) of trade receivables and other receivables		4,655	– 8,016
Increase (+)/decrease (–) of trade payables, other liabilities and other provisions		– 5,442	11,305
Increase (+)/decrease (–) in other items of the statement of financial position		0	25
Cash from (+)/used (–) in operating activities (net cash flow)	27	**9,893**	**21,157**
Proceeds from disposals of non-current assets		309	10,393
Proceeds from disposals of non-current assets (property) held for sale		0	17,250
Payments for investments in non-current assets		– 6,254	– 6,184
Payments for acquisitions of subsidiaries		0	– 6,671
Cash from (+)/used (–) in investing activities	27	**– 5,945**	**14,789**
Free cash flow	27	**3,947**	**35,946**
Payments in connection with the repayment of loan liabilities		– 316	– 4,773
Dividend distribution		– 925	0
Payments in connection with finance lease liabilities		– 11,115	– 10,604
Cash from (+)/used (–) in financing activities	27	**– 12,356**	**– 15,377**
Net decrease (–)/increase (+) in cash and cash equivalents	27	**– 8,409**	**20,569**
Cash and cash equivalents at beginning of period		63,342	42,773
Cash and cash equivalents at end of period		54,933	63,342
Net decrease (–)/ increase (+) in cash	27	**– 8,409**	**20,569**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2018

I. PRELIMINARY REMARKS

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

Its financial year is the calendar year. The financial years of all the companies included in the consolidated financial statements also end on 31 December of the calendar year.

The consolidated financial statements were prepared by the Executive Board on 4 March 2019.

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

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

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

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

PRELIMINARY REMARKS

The consolidated financial statements of Adler Modemärkte AG were prepared in accordance with the requirements of the International Accounting Standards Board (IASB), London, and in conformity with International Financial Reporting Standards (IFRSs), as adopted by the EU. The interpretations issued by the IFRS Interpretations Committee (the International Financial Reporting Interpretations Committee and the Standing Interpretations Committee) were also applied. The consolidated financial statements conform to the directives relating to consolidated accounts issued by the European Union (Directive 83/349/EEC). In order to ensure equivalence with consolidated financial statements prepared in accordance with the German Commercial Code (Handelsgesetzbuch, "HGB"), all of the disclosures and explanations required by § 315a HGB over and above the requirements of the IASB have also been provided. The consolidated financial statements in the form in which they are presented here comply with the provisions of § 315a HGB; those provisions constitute the legal basis for the preparation of consolidated accounts in accordance with international accounting standards in Germany in conjunction with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

Those International Financial Reporting Standards (IFRSs) were applied that had become mandatory by the end of the reporting period on 31 December 2018. There was no early adoption of standards whose application had not yet become mandatory as at 31 December 2018.

STANDARDS AND INTERPRETATIONS APPLICABLE FOR THE FIRST TIME

The application of the following standards and interpretations revised or newly issued by the IASB was mandatory for the first time from the start of financial year 2018:

Standards and Interpretations	
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 15	Clarifications to IFRS 15
IFRS 9	Financial Instruments
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Amendments in relation to the interaction of IFRS 9 and IFRS 4
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IAS 40	Transfers of Investment Property
Annual Improvements to IFRS Standards (2014–2016 Cycle)	Amendments and clarifications to various IFRSs (Effective (EU) as from 1 January 2017/1 January 2018)

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

On May 28, 2014, the IASB, in cooperation with the FASB, adopted the new standard IFRS 15 ”Revenue from Contracts with Customers”. This standard will be applied for the first time as of January 1, 2018. IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. This standard combines all previous standards and interpretations that contained guidance on revenue recognition. The scope applies to all contracts with customers, unless these fall under the scope of IAS 17, IFRS 9, IFRS 10, IFRS 11, IAS 27 or IAS 28. A five-step model will govern revenue transactions going forward:

- Step 1: Identify the contract with the customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contracts
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Furthermore, IFRS 15 contains explicit guidance on multi-component transactions. Going forward, revenue will be recognised once control in goods or services has been transferred. The transfer of opportunities and risks will serve only as an indicator. Moreover, the standard provides new guidance on deciding when revenue must be recognised either over time or at a point in time. IFRS 15 replaces IAS 11 “Construction Contracts”, IAS 18 “Revenue”, IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfers of Assets from Customers” and SIC-31 “Revenue – Barter Transactions Involving Advertising Services”. IFRS 15 is mandatory for all IFRS users and applies to nearly all types of contracts with customers; the main exceptions are leases, financial instruments and insurance contracts.

IFRS 15 was applied for the first time using the modified retrospective method. In accordance with the transitional provisions, the previous year’s figures have not been restated.

The effects on the accounting of Adler Modemärkte AG were already recorded in the previous year as liabilities for returns, reducing sales. In accordance with IFRS 15, liabilities from returns amounting to €648 thousand were no longer reported as provisions for returns in other provisions but as liabilities for the first time in the year under review. IFRS 15 does not have any further effects.

IFRS 9 Financial Instruments

The IASB published the final version of IFRS 9 “Financial Instruments” on July 24, 2014. The standard will be applied for the first time as of January 1, 2018. It replaces IAS 39.

IFRS 9 contains new rules on the classification and measurement of financial assets and changes to the accounting treatment of impairment losses on certain financial assets.

According to IFRS 9, the classification and subsequent measurement of a financial asset depends on the entity’s business model for managing financial assets and the contractually agreed cash flows. IFRS 9 has no impact on the classification of financial liabilities .

The regulation regarding the impairment of financial instruments is based on expected future losses (expected loss model). As of initial recognition, 12-month loss expectations are generally recognized. All appropriate and reliable information that is available on the balance sheet date and relevant for estimating expected credit losses must be taken into account. If there is a significant deterioration in credit risk, the lifetime expected losses must be recognised from that date.

Amendments to IFRS 9 “Financial Instruments” include adjustments to the classification of financial assets. Under certain circumstances, financial assets with a negative early repayment penalty may be carried at amortized cost or at fair value in other comprehensive income instead of at fair value through profit or loss.

In accordance with the transitional provisions in IFRS 9 (7.2.15 and 7.2.26), the modified retrospective method was applied; comparative figures for the previous year have not been adjusted retrospectively in accordance with the transitional provisions.

The following immaterial changes result from the change in the classification and measurement rules for financial assets:

- Trade receivables, other assets and cash and cash equivalents, which were previously classified as loans and receivables, are held to collect contractual cash flows that solely represent interest and principal payments on the outstanding principal amount. In accordance with IFRS 9, these assets are classified as financial assets measured at amortized cost.

- Securities previously classified as "available-for-sale financial assets" in accordance with IAS 39 are now classified as financial assets measured at fair value through other comprehensive income in accordance with IFRS 9.

The following table shows the reconciliation of the original IAS 39 measurement categories and carrying amounts as of December 31, 2017 to the new IFRS 9 measurement categories and carrying amounts for each adjusted class of financial assets as of January 1, 2018.

€ '000	Categories	Measurement	IAS 39 Carrying amount as of December 31, 2017	Measurement category	IFRS 9 Carrying amount as of January 1, 2018
Trade receivables	Loans and receivables	Amortized cost	635	At amortized cost	635
Other receivables and other assets	Loans and receivables	Amortized cost	2,777	At amortized cost	2,777
Securities	Available for sale	At fair value through other comprehensive income	286	At fair value through other comprensive income	286
Cash and cash equivalents	Loans and receivables	Amortized cost	63,342	At amortized cost	63,342

The first-time application of the following new or revised accounting standard had no effect on the presentation of the net assets, financial position, and results of operations of Adler Modemärkte AG:

IFRS 2 Share-based payment
The amendments to IFRS 2 clarify the accounting of certain cash-settled share-based payment transactions. The most significant amendment is that the standard now contains guidance relating to the fair value calculation of liabilities resulting from share-based payment transactions. The amendments do not have any effect on Adler Modemärkte AG's accounting.

IFRS 4 Insurance contracts
The amendments to IFRS 4 in relation to the interaction of IFRS 4 and IFRS 9 "Insurance Contracts" do not have any effect on Adler Modemärkte AG's accounting.

IAS 40 Investment property

IAS 40 clarifies the transfer of property to "investment property" after a change in use. The deciding factor is not whether a change in use is intended, but if there is evidence of the change in use. This amendment to IAS 40 does not have any effect on Adler Modemärkte AG's accounting.

IFRIC 22 Foreign currency transactions and advance consideration

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" does not have any effect on Adler Modemärkte AG's accounting.

Annual improvements to IFRS standards (2014–2016 Cycle)

The Annual Improvements to IFRS Standards published in 2016 include the following standards that must be applied from 1 January 2018:

- IFRS 1: Deleted the short-term exemptions regarding the application of transition provisions in IFRS 7, IAS 19 and IFRS 10 because they were no longer relevant.

- IAS 28:
  - The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by, or indirectly through, an entity that is a venture capital organisation, mutual fund, unit trust or a similar entity, must be made separately for each associate or joint venture at initial recognition.
  - The amendments clarify that an investment company may continue to elect to measure an investment in a subsidiary at fair value if the investment company is included in the consolidated financial statements of a non-investment company as an associate or joint venture. The election must also be made separately for each investment company and must be made no later than (a) upon initial recognition of the investee; (b) the date on which the investee becomes an investment company; and (c) the date on which the investee becomes a parent company for the first time.

The amendments do not have any effect on Adler Modemärkte AG's accounting.

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET MANDATORY

The following standards are not yet mandatory. These will be applied by the ADLER Group from the prescribed date and the Group has estimated the expected effects of the individual standards, amendments to standards and interpretations on its financial position, cash flows and financial performance, to the extent that it was possible to make such an estimate at this stage.

Mandated by IASB from/expected to be mandatory for financial years beginning on or after*	Standards and Interpretations	Description	Adopted by EU Commission
2019	IFRS 16	Leases	Yes
	Amendment to IFRS 9	Prepayment Features with Negative Compensation	Yes
	IFRIC 23	Uncertainty over Income Tax Treatments	Yes
	Annual Improvements to IFRS Standards	Annual Improvements to IFRS Standards (2015–2017 Cycle)	No
	Amendment to IAS 19	Employee Benefits (Plan Amendment, Curtailment or Settlement)	No
	Amendment to IAS 28	Long-term Interests in Associates and Joint Ventures	No
2020	Amendment to IFRS 3	Definition of a Business	No
	Amendment to IAS 1 and IAS 8	Definition of Materiality	No
	Revisions to Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards	No
2021	IFRS 17	Insurance Contracts	No
TBD	Amendment to IFRS 10 and IAS 28	Sale of contributions assets between an investor and its associate or joint venture	No

Date of first-time mandatory application stipulated by the IASB. Where the standard, interpretation or amendment has already been adopted by the EU Commission, the date is the date for mandatory application stipulated by the EU.

IFRS 16 Leases

The new IFRS 16 replaces the currently applicable IAS 17 "Leases" and IFRIC 4 "Determining whether an Arrangement contains a Lease". The standard applies to all leases of right-of-use assets, lease agreements, subleases and sale and leaseback transactions. This standard may be applied to certain types of intangible assets. Under IFRS 16, 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.

IFRS 16 Leases requires that lessees recognise all leases as lease liabilities in the statement of financial position. Lessees must recognise the right to use an underlying asset by recognising the present value of future lease payments plus directly attributable costs. A distinction will no longer be drawn between operating and finance leases. These new provisions will materially affect Adler Modemärkte AG's accounting and will apply from financial year 2019 onwards. The amendment will primarily affect the accounting of lease agreements and motor vehicle and IT leases. A portion of the lease agreements are currently already recognised as finance leases. A project team was deployed to prepare the changes to the operating processes and the accounting. Supported accounting software and contract management tools have been implemented. All agreements were remeasured taking into account IFRS 16. Adler Modemärkte AG will not exercise its option to not apply the right-of-use approach to low-value assets and short-term leases (terms of less than one year), nor does it apply the option to separate leasing and non-leasing components in a contract.

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

The transition to IFRS 16 will affect the consolidated financial statements of Adler Modemärkte AG as follows:

Fixed Assets as of 1 January 2019 will increase by € 174.6 million and leasing liabilities by € 221.0 million. The increase is mainly due to rental agreements in the fashion markets. Due to the temporary differences between the carrying amounts of assets and liabilities in the IFRS consolidated financial statements and the corresponding tax base, deferred tax assets will increase by € 13.2 million after netting. Equity as of 1 January 2019 will decrease by € 33.2 million and the equity ratio will fall from 42.5 % to 15.2 %. Accordingly, the debt-equity ratio will deteriorate from 1.36 as of January 1, 2019 to 5.57.

The accounting treatment of all leasing contracts will result in an improvement in EBITDA due to a shift from other operating expenses (leasing and rental expenses) to depreciation, amortization and financial result (interest expenses). EBITDA is expected to increase by € 46.1 million, depreciation and amortization by € 28.8 million and the financial result by € 11.4 million in fiscal year 2019.

The comparative figures as of January 1, 2018 will change as follows: Fixed assets increase by € 200.2 million and leasing liabilities by € 255.6 million. Deferred tax assets increase by € 15.9 million. Equity as of 1 January 2018 decreases by € 39.5 million and the equity ratio from 41.5 % to 13.2 %. Accordingly, the debt-equity ratio deteriorates from 1.41 to 6.56.

EBITDA for the 2018 financial year rise by € 48.0 million, depreciation and amortization rise by € 30.0 million and the financial result deteriorates by € 13.5 million. Consolidated earnings before taxes increase by € 3.2 million.

The change has no effect on the cash flow of Adler Modemärkte AG.

Amendments to IFRS 9 prepayment features with negative compensation

The amendments to IFRS 9 enable entities to measure at amortised cost some prepayable financial assets with negative compensation. These assets, which include certain loan and debt instruments, would otherwise have been measured at fair value through profit or loss. To qualify for measurement at amortised cost, the negative compensation must be reasonable compensation for early termination of the contract and the financial asset must be assigned to the "held to collect" business model. The amendments will not have any effect on Adler Modemärkte AG's accounting.

IFRIC 23 Uncertainty over income tax treatments

IFRIC 23 clarifies the accounting for uncertainties in income taxes. IFRIC 23 is to be applied to the determination of taxable profit and losses, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. To date, there is nothing to indicate that this may have any effect on Adler Modemärkte AG's accounting.

Annual improvements to IFRS standards (2015–2017 Cycle)

The following amendments were finalised in December 2017:

- IFRS 3: If an entity obtains control as defined in IFRS 10 of a business that is a joint operation, the transaction is a business combination achieved in stages. The previously held interest in the joint operation must therefore be remeasured.

- IFRS 11: If an entity obtains joint control of a business that is a joint operation, the previously held interest is not remeasured.

- IAS 12: The amendments clarify that the income tax consequences of dividends on financial instruments classified as equity must be treated in the same manner as the transactions underlying the tax effect.

- IAS 23: The amendments clarify that if any borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The improvements will not have any effect on Adler Modemärkte AG's accounting.

Amendments to IAS 19

The amendments to IAS 19 include guidance on how to account for plan amendments, curtailments and settlements. The amendments require an entity:

- to use current actuarial assumptions and the net defined benefit liability (asset) to determine the current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement.

- to recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any change in a surplus, even if that surplus was not previously recognised due to the asset ceiling.

- to recognise the effects of changes to the asset ceiling in other comprehensive income.

The amendments will not have any effect on Adler Modemärkte AG's accounting.

Amendments to IAS 28

The amendments to IAS 28 clarify that entities must apply IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendments do not have any effect on Adler Modemärkte AG's accounting.

Amendments to IFRS 3

The amendments to IFRS 3 revise the definition of a business and clarify the guidance on differentiating a business from a group of assets. The accounting treatment for goodwill, acquisition costs and deferred taxes is different for the acquisition of a business and a group of assets. The amendments will not have any effect on Adler Modemärkte AG's accounting.

IAS 1 and IAS 8 definition of materiality

The amendments to IAS 1 and IAS 8 clarify the definition of "materiality", aligning the definitions used in the Conceptual Framework and the standards themselves. 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.

Revisions to conceptual framework

The Conceptual Framework is not a new IFRS standard nor does it replace any standard. However, the revised Conceptual Framework will be used to develop new standards and interpretations going forward. It includes revised definitions of assets and liabilities and contains guidance on measurement, derecognition, recognition and disclosures. The amendments will not have any effect on Adler Modemärkte AG's accounting.

IFRS 17 insurance contracts

IFRS 17 establishes uniform principles for the presentation and measurement of insurance contracts and requires insurance liabilities to be measured at the current settlement amount. IFRS 17 replaces IFRS 4 Insurance Contracts. The amendments do not have any effect on Adler Modemärkte AG's accounting.

Amendments to IFRS 10 and IAS 28

The amendments to IFRS 10 and IAS 28 clarify that the gain or loss from the transfer of assets to an associate or joint venture must be recognised in full when a transaction involves a business as defined in IFRS 3. By contrast, a partial gain or loss is recognised when a transaction involves assets that do not constitute a business. The amendments must be applied prospectively. In December 2015, the mandatory initial application date of the amendments was deferred indefinitely until the research project on the equity method has been concluded.

GROUP OF CONSOLIDATED COMPANIES/SHAREHOLDINGS

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

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

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

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

CONSOLIDATION PRINCIPLES

Subsidiaries are all companies (including structured entities) in which the Group has the power to govern the financial and operating policies and generally holds more than 50 % of the voting rights. Subsidiaries are included in the consolidated financial statements from the date on which control is obtained by the Group (full consolidation). They are no longer consolidated from the date on which control is lost.

The financial statements of the German and foreign subsidiaries included in the consolidated financial statements are prepared using uniform accounting policies in accordance with IFRS 10.

Intra-Group profits and losses, revenue and income and expenses are eliminated, together with receivables and liabilities existing between domestic and foreign subsidiaries consolidated. Receivables and liabilities to the same third-party company are offset where the relevant conditions are met. Intercompany profits are eliminated. Deferred tax assets and liabilities are recognised in respect of temporary differences arising from consolidation adjustments in accordance with IAS 12 "Income Taxes".

In addition to Adler Modemärkte AG, the consolidated financial statements include all material German and foreign subsidiaries, including structured entities, over which Adler Modemärkte AG has direct or indirect control. This is the case if Adler Modemärkte AG has direct or indirect power over the potential subsidiary on account of voting rights or other rights, is exposed to positive or negative variable returns from its involvement in the potential subsidiary and can affect these returns. There were no significant restrictions.

CONSOLIDATION OF SUBSIDIARIES

Subsidiaries acquired are accounted for using the acquisition method. The cost of the acquisition is the fair value of the assets given, the equity instruments issued and the liabilities incurred or assumed at the date of the transaction. The acquiree's identifiable assets, liabilities and contingent liabilities in a business combination are measured on initial consolidation at their fair values at the date of the transaction, irrespective of the extent of any non-controlling interests.

Any excess of the cost of acquisition over the Group's share of the net assets measured at fair value is recognised as goodwill; if the cost of the acquisition is lower than the net assets of the subsidiary acquired measured at fair value, the difference is recognised immediately in profit or loss.

COMPANY ACQUISITIONS

The ADLER Group uses the purchase method for the purpose of accounting for business combinations. The consideration paid is equal to the fair value at the date of the acquisition of the assets given, the liabilities assumed and the equity instruments issued. Incidental costs of the acquisition are expensed. The acquiree's identifiable assets, liabilities and contingent liabilities in a business combination are measured on initial consolidation at their fair values at the date of the transaction. The excess of the consideration paid, the amount of all non-controlling interests and the fair value of the share of the acquiree's equity held prior to the acquisition over the fair value of the net assets at the date of acquisition is recognised as goodwill. If the consideration paid is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss as income, once the identification and measurement of the net assets and the measurement of the cost of the acquisition have been reassessed.

During the prior-year reporting period, ADLER Modemärkte Gesellschaft m.b.H., Ansfelden, Austria, acquired GBS Grundstücksverwaltungsgesellschaft m.b.H., Vienna, Austria, on 3 May 2017, with effects as at the end of 30 April 2017.

CURRENCY TRANSLATION

Business transactions in foreign currencies in the separate financial statements of subsidiaries prepared in Euros are measured at the rate of exchange at the date of the transaction. Exchange rate gains and losses arising up to the end of the reporting period from the translation of receivables and liabilities are reflected in the financial statements; gains and losses resulting from movements in exchange rates are reported in profit or loss. The annual financial statements of the foreign Group company are translated into the ADLER Group's reporting currency. The functional currency is the local currency. The functional currency and the reporting currency of the parent, and hence of the consolidated financial statements, is the euro.

ADLER translates the assets and liabilities of foreign Group companies for which the euro is not the functional currency using the spot rate at the end of the period. By contrast, expenses, income and results are translated using average exchange rates. Any resulting translation differences are recognised separately in equity.

The exchange rates used in currency translation were as follows:

Currency	Spot rates per EUR		Average rates per EUR	
	31 Dec. 2018	31 Dec. 2017	2018	2017
Swiss franc (CHF)	1.1269	1.1702	1.1549	1.112

ACCOUNTING POLICIES

The accounting policies set out below were applied for the purpose of preparing the consolidated financial statements.

The accounting policies are applied in principle on a consistent basis.

NON-CURRENT ASSETS AND DEPRECIATION AND AMORTISATION

Goodwill

Goodwill arising on consolidation represents the excess of the cost of a company acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary. In accordance with IFRS 3 "Business Combinations", goodwill is not amortised. Instead, in accordance with IAS 36 "Impairment of Assets", it is tested for impairment annually and whenever there are indications of possible impairment and, where necessary, written down to the recoverable amount. The impairment charge is recognised immediately in profit or loss. Impairment losses recognised in respect of goodwill may not be reversed in subsequent periods. For the purpose of impairment testing, goodwill is allocated to cash-generating units. The allocation is made to those cash-generating units or groups of cash-generating units which are expected to benefit from the synergies of the underlying business combination.

Other intangible assets

Purchased and internally generated intangible assets are recognised at cost. All purchased intangible assets with finite useful lives are amortised on a straight-line basis. Amortisation is based on the following economic useful lives applied consistently across the Group:

- concessions, rights, licences: 3 to 7 years or the shorter contractual term where relevant
- software: 3 to 5 years

Internally generated intangible assets mostly comprise software. Costs associated with the operation or maintenance of software are expensed when incurred. Costs incurred directly in connection with the production of identifiable individual software products over which the Group has control are recognised as an intangible asset if it is regarded as probable that the intangible asset will generate future economic benefits, is technically feasible and if the costs can be reliably determined. The directly attributable costs include personnel costs for the employees involved in development and other costs directly attributable to the development of software. Capitalised development costs for computer software with a finite useful life are amortised on a straight-line basis over the period of its expected use but subject to a maximum of five years.

Intangible assets which are not yet available for use are tested for impairment at least once annually. If impairment in excess of the amortisation charged is identified, the asset is written down to the recoverable amount.

There were no other intangible assets with indefinite useful lives during the period under review.

Property, plant and equipment

Individual items of property, plant and equipment whose cost is less than €250 (previous year: €150) are generally expensed directly. To the extent that non-current assets (e.g., mannequins and store fixtures and fittings) acquired during the year under review are material to the ADLER Group's operations and are used for a period exceeding one year, they are recognised and reported under property, plant and equipment regardless of their cost, and in particular regardless of the aforementioned cost threshold, and are depreciated over their economic useful lives. Significant components of an item of property, plant and equipment are recognised and depreciated separately. Subsequent costs are recognised as a component of the cost of the asset only if it is probable that future economic benefits will flow to the Group as a result and if the costs can be reliably determined. All other repair and maintenance expenses are recognised as expenses in the income statement in the financial year in which they are incurred. Depreciation is not charged on land. For all other assets depreciation is charged on a straight-line basis over the following expected useful lives of the assets:

- Buildings: 33 years
- Operating facilities: 3 to 10 years
- Operating and office equipment: 3 to 10 years
- Vehicles: 4 to 6 years
- Leasehold improvements: 10 years

The carrying amounts and useful economic lives are reviewed at a minimum at the end of each reporting period and adjusted where necessary. If the carrying amount of an asset is higher than its estimated recoverable amount, it is immediately written down to the latter. Gains and losses from disposals of items of property, plant and equipment are calculated as the difference between the proceeds of sale and the carrying amount, and are recorded in profit or loss.

INVESTMENT PROPERTY

Investment property comprises land and buildings held in order to generate rental income and/or for the purposes of capital appreciation and that are not used in the ordinary course of business. It is measured at fair value. The fair value was determined by a property expert.

LEASING

Leases are classified as finance leases if substantially all of the risks and rewards of ownership are transferred to the lessee under the terms of the lease. All other leases are classified as operating leases.

Non-current assets that are rented or leased and where the relevant Group company has economic ownership (finance leases) are recognised at the present value of the minimum lease payments or the lower fair value and depreciated over their useful lives in accordance with the requirements of IAS 17 "Leases". If it is not sufficiently certain at the start of the lease that ownership will transfer to the lessee, the asset must be depreciated over the shorter of the term of the lease and the useful life.

The corresponding liability to the lessor is reported in the statement of financial position as a finance lease obligation under liabilities from finance leases. The lease payments are apportioned between the finance charge and the reduction of the lease obligation so as to produce a constant periodic rate of interest on the remaining balance of the liability.

In the event existing finance leases are extended or modified, the additional finance lease liability resulting from the modified lease increases the additional potential value in use of the leased asset to be capitalised.

Lease payments made under the terms of an operating lease are reported as an expense in the income statement on a straight-line basis over the term of the lease.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets with indefinite useful lives are not depreciated or amortised; they are tested for impairment annually or whenever there are indications that an asset may be impaired. Assets subject to depreciation or amortisation are reviewed for impairment if relevant events or changes in circumstances indicate that the carrying amount may no longer be recoverable. Intangible assets which are not yet available for use are also tested for impairment annually. Any impairment loss recognised is equal to the excess of the carrying amount over the recoverable amount. The recoverable amount is the higher of the fair value of the asset less selling costs and the value in use. For the purposes of the impairment test, assets are combined at the lowest level for which cash flows can be separately identified (cash-generating units).

If an impairment charge is subsequently reversed, the carrying amount of the asset (of the cash-generating unit) is increased to the newly estimated recoverable amount. For this purpose, the higher carrying amount resulting from the increase may not exceed the amount that would have been determined, net of depreciation or amortisation, if no impairment charge had been recognised in respect of the asset (the cash-generating unit) in prior years. A reversal of an impairment charge is recognised immediately in profit or loss. Impairment charges recognised in respect of goodwill may not be reversed. The assets are derecognised once all rights to payments have expired.

GOVERNMENT GRANTS

Government grants are recorded at their fair value if it is reasonably certain that the grant will be made and that the Group will comply with the conditions necessary for receipt of the grant. Government grants in respect of costs are recorded over the period during which the related costs, for which the grant is intended to compensate, are incurred.

BUILDING COST SUBSIDIES

Building cost subsidies are either paid to the lessor by the Group company for the purpose of upgrading the property or granted by the lessor for independent building work for the construction of the store. Building cost subsidies paid are accounted for as other assets and are expensed over the remaining minimum term of the contract. Building cost subsidies received are reported as other liabilities and reversed to income over the minimum term of the contract or pursuant to the contractual arrangements. See Note "Other operating income".

CURRENT INCOME TAXES

Current income taxes for the period under review and for prior periods are measured in the amount expected to be paid to or reimbursed by the tax authorities. They are calculated on the basis of the company-specific tax rates applicable as at the end of the reporting period. Uncertain tax assets and liabilities are recognised as soon as ADLER's management believes their probability of occurrence exceeds 50 %. Uncertain income tax positions are recognised at their most probable amount.

DEFERRED TAXES

In accordance with IAS 12, deferred taxes are recognised for all temporary differences between the tax bases of the assets and liabilities and their carrying amounts in the IFRS consolidated financial statements (liability method). Deferred taxes are measured on the basis of the tax rates and tax laws in force or substantively enacted at the end of the reporting period and which are expected to apply at the date of realisation of the deferred tax asset or settlement of the deferred tax liability. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the temporary difference can be utilised. If it is sufficiently certain that it will be possible to utilise the future tax benefit resulting from loss carryforwards in future periods (five years), a deferred tax asset is recognised.

IAS 12.39 provides that deferred taxes on temporary differences in connection with investments in subsidiaries ("outside basis differences") should be recognised in the consolidated financial statements only when the following criteria are not met:

- the parent company, shareholder or joint venture partner is in a position to control the timing of the reversal of the temporary difference; and
- it is probable that the temporary difference will not reverse in the foreseeable future.

This is not the case for the ADLER Group. The temporary difference generally reverses only when the company is sold. At the present time the ADLER Group is not planning to dispose of any subsidiaries but, on the other hand, it would be in a position to control the timing of any disposal. No deferred taxes are recognised in the consolidated financial statements of the ADLER Group in respect of temporary differences relating to investments in subsidiaries.

Deferred tax assets and liabilities are netted if there is a legally enforceable right to offset current tax assets against current tax liabilities and if the deferred taxes relate to the same tax authority.

INVENTORIES

Merchandise accounted for as inventories is generally carried at the lower of cost and net realisable value. Net realisable value is the amount of the estimated sale proceeds achievable in the normal course of business less the necessary variable costs of sale. The cost of production includes all directly attributable costs and appropriate portions of necessary overheads and depreciation in addition to direct materials and production costs. Cost is determined using the weighted average method.

RECEIVABLES AND OTHER ASSETS

Effective 1 January 2018, ADLER classifies its financial assets to the following measurement categories, depending on whether it is an equity or a debt instrument:

- those measured at fair value through other comprehensive income, and
- those measured at amortized cost.

The classification of debt instruments depends on the business model of the entity's business model for managing financial assets and the contractually agreed cash flows.

Trade receivables

ADLER measures its trade receivables at amortized cost as the following conditions are met:

- The financial asset is held within the framework of a business model whose objective is to hold financial assets in order to collect the contractual cash flows; and
- The contractual terms give rise to cash flows that solely represent principal and interest payments on the principal amount outstanding.

Trade receivables are initially recognized at fair value and subsequently measured at amortized cost less impairment losses.

For trade receivables, the simplified approach to risk provisioning for expected credit losses is applied, which uses a lifetime expected credit loss allowance for all trade receivables. For this purpose, the receivables are grouped into risk categories and are measured individually or on a portfolio basis, whereby the historical default rates are supplemented by expected losses. In addition, a review is performed at year-end to determine whether there are any objective indications that the receivables due may not be fully recoverable. Receivables are derecognised when no further cash flows are expected.

Financial assets at fair value

On initial recognition, ADLER irrevocably decided to recognize changes in the fair value of the equity instrument (securities), which had previously been classified as "available for sale", in other comprehensive income, as this investment is held as a long-term strategic investment, the sale of which is not expected in the short to medium term. As a result, the asset with a fair value of T€286 was reclassified from the category "available-for-sale" financial assets to the category "measured at fair value through other comprehensive income".

ADLER subsequently measures the equity instrument held at fair value. Once the instrument has been derecognized, these gains and losses are not subsequently reclassified to profit or loss. Dividends from the instrument continue to be recognized in profit or loss under other income, as ADLER'S claim to receive payments is justified.

When the equity instrument is sold, all related balances included in the reserve for "financial assets at fair value through other comprehensive income" are reclassified to retained earnings.

There were no disposals of securities "measured at fair value through other comprehensive income" in the year under review.

Other receivables and other assets and loans

ADLER measures the financial assets included in other receivables and other assets at amortized cost, as the following conditions are met:

- The financial asset is held within the framework of a business model whose objective is to hold financial assets in order to collect the contractual cash flows; and
- The contractual terms give rise to cash flows that solely represent principal and interest payments on the principal amount outstanding.

The financial assets included in other receivables and other assets are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method for non-current receivables less impairment. Where risks exist, these are taken into account by means of appropriate value adjustments.

Impairment losses must be recognized at the time the financial asset is recognized for the first time. These are to be determined as expected losses from credit losses occurring in the following twelve months. If a financial asset has experienced a significant increase in credit risk since initial recognition, the the lifetime expected losses are taken into account. The financial assets are derecognised when no further cash flows are expected.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash, demand deposits and other short-term highly liquid financial assets with an original term of no more than three months. Overdrafts utilised are reported as liabilities to banks under current financial liabilities.

EQUITY

Equity consists of subscribed capital, capital reserves, accumulated other comprehensive income and negative retained earnings. Subscribed capital represents the nominal capital of the parent, reduced, if necessary, by the share of own shares repurchased. The nominal value of the shares amounts to € 18,510,000. Capital reserves comprise all capital amounts contributed to the Company from external sources that are not subscribed capital.

Accumulated other comprehensive income includes minor exchange rate effects arising from the consolidation of subsidiaries with functional currencies other than the Group's reporting currency, as well as changes in the value of available-for-sale financial assets and actuarial gains and losses from pension obligations as well as the associated deferred taxes.

PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the provision can be reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow of resources will be required is determined by considering that class of obligations as a whole. Provisions are stated at the expected settlement amount after taking into account all identifiable associated risks and are not offset against rights of recourse.

Where the effect of the time value of money is material, non-current provisions are carried at the settlement amount discounted to the end of the reporting period. The discount rate used for this purpose is a pre-tax rate of interest reflecting the current market assessment of the economic situation and the risks specific to the obligation.

EMPLOYEE BENEFITS

Pension obligations

The ADLER Group has a number of different pension plans. They include both defined benefit and defined contribution plans. Defined contribution plans are post-employment plans under which an enterprise pays fixed contributions into a separate entity (such as a fund or insurance arrangement) and has no legal or constructive obligation to pay further contributions, even if the fund or the entitlements from the insurance agreement entered into do not have sufficient assets to pay all employee benefits relating to employee service in the current reporting period and prior periods. A defined benefit plan is a post-employment plan other than a defined contribution plan.

The agreements underlying the defined benefit plans provide for different benefits within the Group depending on the particular subsidiary. The latter mainly comprise

- pension entitlements once the relevant pensionable age is reached,
- one-off payments on cessation of employment.

The provision relating to defined benefit plans carried in the consolidated statement of financial position is calculated as the present value of the pension obligation at the end of the reporting period less the fair value of any plan assets available and any past service cost not yet recognised.

The actuarial calculation of the pension provisions for the Company's old-age pension benefits is based on the projected unit credit method prescribed by IAS 19 "Employee Benefits". An actuarial valuation is carried out by independent actuarial experts for this purpose at the end of each reporting period. The projected unit credit method takes account of the known pensions and vested benefits at the end of the reporting period and includes increases in salaries and pensions expected in the future. The valuations are based on the legal, economic and tax environment of the individual country, as well as that country's specific demographic trends. The obligations, which exist solely in the European Economic Area, were measured using an actuarial rate of interest of 1.5 % (previous year: 1.6 %), projected annual wage and salary increases of 2.5 % (previous year: 2.5 %) and projected annual pension increases of 1.75 % (previous year: 1,75 %). Employee turnover is determined for each specific company and taken into account on the basis of age and length of service. The actuarial valuations are mostly based on specific mortality tables for each country. The provision is made up of the present value of the expected benefits less the fair value of the plan assets plus or minus any actuarial gains and losses.

The accumulated actuarial gains and losses were attributable to the differences arising over the years between the projected pension obligations and plan assets and the actual amounts at the year-end. Actuarial gains and losses are recognised directly in other comprehensive income. Furthermore, the return on plan assets is recognised in the amount of the discount rate.

In accordance with IAS 19.173, disclosures pursuant to IAS 19.145 on the financing strategy and risks of the pension plans and a sensitivity analysis required in the case of changes in material valuation assumptions are presented under Note 19.

The interest component of the addition to provisions (interest cost for pension obligations and expected income from plan assets) is reported as interest expense within net finance costs.

Payments out of a defined contribution benefits plan are included in profit or loss and reported within personnel expenses.

Obligations for severance payments

Employees who began their service in Austria on or after 1 January 2003 participate in a defined contribution benefits plan. Obligations arising from severance payments for employees whose service began prior to 1 January 2003 are covered by defined benefit plans. When service is ended by the company or pensionable age is reached, or in the case of invalidity or death, participating employees receive a severance payment which amounts to a multiple of their basic monthly salary – depending on their length of service – subject to a maximum of twelve months' salary. A maximum of three months' salary is paid immediately on cessation of service, while the payment of any further amounts is distributed over a period of several months. In the event of death, the heirs of participating employees are entitled to 50 % of the severance payment.

Termination benefits

Termination benefits are paid when an employee is dismissed prior to the normal retirement date or when an employee leaves employment voluntarily in return for a termination payment. The Group recognises termination benefits immediately when it is demonstrably and irrevocably committed to terminating the employment of current employees on the basis of a detailed formal plan which cannot be withdrawn, or when it is demonstrably required to pay termination benefits on the voluntary termination of employment by employees. Payments falling due more than twelve months after the end of the reporting period are discounted to their present value. The entitlements to termination benefits are reported under provisions for personnel expenses.

LIABILITIES

Financial liabilities

Financial liabilities are recorded at fair value on initial recognition and measured at amortised cost in subsequent periods. Differences between the historical cost and the repayment amount of non-current liabilities are reflected in the financial statements using the effective interest method. Financial liabilities measured at amortised cost are recognised initially at fair value, taking into account transaction costs.

Loan liabilities are classified as current if repayment is due within the following twelve months.

Liabilities from the customer loyality card programme

Customers are awarded discount entitlements whenever they make a purchase using the ADLER customer loyalty card. Within a specifically defined period of less than one year, customers can offset these discount entitlements against a subsequent purchase or have the amount paid out in cash. The amount included in liabilities represents customers' discount entitlements not yet utilised at the end of the reporting period.

Liabilities from finance leases

Lease liabilities are recognised if economic ownership of the leased or rented leased assets is attributable to companies of the ADLER Group and the assets are capitalised under property, plant and equipment (finance leases). On initial recognition, the lease obligations are recorded at the fair value of the leased asset or, if lower, the present value of the lease payments.

For this purpose, the finance charge is apportioned over the term of the lease in such a way that a constant periodic rate of interest over time is produced on the outstanding balance of the finance lease liability.

Trade payables and other liabilities

On initial recognition, trade payables and other liabilities are carried at fair value; subsequently, they are carried at amortised cost. Trade payables and other current liabilities are reported under other liabilities.

CONTINGENT LIABILITIES

Contingent liabilities are possible or present obligations resulting from past events but for which an outflow of resources is estimated to be not probable. Under IAS 37, obligations of this nature are not recorded in the statement of financial position but are disclosed in the notes to the financial statements.

RECOGNITION OF INCOME AND EXPENSES

Revenue represents the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of business. Revenue is reported net of VAT and after deducting rebates and discounts. Customers' entitlements to refunds relating to goods delivered are recorded in the income statement once the relevant invoices have been examined.

Where customers making purchases with the ADLER customer loyalty card acquire an entitlement to a particular discount, the discount is recorded as a reduction in revenue. The liability is reported under liabilities from the customer loyalty card programme. The liability is reversed when the discount is utilised.

Revenue and other operating income are generally recognised only when the services have been performed or the goods or products have been delivered and the risks of ownership have been transferred to the customer. In-store retail sales are settled in cash or using an EC or credit card. Purchases in the online shop are settled via invoice, credit card or online payment services. The card company's charges are recorded in other operating expenses. The Group's business policy is that the end user acquires its products with a statutory right of return.

Expenses are recognised when the goods or services are utilised or when the expense is incurred. This also applies to the recognition of advertising expenses. The latter are recorded when the service – in this case the provision of advertising services – has been provided by the ADLER Group and not at the later date when the ADLER Group is conducting the relevant advertising campaigns.

Rental income and expenses are recorded as revenue or expenditure on an accruals basis in the period to which they relate.

NET FINANCE COSTS

Interest income and interest expenses are recorded on an accruals basis in the period to which they relate using the effective interest method, based on the outstanding balance of the loan and the applicable interest rate. The applicable interest rate is the rate of interest that discounts the estimated future cash flows over the term of the financial asset to its net carrying amount.

In the case of a finance lease agreement, payments received are apportioned between the finance charge and the reduction of the outstanding liability using mathematical methods.

Interest income from the expected return on plan assets is also recorded in net finance costs, as are interest expenses from the compounding of interest on pension obligations. The interest rates which serve as a basis for this are discussed in the note relating to the accounting for pension obligations.

Borrowing costs are reported in the income statement in the period in which they are incurred, except for borrowing costs required to be capitalised in respect of qualifying assets.

OTHER COMPREHENSIVE INCOME

The items of other comprehensive income were adjusted accordingly pursuant to the amendments to IAS 1 "Presentation of Financial Statements". Depending on whether they are to be recorded in the income statement going forward, the items of other comprehensive income are presented separately.

SEGMENT REPORTING

Under the provisions of IFRS 8, operating segments are identified on the basis of the internal organisation and reporting structure. An operating segment is defined as a component of an entity which generates revenues and incurs expenses from its business activities, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. The chief operating decision maker is the Executive Board of Adler Modemärkte AG.

Segments are structured for the purpose of segment reporting according to the entity's principal activities. As in the previous year, there was only one reportable segment in financial year 2018: "Stores (Modemärkte)".

EARNINGS PER SHARE

Earnings per share is determined in accordance with IAS 33 "Earnings Per Share" by dividing consolidated profit or loss by the weighted average number of shares outstanding during the financial year. Earnings per share is diluted if the share capital consists of not only ordinary and preference shares, but also equity instruments which may lead to a future increase in the number of shares. However, there is no dilutive effect in these consolidated financial statements.

LITIGATION AND CLAIMS FOR DAMAGES

The companies in the ADLER Group are involved in a range of legal and administrative proceedings in the course of their general business operations or similar proceedings could be initiated or claims asserted in the future. Although the outcome of individual proceedings cannot be predicted with certainty given the imponderable factors involved in legal disputes, it is currently estimated that they will have no material adverse effect on the results of operations of the Group over and above the risks reflected in the financial statements in the form of liabilities or provisions.

USE OF ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements has involved the making of assumptions and use of estimates that have affected the reporting and the amount of the assets, liabilities, income and expenses recognised and of the contingent liabilities. These estimates and assumptions relate principally to the establishment of uniform economic useful lives used across the Group, the assessment of whether impairment charges are required for inventories, the measurement of provisions, pensions and risks specific to individual locations, together with the recoverability of future tax benefits, in particular those arising from loss carryforwards. The actual amounts may differ in particular cases from the estimates and assumptions made. Revised amounts are reflected at the date when improved knowledge becomes available.

Estimates are based on historical amounts and other assumptions considered to be accurate in the particular circumstances. The actual amounts may differ from the estimates made. The estimates and assumptions are reviewed on an ongoing basis. The "true and fair view" principle is also applied to the use of estimates.

Useful lives of non-current assets

The determination and standardisation of economic useful lives applied across the Group is based on historical data relating to the actual expected useful lives of non-current assets. It is assumed that the assets are used as intended.

Valuation allowances on inventories

Valuation allowances on inventories are determined in the light of conditions in the sales market and are based to some extent on experiences.

Income taxes

The Group has a liability to pay income taxes in various countries in accordance with different particular bases of assessment. The global provision for taxes is recognised on the basis of the profit determined in accordance with local tax regulations and the applicable local rates of tax.

The amount of the tax provisions and liabilities is based on estimates of whether and in what amount income taxes will become payable. Risks arising from the possibility of a different treatment for tax purposes are reflected, where necessary, in provisions for the appropriate amount.

In addition, it is necessary to make estimates in order to assess the recoverability of deferred tax assets. The key factor in assessing the recoverability of deferred tax assets is the estimation of the likelihood that future profits for tax purposes (taxable income) will be available. Uncertainties relating to the interpretation of complex tax regulations and the amount and timing of future taxable income must also be taken into account. Especially in view of the international structure of the Group, differences between actual events and assumptions, or future changes in those assumptions, may result in revised amounts for the tax charge or benefit in future periods.

The companies of the ADLER Group are subject to income taxes in several countries. When assessing income tax assets and liabilities, interpretations of tax regulations in particular can be subject to uncertainty. Differences in opinions on the part of the respective financial authorities with regard to the correct interpretation of tax regulations (for example, due to a change in case law) are taken into consideration when accounting for uncertain tax assets and/or liabilities for the corresponding financial year.

Provisions

Assumptions about the likelihood of an outflow of resources occurring have to be made for the purpose of determining whether to recognise provisions. These assumptions represent the best possible assessment of the circumstances underlying the particular provision but are subject to an element of uncertainty given the inevitable use of assumptions. Assumptions also have to be made about the amount of any outflow of resources for the purpose of measuring the provisions. A change in the assumptions can therefore result in a revised amount for the provision. Accordingly, the use of assumptions can also give rise here to an element of uncertainty.

The determination of the present value of pension obligations depends primarily on the choice of the discount rate of interest and the other actuarial assumptions which must be formulated afresh at the end of each financial year. For this purpose, the underlying discount rate is the rate of interest on corporate bonds with high credit ratings, denominated in the currency in which the payments are made and with the same maturity structure as the pension obligations. Changes in these interest rates may result in material revisions to the amount of the pension obligations.

Impairment

Goodwill is tested annually for impairment in accordance with IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets". If events or changes in circumstances give rise to indications of possible impairment, impairment testing must also be carried out more frequently. The amortisation of goodwill is not permitted. For the purpose of testing goodwill for impairment, the carrying amount of the individual cash-generating unit to which the goodwill has been allocated is compared with the respective recoverable amount, i.e. the higher of the net selling price and the value in use. In those cases where the carrying amount of the cash-generating unit is higher than its recoverable amount, the difference represents an impairment loss. Impairment losses calculated in this manner are deducted initially from the carrying amount of the goodwill allocated to the strategic business unit in question. Any remaining amount is allocated to the other assets in the respective strategic business unit pro rata on the basis of their carrying amounts, to the extent that IAS 36 applies. The calculation of the recoverable amount is based on the future cash flows expected to be derived from the continuing use of the cash-generating unit. The cash flow projections were based on the Company's current business plans. The cost of capital is calculated as the weighted average of the cost of equity and the cost of debt, taking into account the proportions of total capital represented by equity and debt respectively. The cost of equity represents the expected return from the cash-generating unit and is derived from a suitable peer group. The cost of debt is based on the average cost of debt derived from bonds with an average remaining maturity of 30 years.

For the purpose of reflecting risks specific to individual locations in the financial statements (mainly the estimation of anticipated losses from operating lease agreements and the impairment of finance lease agreements relating to store rents), an adjusted EBIT for a particular planning horizon is estimated for locations with ongoing losses. This is then compared with objectively determined rents in order to calculate the extent of any failure to cover future rents and/or to adjust the carrying amounts to a recoverable amount determined under the assumption either that the location will continue in its present use or that it will be used for a different purpose.

The fair value of land and buildings being tested for impairment is normally based on a valuation by an independent expert. Expert opinions on the market values of property, plant and equipment are subject to an element of uncertainty as a result of the unavoidable use of assumptions.

All identifiable risks at the date of preparation of the consolidated financial statements were included in the context of the underlying estimates and assumptions.

III. NOTES TO THE INCOME STATEMENT

1. REVENUE

Revenue (net) is generated almost entirely from sales of goods and is distributed geographically as follows:

€ '000	2018	2017
Germany	417,652	435,436
Austria	68,234	68,938
Luxembourg	17,758	18,239
Switzerland	3,449	3,201
	507,093	**525,814**

2. OTHER OPERATING INCOME

€ '000	2018	2017
Income from the sale of real estate	0	11,899
Passthrough expenses/reimbursement of expenses	1,915	1,540
Income from the reversal of other liabilities and provisions	1,205	1,931
Rent	1,022	1,265
Personnel-related government grants	435	336
Income from damages claims	361	282
Income from the derecognition of expired liabilities	224	217
Income from the hanger recycling project	207	250
Royalties	182	231
Income from recoveries on receivables written off	72	118
Restaurant	48	58
Commissions	46	93
Credits from suppliers	23	122
Income from the disposal of non-current assets	7	0
Other	380	470
	6,127	**18,812**

Passthrough expenses and reimbursements primarily include income from construction subsidies. Income from the reversal of other liabilities and provisions related primarily to provisions for personnel expenses, bonuses and rent and incidental rental expenses. The rental income was generated from subletting to store concessionaires. The year-on-year decline is primarily attributable to the sale of the building in St. Pölten. Rental income from investment property amounted to € 27 thousand (previous year: € 36 thousand). Income from damages claims was attributable primarily to insurance claims for damage to stores. Income from the derecognition of expired liabilities includes primarily the derecognition of expired discounts.

Income from the sale of real estate includes the sales proceeds from the properties and buildings in Klagenfurt, St. Pölten, Ansfelden and Vösendorf.

3. COST OF MATERIALS

The cost of materials amounting to € 229,777 thousand (previous year: € 244,060 thousand) consists entirely of purchased merchandise. The decline in cost of materials is attributable primarily to volume but also improved purchasing and logistics processes.

4. PERSONNEL EXPENSES

€ '000	2018	2017
Wages and salaries	80,699	80,195
Other social security contributions	8,715	8,568
Employer's contribution towards the statutory pension scheme	7,533	7,371
Expenditures for old-age pensions	471	417
Expenditures for partial retirement/death benefits/anniversaries	114	298
	97,532	**96,849**

Despite the lower headcount, personnel expenses increased primarily as a result of increases in wages, salaries and benefits. Furthermore, in the previous year, no holiday pay was paid and bonuses were reduced.

The average number of people employed by the Group during the reporting period was:

Employees	2018	2017
Managers	205	216
Full-time employees	672	674
Part-time employees	2,656	2,652
Trainees	247	282
	3,780	**3,824**

5. OTHER OPERATING EXPENSES

€ '000	2018	2017
Operating lease payments and building expenditures	69,038	69,454
Advertising expenses	43,434	46,034
Freight and transport costs	17,626	18,131
Technical equipment	12,106	13,172
Consultancy fees	5,148	4,881
External cleaning fees	4,665	4,654
Administrative expenses	4,214	4,226
Consumables	2,856	3,107
Office expenses	1,608	1,593
Incidental costs of monetary transactions	1,323	1,242
Low-value assets	386	581
Losses from disposals of assets	67	567
Other	2,726	4,069
	165,197	**171,712**

The decrease in operating lease payments and building expenditures was attributable primarily to store closures and improved lease terms and conditions.

The operating lease agreements relate primarily to leased buildings for stores. The lease agreements generally include renewal clauses as well as price adjustment clauses based on changes in the rental price index. In addition, variable components of rent are contingent depending on the sales achieved in the individual stores. In financial year 2018, the contingent rental payments under operating lease agreements amounted to € 146 thousand (previous year: € 84 thousand). The increase in contingent rental payments from operating lease agreements is due mainly to lease amendments.

The decrease in advertising expenses is due mainly to lower costs for strategic marketing projects, radio and mailshots.

The decrease in freight and transport costs was due mainly to a decrease in freight costs attributable to the online shop and improvements in logistics.

The decrease in expenses for technical facilities was attributable primarily to fewer modernisation measures; this was offset by income from construction subsidies amounting to € 700 thousand (previous year: € 610 thousand).

The increase in consulting fees is due mainly to the advice the Company received in relation to implementing its strategic realignment.

The disposal of a temporary building below its carrying amount was reported under losses from disposals of assets in the previous year.

6. DEPRECIATION, AMORTISATION AND IMPAIRMENT

The amounts of depreciation and amortisation are presented in the consolidated statement of changes in non-current assets. During the financial year, impairment charges of € 791 thousand (previous year: € 154 thousand) were recognised in respect of non-current assets.

7. NET FINANCE COSTS

Net finance costs comprise the items below analysed by the items giving rise to them:

€ '000	2018	2017
Interest income		
Receivables from banks	1	0
Other	12	318
	13	**318**
Interest expense		
Finance leases	−4,631	−4,750
Interest effect on pension obligations and provisions for anniversaries	−94	−105
Liabilities to banks	−26	−35
Other	−206	−281
	−4,957	**−5,173**
Net finance costs	**−4,944**	**−4,855**

Interest income from banks relates to current account balances. The related items were allocated to the loans and receivables category. Interest income decreased sharply due to the negative interest rate policies of the banks. Other includes interest income from prior-year tax credits.

All interest income and interest expenses arising from financial assets and financial liabilities were calculated using the effective interest method. During the financial year they included negative interest charged by banks for deposits.

The interest included in net finance costs represents the total amount of interest income and expenses calculated using the effective interest method.

8. INCOME TAXES

The income tax expense was made up as follows:

€ '000	2018	2017
Actual tax expense (–)/income (+)	−2,517	−4,192
Deferred tax expense (–)/income (+)	1,542	−2,647
	−975	**−6,838**

Income taxes paid and payable in the individual countries together with deferred tax expenses and benefits are reported under income taxes.

The income tax rate of 29.571 % (previous year: 29.571 %) applied for the German company is made up of corporation tax amounting to 15.825 % (previous year: 15.825 %) (including the solidarity surcharge of 5.500 %) and the trade tax rate of 13.746% (previous year: 13.746%). Foreign income taxes are calculated on the basis of the laws and regulations in force in the particular countries. The overall income tax rate applicable for the ADLER Group amounts to 29.570 % (previous year: 29.570 %).

The calculation of deferred taxes is based on the tax rates expected to apply in the individual countries when the deferred tax asset is realised or the liability is settled; these generally reflect the tax laws in force or enacted at the end of the reporting period.

The differences between the income tax expense actually recorded and the expected income tax expense are shown in the following reconciliation. The expected income tax expense is calculated from the profit or loss before taxes multiplied by the applicable income tax rate.

€ '000	2018	2017
Consolidated net profit before income taxes	−1,600	10,696
Applicable income tax rate	29.57 %	29.57 %
Expected income tax expense	−473	3,162
Effects of different foreign tax rates	−57	−468
Effects of different domestic tax rates	−4	−4
Tax effects		
Taxes on real estate sales in Austria	0	1,401
Addition/reduction of trade tax	882	895
Non-recognition of current tax losses	214	680
Write-downs on deferred tax assets on loss carryforwards	0	1,118
Non-deductible expenses for tax purposes	852	89
Initial recognition of deferred tax assets	−302	−105
Prior-period tax income (–)/expense (+)	0	81
Effect of Group tax rate adjustment on deferred taxes	0	−3
Tax-exempt income	−33	−59
Other deviations	−104	49
Total tax effects	1,509	4,146
Actual tax expense (+)/income (–)	**975**	**6,838**
Actual tax rate	−60.96 %	63.94 %

Available-for-sale financial assets are measured at fair value in accordance with both local tax law and IFRSs; accordingly, no temporary differences arise in other comprehensive income.

IV. NOTES TO THE STATEMENT OF FINANCIAL POSITION

9. INTANGIBLE ASSETS

Intangible assets comprise purchased software, rights and licences, and goodwill. The internally generated intangible assets represent capitalised development costs for logistics software.

The development of intangible assets in financial year 2018 was as follows:

€ '000	Software, rights, licences	Goodwill	Internally generated assets	Construction in progress	Total
Cost as at 1 Jan. 2018	38,845	900	2,258	39	42,042
Additions	1,399	0	0	375	1,774
Disposals	−5	0	0	0	−5
Reclassifications	39	0	0	−39	0
As at 31 Dec. 2018	**40,279**	**900**	**2,258**	**375**	**43,811**
Depreciation, amortisation and write downs as at 1 Jan. 2018	−33,755	0	−892	0	−34,647
Additions	−2,558	0	0	0	−2,558
Disposals	5	0	0	0	5
As at 31 Dec. 2018	**−36,309**	**0**	**−892**	**0**	**−37,200**
Impairments as at 1 Jan. 2018	−448	0	−1,367	0	−1,815
As at 31 Dec. 2018	**−448**	**0**	**−1,367**	**0**	**−1,815**
Net carrying amount as at 1 Jan. 2018	4,641	900	0	39	5,581
Net carrying amount as at 31 Dec. 2018	**3,522**	**900**	**0**	**375**	**4,797**

Additions to software, rights and licences relate primarily to software for improved merchandise allocation, document management and RFID. Software, rights and licences include the line item licences, finance leases – which relates to trademark rights.

The development of intangible assets in financial year 2017 was as follows:

€ '000 (adjusted)	Software, rights, licences	Goodwill	Internally generated assets	Con-struction in progress	Total
Cost as at 1 Jan. 2017	37,218	900	2,258	75	40,451
Additions	1,555	0	0	39	1,594
Disposals	−3	0	0	0	−3
Reclassifications	75	0	0	−75	0
As at 31 Dec. 2017	**38,845**	**900**	**2,258**	**39**	**42,042**
Depreciation, amortisation and write downs as at 1 Jan. 2017	−31,269	0	−892	0	−32,161
Additions	−2,489	0	0	0	−2,489
Disposals	3	0	0	0	3
As at 31 Dec. 2017	**−33,755**	**0**	**−892**	**0**	**−34,647**
Impairments as at 1 Jan. 2017	−448	0	−1,367	0	−1,815
As at 31 Dec. 2017	**−448**	**0**	**−1,367**	**0**	**−1,815**
Net carrying amount as at 1 Jan. 2017	5,501	900	0	75	6,476
Net carrying amount as at 31 Dec. 2017	**4,641**	**900**	**0**	**39**	**5,581**

Goodwill and intangible assets with indefinite useful lives are tested for impairment at least once annually. Assets in use and other intangible assets with finite useful lives are tested for impairment only if there are specific indications that the assets may be impaired. The higher of the value in use and the fair value less costs of disposal of the relevant cash-generating unit is generally used to test goodwill and intangible assets with indefinite useful lives for impairment. The value in use is measured on the basis of the management's current planning. This planning is based on expectations with regard to future macroeconomic developments and the resulting assumptions about the textile retail markets, market shares and profitability of the products. This takes into consideration appropriate assumptions regarding macroeconomic trends (currency, interest rate and commodity price developments) as well as historical developments. Please refer to the report on expected developments in the management report for information regarding assumptions in the detailed planning period. Plausible assumptions regarding future developments are made for subsequent years. The planning assumptions are adjusted in each case to the information currently available.

Goodwill at the level of the cash-generating unit (CGU) is regularly tested for impairment at the end of the year, or when there are indications of impairment, by determining the value in use using the discounted cash flow calculation based on the WACC after taxes, derived from the multi-year plan. The cost of capital is calculated on the basis of the interest rate for risk-free assets, the market risk premium and ADLER's interest rate on debt. Furthermore, specific peer group information for beta factors and debt/equity ratios are also taken into account.

For reasons of materiality, the Company did not disclose the information required by IAS 36.134.

During the year under review, the impairment tests of goodwill did not give rise to any impairments.

10. PROPERTY, PLANT AND EQUIPMENT

The development of property, plant and equipment in financial year 2018 was as follows:

€ '000	Land and equivalent rights	Buildings (incl. buildings on land owned by third parties)	Finance lease buildings	Other operating and office equipment	Construction in progress	Total
Cost as at 1 Jan. 2018	690	72,558	145,331	64,426	98	283,103
Additions	0	1,634	1,325	5,697	337	8,993
Disposals	0	−1,525	0	−1,930	−29	−3,483
Reclassifications	0	68	0	2	−70	0
Foreign exchange differences	0	30	0	17	0	47
As at 31 Dec. 2018	**690**	**72,765**	**146,657**	**68,213**	**336**	**288,661**
Depreciation, amortisation and write downs as at 1 Jan. 2018	0	−51,599	−101,107	−53,966	0	−206,671
Additions	0	−3,209	−6,030	−4,782	0	−14,021
Disposals	0	1,387	0	1,798	0	3,185
Foreign exchange differences	0	−11	0	−10	0	−21
As at 31 Dec. 2018	**0**	**−53,430**	**−107,137**	**−56,959**	**0**	**−217,528**
Impairments as at 1 Jan. 2018	−297	−944	0	−217	0	−1,457
Additions	0	−657	0	−133	0	−790
Disposals	0	104	0	22	0	127
As at 31 Dec. 2018	**−297**	**−1,496**	**0**	**−328**	**0**	**−2,120**
Net carrying amount as at 1 Jan. 2018	393	20,015	44,224	10,244	98	74,975
Net carrying amount as at 31 Dec. 2018	**393**	**17,837**	**39,520**	**10,926**	**336**	**69,012**

The development of property, plant and equipment in financial year 2017 was as follows:

€ '000	Land and equivalent rights	Buildings (incl. buildings on land owned by third parties)	Finance lease buildings	Other operating and office quipment	Construction in progress	Total
Cost as at 1 Jan. 2017	795	74,141	153,179	65,523	30	293,668
Additions	474	1,924	9,651	2,060	99	14,208
Disposals	−579	−3,468	−17,499	−3,117	0	−24,663
Reclassifications	0	31	0	0	−31	0
Foreign exchange differences	0	−70	0	−40	0	−110
As at 31 Dec. 2017	**690**	**72,558**	**145,331**	**64,426**	**98**	**283,103**
Depreciation, amortisation and write downs as at 1 Jan. 2017	0	−49,664	−112,281	−52,283	0	−214,228
Additions	0	−3,380	−6,325	−4,106	0	−13,811
Disposals	0	1,428	17,499	2,406	0	21,334
Foreign exchange differences	0	17	0	17	0	34
As at 31 Dec. 2017	**0**	**−51,599**	**−101,107**	**−53,966**	**0**	**−206,671**
Impairments as at 1 Jan. 2017	−297	−813	0	−194	0	−1,303
Additions	0	−131	0	−23	0	−154
As at 31 Dec. 2017	**−297**	**−944**	**0**	**−217**	**0**	**−1,457**
Net carrying amount as at 1 Jan. 2017	498	23,664	40,898	13,046	30	78,136
Net carrying amount as at 31 Dec. 2017	**393**	**20,015**	**44,224**	**10,244**	**98**	**74,975**

Property, plant and equipment include leased land and buildings attributable to the Group as economic owner as a result of the structure of the underlying lease agreements. In order to ensure that these lease agreements, capitalised as finance leases, are measured at the appropriate amount, they were reviewed with the aim of identifying any impairment write-downs that might be necessary due to a lack of earnings prospects. There are indications of impairment if internal reporting provides substantive evidence that a store is less profitable or will be less profitable than expected. The audit of individual stores with finance leases found no substantive evidence that a store is less profitable or will be less profitable than expected. Therefore, as in the previous year, no impairment losses were recognised in respect of assets from finance leases in financial year 2018.

The terms of the finance leases generally amount to between 5 and 20 years with renewal options. The renewal options must be exercised by the Company, depending on the particular lease agreement, at a specified time prior to expiry of the lease agreement. This period ranges between three and twelve months prior to expiry of the lease agreement. The renewal terms amount to between one year and five years.

The decline in finance leases can be explained by straight-line amortisation and the fact that the agreements were increasingly classified as operating leases.

Expenses for operating leases amounted to € 65,193 thousand during the financial year (previous year: € 66,459 thousand). The operating lease agreements contain similar renewal options.

The remaining items of property, plant and equipment consist mainly of the fixtures and fittings of the stores. This also includes a finance lease for a POS system.

Individual assets whose cost is less than € 250 (previous year: € 150) are not recognised as described above. The total costs of the relevant assets in the financial year amounted to € 386 thousand (previous year: € 581 thousand).

In financial year 2018, impairment losses of € 791 thousand (previous year: € 154 thousand) were recognised in respect of assets of stores slated to be closed or unprofitable stores.

Property, plant and equipment amounting to € 2,869 thousand (previous year: € 2,999 thousand) serves as collateral for financial liabilities.

11. INVESTMENT PROPERTY

The investment property reported in the financial statements consists of land and a building held by the structured entity ALASKA GmbH & Co. KG included in the consolidation. The building is not used in its entirety by the ADLER Group; some portions are sublet. The sublet portion is classified as an investment property and reported as such. The investment property is carried at fair value, which was determined by an expert valuer on the basis of market data. In financial year 2018, € 27 thousand in rental income was generated (previous year: € 36 thousand).

€ '000	2018	2017
Carrying amount as at 1 Jan.	413	413
Carrying amount as at 31 Dec.	413	413

As in the previous year, the full amount of investment property serves as collateral for financial liabilities. Expenses for maintenance and repairs amounting to € 11 thousand (previous year: € 21 thousand) were incurred during financial year 2018.

12. OTHER RECEIVABLES AND OTHER ASSETS

€ '000	31 Dec. 2018	31 Dec. 2017
Non-current receivables and other assets		
Deposits	146	146
Prepaid expenses	96	131
	242	**277**
Current receivables and other assets		
Income tax assets	3,615	4,451
Prepaid expenses	1,112	861
Credit card receivables	1,295	2,630
Miscellaneous	2,395	6,608
	9,483	**14,550**

Other receivables and other assets include financial assets amounting to €2,507 thousand (previous year: €2,777 thousand).

Tax assets related to income tax prepayments for domestic and foreign subsidiaries.

The prepaid expenses relate primarily to advance payments of rent, deferred rent payments in connection with operating leases, and maintenance contracts.

The miscellaneous item relates mainly to creditors with debit balances amounting to €1,066 thousand (previous year: €967 thousand) and a €3,500 thousand VAT receivable from the purchaser of GBS Grundstücksverwaltungsgesellschaft m.b.H.'s properties.

13. EQUITY INSTRUMENTS MEASURED AT FAIR VALUE

Within the equity instruments measured at fair value amounting to €263 thousand (prior year: €286 thousand), securities are recognised The item includes fund units in full.

14. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are netted if there is a legally enforceable right to offset current tax assets against current tax liabilities and if the deferred taxes relate to the same tax authority.

The deferred tax liabilities and deferred tax assets relate to the following items:

€ '000	31 Dec. 2018	31 Dec. 2017
Deferred tax assets		
Intangible assets	264	291
Investment property	70	70
Property, plant and equipment	161	89
Inventories	489	500
Receivables and other current assets	116	109
Prepaid expenses	2	0
Provisions	1,311	1,376
Other liabilities	17,910	17,507
Tax loss carryforwards	1,235	735
Total deferred tax assets	**21,558**	**20,677**
of which current	3,538	3,016
of which non-current	18,020	17,661
Deferred tax liabilities		
Intangible assets	217	131
Investment property	70	70
Property, plant and equipment	12,278	13,007
Inventories	91	96
Prepaid expenses	36	45
Receivables and other current assets	6	4
Provisions	0	0
Other liabilities	1	1
Total deferred tax liabilities	**12,699**	**13,354**
of which current	1,526	1,526
of which non-current	11,173	11,828
Offsetting of deferred tax assets and deferred tax liabilities	−12,589	−13,279
Carrying amount of deferred tax assets	**8,970**	**7,398**
Carrying amount of deferred tax liabilities	**111**	**75**

The change in deferred taxes was attributable to the measurement of pension entitlements in the amount of €−6 thousand (previous year: €−7 thousand) and was therefore recognised in other comprehensive income. Changes in other deferred taxes as compared to the previous year were recognised in profit or loss.

The loss carryforwards for corporation tax and trade tax purposes shown here relate to all Group companies. No deferred tax assets were recognised in respect of additional existing corporation tax and trade tax loss carryforwards relating primarily to Adler Orange GmbH & Co. KG, Haibach, Adler Mode AG Schweiz, Zug, Switzerland, and Adler Mode GmbH, and amounting to €15,586 thousand (previous year: €18,284 thousand).

The calculation of deferred taxes resulted in a surplus of deferred tax assets. Where there was doubt about the recoverability of the deferred tax assets due to insufficient projected earnings in the local tax budgets, the deferred tax assets in such cases were recognised only up to the amount of the deferred tax liabilities.

No deferred tax liabilities were recognised in respect of temporary differences in connection with investments in subsidiaries amounting to €2,224 thousand (previous year: €2,450 thousand).

Please refer also to the information under accounting policies and the details provided in Note 8.

15. INVENTORIES

€ '000	31 Dec. 2018	31 Dec. 2017
Domestic	68,390	63,230
International	10,316	10,446
	78,706	**73,676**

Inventories are measured respectively at the lower of cost and the net realisable selling price as at the end of the reporting period. In accordance with IAS 2.34, impairment allowances were recognised in financial year 2018 for the purpose of reducing risks.

In 2018, impairment allowances on inventories were €9,775 thousand, €791 thousand higher compared with the previous year (€8,984 thousand). Impairment allowances are recognised primarily for merchandise from prior seasons and for slow-selling articles. The increase is due mainly to the decline in revenue. The carrying amount of the inventories measured at the net selling price amounts to €71,392 thousand (previous year: €66,656 thousand).

Inventories consist primarily of merchandise.

16. TRADE RECEIVABLES

All trade receivables have a remaining maturity of up to one year.

The ADLER Group did not receive any collateral or other credit enhancements as security for trade receivables or as security for outstanding invoices in the current or the previous financial year.

Trade receivables past due are reviewed and tested for impairment regularly. The impairment loss amounted to €222 thousand (previous year: €349 thousand). Nearly all of the receivables are denominated in Euros. For those receivables that were not impaired, there were no indications at the end of the reporting period that the associated payments will not be made when they fall due.

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents were made up as follows:

€ '000	31 Dec. 2018	31 Dec. 2017
Balances with banks	51,367	59,054
Cash-in-hand	3,566	4,288
	54,933	**63,342**

At the end of the reporting period, there were no bank balances pledged (previous year: € 100 thousand) for trade credit insurance policies or other cash subject to restrictions on disposal.

As in the previous year, balances with banks were fully covered by the relevant deposit protection scheme of the individual financial institution.

18. EQUITY

Subscribed capital

As at the end of the reporting period, subscribed capital remained unchanged at € 18,510 thousand. It is divided into 18,510,000 no-par value shares, each with a nominal value of € 1.

The shares of the shareholders are fully paid in.

Accumulated other comprehensive income

For details relating to the changes in net retained profits/net accumulated losses, please refer to the information presented in the consolidated statement of changes in equity.

Dividend restrictions

The Articles of Association of Adler Modemärkte AG contain no provisions for dividend restrictions over and above the statutory minimum.

Capital management

The ADLER Group's objectives with respect to capital management are firstly to ensure that the business is able to continue operations on a long-term basis and to generate adequate returns for the shareholders, and secondly to maintain an optimal capital structure in order to reduce the cost of capital.

The capital structure is managed in such a way as to take account of changes in the general economic environment and the risks attaching to the underlying assets. As a result of its healthy operating cash flow, the Company is in a position to deploy its own financial resources in the best possible way. For example, investments are regularly reviewed to see whether the Company's own available financial resources can be replaced by external (lease) financing in order to take advantage of improved purchasing prices for goods (e.g. discounts) or to exploit advantageous opportunities for sales arising at short notice. In this context, the raising of new debt is managed on the basis of a target debt structure. The choice of financial instruments is mainly influenced by the objective of matching the maturities of assets and liabilities which is achieved by managing the maturities of the instruments issued.

Capital is monitored on the basis of the indebtedness ratio, calculated as the relationship of debt to equity.

€ '000	31 Dec. 2018	31 Dec. 2017
Equity	96,309	99,947
Debt	130,512	141,185
Debt/equity ratio	**1.36**	**1.41**

19. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The provisions for pensions comprise firstly capital commitments to employees who began their employment with Adler Modemärkte AG prior to 1980 and also individual commitments to the founders of the firm and certain former members of management. The amount of the provision recognised in the statement of financial position is made up as follows:

€ '000	2018	2017
Defined benefit obligations (unfunded)	4,923	5,188
Defined benefit obligations (wholly or partially funded)	1,938	2,059
Subtotal	**6,861**	**7,247**
Less fair value of plan assets	– 1,659	– 1,754
Provision for old-age pension benefits as at 31 Dec.	**5,202**	**5,493**

The development of the pension obligations (DBO) representing the present value of commitments granted under defined benefit plans in the ADLER Group companies was as follows:

€ '000	2018	2017
As at 1 Jan.	**7,247**	**7,638**
Current service cost	96	103
Interest expense	105	118
Pensions paid	– 555	– 582
Actuarial gains (–)/losses (+)		
from changes to demographic assumptions	– 71	0
from changes to financial assumptions	– 68	– 41
from experience adjustments	108	12
As at 31 Dec.	**6,862**	**7,247**

The associated plan assets developed as follows:

€ '000	2018	2017
As at 1 Jan.	**1,754**	**1,822**
Contributions (employer)	128	156
Expected interest income	27	29
Pension payments (severance payments)	– 229	– 238
Administrative expenses for insurance	– 4	– 4
Experience adjustments (gains (+)/losses (–))	– 17	– 11
Fair value of plan assets as at 31 Dec.	**1,659**	**1,754**

The plan assets consist of a direct insurance policy taken out to cover the obligations arising from severance payments. In accordance with IAS 19, the resulting claim against the insurance company is offset as plan assets against the provision for severance payments required to be recognised. The premiums are paid in the respective calendar year.

The actual gain on plan assets in financial year 2018 amounted to € 10 thousand (previous year: € 18 thousand).

Future cash flows (€ '000)	31 Dec. 2018	31 Dec. 2017
Expected pension and severance payments in subsequent year	422	446
Total expected payments in subsequent years 2 to 5	2,177	2,163
Total expected payments in subsequent years 6 to 10	2,015	2,129
Expected contributions to plan assets in subsequent year	−128	−156

The weighted average maturity of the obligations is 10.1 years (previous year: 10.4 years).

Sensitivity analysis regarding the defined benefit obligation for pensions and severance payments:

Provided all other factors remain unchanged, an adjustment in each case of just one measurement parameter has the following effects: The sensitivity analysis takes into account the changes in an assumption, while the other assumptions remain unchanged. This means that potential correlation effects between the individual assumptions are not taken into account.

Measurement parameters	Starting value	Sensitivity	Effect on DBO (€ '000)
Actuarial interest rate	1.60 %	+ 1.00 percentage point	−624
Actuarial interest rate	1.60 %	− 1.00 percentage point	742
Projected annual pension increase/decrease	1.75 %	+0.25 percentage points	104
Projected annual pension increase/decrease	1.75 %	−0.25 percentage points	−99
Projected annual wage and salary increase/decrease	2.50 %	+0.50 percentage points	81
Projected annual wage and salary increase/decrease	2.50 %	−0.50 percentage points	−76

The current employers' contributions to the statutory pension scheme are included as an expense in the operating profit or loss for the relevant year and amounted to € 7,533 thousand for the Group as a whole in financial year 2018 (previous year: € 7,371 thousand).

20. OTHER PROVISIONS (NON-CURRENT AND CURRENT)

€ '000	Restructuring/ severance payments	Rent and incidental rental expenses	Other provisions for personnel expenses	Other provisions	Total
As at 1 Jan. 2017	**1,848**	**1,959**	**1,084**	**808**	**5,699**
Utilisations	– 1,425	– 611	– 143	– 354	– 2,532
Additions	1,964	1,000	88	600	3,651
Reversals	– 290	– 701	– 7	– 154	– 1,152
Accrued interest	0	0	9	0	9
As at 31 Dec. 2017	**2,097**	**1,647**	**1,031**	**900**	**5,675**
Non-current	113	0	1,026	170	1,309
Current	1,984	1,647	5	730	4,366
As at 1 Jan. 2018	**2,097**	**1,647**	**1,031**	**900**	**5,675**
Utilisations	– 1,860	– 562	– 168	– 396	– 2,987
Additions	2,151	1,294	195	1,608	5,249
Reversals	– 237	– 418	0	– 75	– 730
Reclassification	0	0	0	– 278	– 278
Accrued interest	0	0	9	0	9
As at 31 Dec. 2018	**2,151**	**1,961**	**1,067**	**1,759**	**6,938**
Non-current	161	0	1,067	150	1,378
Current	1,990	1,961	0	1,609	5,560

The obligations from restructuring activities comprise expenses associated with the closing of stores in addition to provisions for termination costs.

The provision for rent and incidental rental expenses relates to additional rent payable due to rent indexation provisions and possible additional payments arising from operating income and expenses statements.

The other provisions for personnel expenses relate to anniversaries and death benefits, based on actuarial assumptions and discounted to reflect the expected maturities.

Other provisions include provisions for the costs of retaining documents with a non-current portion amounting to € 150 thousand (previous year: € 170 thousand).

A business partner has informed ADLER that he intends to file a claim for damages. ADLER and the experts consulted assessed the chances of success of this claim to be low. Therefore, no provision was recorded.

21. LIABILITIES FROM THE CUSTOMER LOYALTY CARD PROGRAMME

The liabilities from the ADLER customer loyalty card result from unused discount claims of customers who have processed their purchases via the ADLER customer loyalty card. Customers can offset the rebate they purchased on one purchase against their next purchase or have the amount paid out in cash. Since the claims expire on December 31 of the following year at the latest, the item is classified as current. The customer's credit balances do not bear interest. In accordance with the provisions of IFRS 9, the amount not yet utilized as of the balance sheet date must be reported in full as a liability. The liability is measured at amortized cost.

€ '000		31 Dec. 2018	31 Dec. 2017
Liabilities from the ADLER customer loyalty card programme	< 1 year	9,776	10,380

With the exception of liabilities amounting to CHF 81 thousand from the customer loyalty card programme of Adler Mode AG Schweiz, liabilities are repayable in Euros.

22. FINANCIAL LIABILITIES

€ '000		31 Dec. 2018	31 Dec. 2017
Liabilities to METRO Finance B.V.	< 1 year	319	316
Liabilities to METRO Finance B.V.	> 1 year	1,949	2,267
Total		**2,268**	**2,583**

The liability to METRO Finance B.V. comprises a loan at a current fixed rate of interest since 1 April 2017 of 0.900% p.a. (until 31 March 2017: 0.936% p.a.). The interest rate is fixed from 1 April 2017 to 31 March 2019. The loan has a maturity date of 31 July 2024 and is repaid in quarterly instalments.

As at 31 December 2017, the financial liabilities were secured by items of property, plant and equipment with a carrying amount of €2,869 thousand (previous year: €2,999 thousand) and by investment property with a carrying amount of €413 thousand (previous year: €413 thousand).

Financial liabilities are repayable in Euros.

23. LIABILITIES FROM FINANCE LEASES

The ADLER Group's property, plant and equipment include assets classified under licences and land and buildings that are attributable to the Group as economic owner as a result of the structure of the underlying lease agreements. The Group's obligations arising from finance lease agreements of this nature can be seen from the following table:

€ '000	31 Dec. 2018	31 Dec. 2017
Finance lease agreements		
Minimum finance lease payments payable		
up to 1 year	10,884	10,203
1 to 5 years	32,588	30,030
more than 5 years	34,121	43,308
	77,594	**83,541**
Discounts		
up to 1 year	−4,155	−4,486
1 to 5 years	−10,903	−9,327
more than 5 years	−8,485	−13,778
	−23,543	**−27,591**
Present value		
up to 1 year	6,729	5,718
1 to 5 years	21,685	20,703
more than 5 years	25,636	29,531
	54,050	**55,952**

The finance lease agreements relate primarily to leased buildings for stores. The lease agreements generally include renewal clauses as well as price adjustment clauses based on changes in the rental price index. In addition, variable components of rent are contingent depending on the sales achieved in the individual stores. In financial year 2018, the contingent rental payments under finance lease agreements amounted to €616 thousand (previous year: €967 thousand).

The increase in finance leases is attributable primarily to new leases and lease amendments. The terms of the leases generally amount to between 5 and 20 years with renewal options. All of the liabilities from finance leases are repayable in Euros.

24. TRADE PAYABLES

Trade payables at the end of the reporting period are due in their entirety, as in the previous year, to third parties unrelated to the Group. Also as in the previous year, all trade payables are due within one year. Trade payables are primarily due in Euros, as in previous years.

No collateral has been provided by the ADLER Group for the trade payables reported. Goods are delivered by suppliers subject to the retention of title provisions applying in the specific country.

25. OTHER LIABILITIES

€ '000	31 Dec. 2018	31 Dec. 2017
Liabilities from value added tax	7,486	9,547
Wage and salary commitments	3,869	4,809
Liabilities to customers for gift vouchers sold	5,476	5,020
Deferred building cost subsidies	946	930
Liabilities from customs duties	663	869
Liabilities from wage tax	998	943
Liabilities from returns	648	0
Workmen's compensation	516	501
Social security contributions	399	408
Deferred lease payments	322	289
Deferred income from sale and leaseback transactions	117	117
Payments received	0	136
Other	504	681
Other current liabilities	**21,944**	**24,250**
Deferred building cost subsidies	2,576	2,847
Deferred income from sale and leaseback transactions	1,290	1,408
Deferred lease payments	994	1,104
Other non-current liabilities	**4,861**	**5,359**

Other current liabilities include financial liabilities amounting to €6,150 thousand (previous year: €5,547 thousand).

Other current liabilities include an amount of €26 thousand (previous year: €26 thousand) in respect of the compensation entitlement of the limited partners in ALASKA GmbH & Co. KG which is limited to this amount.

In accordance with IFRS 15, liabilities from returns amounting to €648 thousand are shown within other liabilities instead of other provisions.

26. INCOME TAX LIABILITIES

Income tax liabilities of €269 thousand (previous year: €3,810 thousand) relate to corporation tax and trade tax liabilities.

27. STATEMENT OF CASH FLOWS

The statement of cash flows shows the development of the ADLER Group's cash and cash equivalents in the year under review and the prior year. Cash and cash equivalents are defined for this purpose as holdings of cash and cash equivalents less cash subject to restrictions on disposal.

In accordance with IAS 7, the cash flows are classified as cash from/used in operating activities, investing activities and financing activities.

€ '000	2018	2017
Cash from (+)/used (–) in operating activities (net cash flow)	9,893	21,157
Cash from (+)/used (–) in investing activities	−5,946	14,789
Free cash flow	**3,947**	**35,946**
Cash from (+)/used (–) in financing activities	−12,356	−15,377
Net increase in cash and cash equivalents	**−8,408**	**20,569**

Cash and cash equivalents as at 31 December 2018 amounted to € 54,933 thousand (previous year: € 63,342 thousand) and include demand deposits with banks, current time deposits with terms of less than three months, cheques and cash-in-hand. As in the previous year, there was no cash subject to restrictions on disposal during the reporting period.

The following material non-cash transactions took place in financial year 2018: Other non-cash income and expenses amounting to € 993 thousand (previous year: € −8,945 thousand) include in particular the change in inventories and trade receivables. Effects from real estate transactions in Austria were reported in the previous year.

Non-current assets and liabilities from finance leases both rose by € 4,583 thousand (previous year: € 9,651 thousand) with no effect on cash as a result of the addition of new finance leases or the renewal of existing leases.

The proceeds from disposals of property, plant and equipment reported in the previous year included in particular the proceeds from the sale of the St. Pölten and Klagenfurt properties. In the previous year, proceeds from disposals of non-current assets (property) held for sale included the disposal of the Vösendorf, Ansfelden and Salzburg properties.

The payments for investments in non-current assets reported in the previous year included payments for the purchase of the Klagenfurt property and the non-current assets for the stores.

In the previous year, payments for company acquisitions were attributable to the acquisition of GBS Grundstücksverwaltungsgesellschaft m.b.H., Vienna, Austria.

Repayments of loan liabilities include the repayment of the loan for the Alaska property. In the previous year, this included the repayment of a loan granted by GBS Grundstücksverwaltungsgesellschaft m.b.H. as part of the company acquisition.

The breakdown of interest paid in the financial years under review was as follows:

€ '000	2018	2017
Interest paid from finance leases	4,631	4,750
Interest paid from operating activities	232	319
Total	**4,863**	**5,069**

Liabilities from finance leases were made up as follows:

€ '000	
Liabilities from finance leases as at 31 Dec. 2017	55,952
Cash change	− 11,115
Non-cash change	9,213
Liabilities from finance leases as at 31 Dec. 2018	**54,050**

The development of liabilities from finance leases in 2017 was as follows:

€ '000	
Liabilities from finance leases as at 31 Dec. 2016	52,154
Cash change	− 10,604
Non-cash change	14,401
Liabilities from finance leases as at 31 Dec. 2017	**55,951**

The change in financial liabilities is based exclusively on cash income.

28. SEGMENT REPORTING

2018 (€ '000)	Stores segment	Reconciliation with IFRS	ADLER Group
Total revenue (net)	502,564	4,529	507,093
Other operating income	12,491	− 6,364	6,127
Cost of materials	− 251,840	22,063	− 229,777
Personnel expenses	− 100,275	2,743	− 97,532
Other operating expenses	− 153,336	− 11,860	− 165,197
EBITDA	**9,604**	**11,111**	**20,714**
Depreciation, amortisation and write-downs	− 10,032	− 7,339	− 17,370
EBIT	**− 428**	**3,772**	**3,344**

2017 (€ ’000)	**Stores segment**	**Reconciliation with IFRS**	**ADLER Group**
Total revenue (net)	519,504	6,310	525,814
Other operating income	20,203	−1,391	18,812
Cost of materials	−266,769	22,708	−244,061
Personnel expenses	−98,604	1,755	−96,849
Other operating expenses	−157,779	−13,933	−171,712
EBITDA	**16,556**	**15,449**	**32,005**
Depreciation, amortisation and write-downs	−9,836	−6,618	−16,454
EBIT	**6,720**	**8,831**	**15,551**

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

Where revenue and other operating income is concerned, these differences relate primarily to customer discounts, while the differences relating to cost of materials stem from logistics services and inventory measurements, and differences relating to personnel expenses and other operating expenses stem primarily from differences in account allocation and the accounting treatment for leases and pension provisions under HGB and IFRSs. Depreciation, amortisation and write-downs under IFRSs include amortisation and write-downs on finance leases and useful lives that in some cases deviate from the useful lives under HGB.

GBS Grundstücksverwaltungsgesellschaft m.b.H., Vienna, Austria, is not included in the segment reporting since it does not conduct operations. In the previous year, other operating income under IFRS would have been €7,333 thousand higher had the company been included. This is due on the one hand to the hidden reserves and on the other the classification of the Salzburg lease as a finance lease, which results in the sales proceeds being reversed through profit or loss over a period of 13 years.

The segment report was prepared in accordance with IFRS 8 “Operating Segments”. The segments were defined in accordance with the ADLER Group’s internal management and reporting procedures. “Stores (Modemärkte)” was the only segment at the end of the reporting period. The Stores segment comprises the Company’s entire activities relating to the stores operated by the ADLER Group. Due to the mass market in the Stores segment, there is no concentration risk with regard to key or significant customers.

Since the internal reporting system is based on the accounting requirements of the HGB, the information contained in the segment report has been prepared on the basis of the HGB. In accordance with the provisions of IFRS 8.28, a reconciliation has been provided to the accounting principles applied in the consolidated financial statements and therefore to the amounts presented in the consolidated income statement.

The principal performance indicator used by the ADLER Group's decision-makers for management purposes is the figure reported internally for EBITDA, which is defined as the profit or loss from operations before interest, taxes, depreciation and amortisation on property, plant and equipment and intangible assets, and impairment.

The breakdown of the non-current assets, defined as intangible assets, property, plant and equipment and investment property, by region is as follows:

	2018			2017		
€ '000	Germany	International	Group	Germany	International	Group
Non-current assets	62,182	12,039	74,221	67,624	13,345	80,970

29. RISK MANAGEMENT

The finance department of Adler Modemärkte AG monitors and manages the financial risks of the entire ADLER Group. Specifically, those risks are

- Liquidity risks
- Market risks (interest rate and currency risks)
- Credit risks.

The ADLER Group is exposed to a large number of financial risks as a result of its business activities. This is understood to mean unexpected events and possible developments that have a negative effect on achieving the objectives that have been set and the expectations. The risks that are relevant are those with a material effect on the Company's financial position, financial performance and cash flows. The Group's risk management system analyses a range of risks and attempts to minimise negative effects on the financial position of the Company. The risk management activities are carried out in the finance department on the basis of established guidelines.

For the purpose of measuring and managing material individual risks, the Group distinguishes between liquidity, credit and market risks.

Liquidity risks

Liquidity risks are understood in the narrow sense to mean the risk of being able to meet present or future payment obligations either not at all or only on unfavourable terms. The Company mainly generates financial resources through its operating activities.

Adler Modemärkte AG functions as the financial coordinator for the companies in the ADLER Group in order to ensure that the financial requirements for the operating business and for investments are covered on the most favourable terms possible in terms of cost and in amounts that are always sufficient. The necessary information is provided via a Group financial planning process with additional 14-day liquidity projections on a rolling weekly basis, and is analysed constantly.

The long-term corporate financing requirements of the ADLER Group are secured by the ongoing cash flows from operating activities and from leases entered into on a long-term basis.

The intra-Group cash management system enables short-term liquidity surpluses in individual Group companies to be used as internal financing to meet the cash requirements of other Group companies. This contributes to a reduction in the volume of external debt financing and to the best possible use of cash deposits and capital investments, and therefore has a positive effect on the net interest income and expenses of the Group.

At Group level, a consolidated and integrated liquidity plan is prepared using the latest business planning and financial projections together with additional special items that are identified at short notice.

The ADLER Group is mainly financed by its own liquid resources generated from its operating activities. The long-term leases of certain stores are reported as finance leases in accordance with IFRSs. The recognised long-term finance lease obligation amounted to €47,321 thousand at the end of the reporting period (previous year: €50,233 thousand). In addition, the Group has only one loan outstanding, to a company within the METRO AG group, which was used for a property financing transaction. The outstanding amount of the loan amounted to €2,267 thousand at the end of the reporting period (previous year: €2,583 thousand). Current loan liabilities at the end of the reporting period amounted to €319 thousand (previous year: €316 thousand). The liabilities arising from the customer loyalty card programme at the end of the reporting period amounted to €9,776 thousand (previous year: €10,380 thousand).

Maturity analysis of financial liabilities

The table below shows the maturity structure of the contractual undiscounted cash flows from financial liabilities:

2018 (€ '000)	up to 1 year	more than 1 year
Trade payables	25,094	0
Liabilities from the customer loyalty card programme	9,776	0
Financial liabilities	338	2,000
Liabilities from finance leases	10,884	66,709
Other financial liabilities	6,150	0

2017 (€ '000)	up to 1 year	more than 1 year
Trade payables	27,608	0
Liabilities from the customer loyalty card programme	10,380	0
Financial liabilities	338	2,338
Liabilities from finance leases	10,203	73,338
Other financial liabilities	5,547	0

The undiscounted cash outflows are subject to the condition that the liabilities are repaid on the earliest due date. Other financial liabilities include primarily liabilities to customers for gift vouchers sold.

Based on the normal payment agreements with suppliers and other business partners, the maturities of the current trade payables and therefore the associated cash outflows are as follows:

€ '000	31 Dec. 2018	31 Dec. 2017
Carrying amount	**25,094**	**27,608**
Thereof falling due within the following time bands:		
Less than 30 days	17,159	20,236
30 – 90 days	7,516	7,125
90 – 180 days	98	0
180 days – 1 year	321	248

The liabilities from the customer loyalty card programme fall due immediately since the customers are entitled to redeem their credit at any time within twelve months. In accordance with IFRS 7, liabilities of this nature that are payable at any time are allocated to the earliest time band.

Based on the normal payment agreements with banks and other business partners, the maturities of the current financial liabilities and therefore the associated cash outflows, including interest, are as follows:

€ '000	31 Dec. 2018	31 Dec. 2017
Carrying amount	**338**	**338**
Thereof falling due within the following time bands:		
Less than 30 days	0	0
30 – 90 days	85	85
90 – 180 days	85	85
180 days – 1 year	169	169

The maturities of the liabilities from finance leases "up to 1 year" and therefore the associated cash outflows are as follows:

€ '000	31 Dec. 2018	31 Dec. 2017
Total falling due within one year	**10,884**	**10,203**
Thereof falling due within the following time bands:		
Less than 30 days	907	850
30 – 90 days	1,814	1,701
90 – 180 days	2,721	2,551
180 days – 1 year	5,442	5,102

The maturities of the other current liabilities "up to 1 year" and therefore the associated cash outflows are as follows:

€ '000	31 Dec. 2018	31 Dec. 2017
Total falling due within one year	**6,150**	**5,547**
Thereof falling due within the following time bands:		
Less than 30 days	6,150	5,046
30 – 90 days	0	0
90 – 180 days	0	501
180 days – 1 year	0	0

Credit risks

Credit risks arise from the complete or partial default of a counterparty, for example through insolvency, and in connection with deposits. The maximum risk of default is equal to the carrying amounts of all the financial assets; default risks that deviate from the corresponding carrying amount are noted where relevant. Valuation allowances are recognised in respect of trade receivables and other receivables and assets in accordance with rules applied consistently across the Group and cover all identifiable credit risks.

As part of the risk management system, minimum requirements for the credit rating and also specific upper limits for the exposure are laid down for all business partners of the ADLER Group. The level of the upper credit limit reflects the creditworthiness of a contractual counterparty and the typical size of the volume of transactions with that party. This is based on a systematic procedure for approving limits set down in the Treasury guidelines, which relies firstly on the classifications awarded by international ratings agencies and on internal credit assessments, and secondly on historical values experienced by the Group with the respective contractual parties. The ADLER Group therefore has a very low exposure to credit risks.

Of the total trade receivables and other financial assets in the amount of € 2,731 thousand (prior year: € 3,761 thousand) (total gross carrying amount), € 2,509 thousand of receivables are classified as low-risk (risk category I) and € 222 thousand as high-risk (risk category II). The valuation allowance amounted to € 222 thousand (previous year: € 349 thousand).

The trade receivables and other financial assets reported in the consolidated financial statements amounting to € 2,509 thousand (previous year: € 3,412 thousand) are not secured.

According to our expectation neither the overdue nor the impaired receivables will be settled.

Market risks (interest rate and currency risks)

Market risks are understood to mean the risk of loss that can arise due to a change in market parameters used for measurement (currency, interest rates, price).

Interest rate and currency risks are significantly reduced and limited by the principles laid down in the internal Treasury guidelines. These establish mandatory rules applied uniformly across the Group that all hedging transactions must be subject to predetermined limits and must never result in an increase in the risk position. At the same time, the ADLER Group is fully aware that the opportunities for increasing earnings by taking advantage of current or expected changes in interest rates or exchange rates are very limited.

The ADLER Group is essentially not exposed to currency risks since the consolidated revenue was generated almost exclusively in Euros and all purchases of goods were also made in Euros during the period under review. Receivables, loans and financial liabilities are primarily denominated in Euros.

Risks due to changes in interest rates can arise mainly as a result of potential changes in the value of a financial instrument which is sensitive to interest rates, in response to changes in market rates of interest which lead to changes in the expected cash flows. In order to minimise the risk of changes in interest rates within the ADLER Group, where necessary, loans are taken out only on a long-term basis and leases are entered into at fixed rates of interest. With the exception of the liability to METRO Finance B.V. (see Note 22), the ADLER Group is not a party to any financial instruments bearing a variable rate of interest. If the level of interest rates had been 100 basis points higher at the date when the new rate of interest was determined for this liability in financial year 2018, the interest expense for financial year 2018 would have been € 4 thousand higher (previous year: € 5 thousand higher). If the level of interest rates had been 100 basis points lower at the date when the new rate of interest was determined for this liability in financial year 2018, the interest expense for financial year 2018 would have been € 11 thousand lower (previous year: € 10 thousand lower). Since the period for which the interest rate was fixed included the whole of financial year 2018, there was no sensitivity to interest rates in this period.

The ADLER Group is not exposed to any other material risks affecting the prices of financial instruments. At the end of the reporting period, the Group held no shares in quoted companies.

The sensitivity analysis of the available-for-sale financial assets resulted in the following potential changes as at 31 December 2018: In the event of an increase of 5 % in the market price, equity would have risen by € 10 thousand (previous year: € 11 thousand). In the event of a decrease of 5 % in the market price, equity would have fallen by € 10 thousand (previous year: € 11 thousand).

Carrying amounts and fair values of financial instruments

The following table shows the carrying amounts and fair values of the financial assets and liabilities by measurement category in accordance with IFRS 9. The fair value of a financial instrument is the amount for which an asset is exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

2018 (€ '000)	At amortised cost		At fair value through other comprehensive income	Carrying amount pursuant to IAS 17	Total	Total
Item	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Fair Value**
Available-for-sale financial assets	–	–	263	–	263	263
Cash and cash equivalents	–	54,933	–	–	54,933	54,933
Trade receivables	–	2	–	–	2	2
Other financial assets	–	2,507	–	–	2,507	2,507
Total financial assets	**0**	**57,442**	**263**	**0**	**57,705**	**57,705**
Trade payables	25,094	–	–	–	25,094	25,094
Liabilities from the customer loyalty card programme	9,776	–	–	–	9,776	9,776
Non-current financial liabilities	2,267	–	–	–	2,267	3,970
Liabilities from finance leases	–	–	–	54,051	54,051	63,223
Other financial liabilities	6,150	–	–	–	6,150	6,150
Total financial liabilities	**43,287**	**0**	**0**	**54,051**	**97,338**	**108,213**

	At amortised cost		At fair value through other comprehensive income			
2017 (€ '000)	Other liabilities	Loans and receivables	Available-for-sale financial assets	Carrying amount pursuant to IAS 17	Total	Total
Item	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Carrying amount**	**Fair Value**
Available-for-sale financial assets	–	–	286	–	286	286
Cash and cash equivalents	–	63,342	–	–	63,342	63,342
Trade receivables	–	635	–	–	635	635
Other financial assets	–	2,777	–	–	2,777	2,777
Total financial assets	**0**	**66,754**	**286**	**0**	**67,040**	**67,040**
Trade payables	27,608	–	–	–	27,608	27,608
Liabilities from the customer loyalty card programme	10,380	–	–	–	10,380	10,380
Financial liabilities	2,583	–	–	–	2,583	3,970
Liabilities from finance leases	–	–	–	55,951	55,951	67,166
Other financial liabilities	5,547	–	–	–	5,547	5,547
Total financial liabilities	**46,119**	–	–	**55,951**	**102,070**	**114,672**

The fair values of the available-for-sale financial assets are determined on the basis of the market price available in an active market. The determination of the fair value falls under Level 1 for the inputs used in the determination of fair values in accordance with IFRS 7.

The fair values of the other financial instruments were determined on the basis of the market information available at the end of the reporting period using the methods and assumptions described below.

In view of the short maturities of trade receivables and cash, it is assumed that the fair values are approximately equal to the carrying amounts.

In principle, the liabilities included in the statement of financial position under trade payables and liabilities from the customer loyalty card programme generally have short remaining maturities, so that the fair values are approximately equal to the carrying amounts reported, in line with the assumption made.

Other financial assets, financial liabilities, liabilities from finance leases and other financial liabilities reported in the statement of financial position comprise current and non-current financial assets and liabilities. The fair values of assets and liabilities with remaining maturities of more than one year are calculated by discounting the cash flows associated with those assets and liabilities using current interest rate parameters. For this purpose, the individual credit ratings used by ADLER are reflected in the form of normal market credit and liquidity spreads for the purpose of determining the present values.

Net gains and losses from financial instruments by measurement category

The table below shows the net gains and losses from financial instruments reported in the income statement by measurement category. Interest income and expenses were the only relevant items for the determination of the net gains and losses.

2018 (€ '000)	Loans and receivables	Other liabilities	Total
From interest	0	−319	−319
Total	**0**	**−319**	**−319**

2017 (€ '000)	Loans and receivables	Other liabilities	Total
From interest	0	−316	−316
Total	**0**	**−316**	**−316**

No interest income was received from impaired trade receivables during the period under review.

For information relating to the net gain or loss from available-for-sale financial assets, please see Note 13.

Other disclosures

At the end of the reporting period there were no financial assets or financial liabilities designated as at fair value through profit or loss. The Group had no holdings of derivative financial instruments.

V. OTHER NOTES

30. OTHER FINANCIAL OBLIGATIONS

As at the end of the reporting period on 31 December 2018, there were other financial obligations arising from rental, lease and service agreements entered into by the Group in the ordinary course of business that cannot be terminated prior to maturity. The maturity analysis of the future payments arising from those agreements attributable to continuing operations is as follows:

2018 (€ '000)	up to 1 year	1 – 5 years	more than 5 years	Total
Rental and lease obligations	47,192	137,317	91,053	275,562
Other obligations	18,791	0	0	18,791
Total	**65,982**	**137,317**	**91,053**	**294,352**

2017 (€ '000)	up to 1 year	1 – 5 years	more than 5 years	Total
Rental and lease obligations	48,067	153,183	116,330	317,580
Other obligations	18,014	0	0	18,014
Total	**66,081**	**153,183**	**116,330**	**335,594**

The total rental and lease obligations from operating lease agreements amounting to €275,562 thousand (previous year: €317,580 thousand) relate to rental and lease agreements for land and buildings in an amount of €273,938 thousand (previous year: €315,970 thousand) and to operating lease agreements for other facilities and operating and office equipment in an amount of €1,624 thousand (previous year: €1,611 thousand).

Furthermore, there were capital expenditure commitments of €139 thousand at 31 December 2018 (previous year: €520 thousand).

Capital expenditure commitments include investments planned for 2018 which had already been contractually agreed as at the end of the reporting period.

The total future minimum lease payments arising from subleases amounted to €1,537 thousand at 31 December 2018 (previous year: €2,615 thousand).

2018 (€ '000)	up to 1 year	1 – 5 years	more than 5 years	Total
Minimum lease payments arising from subleases	553	824	160	1,537
Total	**553**	**824**	**160**	**1,537**

2017 (€ '000)	up to 1 year	1 – 5 years	more than 5 years	Total
Minimum lease payments arising from subleases	824	1,598	193	2,615
Total	**824**	**1,598**	**193**	**2,615**

31. CONTINGENT LIABILITIES

The Group has a guarantee facility in an amount of €7,000 thousand (previous year: €7,000 thousand) with various banks. Furthermore, the existing lines of credit amounting to €15,000 thousand can also be utilised in the form of guarantee facilities. As at 31 December 2018, the guarantee facility was being utilised in an amount of €4,650 thousand (previous year: €4,859 thousand). This includes rental guarantees for €3,880 thousand (previous year: €3,089 thousand), deliveries of goods amounting to €4,270 thousand (previous year: €270 thousand) and a customs guarantee in an amount of €1,500 thousand (previous year: €1,500 thousand).

32. REMUNERATION

The Company's Annual General Meeting on 4 May 2016 resolved that individual Executive Board members' remuneration would not be disclosed separately. For financial year 2018, remuneration for the Executive Board totalled €1,471 thousand (previous year: €2,327 thousand). The breakdown of the remuneration is as follows:

€ '000	2018	2017
Fixed remuneration	1,081	1,073
Non-cash benefits	29	26
Bonuses	50	228
Total short-term benefits payable to Executive Board members	**1,160**	**1,327**
Long-term incentive bonus (LTI)	0	0
Total benefits payable to Executive Board members from long-term bonus (LTI)	**0**	**0**
Severance payments	311	1,000
Benefits due to termination of the Executive Board position	**311**	**1,000**
Total	**1,471**	**2,327**

The STI is the first remuneration component based on the Company's performance for the past financial year. For financial year 2018, the STI for current members of the Executive Board will be calculated based on earnings before interest, tax, depreciation and amortisation (EBITDA) as reported in the audited IFRS consolidated financial statements for the financial year ended and based on targets and further financial ratios to be defined at the beginning of the year which operate to either increase or decrease the STI depending on the degree to which such targets and ratios are met. Each member's STI is capped at €750 thousand annually.

The bonus (LTI), which is based on a multi-year assessment basis, is intended to reward the contribution made by members of the Executive Board to increasing the value of the company. The bonus (LTI) is determined on the basis of EBITDA in accordance with IFRS in accordance with the audited and approved consolidated financial statements for the past financial year. The amount depends on the performance of the ADLER share (comparison of the weighted average price for shares of the Company in the fiscal year for which the bonus (LTI) is calculated with that of the previous fiscal year). The LTI bonus, the calculation of which takes several years into account, is currently limited to a total amount of €1,500 thousand and is not paid out if ADLER shares do not perform accordingly.

The total payments to former members of the executive bodies and their surviving dependants amounted to € 469 thousand (previous year: € 1,165 thousand). This includes remuneration to former managing directors of € 158 thousand (previous year: € 165 thousand). Pension provisions in the amount of € 1,845 thousand (previous year: € 1,830 thousand) have been recognised for former members of management and their surviving dependants.

The members of the Supervisory Board are also key management personnel of the ADLER Group in accordance with IAS 24. The total remuneration for members of the Supervisory Board during the financial year was € 325 thousand (previous year: € 317 thousand).

In financial year 2018 as well as in the previous year, no member of the Supervisory Board or an enterprise in which a Supervisory Board member holds a key position provided the Company with any consultancy services.

33. RELATED PARTY DISCLOSURES

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

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

The following transactions were entered into with related parties:

€ '000	2018	2017
Services purchased from related parties:		
Steilmann Group	28,920	25,392
Sale of goods, services and non-current assets to related parties:		
Steilmann Group	0	4

The following balances with related parties were outstanding at the end of the reporting periods:

€ '000	31 Dec. 2018	31 Dec. 2017
Trade receivables/services from related parties:		
Steilmann Group	0	0
Trade payables/services to related parties:		
Steilmann Group	2,250	2,221

Family members of key management personnel did not provide any services to the ADLER Group (previous year: € 0 thousand). In the period under review, no property, plant or equipment was sold to or acquired from family members in key positions of controlled companies.

In the year under review, no rent was billed to members of the Executive Board (previous year: € 1 thousand).

Goods amounting to € 14 thousand (previous year € 539 thousand) were procured from Elan PVT Limited, Hong Kong, in the year under review. The company is associated with a member of the Supervisory Board and is therefore treated as a related party in accordance with IAS 24. There were no outstanding liabilities to Elan PVT Limited, Hong Kong, for deliveries of goods as at the reporting date.

Remuneration for members of the Supervisory Board in their function as employees amounted to € 268 thousand (previous year: € 256 thousand) during the year under review.

There are no obligations from finance or operating leases with related parties.

34. EARNINGS PER SHARE

The earnings per share figure is calculated by dividing the consolidated net profit or loss, classified as continuing operations or discontinued operations, by the weighted average of the existing shares.

In the reporting period, outstanding shares are weighted on a pro-rata basis for the period in which they are in circulation. The change in outstanding shares was as follows:

		2018	2017
Outstanding shares	as at 1 January	18,510,000	18,510,000
Shares sold during the year		0	0
Outstanding shares	as at 31 December	18,510,000	18,510,000
Consolidated net profit/loss for the year (€ '000)		−2,575	3,858
Weighted average of outstanding shares	as at 31 December	18,510,000	18,510,000
Basic earnings per share	EUR	−0.14	0.21
Diluted earnings per share	EUR	−0.14	0.21

There were no dilutive effects in the reporting periods shown.

35. APPROPRIATION OF NET RETAINED PROFITS - DIVIDEND

The dividend distribution is based on Adler Modemärkte AG's HGB annual financial statements. No dividend will be paid for 2018.

36. LITIGATION AND CLAIMS FOR DAMAGES

The ADLER Group is not involved in any legal or arbitration proceedings with a significant effect on the position of the Group.

37. AUDITORS' FEES

Fees amounting in total to € 359 thousand (prior year € 407 thousand) were incurred in financial year 2018 for services provided by the auditor within the meaning of § 318 HGB:

€ '000	2018	2017
Audit services (including half-yearly financial statements and FREP)	273	283
Other certification services	25	28
Tax advisory services	61	96
Other services	0	0
Total	**359**	**407**

The audit services include primarily fees for the audit of the consolidated financial statements as well as the statutory audits of Adler Modemärkte AG and of the subsidiaries included in the consolidated financial statements. Also included are the fees for the review of the half-yearly financial statements. The fees for other certification services include fees for revenue certificates (*Umsatzbescheinigungen*) and voluntary audits of IT systems. The fees for tax advisory services include in particular fees for preparing tax returns and general tax advisory services.

38. EVENTS AFTER THE END OF THE REPORTING PERIOD

There were no further matters arising after the end of the financial year up to the date of preparation of the consolidated financial statements that have a material effect on the financial position, cash flows and financial performance of the Company for financial year 2018.

39. DECLARATION OF CONFORMITY WITH THE GERMAN CORPORATE GOVERNANCE CODE

On 8 May 2018, the Executive Board and the Supervisory Board of Adler Modemärkte AG jointly issued the Declaration of Conformity with the recommendations of the German Corporate Governance Code as amended on 7 February 2017 in accordance with § 161 of the German Stock Corporation Act (Aktiengesetz, "AktG"). The form and content of the Declaration of Conformity is permanently available to shareholders on the Company's website at *http://www.adlermode-unternehmen.com/en/investor-relations/corporate-governance/declaration-of-conformity*.

40. EXECUTIVE BODIES OF THE COMPANY

The following persons exercised an executive board function in financial year 2018 and up to the date of preparation of the financial statements:

Thomas Freude, *Wiesbaden, Germany,* Chairman of the Executive Board, Executive Board member for Strategy, Marketing, Purchasing, Mergers & Acquisitions, Expansion, Transformation, HR Development and Public Relations, other Supervisory Board positions and comparable memberships: LSG Lufthansa Service Holding AG.

Karsten Odemann, *Lenggries, Germany,* Executive Board and Labour Director, Executive Board member for Finance, Controlling, Audits, Legal, IT, Human Resources, Asset Management, Logistics, Sustainability and Investor Relations (Labour Director since 30 January 2018).

Carmine Petraglia, *Bad Honnef, Germany,* Executive Board, Executive Board member for Sales and Distribution and e-Commerce (Member of the Executive Board since 1 June 2018).

Andrew Thorndike, *Cologne, Germany,* Executive Board and Labour Director, Executive Board member for Purchasing, Logistics, Human Resources and Technical Purchasing (Member of the Executive Board and Labour Director until 30 January 2018).

The members of the **Supervisory Board** of Adler Modemärkte AG in financial year 2018 were as follows:

Massimiliano Monti [1*, 2, 3*, 4*], *Milan, Italy*, Chairman of the Supervisory Board, partner at Equinox S.A., other Supervisory Board positions and comparable memberships: Advisory Board of S&E Kapital GmbH

Majed Abu-Zarur [1, 2, 4], *Viernheim, Germany*, Deputy Chairman of the Supervisory Board, Chairman of the Joint Works Council at Adler Modemärkte AG

Wolfgang Burgard [1, 2*, 3], *Dortmund, Germany*, Managing Director of Bund Getränkeverpackungen der Zukunft GbR

Cosimo Carbonelli D'Angelo [1], *Naples, Italy*, Chairman of the Managing Board of G.&C. Holding S.r.l., other Supervisory Board positions and comparable memberships: Member of the Advisory Board of S&E Kapital GmbH

Kirsten Fox, *Munich, Germany*, Tax Advisor and Partner at Kantenwein Zimmermann Fox Kröck & Partner Rechtsanwälte Steuerberater Wirtschaftsprüfer, (Member of the Supervisory Board since 9 May 2018)

Jochen Gröning [1, 2, 4], *Aschaffenburg, Germany*, IT Organiser and Chairman of the Works Council Haibach of Adler Modemärkte AG, (Member of the Supervisory Board since 9 May 2018)

Corinna Groß, *Neuss, Germany*, Deputy Head at ver.di, North-Rhine Westphalia District

Frank König, *Berlin, Germany*, Staff Member Information Desk and Cash Desk at Adler Modemärkte AG, (Member of the Supervisory Board until 9 May 2018)

Peter König, *Rottendorf, Germany*, secretary of the national Executive Board of the ver.di union, other Supervisory Board positions and comparable memberships: Supervisory Board of BayWa AG (until 5 June 2018)

Georg Linder, *Hösbach, Germany*, Divisional Head of Purchasing Planning and Merchandise Management at Adler Modemärkte AG, (Member of the Supervisory Board until 9 May 2018)

Giorgio Mercogliano [3, 4], *Montagnola - Lugano, Switzerland*, Partner at Equinox S.A., other Supervisory Board positions and comparable memberships: Advisory Board of S&E Kapital GmbH

Dott. Michele Puller, *Bergkamen, Germany*, Chairman of the Executive Board of Steilmann Holding AG i.l., Chairman of the Executive Board of Steilmann SE i.l., other supervisory board positions and comparable memberships: SLEEPZ AG), Chairman of the Advisory Board of S&E Kapital GmbH, Member of the Advisory Board of Borussia Dortmund Geschäftsführungs-GmbH, Member of the Council of Economic Affairs of BV. Borussia 09 e.V. Dortmund, (Member of the Supervisory Board until 9 May 2018)

Paola Viscardi-Giazzi [2], *Dortmund, Germany*, Executive Board member of Steilmann Holding AG i.I., other supervisory board positions and comparable memberships: Advisory Board of S&E Kapital GmbH

Jürgen Vogt [2], *Essen, Germany*, Head of Sales, Adler Modemärkte AG, (Member of the Supervisory Board since 9 May 2018)

Beate Wimmer [1], *Nettetal, Germany*, Specialist Consultant Information Desk, Cash Desk and Sales at Adler Modemärkte AG

Memberships in (as at 31 Dec. 2018): [1] Personnel Committee, [2] Audit Committee, [3] Nomination Committee, [4] Conciliation Committee
**Chairman of the Committee*

Haibach, 4 March 2019

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

RESPONSIBILITY STATEMENT

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the material opportunities and risks associated with the expected development of the Company.

Haibach, 4 March 2019

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

INDEPENDENT AUDITOR'S REPORT

To Adler Modemärkte AG, Haibach

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of Adler Modemärkte AG, Haibach, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of profit or loss, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Adler Modemärkte AG for the financial year from January 1 to December 31, 2018. We have not audited the content of those parts of the group management report listed in the "Other Information" section of our auditor's report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2018, and of its financial performance for the financial year from January 1 to December 31, 2018, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the "Other Information" section of our auditor's report.

Pursuant to § [Article] 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under

Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1 Property leasing
2 Recoverability of deferred tax assets

Our presentation of these key audit matters has been structured in each case as follows:

1 Matter and issue
2 Audit approach and findings
3 Reference to further information

Hereinafter we present the key audit matters:

1 Property leasing

1 The Company operates its fashion stores in rented premises. In preparing the consolidated financial statements, the Company's executive directors assessed whether the rental agreements concluded by the Company are to be classified and – if necessary – presented in the consolidated financial statements as finance leases or operating leases. In cases involving finance leases, the treatment of the leased asset is comparable to a loan-financed acquisition transaction, whereas operating leases are not presented in the consolidated statement of financial position and the rental payment is recognized in the consolidated income statement on a straight-line basis. The majority of the existing rental agreements was classified as operating leases based on the underlying contractual agreements. Buildings are reported as finance leases amounting to € 39.5 million (17.4 % of total assets) under property, plant and equipment in the Company's consolidated financial statements. In view of the overall material impact of the leases on the amounts of net assets, financial position, and results of operations of the Adler-Modemärkte Group and given the complex assessment of the contractual agreements, this matter was of particular importance in the context of our audit.

2 As part of our audit, we reviewed, among other things, the appropriateness of the design and effectiveness of internal processes and controls for classifying leases and the methodology adopted by the Company for the classification and accounting treatment of leases. In order to classify the leases as finance leases or operating leases, we reviewed the estimates made by the executive directors using the contractual agreements presented to us and, in this context, also reviewed the valuation assumptions applied. Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors are justified and are suitable overall for the classification of leases and respective accounting treatment.

3 The Company's disclosures on property leases are contained in note 10 of the notes to the consolidated financial statements.

2 **Recoverability of deferred tax assets**

1 Deferred tax assets in the amount of € 9.0 million are reported in the Company's consolidated financial statements after netting. Deferred tax assets amounting to € 21.6 million were recognized before netting with matching deferred tax liabilities. This item was recognized to the extent that, in the opinion of the executive directors, it is probable that taxable profit will be available in the foreseeable future so that the deductible temporary differences and unused tax losses can be utilized. For this purpose, if deferred tax liabilities are not sufficiently available, future taxable profits are projected using the adopted budget accounting as a basis. Overall, no deferred tax assets were reported on deductible temporary differences and unused tax losses in the amount of € 15.6 million since is not probable that they can be offset against taxable profits. From our point of view, the accounting treatment of deferred taxes was of particular importance in the context of our audit, as it depends to a large extent on the estimates and assumptions made by the executive directors and is therefore subject to uncertainties.

2 As part of our audit, we reviewed, among other things, the internal processes and controls for recording tax matters as well as the methodology adopted for the determination, accounting treatment and measurement of deferred taxes. We also assessed the recoverability of the deferred tax assets relating to deductible temporary differences and unutilized tax losses on the basis of the Company's internal forecasts of its future earnings situation, and we evaluated the appropriateness of the underlying estimates and assumptions. Based on our audit procedures, we established that the estimates and assumptions made by the executive directors are justified and adequately documented.

3 The Company's disclosures relating to deferred taxes are contained in note 14 of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- The statement on corporate governance pursuant to § 289f HGB and § 315d HGB
- The separate non-financial report pursuant to § 289b Abs. [paragraph] 3 HGB and § 315b Abs. [paragraph] 3 HGB.

The other information comprises further the remaining parts of the annual report which we obtained prior to the date of our auditor's report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. [paragraph] 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, 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 audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. [paragraph] 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on May 9, 2018. We were engaged by the chairman of the audit committee on July 28, 2018. We have been the group auditor of Adler Modemärkte AG, Haibach, without interruption since the financial year 2009.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Jörg Schneider.

FURTHER INFORMATION

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FINANCIAL CALENDAR

2018 Annual Report	14 March 2019
Report on the first quarter of 2019	7 May 2019
2019 Annual General Meeting	8 May 2019
Report on the first half of 2019	1 August 2019
Report on the first nine months of 2019	7 November 2019

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